

# Global Marketing

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Ninth Edition, Global Edition

**Importing, Exporting, and Sourcing**

**Chapter 8**

# Learning Objectives

1. Compare and contrast export selling and export marketing.
2. Identify the stages a company goes through, and the problems it encounters, as it gains experience as an exporter.
3. Describe the various national policies that pertain to imports and exports.
4. Explain the structure of the Harmonized Tariff System.
5. Describe the various organizations that participate in the export process.
6. Identify home-country export organization considerations.
7. Identify market-country export organization considerations.
8. Discuss the various payment methods that are typically used in trade financing.
9. Identify the factors that global marketers consider when making sourcing decisions.

# Export Selling vs. Export Marketing

- Export selling involves selling the same product, at the same price, with the same promotional tools in a different place
- Export marketing tailors the marketing mix to international customers

# Requirements for Export Marketing

- An understanding of the target market environment
- The use of market research and identification of market potential
- Decisions concerning product design, pricing, distribution and channels, advertising, and communications

# Organizational Export Activities

1. The firm is unwilling to export; it will not even fill an unsolicited export order.
2. The firm fills unsolicited export orders but does not pursue unsolicited orders. Such a firm is an export seller.
3. The firm explores the feasibility of exporting (this stage may bypass Stage 2).
4. The firm exports to one or more markets on a trial basis.

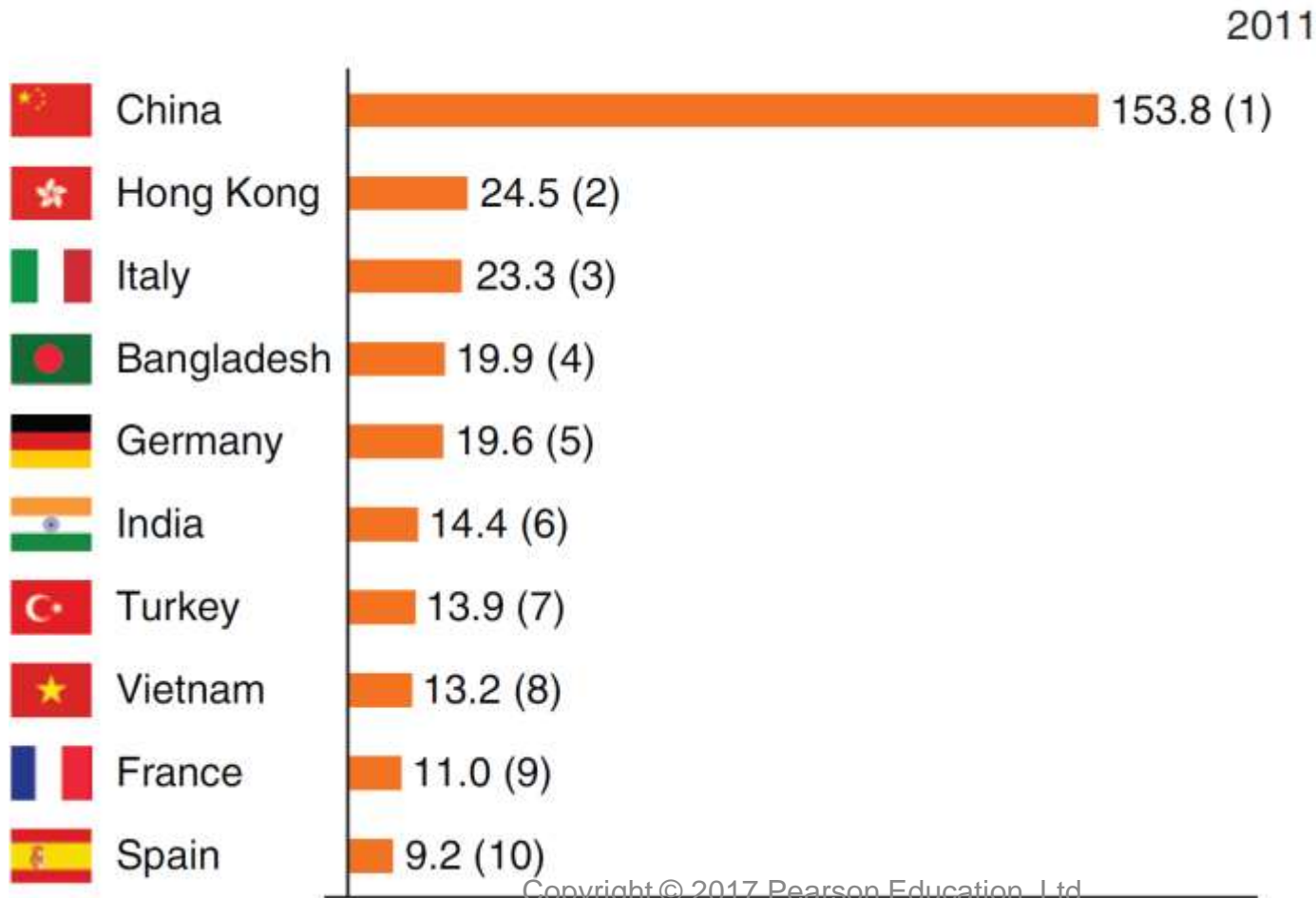
# Organizational Export Activities (Cont.)

5. The firm is an experienced exporter to one or more markets.
6. The firm pursues country- or region-focused marketing based on certain criteria
7. The firm evaluates global market potential for the “best” target markets.

# Potential Export Problems

Logistics	Servicing Exports
Arranging transportation	Providing parts availability
Transport rate determination	Providing repair service
Handling documentation	Providing technical advice
Obtaining financial information	Providing warehousing
Distribution coordination	Sales promotion
Packaging	Advertising
Obtaining insurance	Sales effort
Legal procedures	Marketing information
Government red tape	Foreign market intelligence
Product liability	Locating markets
Licensing	Trade restrictions
Customs/duty	Competition overseas
Contract	
Agent/distributor agreements	

# Top 10 Clothing Exporters 2011 (\$ billions)





# National Policies Governing Exports and Imports

- Most nations encourage exports and restrict imports
- In 2014, the total was \$2.8 trillion
- European Union trade, domestic and foreign, is \$3 trillion +



US based Zippo Manufacturing Co., was awarded the President's "E" Star Award for export expansion in 2012.

# Government Programs that Support Exports

- Governments concerned about trade deficits or economic development should educate firms about possible gains from exporting
- Done at the national, regional & local levels
  - After WWII, Japan's trade ministry developed export strategies
  - The China triangle (People's Republic, Taiwan, & Hong Kong), & the four tigers--Singapore, South Korea, Taiwan, & Hong Kong) learned from Japan and built strong export-based economies

# Government Programs that Support Exports

- Tax incentives
- Subsidies
- Governmental assistance
- Free trade zones



The Milan Furniture Fair held in April attracts 300,000 visitors from 160 countries .

# Governmental Actions to Discourage Imports and Block Market Access

- Tariffs: 3 Rs—rules, rate schedules, & regulations
- Import controls
- Nontariff barriers (hidden)
  - Quotas
  - Discriminatory procurement policies
  - Restrictive customs procedures
  - Arbitrary monetary policies
  - Restrictive administrative & technical regulations

# Examples of Trade Barriers

Country/Region	Tariff Barriers	Nontariff Barriers
European Union	16.5% antidumping tariff on shoes from China, 10% on shoes from Vietnam	Quotas on Chinese textiles
China	Tariffs as high as 28% on foreign-made auto parts	Expensive, time-consuming procedures for obtaining pharmaceutical import licenses

# Harmonized Tariff System

- Developed by the World Customs Organization
- Effective January 1989
- Adopted by most trading nations
- Importers & Exporters have to determine the classification number for any product moved across borders
- Import & export numbers are the same on Schedule B
- Meant to simplify tariff procedures but problems still arise

# Tariff Systems

- Single-column tariff
  - Simplest type of tariff
  - Schedule of duties in which rate applies to imports from all countries on the same basis
- Two-column tariff
  - General duties plus special duties apply
- **Normal Trade Relations (NTR)** means that countries in the WTO apply the Column 1 rates most favorable or lowest rates to all nations (with exceptions). Column 2 rates are for non-WTO countries

# Sample Rates of Duty for U.S. Imports

Column 1		Column 2
General	Special	Non-NTR
1.5%	Free (A, E, IL, J, MX) 0.4% (CA)	30%

A, Generalized System of Preferences

E, Caribbean Basin Initiative (CBI) Preference

IL, Israel Free Trade Agreement (FTA) Preference

J, Andean Agreement Preference

MX, NAFTA Canada Preference

CA, NAFTA Mexico Preference



# Preferential Tariff

- Reduced tariff rate applied to imports from certain countries
- GATT prohibits the use, with three exceptions:
  - Historical preference arrangements already existed
  - Preference is part of formal economic integration treaty
  - Industrial countries are permitted to grant preferential market access to LDCs

# Customs Duties

- Ad valorem duty
  - Expressed as percentage of value of goods
- Specific duty
  - Expressed as specific amount of currency per unit of weight, volume, length, or other unit of measurement
- Compound or mixed duties
  - Apply

# Other Duties and Import Charges

- **Anti-dumping Duties**
  - Dumping is the sale of merchandise in export markets at unfair prices
  - Special import charges equal to the dumping margin
- **Countervailing Duties** offset subsidies of the exporting country
- **Variable Import Levies** apply to agriculture
- **Temporary Surcharges** protect local industries and are used to adjust balance of payment deficits

# Key Export Participants

- Foreign purchasing agents
- Export brokers
- Export merchants
- Export management companies
- Manufacturer's export agent
- Export commission representative
- Cooperative exporter
- Freight forwarders

# Organizing for Exporting in the Manufacturer's Country

- Exports can be handled
  - As a part-time activity performed by domestic employees
  - Through an export partner
  - Through an export department
  - Through an export department within an international division
  - For multi-divisional companies; each possibility exists for each division

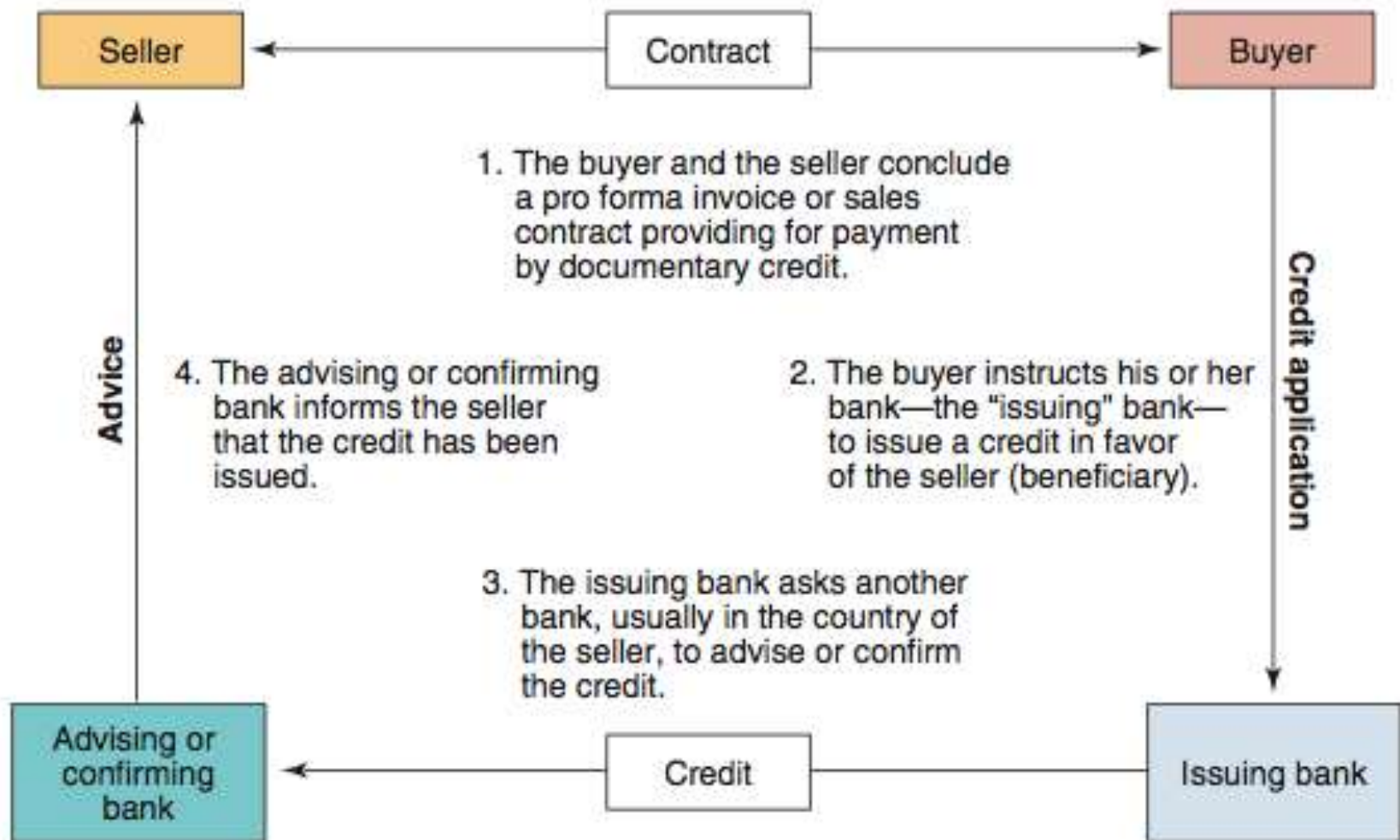
# Organizing for Exporting in the Market Country

- Direct market representation
  - Advantages: control and communications
- Representation by independent intermediaries
  - Advantages: best for situations with small sales volume

# Trade Financing and Methods of Payment

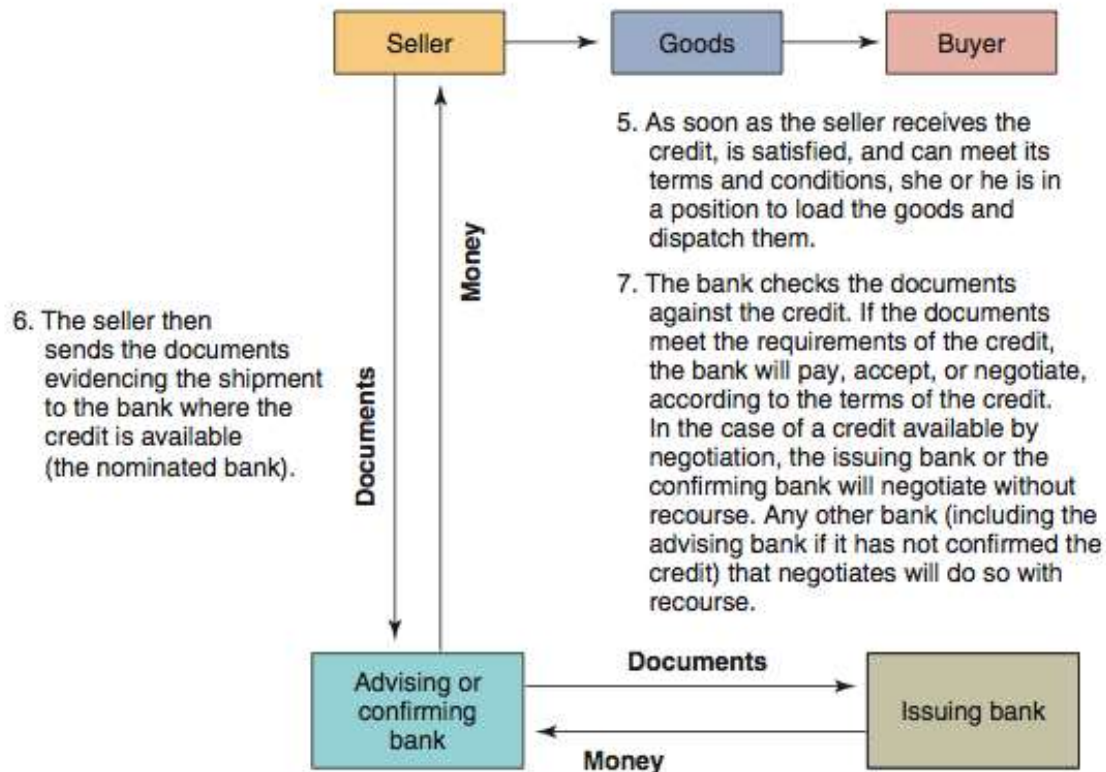
- Documentary credits (letter of credit)
- Documentary collections (bill of exchange)
- Cash in advance
- Sales on open account
- Sales on consignment basis

# Documentary Credit-Letter of Credit





# Documentary Credit (Con't)



5. As soon as the seller receives the credit, is satisfied, and can meet its terms and conditions, she or he is in a position to load the goods and dispatch them.

7. The bank checks the documents against the credit. If the documents meet the requirements of the credit, the bank will pay, accept, or negotiate, according to the terms of the credit. In the case of a credit available by negotiation, the issuing bank or the confirming bank will negotiate without recourse. Any other bank (including the advising bank if it has not confirmed the credit) that negotiates will do so with recourse.

6. The seller then sends the documents evidencing the shipment to the bank where the credit is available (the nominated bank).

8. The bank, if other than the issuing bank, sends the documents to the issuing bank.

9. The issuing bank checks the documents and, if they meet the credit requirements, either (a) effects payment in accordance with the terms of the credit, either to the seller if the documents were sent directly to the issuing bank, to the bank that has made funds available to the issuing bank, or to the bank that has made funds available to the seller in anticipation, or (b) reimburses in the preagreed manner the confirming bank or any bank that has paid, accepted, or negotiated under the credit.

# Methods of Payment

- **Documentary Collections (Sight or Time Drafts)** use a bill of exchange(draft) which is a negotiable instrument that easily transfers from one party to another
  - A **Bill of Exchange** is a written order from one party (the drawer)directs one party (the drawee) to pay a third party (the payee)
  - Different from a L/C in that the bank has no risk
  - The exporter-seller bears all the risk
  - Fees are lower than L/C so used in low value transactions

# Methods of Payment

## Cash in Advance

- Credit risks abroad are high
- Exchange restrictions in destination country may delay return of funds for a long time
- Any other reason the seller will not extend terms
- Not used if competitive pressures or substitute products exist

## Sales on Open Account

- Payment is after delivery
- Used for intracorporate or subsidiary sales, exchange controls are minimal, or with longstanding customers
- Can create a legal problem in collection without a tangible obligation

# Customs Trade Partnership Against Terrorism

- The U.S. Customs and Border Patrol inspects cargo
- C-TPAT aims to have businesses certify their security and that of their partners
- They get inspection priority

# Duty Drawback

- Refunds of duties paid on imports that are processed or incorporated into other goods AND re-exported
- Reduce the price of imported production inputs
- Used in the U.S. to encourage exports
- After NAFTA, U.S. reduced drawbacks on exports to Canada and Mexico
- China had to reduce drawbacks in order to join the WTO

# Sourcing

- **The Sourcing Decision**

- Does the company buy or make its products?
- Where?

- **Global outsourcing or offshoring** refers to moving work to another country

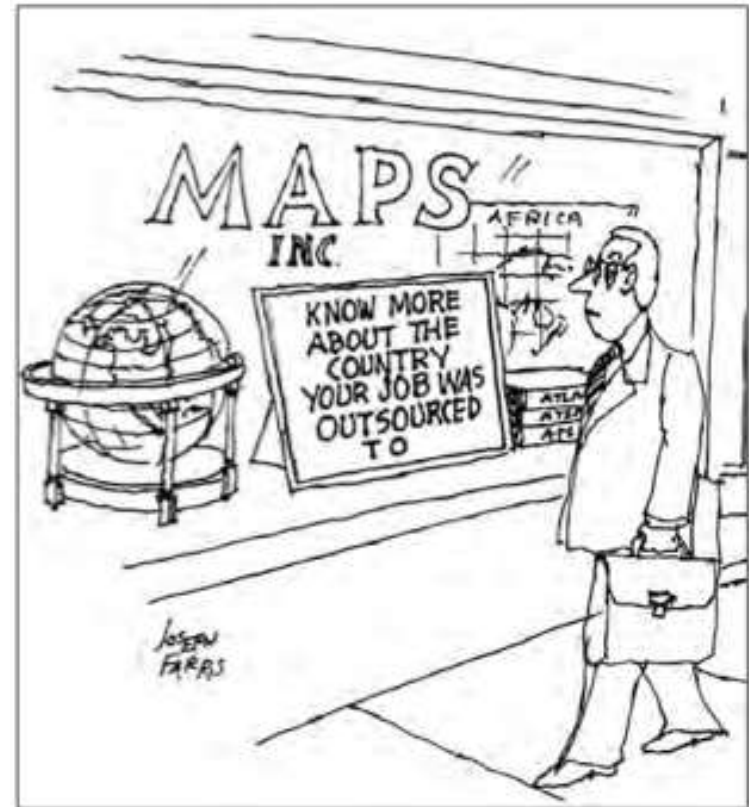
- **Call Centers** were first nonmanufacturing moved



Call Center in Bangalore, India

# Factors that Affect Sourcing

- Management vision
- Factor costs and conditions
- Customer needs
- Logistics
- Country infrastructure
- Political risk
- Exchange rate, availability, and convertibility of local money



# Other Export/Import Issues

## Management Vision

- Some CEOs want to keep manufacturing at home (Swatch)
- Some CEOs focus on high-value-added products rather than manufacturing sites (Canon keeps 60% in Japan)

## Factor Costs & Conditions

- The cost of land, labor & capital costs
- Labor in emerging markets less than \$1 hr., But \$6-\$12 in developed countries
- Sometimes the cost of land, materials, & capital offset each other



# Other Export/Import Issues

- **Customer Needs**
  - Needs can trump low cost; Dell moved call centers back to U.S. when customers complained about problems with Indian tech support
- **Logistics**
  - Improved transportation systems & intermodal services cut time & lower costs
- **Country Infrastructure**
  - Power, transportation, roads, communications, service & component suppliers, a labor pool, civil order, effective government

# Other Export/Import Issues

- **Political Factors**

- Political risk is higher in less developed countries in Africa, South America or Asia than in the Triad
- Protectionism at the state and federal level
  - Senate passed an amendment that would prohibit certain agencies from hiring companies that used offshore call centers

- **Foreign Exchange Rates**

- Companies try to use global sourcing to limit risk of volatile exchange rates or price levels of commodities