

# BUILDING AN IMPORT EXPORT BUSINESS

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**SURFACE**

**KENNETH D. WEISS**

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# **Building an Import/Export Business**

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# Introduction

Who can go into the import/export business? The answer is easy. I can. You can. *Anyone* can. But how many will stay in the business and be successful? This question is much more difficult to answer. This book is designed to help you to a successful start and ensure you remain successful.

Just what is the import/export business? For purposes of this book, the import/export business is defined as any movement of products across national boundaries. Products are defined in a strictly material sense—commodities such as grain and iron ore, industrial goods such as machinery and equipment, and consumer goods such as transistor radios and clothing. These products may move between countries by any means of transportation—road, rail, water, air—or even carried by people or animals.

Nonmaterial products—construction, advertising, accounting, and the like—are not considered here, nor is “unregistered trade,” a euphemism for smuggling and black market activities.

International trade is a business of enormous proportions. In world terms, trade is so massive that statistics actually seem irrelevant. Historically, groups of people have always traded with other groups to obtain goods that were not available locally or were cheaper and better



elsewhere, or simply to acquire products that had the cachet of being imported.

In *national* terms, however, statistics are significant to even the smallest importer. This is because the United States has recently been importing far more than it has been exporting. For example, 1986 imports were about \$370 billion, \$170 billion more than we exported. This flood of foreign products has caused unemployment in the United States' industries such as steel, automobile, apparel, and footwear. It has also resulted in the introduction of more than 300 bills in Congress designed either to restrict imports or to retaliate against countries that make it too hard for us to sell to them. The passage of some of this legislation, which will hurt importers, is a constant possibility.

This fact of life does not mean you should not go into importing. It does mean that, if you import, you should watch events in Washington carefully so as not to be caught off guard by restrictive legislation. This is especially true if you will be importing textiles, apparel, or footwear, or if you plan to buy from countries that run large surpluses in their trade with the United States such as Japan, Taiwan, Singapore, Hong Kong, and Brazil.

To appreciate the scale of international trade, let's examine the volume of trade at a single port, the Port of New York and New Jersey. The 1985 figures show this major port to have handled over 52 million tons of cargo worth approximately \$92 billion! These figures include both imports and exports and both ocean and air shipments.

The leading oceanborne cargo exports (by weight) were waste paper, plastic materials, textile waste, and machinery, and the leading markets were Taiwan, Italy, Spain, and Korea. The leading oceanborne imports were hydrocarbons, alcoholic beverages, bananas, and road motor vehicles, and the leading sources were Japan, West Germany, Italy, and Brazil.

The leading air cargo exports (by weight) were office machinery, general machinery, electrical machinery, and printed matter, and the leading markets were the United Kingdom, West Germany, Japan, and France. The leading air cargo imports were clothing, footwear, general machinery, and scientific apparatus, and the leading suppliers were West Germany, Italy, Japan, and the United Kingdom.

In this one example, we see that both the imports and the exports covered a wide spectrum of different goods. There were even imports of items that the United States produces very efficiently, and exports of items that the United States does not produce at all. Opportunities in international trade are virtually unlimited. It is a question of finding the right market for a product, or the right product for a market, and setting up efficient import/export procedures.

The subject of international trade is a large one, and no single book could include everything you need to know to be a successful importer or exporter. My aims in writing *Building an Import/Export Business* are to:

- Touch on the most important aspects of international trade.
- Give you enough information to enable you to decide whether this is a business for you and what steps you should take to get started.
- Tell you what other information and assistance you will need in order to be successful, and where to get it.

In this book you will find a detailed account of what it takes to go into the import/export business and how to set up this kind of commercial operation. There is a discussion of the different factors involved in selecting products, lining up suppliers, choosing markets, and finding customers. These are the most important aspects of the business. If you handle the purchasing and marketing

well enough to establish a profitable operation, you will be off to a good start. With the help of this book and the additional resources referenced in it, you will find that you will be able to manage the mechanics of international trade. International credit and payment, international shipping and insurance, and import/export documentation can all be complicated, but with help they can be mastered.

At the back of this book is an annotated list of where you can find the additional information you will need, as well as a discussion of regulatory agencies (especially the U.S. Customs Service) and other helpful material.

In Chapter 1 are two sections that should be very valuable to you. The first is a list of 21 questions to be answered in planning your import/export business. You will probably not be able to answer all of them before you read this book, but these are questions you should keep in mind as you read. The second section describes requirements, skills, and personal traits related to success in importing and exporting. If you review them carefully and match them with your own characteristics and traits, you will have a good idea about whether this business is for you.

## **Importing and Exporting: 21 Essential Questions**

Starting a business is a major step requiring nerve and a certain amount of faith. But nerve and faith need to be supplemented by sensible preparation—not just the purchase of desks, chairs, and typewriters, but a rigorous examination of the reasons for wanting to enter this particular field, an evaluation of the personal qualifications to make it a success, and development of a clear understanding of the business activities in which you will participate.

### **1. Why are you thinking of starting a business? What are your objectives?**

Some possible objectives are to make money, to travel, to broaden your knowledge of the world, to acquire business experience, to gain prestige, and to be your own boss. You should decide what your main objectives are and whether an import/export business will help you attain them. Many people think of starting an import/export business because they travel and want to take advantage of products or contacts discovered on their trips. Although this sort of experience is helpful, these travelers usually make

## **6 Building an Import/Export Business**

the mistake of thinking international trade is a simple venture—just buy it here and sell it there. It is important to understand the full range of complex activities in which you must become involved.

In general, the best reason for starting a business is to earn a living doing something you enjoy. Will you enjoy the main activities in the import/export business, which are purchasing, marketing, domestic and international trade procedures, and administration?

### **2. What makes you think you will be successful?**

Very few people would start businesses if they thought they were going to fail. Entrepreneurs naturally expect success. But what makes you think *you* are likely to achieve it? Do you have some knowledge of international trade or will you make a serious effort to learn? Have you had relevant experience, such as in sales and marketing? Or any business or management experience? Will you have adequate financing?

### **3. Do you plan to import, export, or both?**

Most persons start out by *either* importing *or* exporting, and sometimes go on to develop the other side of the business. Importing is the more common way to start, probably because buying is almost always easier than selling. In importing, the foreign (distant) part of the transaction is the buying, and the selling is done in more familiar surroundings.

### **4. Do you plan to work as a merchant, agent, broker, or some combination of the three?**

Getting involved in the international brokerage business—arranging major deals between two parties, neither of

which has a permanent relationship with you, and collecting a commission from one or the other or both is such a difficult business to get into that I have omitted it from this book. That leaves the options of merchant and agent. If you want to spend most of your time selling, and have limited funds, you should be an agent. If you want to perform all the import and export functions, and you have the means to finance the acquisition of goods you will sell, you should work as a merchant. That way you will have more control of your business and have more profit potential.

If you neither like to sell nor have a substantial bank account, you should probably *not* try to start an import and/or export business.

#### **5. When you start, will you be working full time or part time?**

If you plan to keep your job and start this business part time, you can afford to work slowly and experiment with different approaches. If you plan to start full time, you will probably have to be making a profit within a few months. If this is the case, you should develop a detailed plan and pay a consultant to discuss it with you and make suggestions. This assumes, of course, that you are willing to accept advice. Every business consultant has clients who want only one thing—for the consultant to tell them how good their business plans are. They are predisposed to ignore criticism and suggestions, even though they are paying for them.

#### **6. Who, if anyone, can help you with the work in the beginning?**

This is especially important if you are going to work as a merchant, and if you plan to start the business part time. Remember that there are various functions to perform, and if you drop the ball on any of them it will hurt your

business. If you are counting on help from your spouse, as many persons do, try to determine whether he or she has the time, the ability, and the inclination to help you adequately.

One person I know of had a simple plan—he would import children's clothing from the Caribbean and open a small store in which his wife would sell the products. Unfortunately, his wife very quickly tired of waiting on customers, dusting shelves, keeping accounting records, etc., and the business failed. (I do not know what happened to the marriage.)

### **7. Which type(s) of product(s) do you plan to trade?**

This subject is discussed in Chapter 4. You should select products that you understand and enjoy working with and that are available, saleable, transportable, and legal to export or import. These criteria are often conflicting. You may find a delicious ice cream in Sweden, but be unable to sell it in the United States because of transportation costs and quotas. You may have an order from Africa for a well-known brand of staplers, but be unable to obtain them except from a wholesaler who charges a price too high to allow a profit.

### **8. What will be your sources of supply—countries and/or companies?**

If you already have suppliers lined up, you are off to a good start. If not and you are an importer, you will have to go through the process of deciding which countries and which specific companies to buy from or represent. If you are an exporter, you will have to find American firms with products that can be sold abroad. You will need to make sure your suppliers are reliable and, if possible, tie them up with written agreements that give you at least

some exclusivity. See Chapter 7 for information about these agreements and the Appendix for examples.

**9. What is your target market?**

You need to think of who will be the final users of your product, the best channel of distribution to get the product to those persons or organizations, and who you will sell to in that channel of distribution. I once wasted several hours trying to sell natural bath salts to cosmetic manufacturers before learning that cosmetics firms make their bath salts chemically. They leave the natural products to the health food industry.

**10. How do you plan to sell to customers in the target market?**

This may be the most important question. It relates to the marketing methods discussed in Chapter 6, including using agents, direct mail, etc. Good marketing people can create all the conditions for the sale of a product, but only the sale itself can bring in revenue to keep the business going and growing.

**11. What means of international transportation do you plan to use?**

As discussed in Chapter 8, you must consider whether to ship by land, air, or sea, whether to use scheduled or other carriers, which specific carrier to give your business, etc. Also, do not forget the options for small shipments provided by air and sea mail and couriers.

**12. What will be the shipping terms?**

If you are importing, at what point will you take title to the goods you are buying. If you are exporting, at what



point will you give title to the foreign buyer? Also who will make arrangements and pay the charges for handling, shipping, insurance, and related functions? The shipping terms discussed in Chapter 8 will help you answer these questions.

**13. Which method of international payment do you plan to use?**

An import transaction usually has to be worth a few thousand dollars to be profitable. Importers who are not known and established usually have to open letters of credit (LC) to place orders of this size. Do you have the funding required to open an LC, and are you willing to spend the time and money to do it? See Chapter 7 for a discussion of payment terms.

On the export side, you will lose sales if you refuse to sell except on letter of credit or cash in advance. Ideally, you should be willing to take some risks, have the knowledge to analyze the degrees of risk in a transaction, and have enough money to survive a loss and stay in business. One small businessman in Taiwan received an order from the United States for live birds. The Taiwanese exporter invested all of his capital in the products, shipped on Open Account, did not get paid, and was out of business. Do not let this happen to you.

**14. Which United States and/or foreign government regulations will concern you?**

Whether you are an exporter or an importer, an agent, or a merchant, you should know the applicable laws of the countries on both sides of each transaction. This book describes several types of government regulations and how to find out more about them.