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INTRODUCTION

Thousands of manufacturers throughout the United States and Canada produce products for domestic sales, never considering how they can profit from sales to other countries. Many other manufacturers around the world need help to reach the extensive U.S. market.

That's where import/export services come in. They can help producers find and reach valuable markets and write profitable contracts with businesses throughout the world. Yet an import/export service requires few assets; an understanding of world markets and regulations, a telephone, a fax machine, a prospect file, and lots of rewarding hard work.

Starting an Import/Export Business includes both the guidelines and the resources for success as an import/export agent. Topics include understanding the world market and how it interacts; recent trade agreements and how they impact businesses worldwide; how to plan and start a successful import/export service; and everything you need to know about managing time and money to build a successful business. You'll learn how successful import/export agents effectively market their services and apply advanced techniques to separate themselves from their competitors.

Starting an Import/Export Business covers not only how to plan and start a successful import/export agency, but also how to manage it on a day-to-day basis. Valuable forms, regulations, and worksheets are exhibited, and a comprehensive glossary of international business and trade terms is positioned for easy reference. In addition, the book offers numerous verified contacts, in the United States and around the world, that can help you quickly learn and apply your knowledge of international trade.

Starting an Import/Export Business is not a get-rich-quick scheme. It is a work-smart guide written by *Entrepreneur* magazine, revised and updated by two knowledgeable writers on small business opportunities and import/export. Dan Ramsey is the author of more than a dozen books on business topics. He is also president of a business consulting service that helps small businesses grow. John Song is the co-owner of Western Enterprise Company, an import/export business located in Signal Hill, California. He is a former contributing editor to *Frisko* magazine.

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UNDERSTANDING THE WORLD MARKET

Perhaps the only constant in the world today is change. New boundaries—political, economic, technological—are crossed, redrawn, and crossed again seemingly every day. The end of the Cold War and the emergence of free market ideas around the world has created an unprecedented opportunity for those interested in entering the import/export business. Market opportunities not only exist in those countries and industries already developed by free market economies, but perhaps are even greater in countries that are just beginning to explore and establish free markets.

Opportunities abound. The "Seven Tigers" and other nations of the Asian Pacific Rim are booming, with China representing the single largest market opportunity in the world. South of our border, Mexico has emerged as one of the largest U.S. trading partners, and the passage of the North American Free Trade Agreement (NAFTA) offers a historic opportunity to create a single unified market from Hudson Bay to the Guatemalan border. Europe is emerging powerfully from a crippling continentwide recession that undercut growth through the early 1990s. Throughout the African continent, nations are slowly beginning to follow the success of South Africa in using economic opportunity to facilitate political and social change.

For the beginning import/export entrepreneur, the entire world is a potential market. Whether you're interested in importing products from foreign countries or exporting American products to small and large markets worldwide, this is where you—the start-up entrepreneur—can make an impact.

Import/export is big business. In 1994, the United States imported about $670 *billion* in goods and services and exported approximately $520 billion in goods to the world, according to the U.S. Department of Commerce. Figure 1–1 compares America's 1993 imports with its exports, and Figure 1–2 tracks the growth of American exports from 1991–1994. With world population growing 70% faster than that of the United States, the future of the import/export business is strong.

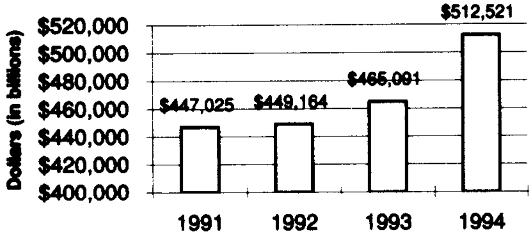
About 85% of the exports from the United States are produced by approximately 250 large manufacturing companies. This leaves the majority of manufacturers, mostly small and midsize companies, with few foreign sales. This is where the greatest opportunities for import/export entrepreneurs lie.

Figure 1–1 Import/Export Comparison for the United States

	Billions of Dollars
Exports	
Agricultural Merchandise	$41.80
Machinery	136.40
Transport Equipment	36.60
Commodity Groups	250.00
Total	**$464.80**
Imports	
Petroleum	$49.70
Machinery	168.70
Transport Equipment	83.30
Commodity Groups	278.60
Total	**$580.50**
Trade Balance	**$-115.70**

Source: U.S. Bureau of the Census, *Highlights of U.S. Export and Import Trade; U.S. Merchandise Trade: Export, General Imports, and Imports for Consumption,* 1993 data.

Figure 1–2 Growth of U.S. Exports



Source: U.S. Department of Commerce.

Some moderate-size companies do not export because:

- They fear the complexities of international trade.
- They are unaware of the potential of foreign markets.
- They believe, "We're doing just fine selling at home."

Many companies do not realize that if they are selling well at home, they may be able to sell just as well, or even better, in a foreign market. With a favorable exchange rate, profits can actually be much higher in some foreign markets than at home.

Importing, too, holds great potential for the right products. Americans love exotic goods, and in many countries products can be manufactured much more inexpensively than in the United States. In some cases—high-fashion clothing from Paris, expensive Russian caviar—there is a market for products that actually cost more than their local equivalent because the foreign products are seen as having higher quality. Sometimes this perception is true, but the demand is frequently just a function of status.

The most important responsibility of an import/export entrepreneur is finding out what U.S. products people in other countries want, and what foreign products are in great demand within the United States. Once these customer preferences are discovered, an import/export business can be rewarding work.

THE WORLD OF TRADE

International trade is the exchange of goods and services among countries. Countries typically export goods and services that they can produce inexpensively, and import goods and services that are produced more efficiently elsewhere.

What makes a product less expensive to produce in one country than in another?

1. Resources—natural resources such as minerals, and human resources such as low-cost labor or highly skilled workers.
2. Technology—the knowledge and tools to process raw materials into finished products.

An oil refinery is an application of technology; so is a fabric loom. A country with extensive oil resources and a refinery will export oil, but may need to import clothing.

There is a third factor in world trade: government. A national government may choose to reserve natural resources by limiting exports of specific products, or may attempt to protect the country's economy by limiting the import of products made by lower-paid workers in other countries. A government can control imports by banning them or, more effectively, by adding a tax—called a tariff—on specific products.

An import/export business matches buyers and sellers of products in different countries. An import/export entrepreneur conducts this business in various ways:

- Acting as an intermediary,
- Buying a product from a manufacturer and selling it to retailers or wholesalers in another country,
- Creating a network of retail distribution agents selling on commission,
- Hiring a separate company to find sales and customer demand.

Some import/export entrepreneurs work as consultants for other countries that want to export their products but do not have the necessary know-how.

UNDERSTANDING IMPORT TRADE

As an importer, you will be bringing goods into the United States. You may, for example, want to import Guatemalan leather goods. You may be able to find a Guatemalan leather goods exporter without traveling, or you may have to go to Guatemala and comparatively evaluate manufacturers. In both instances, you tell the Guatemalan manufacturer that you are interested in importing its goods and ask for a price list and samples to be sent or to take back to the United States. As a sales agent in the United States, you take the samples around to wholesalers or retailers and book their orders. Once you have sales or orders, you buy the goods from the manufacturer and have them shipped directly to the buyer, who then pays you for them.

In both the import and export scenarios, you are the intermediary; you pull all of the strings that bring buyers and sellers together. The actual process by which you put a deal together can vary. For instance, if you work on a commission basis, you do not actually have to put up money in either case.

The most important factor for you is to *make sales.* You can have the best possible plan on paper, with every detail in place, but if you cannot make a sale, or if you do not have a foreign distributor who can, your plan is useless. For this reason, a big part of the job of an importer/exporter is determining what goods and services a country's populace really desires and is willing to buy. An import/export agent is a salesperson.

At first, foreign trade may sound complicated, with such components as financing, customs, trade barriers and tariffs, currency fluctuations, exclusive/nonexclusive distribution rights, and packing/shipping. In reality, these components are not difficult, and it is by understanding them that the import/export businessperson makes a living. This book will explain all of these areas, take the mystery out of the foreign trade game, and help you to set up and manage your import/export business.

UNDERSTANDING EXPORT TRADE

Why would U.S. companies want to export? The reason is simple: profit. The total international market is four times larger than the U.S. market. In addition, growth rates for some products and services in overseas countries far exceed domestic growth.

Let's consider that you want to start exporting Southwestern dresses from Arizona to France. You have seen these particular dresses in local stores and you think they would sell well abroad. You contact the sales manager at the dress manufacturer and indicate that you want to export the product. The first reaction may be skepticism—foreign markets may be something the manufacturer has not thought of before. You calm the fears expressed by explaining that you will buy the dresses at their factory price and take care of the rest yourself. All you need is a price list and some samples, plus information on what quantities you can order and how long it will take to fill any orders you bring in.

After the manufacturer agrees in principle to work with you, the next step is to determine how to generate sales in France, and how much the price of the product should be to cover expenses (including shipping costs, taxes, and tariffs) and still provide an acceptable profit. Unless you have enough staff to develop your own foreign distribution system, you will have to find a foreign partner to distribute the product in France—ideally, a sales representative who already has contacts in the French clothing industry. After discussing a working arrangement, you send the representative some product samples, a price list, and any other literature that may be important to the overseas end of the business.

If the dresses are a hit and your agent is able to generate substantial sales, he or she will send the orders back to you along with a letter of credit from the buyers. The letter of credit releases payment for the order(s) through a local bank as soon as the goods are shipped. With the orders and letter of credit in hand, you buy the dresses and have a shipping company pick them up directly from the factory. Then you take the shipping documents and the letter of credit to the local bank that has arranged to pay you upon presentation of the documents. The last step is to send your foreign agent the agreed-on commission. In a deal such as this, your risk is very low because you will not purchase any products from local manufacturers until you have already made sales abroad. Unlike a wholesaler, you will not have to hold any goods in a warehouse, thereby incurring large inventory costs.

Exporters typically use one of these sales systems:

1. *Direct sales* involve dealing with the end user of a product. To maintain a closer relationship with buyers or to reduce costs, some companies prefer to do their own exporting and not use an export agent or company.

2. *Commission agents* are buying agents for foreign firms; they search for specific products for which they are paid a commission by their foreign clients.

3. *Export management companies* (EMCs) transact business on behalf of a producer for a commission, salary, or retainer plus commission. EMCs usually specialize by product, by foreign market, or by both. Export trading companies (ETCs) are similar in function.

4. *Export agents*, export merchants, or remarketers purchase products directly from a manufacturer and repackage and market the products in foreign countries.

Chapter 3 discusses current trade agreements and treaties, such as NAFTA and GATT (General Agreement on Tariffs and Trade), that regulate the import/export business.

INTERNATIONAL TRADE TODAY

The markets of the world are constantly changing. Governments come in and out of power, and trade policies shift back and forth from economic protectionism to outward-oriented free trade economies. Some regions and governments are more predictable and offer more opportunities than others. In general, though, the world seems to be heading toward a trend of more open trading policies and fewer restrictions.

For the United States, the top ten export markets for manufactured goods, in order of their amount of trade, are Canada, Japan, Mexico, United Kingdom, Germany, France, South Korea, Netherlands, Taiwan, and Singapore. Russia, Hong Kong, Southeast Asia, and Australia offer increased opportunities for import and export businesses over the next decade. Following are trade summaries for each of these important countries and regions of the world.

Canada

Canada and the United States have been close friends—geographically and economically—for most of their common history. More than 80% of all Canadians live within 100 miles of the U.S. border, and trade across the border has increased with the Canada–U.S. Free Trade Agreement of 1989 and the newer North American Free Trade Agreement (NAFTA).

Canada ranks seventh in the world in gross domestic product and is one of the world's largest producers of minerals. Canada is also the United States' largest trading partner. Total U.S.–Canada trade is currently $234 billion (U.S. dollars) and is increasing 15–20% per year, according to the U.S. Department of Commerce. Figure 1–3 provides trade details.

Japan

The Japanese economy, with a gross national product of more than $4.3 trillion (U.S. dollars), is now the second largest in the world. Although