Exporting

To ship to another country for sale or exchange.

Promise and pitfalls of exporting

- Firms that do not export lose out on huge opportunities for growth and cost reduction
- Large firms pro-active in seeking foreign opportunities
- Medium and small-sized firms slow to respond
  - Too busy with local side of business
  - Ignorance of potential opportunities
  - Intimidated by mechanics of exporting to a foreign country

EXPORTING

Reasons

- expand markets
- increase sales
- alleviate excess capacity
- achieve economies of scale in production
- less risky than FDI
DIRECT EXPORTING

- Sales representative
- Agents
- Foreign distributors/retailers
- Export department
- Manufacturer’s representative - handles the non-competitive products of a number of firms in a foreign market and solicit domestic orders for foreign manufacturers

INDIRECT EXPORTING

Export Management Company - firms that buy merchandise from manufacturers for international distribution
Export Trading Company - is a firm formed by competitors that may engage in various business practices and be exempt from anti-trust laws
- ETC Act (1982) authorizes the creation of ETCs to stimulate export from small firms

Advantages of Indirect Selling

- Full scale program can be quickly established
- Minimum financial commitment
- Minimum risk for manufacturer
- Experts working for you in developing markets abroad
- Volume can be built up quickly
Disadvantages of Indirect Selling

- manufacturer has no direct control over the export of their products and marketing
- intermediaries may be distracted with other products
- firm does not develop its own int'l expertise
- intermediaries any drop product anytime

Improving export performance

Assistance available to firms for export process
- International comparison
- Information sources
- Export management companies
- Exporting Strategy

International comparison

- Biggest impediment to exporting is lack of knowledge of the opportunities available
- More than 200 countries with widely differing cultures compose the world of export opportunities
- Overcome impediments by collecting information
  - Japan: Ministry of International Trade and Industry (MITI) and trading houses (Sogo shosha)
- Evolve an institutional structure for promoting exports
The role of government in the export/import environment

- Political
  - Protecting jobs and industries
  - National security
  - Retaliation
- Economic
  - Develop/protect infant industry
  - Strategic trade policy
    - First mover advantage
    - The ‘catch-up’ argument

US Export Support

www.doc.gov

Information sources

- U.S. Department of Commerce
  - International Trade Administration
  - United States and Foreign Commercial service agency
  - Provide “best prospects” list, “comparison shopping service” & customized market research survey for a small fee
  - Organizes exhibitions at international trade fairs to help potential exporters make foreign contacts
  - Explore export opportunities
  - Matchmaker program
SOURCES OF EXPORT ASSISTANCE

U.S. Dept. of Commerce
- World Traders Data Report - checks background of foreign customer’s reputation, trade & credit references, suitability as partner
- Agent Distributor Service (ADS) - provides a custom search for overseas agents or distributors thru 200 U.S. embassy and consulates
- National Trade Data Bank (NTDB) - foreign commercial information on CD-ROM and includes Foreign Traders Index, Market Research Guide, Export Statistics, Basic Guide, etc.

U. S. Dept. of Commerce
- Basic Guide to Exporting - tips on methods of payment, shipping, communications, etc...
- Advertising Service Through “Commercial News” USA
- Trade Opportunities Program - Commercial officers in 65 countries offer investment opportunities, leads on potential sales, etc.
- Commercial Information Management System - 3500 market research reports on market demand, trade barriers, contacts, trade fairs, customer profiles

Government Support for Exports
- Willkommen bei der Bundesregierung
- www.bundesregierung.de
- www.miti.go.jp
**EXPORT-IMPORT BANK (EXIM)**

- Lending Program - provides competitive, low, fixed-interest rate financing to U.S. exporters & foreign buyers of exports
- Guarantee program - repayment protection
- Working Capital Guarantee Program - small- and medium sized exporters obtain financing for production & marketing goods for sale abroad
- Insurance - against political & commercial risk of non-payment by foreign buyers

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**Export/Import Financing**

**Issue of TRUST**

- **Letters of Credit (LOC)**
  - Bank guarantee on behalf of importer to exporter assuring payment when exporter presents specified documents
- **Drafts (Bill of Exchange)**
  - Written order exporter, telling an importer to pay a specified amount of money at a specified time.
- **Bill of Lading**
  - Issued to exporter, by carrier. Serves as receipt, contract and document of title.

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**Letter of credit**

- Issued by a bank at the request of the importer
- Bank pays a specified sum to a beneficiary, normally the exporter, on presentation of particular, specified documents
- Fee paid by importer for letter of credit
- May reduce borrowing ability of importer since the letter is a financial liability
Draft (Bill of exchange)

- Written by an exporter instructing an importer to pay specified amount of money at specified time
- Required before the buyer can obtain the merchandise
- Two types
  - Sight drafts - payable on presentation to the drawee
  - Time draft - negotiable instrument allowing for delay in payment

Bill of lading

- Issued to the exporter by the common carrier transporting the merchandise
- Serves three purposes:
  - Receipt - merchandise described on document has been received by carrier
  - Contract - carrier is obligated to provide transportation service in return for a certain charge
  - Document of title - can be used to obtain payment or a written promise before the merchandise is released to the importer

A typical international transaction

- Importer orders goods
- Exporter agrees to fill order
- Goods shipped to France
- Bank of New York (American exporter)
- French importer
- Bank of Paris
- Bank of New York presents documents to bank
- Bank of Paris
- Bank of New York presents draft to Bank of Paris
- Bank of Paris
- Bank of Paris presents accepted draft to Bank of New York
- Bank of New York
- Bank of New York presents draft to Bank of Paris
- Bank of Paris
- Bank of Paris presents accepted draft to Bank of New York
Pitfalls of Exporting

- chasing orders from all over the world instead of concentrating on few markets
- neglect during booming domestic markets
- choice of overseas agents & distributors
- no commitment from top management
- not considering licensing or IJV instead
- unwilling to modify products for foreign markets