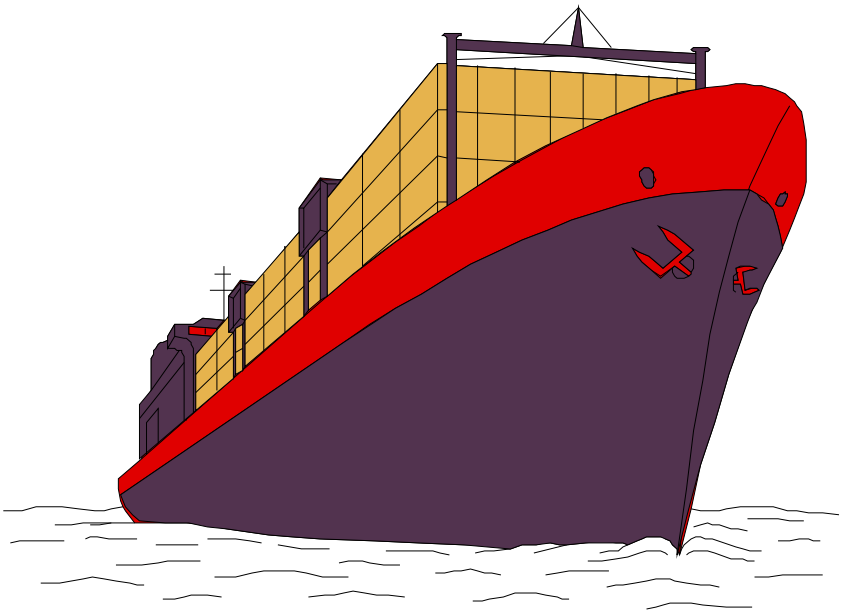
Exporting & Distributing



A practical guide on how to export and distribute internationally.

This book covers:

- Export marketing
- Export operations
- Sales agents and distributors
- Licensing
- Glossary of export terms
- Export documentation

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The eBook trilogy business training series by the Author:

1. Sales Superstar
2. Exporting and Distributing
3. Better Business Skills

Dedication

For my three sons, Anthony, Justin and Jake.

Preface

This book is a practical guide to Exporting and Distributing. It begins with a general overview in Section 1 of what is involved with export marketing before moving onto the intricacies of export market research.

Export operations are covered in detail and many practical points are given to both those experienced with exporting and to newcomers to this challenging task.

Section 2 outlines matters involving sales agents and distributors. It also covers the little known topic of licensing.

Five Annexes provide further details that will be helpful for those involved in the tasks of exporting and distributing goods and services.

The author gained his extensive ‘hands on’ experience in the area of exporting and distributing while working as General Director of Norco Tiles Co. Limited and Director Sales, Marketing and Business Development for Aardwolf Industries Co. Limited. Both of these manufacturing companies are foreign-owned entities based in the Socialist Republic of Vietnam.

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SECTION 1: EXPORTING

MARKET OVERVIEW

Teaching Objective

In this Session, you will learn the following:

- The basic terms and concepts used when examining the export market.
- What are the export 'marketing mix', how to get started in exports and what are the various pricing tactics to consider.

Knowledge

At the end of this Session you will be able to understand the following:

- A definition of marketing.
- The international 'marketing mix'.
- The impact of external market forces.
- How to get started in exports.
- A range of export pricing tactics.

Initial Questions To Ask About Export Marketing

When looking at the topic of export marketing, we should ask ourselves the questions:

- What is the marketing function?
- What is the international marketing mix?
- What factors in export markets are beyond the control of the marketing staff?
- How can the exporter get started with marketing his product or services?
- What pricing marketing tactics are available to the exporter?

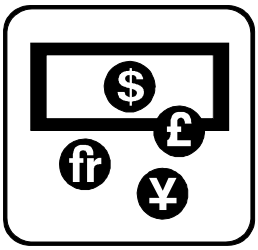
This first segment will cover an overview of the marketing function and will answer the above questions.

A Definition of Marketing

There are many different definitions of what marketing is. But, simply put, marketing is:

- Treating the customer as No 1.
- Concerned with customer focus. The customer is given the products or services he or she really needs and wants.

In the past, marketing was not so important. Products and services were just sold to whomever would buy them. Early manufacturers of products, like Ford motor cars for example, had little competition. If you wanted a car, you had to buy a Ford and the only colour you could have was black.



However, these days, that situation has changed and most customers have a much larger choice and are far more discerning about what they buy. This is because of the advent of globalism, the stipulations of the World Trade Organisation (WTO), the rise of the consumer led economies, and the huge increase in competition.

Marketing Functions

Marketing has 2 basic functions:

- Identify relevant market sector needs and wants.

- Recommend how to best satisfy those needs and wants at a profit.

It does this primarily by market research.

Market Research

Nowadays, competition is much stronger in nearly every field so marketing people have to find out what the market needs and wants. This is called market research.

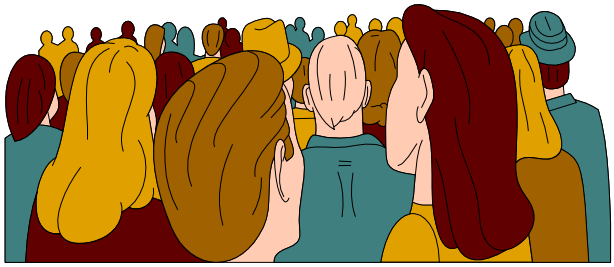
Market Segments

Market research identifies groups of buyers with similar needs and wants. Such a group is a market segment.

Other Factors Relevant to Market Research

Besides identifying market segments, market research must identify:

- What the customers want
- What right product or service is needed
- How to promote it
- How to suitably package it to attract and protect
- How to conform to the consumer laws of the customer's country
- How to conform to the local customs of the customer's country
- How to distribute and sell it in suitable ways
- Determine if it is better than competing products
- What is the correct price
- Identify risks
- Estimate costs and income
- Determine if a profit can be made



The International Marketing Mix

Unlike the classic 4 P's of marketing, some would say that the International Marketing Mix consists of a number of variables what we could call the '5 P's and an S'.

- Position
- Product
- Price
- Place
- Promotion
- Service

Position

Position is where your product or service in relation to competitor's products. Is it at the high value end or the low value end? Do you need to sell large quantities of low value items, or should you focus on producing and selling smaller volumes of high value items?

Product or Service

Factors to consider here include:

- Life cycle of the product or service
- Quality needed
- Technology required
- Usage patterns –disposable items, or long life

Most products go through 4 phases

- Launch
- Growth
- Maturity
- Decline

Sometimes when sales fall when a product is in decline, perhaps due to new technology – such as when DVD's took over from cassette tapes, a big promotion will boost sales for a while. However, after that, the costs of the promotions will come to outweigh the profit from any sales.

Price

To get the price right, you have to know

what happens in the country of sales. Factors to consider include:

- Competitor prices.
- Is price linked to status or value in the buyer's mind.
- What margins are available through various means of selling such as direct sales, through distributors or through agents
- How much R&D is needed and the cost of this.
- Do prices have to be linked to strategies to pre-empt competitors gaining a foothold in the market (eg is a big discount or 'dumping' pricing policy needed).

Place

Place covers the distribution paths of the product or service from the supplier to the end user. A customer can buy through different channels, such as distributors, agents, direct, by mail order, via the internet, or through a combination of more than one means. All have different margins and discounts attached. All have strengths and weaknesses as a means of selling the product or services and these need to be carefully weighed.

For instance, should a supplier sell direct through his own brand, or is it simpler, safer and more cost effective to sell through the brand of an distributor already well established in the country targeted for export.

Promotion

Promotion involves the question of how to make the customer buy.

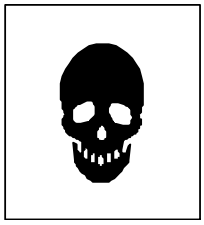
Essential components of promotion are advertising and PR. PR may involve giving away free samples for example. This can be more effective in promoting a product than advertising.

Service

Service involves the range of activities designed to enhance the product or service in the customer's mind.

Factors Beyond the Control of the Marketing Staff

There are 4 factors beyond the control of the marketing staff when exporting:



1. Competition

The marketing staff can predict the strategies and strength of the competition, but they cannot control these factors. For example, the competition may be big and strong enough to adopt a dumping strategy that is not related to their having to make any short term profit just to frighten off other potential exporters

2. Cultural

An exporter cannot control different languages or customs even though his market research tells them what they are. He must adapt to strong cultural factors and, for example, not try to sell pork to an Islamic market segment.

3. Legal Constraints

The exporter cannot control other countries laws relating to health, safety and their consumer markets. For example, he cannot hope to export beef to the European Union without complying to its very strict abattoir regulations or taking into account its quotas and subsidies.

The exporters labelling, packaging, transportation and documentation must also conform to local regulations. He must also conform to restrictions on advertising on certain products such as tobacco and alcohol, or even on underwear in certain Islamic countries.

4. Institutions

The exporter must take local consumer organisations and consumer polices into account as they are out of his control. For example, if he wants to sell by mail order, he may have to guarantee a full refund of the purchase price within 30 days if the customer so demands.

The Basics of Exporting

International trade may appear to be a complex undertaking requiring extensive resources, a large and expensive marketing and export department, a significant volume of the product to be marketed, and fluency in the language of the targeted countries. This is not the case.

A goal of this module is to lay these myths to rest and open the world of exporting to companies that have previously abandoned the idea and new-to-export-companies. We will begin by exploring common misconceptions.

Four Common Misconceptions About Exporting

1. **Your Company Has To Be Big**

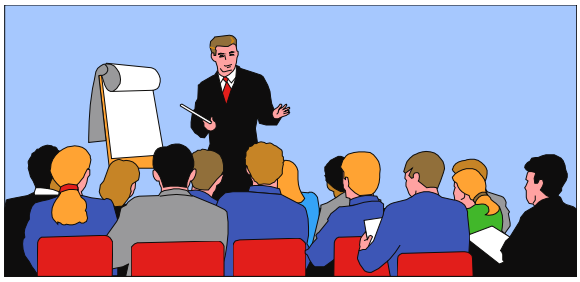
While large companies do the most volume of international trade, smaller companies are also taking advantage of the opportunities available in foreign markets. In fact, a survey by the U.S. Department of Commerce found that 60 percent of successfully exporting American firms have fewer than 100 employees.

Product quality, price, and service rather than size determine a firm's success in the export market.

2. **You Must Have A Big Export Department**

The necessary size of company's export department depends upon how products are marketed. A direct exporter sells to a foreign company and is responsible for the transport of the product to the overseas destination. These types of exporters tend to be companies, which consistently move large volumes of product overseas. The export department consists of several specialists for marketing, finance, transportation and insurance. On the other hand, if the company ships sporadically and in small quantities, then the transportation and marketing responsibilities can be handled by one employee.

Many companies begin as indirect exporters, selling and delivering to an intermediary, or 'middleman' such as an agent, or distributor in the target country. If a company becomes an indirect exporter by selling through an intermediary, no more specialized staff are necessary than for domestic sales. However, if a company becomes a direct exporter, it will need an in-house export capability.



3. **You Must Have Substantial Volume**

The fact that many smaller companies are actively involved in international trade is a testament that substantial volume is not a market entry requirement. The foreign buyer seldom looks for a spot purchase. Instead, he looks for a quality product at a fair price with continued availability. If a company merely wants to market its sporadic surplus capacity, then entry into the foreign trade market will probably be disappointing. On the other hand, if the company is willing to devote even 10 percent of production capacity to foreign markets and the servicing of these accounts, then it can expect to build substantial and permanent trade.

The servicing of initial accounts is extremely important. Thus, the volume of product marketed is not as important as the consistent product supply. A company that is not committed to exporting often makes this mistake. Do not take your foreign representatives for granted; lack of service and attention to foreign accounts can cripple your efforts to export.

4. **You Must Be Fluent In Foreign Languages**

Occasionally management will cite the lack of in-house foreign language capability as an impediment to entry into international trade. Foreign language skills are helpful when negotiating export agreements but not essential. When correspondence and documents in English will not suffice, exporters can our source translations. Language skills facilitate cultural and social relationships. However, success depends more upon the sound management of the business relationship rather than language abilities.

Your Export Potential

Technical details of selling abroad differ when selling internationally, but are reasonably standardized and easy to learn. Once knowledge is acquired, selling abroad is no more complicated than selling domestically. Your product's success at home is an indication of its potential in overseas markets, especially where similar needs and conditions exist. Nevertheless, even if the sales of a product are small at home, sizeable export markets may still exist especially when products have reached market maturity or are technically advanced.

Exporters should consider the differences and similarities that exist between Vietnam and target markets. Failure to do so may result in less than profitable sales. An often-cited example of this phenomenon is Chevrolet's introduction of the Nova car into Mexico. The company did not consider that "Nova" means "does not go" in Spanish. Needless to say, sales were not as high as anticipated. Such an oversight can be extremely costly and embarrassing. To avoid mistakes, exporters should conduct market research.

Making the Decision to Export

Once a company determines that its products are exportable, it must decide if the development of an export business adheres to company objectives. Management should ask the following questions:

- What does the company want to gain from exporting?
- Is the goal of exporting consistent with other company goals?
- What demands will exporting place upon the company's key resources, personnel, production capacity and finances?
- How will these demands be met?
- Are the expected benefits worth the cost or would company resources be better spent developing new domestic business?

Management's answers to the following questions will clarify the export methods that should be undertaken:

Management's Export Experience

- From which countries has business already been conducted (or inquiries been received)?
- Which product lines are mentioned most often?
- What countries are most inquiries coming from? (A list of the sales inquiries of each buyer by product and by country will be helpful.)

- Is the trend of sales/inquiries up or down?
- Who are the main domestic and foreign competitors?
- What lessons have been learned from past export experiences?

Management and Personnel

- Is top level of management committed to exporting?
- Who will be responsible for the export department's organization and staff?
- How much time could and should senior management allocate?
- What are management's expectations for the effort?
- What organisational structure is required to ensure export sales are adequately serviced?
- Who will follow through?

Production Capacity

- How is the present capacity being used?
- Will filling export orders hurt domestic sales?
- What is the cost of additional production?
- Are there fluctuations in the annual work load? When? Why?
- What minimum order quantity is required?
- What is required to design and package products for export?

Financial Capacity

- How much capital can be tied up in exports?
- What export operating costs can be supported?
- How will initial expenses of the export effort be allocated?
- What other new development plans are in the works that may compete with export plans?
- By what date must an export effort pay for itself?
- Is outside capital necessary?
- The plan should be reviewed periodically and actual results should be compared with plan objectives. The plan is a management tool and not a static document. Do not hesitate to modify the plan to make it more specific as new information and experience is gained.

The Value of Planning

An export strategy based on good information and proper assessment increases the chances that resources will be utilized effectively and efforts will consequently be carried through to completion.

An export plan assembles the facts, constraints, and goals for a market. It also creates a plan of action, taking all factors into account. For assistance in the development of an export plan, see Annex A, attached to these notes.

Export Plan

The export plan includes objectives, time schedules for implementation, and milestones so the

degree of success can be measured. At first the plan may be simple; it should become more detailed as your company gains exporting experience.

The export plan should address the following questions:

- What products are selected for export development? Are modifications needed to adapt products to overseas markets?
- What countries are targeted for sales development?
- In each country, what is the basic customer profile? What marketing and distribution channels should be used to reach customers?
- What challenges pertain to each market (competition, cultural differences, import controls) and what strategies will be used to address them?
- How will the product's export sales price be determined?
- What operational steps must be taken and when?
- What is the time frame for implementing each element of the plan?
- What personnel and company resources will be dedicated to exporting?
- What will be the cost in time and money for each element?
- How will the results be evaluated and used to modify the plan?

The plan should be reviewed periodically and actual results should be compared with plan objectives. The plan is a management tool and not a static document. Do not hesitate to modify the plan to make it more specific as new information and experience is gained.

Getting Started In Exports

There are 3 first steps to exporting:

- Know what you are capable of doing.
- Know how to make best use of your resources.
- Know the customers' needs and wants.

Always question your product or service and the viability of your company to export it at least once every 6 months. Ask yourself:

- Is the product or service still in demand?
- What are the market trends?
- What is happening to the world economy?
- What is happening in your own and your target country's economy?
- What is happening with exchange rates and export costs?
- What is your competition doing?
- How can you make your product or service better and more profitable?
- Is your staff the best you can afford and the best they can be?
- What is happening in relation to technological developments that affect you?

Pricing Tactics

A number of pricing tactics are open to an exporter.

To establish an overseas price, you need to consider many of the same factors involved in pricing for the domestic market. These factors include:

- Competition.
- Costs such as production, packaging, transportation and handling,
- Promotion and selling expenses.
- The demand for your product or service.
- The maximum price which the market is willing to pay.

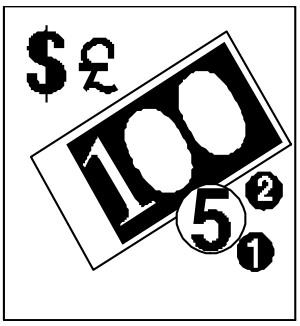
There are a number of common methods of pricing exports:

1. **Domestic Pricing**

This is a common, but not necessarily accurate method of pricing exports. This type of pricing uses the domestic price of the product or service as a base and add export costs, including packaging, shipping and insurance. Because the domestic price already includes an allocation of domestic marketing costs, prices determined using the method might be too high to be competitive.

2. **Incremental Cost Pricing**

This method determines a basic unit cost that takes into account the costs of producing and selling products for export, and then adds a mark-up to arrive at the desired profit margin. To determine a price using this method, first, establish the 'export base cost' by stripping profit markup and the cost of domestic selling.



In addition to the base cost, include genuine export expenses (export overheads, special packing, shipping, port charges, insurance, overseas commissions, and allowance for sales promotion and advertising) and the unit price necessary to yield the desired profit margin.

3. **Cost Modification**

This method involves reducing the quality of an item by using cheaper materials, simplifying the product or modifying your marketing program, which lowers the price. In addition, consider your company's objectives, the price sensitivity and uniqueness of your product.

4. **Cost Plus**

Provider of products or services can simply add a margin to his costs and to the delivery costs that reflects the profit required. This is not a very adventurous pricing tactic and is more common where the competition is low, or where the provider is uncertain of the export market demand and what his costs will be.

5. **What the Market Will Bear**

This pricing tactic test is sometimes used early when first breaking into the export market. It seeks to explore what any particular export market will bear, but risks losing customers to any competition. Loss of such customers at the critical early stage of breaking into an export market could result in a failure to enter the market successfully. Further, initial customers lost, could be hard to win back later if they are happy with the competition.

6. **Market Skimming**

By this pricing tactic, a high price is set to take a large profit from those buyers with an immediate interest. It is particularly used by companies who are the first to export new high technology items like DVD players and flat screen TV's. Once the initial demand drops off, and strong competition enters the market, prices are

dropped substantially to maintain a place in the on-going market.

7. **Marginal Costing**

In this marketing tactic, the price is set to recover variable costs and profit only. This makes the price low and attractive. This is only appropriate for limited production capacity where the fixed costs are covered elsewhere. If demand increases, it is not possible to expand the production facilities as fixed costs haven't been covered in the pricing tactic.

8. **Loss Leader**

The Loss Leader pricing tactic sets a very low price level, usually at cost, in order to break into an export market and set relationships with strong buyers. An example comes with mobile phones. Manufacturing companies are linked with network service suppliers. Phones are often sold for free provided the buyers agree to sign up with a particular network supplier for a certain period of time.

9. **Price Lining**

By this pricing tactic, the price is kept constant and not increased as time passes. However, the quality or quantity or both of the products are reduced. Examples occur with items such as bars of chocolate or boxes of matches.

10. **Diversionary Pricing**

In diversionary pricing, high prices are set to develop a value image of the product. Many examples of this can be seen in high fashion items such as Nike shoes.

11. **OffSet Pricing**

By this pricing tactic a low initial price is set on a main item because the real profit is made selling extra or support items. Some high technology products such as colour printers are sold under this pricing tactic because the profits are made later by selling the support products, such as cartridge refills, at a high price

12. **Tie-In Price**

This tactic encourages customers to buy slow moving items. For example certain clothes may be sold at a low price because they are strange fittings or unpopular colours, or maybe last year's fashions.

13. **Discrete Pricing Level**

This tactic has a specialist and limited use. Prices are pitched to known decision-making levels.

14. **Early Cash Recovery**

By this pricing strategy, prices and discounts are set to attract early payments. This tactic may be used if the exporter is concerned about the future of the political and economic climate in the country of export. It is also used when cash flow is a problem.

Conclusion

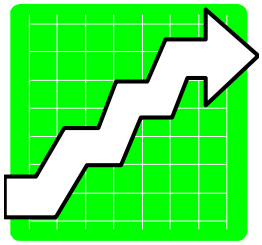
We have now completed the initial overview into export marketing. Specifically, we have covered the following:

1. A definition of marketing

Whereby we learnt that marketing is now a far more important function than it used to be, say, 50 years ago. This is due to the opening of world export markets due to globalism, the WTO, the rise of the consumer led economies and the huge increase in competition. We know that marketing aims at always placing the customer as a No 1 priority.

2. The international 'marketing mix'

We have seen that the international market has to be closely analysed according to the '5 P's and the 1 S': These are:



- Product
- Price
- Place
- Promotion
- Service

3. The impact of external market forces

Not all external market forces can be controlled by the marketing staff of the exporter. Such forces include the culture and customs of the buyers. They also include the local laws and regulations of the country of export, the fluctuating currency rates and factors of economic and political instability. However, the marketing staff still has to try to identify such external forces as a part of their risk analysis and try, as much as possible, to lower or offset the risk by strategies such as 'forward cover' to protect against sudden swings in the currency values.

4. How to get started in exports

When getting started in exports we have learnt that we need to know our own company's resources and capabilities and to understand the needs and wants of our export market segment. We also have to have a wide knowledge of associated factors such as freight charges and insurance, risks factors, changing technology, the competition and where the market is heading. We need to closely re-examine what we are doing and where we are going in relation to the export market at least once every 6 months.

5. A range of export pricing tactics

Finally we have covered a number of different pricing tactics that can be used by the exporter. Some are used at various times over the period of export then changed for others. The tactics all have pros and cons and must be used carefully to maximise profits and not alienate customers.

Always, remember, that export marketing, like any other type of marketing, is always customer oriented and aims at putting the customer as the No1 priority.

EXPORT MARKET RESEARCH

Introduction

This Session defines market research and shows how to best go about the vital task of conducting market research prior to exporting products or services.

Teaching Objectives

You will learn the following:

- The purpose of market research.
- The 2 types of information sought by an exporter.
- How to make market research easier.
- The 2 fundamental procedures for market research.
- The steps in assessing targeted markets.
- What information has to go on labels.

Knowledge

At the end of this Session you will be able to:

- Define market research.
- Know the main types of market information sought by exporters.
- Learn how to make market researching easier.
- Know the two main types of market research procedures.
- Learn how to assess targeted markets.
- Understand what additional information may be needed for export labelling.

A Definition of Market Research

Market research is the systematic gathering, recording and analysing of data about problems relating to the marketing of goods and services.

The Two Functions of Market Research

There are 2 main functions of market

research:

- To reduce uncertainties of the decision-making process in marketing.
- To monitor and control the performance of marketing activities.

To start exporting is often easy. A few names of agents and importers obtainable from the government's overseas trade organisation may be enough to start. But once volumes grow, the scope and the depth of the research must also grow. In a big multi-national business, the market research element is just an integral part of a much broader and sophisticated marketing information system.

Types of Market Information

A systematic method of market research should involve a preliminary screening of potential markets followed by a careful assessment of the targeted markets. Exporters engage in market research primarily to identify their marketing opportunities and constraints within individual foreign markets and also to identify prospective buyers and customers. Results of this research should inform the company of the largest markets for its product, the fastest growing markets, market trends and outlook, market conditions and practices, and competitive firms and products.

Based on all the information gathered, a company must decide which markets are the most promising and the number of markets the company is prepared to enter. Even if the firm is planning on utilizing an export intermediary, it should select its markets before selecting the intermediary.

The 2 Main Types of Market Information Needed by an Exporter

An exporter seeks 2 main types of market information:

- Secondary information.
- Primary information.

Secondary Information

Most companies employ secondary data sources such as trade statistics for a country or a product, to focus its marketing efforts. This type of research is a valuable and a relatively easy first step for a company to take. Many times, it may be the only step necessary if the company decides to utilize an export intermediary and export indirectly.

Secondary information includes information on:

- The size of existing markets for a certain item.
- Identity of key players.
- Retailing price structures.
- Market trends.
- Leading distributors in the target market.
- Leading retailers in the target market.

Primary Information

Primary market information consists of a company collecting data directly from the foreign marketplace through interviews, surveys, and other direct contact with representatives and potential buyers.

Primary information has the advantage of being tailored fit to meet company's needs and provide answers to specific questions, but this data collection is very time-consuming and expensive to collect.

New primary information gathered for a specific purpose, includes:

- Types of strategies used by competitors in the market.
- Seasonal variations in that particular market.
- Specific distribution channels available.
- Specific margins and discounts.
- Customer surveys.
- Logistic costs.
- Margins wanted by specific agents or distributors.

The best place for specific primary information is the marketplace itself. It is obtained by observation and by questioning retailers, agents, distributors and potential customers.

Making Market Research Easier

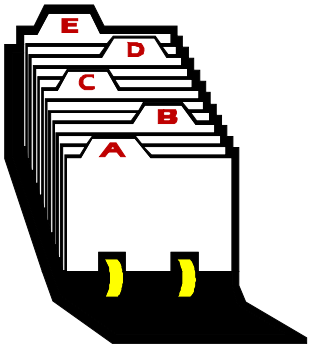
A Step by Step Approach to Market Research

Market research must be thorough and methodical. Here is a guide of how to approach the research task in a step-by-step way.

Step 1: Obtain Export Statistics

Obtain export statistics that indicate product exports to various countries. Companies should also consult the National Trade Data Bank (NTDB) for current and historical trade related releases, international market research, trade opportunities, country analysis and access to their trade library.

The trade library consists of over 40,000 documents related to international trade. Through the NTDB companies can also gain access to Country Commercial guides, Market Research Reports, Best Market Reports and U.S. import-export statistics.



Step 2: Identify Large and Fast Growing Markets

Identify 5 to 10 large and fast growing markets for your company's product. Look at the performance of that product during the past 3 to 5 years.

- Has market growth been consistent year to year?
- Did import growth occur even during periods of economic recession?
- If not, did growth resume with economic recovery?

Step 3: Identify Smaller, but Fast Emerging Markets

Identify some smaller but fast-emerging markets that may provide ground-floor opportunities. If the market is just beginning to open up, there may be fewer competitors than in established markets. Growth rates should be substantially higher in these countries to qualify as up-and-coming markets, given the lower starting point.

Step 4: Target Statistically Promising Markets

Target 3 to 5 of the most statistically promising markets for further assessment. After completing the preliminary research assessment of the possible target markets. Select two countries in which you think your product has the best market potential:

- Review the market factors for each country.
- Research data/information for each country.
- Rate each factor on a scale of 1-5 with 5 being the best.
- Select a target market/country based on your ratings.

Market Research Procedures

There are Two Main Market Research Procedures:

The 2 main market research procedures are:

- Secondary Research
- Primary Research

Secondary Research

This is, in turn, divided into:

- Internal audit.
- Desk research.

Internal Audit

Facts, data and information relevant to particular research objectives are sought from the historical records of the exporting company itself eg, the cost of packaging for products the company already ships to another country. The internal audit is always the starting point of market research.

Desk Research

This is the total process of collecting secondary information. It may include the internet, libraries, government trade organisations etc. Sources for desk research include:

- Trade commissioners at embassies
- Chambers of commerce
- Trading banks
- Trade associations
- Commercial market research organisations
- University research organisations
- Libraries
- Internet
- Trade exhibitions
- Competitors and their websites
- Professional institutions
- Personal contacts
- Overseas agents and distributors
- Shipping lines
- Advertising agencies
- Trade publications
- Government publications
- Customs

Desk research is demanding and needs a disciplined and methodical approach.

Primary Research (also known as Field Research)

The purposes of primary, or field, research is to gather specific, rather than general, information about exporting a particular

product to a particular country, or target market.

Primary Research is Divided into Four Areas:

- Distribution research
- Product research
- Packaging research
- Advertising research

Distribution Research

The research seeks information on:

- **Existing channel structures**. eg, wholesale and retail outlets.

- **Potential channel structures.** eg alternatives to existing channels, such as mail order, internet, street markets etc.

- **Channel margins and discounts**. What are the established or traditional rates in the target country? What scale is used by competitors?

- **Methods of physical handling**. Is special packaging needed to get the product from the exporter to the end customer, be it agent, distributor or man in the street?

- **Alternative transport modes**.

- **Bulk and piecemeal deliveries**. Are there extra savings through bulk deliveries? Or is it better for cash flow and inventory reasons to send goods in smaller lot sizes?

Product Research

This research seeks information on:

- **Concept testing**. It the product acceptable in the target country eg, does it offend any local customs. Does the name of the product translate acceptably?

- **Attitude testing**. How does the target market see the product? Is there need and a want for it?

- **New product acceptance**. How much marketing effort will be needed to launch the product? Is it a totally new concept?

- **User Profiles**. Who will be the buyers? Men, women, teenagers, everyone? What are their lifestyles and disposable incomes? Will it be a growing market?

- **Health requirements**. What restraints and conditions are there, especially with respect to food markets?

- **Legal Constraints**. What are the conditions regarding safety, labelling, product, sizes, advertising, promotions etc?

- **Brand share**. Which brand should be used, the exporter's, or that of a local agent or distributor?

Packaging Research

What needs to be modified with respect of the packaging a company uses for its domestic market? Depending upon the product(s) shipped, companies will encounter varied constraints based upon the type, size, condition and environmental impact of the

container/package utilized. Be aware of the targeted country's regulations before a contract is signed, because an adaptation of the packaging will increase your production costs.

The portion size of the package may also need changes to conform to local eating habits. Additionally, the package may need to be changed so that the product has an adequate shelf life for the new market to which it will be shipped.

In today's world of environmental concerns, the environmental impact of packaging has become a major issue regarding packaging requirements. Many countries have established mandatory recycling programs, packaging bans, and solid waste reduction programs. Many of these laws such as the German Waste Recycling Ordinance, require the importer of a product to return the excess packaging to the exporting country or recycle/reuse all transportation package material.

Exporters need to prepare themselves for the technical requirements of each target market. Know which questions to ask and to whom these questions should be directed. For answers to technical questions, ask your foreign customer, or your freight forwarder.

Exporters of food products in particular, may need technical information about

- Allowable pesticide requirements.
- Food labeling and standards.
- Sanitary requirements.
- Acceptable food additives.
- Certification and testing requirements of the target country.

Exporters should contact the consular trade office of the country to which they wish to export for advice about any of the above technical requirements.

Packaging research seeks to inform the exporter about the following:

- **Colours**. Are any colours culturally unacceptable? What colours are best? Eg blue and white for fresh seafood, red and yellow for fast food etc.
- **Design**. What designs are traditionally accepted in the export market. What illustrations are favourable on the covers?
- **Size**. Are there any constraints as to size? What are traditional sizes for that product in the target market? What is a convenient human lifting size? What system of measurement is used in the target market? Eg the US uses the British Imperial System, not Metric measurements.
- **Shape**. Are there any constraints about shape?
- **Labelling**. What is the best language or languages to use? What must the label say?
- **Information Content**. What information must the exporter supply to the customer about the product?
- **Legal and Health**. What are the legal and health requirements regarding the product?

Advertising Research

Advertising research is usually carried out by specialists in the larger advertising companies. Information sought includes:

- **Copy testing**. What wording has the most dramatic impact?

- **Legal**. What are the legal and cultural restrictions on advertising?

- **Media coverage**. What is the coverage of the various types of media and what segments of the market is covered?

- **Media effectiveness**. How effective is any particular form of media in reaching the market?

- **Campaign costs**. What are the estimated advertising marketing campaign costs?

Assessing Targeted Markets

Methodical steps to follow when assessing specifically targeted market segments include the following:

Step 1: Examine Product and Consumption Trends

For each country, examine trends for your company's product, as well as trends for related products that could influence demand. Calculate overall consumption or usage of the products and the amount accounted for by imports (look up statistics from Government internet sites).

Step 2: Check the Competition

Ascertain the sources of competition, including the extent and quality of domestic industry production and the major foreign countries the company is competing against in each targeted market.

Step 3: Check on Marketing and Market Use of the Product

Analyze factors affecting marketing and use of the product in each market, such as end-user sectors, technological developments, local pricing practices, channels of distribution, cultural idiosyncrasies and business practices.

Step 4: Identify Trade Barriers

Identify any foreign barriers (tariff or non-tariff) for the product being exported into the target country. Identify any barriers in your own country (such as export controls) affecting exports to the target country.

Step 5: Identify Government Incentives

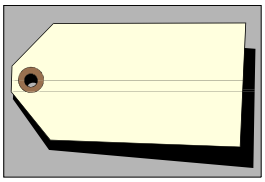
Identify any government incentives to promote exporting the product. Once again, International Market Research Studies and Country Market Surveys are helpful.

Draw Conclusions: Pick Fewer Countries and Specialise

After analyzing the data, your company may conclude that its marketing resources would be better utilized if applied to only a few countries.

In general, a company's efforts should be directed to fewer than 6 markets if the company is new to exporting, but in many cases one or two countries may be enough with which to start. The company's internal resources should help determine its level of effort.

Some Additional Information About Labelling



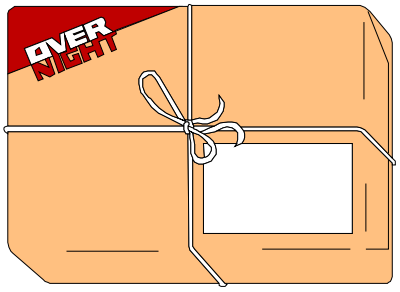
Will changes be needed to the existing label used by an exporter? The product label is an important element in the promotion of your product. Labeling provides required information and a further opportunity to position the product in the market through attractive graphics. To present your product favorably to a foreign buyer, your label may need certain alterations.

Product and brand names as well as label colors must be carefully considered for their cultural significance in each country. For example, in Japan white signifies death while green is a favorable color in Saudi Arabia.

Each country has label standards designed to inform and protect its consumers. The gravitation toward a more nutritionally informed consumer has caused global labeling requirements to become more stringent. Even though this move toward higher standards exists, there is not one standard set of requirements, but rather the particulars differ from nation to nation.

Some nations will allow "stickering" of a present exporter's label in order to comply with their requirements, whereas other nations will not.

Information Needed on Labels



Every label should include certain elements:

- The common name of the product.
- The net weight or volume in units used by the target country.
- The brand name.
- The name and address of the packer or shipper.
- The country of origin.
- The recommended storage temperature.
- Any special handling instructions.
- The name of officially approved fungicides or bactericides used in the packaging process.

It is also beneficial, and many times required, to include all information in the native language of the country to which you are exporting. Remember that these as well as other changes will result in additional costs, which should be calculated in your selling price. In addition to these items your company should calculate the cost of registering your brand name or trademark in the foreign country. It is possible your exact brand is already in use in the foreign country. Do this research before investing lots of money.

EXPORT OPERATIONS: PART 1

Teaching Objective Part 1

In this Session you will learn the following:

- The basic terms of trade used when exporting, both general and for containers.
- Identifying goods by trade classifications.
- Method of getting paid as an exporter.
- All about letters of credit and how to best use them.

Knowledge

At the end of this session you will be able to understand the following:

- How basic trading terms are used and how to find their abbreviations.
- How to classify trading goods.
- The different ways of getting paid and the pros and cons attached to each.
- How to raise and receive letters of credit, and their pros and cons.
- How to avoid costly mistakes when using letters of credit.

Points to Cover

Export Talk: The international terms of trade used by an exporter

Describing the Product: Identifying export goods in trade classifications of other countries

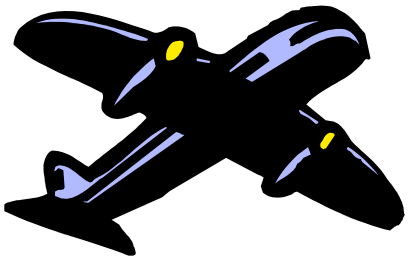
Container Talk: Export trade terms used for container shipments

How to Get Paid: Safest methods of payment for exported products and services

Letters of Credit: What they are and how they are used

Tips for Using Letters of Credit: Ways to Avoid Costly Mistakes.

Export Talk



Export dealings are often done across long distances, across different cultures, time zones and languages. Therefore, export contracts must be spelled out clearly.

An exporter may consider goods are sold with delivery from the factory to the customer at the customer's expense. However, the customer may see a deal where the goods are delivered by the supplier into his warehouse free of charge, as may be the custom in his home country.

The export terms in the contract of sale must therefore stipulate exactly where and when the title of the goods and the insurable interest passes from supplier to customer. A number of such 'handover' points are internationally recognized.

The trade terms of an export sales contract spell out the precise details of handover. These international rules for the interpretation of trade terms ('***Incoterms'***), are published by the International Chamber of Commerce. They are quoted in export documents next to the trade term eg. 'CIF Tokyo'.

Terms of Trade Abbreviations

The trading world uses many terms, and most of them are shown as abbreviations. Some very common abbreviations can be seen below. However, there are far too many abbreviations to be noted here so see the Annex in this book. Those involved in detailed exporting duties should look up the internet search engines under the title 'Terms of Trade' and numerous glossaries of trade terms and abbreviations will appear.

Very Common *Incoterms* are:

ExW (ex-works, or ex-factory, or ex-mill)

The purchase price covers the cost of goods sold only. The buyer is responsible for all charges once the goods pass the factory gates. If export packaging is included by the seller, the term states 'ExW (export packing included).

FOR (free on rail)

The supplier has the responsibility to deliver the goods appropriately packed and stowed on a railway car at the nearest rail head.

FAS (free alongside ship)

The supplier covers the cost and all charges up to the quayside next to the ship. When there is no deepwater berthing, this covers all costs of lightering. (Lighters are small boats that take the cargo from the quay to the ship lying in deeper water.)

FOB (free on board at the nearest appropriate port eg FOB Hai Phong Port)

This is one of the most common of the trading terms. The exporter is responsible for all charges until the goods pass over the ships rail. In the US, FOB has a wider meaning and therefore this trading term must be clarified precisely, eg 'FOB

factory. This means the goods are delivered 'free on board' the collecting truck at the factory. If the term is to mean 'free on board the ship' it must include the word 'vessel' and the port of shipment: eg 'FOB vessel' New York'. The title passes when goods arrive on the deck of the vessel in New York port.

C&F (cost and freight)

This is another commonly used trading term. The cost of the goods, all handling charges and transport costs up to the port or airport of destination are included (including loading on the vessel). The buyer is responsible for insuring the goods, and for customs duty, clearing and handling charges at the port of destination.

CIF (cost, insurance and freight)

The exporter pays all the costs, and insures the goods up to the place of destination. The ownership (title to goods) passes to the buyer when the buyer is given documents relating to the shipment, in good order. These documents may include:

- The Air waybill (for air freight)
- Bill of lading (for sea freight)
- Insurance policy
- Commercial invoice
- Customs invoice
- Certificate of origin
- Packing list
- Plus any other documents specified in the agreement

NB: The insurance risk for both CIF and C&F passes when the goods are carried over the ship's rail at the place of departure. This means that the insurable risk passes before the title and the buyer must insure the goods even before he has the legal title.

Franco Domicile ('DD' – or 'delivered domicile')

This is not a very common. The seller is responsible not only for delivery to the port of destination, but also for import duties and taxes, unloading, clearance and handling charges and then for delivery charges to the customer's warehouse. It is difficult for an exporter to quote an accurate DD charge without a lot of experience about the location of the customer.

Describing the Product

The task of identifying the systems of world trade classifications has been simplified over the years. The 2 main classifications used are:

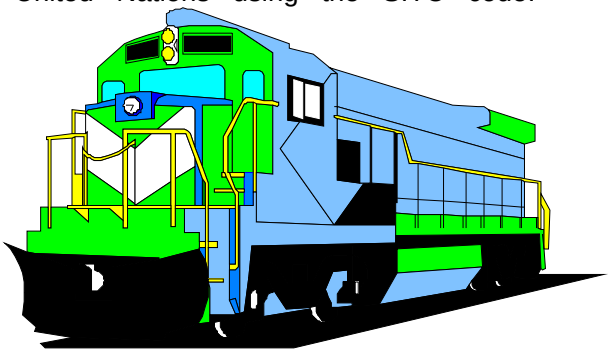
1. Standard International Trade Classification (SITC).

2. Customs Co-operation Council Nomenclature (CCCN).

SITC

This classification has 10 divisions which, in turn, are split into 625 sub groups. There are over 40,000 products with further subdivisions, designated by a 5 digit code number. Currently over 130

countries submit their statistics to the United Nations using the SITC code.



These statistics are published regularly. The values of goods from all countries are in US dollars.

CCCN

By this system, the products are grouped according to the materials from which they were made. There is a 4 digit customs tariff nomenclature. CCCN was created when the European Economic Community (now the European Union) first started up. It simplified the comparison of duties of various countries in Europe.

Knowledge of the tariff duties is important to the exporter so he can more accurately price his goods.

The World Trade Organisation (WTO) now coordinates much of the statistical data on trading and tariffs.

Container Talk

There are delivery terms published by '***Incoterms'*** specifically relating to container deliveries. These include:

ExW (ex-works)

The buyer takes delivery at the seller's premises.

FRC (free carrier – named point)

This is like FOB as the containers are delivered to an inland clearance depot rather than direct to the port.

FOR / FOT (free on rail / free on truck – rail truck)

The terms mean the same and relate to rail transport only.

FOA (free on board airport)

Similar to FOB, but the container is delivered to the carrier at the airport and charges are paid by the seller for loading aboard. Unless contrary notice is given, the seller usually contracts for transport charges to destination, passing them on to the buyer.

CFR (cost and freight)

Also known as C&F.

DCP (freight or carriage paid to – named point)

This is the container equivalent of the traditional C&F.

CIP (freight or carriage and insurance paid to – named point)

This is the container equivalent of CIF.

ExS (ex-ship)

The buyer takes responsibility of delivery of the container from the ship paying all costs of unloading, duties, charges, and freight costs to his warehouse.

ExQ (ex-quay)

Seller pays all unloading charges, duties, taxes and fees at port of destination. The buyer takes delivery at the quayside.

How to Get Paid: Quotation

In international trade, an export quotation includes the price and all of the principal conditions of a possible sale. Basically, the quotation describes a product, its price, payment terms, delivery period and the place of delivery.

Many times it is advantageous to include gross and net shipping weights in this description. With this information, the buyer can make inland forwarding plans, and many times this measurement is helpful in the determination of import duties at the foreign port.

The Pro Forma Invoice

The most common method of providing a sales quotation is the 'pro forma' invoice. A pro forma invoice is not used as a means of gaining prepayment from the importer, but rather to further describe products, price, payment terms, and delivery information so the buyer can arrange funds. Many banks provide their customers with a checklist for preparing this information.

A pro forma invoice should include a statement certifying that the pro forma invoice is true and correct and a statement naming the country of origin of the goods. Also, the invoice should be conspicuously marked 'pro forma invoice.'

It is good business practice to include a pro forma invoice with any international quotation, whether it has been requested or not.

A sample Pro Forma Invoice can be found in an Annex to this book.

Generally, price quotations should state explicitly that they are subject to change without notice. If a specific price has been agreed upon or guaranteed by the exporter, the precise period during which the offer remains valid should be specified in the pro forma invoice.

Methods of Getting Paid

There are various ways of making international payments. Some are secure, others carry risk. The options are not always with the exporter.

The most common methods are:

- Pre-payment
- Letters of Credit
- Bills of Exchange
- Open Account

Pre-payment

This method is obviously the most desirable from the seller's standpoint because all risk is eliminated.

Cash in advance may seem most advantageous to the exporter; however, insisting on these terms may cost him sales. Just like domestic buyers, foreign buyers prefer greater security and better cash utilization. Some buyers may also find the need to pay in advance insulting, especially if they are considered credit worthy in the eyes of the rest of the world.

An advance deposit and progressive payments may be more acceptable to a buyer, but even these terms can result in a loss of sales in a highly competitive market.

So, while cash payment on ordering is the most secure method of payment, it is certainly not attractive to buyers unless they are in a very competitive market and realize they need to accept all the seller's terms in order to compete for goods in high demand.

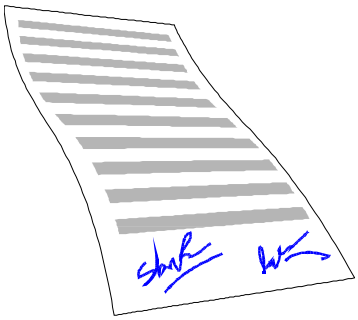
Pre-payment may also have to occur when a buyer only wants a small sample from a busy exporter who does not want to trouble with too much documentation for the sake of only a small sample order.

Pre-payment also usually occurs where there is political instability, or where goods are custom made with little chance of resale elsewhere.

Documentary Letters of Credit (L/Cs)

If the buyer pays for export goods in advance, he risks that the goods may not be sent. Similarly, if the seller ships the goods before he receives full payment from the buyer, he risks not being paid.

To cover these risks, buyers, sellers, and banks prefer to use documentary letters of credit (L/Cs) in international trade transactions which are off a one off nature or a first time dealing. Under this method, the exporter requires these documents to be presented before payment is made.

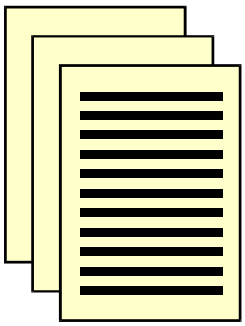


Essentially, an L/C adds a bank's promise of paying the exporter to that of the foreign buyer once the

exporter has complied with all of the terms and conditions of the L/C. The L/C, then, relies on guaranteed payment, promised by a credible bank, once specific conditions regarding the shipment of the goods have been met.

The foreign buyer or 'applicant' applies for issuance of the L/C to the exporter, or 'beneficiary.'

The L/C format is similar to that of a letter. It provides total security of payment when it is 'irrevocable' and 'confirmed' to the exporter by a bank in his own region of good standing. (Note, however, in the past, some banks in developing countries, including the Vietcomm Bank of Vietnam, have reneged on irrevocable and confirmed L/Cs causing tremendous damage to the longer term trading interests of their countries. Exporters many try to get 'sovereign risk' insurance cover to offset this risk.)



An L/C is a payment method that substitutes the credit-worthiness of a bank for that of a buyer. Thus, the importer, or buyer, applies to a bank for the L/C. An irrevocable L/C cannot be changed without the expressed permission of the exporter. If an irrevocable L/C is confirmed by a credible bank in the exporter's region, it virtually eliminates the foreign credit risk of an export sale.

In part, an L/C also protects the buyer because a bank cannot pay the exporter until the exporter presents documents that comply fully with the terms and conditions of the L/C. These terms, in turn, should exactly reflect those stipulated in the contract of sale agreed between the exporter and the importer.

If an L/C is not 'irrevocable' it can be cancelled at any time, even if the goods have been shipped. It is rare to find a revocable L/C.

Payment terms under an L/C can be as follows:

- **At sight**. At sight signifies that payment must be made within 72 hours, upon presentation of the required documents.

- **A certain number of days after sight**. Payment a certain number of days after sight means that the exporter will be paid sometime after negotiation or acceptance of the documents. These days should be stated in the L/C conditions.

- **Or by a date stated**. Payment date is fixed by the terms of the L/C.

Steps in L/C Documentation

Great care has to be taken when preparing L/C documentation. Up to 40% of exporters make mistakes in their documentation. Steps in the L/C are:

1. Importer instructs his Bankers in his country to open a confirmed, irrevocable L/C in favour of the exporter. (This is the Advising or Issuing Bank.)

2. Importer's Bank then instructs a reputable Correspondent Bank (known as a Clearing Bank) in the exporter's country to confirm the opening of a credit to the exporter. The Clearing Bank then advises the exporter the L/C has been opened. (This is the Clearing or Confirming Bank.)

3. On receipt of the credit, the exporter ships goods strictly in accordance with the requirements stated in the L/C document and includes copies of all the supporting documents, such as Bill of Lading, Commercial Invoice etc.

4. Exporter presents the shipping documents to the Clearing Bank in his country for payment against the credit.

5. Clearing Bank makes the payment to the exporter's account at the exporter's bank.

When using a documentary L/C, parties base payments on terms contained within the documents, not on the terms of sale, nor the conditions of the goods sold. Before the bank completes the payment process, it verifies that all supporting documents comply with terms stated in the L/C.

If a discrepancy exists between the required documents and terms in the L/C, the non-complying party must reconcile the differences before payment can be made. Thus, the L/C mandates full compliance of documents as specified by the terms of the L/C.

All terms of sale agreed in the original contract of sales should be clearly specified in the L/C, since payment is made according to that document's contents. For example, 'net 30 days' should be specified as 'net 30 days from acceptance' or 'net 30 days from date of bill of lading' to avoid confusion and delay of payment. Likewise, the currency of payment should be specified as "USDxxx" if payment is to be made in U.S. dollars. International bankers can offer other helpful suggestions.

Confirmed Letter of Credit

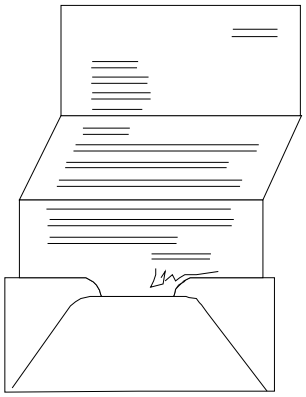
The importer's bank issues the L/C, while its correspondent bank in the exporter's region confirms it. With confirmation of the L/C, the correspondent bank adds its own promise to pay to the promise of the importer's bank.

Exporters concerned about the political or economic risk associated with the country, in which the importer's bank is located, may wish to obtain a confirmed letter of credit. Alternatively, the exporter can take the lesser and cheaper option of obtaining an 'advised' L/C, in which the correspondent. bank gives advice of the credit risk, without officially confirming it.

As mentioned earlier, some nations offer their exporters special 'sovereign risk' insurance policies when they are exporting to countries with poor payment records.

In the early days of trading with Vietnam in the late 1980's, the risk of non payment to the exporter was so high that not even this special insurance was available to exporters, so much of the trade between the West and Vietnam was adversely affected. This can be the longer term result of breach of credit terms and the breakdown of trust when trading in international markets.

Irrevocable and Revocable Letters of Credit



If an L/C is irrevocable, the buyer and the seller cannot make a change unless both agree to it. In contrast, the buyer or seller can unilaterally make a change with a 'revocable' letter of credit. Therefore, most exporters advise against the use of a revocable letter of credit.

Letter of Credit at Sight:

The terms of the L/C require immediate payment.

Time or Date Letter of Credit:

The terms of the letter of credit do not require payment until a future date.

Cost Negatives of L/C's

When deciding whether to use an L/C, consider the additional cost of bank confirmation and related fees. Banks charge fees, usually a small percentage of the amount of payment, for handling L/C's. They also charge fees for any amendment made to the L/C after it has been issued. All quotations and drafts should explicitly state that fees are to be charged to the buyer's account, since the buyer generally incurs all fees.

A typical L/C can cost up to $1,000, including your bank's examination fee, which can range from 1/10 to 1/4 percent. The greater the value of your shipment the greater the fees are.

Another negative factor with the costs of L/C's is the possibility that competitors may offer payment terms more favorable to the buyer. Generally, the cost of an L/C to the importer is significantly higher than the cost to an exporter. Due to these higher costs, some importers may not accept your payment terms. Consult an experienced international banker to determine which payment method is right for your business.

Actual Payment Via a Letter of Credit

An exporter usually does not receive payment until the advising or confirming bank receives the funds from the issuing bank. To expedite the receipt of funds, electronic transfers may be used. However, for an additional charge, the exporter may be able to receive funds immediately by discounting the L/C at the bank. Exporters should consult with their international bankers about the bank policy towards discounting L/C's.

Some L/C's have a feature known as a 'red letter clause' that allows the exporter to draw some funds from the L/C in advance to assist him to buy raw materials. However, such clauses are rare and usually exist only between long established customers.

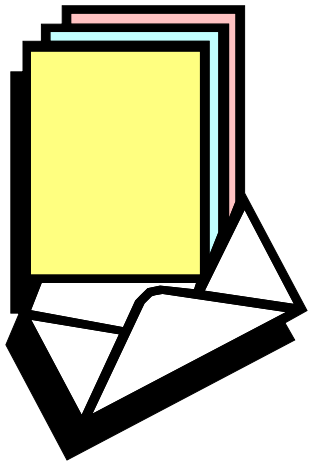
Information Required in a Letter of Credit

Each documentary L/C must contain the following information:

- Expiration date (latest shipping date) .
- Dollar amount covered under such credit.
- Name and address of buyer (applicant).
- Name and address of seller (beneficiary).
- Reimbursing instructions

Common Export Documents Needed with a Letter of Credit

Also, the most common documents required to be under commercial L/C's are:



- Commercial Invoice.
- Customs Invoice.
- Certificate of Origin.
- Packing List.
- Clean on Board Bills of Lading.
- Insurance Policy or Certificate
- Air Waybill

Documentary Letter of Credit Checklist

- Does the specification of the goods correspond to that of the contract?
- Doe the quantities correspond?
- Do the weights correspond?
- Is the total value of the credit sufficient?
- Are the ports of departure and destination appropriate?
- Are details of import / export licenses needed?
- Are there any specific instructions from the Advising Bank with regard to drawing a draft for presentation?
- If partial shipments are necessary, are they permitted?

- If trans-shipment is necessary, is it permitted?

- Does the insurance policy or certificate specify special terms?

- Are there special instructions regarding the Airway Bill or the Bill of Lading?

A Typical Letter of Credit Transaction

Below is the typical process that takes place when payment is made by an irrevocable L/C, which a credible bank has confirmed:

1. After the exporter and customer agree on the terms of sale, the customer arranges for its bank to open an L/C. Delays may be encountered if, for example, the buyer has insufficient funds.

2. The buyer's bank prepares an irrevocable L/C, including all instructions to the seller concerning the shipment.

3. The buyer's bank sends the irrevocable L/C to a correspondent bank in the exporter's region requesting confirmation. The exporter may request that a particular bank be the confirming bank, or the foreign bank may select one of its own correspondent banks.

4. The correspondent. bank prepares a letter of confirmation to forward to the exporter along with the irrevocable L/C.

5. The exporter reviews carefully all conditions in the L/C. The exporter's freight forwarder should be contacted to make sure that the shipping date can be met. If the exporter cannot comply with one or more of the conditions, the buyer should be alerted at once.

6. The exporter arranges with the freight forwarder to deliver the goods to the appropriate port or airport.

7. When the goods are loaded, the forwarder completes the necessary documents.

8. The exporter (or freight forwarder) presents to the correspondent bank documents indicating full compliance with the terms stated in the L/C.

9. The bank reviews the documents. If they are in order, the documents are airmailed to the buyer's bank for review and transmitted to the buyer.

10. The buyer (or agent) gets the documents that may be needed to claim the goods.

11. A banker's draft, which may accompany the L/C, is paid by the exporter's bank at the time specified, or may be discounted at an earlier date.

Tips on Using a Letter of Credit

Follow the tips below to avoid shipment delays for time-consuming and costly L/C amendments.

Present this list to your importer.

1. The exporter should carefully compare the L/C terms with the terms stated on the pro forma quotation. This is extremely important since the terms must be precisely met or the L/C may be invalid and the exporter may not be paid. If there are any discrepancies (including spelling mistakes), the customer should be notified immediately, and an amendment should be requested to correct the problem.

2. Confirm that the amount of credit is sufficient to cover the F.O.B. costs plus all shipping expenses you want the bank to repay (inland and ocean freight, insurance,

forwarding fees, consular fees, inspection fees, etc.). Banks pay only the amount specified in the L/C, even if higher charges for shipping, insurance, or other factors are documented.

3. Be sure the L/C is irrevocable and will be confirmed by a credible confirming bank.

4. Stipulate that payment will be made upon presentation of documents to the bank confirming the credit.

5. If your credit provides for separate amounts for the merchandise and for shipping expenses, be sure that sufficient funds are established for each, since banks cannot permit merchandise funds to be used for expenses, and vice versa.

6. Be sure your bank is shown as the beneficiary, with its name and address spelled correctly.

7. Require only documents you know your bank can supply, and if 'analysis' or 'inspection' certificates are to be furnished, specify who is to issue them and at whose expense.

8. If the goods may be shipped in standard shipping containers, be sure to specify that 'container bills of lading' are acceptable. Difficulties also may be avoided if the L/C and bill of lading clauses specify 'shippers load and count' and 'on deck or underdeck loading at carrier's option.'

9. If shipment is to move via barge, to be towed by tugs, or to be loaded aboard LASH ships (described below), be sure to specify this fact in your L/C. You should also consider stating in the L/C that 'bills of lading are acceptable as "on board" when issued by steamship companies for reloading on LASH ship.'

10. If 'charter party' bills of lading are acceptable, this fact must be specifically stated in the L/C.

11. Describe merchandise ordered in English, and in as general and as broad of terms as possible.

12. If you must describe the type of insurance coverage required, be sure that type of coverage, such as 'all risks', is available for the specific goods being shipped.

13. Allow partial shipments and part payments in your letter of credit to avoid the necessity of expensive and delaying credit amendments should single packages be short-shipped or damaged on the wharf. Also, specify that any statement of quantity (gallons, ton, etc.) is approximate and not exact.

14. Provide in the L/C that shipment via air or parcel post is allowed, if your order may be so shipped. If air freight shipment is required, provide in the L/C that only one copy of the air waybill is required, and that it is consigned directly to you or your agent ("to order" air waybills are prohibited).

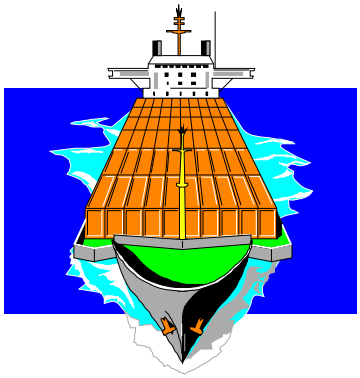
15. Be sure adequate time is allowed for manufacturing, shipment, and

presentation of documents before credit expiration (in general, a minimum of two months).

EXPORT OPERATIONS: PART 2

Teaching Objective Part 2

In Session you will learn the following:



- What types of credit are available to the exporter.
- Methods of safe payment other than letters of credit.
- Collection systems available from banks to assist exporter's to get paid.
- The pros and cons of open account trading.
- Factoring and hedging.
- How to make export administration easier and avoid common mistakes.

Knowledge

At the end of this session you will be able to:

- Assimilate the information in Part 2 with that learnt in Part 1 and have and overall understanding of the day-to-day mechanisms and operations involved with export trading.
- Know the methods of payment and collection and the pros and cons of each.
- Be aware of how to hedge, factor and discount letters of credit to assist with cash flow.
- Be able to avoid common mistakes when exporting.

Points to Cover

Credit Available to Exporters: Transferable, back-to-back, revolving credit.

Degrees of Risk in Payment: Methods of safe payment other than letters-of-credit.

Collections: Collection systems available from banks to assist exporter's to be paid.

Open Account Trading: Trading terms for well-established exporter-customer relationships.

Factoring and Discounting: Financial services that provide prompt reimbursement against export invoices.

Hedging: Protection against foreign currency fluctuations.

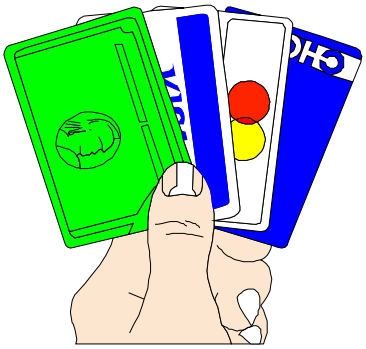
Easier Export Administration: Main problems in export administration,

Avoiding Mistakes: Common mistakes new exporters make.

Types of Credit Available To Exporters

Transferable Credit

With a Transferable Credit, the beneficiary is able to instruct the Issuing Bank to make the credit available to a third party. (Normally this is not possible.) Provided the terms of the credit allow for partial shipments, more than one third party can be specified.



With a Transferable Credit, a middleman manufacturer is able to use the security of the credit to fund the supply of goods from the third party supplier.

Back-to-Back Credit

This is similar to the Transferable Credit. The manufacturer, or middleman, is able to secure credit for his supplier against the security of his own credit. With a Back-to-Back Credit, there are 2 separate credits, not just one, as in the case of a Transferable Credit.

Revolving Credits

This happens where there are to be a series of shipments at intervals. It reduces the cost and administration of opening separate new credits after each shipment.

A bank usually requests written confirmation from the buyer for the reinstatement of each revolving credit after each shipment is received.

Avoiding Mistakes in Credit Documentation

Mistakes in credit documentation occur for various reasons such as time delays from when deal is closed and the advice from a bank that a credit has been opened. The terms of the contract do not always meet the terms of the credit, maybe due to an afterthought by the importer. Maybe it is a genuine mistake. Whatever the reason, the Issuing Bank makes payment only when the exact terms of the credit are met.

Discrepancies may be small, but even these can be significant enough to stop payment. Only the buyer can instruct the Issuing Bank to change the terms of payment.

Problems arise if discrepancies are not discovered until too late.

Other problems arise due to insufficient time to present the shipping documents after the goods have been shipped. Use of a checklist assists to overcome many of these time errors.

Problems with L/C's or Cash

L/C's are costly in terms of bank charges. If an L/C is not used, importers without substantial credit may have to lodge the full value of the credit they wish their bank to pay to the exporter. This means their money could be tied up for many months while the goods are being made and shipped. Therefore, exporters and importers often try to seek other means of payment that can still offer both sides some degree of safety.

Bill Of Exchange Or Documentary Draft

A Bill of Exchange, also called a Documentary Draft, is another alternative method of payment for exports.

When shipping documents are attached, the Bill is known as a 'Documentary Bill of Exchange' or 'Documentary Draft'. It allows the importer to take title of the goods against payment of the Bill, or against a written promise to pay in 30, 60, 90 or 180 days' time.

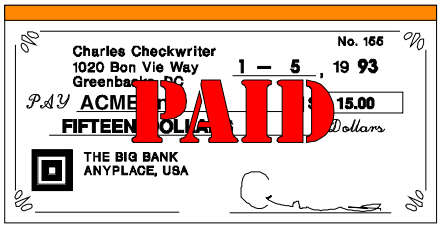
Promising to pay is called 'acceptance'.

The importance 'accepts' the Bill by signing and dating the face of the Bill. The term of the Bill dates from that time.

The parties to a Bill of Exchange are:

- The drawer (exporter)
- The drawee (importer)
- The payee (the person to be paid – usually the drawer – exporter)

The Bill of Exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is



addressed to pay on demand, or at a fixed

time in the future, a sum of money to the bearer or a specified person.

Three Kinds of Bills or Documentary Drafts

There are three types of documentary drafts or Bills:

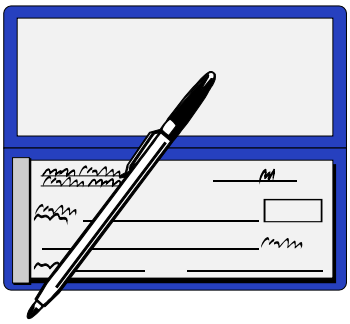
1. Sight drafts
2. Time drafts
3. Date drafts.

Sight Draft

A sight draft is used when the exporter wishes to retain title and control of the shipment until it reaches its destination and is paid for. Before the order can be released to the buyer, the original bill of lading must be properly endorsed by the buyer and surrendered to the carrier of the goods.

In actual practice, shipment is made on a negotiable bill of lading that is given to the shipper. The bill of lading is endorsed by the shipper and sent to the buyer's bank or to another intermediary along with the sight draft, invoices, and other necessary supporting documents specified by the buyer or the buyer's country. Some of the necessary supporting documents are packing lists, consular invoices or insurance certificates.

The bank notifies the buyer that it has received these documents and as soon as the draft is paid, the bank will turn over the bill of lading, enabling the buyer to obtain the shipment.



This method does involve some risk because the buyer's ability and willingness to pay may change between the time the goods are shipped and the time the draft is presented for payment. Also, there exists the risk of a change in the policies of the importing country. If the buyer cannot or will not pay for the goods, the return or disposal of the goods becomes the responsibility of the exporter.

Process for the Payment of a Documentary Sight Bill of Exchange or Draft

Many banks will not pay 'sight' drafts until they have been notified that the goods have arrived in-country. That's why many Bills of Exchange are 'term' or 'usance' bills that give a period of time for payment after shipping to allow time for the goods to arrive at their point of destination.

In summary, the process for payment of a sight draft is as follows:

- Exporter ships goods.
- Exporter (drawer) draws Documentary Sight Bill of Exchange on the Importer (drawee) and submits it to his bankers with his shipping documents.
- Exporter's Bank send Bill and accompanying shipping documents to a Correspondent Bank in the Importer's country.
- Correspondent Bank advises the Importer of the Bill and presents it for payment.
- On payment 'at sight' of the Bill, the Importer is given the shipping documents representing title to the goods.
- The payment is sent to the Exporter's account at his Bank less bank charges.

If the Importer cannot pay after a Bill or Draft has been presented twice, the exporter can have a lawyer 'protest' it my simply writing on the front of the Bill the word 'Protested' and dating and signing it. No further documentary evidence is needed to show the Importer has not honoured the Bill or Draft and legal action can follow.

To have a Bill 'Protested' can damage the reputation of an Importer. Obviously, the Importer cannot get title to the goods either and they may have to be returned to the exporter, a costly exercise for the export for no gain.

Therefore it is important that when using a Bill of Exchange method, the exporter is as up-to-date as possible with the credit worthiness of the importer and of the political and economic conditions prevailing in his country.

Time Draft

A time draft or 'term bill' can be used to require payment within a certain time frame after the buyer accepts the draft and receives the goods. By signing and marking 'accepted' on the draft, the buyer is formally obligated to pay in the determined period of time. When this signature is received, the draft is called 'trade acceptance' and can either be kept by the exporter until maturity, or sold to a bank at a discount so the exporter can receive immediate payment.

There is a certain risk involved for the exporter because a buyer may delay payment by delaying acceptance of the draft, or refuse to pay at its maturity. In most countries, an accepted time draft or term bill is stronger evidence of debt than an unpaid invoice.

Date Draft or Term Bill

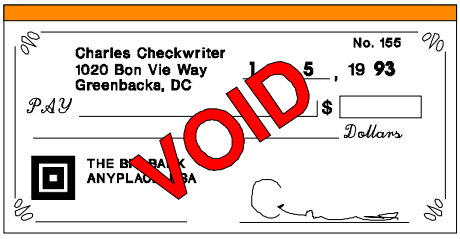
The date draft differs slightly from a time draft in that it specifies a date by which the payment is due rather than establishing a time period. When a sight or time draft is used, a buyer can delay payment by delaying acceptance of the draft, but the use of a date draft can prevent this occurrence.

Process for Payment of a Documentary Term (Usance) Bill of Exchange or Date Draft

- Exporter ships goods.
- Exporter (drawer) draws Documentary Term Bill of Exchange or Date Draft on the Importer and submits it to his bank along with the shipping documents.
- The Exporter's Bank sends the Term Bill and shipping documents to its Correspondent Bank in the Importer's country.
- The Correspondent Bank advises the Importer and presents the Term Bill to the Importer for acceptance.
- On acceptance of the Term Bill, the Importer is handed the shipping documents and therefore the title to the goods.
- The accepted Term Bill is returned by the Correspondent Bank to the Exporter's Bank.
- The accepted Term Bill is then returned to the Correspondent Bank by the Exporter's Bank for payment with the term is due.
- The Correspondent Bank collects payment and sends the proceeds, less bank costs, to the Exporter's account at his Bank.

Interest Charge

With a Term Bill or Date Draft, it is usual for the exporter to charge the importer



interest for the term of the Bill or Draft. Terms about bank charges,

currency fluctuations and interest rates have to be clearly specified.

Collections

Collections is the process by which an instrument or document accompanied by

a draft or bill or exchange is presented to a buyer for payment.

A draft or bill is the negotiable instrument, which contains an order to pay. It must be signed by the exporter and be payable at sight, within a certain time period, or by a certain date. Purchased by buyers, drafts are used in order to pay the amounts owed to the exporting company.

The most commonly employed type of collections are the documentary collections.

Local banks offer a selection of collection products. These products provide your organization with an efficient, cost-effective alternative to the in-house handling of collections. For international collections, banks offer lockboxes and electronic data interchange (EDI).

Lockboxes

There are two main types of lockboxes:

- The wholesale lockbox
- The retail lockbox.

The Wholesale Lockbox

The wholesale box is geared toward low volumes of high dollar remittances. Most times the bank will assign an individual teller to a specific group of customers so that he is trained in those customers' special needs and requirements.

The Retail Lockbox

The retail lockbox service is created for those organizations that receive a high volume of low-dollar remittances accompanied by a scanable document. This retail lockbox system reduces in-house processing costs and the transactions are assigned a unique identification number, which creates a complete audit trail of the deposited checks.

Electronic Data Interchange (EDI),

Electronic Data Interchange (EDI), the computerized exchange of information in a standardized format, is quickly becoming vital for a successful business. Customers of the bank can initiate electronic payments or collections accompanied by complete invoice and shipping information needed by a supplier to post the payment. The EDI provides an efficient, cost-effective alternative to handling incoming payments.

EDI advantages include:

- A quick response to trading partners who are using EDI
- An improved accuracy of cash flow forecasting
- Improved control over expected payments or receipts
- Reduced internal processing and banking transaction costs
- Reduced time and cost of collecting, tracking and updating open receivables
- Notification of incoming payments or collections
- A fully automated update of your accounts receivable system

To determine the best type of collections for your company or for more detailed information about the various services offered, contact your local bank's international division.

Payment Terms For Established Customers

The Open Account Method

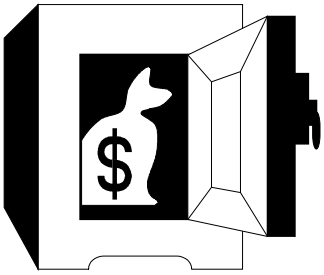
Once trust is established by long-time trading, payment is effected through an 'open-account' relationship.

This practice is simple. The exporter ships the goods direct to the importer, together with an invoice and all relevant shipping and insurance documents. Payment is then made according to the pre-agreed trading terms.

Open trading is quick and simple, but offers no protection to the exporter. This could be secured by means of a bank

guarantee to a certain sum put up by the importer.

Nearly all open account payments these days are made by electronic transfer.

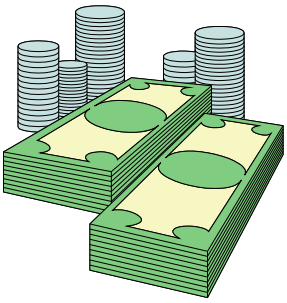


Exporting on open account carries the greatest risk for the exporter. Under this method the buyer does not pay for the goods until they have been received. If the buyer refuses to pay, the only recourse of the exporter is to seek legal action in the buyer's country.

The open account method should only be utilized when there is an established relationship with the buyer and the country of the buyer possesses a stable political and economic environment. If your sales must be made on open account, the date upon which the payment is due should be stipulated

The Factoring and Discounting Option

Organisations known as 'Factors' may buy all invoiced debts from an exporter. In this way prompt payment can be received of up to 80% of the invoice values. A percentage of the sales value is charged as a service. The other charges are interest charges on the money paid to the exporter until the importer pays the invoice and the Factor gets his money.



Most Factors insist that all customers of an exporter are covered, not just the slow payers. The Factor makes a non recourse payment to the exporter and assumes the task of recovering the money from the importer. Sometimes the importer doesn't know there is a Factor involved and the exporter invoices him direct and then turns his payment over to the Factor.

Banks will often discount the payment of an confirmed and irrevocable term L/C.

Factoring and discounting can be useful for the cash flow of the exporter, but the disadvantage is the cost of the service.

Hedging Against Currency Fluctuation

Sometimes an exporter has to quote in the currency of an importer and on a CIF basis to make it easier to sell goods overseas in a strongly competitive market.

However problems can occur if currency rates change sharply from the time of contract to the time of payment.

The exporter has 2 options:

1. Do nothing. If the market goes up and down a little over the financial year he should balance out.

2. Hedge against currency fluctuation by entering into a forward exchange contract with the bank. This has a cost, but it is good business sense when the transactions are large there is even a slightly unstable market, or when the exporter is dealing with the currency of an economically unstable country.

The Foreign Exchange Market

There are 2 main parts to the foreign exchange market

1. **The Spot Market**: where rates are quoted for the immediate sale or purchase of foreign currency.

2. **The Forward Market**: where rates are quoted by dealers for the sale or purchase of currencies as a specified date in the future. They are quoted in terms of premiums and discounts on the spot rate. One, two, three, six and nine months forward cover are the most common rates. This type of contract is called an Option Contract.

Easier Export Administration

Transport

The size, weight, volume, value and nature of the goods are all important to the question of most suitable transport to use when exporting. Here are some of the options available"

Rail. Very effective for bulk orders of raw materials.

Ocean. A traditional mode. The slowest mode.

Air-Freight. Fast but risks of damage and high cost. Good for small, high value items.

Containers. Allows for 'door to door' service. Reduced risks of stealing. Costs of protective packaging reduced. Still slow, but faster turn around than the old methods of sea freight. Loaded by lift on – lift off methods or roll on roll off.

Post. Appropriate for very small consignments.

Express Courier Service. Guarantees overnight delivery. Good for highly perishable, very valuable small items. But very expensive.

Use a Freight Forwarding Agent. Some specialize in handling certain types of commodities. Good for larger sized business, but expensive for small shipments.

Common Mistakes For New Exporters To Avoid

1. Failure to obtain qualified export counseling and to develop a master international strategy and marketing plan before starting an export business.

Define your goals, objectives and the constraints in a particular market. Also, develop a plan to accomplish objectives and counteract potential problems. Often outside assistance is helpful, since most small companies do not have a staff with considerable exporting expertise.

2. Insufficient commitment by top management to overcome the initial difficulties and financial requirements of exporting.

It may require more time for an exporter to establish himself in a foreign market than in the domestic one. Although the early delays and costs involved in exporting may seem difficult to justify when compared to established domestic trade, the exporter should take a long-term view of this process and utilize international marketing efforts to overcome these early difficulties.

With a solid foundation for export business, the benefits derived should eventually outweigh the investment. (Remember: Getting started in the domestic market can also be difficult at first!)

3. Insufficient care in selecting overseas sales representatives, agents and distributors.

The correct selection of a foreign agent or distributor is often crucial. Complications involved in overseas communications and transportation require international middlemen to act with greater independence than their domestic counterparts. Also, since a new exporter's history, trademarks, and reputation are usually unknown in the foreign market, foreign buyers will select goods based upon the strength of your agent's or distributor's reputation.

Conduct a personal evaluation of the personnel handling your account, the agent or distributor's facilities and the management methods employed.

4. Reliance on orders from around the world rather than concentrating on one or two

geographical areas and establishing a basis for profitable operations and orderly growth.

Agents and distributors must be trained to promote your account actively; their performance should be continually monitored. A company may need to relocate a marketing executive to the distributor's geographical region. New exporters should concentrate efforts in one region or two geographical areas until there is sufficient business to warrant a company representative. Then, while this core area is expanded, the exporter can move to another geographical area.

5. Neglect of export business when the domestic market booms.

Many companies turn to exporting when business falls off in their own country. With the return of a boom in domestic business, many companies neglect their export trade or relegate it to a secondary position. Such neglect can seriously harm the business and motivation of overseas representatives, leaving exporters without recourse when domestic business falls off once more. Even if domestic business remains strong, companies may eventually realize they have lost a valuable source of profits.

6. Failure to treat international distributors and customers on an equal basis with domestic counterparts.

Many times, companies carry out institutional advertising campaigns, special discount offers, sales incentive programs, special credit term programs, warranty offers and similar options in their domestic market. These companies fail to offer similar assistance to their international distributors. A lack of assistance can destroy the vitality of overseas marketing efforts. Also, many new to export companies fail to take into consideration gross margin requirements.

7. Assumption that a given market technique and product will be successful in all countries.

All markets differ in culture and customs of the targeted area. If a product sells well in an exporter's the domestic, it will not necessarily sell in all foreign markets. In addition, the methods of promoting and selling can be radically different. Countries all have different means of product distribution and selling, such as the existence of large supermarket chains versus small family owned shops. An exporter must do market research to determine the best strategy for their objective.

8. Unwillingness to modify products to meet regulations or cultural preferences of other countries.

Foreign agents and distributors cannot ignore local safety and security codes, or import restrictions. If necessary modifications are not made at the factory, the distributor must do them -- usually at a greater cost and, perhaps, not at a high level of quality. The resulting smaller profit margin makes the account less attractive. For long term success, food products must be packaged according to local import regulations.

9. Failure to print service, sales and warranty messages in foreign languages, or to adopt weights and measurement units used in the customer's country.

Although an exporter's agent or distributor's top management may speak English, it is unlikely that all sales personnel will. Without a clear understanding of sales messages or service instructions, personnel will be less effective. In turn, the customers will not understand the terms of service of a particular product and may receive false information from a salesman. For food products unfamiliar to local consumers, instructions and recipes in local languages

can educate consumers. Use the weights and measurements systems of the customer's country in promotion and sales literature.

10. Failure to consider use of an export management company.

If a company cannot afford it own export department (or has tried one unsuccessfully), it should consider the possibility of appointing an export managing company (EMC). An EMC assists in market research, promotion, sales and distribution of a company's product, therefore saving the company large amounts of time and money.

11. Failure to consider licensing or joint venture agreements.

Import restrictions, insufficient personnel, financial resources, or a narrowly limited product line cause many companies to dismiss international marketing as not feasible. A licensing or joint venture agreement may be the profitable answer. In general, all that is required for success is flexibility in using the proper combination of marketing techniques.

12. Failure to provide readily available servicing for the product.

Consumers and distributors are likely to purchase products, which cannot be maintained or repaired. An exporter should provide information and a contact of how to carry out the necessary procedures.

SECTION 2: DISTRIBUTING

AGENTS AND DISTRIBUTORS PART 1

Introduction

This module is Part 1 of 4 Sessions dealing with the topic of Agents and Distributors.

Part 1 deals with the topic of export intermediaries, agents and distributors for export sales. It explains the difference between the various intermediaries, and focuses on agents and distributors. It describes what exporters need from agents and distributors, what exporters must do to support agents and distributors and what the latter must contribute in order to support the exporter/ principal.

Teaching Objective

In this Session, you will learn the following:

- The difference between export intermediaries, agents and distributors.
- The advantages and disadvantages of using an agent as compared to a distributor.
- What an agent needs from an exporter.
- The responsibilities of an agent to his exporter principal.

Knowledge

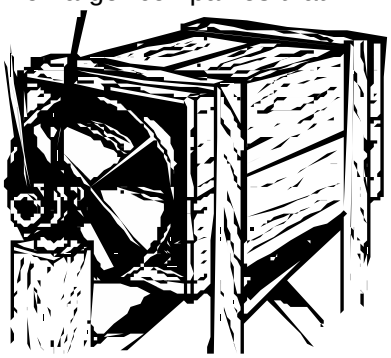
At the end of this session you will be able to:

- Know who does what overseas.
- Weigh up the pros and cons of using agents and / or distributors.
- Know the exporter/ principal's obligations to an agent or distributor.
- Know the exporter/ principal's expectations of an agent or a distributor.

Who Does What Overseas: Export Intermediaries

The most common methods of exporting are direct marketing and indirect marketing through intermediaries.

Direct marketing requires a total dedication of time and resources, and finances to identify opportunities in a foreign market. The company and its management team are responsible for market research, planning and distribution of the product in a manner, which will produce satisfactory sales results. This is a feasible option for larger companies that have time and resources to devote to exporting.



Another factor to consider is the importance of personal relationships in exporting. In the long run it may be more profitable for a company to build relationships themselves rather than do so through a third party.

For small and medium sized companies, indirect marketing through intermediaries is more feasible. The use of Export Management Companies (EMC's) and Export Trading Companies (ETC's) can give a small or medium size company representation in foreign markets without the commitment of time and money to the sales process.

In the process of indirect marketing, management maintains control over the export process while benefiting from the knowledge and expertise of an intermediary. Frequently, the exporting company has a reduced level of financial risk because the intermediary assumes the responsibility for finding overseas buyers, shipping products and getting paid.

Types of Export Intermediaries

- Export Merchants
- Export Agents
- Export Commission House
- Export Broker
- Buyer for Export
- Export Management Company (Emc)
- Piggyback Marketing
- Export Trading Company
- Freight Forwarder

Export Merchants

The export merchant buys and sells on his own account. He purchases products directly from the manufacturer, marks and packages the goods using his own specifications and preferences. Then, under his own name, the export merchant sells these products overseas and assumes all risk. Because of the high level of personal risk, export merchants primarily deal in staple commodities. For the producers, selling to an export merchant involves the same process as other domestic sales.

Export Agents

An export agent operates as a manufacturer's representative. The agent promotes and markets the product but the risk of loss remains with the manufacturer, not the agent. In transactions with export agents, a company relinquishes control over the marketing and promotion of its products. Relinquishing control can have adverse effects on future sales efforts if the product is under-priced, incorrectly positioned, or after-sales services are neglected.

Export Commission House

An export commission house acts as a buying agent for foreign companies. Its primary concern is compliance with the instructions of its buyer (by whom it is paid) rather than the interests of

the seller. However, there are advantages for the seller. Many times, the seller receives a cash payment and is relieved of the technicalities involving the export of his product.

Export Broker

A export broker brings buyers and sellers together. The broker is paid by a commission from either the buyer or seller and assumes no financial responsibility for the transaction. Normally, a broker works in no more than two staples (i.e. cotton brokers and wheat brokers).

Buyer For Export

The buyer for export represents large consumers of industrial goods, such as foreign government purchasing missions.

Export Management Company (EMC)

The services of an EMC include foreign market research, marketing strategies, foreign distribution, establishment of a logistics system, the management and training of a foreign sales force, shipping and export information and details, the arrangement of financial assistance and foreign language translation services.

Some EMC's work on a buy-and-sell arrangement, others operate on commission. They are experts in foreign trade and recognize the strongest market for an individual product and the best sales strategy to utilize in that market.

While there are thousands of EMC's in the U.S. there are few, if any, in Vietnam. Most EMC's specialize by product, by foreign market, or both. Resulting from this specialization, the best EMC's are familiar with their products and the markets they serve, and they usually have well-established networks of foreign distributors already in place. This immediate access to foreign markets is an advantage of using an EMC.

On the other hand, a disadvantage of an EMC is that the manufacturer risks losing control over foreign sales. To avoid such a situation, carefully select an EMC that can meet the company's needs and maintain communication. A company may request regular reports on the efforts employed to sell its product and may set provisions which require approval before promotions may be carried out. Such issues should be negotiated before an agreement is contracted since some EMC's are not willing to comply with such limitations.

Selling through an experienced EMC is an excellent way to enter the international arena with a minimum amount of effort.

Piggyback Marketing

Piggyback marketing occurs when one manufacturer distributes another's product. Piggyback Marketing is common when a company has a contract with an overseas buyer to provide a wide range of products or services. Because the company is not able to produce all the contracted products, it turns to other companies to provide the remaining products.

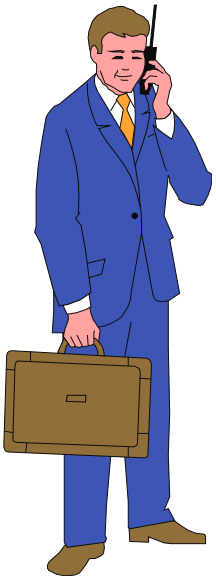
Other manufacturers "piggyback" their products without incurring the marketing and distribution costs associated with exporting. In most cases, the piggybacked product lines are complimentary and appeal to the same customers.

Export Trading Company

An export trading company is an organization designed to facilitate the export of goods and services. It serves either as a trade intermediary, providing export related services to producers, or as an organization set up by the producers themselves. While providing similar services as an EMC, an Export Trading Company accepts the title of the exported goods, whereas an EMC does not.

Freight Forwarder

A freight forwarder is an independent agent that assists and facilitates the shipments of exported goods. A freight forwarder can be of tremendous assistance regarding the presentation of the sales proposal or quotation to a foreign customer. A freight forwarder can determine the proper terms of sale (i.e. F.O.B. warehouse or F.O.B. vessel), alert the exporter of required import/export license or particular consular documentation, and help select a term of payment such as cash-in-advance, open account, payment by sight draft, or by letter of credit.



The freight forwarder coordinates the movement of freight from its point of origin to export ports for timely delivery and proper loading to the vessel.

The freight forwarder prepares the export declaration, the ocean bills of lading required by the steamship company for carriage of the goods, the insurance certificate and other documentary requirements specified by the letter of credit or shipping instructions.

In summary, the freight forwarder is a "travel agent for freight." The freight forwarder is familiar with the procedures and regulations for shipping product overseas. As an agent of the exporter, the forwarder becomes the port representative for the exporter. He oversees and coordinates the movement of the export shipment.

The exporter pays for the freight forwarder, gained from the handling of many thousands of international shipments, will thus be available to the exporter.

The Difference Between Agents and Distributors

Agents and distributors are often spoken about as though they are the same. However they have different functions.

An Agent

An agent is a person or company who sells goods and services on behalf of a principal. Remuneration is by way of a commission on the products or services sold to customers. Products or services are sent direct to the customer by the exporter or principal. Payment of the goods is made direct to the exporter or principal.

A special type of agency is a '***Del Credere'*** agency where the agent agrees to take financial responsibility for orders placed by his customers, covering the principal in case of default. This type of agent receives a higher commission rate.

The customer may be the man-in-the-street or a distributor.

A Distributor

A distributor buys goods or services on his own account from an exporter and then on-sells the goods or services to the end user after adding his own margins. The exporter rarely knows the end user. The distributor secures all payments. However, the exporter usually still always has a warrantee or guarantee obligation to the end user via the distributor.

Distributors clear goods through customs, unpack and store and then process the goods for their own customers, often under their own brand name.

Weighing the Pros And Cons Of Using Agents Or Distributors

When using agents and/ or distributors, exports find that there are pros and cons to each.

Advantages of Selling Through Agents

- The exporter gains a direct contact with customers. If the service of an agent finish, the exporter still has the customer as he supplies goods or services (such as education services), and gets paid direct by the customer.

- The full selling price is charged to the customer. It is important to agree on which price the agent's commission is based. Is it to be the cost of the goods or services, the ex-works price, the FOB price or whatever? Commission rates vary according to the different industries and volumes. Steel goods may be only 2%, while the fashion industry may be 10%.

- Selling costs are minimal. There are usually only the initial costs of screening and setting up the agency. Also the agent will need samples and brochures in the language of the target country. The rest is usually done by the agent at his own cost.

- There are opportunities of securing research feedback on the market. (This requirement should be built into every agency contract, as well as regular reporting criteria.

Disadvantages of Selling Through an Agent

- Unit order sizes are usually smaller.

- Orders tend to be sporadic rather than regular.

- The agent needs a lot of liaison work and encouragement to keep him motivated.

- Additional packaging and transport costs incurred for many small deals.

- Principal has no control over agent's sales efforts.

- Credit control more difficult for large number of small deals.

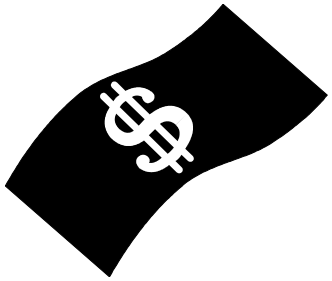
Advantages of Selling Through a Distributor

- Orders are usually larger than those made by an agent.
- Savings made in packaging and transport to a few bigger customers.

- Fewer bad debts from distributor sales.

- If cash discounts are offered, many distributors can make prompt payment for goods.

- Distributors can provide pre and after-sales service if this is required to support the sales of goods or services.



- Distributors can hold spare parts and provide technical support for local customers.

- Distributors usually have to make regular orders.

Disadvantages of Selling Through a Distributor

- If a bad debt does occur it can be substantial.

- Distributors want considerable discounts on list prices because of the size of the orders.

- Distributors work on a large margin of return.

What an Agent and/ or Distributor Wants

To an agent or distributor, there are good and bad agencies and distribution

opportunities. Agents and Distributors only make money on the commissions of goods that they sell on behalf of their principal (agent), or buy and then resell themselves (distributor). They therefore want:

- **A good product to sell**. New products demand a lot of introductory groundwork. Therefore, unless they are 'revolutionary' in their new technology, such products are not attractive to a good agent or distributor who would prefer to spend time selling goods already known to the market.

- **Reliable early deliveries**. Commissions are not usually earned until the goods have been delivered. Therefore early deliveries are attractive to the agent and allow a distributor to turn over goods faster and to hold lower levels of stock.

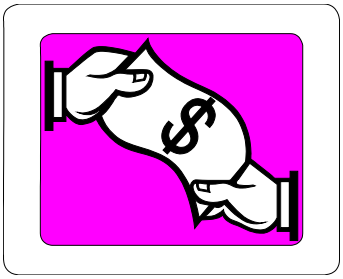
- **Favourable commission terms and margins**. Commission rates are usually stable within any one industry, but can vary a lot between industries. Sometimes higher commissions are offered to agents if the product is new and has to break into a market.

  Usually commissions are paid at monthly intervals after the customer payment has been received. Distributors have more work and more risk than agents, because they need to store, repackage and sell the goods. Also distributors may be obligated to buy a certain amount of goods per month in order to hold the distributorship, regardless of their own sales. Therefore they need high margins to offset their higher risks.

  Many distributors only want to sell on a consignment basis. An exporter needs to be wary of such distributors as he can tie up stock with unproven distributors who are not particularly motivated as they haven't paid for the stock they are trying to sell.

- **Favourable credit terms for customers**. The more attractive the credit deal for the customer, the easier it is for the agent or distributor to make sales.

- **Advertising and promotional support**. Specialist adverting agencies are recommended for significant advertising campaigns. A single international agency is best to control simultaneous campaigns in various countries. Most of the time, the principal bears all the weight of advertising in relations to supporting the efforts of agents. A distributor, on the other hand, often pays for his own advertising campaigns or shares promotional costs with the principal.



- **Training in product knowledge and product usage**. Both the agent and the distributor must be given a sound knowledge of the product in order to sell it effectively. Where possible they should be brought to the principal's home base for training and orientation.

- **Competitive prices**. A product may be of high quality, reliable and innovative, but if it's higher priced than the products of the competitors, even if they don't have the other positive attributes, the agents and distributors will consider their principal's product hard to sell. Pricing policies should start at what the market can bear and then work backwards. The quoted prices must always be realistic.

What the Agent and/ or Distributor Must Provide

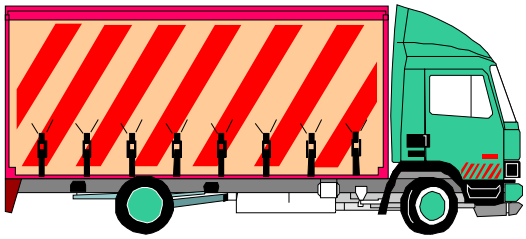
In a two-way relationship between the exporter/ principal and his agent or distributor, the latter must:

- Attract customers.
- Have a thorough knowledge of the product.
- Know the market.
- Know all the regulations. These include those relating to tariffs, health, safety, quotas, tax, customs and legal.
- Report regularly.
- Maintain regular contract with customers.
- Deal with complaints.
- Identify training requirements.
- Sometimes to carry stocks. In the case of agents, title of the goods remains with the principal. Sometimes the goods are kept in storage by the principal in a bonded warehouse and only released to the agent on an 'as needed' basis.

AGENTS AND DISTRIBUTORS PART 2

Introduction

This module is Part 2 of 4 Sessions dealing with the topic of export marketing. This module deals with the topic of how to find and select agents and distributors for export sales. It outlines points to include in agent and distributor contracts and provides an example contract.



Teaching Objective

In this Session, you will learn the following:

- The criteria for agent selection
- How an exporter finds names and addresses of potential overseas agents and distributors
- Points to include in agency and distributor contracts

Knowledge

At the end of this Session you will be able to:

- Know the ways of choosing a suitable agent or distributor.
- Know how to draft a basic agency or distributor agreement.

How to Choose An Agent Or Distributor

In small markets it can be difficult to make a good choice. Usually, there are lots of people who want the position, but agents and distributors with good tract records are usually committed.

When searching for a potential overseas distributor or agent, obtain:

Basic Information

- Name, address, location, telephone/fax numbers, email addresses and contact person.
- Annual sales, number of sales outlets, number of salespersons and support staff.
- Organizational structure.
- Years spent in international business.
- Experience in your product category.
- Personnel training.

Sales Information

- Do they hire their own sales staff? How many are on the payroll?
- What are their sales techniques and methods of conducting sales?
- How many customers do they currently serve?
- What is the status of their relationship with their current customers? If possible, assess this relationship by contacting customers directly.
- Are they able to inventory and warehouse your goods? At what additional cost?
- How are deliveries made? Do they have their own delivery fleet, or do they use common carriers?

Product Awareness Information

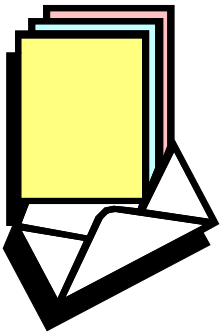
- What related, but non-competitive products do they sell? Do they handle any competitive products?

- Why do they think your product will be successful in the market?
- What do they assess as your product's strengths and weaknesses?
- What modifications do they recommend? Can they assist you in making the recommended modifications?

In addition to the previously mentioned methods, alternative contacts for locating a distributor or agent include:

- Sales leads from foreign buyers.
- Free advertising for your product overseas.
- Lists of foreign buyers of food and agricultural products.
- Assistance in presenting your products at international trade shows.

How To Locate A Good Importer, Agent Or Distributor In The Target Country



A common obstacle for exporters is attracting and securing a good importer, distributor or agent. If your company doesn't have the personnel or financial resources needed to establish a business presence in a foreign market, there are several resources to use to find good intermediaries:

Direct Mail

Write a letter to a company requesting that it represent your product. Only a few positive replies are needed to continue your search and evaluation of prospective distributors.

Internet Search

This is a primary preliminary way to establishing contact list of potential people and companies.

Personal Visits

Once you receive a few prospective distributors, plan a trip to that country. While traveling, visit other potential markets to assess the situation and make contacts. Personal visits eventually pay for themselves in terms of the gained benefits. One order or sale of sample products could cover the cost of your round-trip airline ticket.

Trade Shows & Exhibitions

Trade shows and exhibitions are perhaps the best source for finding distributors.

Distributors visit these events to learn about new products and to evaluate competition. Even if you are just getting started and not quite ready to export, you should at least visit the shows. Speak with non-competing manufacturers in your industry, and ask for names of distributors. Beware of professional "exclusive distributor hustlers" who work on behalf of domestic manufacturers to sign up foreign manufacturers for appointments to control and restrict competition. Always investigate and evaluate several distributors before making a definite decision.

Mail Lists

Domestic and international trade magazines often publish or sell lists of distributors and agents. Many publications compile "Annual Buyer's Guide" issues. Foreign Consulates and Banks -- Generally speaking, foreign consulates, trade promotion offices and banks are not good sources for potential distributor lists. Their mission is to encourage the entrance of imports from their home countries, rather than to increase the number of Vietnamese exports their country receives. However, Japan is an exception to this rule.

Foreign Magazines and Newspapers

Placing "distributor wanted" or "representative wanted" advertisements in foreign publications can generate responses. However, Investigate and qualify the respondents; although it is difficult to achieve without visiting the distributor's offices.

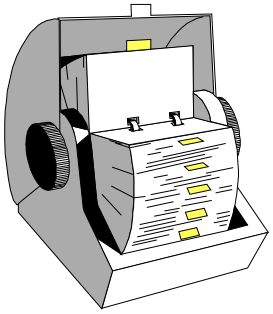
Private Marketing Consultants

Several nationwide companies offer services (for a fee) that bring together American exporters and foreign buyers. Typically, the primary "international marketing program" offered by these consultants includes market assessment and analysis, a distributor search and recommendations, and a marketing- sales promotion plan. As secondary services, these consultants also offer joint venture or licensing development, manufacturing assistance, and observation of your overseas operations.

Good Distributors usually have:

- An established name and often their own brand name.
- An established network of sub distributors and regular customers.
- A warehouse.
- Technical backup and training facilities.
- Will commit to regular monthly orders regardless of their own sales in any particular month.
- Will conduct their own trade shows.
- Will pay for, or contribute in a generous way, to all promotional and advertising campaigns.
- Have their own reliable agents.
- Don’t need to sell the principal’s goods on consignment.

Checklist to Find a Good Agent



- Does he have good contacts in the market?
- Does he have a sound knowledge of the market?
- Does he have a good business reputation?
- Is he financially sound?

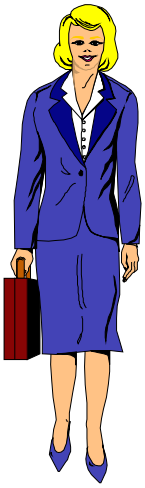
- Does he have a verifiable list of other successful agencies he has held?
- Is he technically competent with the product?
- Does he have good sales team and good personal selling ability?
- Is he completely conversant with the local language?
- Is he conversant with your language or English?
- Can he cover his projected territory adequately?
- Can he justify his projection of what his agency can achieve?

Sole or Exclusive Rights

Most agents and distributors are very optimistic and always seek sole or exclusive rights. The exporter should take great care before committing himself to sole rights to any large area. Before any exclusive rights are granted, the agent or distributor should need to pass certain performance-related safeguards such as proving he can consistently provide a satisfactory and on-going sales and service function.

Territory

Territory demarcation is an important issue and clear policies must be made in relation as to who can sell what and when in any particular geographic area and under what conditions a commission is paid to any one agent or distributor.



How to Find Leads for Potential Agents and Distributors

- **Personal contacts**. Through people in the industry.
- **Recommendations**. These are provided by actual customers who may use the products or services.
- **Advertisements**. These invite agents and distributors to contact the exporter. Check how the adverts read by translating them into the local language from English and then have a third party translate from the local language back to English.
- **Trade Representatives**. Through an exporter's own country's trade representatives in the target country.
- **Via the local Chamber of Commerce and Internet Searches**

Agency And Distributor Contracts

Questions an exporter needs to consider:

- How important is a formal contract with an agent and / or distributor?
- What sort of items should they cover?
- How important is it to include in the contract every possible eventuality?
- What are the differences between an agency and a distributor contract?
- What are the pros and cons for a short contract compared to a very detailed one?
- Are the parties to any contract completely clear about their obligations?

Points to be considered:

- The value of a legal document.
- Points of agreement.
- How comprehensive must the agreement or contract be?
- Dealing with agents and distributors.

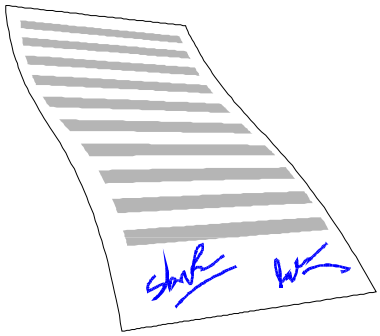
- A place for mutual trust.

- Legal interpretation of the contract

The Value of A Legal Document

There are many problems in using legal documents between countries and languages. The legal costs of sorting out disputes often make it impossible to pursue a legal remedy to any commercial problem. Therefore the principles to follow when dealing with overseas distributors and agents should be to:

- Keep agreements simple so there is little chance for confusion or misunderstanding



- Build in mechanisms that will limit the loss of either side in the event of a dispute

- State clearly each parties role and responsibilities

- State how problems caused by third parties, such as shipping delays, or airline strikes are to be handled and who should bear the losses

A contract document does not have to be in writing and signed for a contract to be judged to be in place as actual 'performance' can provide evidence that a contract situation was the intention of the parties. But it is better to make out a clear, simple and clear language agreement prior to doing business so all parties clearly understand the requirements and responsibilities involved when doing business.

Points To Include In Agency Contract

The following may be included:

- **Parties**. Who the parties to the contract are

- **Purpose**. The purpose of the agreement

- **Territory**. The territory: an entire country, region, district or town. What are the clear boundaries?

- **Product**. The product or service range.

- **Acceptance of Orders**. The principal's discretion to accept orders. The principal, not the agent, enters into the supply contract in the case of an agent and must have this clause to safeguard against a possibility of orders being placed by an agent that cannot be met.

- **Commission**. The level, how and when a commission shall be paid. How should it be calculated?

- **House Accounts**. These are accounts that may exist in a new agent's territory that belong to the exporter so no commissions are payable to an agent for this business.

- **Consignment Goods**. The terms are given if any consignment goods are to be given, ie goods supplied by the exporter to an agent or distributor that are only paid for when and if they are sold. Terms should be made stating what will happen to these goods if the agreement is terminated.

- **Term**. The term of the agency agreements should include how the agreement can be prolonged or renewed, or how it can be terminated.

- **Duties of the Principal**. This includes duty to pay commission due, to pay expenses and

indemnity if loss is suffered by the agent by the principal's fault.

- **Duties of the Agent**. This includes the duties to use of due diligence to sell, to disclose all material facts to the principal, to act in the principal's best interests at all times, not accept bribes or secret commissions, not divulge confidential information, and to account to the principal.

- **Assignment**. Not let the agency contract be assigned to another party without the consent of the principal.

- **Force Majeure**. What is covered by force majeure, ie, situations beyond the control of both parties, and what happens in force majeure situations.

- **Language and Legal Jurisdiction**. Which language and legal jurisdiction takes precedence when interpreting the contract.

How Comprehensive Must An Agreement Be?

Agreements should be as short as possible, in clear language and state in point form where possible what needs to be clearly understood and undertaken by the parties to the contract.

Details where necessary should be added as annexes to the contract so, if necessary, these annexes can be prepared and adjusted independently (for example, the production department may need to provide an annex on technical specifications, which has little to do with the legal department's preparation of the contract itself).

An Example of a Basic Agency Agreement

This agency agreement is entered into by:

Manchuria Limited of 123 Tran Hung Dao Street, District 3, HCMC, the principal (known hereafter as 'the principal) and

Detone Records Pty Ltd of 567 Hector Street, North Perth, Western Australia, the agents (known hereafter as 'the agents)/

<u>Whereas</u>:

A. The principal is a manufacturer of DVD music disks and wishes to export these to Western Australia.
B. The principal has obtained the necessary legal and customs clearances necessary to conduct the business.
C. The principal wishes to appoint a local sales agent to assist with its sales.
D. The agent is based in Western Australia, has knowledge of the local market and is willing and capable of assisting the principal to meet his commercial aims.
E. The agent shall generate sales leads which the principal shall follow up by entering into a contract of sale and supply direct with the customer, paying the agent an agreed commission for the sales lead to that particular customer.

It is signed and witnessed that:

1. The principal appoints the agent as his sole and exclusive agent in the territory including the whole State of Western Australia to exclusively sell and distribute its DVD products manufactured in Vietnam from Vietnamese materials.

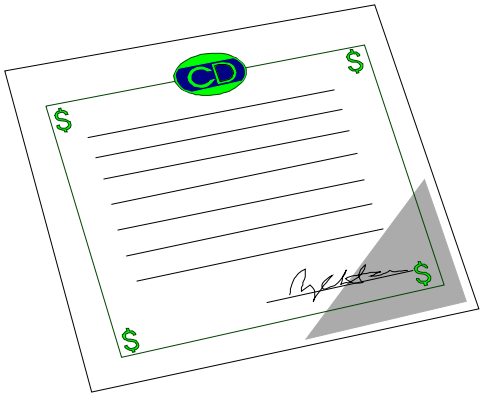
2. This agreement is in force from the time of signing until two years has

expired. It is automatically renewable for one year unless terminated in writing by either party at least ninety days before the renewal date.

3. This agreement can be terminated for any reason by either party by giving 30 days' notice in writing to the other. In such a case, all moneys or goods owed to any party must be settled prior to termination.

4. The agent undertakes to make the principal's products known in the territory and to use his best efforts to sell them.

5. The agent undertakes not to sell any products from any other third parties that are similar to, or conflict in any way, to those of the principal's.



6. The agent will provide weekly progress reports on the progress of sales and on updates in the marketplace.

7. The principal undertakes to provide the agent with reasonable promotional catalogues, leaflets, price list etc and to support him with weekly advertisements in "The West Australian" newspaper.

8. The principal undertakes to keep the agent informed about any changes in price or technical specifications.

9. A commission will be paid by the principal to the agent at the rate of 5% on any gross moneys actually received by the principal for sales generated by the agent for sales made at the agreed listed price. Any sales made below the listed price and agreed to by the principal shall result in the commission being reduced by an equivalent pro-rated amount. The principal reserves the right not to enter into any contract for the sale to, and supply of, goods to a customer for whatever reason he sees fit and to pre-approve in writing any sale made by the agent at a price below the listed price.

10. The principals agree to direct any leads he may receive from the territory to the exclusive agent and not to deal direct with that lead.

11. This agreement shall be made the English language and be interpreted according to the law of the S.R. of Vietnam.

12. In a case of force majeure, any party suffering a commercial loss shall be solely responsible for bearing that loss.

Signed and Witnessed

For Manchuria Limited	Deltone
Date:	Date
Principal	Agent
Witness	Witness
Date:	Date:

Differences Between Agency and Distributor Agreements

The legal position of a sole distributor is very different to that of any agent.

A distributor buys goods from the principal and then resells them in his territory via his own contracts of sale and supply with his own

customers, be they wholesalers, retailers, or the end customer.

Therefore any contract made with the distributor must make it clear that he is not an agent of the principal and not entitled to act for, on behalf of, or in the name of, the principal. If the end user of a distributor has a claim it can only be made against the distributor. The distributor must then make a separate claim against the principal if he feels he is entitled to make one.

Additional Points to Consider in a Distributor Contract

- **Trail Period**. A contract should have a trial or probationary period to check if the distributor can perform.

- **Patents, brand names, trade marks**. Careful attention must be taken to protect rights. Agreement should be made about which brand name should be used and whose packaging. Also agreements should exist about wording in different languages.

- **Adverting costs, promotional material and trade fairs**. Respective contributions should be defined.

- **Price escalation clause**. A mechanism should be included to allow for any necessary price increases.

- **How much product a distributor must take.** Is the distributor going to be tied to a monthly, quarterly or annual purchase volume, regardless of his own sales?

- **Margins and trading terms.** What margins can the distributor gain? What are his trading terms such as credit, shipment and insurance details?

- **Market Reporting.** What market reporting is required from the distributor?

- **Termination clause**. This is vital in case the contract has to be terminated. It should also dictate how outstanding costs, payments and goods are to be handled in a case of termination.

Mutual Trust

Mutual trust is an essential ingredient in business. This is especially so where it would be very difficult and expense to take legal action to uphold what one may see as one's contractural rights.

Exporting and importing is most often about long term relationships. Seldom is the situation where parties in different countries can be held to an agreement they don't' think is fair, beneficial or wish to continue with, regardless of any contractual situation that exists.

In exporting and importing parties tend to sick to agreements only because they are mutually commercially beneficial and because they are dealing with an honest, fair-minded partner. Therefore these must be the foremost points to consider in any agreement between an exporter and his agent or distributor.

In general it is better to use short, simple agreements that allow for some flexibility, than to have long, comprehensive ones composed by the lawyers of the two contracting parties that are designed only to support their own clients, but instead end in conflict and impasse over even minor issues.

The short agreements should also contain commercial mechanisms to limit the loss of each party in the case of serious dispute. In other words emphasis should be placed on commercial rather than legal encouragements to solve disputes to the benefits of both parties. Emphasis should

be placed on commonsense, mutual trust and mutual commercial interest to resolve issues in order to make the agreement work.

AGENTS AND DISTRIBUTORS - PART 3

Introduction

This Session is Part 3 of the 4 Sessions that deal with the topic of agents and distributors for exporter sales. It examines the questions of how much training to give agents and distributors and how to prepare and conduct exporter's visits to the target country.

Teaching Objective

In this Session, you will learn the following:

Agents and Distributor Section

- How much training should be given to a new agent or distributor.
- The chief functions of a principal's visit.
- Preparations an exporter should make prior to his visit to his agent or distributor.
- The best way to obtain regular market research feedback from an agent.

Knowledge

At the end of this session you will be able to:

- Assess an agent's training performance.
- Plan for an exporter's visit to his agent or distributor.
- Prepare for the visit.
- Obtain on-going market research from the agent.

How Much Training to Offer New Agents or Distributors

Training is important for both agents and distributors. However, there is an essential distinction between the two. The distributor has to actually buy the goods he has to sell. Therefore he is strongly motivated to become a good seller. An agent does not have to pay for the goods. If they are not good sellers, he usually gives up and concentrates on other suppliers' goods. Support for an agent is therefore essential.

An agent is likely to have some selling skills, or he wouldn't survive as an agent. It is therefore important to check his history of success. A training audit is also a good means to identify how an agent may benefit from additional training.

Training Audit

A training audit may examine an agent's existing skills in the following areas:

- Prospecting for business.
- Sales presentation.
- Negotiating.
- Getting repeat business.
- Planning.

Prospecting

By Phone:

- Does he or she use the phone to sell?
- Does he or she use the phone to make appointments?
- Does he or she use the phone to advise if he will be late for appointments?

- How does he or she eliminate calls having little chance of success?
- Does he or she use a script when making phone calls?
- What does he or she do when a customer says, 'NO'?
- Does he or she keep careful records of phone leads?

By Letter and Email

- Does he or she prospect by letter and email?
- Does he or she have an effective format for prospecting by letter?
- Does he or she confirm appointments by letter?
- Are his or her letters business-like and of a high standard?

By Cold Canvass

- How frequently does he or she cold canvass?
- Does he or she have a target number of customers per session of cold calling?
- Does he or she use a script and good opening lines?
- Does he or she maintain calling records?

Sales Presentation

Presentation

- Does he or she have a Sales Tool Kit prepared for his visits to customers?
- What samples, sales aids does he or she use?
- Does he or she have a prepared and rehearsed Sales Pitch?
- What is the standard of his or her Form, Substance and Style as a salesperson?

Qualifying the Customer

- Does he or she qualify the customer prior to his visits?

Product Knowledge

- Does he or she know the product?
- Does he or she really believe in the product?

Overcoming Customer Objections

- Does he or she know how to overcome customer objections?
- Does he or she know how to ask questions that will identify customer objections?

Closing the Deal

- Does he or she know lots of closing techniques?
- Does he or she know how to use 'Trial Closes'?
- Does he or she know how to use a 'Closing Question'?
- Does he or she know what to do when a customer still says 'No'?

Negotiating Skills

Preparation

- Does he or she know the difference between negotiating and selling?
- Does he or she know how to prepare for negotiations?
- Does he or she know about the 3 negotiating positions of:

1. Must achieve or deadlock
2. Intend to achieve
3. Would like to achieve

Ability to Create Variables

- Does he or she know the value of variables in negotiation?
- Does he or she know the variables in the products he's representing?

Tactics

- Does he or she know different effective negotiating tactics?
- Does he or she know how to create time to think in negotiating when taken by surprise?

Bargaining Skills

- Does he or she know what questions to ask before granting a concession?
- Does he or she know the most important rules for bargaining?

Getting Repeat Business

Post-Delivery Visit

- Does he or she know the objectives of calling on a customer after a delivery is made?
- Does he or she know the appropriate format of a post-delivery visit?

Regular Visit

- Does he or she know how frequently to visit customers?
- Can visits be substituted by phone calls to save time?
- What is his or he regular approach during a visit?
- What can he or she do on visits to increase business?

Referrals

- Does he or she seek referrals from customers?
- Does he or she know the best time to seek referrals?
- Does he or she know of any incentives to increase referrals?

Time Management

- Does he or she plan the day?
- Does he or she have set objectives for each day?

Report Writing

- Does he or she know how to write weekly reports?
- What report and heading formats does he use?
- Can he or she type and use emails and the internet?
- Is he or she computer literate?
- Does he or she know why regular market feedback reports are important?

What Are the Chief Functions of an Exporter's Visit to his Agent?

Exporter's visits to his agent are important because:

- **Administration**

  There is a chance to solve any outstanding administration problems face-to-face.

- **Application**

  When the exporter visits, the agent usually applies himself fully to his agency tasks in relation to the exporter's products.

- **Motivation**.

  The stronger the liaison bonds, the better the motivation for the agent.

- **Refresher Training**.

  The exporter is able to monitor, first hand, the sales ability of the agent and can provide 'on the spot' refresher training if necessary.

- **Generating Business**.

  The exporter may be from a large or a small company, but he will still be seen by the customers in the target country as the main authority on the goods and services they are buying. He will carry more weight in selling than the agent so he should use the time of his visit to the maximum to support his agent in the field.

Preparations for the Exporter's Visit Overseas

- Arrange appointments with existing customers.

- Arrange appointments with potential customers.

- Monitor credit status of potential customers.

- Confirm all appointments in writing.

- Send sales literature and samples beforehand to potential customers.

- Release details of any new products to press.

- Consider the options of consignment trading.

- Consider an increased local advertising and promotional campaign to coincide with the visit.

- Consider establishing a marketing office / break bulk depot for receipt of goods with the agent

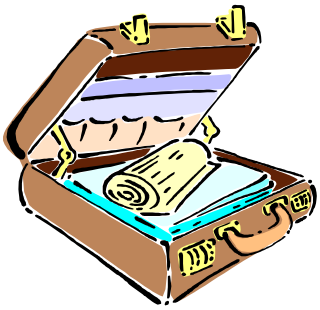
- Arrange a time to get together with the agent to evaluate his performance, suggest improvements and decide what further training and assistance he may require

Ways of Improving Regular Market Research Feedback

Control of the market is essential for success in export sales. One way to achieving control is by understanding the market. It is rare for an exporter to know all the factors prior to launching into an overseas market. It is therefore essential for the agent to give continuous updates.

A checklist for the agent's report could be as follows:

Product / Service



- What are the competing brands?

- What are the characteristics of the products or services with the biggest market share?

- What is the potential size of the market for the next year?

- Are any restrictions or impediments to sales foreseen?

- What are the present weaknesses with the product or service?

- What stage in the life cycle is the product in?

- What is the lead time to retail outlets of competitive products?

Price

- What are the competitive price ranges.

- What non-price benefits do competitors offer?
- What market price increases have there been in the last 6 months?
- Is price lining (keeping the same price, but decreasing the quantity or quality of the product) better than a price increase?
- What effect on business would price increases in various amounts cause? (ie. a 'Price Modelling' exercise)

Promotion

- What local promotions are undertaken by the competition?
- Could advertising justify a price increase?
- What promotions have taken place in the last 6 months?
- What promotions are planned for the next 6 months?
- What media and means should be used for advertising and promotions.
- What trade shows and exhibitions should be considered?
- How do the warranties and guarantees of competitors compare?
- What is the customer's perception of the quality of the product and of service and reliability issues.
- Where can editorial publicity be gained?

Distribution

- Who are the largest customers presently buying the product or service?
- Which segments have not yet bought the product and how can their interest be kindled?
- Is there any better means of quicker, cheaper distribution that could be arranged?
- Are there any changes in the local logistics or prices?

AGENTS AND DISTRIBUTORS AND LICENSING - PART 4

This Session is the 4th of the 4 Session series on Agents and Distributors. It provides information about using overseas advertising. It also provides information about how to licence a product or service and the pros and cons of licensing as a means of selling products and services overseas.

Teaching Objective

In this session you will learn how to:

- Use overseas advertising and promotion.
- Consider an advertising structure.
- Monitor overseas performance of agents

and

Licensing Section

- Know how licensing can be the pathway to profits.
- Judge when licensing is best.
- Understand the problems of licensing.
- Understand the practical difficulties
- Know the different types of licenses.
- Know how to search for licensees

- Basics of licensing agreements

Knowledge

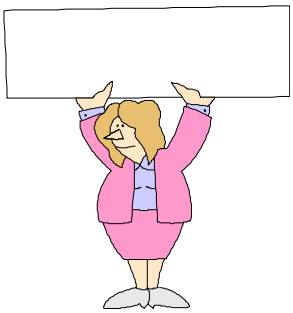
At the end of this session you will be able to:

- Identify a good time for an exporter to spend money in local advertising and promotion in the country of export.
- Know the factors an exporter should consider before advertising overseas.
- Know how an exporter can obtain regular feedback on performance from appointed agents and distributors.

Licensing Section

- Recognise a licensing agreement.
- Know what marketing conditions favour licensing agreements.
- Understand the long term disadvantages for exporters in licensing agreements.
- Know the limitations for exporters licensing products and services.
- State the types of licenses.
- Know the rewards of licensing.
- Know how to find a licensee.

Using Local Adverting to Good Effect



In an export market the most important part of success is personal selling. However, adverting and promotion can still be vital, depending on the nature of the product or service and the distribution channels.

It is often hard to gauge the degree of return on advertising or promotion, especially if they are of a long-term nature aimed at promoting the company image and the brand name, rather than at a specific product or sale opportunity.

Often big money is spent just promoting the names of companies and brands, such as when companies support big name soccer teams just to put their company names on the front of their shirts.

Nevertheless, return on investment for advertising and promotional activities can be monitored in the following ways:

- Success of market entry.
- Degree of consumer education about the product or service.
- Degree of consumer acceptance of the product or service.
- Ascendance over competitors in the market.
- Increased volume of sales.
- Increased number of distribution and agency outlets.
- Better quality agents and distributors wanting to represent the product or service.

Fast moving consumer goods need a ready and devoted distributor who holds a good volume of stock on hand to justify any large expense in local advertising. Promotions for such goods can be expensive as they involve in-store demonstrations, exhibitions and trade shows.

For industrial products, exhibitions and trade shows tend to be especially important as they provide a means of demonstrating the products or services that may not be within the means of an agent or distributor.

Factors to Consider When Advertising Overseas

Advertising should be a planned activity, with set objectives and with a set budget.

It is wise to consider the advice of specialist advertising agencies with local experience.

Heading to consider include:

The Advertising Message

- Standardisation.
- Cultural limits.
- Social constraints.
- Legal restrictions.
- Translation.

Media Selection

- Target market exposure.
- Literacy of target market.
- Media availability.
- Regionalisation.
- Print quality.
- Legal restrictions.
- Which language to chose.

Agency Selection

- Market coverage.
- Creativity.
- Cost.

Monitoring Performance Overseas

Obtaining Regular Market Feedback from Distributors and Agents is important.

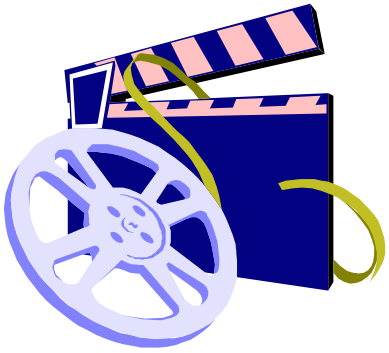
It is important that the exporter knows the current as well as the developing market situation in the target country.

A frequent problem is to get the agent to report regularly, especially when business is slow.

From the outset reporting procedures should be agreed. The exporter should give the agent or distributor a pre-made up reporting format with headings that are easy to complete.

What is a Licensing Agreement?

Licensing agreements allow a company in one country to obtain local production in the target country without capital investment. Both products and services can be licensed.



Company A provides Company B the chance to make, market and sell the product in a defined area in exchange for paying a set fee and on-going royalties on sales volumes.

Usually a licensing situation involves a transfer of technology.

Payment usually involves a once only fee plus royalties on sales.

What the Licensor Provides

The licensor provides the following:

- Patent rights over the product or service.
- Know how on how to produce the product or service not covered by the patent.
- Technical training and advice.
- Copyrights allowing the use of a trade-mark or trade name.

What the Licensee Provides

- Produces the product under the terms of the licence.
- Markets in an assigned area only.
- Pays a royalty for products sold.

When to Use Licensing

Market conditions that favour licensing include:

- Physical logistic and distribution costs make it hard for an export to

send his product to the target market.

- The local import duties and quotas prohibit exports of that product or service
- There are too many political and financial risks, restrictions and costs to set up a subsidiary manufacturing facilities.
- The exporter has insufficient capital to manufacture locally.
- Perishable nature and limited lifespan (such as fresh milk products) make export unfeasible.
- Reciprocal licensing opportunity exists between the two parties.
- Helps entry into a highly competitive local market if the licensee has good distribution channels.
- Local licensing can make it possible to win government contracts. Governments tend to favour licensing as it brings technology with fewer strings and conditions attached.

Some Long-Term Disadvantages of Licensing

The licensor may establish and train a direct competitor as licensing agreements are usually only for a period of 5, 7 or 10 years. The agreement will try to prevent the setting up of a competing factory, but loopholes sometimes exist.

The returns to the licensor are usually in the range of only 3 to 7%.

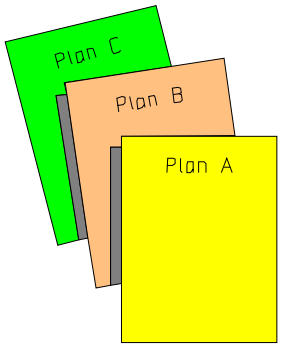
There are difficulties in controlling the licensee with respect to quality control, extent of the territory, marketing effort.

Restrictions are sometimes imposed by governments on remittances of royalties to the licensor.

Some Limitations on Licensing Products or Services Overseas

Before attempting to licence, it's essential an exporter fully protects his product or service by means of patents, copyright and trademarks. These have to be registered in the target country and in every other potential market.

Three Basic Types of Licence



There are 3 basic types of licenses. These are:

1. **Exclusive Licence**

This is where only the licensee can carry out the process in the target market, not even the licensor can do so. Exclusivity is a very common requirement of any licensing agreement.

Incentives for the exclusive licensee to perform often include low royalty payments. However, the agreements usually state that the licensee has to earn a certain amount or risk losing the exclusivity status or even lose the licensing rights altogether.

2. **Sole Licence**

This is where only one licensee is granted the rights to produce in the target market, but the licensor retains the right also to produce and market in the region. Once again, the royalty payments are low to give maximum incentive to the sole licensee.

3. **Non-Exclusive Licence**

A number of licensees, plus the licensor, can produce and market in the target market.

The Monetary Rewards of Licensing

Most companies licence as a side-line to their main business activity, thus the return on investment for licensing can be attractive. Often it is regarded as low-risk money that could not otherwise have been earned due to some of the restrictions on exporting that particular product or service mentioned earlier.

There are no standard rates. Each licensing situation is considered individually.

Types of Fees

There are 3 main types of fees:

1. Single initial payment
2. Royalties
3. A combination of the two

Single Initial Payment

Usually this type of payment is calculated from an expected 10 year royalty discounted to the present day value. Advantages to the licensor include:

- All moneys are paid in advance.
- The fee is not altered by any failure of the licensee to produce.
- There are no collection problems.

Royalties

This involves on-going payments of smaller amounts. There are sometimes collection problems associated with royalty payments, especially from unstable countries.

Annexes:

A. Outline of an Export Plan

B: Price Determination Worksheet

C: Glossary of Trading Terms

D: Sample Pro Forma Invoice

E: Explanation of Export Documents

ANNEX A: OUTLINE OF AN EXPORT PLAN

Executive Summary (one to two pages maximum)

Introduction: Identify reasons why your company should export.

Export Policy Commitment Statement

Situation/Background Analysis

A. Product
B. Operations
C. Personnel and Export Organization
D. Resources of the Firm
E. Industry Structure, Competition, and Demand

Marketing Component

A. Identification, Evaluation, and Selection of Target Markets
B. Product Selection and Pricing
C. Distribution Method
D. Terms and Conditions
E. International Organization and Procedures
F. Sales Goals: Profit and Loss Forecasts

Action Steps

A. Countries Where Firm has Special Advantages
B. Primary Target Countries
C. Secondary Target Countries
D. Indirect Marketing Efforts

Export Budget

A. Financial Statements: Projected Sales and Expenses
B. Long-term Financial Forecasts
C. Export Taxes

Implementation Schedule

A. Follow-up
B. Periodic Operational/Management Review: Measurement of Results Against a Plan

Addendum: Background Data on Target Countries and Markets

A. Basic Market Statistics: Historical and Projected
B. Background Facts
C. Competitive environment

ANNEX B: PRICE WORKSHEET

Price (or cost) per unit _____X_____units = total +
Profit (or mark up) +
Commissions +
Financing costs +

EX FACTORY =

Crating/containerization charges (if done at factory) +
Labeling & marking costs (if done at factory) +
Drayage charges (usually associated with movement of containers from railroad ramp to plant and back to ramp)+
Loading charges, if applicable +
Demurrage and detention charges, if applicable +

FREE ON BOARD (FOB)--TRUCK OR RAIL CAR AT POINT OF ORIGIN =

Inland freight charges (including fuel surcharges) +
Unloading charges at port facilities +
Drayage to packer (crater/containerizer), if applicable +
Containerization/crating charges (if done at port) +
Labeling and marking (if done at port) +
Freight forwarding and documentation charges (includes charges associated with consular fees, export license, postage, telex, and telephone/telegram use, etc.)+
Drayage to warehouse and unloading, if applicable +
Warehousing charges, if applicable +
Loading and drayage to pier from packer or warehouse, if applicable +
Wharfage charges +
Terminal notification charges +
Demurrage/detention at port +

FREE ALONGSIDE VESSEL AT PORT OF_____ =

Vessel loading charges +
Heavy lift or extra-length charges, if applicable +
Other charges (specify) +

FREE ON BOARD VESSEL AT PORT OF _____ =

Ocean freight charges +
Bunker or other surcharges, if applicable +

COST AND FREIGHT TO _____ =
Insurance +

COST, INSURANCE AND FREIGHT TO_____ =

ANNEX C: GLOSSARY OF TRADING TERMS

A

ABI

Automated Broker Interface - A system available to brokers with the computer capabilities and customs certification to transmit and exchange customs entries and other information, facilitating the prompt release of imported cargo.

Acceptance

1. A time draft (or bill of exchange) which the drawee has accepted and is unconditionally obligated to pay at maturity.
2. Drawee's act in receiving a draft and thus entering into the obligation to pay its value at maturity.
3. Broadly speaking, any agreement to purchase goods under specified terms.

Ad Hoc Charter - A one-off charter operated at the whim of an airline or charterer.

Ad Valorem - Latin for "according to the value."

1. An ad valorem duty is an import duty based on the value of an article as defined in the customs law of a particular country, rather than on weight or volume. A percentage of that value is charged, for example, 5% ad valorem.

2. A freight rate set at a certain percentage of the value of an article is known as an ad valorem rate.

Admiralty Court

A court having jurisdiction over maritime questions pertaining to ocean transport, including contracts, charters, collisions, and cargo damages.

Advance Against Documents

A loan made on the security of the documents covering a shipment.

Advising Bank

A bank operating in the exporter's country that handles letters of credit for a foreign bank by notifying the exporter that the credit has been opened in his favor.

Advisory Capacity

A term indicating that a shipper's agent or representative is not empowered to make definitive decisions or adjustments without approval of the party represented.

Affiliate

Company that controls, or is controlled by another company, or is one of two or more commonly controlled companies.

Affreightment

Contract of - An agreement by a steamship line to provide cargo space on a vessel at a specified time and for a specified price to accommodate an exporter or importer who then becomes liable for payment even though he is later unable to make the shipment.

Agency Agreement

An agreement whereby the steamship line appoints the steamship agent and defines the specific duties and areas of responsibility of that agent.

Air Cargo Agent

A type of freight forwarder who specializes in air cargo and acts for airlines that pay him a fee (usually 5%). He is registered with the International Air Transport Association (IATA). (See also Air Freight Forwarder and Forwarder, Freight Forwarder, Foreign Freight Forwarder)

Air Freight Forwarder

A type of freight forwarder who specializes in air cargo. He usually consolidates the air shipments of various exporters, charging them for actual weight and deriving his profit by paying the airline the lower consolidated rate. He issues his own air waybills to the exporter and has the status of an indirect air carrier. (See also Air Cargo Agent and Forwarder, Freight Forwarder, and Foreign Freight Forwarder)

Air Waybill

A non-negotiable contract for carriage of air transportation between an air carrier and a shipper, or an air carrier and an air freight forwarder. In the latter case the forwarder, as an indirect air carrier, issues his own house air waybill to the shipper.

AITA

The French and German acronym for the International Air Transport Association (IATA).

All-Risk Insurance

The broadest form of coverage available, providing protection against all risk of physical loss or damage from any external cause. Does not cover loss or damage due to delay, inherent vice, per-shipment conditions, inadequate packaging, or loss of market. Loss must be fortuitous to be covered.

Alongside

The side of the ship. Goods to be delivered alongside are to be placed on the dock or lighter within reach of the ship's tackle from which they can be loaded aboard the ship.

Arbitration Clause

A standard clause to be included in the contracts of exporters and importers.

ASEAN

Association of Southeast Asian Nations.

AT (American Terms)

A marine insurance term used to differentiate between the conditions of American policies and those of other nations, principally England.

Automated Commercial System (ACS)

The electronic system of the U.S. Customs Service, encompassing a variety of industry sectors, that permits on-line access to information in selected areas.

Automated Manifest System (AMS)

The electronic system allowing a manifest inventory to be transmitted to the U.S. Customs Service data center by carrier, port authority, or service center computers.

B

BAA

British Airports Authority.

BACA

Baltic Air Charter Association.

BAF (Bunker Adjustment Factor)

An adjustment in shipping charges to offset price fluctuations in the cost of bunker fuel. Also known as a Bunker Surcharge (B/S).

Barter

The direct exchange of goods and/or services without the use of money as a medium of exchange and without third party involvement.

Belly Cargo

Freight accommodation below the main deck.

BENELUX

An economic union among Belgium, the Netherlands, and Luxembourg.

Bermuda Agreement

An agreement concluded in 1946 between the U.K. and the U.S.A. designed to regulate future international air traffic. Most governments accept its principles and follow it by limiting traffic rights on international routes to one or two carriers.

Berth

The place beside a pier, quay, or wharf where a vessel can be loaded or discharged.

Berth Liner Service

A regularly scheduled steamship line with regularly published schedules (ports of call) from and to defined trade areas.

Berth or Liner Terms

An expression covering assessment of ocean freight rates generally implying that loading and discharging expenses will be for the ship owner's account, and usually applying from the end of the ship's tackle in the port of loading to the end of the ship's tackle in the port of discharge.

Bilateral Rights

Agreements on traffic rights concluded between two governments.

Bill of Lading

A document issued by a common carrier to a shipper that serves as:

1. A receipt for the goods delivered to the carrier for shipment.
2. A definition of the contract of carriage of the goods from the port of shipment to the port of destination listed in the bill of lading.
3. Evidence of title to the relative goods.

When in order form, a bill of lading is negotiable. (See specific types of Bill of Ladings below)

Bill of Lading, Claused

A bill of lading which has exemptions to the receipt of merchandise in "apparent good order" noted.

Bill of Lading, Clean

1. A bill of lading which bears no superimposed clause or notation which expressly declares a defective condition of the goods and/or the packaging (Article 18, Uniform Customs and Practice for Documentary Credits). A bill of lading that contains a clause declaring defective goods is called a Foul Bill of Lading.
2. A bill of lading that is silent as to the place of storage, indicating that the goods have been stowed under deck. (See Bill of Lading, Unclean)

Bill of Lading, Forwarder's

A bill of lading issued by a forwarder to a shipper as a receipt for merchandise that the forwarder will consolidate with cargo obtained from other exporters and ship to his agent at the port of destination. In most cases, the Forwarder's Bill of Lading has legal standing for banking purposes. Also called House Bill of Lading.

Bill of Lading, Foul

A receipt for goods issued by a carrier bearing a notation that the outward containers or the goods have been damaged.

Bill of Lading, Inland

A bill of lading used in transporting goods overland to the exporter's international carrier.

Bill of Lading, Ocean

A document defining the terms and conditions of carriage for transport of cargo by sea freight.

Bill of Lading, On Board

A bill of lading acknowledging that the relative goods have been received on board for shipment on a specified vessel.

Bill of Lading, Order

A negotiable bill of lading. There are two types:

1. A bill drawn to the order of a foreign consignee, enabling him to endorse the bill to a third party.
2. A bill drawn to the order of the shipper and endorsed by him either "in blank" or to a named consignee.

The purpose of the latter bill is to protect the shipper against the buyer's obtaining the merchandise before he has paid or accepted the relative draft. (See also Endorsement in Blank).

Bill of Lading, Received for Shipment

A bill of lading acknowledging the receipt of goods by a carrier for shipment on a specified vessel. This type of bill of lading is not acceptable under a letter of credit unless it is specially authorized. English law does not regard these bills as a valid tender under CIF contracts because the CIF seller is obligated to ship the goods, and a Received for Shipment Bill of Lading is not considered proof of shipment.

Bill of Lading, Straight

A non-negotiable bill of lading whereby the consignee named in the bill is the owner of the relative goods.

Bill of Lading, Through

A bill of lading that covers transportation by more than one carrier from the point of issue to the final destination (e.g., a bill from New York, via Curaçao, to Pampatar, Venezuela).

Bill of Lading, Through Railway Export

A bill of lading showing the place of receipt by the carrier at an inland point, with transport to the port of exit accomplished using rail/intermodal connections.

Bill of Lading, Unclean

A bill containing reservations as to the good order and condition of the goods or the packaging or both. Examples: "bags torn," "drums leaking," "one case damaged," and "rolls

chafed."

Bill of Sight

A written description of goods given by an importer to a customs officer in the event shipping documents have not arrived in time and the importer wishes to avoid delayed entry charges. When an importer enters goods on a bill of sight, he usually must make a cash deposit covering the estimated amount of duty. When the shipping documents are received and a correct entry is made, the exact amount of duty is levied.

Bloodstock

Pedigreed livestock. Often race horses or cattle for breeding.

Bonded Warehouse

A warehouse authorized by customs authorities for storage of goods on which payment of duties is deferred until the goods are removed.

Booking

Arrangements with steamship companies for the acceptance and carriage of freight.

Breakbulk Cargo

Cargo which is shipped as a unit (e.g., palletized cargo, boxed cargo, large machinery, trucks, and pre-slung cargo).

Breakbulk Vessel

A vessel designed to handle palletized, pre-slung, boxed, and unitized cargo. Holds can be at the open bay or between deck type. Between deck means the hold can be converted from multi levels to open bay. This type of vessel is usually self-sustaining.

Breakpoint

The weight at which freight charges change, e.g., 100 kilos.

Broker

A person or firm that establishes a connection between a buyer and a seller. Brokers operate in many fields: insurance, steamship transport, securities, drafts, and other phases of foreign trade. Not only do brokers bring buyers and sellers together, but they help to negotiate and close contracts and agreements between them.

Brussels Nomenclature-Kennedy Round

A standardized system, established in 1950, for classifying commodities for customs purposes. The ECU common external tariff and the tariffs of other major trading nations, except the U.S.A., are based on this nomenclature. The U.S. tariff schedule (TSUS) contains about 5,000 items compared to 2,800 in the Brussels Nomenclature.

B/s

Bags; bales.

b.t.

Berth terms.

Bulk Cargo

Loose cargo that is loaded directly into a ship's hold.

Bulk Carrier

There are two types of bulk carriers, the dry-bulk carrier and the liquid-bulk carrier, better known as a tanker. Bulk cargo is a shipment such as oil, grain, or one which is not packaged, bundled, bottled, or otherwise packed and is loaded without counting or marking.

Bulk Solids

Dry cargo shipped in containers, loose and in bulk, without counting or marking.

C

CAA (Civil Aviation Authority)

The government body responsible for regulating U.K. airlines.

Cabotage

Where cargo is carried on what is essentially a domestic flight and therefore not subject to international agreements that fix set rates. Cabotage rates are negotiable between shipper and airline and apply on flights within a country and to its overseas territories.

CAD (Cash Against Documents)

A method of payment for goods in which documents transferring title are given to the buyer upon payment of cash to an intermediary acting for the seller.

CAF (Currency Adjustment Factor)

A surcharge on freight charges by a carrier to offset foreign currency fluctuations.

Cargo

Merchandise/commodities carried by means of transportation.

Cargo Insurance

Insurance to protect the financial interest of the cargo owner during transportation in the event of a loss.

Cargo Receipt

Receipt of cargo for shipment by a consolidator (used in ocean freight).

CARICOM

Caribbean Common Market.

Carnet

A customs document permitting the holder to carry or send merchandise temporarily into certain foreign countries without paying duties or posting bonds.

Carrier

Any person who, through a contract of carriage, undertakes to perform or procure the performance of carriage by rail, road, sea, air, inland waterway, or by a combination of modes. (See also Common Carrier)

Carrier Container/Shipper Container

A container over which the carrier or the shipper has control either by ownership or by the acquisition thereof under lease or rental from container companies or container suppliers or from similar sources. Carriers are prohibited from purchasing, leasing, or renting a shipper-owned container.

Cartel

An association of several independent national or international business organizations that regulates competition by controlling the prices, the production, or the marketing of a product or industry.

CCEF

Customs Centralized Examination Facility.

CE (Communauté Européene) Mark

A "passport" that allows manufacturers to trade industrial products freely within the internal EU market. The CE Mark is not a quality mark, but indicates conformity to the legal requirements of the EU Directives. It is mandatory for a wide range of products sold in the EU.

Certificate of Analysis

A certificate issued by a recognized organization or government authority confirming the quality and composition of goods. This is often required in importing countries for animal and plant products for consumption as well as pharmaceuticals.

Certificate of Inspection

A certificate usually required for industrial equipment and meat products. There are companies in every port city that specialize in issuing certificates of inspection for machinery.

Certificate of Manufacture

A document used under a letter of credit containing an affidavit that goods have been manufactured and are being held for the account and risk of the buyer. In war times when transportation facilities are disrupted, it is common for letters of credit to be paid against presentation of a certificate of manufacture. This is rare in ordinary times, except in the case of specially manufactured goods.

Certificate of Origin

A document containing an affidavit to prove the origin of imported goods. It is used for customs or foreign exchange purposes or both. Certificates of origin are commonly certified by an official organization in the country of origin such as a consular office or a chamber of commerce.

CFS (Container Freight Station)

The term CFS at loading port means the location designated by carriers for the receiving of cargo to be packed into containers by the carrier. At discharge ports, the term CFS means the bonded location designated by carriers in the port area for unpacking and delivery of cargo.

CFS/CFS (Pier to Pier)

The term CFS/CFS means cargo delivered by breakbulk to carrier's container freight station (CFS) to be packed by carrier into containers and to be unpacked by carrier from the container at carrier's destination port CFS.

CFS Charge (Container Freight Charge)

The charge assessed for services performed at the loading or discharging port in the packing or unpacking of cargo into/from containers at CFS.

CFS/CY (Pier to House)

The term CFS/CY means cargo delivered breakbulk to carrier's CFS to be packed by carrier into containers and accepted by consignee at carrier's CY and unpacked by the consignee off carrier's premises, all at consignee's risk and expense.

CFS Receiving Services

The service performed at the loading port in receiving and packing cargo into containers from CFS to CY or shipside. "CFS Receiving Services" referred herein are restricted to the following:

1. Moving empty containers from CY to CFS.
2. Drayage of loaded containers from CFS to CY and/or ship's tackle.
3. Tallying.
4. Issuing dock receipt/shipping order.
5. Physical movement of cargo into, out of, and within CFS.
6. Stuffing, sealing, and marking containers.
7. Storage.
8. Ordinary sorting and stacking.
9. Preparing carrier's internal container load plan.

Chargeable Kilo

Rate for air freight goods where volume exceeds six cubic meters to the tonne.

Charter

Originally meant a flight where a shipper contracted hire of an aircraft from an airline, but has usually come to mean any non-scheduled commercial service.

Charter Agreement/Charter Party

A lease or agreement to hire an airplane, vessel, or other means of conveyance to transport goods to one or more designated locations. Among other specifications, the contract usually stipulates the exact obligations of the vessel owner (loading the goods, carrying the goods to a certain point, returning to the charterer with other goods, etc.), or it provides for an outright leasing of the vessel to the charterer, who then is responsible for his own loading and delivery. In either case, the charter party sets forth the exact conditions and requirements agreed upon by both sides.

Charter Party Bill of Lading

A bill of lading issued under a charter party. It is not acceptable by banks under letters of credit unless so authorized in the credit.

Chassis

A wheel assemble including bogies constructed to accept mounting of containers.

CIA (Cash in Advance)

A method of payment for goods whereby the buyer pays the seller prior to shipping the goods.

CITES - Committee on International Trade of Endangered Species.

Class Rates

A class of goods or commodities is a large grouping of various items under one general heading, and all items in the group make up a class. The freight rates that apply to all items in the class are called class rates.

Classification

A customs term for the placement of an item under the correct number in the customs tariff for duty purposes. At times this procedure becomes highly complicated; it is not uncommon for importers to resort to litigation over the correct duty to be assessed by customs on a given item.

Clean Draft

A draft to which no documents have been attached.

cm

Centimeters.

CNS (Cargo Network Services)

An agency to which IATA forwarders pay their freight bills.

Collective Paper

All documents (commercial invoices, bills of lading, etc.) submitted to a buyer for the purpose of receiving payment for a shipment.

Combi

An aircraft with pallet or container capacity on its main deck as well as in its belly holds.

Combination Vessels

A type of ship that accommodates both container and breakbulk cargo. It can be either self-sustaining or non-self sustaining. Also known as a Container/Breakbulk Vessel.

Commercial Invoice

An itemized list of goods shipped that is usually included among an exporter's collection papers.

Commodity Specialist

An official authorized by the U.S. Treasury to determine the proper tariff and value of imported goods.

Common Carrier

A publicly or privately owned firm or corporation that transports the goods of others over land, sea, or through the air, for a stated freight rate. By government regulation, a common carrier is required to carry all goods offered if accommodations are available and the established rate is paid.

Common External Tariff (CET or CXT)

A uniform tariff adopted by a customs union or common market on imports from countries outside the union. It is often a required part of the entry process.

Conference

A group of vessel operators joined together for the purpose of establishing freight rates.

Confiscation

The taking and holding of private property by a government or an agency acting for a government. Compensation may or may not be given to the owner of the property.

Consignee

The individual or company to whom a seller or shipper sends merchandise and who, upon presentation of necessary documents, is recognized as the merchandise owner for the purpose of declaring and paying customs duties.

Consignee Mark

A symbol placed on packages for identification purposes generally consisting of a triangle, square, circle, diamond, or cross, with letters or numbers as well as the port of discharge.

Consignment

The physical transfer of goods from a seller (consignor) with whom the title remains until the goods are sold, to another legal entity (consignee) who acts as a selling agent. Only if there is a subsequent sale does the seller receive any payment.

Consignor

A term used to describe any person who consigns goods to himself or to another party in a bill of lading or equivalent document. A consignor might be the owner of the goods, or a freight forwarder who consigns goods on behalf of his principal.

Consolidated Shipment

An arrangement whereby various shippers pool their boxed goods on the same shipment, sharing the total weight charge for the shipment.

Consolidator

An agent who brings together a number of shipments for one destination to qualify for preferential rates.

Consortium

The name for an agreement under which several nations or nationals (usually corporations) of more than one nation join together for a common purpose (e.g., a shipping consortium).

Consul

A government official residing in a foreign country charged with representing the interests of his or her country and its nationals.

Consular Documents

Special forms signed by the consul of a country to which cargo is destined.

Consular Invoice

A document required by some countries describing a shipment of goods and showing information such as the consignor, consignee, and value of the shipment. Certified by a consular official, a consular invoice is used by the country's customs officials to verify the value, quantity, and nature of the shipment.

Container

A single, rigid, sealed, reusable metal "box" in which merchandise is shipped by vessel, truck, or rail. Container types include standard, high cube, hardtop, open top, flat, platform, ventilated, insulated, refrigerated, or bulk. Containers (except for flat-rack vehicle rack and portable liquid tank types) have a closure or permanently hinged door that allows ready access to cargo. All containers have constructions, fittings, and fastenings able to withstand, without permanent distortion, all stresses that may be applied in normal service use of continuous transportation. Containers must bear the manufacturer's specifications. (See also Container Dimensions)

Container (Air Cargo)

Air cargo containers are designed in various sizes and irregular shapes to conform to the inside dimensions of a specific aircraft.

Container (Ocean)

Designed to be moved inland on its own chassis, an ocean container can be loaded at the shipper's plant for shipment overseas. The average outside dimensions are generally 20, 35, and 40 feet in length, 8 feet wide, and 8 feet high.

Container Ship

An ocean-going ship designed to carry containers both internally and on deck. Some are self sustaining.

Containerization

A concept for the ultimate unitizing of cargo used by both steamship lines and air cargo lines. Containers allow a greater amount of cargo protection from weather, damage, and theft.

Continuous Bond

An annual customs bond insuring compliance with all regulations and requirements.

Contract Rate

This can refer to "service contract" rates which are low, favorable rates fixed over an extended period of time in exchange for which the carrier receives a volume commitment from the shipper.

Countertrade

A reciprocal trading arrangement in which the seller is required to accept goods or other instruments or trade in partial or whole payment for its products. Common transactions include: barter, buyback, counterpurchase, offset requirements, swap, switch; or triangular trade, evidence, or clearing accounts.

Countervailing Duties

Special duties imposed on imports to offset the benefits of subsidies to producers or exporters of the exporting country.

Customs Broker

An individual or service company that transacts customhouse formalities on behalf of an importer. In the U.S.A., a customs broker must be licensed by the Treasury Department and pass a government examination covering a broad range of knowledge, including all phases of import regulations, rates of duties, and customs law. Licensing and requirements vary from country to country, so check with your local United Shipping Partner for details.

Customs Court

The court to which importers must appeal or protest decisions made by customs officers.

Customs Tariff

A schedule of charges assessed by a federal government on imported goods.

Customs Union

An agreement between two or more countries in which they arrange to abolish tariffs and other import restrictions on each other's goods and establish a common tariff for the imports of all other countries.

CWO (Cash With Order)

A method of payment for goods where cash is paid at the time of order and the transaction becomes binding on both buyer and seller.

Dangerous Goods

Articles or substances capable of posing a significant risk to health, safety, or property, and that ordinarily require special attention when being transported.

DAT - Dangerous Articles Tariff.

Date Draft

A draft that matures in a specified number of days after issuance without regard to date of acceptance.

DCA (Department of Civil Aviation)

Denotes the government department of any foreign country that is responsible for aviation regulation and granting traffic rights.

DDC - Destination Delivery Charge.

DDP (Delivered Duty Paid)

Also known as "free domicile."

DDU (Delivered Duty Unpaid)

This reflects the emergence of "door-to-door" intermodal or courier contracts or carriage where only the destination customs duty and taxes (if any) are paid by consignee.

Dead Leg - A sector flown without payload.

Dead Freight

Freight charges paid by the charterer of a vessel for the contracted space which is left partially unoccupied.

Deck Cargo

Cargo carried on deck rather than stowed under deck. On-deck carriage is required for certain commodities, such as explosives.

Deferred Rebate

The return of a portion of the freight charges by a carrier or a conference shipper in exchange for the shipper giving all or most of his shipments to the carrier or conference over a specified period of time (usually six months). Payment of the rate is deferred for a further similar period, during which the shipper must continue to give all or most of his shipments to the rebating carrier or conference. The shipper thus earns a further rebate which will not, however, be paid without an additional period of exclusive or almost exclusive patronage with the carrier of conference. In this way, the shipper becomes tied to the rebating carrier or conference. Although the deferred rebate system is illegal in U.S. foreign commerce, it generally is accepted in
the ocean trade between other countries.

Demurrage

A penalty for exceeding free time allowed for loading or unloading at a pier or freight terminal. Also a charge for undue detention of transportation equipment or carriers in port while loading or unloading.

Density

Density means pounds per cubic foot. The cubage of loose articles or pieces, or packaged articles of a rectangular, elliptical, or square shape on one plane, shall be determined by multiplying the greatest straight line dimensions of length, width, and depth in inches, including all projections, and dividing the total by 1728 (to
obtain cubic feet). The density is the weight of the article divided by the cubic feet thus obtained.

DEQ

Delivered Ex Quay (duty paid).

DF

Dead Freight.

DGR - Dangerous Goods Requirement.

Dim Weight (Dimensionalized Weight)

An international airfreight formula determined by calculating length x width x height and dividing by 166. It is charged when the actual weight is less than the imensionalized weight.

DO - Delivery Order.

Dock Receipt

When cargo is delivered to a steamship company at the pier, the receiving clerk issues a dock receipt.

Draft

An unconditional order in writing from one person (the Drawer) to another (the Drawee), directing the drawee to pay a specified amount to a named drawer on a fixed date. Also known as a Bill of Exchange.

Drawback

A remission of duty or charges paid, in whole or in part, when imported goods are re-exported or used in the manufacture of exported goods.

Drawee

The individual or firm on whom a draft is drawn and who owes the stated amount to the drawer.

Dry Lease

The rental of a "clean" aircraft without crew, ground staff, or supporting equipment.

DST (Double Stack Train)

The transport by rail between two points of a trainload of containers with two containers per chassis, one on top of the other.

d.w. (deadweight)

The maximum carrying capacity of a ship expressed in tons of cargo, stores, provisions, and bunker fuel.

d.w.c. (deadweight cargo)

Cargo of such weight and volume that a long ton (2,240 lbs) is stowed in an area of less than 70 cubic feet.

E

EAON - Except As Otherwise Noted.

EDI or EDIFACT (Electronic Data Interchange for Administration, Commerce and Transport)

From the United Nations-backed electronic data interchange standards body, this is used to create electronic versions of common business documents that will work on a global scale.

Empty Leg

Results from an aircraft primarily chartered outbound having cargo capacity inbound or vice versa. A cheap form of airfreight.

Endorsement in Blank

1. Commonly used on a bank check, an endorsement in blank is an endorsement to the bearer. It contains only the name of the endorser and specifies no particular payee.
2. Also, a common means of endorsing bills of lading dawn to the order of the shipper. The bills are endorsed "For..." (See Bill of Lading, Order)

Ex. BL - Exchange Bill of Lading.

Export Broker

The individual who brings together buyer and seller for a fee, eventually withdrawing from any transaction.

Export Declaration

A form completed by the exporter or its authorized agent and filed in triplicate by a carrier with the U.S. Collector of Customs at the point of exit. It serves a twofold purpose:

1. Primarily, it is used by the U.S. Bureau of Census for the compilation of export statistics on U.S. foreign trade. (For this reason, an export declaration is required for practically all shipments from the U.S.A. to foreign countries and the U.S. possessions, except for mail shipments of small value or for those of a non-commercial character.)
2. The declaration also serves as an export control document because it must be presented, together with the export license, to the U.S. Customs at the port of export. If the goods may be exported under general export license, this fact must be stated on the export declaration.

Export License

A document secured from a government authorizing an exporter to export a specific quantity of a particular commodity to a certain country. An export license is often required if a government has placed embargoes or other restrictions upon exports. (See General Export License.)

Export Trading Company

A corporation or other business unit organized and operated primarily for the purpose of exporting goods and services, or of providing export-related services to other companies.

Express - Premium-rated service for urgent deliveries.

F

FAA (Federal Aviation Administration)

The U.S. federal agency responsible for promulgating operational standards and procedures for U.S. aviation.

FAK (Freight All Kinds)

A carrier's tariff description for products pooled and all shipped at one rate. FAK cargo is usually shipped in a container filled with different merchandise or commodities.

Fathom

A nautical measurement with the following conversion equivalents: 6 feet; 1.83 meters.

FCL Full Container Load, Full Car Load.

F.c.s. Free of capture and seizure.

f.c.s.r.c.c. - Free of capture, seizure, riots, and civil commotions.

F&D - Freight and Demurrage.

Feeder Vessel

A vessel that connects with a line vessel to service a port not directly served by that line vessel.

FEU - Forty foot equivalent.

FIATA - International Federation of Freight Forwarders Associations.

F.i.b. - Free in bunkers; free into barge.

Flag Carrier

An airline or vessel of one national registry whose government gives it partial or total monopoly over international routes. Flat Bed Chassis - A semi-trailer with a level bed and no sides or tops. The floor is a standard height from the ground.

Flat Rack

A container without sides or frame members at the front and back. It can be loaded from the sides and top.

FMC - (See Federal Maritime Commission)

F.o.d. - Free of damage.

Force Majeure

The title of a standard clause found in marine contracts exempting the parties for nonfulfillment of their obligations by reasons of occurrences beyond their control, such as earthquakes, floods, or war.

Foreign Trade Zone (FTZ)

A port designated by the government for duty-free entry of any non-prohibited goods. Merchandise may be stored, displayed, and used for manufacturing within the zone and re-exported without duties being paid. Duties are imposed only when the original goods or items manufactured from those goods pass from the zone into an area of the country

subject to customs authority. Also called a Free Trade Zone.

Foreign Trade Zone Entry

A form declaring goods which are brought duty free into a Foreign Trade Zone for further processing or storage and subsequent exportation from the zone into the commerce of another country.

Forwarder, Freight Forwarder, Foreign Freight Forwarder

An independent business that dispatches shipments for exporters for a fee. The firm may ship by land, air, or sea, or it may specialize. Usually it handles all the services connected with an export shipment, including preparation of documents, booking cargo space, warehousing, pier delivery, and export clearance. The firm may also handle banking and insurance services on behalf of a client. The U.S. forwarder is licensed by the Federal Maritime Commission for ocean shipments.

Free In (FI)

Means the cost of loading a vessel is borne by the charterer.

Free In and Out (FIO)

Means the cost of loading and unloading a vessel is borne by the charterer.

Free of Capture and Seizure (FC&S)

An insurance clause providing that loss is not insured if due to capture, seizure, confiscation, and like actions, whether legal or not, or from such acts as piracy, civil war, rebellion, and civil strife.

Free of Particular Average (FPA)

A marine insurance clause relating to the recoverability of partial and total losses from perils of the sea. The American and English coverages vary as follows:

1. American Conditions (FPAAC). The underwriter does not assume responsibility for partial losses unless caused by sinking, stranding, burning, or colliding with another vessel.
2. English Conditions (FPAEC). The underwriter assumes responsibility for partial losses if the vessel is sunk, stranded, burned, on fire, or in collision, even though such an event did not actually cause the damage suffered by the goods.

Free Out (FO) - The cost of unloading a vessel is borne by the charterer.

Free Port

A port which is a Foreign Trade Zone open to all traders on equal terms, or more specifically a port where merchandise may he stored duty-free pending reexport or sale within that country.

G

Gang

A group of stevedores, usually four to five members, with a supervisor assigned to a hold or portion of the vessel being loaded or unloaded.

Gateway - A port of entry into a country or region.

GATT (General Agreement on Tariffs and Trade)

A multilateral treaty intended to help reduce trade barriers and promote tariff concessions.

GCR (General Cargo Rate)

The basic tariff category which was originally introduced to cover most air cargo. It now covers only a minority, the remainder being under SCR or class rates.

General Export License

Any of various export licenses covering export commodities for which validated export licenses are not required.

General Order Warehouse

A government contract warehouse for the storage of cargoes left unclaimed for a designated number of days after availability. Unclaimed cargoes may later be auctioned publicly.

Gross Weight

The full weight of a shipment, including containers and packaging materials.

GR Wt./GW - Gross Weight.

H

Harmonized Code

An internationally accepted and uniform description system for classifying goods for customs, statistical, and other purposes.

Harmonized System (HS)

A key provision of the international trade bill, effective January 1, 1989, that established international uniformity for classifying goods moving in international trade under a single commodity code.

Hatch

The cover of, or opening in, the deck of a vessel through which cargo is loaded.

Heavy Lifts

Freight too heavy to be handled by regular ship's tackle.

Heavy Lift Vessel

A vessel specifically designed to be self-sustaining with heavy lift cranes to handle unusually heavy or outsized cargoes.

Hi (or High) Cube

Any container exceeding 102 inches in height.

House Air Waybill

An air waybill issued by a freight consolidator. (See also Air Waybill)

Hub

A central location to which traffic from many cities is directed and from which traffic is fed to other areas.

Hundredweight (cwt.)

Short ton hundredweight = 100 pounds. Long ton hundredweight = 112 pounds.

Husbanding

A term used by steamship lines, agents, or port captains who are appointed to handle all matters in assisting the master of the vessel while in port to obtain such services as bunkering, fresh water, food and supplies, payroll for the crew, doctors appointments, and ship repair.

I

IATA - International Air Transport Association.

ICAO (International Civil Aviation Organization)

A specialized agency of the United Nations headquartered in Montreal. It promotes general development of civil aviation such as aircraft design and operation, safety procedures, and contractual agreements.

ICC (International Chamber of Commerce)

A non-governmental organization serving as a policy advocate on world business.

ICTF (Intermodal Container Transfer Facility)

An on-dock facility for moving containers from ship to rail or truck.

IFF - Institute of Freight Forwarders.

Igloo

A container designed to occupy the full main deck width of carrying aircraft.

Import License

A certificate issued by countries exercising import controls that permits importation of the articles stated in the license. The issuance of such a permit frequently is collected with the release of foreign exchange needed to pay for the shipment for which the import license has been requested.

In-Bond

A customs program for inland ports that provides for cargo arriving at a seaport to be shipped under a customs bond to a more conveniently located inland port where the entry documents have been filed. Customs clears the shipment there and the cargo is trucked to its destination, which normally is close to the inland port.

INCOTERM

A set of international rules for the uniform interpretation of common contract clauses in international trade. See Incoterms.

Independent Action

A move whereby a member of a shipping conference elects to depart from the specific freight rates, terms, or conditions set forth by the conference. No prior approval of the conference is needed.

Inducement

When steamship lines publish in their schedules the name of a port and the words "by inducement" in parentheses, this means the vessel will call at the port if there is a sufficient amount of profitable cargo available and booked.

Inland Carrier

A transportation line which hauls export or import traffic between ports and inland points.

Inspection Certificate

A document certifying that merchandise (such as perishable goods) was in good condition immediately prior to shipment.

Integrated Carrier

A forwarder that uses its own aircraft, whether owned or leased, rather than scheduled airlines.

Intellectual Property

Ownership of the legal rights to possess, use, or dispose of products created by human ingenuity, including patents, trademarks and copyrights.

Interline

A mutual agreement between airlines to link their route network.

Intermodal

This refers to the capacity to go from ship to train to truck or the like. The adjective generally refers to containerized shipping or the capacity to handle the same.

i.p.a. - Including particular average.

ISO 9000 - A series of voluntary international quality standards.

J

Jetsam

Goods from a ship's cargo or parts of its equipment that have been thrown overboard to lighten the load in time of danger or to set a stranded ship adrift.

Joint Venture

A term of business partnership involving joint management and the sharing of risks and profits between enterprises sometimes based in different countries.

Jones Act

An act of the U.S. Congress prohibiting foreign flag carriers from participating in the U.S. intercoastal trade by water. It currently is applicable in such trade lanes as the U.S. continental states to and from Hawaii and Alaska.

Just in Time (JIT)

The principle of production and inventory control in which goods arrive when needed for production or use.

J&WO - Jettison and Washing Overboard.

K

Kanban

The Japanese word referring to the manufacturing control system in which suppliers deliver needed parts just in time to the assembly line for use.

KD Flat

An article taken apart, folded, or telescoped to reduce its bulk at least 66-2/3% below its assembled size.

KDCL - Knocked Down in Carload Lots.

KDLCL - Knocked Down in Less than Carload Lots.

Knocked Down (KD)

An article taken apart, folded, or telescoped in such a manner as to reduce its bulk at least 33-l/3% below its assembled bulk.

Knot, Nautical

The unit of speed equivalent to one nautical mile: 6,080.20 feet per hour or 1.85 kilometers per hour.

Lagan

Cargo or equipment to which an identifying marker or buoy is fastened and thrown overboard in time of danger to lighten a ship's load. Under maritime law, if the goods are later found they must be returned to the owner whose marker is attached. The owner must make a salvage payment.

LASH - Lighter Aboard Ship. (See Lighter)

Lash Vessels

Barges specifically designed to load on a vessel internally and for quick vessel turnaround. The concept is to quickly float the barges to the vessel (using tugs or ships wenches), load the barges through the rear of the vessel, then sail. Upon arrival at the foreign port, the reverse happens. Barges are quickly floated away from the vessel and another set of waiting barges quickly are loaded. Usually crane- equipped, these barges handle mostly breakbulk cargo.

Lay Days

The dates between which a chartered vessel is to be available in a port for loading of cargo.

L/C - (See Letter of Credit)

LCL - Less than Container Load; Less than Car load.

L&D - Loss and Damage.

Legal Weight

The weight of the goods plus any immediate wrappings that are sold along with the goods, e.g., the weight of a tin can as well as its contents. (See also Gross Weight)

Less than Truckload (LTL)

Rates applicable when the quantity of freight is less than the volume or truckload minimum weight.

Letter of Credit (L/C)

A document issued by a bank per instructions by a buyer of goods authorizing the seller to draw a specified sum of money under specified terms. Issued as revocable or irrevocable.

Letter of Credit, Confirmed

A letter of credit containing a guarantee on the part of both the issuing and advising banks of payment to the seller, provided the seller's documentation is in order and the terms of the letter of credit are met.

Lighter

An open or covered barge equipped with a crane and towed by a tugboat. Used mostly in harbors and inland waterways.

Lighterage

The cost of loading or unloading a vessel by means of barges alongside.

Linehaul

The management of freight between cities, usually more than 1000 miles.

Liner

The word "liner" is derived from the term "line traffic," which denotes operation along definite routes on the basis of definite, fixed schedules. A liner thus is a vessel that engages in this kind of transportation, which usually involves the haulage of general cargo as distinct from bulk cargo.

Liquidation

The finalization of a customs entry.

Livestock - Common farm animals.

Lkg. & Bkg. - Leakage and Breakage.

Load Factor

Capacity sold as against capacity available and expressed as a percentage.

Logistics Management

The efficient and cost-effective management of the physical movement of goods from supply points to final sale and the associated transfer and holding of such goods at various intermediate storage points.

Lo/Lo (Lift-On/Lift-Off)

Denotes the method by which cargo is loaded onto and discharged from an ocean vessel, which in this case is by the use of a crane.

l.t. or l.tn. - Long ton (2240 lbs).

Ltge. - Lighterage.

LTL - (See Less than Truckload)

M

Manifest

A list of the goods being transported by a carrier.

Maquiladora

A foreign plant operating under an in-bond program whereby components may be shipped into Mexico duty-free for assembly and subsequent re export. Maquiladora plants are also known as Twin Plants.

Mark - (See Consignee Mark, Markings, Port Marks)

Markings

The physical markings on a product indicating the country of origin where the article was produced.

Mate's Receipt

Receipt of cargo by the vessel, signed by the mate (similar to a dock receipt).

Measurement Ton

The measurement ton (also known as the cargo ton or freight ton) is a space measurement, usually 40 cubic feet or one cubic meter. Cargo is assessed a certain rate for every 40 cubic feet or one cubic meter it occupies.

MERCOSUR

A trade alliance between Argentina, Brazil, Paraguay and Uruguay, with Chile and Bolivia as associate members.

Min. B/L - Minimum Bill of Lading.

MM - Mercantile Marine.

M/R - Mate's Receipt.

M/T - Metric Ton (2204 lbs).

mt. - Empty.

M/V or MV - Motor Vessel.

MW - Minimum Weight Factor.

N

NAFTA (North American Free Trade Agreement)

A free trade agreement comprising the U.S.A., Canada, and Mexico.

National Carrier

A flag carrier owned or controlled by the state.

n.e.m. - Not elsewhere mentioned.

n.e.s. - Not elsewhere specified.

Nested

When three or more different sizes of an article are placed within each other so that each article will not project above the next lower article by more than 33-1/3% of its height.

Nested Solid

When three or more different sizes of an article are placed within each other so that each article will not project above the next lower article by more than 1/4 inch.

Net Terms - Free of charters' commission.

Net Weight (Actual Net Weight)

The weight of the goods alone without any immediate wrappings; e.g., the weight of the contents of a tin can without the weight of the can.

NMFC - National Motor Freight Classification.

No Objection Certificate

A document provided by scheduled or national airlines of many countries declaring no objection to a proposed charter flight operated by another airline. It is often demanded by government authorities before they grant permission for a charter flight to take place.

No Objection Fee

A sum of money normally paid by a charter airline to a scheduled airline in order that it waives its right of objection to its government, thus allowing a charter to take place. The amount is usually a fixed percentage of the gross cost of a charter. Tantamount to a bribe, this is common practice in the Middle East and Africa.

NOE - Not Otherwise Enumerated.

NOHP - Not Otherwise Herein Provided.

NOI - Not Otherwise Indicated.

NOIBN - Not Otherwise Indicated By Number; Not Otherwise Indicated By Name.

Non-Scheduled Flight - (See Scheduled Flight)

Non-Vessel Operating Common Carrier (NVOCC)

An FMC-licensed cargo consolidator of small shipments in ocean trade, generally soliciting business and arranging for or performing containerization functions at the port.

NOS - Not Otherwise Specified.

NT - Net Tons.

NVOCC - (See Non-Vessel-Operating Common Carrier)

O

OD - Outside Diameter.

ODS (Operating Differential Subsidy)

A payment to an American-flag carrier by the U.S. federal government
to offset the difference in operating costs between U.S. and foreign vessels.

Off-Line

An airline that sells in a market to which it does not operate. An off-line carrier will use another operator to link with its network.

O/N - Order Notify; Own Name.

O/o - Order of.

Open Account

A trade arrangement in which goods are shipped to a foreign buyer without guarantee of payment such as a note, mortgage, or other formal written evidence of indebtedness.

Open Policy

A cargo insurance policy that is an open contract; e.g., it provides protection for all of an exporter's shipments afloat or in transit within a specified geographical trade area for an unlimited period of time, until the policy is cancelled by the insured or by the insurance company. It is "open" because the goods that are shipped are also detailed at that time. This usually is shown in a document called a marine insurance certificate.

O/R - Owner's Risk.

O&R - Ocean and Rail.

O.r.b. - Owner's risk of breakage.

O.R. Det. - Owner's Risk of Deterioration.

ORF - Owner' Risk of Fire or Freezing.

ORL - Owner's Risk of Leakage.

ORW - Owner's Risk of Becoming Wet.

OS&D - Over, Short and Damaged.

P

PA - (See Particular Average)

Pallet

A load-carrying platform to which loose cargo is secured before placing aboard the aircraft.

Paperless Release

Under ABI, certain commodities from low-risk countries not designated for examination may be released through an ABI-certified broker without the actual submission of documentation.

Part Charter

Where part of an airline's scheduled flight is sold as if it were a charter in its own right. Often incorrectly used as a synonym for split charter.

Part Load Charter

Where a part of an aircraft's load is discharged at one destination and a part of it at another. This is distinct from a split charter where a number of consignments are carried to the same destination. Inbound, part loads are treated as single entity charters under the regulations in most countries.

Particular Average (PA) - Partial loss or damage to goods.

Perils of the Sea

Fortuitous accidents or casualties peculiar to transportation on navigable water, such as sinking, collision of vessel, striking a submerged object, or encountering heavy weather or other unusual forces of nature.

Perishables

Any cargo that loses considerable value if it is delayed in transportation. This usually refers to fresh fruit and vegetables.

Phytosanitary Inspection Certificate

A certificate issued by the U.S. Department of Agriculture indicating that
a shipment has been inspected and is free of harmful pests and plant diseases.

Pilferage

As used in marine insurance policies, the term denotes petty thievery-the taking of small parts of a shipment-as opposed to the theft of a whole shipment or large unit. Many ordinary marine insurance policies do not cover against pilferage, and when this coverage is desired it must be added to the policy.

Pivot Weights

That weight of a ULD above which a higher tariff applies. In effect, it is an incentive to maximize cargo density.

Place

Particular street address or other designation of a factory, store, warehouse, place of business, private
residence, construction camp, or the like at a point.

Place of Rest

This term, as used in the Containerized Cargo Rules, means the location of the floor, dock, platform, or doorway at the CFS to which cargo is first delivered by the shipper or agent thereof.

Point

A particular city, town, village, or other community or area which is treated as a unit for the application of rates.

Port Authority

A government body (city, county, or state) which in international shipping maintains various airports and/or ocean cargo pier facilities, transit sheds, loading equipment, or warehouses for air cargo. It has the power to levy dockage and wharfage charges, landing fees, and other costs.

Port Marks

An identifying set of letters, numbers, or geometric symbols followed by the name of the port of destination that are placed on export shipments. Foreign government requirements may be exceedingly strict in the matter of port marks.

Port of Discharge

A port where a vessel is off-loaded and cargo discharged.

Port of Entry

A port at which foreign goods are admitted into the receiving country.

Port of Loading

A port where cargo is loaded aboard the vessel, lashed, and stowed.

Power of Attorney

A document that authorizes a customs broker to sign all customs documents on behalf of an importer or exporter.

Prepaid Freight

Generally speaking, freight charges both in ocean and air transport may be either prepaid in the currency of the country of export or they may be billed collect for payment by the consignee in his local currency. On shipments to some countries, however, freight charges must be prepaid because of foreign exchange regulations of the country of import or rules of steamship companies or airlines.

Pre-Slung Cargo

Cargo shipped already in a cargo sling or net, such as coffee in bags or coconut shells. It is usually prepared and loaded at the pier, ready for the vessel's arrival and subsequent loading.

Prima Facie

A Latin term frequently encountered in foreign trade that means "on first appearance." When a steamship company issues a clean bill of lading, it acknowledges that the goods were received" in apparent good order and condition" and this is said by the courts to constitute prima facie evidence of the conditions of
the containers; that is, if nothing to the contrary appears, it must be inferred that the cargo was in good condition when received by the carrier.

Proforma

When used with the title of a document, the term refers to an informal document presented in advance of the arrival or preparation of the required document, in order to satisfy a customs requirement.

Pro Number

A number assigned by the carrier to a single shipment, used in all cases where the shipment must be referred to.

Proof of Delivery (POD)

The delivery receipt copy of a freight bill indicating the name of the person who signed for a package with the date and time of delivery.

Protest

U.S. Customs Form 19 allows for a refund of an overpayment of duty if filed within 90 days of liquidation.

PW - Packed Weight.

R&C - Rail and Canal.

R/C - Reconsigned.

r.&c.c. - Riots and civil commotions.

r.c.c.&s. - Riots, civil commotions, and strikes.

Rebate

A deduction taken from a set payment or charge. Because a rebate is given after payment of the full amount has been made, it differs from a discount which is deducted in advance of the payment. In foreign trade, a full or partial rebate may be given on import duties paid on goods which are later re exported.

Reciprocity

A practice by which governments extend similar concessions to one another.

Reefer

A refrigerated trailer or railcar for hauling perishables.

REFG - Refrigerating; Refrigeration.

Regs. - Registered Tonnage.

Retaliation

An action taken by a country to restrain imports from another country that has increased a tariff or imposed other measures that adversely affect the first country's exports.

Ro/Ro (Roll-on/Roll-Off) Vessel

A ship designed to accommodate cargo that is rolled on and rolled off. Some Ro/Ro vessels can accommodate containers and/or breakbulk cargo. A Ro/Ro Vessel can be self-sustaining.

Route

An established air passage, from the point of departure to the terminating station.

Royalty

A charge on charter flights levied by some governments before traffic rights are granted. Sometimes called a "no objection fee." It is usually a fixed proportion of a total charter value.

S

Salvage

The rescue of goods from loss at sea or by fire. Also, goods so saved, or payment made or due for their rescue.

Schedule B

Refers to "Schedule B, Statistical Classification of Domestic and Foreign Commodities exported from the U.S.A." This is being replaced under the Harmonized System.

Scheduled Flight

Any service that operates under a set timetable.

SCR (Specified Commodity Rate)

A rate applied to narrowly specified commodities and usually granted on relatively large shipments. Theoretically, it is of limited time duration.

Sector

The distance between two ground points within a route.

SED - (See Shipper's Export Declaration)

Self-Sustaining

A vessel that has its own cranes and equipment mounted on board for loading and unloading. Used in ports where shore cranes and equipment are lacking.

Service

The defined, regular pattern of calls made by a carrier in the pick-up and discharge of cargo.

Service Contract

A contract between a shipper and an ocean carrier of conference, in which the shipper makes a commitment to provide a minimum quantity of cargo over a fixed time period.

Set-Up - Articles in their assembled condition.

S&FA - Shipping and Forwarding Agent.

Ship's Manifest

An instrument in writing containing a list of the shipments constituting the ship's cargo.

Ship's Tackle

All rigging, etc., utilized on a ship to load or discharge cargo.

Shipment

Freight tendered to a carrier by one consignor at one place at one time for delivery to one consignee at one place on one bill of lading.

Shipper

Term used to describe an exporter (usually a manufacturing company).

Shipper's Export Declaration (SED)

A form required by the U.S. Treasury Department and completed by a shipper showing the value, weight, consignee, and destination of export shipments as well as the Schedule B identification number.

Short-Shipped - Cargo manifested but not loaded.

Sight Draft

A draft payable upon presentation to the drawee. (Compare with Date Draft and Time Draft.)

Single Entry Charter

A non-scheduled flight carrying the cargo of one shipper.

SIP (Solicitud de Inspección Pre-Embarque) - A pre-inspection order.

SIT - Stopped in Transit.

Site - A particular platform or location for loading or unloading at a place.

SL&C - Shipper's Load and Count.

SL&T - Shipper's Load and Tally.

S/N - Shipping Note.

SOL - Ship Owner's Liability.

Split Charter

Where a number of consignments from different shippers are carried on the same non-scheduled aircraft. Under U.K. regulations a non-scheduled flight chartered by a single forwarder or agent on behalf of a number of shippers is still classified as a split charter. Under U.S. regulations, a forwarder-chartered flight is classified as a single entity although it can consolidate.

SR - Shipping Receipt.

SR&CC - Strikes, riots, and civil commotions.

SS - Steamship; Steam-powered Ship (steam-driven turbines).

Standard International Trade Classification (SITC)

A standard numerical code system developed by the United Nations to classify commodities used in international trade.

Steamship Agent

A duly appointed and authorized representative in a specified territory acting on behalf of a steamship line or lines and attending to all matters relating to the vessels owned by his principals.

Steamship Line

A company usually having the following departments: vessel operations, container operations, tariff department, booking, outbound rates, inward rates, and sales. The company can maintain its own in-country offices to handle regional sales, operations, or other matters, or appoint steamship agents to represent them doing the same. Some lines have liner offices in several regions and appointed agents in others.

S. tn. - Short ton.

Stowage

The lacing of cargo in a vessel in such a manner as to provide the utmost safety and efficiency for the ship and the goods it carries.

Strikes, Riots, and Civil Commotions

An insurance clause referring to loss or damage directly caused by strikers, locked-out workmen, persons' participation in labor disturbances, and riots of various kinds. The ordinary marine insurance policy does not cover this risk. Coverage against it can be added only by endorsement.

Subsidy

An economic benefit granted by a government to producers of goods or services, often to strengthen their competitive position. Sue & Labor Cause - A provision in marine insurance obligating the assured to do things necessary after a loss to prevent further loss and to act in the best interests of the insurer.

Surety Bond

A bond insuring against loss or damage or for the completion of obligations.

Surety Company

An insurance company.

SW

Shipper's Weights.

T

Tally Sheet

A list of incoming and outgoing cargo checked by the tally clerk on the dock.

Tare Weight

The weight of packing and containers without the goods to be shipped.

Tariff

A general term for any listing of rates or charges. The tariffs most frequently encountered in foreign trade are: tariffs of international transportation companies operating on sea, land, and in the air; tariffs of international cable, radio, and telephone companies; and the customs tariffs of the various countries that list
goods that are duty free and those subject to import duty, giving the rate of duty in each case. There are various classes of customs duties.

TBL - (See Bill of Lading, Through)

Temperature Controlled Cargo

Any cargo requiring carriage under controlled temperature.

TEU

A twenty-foot equivalent unit (6.1m). A standard unit for counting containers of various lengths and for describing container ship or terminal capacity. A standard 40' container equals 2 TEUs.

THC (Terminal Handling Charge)

A charge made for certain handling services performed at terminals.

Third Freedom Right

Where cargo is carried by an airline from the country in which it is based to a foreign country.

TIB (Temporary Importation Under Bond)

A U.S. Customs' temporary admission into the U.S.A. under a conditional bond for articles not imported for sale or for sale on approval.

Time Draft

A draft that matures in a certain number of days, either from acceptance or the date of the draft.

Title, Passing

The passing of title to exported goods is determined in large measure by the selling terms and must be clearly specified and understood by both parties. (See INCOTERMS)

TL - Truckload.

Ton

Freight rates for liner cargo generally are quoted on the basis of a certain rate per ton, depending on the nature of the commodity. This ton, however, may be a weight ton or a measurement ton.

Ton-Deadweight

The carrying capacity of the ship in terms of the weight in tons of the cargo, fuel, provisions, and passengers which a vessel can carry.

Ton-Displacement

The weight of the volume of water which the fully loaded ship displaces.

Ton-Kilometer - A measure of airline freight capacity.

Tracking

A carrier's system of recording movement intervals of shipments from origin to destination.

Trade

A term used to define a geographic area or specific route served by carriers.

Tramp

A vessel that does not operate along a definite route on a fixed schedule, but calls at any port where cargo is available.

Transport Index

The number expressing the maximum radiation level in a package or ULD.

Transshipment

The transfer of a shipment from one carrier to another in international trade, most frequently from one ship to another. Because the unloading and reloading of delicate merchandise is likely to cause damage, transshipments are avoided whenever possible.

Truckload

Truckload rates apply where the tariff shows a truckload minimum weight. Charges will be at the truckload minimum weight unless weight is higher.

Trust Receipt

The release of merchandise by a bank to a buyer for manufacturing or sales purposes in which the bank retains title to the merchandise.

Twin Plant - See Maquiladora.

U

UKACC - United Kingdom Air Cargo Club.

ULD (Unit Load Device) - A pallet or container for freight.

Unclean Bill of Lading - (See Bill of Lading, Unclean)

Uniform Commercial Code

The Uniform Commercial Code, or Uniform Customs and Practice for Documentary Credits ICC Publication No. 500, was first established and published in 1933 by the International Chamber of Commerce. Revisions were made in 1951, 1962, 1974, 1983, and 1993. The code defines documentation standards to be followed by international banks when negotiating letters of credit. The code is binding, and seeks to define a worldwide standard applicable to all involved in international trade, exchanging goods and money using the international letter of credit.

Unitization

The packing of single or multiple consignments into ULDs or pallets.

Universal Postal Union

The organization which negotiates international mail charges.

V

Valuation Charges

Transportation charges assessed shippers who declare a value of goods higher than the value of carriers' limits of liability.

Ves. - Vessel.

Visa

An invoice properly validated by the Minister of Trade in regard to quota entries.

Volume Weight

Used when calculating air freight when the size of the carton is greater than the average weight. It is calculated by multiplying the length times the width times the height and dividing by 166.

W

WA - (See With Average)

War Risk

The possible aggressive actions against a ship and its cargo by a belligerent government. This risk can be insured by a marine policy with a risk clause.

War Risk Insurance

Insurance issued by marine underwriters against war-like operations specifically described in the policy. In former times, war risk insurance was taken out only in times of war, but currently many exporters cover most of their shipments with war risk insurance as a protection against losses from derelict torpedoes and floating mines placed during former wars, and also as a safeguard against unforeseen warlike developments. In the U.S.A., war risk insurance is written in a separate policy from the ordinary marine insurance; it is desirable to take out both policies with the same underwriter in order to avoid the ill effects of a possible dispute between underwriters as to the cause (marine peril or war peril) of a given loss.

Warehouse Receipt

A receipt of commodities deposited in a warehouse identifying the commodities deposited. It is non-negotiable if permitting delivery only to a specified person or firm, but it is negotiable if made out to the order of a person or firm or to a bearer. Endorsement (without endorsement

if made out to bearer) and delivery of a negotiable warehouse receipt serves to transfer the property covered by the receipt. Warehouse receipts are common documents in international banking.

Warehouse-to-Warehouse

A clause in marine insurance policy whereby the underwriter agrees to cover the goods while in transit between the initial point of shipment and the point of destination with certain limitations, and also subject to the law of insurable interest. The warehouse-to-warehouse clause was once extremely important, but marine extension clauses now often override its provisions.

Warranties

1. Expressed Warranty: An agreement written in a marine underwriter's insurance policy which must be strictly and literally complied with. A violation voids the insurance, e.g., trading warranties.
2. Implied Warranty: Fundamental conditions implied in a contract of marine insurance are seaworthiness of the vessel and the legality of the venture.

Weight

Gross - The weight of the goods including packing, wrappers, or containers, both internal and external. The total weight as shipped.
Net - The weight of the goods themselves without the inclusion of any wrapper.
Tare - The weight of the packaging or container.

Weight/Measurement Ton

In many cases, a rate is shown per weight/measurement ton, carrier's option.
This means that the rate will be assessed on either a weight ton or measurement ton basis, whichever will yield the carrier the greater revenue. For example, the rate may be quoted on the basis of 2,240 pounds, 40 cubic feet, one metric ton, or one cubic meter.

Weight Ton

There are three types of weight ton: the short ton, weighing 2,000 pounds; the long ton, weighing 2,240 pounds; and the metric ton weighing 2,204.68 pounds. The last is frequently quoted for cargo being exported from Europe.

Weight, Legal

Net weight of goods plus the inside packing.

Weight Load Factor

Payload achieved as against available, expressed as a percentage. Cargo is frequently limited by volume rather than weight; load factors of 100 percent are rarely achieved.

Wet Lease

An arrangement for renting an aircraft under which the owner provides crews, ground support equipment, fuel and so on (of dry lease).

w.g. - Weight guaranteed.

Wharfage

A charge assessed by a pier or dock owner against the cargo or a steamship company for use of the pier or dock.

W&I - Weighing and Inspection.

With Average (WA)

A marine insurance term meaning that shipment is protected for partial damage whenever the damage exceeds a stated percentage.

With Particular Average (WPA)

An insurance term meaning that partial loss or damage of goods is insured.
The damage generally must be caused by sea water, and many terms specify a minimum percentage of damage before payment. It may be extended to cover loss by theft, pilferage, delivery, leakage, and breakage.

W/M - Weight and/or Measurement.

Without Reserve

A term indicating shipper's agent or representative is empowered to make definitive decisions and adjustments abroad without approval of the group or individual represented. (See Advisory Capacity)

WPA - (See With Particular Average)

W/R - Warehouse Receipt.

WR - War Risk.

X

X HEAVY - Extra Heavy.

X STRONG - Extra Strong.

XX HEAVY - Double Extra Heavy.

XX STRONG - Double Extra Strong.

Y

Y/A (York-Antwerp Rules)

A code of rules adopted by an international convention in 1890, amended in 1924 and again in 1950, for the purpose of establishing a uniform basis for adjusting general average. Certain nationalities decline to observe some of the rules adopted. U.S. shipping interests generally abide by general rule "F" and numbered rules 1 to 15 and 17 to 22,

inclusive, and specifically set this forth in a bill of lading clause.

Yield

Revenue, not necessarily profitable, per unit of traffic.

ANNEX D: SAMPLE PRO FORMA INVOICE

PRO FORMA INVOICE

YOUR COMPANY NAME, INC.
123 Dong Khoi Street
District 1
Ho Chi Minh City, Vietnam
Telephone: (123) 456-7890

SOLD TO: MARKS:
FORWARDING AGENT
Date:
Expiration Date:
Our Reference No.:
Your Reference No.:

MERCHANDISE:
QUANTITY MERCHANDISE DESCRIPTION UNIT PRICE SUBTOTAL
15 CASES OF BRANDNAME
HOTSAUCE 20 CT 7.5 OZ. BOTTLES
$20.00 $300.00
(These headings are suggestions only, you may choose to change them to suit your product, etc.)

Quotation Basis Estimated Gross Wt.
( ) FOB Estimated Cubic Wt.
( ) CIF Number of
( ) C & F Packed for freight

Port of Embarkation
Port of Discharge

F.O.B. Factory Price..... US$

Inland Freight via to

Export Crating fee.....

Ocean/Air Freight to via
Rate (does) (does not) include insurance.....

Consular Fees.....

Freight Forwarder Charges.....

Total (CIF) (C & F) (FOB) (Port of Discharge) approximately US$

TERMS OF PAYMENT: Irrevocable, confirmed letter of credit of certified funds. All letters of credit must be payable upon presentation of shipping documents and must specify that all charges incurred for negotiation are for applicant's account.
I certify the above to be true and correct.

_____
YOUR COMPANY NAME, INC.

ANNEX E: EXPLANATION OF EXPORT DOCUMENTS

Shipping and receiving country requirements, in terms of sale and method of payment, typically dictate the required export documents.

Exporters must prepare all documents with absolute accuracy. Therefore, new exporters should consider obtaining the advice and securing the services of a competent freight forwarder, in order to ensure compliance with all necessary documentary requirements.

Your freight forwarder can be an invaluable source of information on markets, packing, and shipping costs, as well as documentation for export transactions.

Airway Bill (AWB)
Certificate of Inspection
Certificate of Insurance
Certificate of Origin
Certificate of Weight
Commercial Invoice
Consular Invoice
Customs Form CF349
Delivery Order/Dock Receipt
Distribution License
Forwarder's Export Invoice
Letter of Credit
Letter of Distribution
Loss and Damage Claim
Manufacturer's Certificate
Ocean Bill of Lading
Packing List
Phytosanitary Certification
Power of Attorney
Pro forma Invoice
Shipper's Export Declaration
Shipper's Declaration for Dangerous Goods
Shipper's Letter of Instruction
Transmittal Letter
Additional Information Sources for Information about Documents

Airway Bill

The airway bill, a non-negotiable instrument, serves as a receipt for the shipper. Issued by the airline or consolidator, the AWB indicates that the carrier has accepted the listed goods and obligates itself to carry the consignment to the airport of destination, in accordance, with the conditions listed on back of the original bill. In addition, the AWB serves as documentary evidence of the conclusion of the contract of carriage, freight bills, certificates of insurance, the customs declaration. The waybill is a guide to carrier's staff in handling, dispatching and delivering of the shipments.

The carrier will not carry any part of the consignment until it receives the entire shipment and the exporter issues the AWB. As stated on the back, the carriers reserve the right to move the shipment in any way they can. This means they can transfer it to other carriers and/or even truck it if they feel it is in everyone's best interest.

Keep in mind that the AWB is non-negotiable, and it cannot be used as a collection instrument. Shipments against a draft should be consigned to a local bank (in the city where

the consignee is located) and the consignee's name and address shown as a party to be notified. Even though the AWB's have a space for insurance, check with the carrier to make sure that they offer the coverage. Some carriers do not.

Certificate of Inspection

Many foreign firms require this document for protection in quality and conformity disputes with the shipper. The document, typically in the form of an affidavit from either the shipper or an independent inspection firm, certifies the quality, quantity and conformity of the goods to the Purchase Order.

Certificate of Insurance

A qualified insurance broker issues a Certificate of Insurance on behalf of the shipper. The shipper provides this document and/or instructions referenced in the letter of credit whenever Letter of Credit or Documentary procedures require him to provide evidence of risk coverage for merchandise shipped. Most freight forwarders have a blanket policy available and can issue the certificate on behalf of customers.

Certificate of Origin

This document certifies that goods were manufactured in the United States. The shipper must sign the certificate, and when required, an accredited chamber of commerce or trade bureau must certify it. Then, an accredited chamber of commerce or trade bureau must certify it. Sometimes it must also be sent to a consulate for endorsement. This document must be signed by the exporter (or his representative such as a forwarder), notarized and then signed by a chamber of commerce before presenting it to the consul. A phytosanitary certificate (discussed below) can serve as a certificate of origin.

Certificate of Weight

Foreign buyers occasionally require this document for control purposes. Exporters can use a certified copy of the Packing List to fill this request. An export inspection company can certify the Packing List.

Commercial Invoice

Normally, exporters use the same invoice for both domestic and international trade. However, some countries require special forms. The invoice must include the dates of billing and shipping, names of exporter or manufacturer, consignee, terms of sale, mode of payment, description of goods, packing marks and numbers, numbers of units, price per unit, total price, transportation mode and any other information required by the country of destination.

Consular Invoice

This document covers all the usual details of a commercial invoice and packing list is written in the language of the foreign country for which goods are destined. Special forms are obtainable from the consulate. Consular fees are payable to the consulate certifying and legalizing the documents. (Note: It is suggested that the sales contract show consular fees and other costs such as messenger fees as the responsibility of the buyer to prevent misunderstanding or argument). In dealing with consular documents, keep in mind that these are very technical documents. Their preparation should be completed by experienced personnel such as forwarders.

Most countries have requirements pertaining to commercial invoices such as the language used, what information is shown, legalization, etc. Still others (particularly Latin American countries) require a consular invoice in addition to the commercial invoice.

This document is presented to the consul for legalization to ensure that the items being shipped are in accordance with existing import regulations of the receiving country. In attempting to enforce accuracy, consulate employees may go to extremes to see that the form is executed correctly. If a consulate overlooks an error and customs officials at the destination detect it, the buyer is likely to encounter delays and/or fines.

Customs Form CF349

Exporters who ship using U.S. water ports must report all shipments on customs form CF349. The United States uses this form to levy a fee of .125% based on the value of the shipments collected.

Delivery Order/Dock Receipt

This document contains the same information as the short-form intermodal bill of lading, and is sent to the carrier, who acknowledges the shipper's booking of space for the cargo described in the document.

Distribution License

This permit, issued by the Office of Export Licensing, allows firms with international export programs to make multiple exports of authorized products to approved consignees. You can obtain this license, valid for up to four years, by filling out the following forms, available at the U.S. Department of Commerce:

- Application for Export License BXA-622 Form
- Application for Statement of Foreign Consignee in Support of Specialty License BXA-6052P Form.

Forwarder's Export Invoice

The forwarder generally pays all third party charges such as inland freight, port charges, insurance, air/ocean freight, consular charges, messenger fees, etc., and bills the shipper for all of these charges under one invoice, the "Forwarder's Invoice." Supporting documents back up this invoice.

Letter of Credit

Importer's bank issues this financial instrument to the supplier. In this document, the opening bank substitutes its own credit for that of the importer and undertakes a commitment to a designated beneficiary (the exporter) to pay a stated amount within a stated time frame. The exporter must comply with all of the terms and conditions of the Letter of Credit for the provision mentioned above to hold.

Letter of Distribution

International shipments usually require copies of documents be sent to various parties such as the consignee, overseas agent, shipper, etc., and this is normally accomplished through a letter of distribution which shows who is to receive which documents.

Loss and Damage Claim

Exporters use this form to claim insurance compensation for goods lost or damaged during exportation. The claim must fully describe lost items and supporting documents, such as copies of the Commercial Invoice, Bill of Lading and Insurance Certificate.

Manufacturer's Certificate

If buyer intends to pay for goods prior to shipment, a lengthy lead time exists. If the buyer does not want to tie up funds in advance, he may require the seller to prepare a certificate stating that the goods ordered have been produced in accordance with the contract. Upon receipt of this document, the buyer will forward payment and shipping instructions to the seller.

Ocean Bill of Lading

The ocean bill of lading serves as a document of title, a contract of carriage between the steamship company and the shipper and a receipt for goods given by the steamship company to the shipper. The bill of lading confirms where to deliver the goods, how freight charges will be paid and to whom the goods are consigned. The bill of lading spells out all legal responsibilities and liability limits for all parties to the shipment. Since an original bill of lading is a negotiable instrument (copies are not), the shipper/exporter may want to prepare it in such a way that he can retain title to the goods. In addition, the shipper/exporter should find out whether the destination country requires specific wording on the OB/L before filling it out.

Two types of bills of lading exist. The shipper uses the first type, non-negotiable ''straight bills," when consigning the shipment directly to the final buyer. Meanwhile, the shipper uses the second type, negotiable "order bills," when he does not want title to pass to the buyer until certain conditions have been met. In this instance, the specified shipper must endorse bill of lading before delivery can occur. An order bill of lading must also show the party to be notified at destination.

Order bills of lading play a important part in international transactions, especially when dealing with letters of credit and drafts. Most letters of credit call for "on board" bills of lading, which provide proof to the buyer that the shipment has been placed on board the vessel.

Packing List

Customs officials use this list to check cargo; while, buyers use it to inventory merchandise received. The packing list describes all items in the box, crate, pallet, or container, plus the type, dimensions, and weight of the container.

Phytosanitary Certification

Most countries require that a phytosanitary certificate accompany shipments of raw fruits, vegetables, and plants. The document certifies the product to be free from quarantine pests and significantly free from injurious pests, which could damage crops. In addition, treatments such as fumigation or cold storage, required by the importing country, or which are necessary to meet pest free standards, are supervised by the certifying official and documented on the certificate.

Exporters, packers or shippers, and other parties involved in the transaction may request phytosanitary certificates. As a matter of convenience and efficiency, phytosanitary inspections are usually carried out at shipping point, often as the product is being graded and packed.

It is the responsibility of the exporter to ensure that an English copy of the import permit (if required) is furnished to the certifying official so that she may ensure that conditions are met. In addition, the inspector must have the destination, name and address of the foreign consignee, manifest of the load, etc. Without this required information, the inspection cannot be performed and the certificate will not be issued.

Power of Attorney

Exporters give Freight Forwarders and Customs Brokers the right to act as their agent with this document.

Pro Forma Invoice

The buyer uses this document when he applies for importation, and if required, for a letter of credit. Therefore, it is important that the invoice include all the necessary information for an import application, that it reflects your product in a very precise manner and that it includes every conceivable cost you might have to bear.

In order to create a pro forma invoice, you need to know:

- Equipment/items that the customer desires, and its value, weight, and dimensions of the shipment, cubic dimension.

- By what means the equipment is going to be shipped. Your forwarder will help you determine the charges for the freight, insurance premium charges, legalization charges (depending upon the country), and the cost for handling the letter of credit. If inland transportation is involved, he can figure those rates as well.
- Packing method: crates, pallets, or containers.

- Where the equipment will be landed.

Shipper's Declaration for Dangerous Goods

International Air Transport Association and International Maritime Organization regulations require shippers to declare dangerous cargoes to their air and ocean carriers.

IATA and IMO use separate documents, which they publish in their respective codes.

Shipper's Letter of Instruction

The importance of the shipper furnishing the freight forwarder with clear, precise instructions cannot be stressed enough. Remember, that the forwarder is an extension of your export department. He needs to know as much about the transaction as you do so that he can comply with all of your customer's requirements. Failure to furnish the forwarder with accurate shipping instructions can create unnecessary problems, some of which are listed below:

- Failure to collect against a letter of credit because the forwarder was unaware that there was a letter of credit involved.

- Failure to insure the shipment.

- Forwarder shipping of freight prepaid instead of collect.

- Failure to prepare certain documents called for on the letter of credit, thinking that the shipper would prepare them.

- Returning of original documents to the shipper for him to distribute them, instead of sending them to a bank and/or consignee.

Transmittal Letter

This document is prepared with a bank draft and used to send shipping documents to a remitting bank for processing either a collection or payment/negotiation under a letter of credit. Shippers include their precise and complete instructions concerning how documents should be handled and payments remitted in the transmittal letter.

ABOUT THE AUTHOR

Meet the President – CEO of Star Corporate Vietnam

www.starcorpvn.com

Investment, management and business development consultants in Vietnam.

President – CEO, Star Corporate Vietnam

Christopher Alan Jones (Chris)

Ph.D. (Bus Admin), M.A.(Hons), Litt.B.(Merit), B.A.(mil), Adv. Cert. Bus., psc

Other Positions / Offices Currently Held:

Corporate Manager, Tupperware (Multi-level Marketing, Vn.)
Corporate Associate, Aardwolf Vietnam (Manufacturing, Vn)
Director, Australian Business & Property Service (Property and Business Development, Au)
Director, Zappa Holdings (Property Development, Au)
Director, Vietfilm Enterprises (Movie Development, Vn)
Corporate Manager, MacComack Associates Consultants (M&E Engineers, Au/ Vn)
Corporate Manager, Dome Consultants (Civil Engineers, Au/ Vn)
Corporate Manager, Empire Automation Vietnam (IT Global)

Professional Experience

Vietnam 2003-2011 (2nd Tour)

- President & CEO, Star Corporate Vietnam (Investment, Corporate Services, Business Development, Outsourcing, and Training)
- Chief Business Development Consultant, Vung Tau Sea Bass Project (Project Work)
- General Director, Norco Tiles (Vietnam) Ltd (Manufacturing)

Australia 1990- 2002

- CEO, Australian Business & Property Service
  (Business and Property Licensed Valuations, Sales and Leases- Commercial, Industrial, and Residential – All Aspects of Franchises, Corporate Governance and Board Representations, and Industrial Advocacy)
- CEO, Trans World Developments (International Management Consultants, Corporate 'Fix It' Services, Strategic Business and Marketing Consulting, Corporate Governance, Board Representations, and Corporate Training. Assignments in India, Thailand, South Africa, Eastern Europe and S.E. Asia.)
- Media Advisor, Channel 7, Australia, on the 1st Gulf War (Presentations)

Vietnam 1988-1989 (1st Tour)

- Manager, Special Projects, Stinoc Limited
  (Corporate Governance, Board Representations, International Project Development, Investment and Corporate Support Services and Training)
- Chief Management Consultant, Aztec International, Floating Hotel Project, Saigon (Contracting and Legal)

Saudi Arabia 1985-1987

- Business and Contracts Manager, MBP Australia, Environmental Protection and Anti Oil Spillage Australian and Saudi Arabian Government Joint Venture (Project Management, Administration and Manpower Mobilizations)

Egypt and Australian Command & Staff College 1982-84

- Commercial Officer, Multi-National Force & Observers (Commercial Management)

Military Experience

- Graduate of the Royal Military College, Duntroon, Australia
- Strategic Intelligence and Counter Terrorist Analyst
- Training Development Officer Using the 'Systems Approach to Training Development'
- Graduate of Command & Staff College, Australia:

One Year Full Time Senior Management and Training Course for Selected Students Only.

Professional Licenses and Certificates *(Additional to Degree Qualifications)*

- Investment and Corporate Services (Vietnam) Licence
- Human Resources Management Licence
- Business Valuations and Sales Licence
- Property Assessments and Sales Licence
- Industrial Relations Advocate
- General Auctioneer's Licence
- Credit Management & Mercantile Agent / Corporate Investigation Certificate
- Media Interviews and Presentations Certificate
- Former Justice of the Peace in Western Australia

Books & Theses

- In the Dreaming
- Contract Management in Saudi Arabia
- A Melancholy Dualism
- Beyond the Horizon
- The Indonesian Integration of East Timor
- Take the Hits and Other Poems
- Sorrow of War Film Script
- Memories of the Mekong & Other Stories: A Brief Human History of the Initial Development Period in Vietnam and Cambodia from January 1988 – January 2007
- Sales Superstar
- Exporting and Distributing
- Better Business Skills

Selection of Articles

- The World's Most Professional Machine (KGB)
- Come the Revolution (Artillery Equipment)
- The Defence of Port Phillip Bay
- The Afghan Wars
- Strategic Intelligence
- Joint Intelligence
- Wilfred Owen: A Portrait of a Soldier Poet

Interests and Sports Representations

- President, Fremantle Amateur Anglers' Club
- Duntroon 1st XV Rugby Union Team
- Australian Combined Universities Rugby Union
- State of Western Australia Rugby Union Team
- Australian Southern States Rugby Union Team
- Duntroon 1st X1 Soccer Team
- Queens Park United 1st X1 Soccer Team