EXPORT/IMPORT FOR SMALL BUSINESS INSTITUTES IN POLAND

Part One

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EXPORT/IMPORT FOR

SMALL BUSINESS INSTITUTES IN POLAND

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FOREWORD

The United States Agency for International Development (U.S.AID) sponsored this project as part of the U.S. Congress initiative entitled Secure Eastern European Democracy (SEED Act). This project is one of a number of university-based initiatives to provide education for university faculty in emerging countries about business management and economics in support of the newly established market economy.

Since June of 1991, the International Enterprise Academy at The Ohio State University has worked cooperatively with the Solidarity Economic Foundation in Gdańsk, Poland, to facilitate the creation of three Polish-American Enterprise Institutes in connection with the universities in Białystok, Poznań and Rzeszów. In each site two coordinators and fifteen or more faculty members have established courses for business owners in Entrepreneurship, Marketing, Management, Finance, Strategic Planning, and Export-Import. In addition, we developed skills among the faculty for business advising in these areas and developed case studies of Polish entrepreneurs.

The development of the six curriculum products took place over a two-year period and were the cooperative efforts of the coordinators from the Polish Institutes and the faculty from various American Universities. We are indebted to the following people for their dedication, patience and understanding in addition to their outstanding expertise in the area.

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CASE STUDIES OF POLISH ENTREPRENEURS

Lisa Mazzei, The Ohio State University
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We also thank the secretaries in both countries and others who worked hard on these six very ambitious curriculum projects. At The Ohio State University we especially want to thank Barbara Rahe, Jeanne Thomas, Janet Ray, and Kathy Summerfield. In Poland, we want to thank Dagmara Topolewicz, Ewa Dratwa, Małgorzata Tyburczy, Edyta Rusin and Dorota Małaszkiewicz.

Because these curriculum products include many copyrighted materials that we have obtained limited permission to use for this project, this product may not be published or used for other purposes without express permission from The Center on Education and Training for Employment at The Ohio State University.

We believe that these materials will provide long-term benefits to the faculty for whom they were designed and the business owners who will participate in their courses. We hope that these American models of business training will make a difference in the communities where they are used and impact on their success in a market economy.

M. Catherine Ashmore
Director, International Enterprise Academy

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We are also indebted to the publishers or authors who gave permission to use selected portions of their copyrighted materials. They include:

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Business America

EXPORT/IMPORT MODULE

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International Entrepreneurship Course

Overview

Business managers are increasingly involved in international trade by either importing or exporting products or materials for manufacturing. This course is intended to help business managers to assess and plan for basic differences between sourcing and marketing in the home country and in other countries around the world, including culture, common business practices, taboos.

Participants will analyze potential markets for size, penetrability, potential competition, profitability, in short an environmental analysis on the viability of exporting to specific markets. They will then develop an exporting strategy involving selection of specific markets to enter, product configuration, pricing, promotion, and distribution network. An important part of any international trade strategy is determining the methods of goods movement. Participants will assess the advantages and disadvantages of different distribution alternatives and constraints.

The course will draw on business skills from the other business courses with emphasis on differences between domestic and international trade.

Strategic Planning

Differentiate among the methods of international trade, such as direct foreign investment, exporting, licensing

Marketing

Use the marketing strategy framework for developing an international marketing strategy.

Management

Assess the legal, personnel differences needed for international trade.

Accounting/finance.

Define international banking terminology. Assess potential affects of international finance on the exporter. Execute the basics of obtaining proof of payment, e.g., letter of credit.

International Entrepreneurship Course

Competencies

Business managers attending this course should be able to:

1. Introduce and describe potential effects of macro issues on the viability of importing and exporting.

2. Evaluate the potential advantages/disadvantages of exporting to a specific market.

3. Assess any needed adaptations of a specific product for selected markets.

4. Indicate potential options for promoting in different cultural markets.

5. Define the considerations for setting prices in a foreign market. Assess potential affects of international finance on importing or exporting.

6. Evaluate the different goods movement and storage options.

7. Assess the advantages of and disadvantages of different distribution alternatives and constraints.

8. Determine methods of establishing good business relationships, including partnerships and joint ventures.

9. Know where and how to obtain assistance in the home country and other countries.

THE MACRO ENVIRONMENTAL ISSUES OF INTERNATIONAL ENTREPRENEURSHIP

UNIT 1

Title: **THE MACRO ENVIRONMENTAL ISSUES OF INTERNATIONAL ENTREPRENEURSHIP**

Purposes: This unit is designed to introduce and describe potential effects of macro issues on the viability of importing and exporting.

Objectives: To introduce and describe potential effects of macro issues on the viability of importing and exporting.

Materials:

Transparency 1-1	International Entrepreneurship title
Transparency 1-2	Course outline
Transparency 1-3	Course outline
Transparency 1-4	Course outline
Transparency 1-5	Course outline
Transparency 1-6	Course Competencies
Transparency 1-7	Course Competencies
Transparency 1-8	Unit 1 outline
Transparency 1-9	Unit 1 outline
Transparency 1-10	Merchandise Exports as a Percent of GNP
Transparency 1-10a	Poland - U.S. Trade
Transparency 1-11	Exports/Imports for Selected Countries, 1989
Transparency 1-12	Partial list of Car Parts Imported by U.S. Companies
Transparency 1-13	Reasons for International Trade
Transparency 1-14	Motivations to Internationalize for Small and Medium-Sized Firms
Transparency 1-15	Benefits and Risks of International Trade
Transparency 1-16	Sources of International Credit Information
Transparency 1-17	XYZ Company
Transparency 1-18	ABC Company
Transparency 1-19	Part I of International Marketing Questions
Transparency 1-20	Project Overview
Transparency 1-21	Economic Environment Issues
Transparency 1-22	Mark v. Yen v. Dollar
Transparency 1-23A/B	Exchange Rates
Transparency 1-24	Political and Legal Environment Issues
Transparency 1-25	Some European Community Provisions
Transparency 1-26	Trade Barriers
Transparency 1-27	Levels of Economic Integration
Transparency 1-28	Standards and Stability
Transparency 1-29	Cultural Issues

Transparency 1-30	Business preferences across Cultures (Kanter)
Transparency 1-31	Technology and Environmental Issues
Transparency 1-32	Definition of EDI
Transparency 1-33-35	JIT, use of barcoding by leading U.S. businesses
Transparency 1-36	Information for Asset Tradeoff
Handout 1-1	Why Export?
Handout 1-2	Exporting to 20 Countries including the USA
Handout 1-3	Importing Example (ABC Company)
Handout 1-4	International Marketing Questions
Handout 1-5	Checklist: International Marketing Questions
Handout 1-6	Export/Import Strategies
Handout 1-7	Licensing Regulations in 18 Nations
Handout 1-8	Exporting Pays Off
Handout 1-9	Gillette Travels the Work
Handout 1-10	Eksport do USA

Activities: Student exercises are listed in the T-outline.

References for Instructors: More readings for instructors *only* in Book 2:

R1-1: Theories of International Trade and Investment (Chap.2 *IB)* and Starting International Operations (Chap. 11 *IB*)
R1-2: The International Financial Environment (Chap. 6, *IM*) and The Export Process (Chap. 7, *IM)*
R1-3: The International Political and Legal Environment (Chap. 4, *IM)*
R1-4: Doing Business with Newly Emerging Market Economies and State-Owned Enterprises (Chap. 10, *IB*)
R1-5: The International Cultural Environment (Chap. 5 *IM*)
R1-6: National Trade and Investment Policies (Chap. 7,*IB)* and The Cultural Challenge (Chap. 9, *IB).*
R1-7: Executive Summary
R1-8: Export Marketing and International Marketing (optional reading)

Questions for discussion in Instructor Notes 1-1; 1-2, 1-3 and in Instructor Notes 1-4 Export/Import Strategies in the end of the unit.

Notes for Instructors:

Set the tone for the course as being a dialogue between the instructor and the participants. Begin by introducing yourself and any international experience you

have. Next talk through the eight units in terms of what the participant will get (competencies and specific topics). Before launching into Unit 1 material, have each participant introduce themselves, their company and its products, and what their interest is in international entrepreneurship (i.e., importing, exporting, or both). This will get the participant used to interacting with the group and talking about their favorite subject—themselves. The course is designed to encourage interaction among the instructor and the participants. A useful technique to gauge whether the participants are grasping the material is to ask questions frequently. These questions can be in two forms:

1. where an answer is expected

2. where the participants are to finish the sentence, thus reviewing material already covered.

Abbreviations used in the T-outlines include:

IB *International Business*, Czinkota, Rivoli, and Ronkainen.
IB Manual is the instructor's manual to accompany *IB*.

IM *International Marketing*, Czinkota and Ronkainen.
IM Manual instructors manual to accompany *IM*.

Estimated time: 4 hours

Unit Outline

I. Overview of the Module

II. An Introduction to International Entrepreneurship

A. The Nature of International Marketing -
How is it different from domestic marketing?
B. Patterns in International Business -
The Global Competitive Arena
C. Significance and benefits of international trade -
Why Export or Import?
1. The Kinds of Risks in International Marketing
2. Risk Management Strategies

III. Introduction to Ongoing Example: XYZ Company

A. International Marketing Questions (General Overview)
B. Individual Project overview

IV. The Macro Environment of International Trade

A. Economic
1. World/Regional Economic Conditions
2. International Financial System
   a. Exchange Rates
      (1) comparison of German, Swiss, and Polish currencies
      (2) floating versus fixed rates
   b. International Banking
   c. Alternative Funding Sources
      (1) International Monetary Fund, The World Bank
      (2) sources of funding for small businesses in Poland

B. Political and Legal
1. Regulations
   a. Overview of Regulations by Country (Czinkota)
   b. GATT
2. Standards
   a. Poland to EC
   b. ISO 9000
3. Stability
   a. political
   b. economic
4. Example of a Specific Product - Buckles of America

C. Cultural
1. Differences Among Markets
   a. United States
   b. European Community
   c. Asia

D. Technological
1. Differences Between Poland and Other Markets
2. Information Technologies
   a. EDI, Fax, Telecommunications
   b. Substituting Information for Investment

E Environmental
1. Effects on Market Openness
2. Responsibility

V. Checklist: International Marketing Questions (Specific Form)

VI. Assignment

UNIT 1

The Macro Environmental Issues of International Entrepreneurship

CONTENT	PROCESS
I. Overview of the Course	Put up TP 1-1 containing course title.
Hello, my name is _____ _____. I will be your instructor for the International Entrepreneurship course. My experience internationally consists of. . . . I look forward to working with you over the next several weeks.	
During this course we will learn the basic concepts of how to prepare for and conduct international trade.	Put up TP 1-2 first page of course overview.
We will begin the course with today's session which examines the reasons for entering international trade and the economic, political, cultural, technological, and environmental factors one must consider before entering into international trade. These factors should be carefully investigated for potential markets.	TP 1-3, 1-4, and 1-5 remainder of course outline.
Briefly describe the main points of each unit. Indicate that there will be specific examples of real companies doing exporting and importing into and out of Poland.	TP 1-6 & 1-7 shows course competencies.
Have participants introduce themselves, their companies, and whether they are interested in exporting, importing, or both. Also tell *WHY* they are interested in international trade.	(To here should be at least 1/2 hour.)

CONTENT	PROCESS
II. An Introduction to International Entrepreneurship	
Today we will examine the major reasons for considering international trade and the risks involved in such trade. Then we will review the major environmental issues that affect world trade in general and the choices of specific countries in particular.	TP 1-8 & 1-9 Unit 1 outline to level A., B., etc.
A. The Nature of International Marketing	Present TP 1-8 again.
How is it different from domestic marketing?	
The only difference between domestic and international marketing is that it involves origins and governments of different countries.	
Involves three disciplines: business/marketing economics and financial political structures	Ask participants to relate their experiences with international trade, if any. Only take 2 or 3 examples or may use up too much time.
B. Patterns in International Business	Emphasize the importance to many countries using TP 1-10, 1-11, 1-12 about: Merchandise Exports as a Percent of GNP; Exports/Imports for Selected Countries, 1989. Partial list of Car Parts Imported by U.S. Companies.
The Global Competitive Arena	
C. Significance and Benefits of International Trade	
Why Export or Import?	
What caused international marketing to occur?	Discuss TP 1-13: Reasons for International Trade.
1. Try to obtain goods from nearest and least expensive source.	

CONTENT	PROCESS
No country can provide all goods and services	
Some have very few—e.g., new nations.	
Absolute advantage—lowest absolute cost.	Assign activities as described in Instructor Notes 1-1 at the end of the unit.
Comparative advantage—lower relative cost	- Explain the concept of absolute advantage - Discuss the question: How might the product life cycle theory explain trade and investment patterns in compact disc players?
2. Differences in resources and skills, climate; termed International Division of Labor.	Refer to Reading for Instructors 1-1 (Chap.2 p. 20). Discuss in terms of how it affects small business or skip.
3. May take years of development to obtain volume; must over-produce for own needs (may export if profit margin high enough).	
Profit margin—in general, export high profit items and import low ones.	
Cost may prevent some areas from exporting.	
4. Many countries export some items—cars in U.S., petroleum lubricants, medicine, various machine parts.	
Foreign exchange fluctuations may make items more or less expensive. If country devalues its currency, goods less expensive in foreign markets.	
5. Developments of foreign markets—trade promotion, exchanges.	

CONTENT	PROCESS
6. May import to conserve natural resources—e.g., oil for U.S.	
7. Sufficient Purchasing power.	
8. Political relations, restrictions.	
Why small and medium-sized firms internationalize.	Discuss TP 1-14: Major Motivations to Internationalize Small and Medium-sized Firms. Refer to Reading for Instructors 1-2 (Chap. 7, p. 212-215).
Significance and benefits of international trade:	TP 1-15: Benefits and Risks of International Trade.
Exports may raise standards of living by increasing personal income and capital available for investment.	Hand out reading on *Why Export?* (HO 1-1).
Imports bring in a wider variety of merchandise.	
1. The Kinds of Risks in International Marketing	
A. Business 1. Physical problems: a. product changes—with-stand high temperatures, less expensive, b. increase manufacturing capability, c. inventory problems d. packing and shipping—product life, weatherproofing e. remote market and sales origins, (1) nationalization (2) information flow f. marketing (1) the consumer: - different habits,	TP 1-15 of main points.

CONTENT	PROCESS
customs, traditions, work and leisure time - personality vs. Poland (may buy only for price, quality, or base necessities) (2) average literacy (3) which retail outlets? g. legal problems—contracts may not be contracts, h. foreign competition, B. Economic 1. What level of personal income (purchasing power)? 2. Is capital available? 3. Transmission of credit and cash 4. Foreign exchange rate fluctuations 5. International Banking Facilities 6. Balance of payments—Positive not always best way to go. 7. Assuming a long term investment. 8. Wage and price supports. C. Political 1. Import/export regulations, foreign exchange rates Non tariff barriers—quotas, unpublicized administrative procedures that impede or exclude imports. 2. Tariffs/Taxes 3. Government stability—Saigon, Cuba. 4. Language and vocabulary 5. Competitiveness allowed—Uganda and Chili, national security.	

CONTENT	PROCESS
D. Financial 1. Commercial risk—insolvency or payment default by buyer. 2. Political risk –out of control of buyer or seller, usually government regulations or delaying of process. 3. Foreign exchange risk—effects of fluctuating exchange rates 4. Other—inflation.	Refer to Reading for Instructors 1-2 (Chap. 6, p. 163-4).
2. <u>Risk Management Strategies</u>	
Assessing credit worthiness of foreign buyer. Difficult because:	
• Credit reports may not be reliable. • Audited reports may not be available.	Present TP 1-16: Sources of International Credit Information.
• Financial reports may be prepared according to a different format. • Statements are in local currency.	Managing foreign exchange risk will be discussed in Unit 5.
• The buyer may have the financial resources in local currency but cannot convert because of government restrictions.	The rest of the course addresses business and economic risks. Political often uncontrollable for small business person.
III. Introduction to Ongoing Examples: XYZ Exporting Company and ABC Importing Company	
We will use different companies as example throughout the course. However, to add some continuity, we will also refer to one import company and one export company.	Present TP 1-17: XYZ Company and TP 1-18: ABC Company. It is best to use local companies where possible. Otherwise, use the two provided in HO 1-2: SETI Company and HO 1-3: River Krakow.

CONTENT	PROCESS
A. International Marketing Questions (General Overview)	
These are the major categories of questions that must be answered to produce an international strategy.	Hand out questions: HO 1-4: International Marketing Questions (part 1) and HO 1-5: International Marketing Questions (part 2).
B. Individual Project Overview	Talk through TP 1-19, Part I.
In addition to the ABC and XYZ examples that will be used throughout the course, each participant will prepare an export or import strategy for his/her product. We will cover the specific questions in Parts II.-VI. during the course. At the last session, each participant will answer the questions in Part I. for the project. The purpose is to help each participant develop a tangible strategy that is at least a beginning of an international strategy if not an executable plan.	TP 1-20. Hand out project assignment. Discuss HO 1-6: Export/Import t Strategies.
IV. The Macro Environment of International Trade	
A. Economic	Discuss TP 1-21: The Macro Environment of International Trade. Put up TP 1-22: Value of the Yen and German Mark v. the Dollar, (1970-1990).
1. World/Regional Economic Conditions	
2. International Financial System:	
(a) Exchange Rates (1) comparison of German, Swiss, and Polish currencies	Work through TP 1-23A/B which shows changes in these currencies over three selected points during the past year. <u>This should be updated annually as the course is re-offered</u>.
(2) floating versus fixed rates	<u>Student Exercise:</u> Have each participant project the zloty/mark exchange rate for the last day of the course.

CONTENT	PROCESS
	Participants will write their forecast on a piece of paper with their name. These will be sealed in an envelope which the instructor will open the last day of class. It would be nice if some small prize were offered for the closest estimate.
b. International Banking	
c. Alternative Funding Sources	
(1) International Monetary Fund, The World Bank (a) IMF—foreign exchange (b) IBRD—World Bank 1946 — helps member countries develop productive facilities and resources such as electric power, transportation, agricultural loans to governments (must be a member of IMF also) (c) International Finance Corp.-less developed member countries (must be IBRD member also); increase private enterprise	
(2) Sources of funding for small businesses in Poland	
B. Political and Legal	
Must be considered for both home and host country	Put up TP 1-24.
1. Regulations	Refer to Reading for Instructors 1-3.
a. Overview of Regulations by Country (Czinkota)	Put up TP 1-25: Some EC Provisions. Present TP 1-26: Trade Barriers.
b. General Agreement on Tariffs And Trade (GATT):	Distribute HO 1-7: Licensing Regulations in 18 Nations.

CONTENT	PROCESS
- created in 1947; - purpose - relax trade barriers between nations; - to reduce tariffs requires that subsidies be made known and defended by export nation; - general prohibition of quantitative restrictions;	
exceptions: - balance of payments exception; - agricultural restrictions - if internal restriction on production; - economic development - example quotas;	Put TP 1-27: Levels of Economic Integration.
can establish: - Free Trade Area — barriers to trade among member countries are removed; - Customs Union — free trade area plus same tariff rate for non-member countries	Refere to Reading for Instructors 1-1, (Chap. 2, pp. 110-112).
2. Standards	
a. *Poland to EC* restrictions on transportation vehicles, product content, etc.	Discuss TP 1-28: Standards and Stability.
b. *ISO 9000* To do business with EC firms, company and its suppliers must be certified by the International Standards Organization that there is a total quality process in place for improving all business processes. It is total quality management applied to business processes instead of the product.	

CONTENT	PROCESS
3. Stability	
a. Political	Discussion question in Instructor Notes 1-2 at the end of the unit (Refer to Reading for Instructors 1-4).
b. Economic	Discussion questions in Instructor Notes 1-3 at the end of the unit.
4. Example of a Specific Product—Buckles of America.	
C. Cultural	Discuss HO 1-8: Exporting Pays Off.
Distances between countries/cultures	Discuss TP 1-29.
Physical—Germany closer than U.S. Psychological or Philosophical—Britain and U.S. closer than Tanzania and U.S. (Also substitute Polish examples).	Refer to Reading for Instructors 1-5 and 1-6.
1. Differences Among Markets a. United States b. European Community c. Asia	Discuss TP 1-30: Business Preferences Across Cultures. (Answers on pages 136-143 of R1-5: 1) end of the job; 2) failure; 3) success; 4) false; 5) closer to; 6) Slavic Republics; 7) Spain-3, Germany-12, United Kingdom-1, Norway-11; 8) France-working breakfast, Greece-no calls 2-5 p.m., Norway 8-5, Poland 8-4) <u>Student Exercise</u>: Role play how someone from each culture would greet each other. Include words, gestures, taboos.
D. Technological	
1. Differences Between Poland and Other Markets — telephone service, level of computerization 2. Information Technologies a. EDI, Fax, Telecommunications	Other exercises in Instructor Notes 1-3. Discuss reading on Gillette Travels to the Third World (HO 1-9). TP 1-31: Technological and Environmental Differences. Use TP 1-32: Definition of EDI and give examples of use of telecommunications in business.

CONTENT	PROCESS
	TP 1-33 - TP1-35: JIT, use of barcoding by leading U.S. businesses. Refer to Readings for Instructor 1-8.
b. Substituting Information for Investment.	TP 1-36: Information for Asset Tradeoff.
Emphasize that many companies understand that future success depends on their ability to manage information and use technology effectively.	
E. Environmental	
1. Effects on Market Openness 2. Responsibility	
	Discuss "Green laws" in Europe and elsewhere for example a Germany's new law about cradle-to-grave responsibility for the product and its packaging.
V. Checklist: International Marketing Questions (Specific Form)	
VI. Assignment	
Begin to think about the questions in PartII for our next session. Answer those discussed today for exporting to the U.S. or importing from the Far East.	
	HO 1-10: Export to USA may be distributed at the end of the class for students to read as an outside assignment.

TP 1-1

International

Entrepreneurship

Import/Export

TP 1-2

International Entrepreneurship Course

Unit 1: The Macro Environmental Issues of International Entrepreneurship

Overview of the Course

An Introduction to International Entrepreneurship

The Macro Environment of International Trade

Economic, Political and Legal
Cultural, Technological, Environmental

Unit 2: Formulating an Export Strategy and Examining Specific Markets

The XYZ Company: Segmenting the Market

Export Market Research and Analysis

Developing Import/Export Strategies

Segmentation, Target Marketing

TP 1-3

International Entrepreneurship Course

Unit 3: Product Analysis and Strategy

Unit Overview of product

Global Standardization Versus Product Adaptation

Product Analysis

Unit 4: International Promotion and Communications Strategy

Identify Available Communications Alternatives

Identify Available Media in Targeted Markets

Develop the Communications Strategy

Define the Message

Copywriting for Ads and Sales Talks

TP 1-4

International Entrepreneurship Course

Unit 5: International Pricing Strategy

Export Pricing Approaches

Pricing Policies, Pricing Strategies, Quotation and Terms of Sale

International Banking Facilities

Foreign Exchange

International Commercial Payments

Factoring, Barter and Countertrade

Unit 6: Channels of Distribution

International Marketing Channels in the Home (e.g., Poland) Market

The foreign firms' connections to sell in home markets

Options in the Foreign (Host) Market

Overview of Goods Movement

TP 1-5

International Entrepreneurship Course

Unit 7: International Goods Movement

Evaluate the different goods movement and storage options

Inventory Management

Importing Regulations

Documentation, Insurance, Packaging

Unit 8: Establishing Good International Business Relationships

Managing International Marketing Programs

Implementing International Programs

Business Relationships

Mutual Benefits and Risks

Controlling International Programs

Building the Relationship

Conclusions for International Entrepreneurs

TP 1-6

International Entrepreneurship Course

Competencies

Business managers attending this course should be able to:

1. Introduce and describe potential effects of macro issues on the viability of importing and exporting.

2. Evaluate the potential advantages/disadvantages of exporting to a specific market.

3. Assess any needed adaptations of a specific product for selected markets.

4. Indicate potential options for promoting in different cultural markets.

5. Define the considerations for setting prices in a foreign market. Assess potential affects of international finance on importing or exporting.

6. Assess different channels of distribution for the market.

7. Evaluate the different goods movement and storage options.

8. Determine methods of establishing good business relationships, including partnerships and joint ventures.

9. Know where and how to obtain assistance in the home country and other countries.

TP 1-8

Unit 1: The Macro Environmental Issues of International Entrepreneurship

Unit Outline

Overview of the Module

An Introduction to International Entrepreneurship

The Nature of International Marketing -
How is it different from domestic marketing?

Patterns in International Business -
The Global Competitive Arena

Significance and benefits of international trade -
Why Export or Import?

Introduction to Ongoing Examples
XYZ Company - Exporter
ABC Company - Importer

International Marketing Questions (General Overview)

Individual Project overview

TP 1-9

The Macro Environment of International Trade

Economic

- World/Regional Economic Conditions
- International Financial System
  - Exchange Rates, International Banking

Political and Legal

- Regulations, Standards, Stability

Cultural

Technological

- e.g., Information Technologies

Environmental

MERCHANCISE EXPORTS AS A PERCENTAGE OF GROSS NATIONAL PRODUCT[a]

Period	United States	France	Germany	Italy	Netherlands	United Kingdom	Japan	Canada
1980	8.1	17.5	23.6	17.1	43.7	20.5	12.2	24.6
1981	7.7	18.2	25.7	18.4	48.5	19.8	13.0	23.5
1982	6.7	17.5	26.8	18.2	48.0	20.0	12.8	22.6
1983	5.9	18.0	25.7	17.5	48.3	19.9	12.4	22.3
1984	5.8	19.5	27.6	17.7	52.4	21.6	13.5	25.2
1985	5.3	19.3	29.1	18.4	53.7	22.0	13.2	24.9
1986	5.1	17.2	27.1	16.1	45.4	19.1	10.7	23.7
1987	5.4	16.8	26.1	14.7	43.4	19.3	9.5	22.6
1988	6.6	17.5	26.7	15.4	45.6	17.3	9.2	23.7
1989	7.0	18.7	28.3	16.3	48.3	18.1	9.7	22.5
1990[b]	7.0	19.3	26.4	15.3	NA	19.2	10.1	23.0

NA — Not available.
[a]Gross domestic product for France, Italy, and Canada.
[b]Partial year data.

Sources: U.S. Department of Commerce, *International Economic Indicators*, March 1985, 36; IMF, *International Financial Statistics*, January 1991; OECD, *Quarterly National Accounts*, No. 2, 1990; *Bank of Canada Review*, January 1991; *Japan Economic Statistics Monthly*, November 1990; Reihe 4, *Saisonbereinigte Wirtschaftszahlen*, December 1990 (Statistiche Beihefte zu den Monatsberichten der Deutschen Bundesbank).

TP 1-10a

U.S. - Poland Trade

(Million US$)

	1990	1991
Import	$406.0	$458.0
Export	409.0	356.0
Steel Products	10.7	14.2
Textiles	66.9	59.3
Food & Agriculture	126.0	76.0
Cheese	3.1	3.8

Source: Leszek Preisner. Academy of Mining and Metallurgy, Institute of Economics, Krakow, Poland, 1993.

TP 1-11

Exports and Imports per Capita for Selected Countries, 1989

Country	Exports per Capita	Imports per Capita
United States	$1,463	$1,981
Canada	4,632	4,624
France	3,198	3,440
West Germany	5,524	4,366
Netherlands	7,290	7,044
United Kingdom	2,663	3,457
Japan	2,223	1,702

Source: U.S. Department of Commerce, FT 900; IMF, *International Financial Statistics*, January 1991; OECD, *Main Economic Indicators*, December 1990; CIA, Handbook of Economic Statistics, 1990.
© 1992 The Dryden Press.

TP 1-12

PARTIAL LIST OF CARS AND PARTS IMPORTED BY U.S. COMPANIES

ENGINES AND TRANSMISSIONS:

GM: 980,000 engines and transmissions from Brazil, Japan, and Mexico in 1985, engines from Australia, Italy in 1987.

FORD: 1.5 million engines and transmissions from Mexico, Japan, France, and West Germany yearly; Ranger, Thunderbird, Mustang, Cougar, and truck engines from Brazil.

CHRYSLER: most turbochargers and engines from Japan or Mexico in 1988, high-performance transmissions from West Germany in 1987, engines from England.

AMC: engines, transmissions and other parts for Alliance/Encore and Jeep from France.

DASHBOARD:

GM: Radio parts from mexico; instrument panels from Japan and Britain; ignition parts from Singapore.

UNITED TECHNOLOGIES: 60 percent of wire harnesses from Mexico; remote control starters from Korea.

STEERING:

AMC: tilt steering columns from England.

TRW: rack and pinion steering from Korea.

WINDSHIELD:

GM: wiper and washer systems from Britain.

TRICO: windshield wipers and washers from Mexico.

INTERIORS:

GM: car seats made in Mexico.

Source: Czinkota, M. and Ronkainen I. International Marketing(TM 15). © The Dryden Press.

ENGINEERING AND TOOLING:

FORD: all small-car design, engineering, and tooling from Europe and Mazda in Japan.

CHRYSLER: three future models designed jointly with Masarati in Italy; may outsource engineering to Japan.

AUTO BODIES:

GM: Cadillac, Allante bodies from Italy; steel for 1988 Cadillacs from Japan.

BUMPERS:

GM: from Mexico for many models.

BRAKES:

GM: Anti-lock brakes from West Germany.

WHEELS:

CHRYSLER and ROCKWELL: wheels from Brazil for Dakota trucks; wheels and axles from Korea.

AMC: front and rear axles from France; tires from Japan.

SPRINGS:

GM: luxury-car front coil springs from West Germany; suspension springs from Japan.

CHRYSLER: from England for Dakota pickups; springs and tie rods from Korea.

TRIM:

GM: imported from Canada for U.S. plants.

FORD: imported from Mexico.

RADIATORS AND AIR:

FORD: aluminum radiators from Korea; cylinder heads from Italy; coolings systems from Japan; air conditioners from Mexico.

ENTIRE CARS:

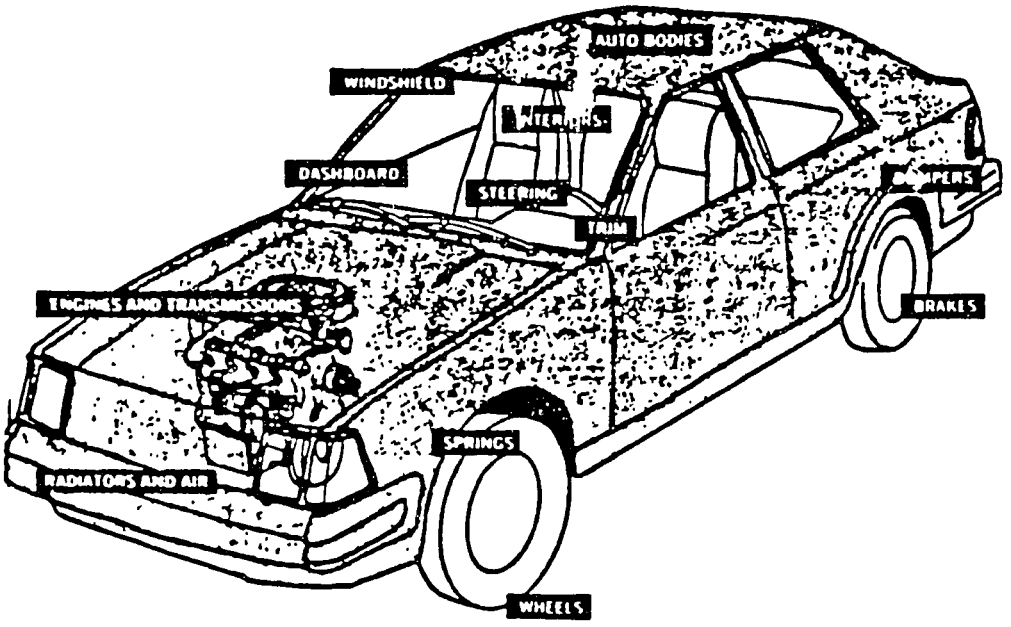
GM: 200,000 Sprint and Spectrum models a year from Japan and Taiwan by 1990; 90,000 Pontiacs from Korea in 1987.

FORD: 230,000 Mazda-type cars yearly from Mexico, Australia and Taiwan by 1990; 40,000 Merkur and Scorpio models from West Germany in 1986; 90,000 Festva minicars from Korea and over 100,000 Mercury Tracers from Mexico annually, beginning in 1987.

CHRYSLER: 140,000 Colts, Vistas, Challengers, Plymouth Champs, Saporos and Conquests a year from Japan; 30,000 K-cars and J-bodies from Mexico; 50,000 subcompacts from Taiwain in 1988; Q-coupes from Italy in 1987.

VW: imports from West Germany and 100,000 Voyage/Paratis from Brazil in 1987.

ALL: Van wagons and many car models from Canada, which sells the U.S. 25 percent more in vehicles and parts than Canadians buy from the U.S.



TP 1-13

REASONS FOR INTERNATIONAL TRADE

1. No country can provide all goods and services.

2. Differences in resources, skills, climate
   - International Division of Labor.

3. Over-production for the home market.

4. Exchange rates may favor trade.

5. To develop foreign markets.

6. Import to conserve resources.

7. Sufficient purchasing power.

8. Political relations or restrictions.

TP 1-14

MAJOR MOTIVATIONS TO INTERNATIONALIZE SMALL AND MEDIUM-SIZED FIRMS

Proactive

Profit advantage
Unique products
Technological advantage
Exclusive information
Managerial commitment
Tax benefit
Economies of scale

Reactive

Competitive pressures
Overproduction
Declining domestic sales
Excess capacity
Saturated domestic markets
Proximity to customers and ports

Source: M. Czinkota, Pietra Rivoli, Ilkka A. Ronkainen, *International Business*.
Copyright © The Dryden Press. (TM 26)

TP 1-15

- **Benefits of International Trade**

- **Risks of International Trade**

  Business

  Economic

  Political

  Financial

- **Managing the Risks**

TP 1-16

Sources of International Credit Information

SOURCE	RESPONSE TIME	COST	COMMENTS
1. Dun & Bradstreet	2 to 4 weeks, depending on location	$60 to $240	Standard in the industry. Data are often sketchy as subjects are reticent to respond to a credit inquiry.
2. World Traders Data Report	Variable; if known name, quick; otherwise, lengthy delays	$100	If prominent name, comprehensive. Tendency to be out of date.
3. Local Credit Agency Report	Long, start from scratch	$100 to $200	Quality varies. International market perspective lacking.
4. Bank Reports	Slow	None	Limited in scope.
5. Federal Credit Interchange Bureau	5 to 6 weeks	Part of membership fee ($500)	Narrow in scope.

Source: Czinkota, Michael R. and Ilkka A. Ronkainen, Chicago. International Marketing, Second Edition. Copyright © The Dryden Press, 1990. Fig. 6.6, p. 178.

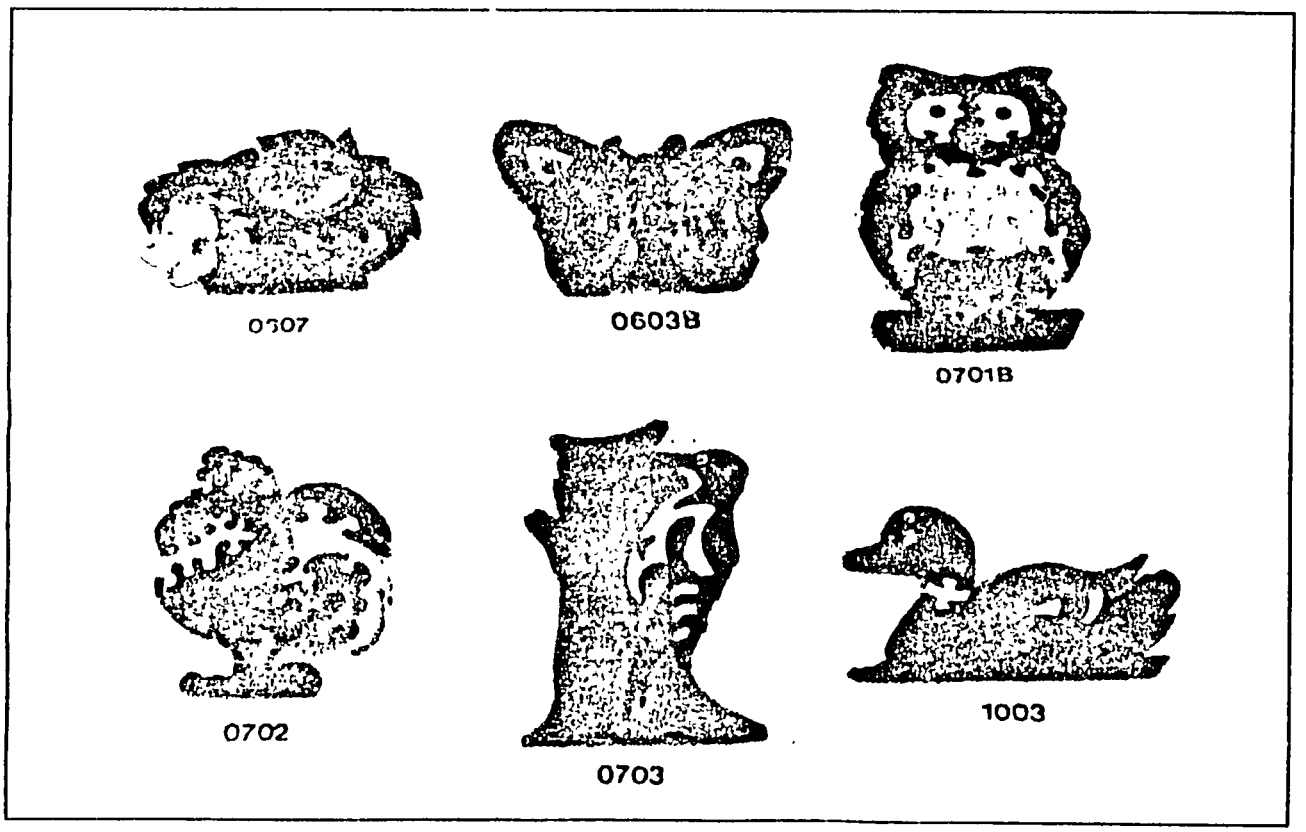
TP 1-17

XYZ Company

JIGSAW PUZZLES TO THE WORLD

Piece of the Action

A Gdańsk-based company called SETI has cornered the world market in jigsaw puzzles.



Source: WARSAW VOICE, Poland July 2, 1992.

TP 1-18

ABC Company
(River)
Krakow

Holding company formed in 1988

6 partners with a small amount of money

5 Divisions are run as individual businesses

Computer - hardware (e.g., Oki printers dealer) biggest sales and turnover

GSS - software formed in late 1990

Clothing - manufacturing

Retail - alcohol and clothing

* Wholesale Shoes (Import Example)

Started by accident

Met Italian businessman who trusted River as partner

Got shoes on consignment

Now one of larger shoe wholesalers in Krakow

TP 1-19

Broad Strategic Issues

(Part I of International Marketing Questions)

What objectives should be pursued in the foreign market?

Which foreign market segments should the firm strive to satisfy?

Which are the best product, place/distribution, pricing, and promotion strategies for the foreign market?

What should be the product-market-company mix to take advantage of the available foreign marketing opportunities?

Source: Czinkota, Michael R. and Ilkka A. and Ronkainen. International Marketing.
©The Dryden Press, 1990.

TP 1-20

Course Project Overview

Export/Import Strategies
International Entrepreneurial Project
(HO 1-20)

Objective:

To develop a foreign export/import strategy for a particular product to/from a particular market.

Please select:

One product or service, preferably one of your own.

Choose either exporting or importing.

The export market is the United States (USA).

The import market is the Far East to Poland.

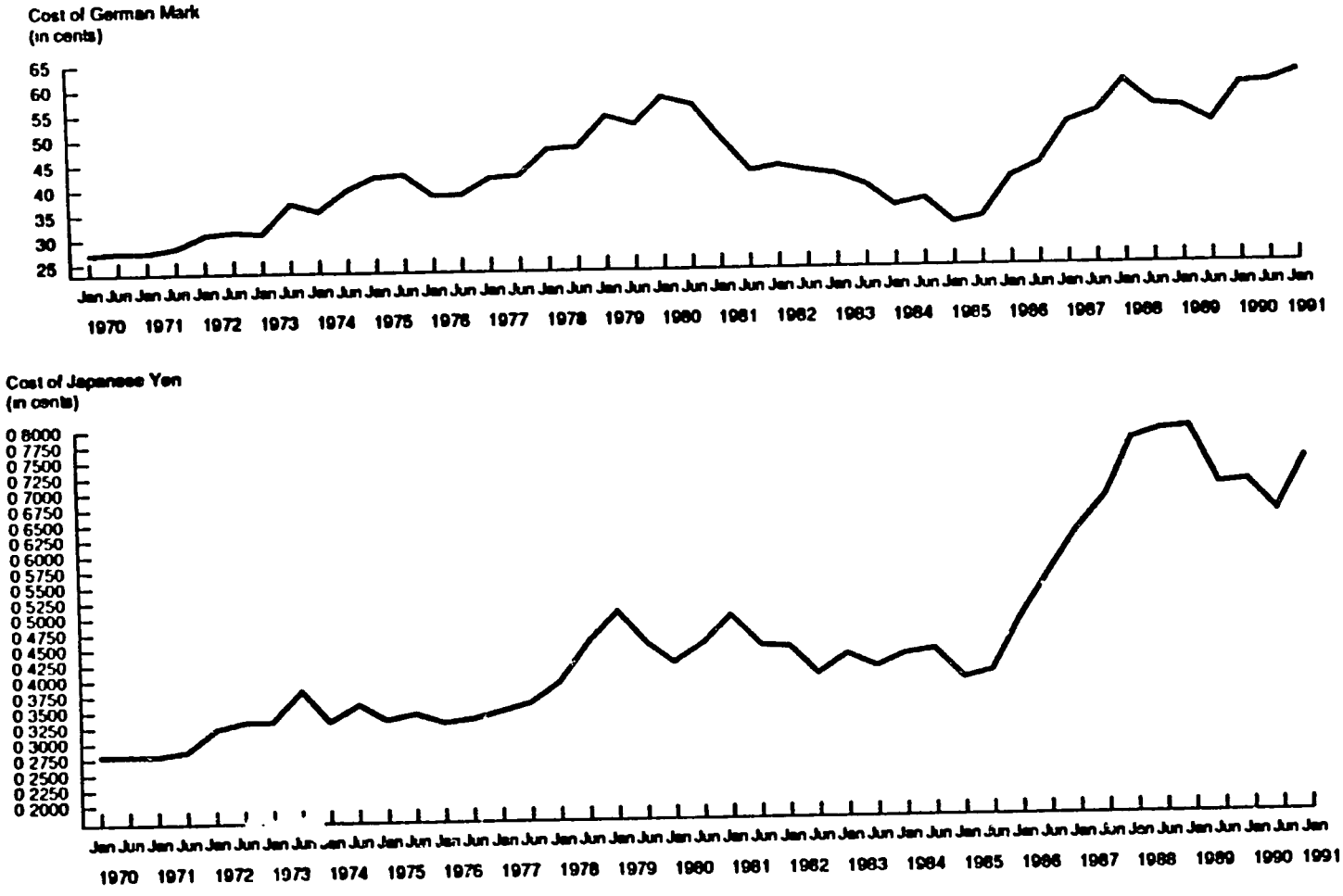
TP 1-21

The Macro Environment of International Trade

<u>Economic</u>

- World/Regional Economic Conditions
- International Financial System
  - Exchange Rates
    - comparison of German, Swiss, and Polish currencies
    - floating versus fixed rates
  - International Banking
  - Alternative Funding Sources
    - International Monetary Fund, The World Bank
    - sources of funding for small businesses in Poland

Value of the Yen and German Mark Relative to the Dollar, 1970-1990
(U.S. cents per unit of foreign currency)



Sources. *Federal Reserve Bulletin, The Wall Street Journal*, various issues

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TP 1-23A

Exchange Rates versus the U.S. Dollar
($1 =)

	February 5 1992	June 24 1992	October 26 1992
Deutschmark	1.6015	1.5655	1.5355
Swiss Franc	1.4275	1.4164	1.3590
Zloty	10,469.01	12,631.00	14,179.01

Exchange Rates versus the Zloty
(1 Zloty =)

	February 5 1992	June 24 1992	October 26 1992
Deutschmark	.0001523	.0001239	.0001083
Swiss Franc	.00043636	.00011214	.00009644
U.S. Dollar	.00009552	.00007917	.00007053

TP 1-23B

Exchange Rates versus the U.S. Dollar
($1 Currency)

	February 5 1992	June 24 1992	October 26 1992
Deutschmark	$.6244	.6388	.6513
Swiss Franc	$.7005	.7060	.7313
Zloty	$.00009552	.00007917	.00007053

Exchange Rates versus the Zloty
(Zlotys/Currency)

	February 5 1992	June 24 1992	October 26 1992
Deutschmark	6536.850	8068.68	9234.80
Swiss Franc	7333.541	8917.49	1036.11
U.S. Dollar	10469.01	12631.00	14179.01

TP 1-24

POLITICAL AND LEGAL REGULATIONS

- Overview of Regulations by Country
- GATT

TP 1-25

SOME PROVISIONS OF THE EC WHITE PAPER

Free Movement of Goods

- Abolish border controls on the transportation of goods
- Reduce state subsidies to industries
- Employ the mutual recognition approach for most goods

Free Movement of Services

- Initiate mutual recognition of regulatory standards
- Increase competition for public procurement
- Harmonize regulation of transportation and communication services

Free Movement of Capital

- Abolish exchange controls
- Allow trading in securities across borders
- Initiate EC oversight of large corporations and mergers

Free Movement of Labor

- Abolish border checks on EC citizens
- Establish mutual recognition of diplomas and other certifications
- Institute EC vocational training card to allow EC-wide recognition of skills
- Institute a common immigration policy

Source: Czinkota,M.R., Ronkainen A. International Business. ©1992 The Dryden Press. Tab.6.3, TM 14

TP 1-26

TRADE BARRIERS

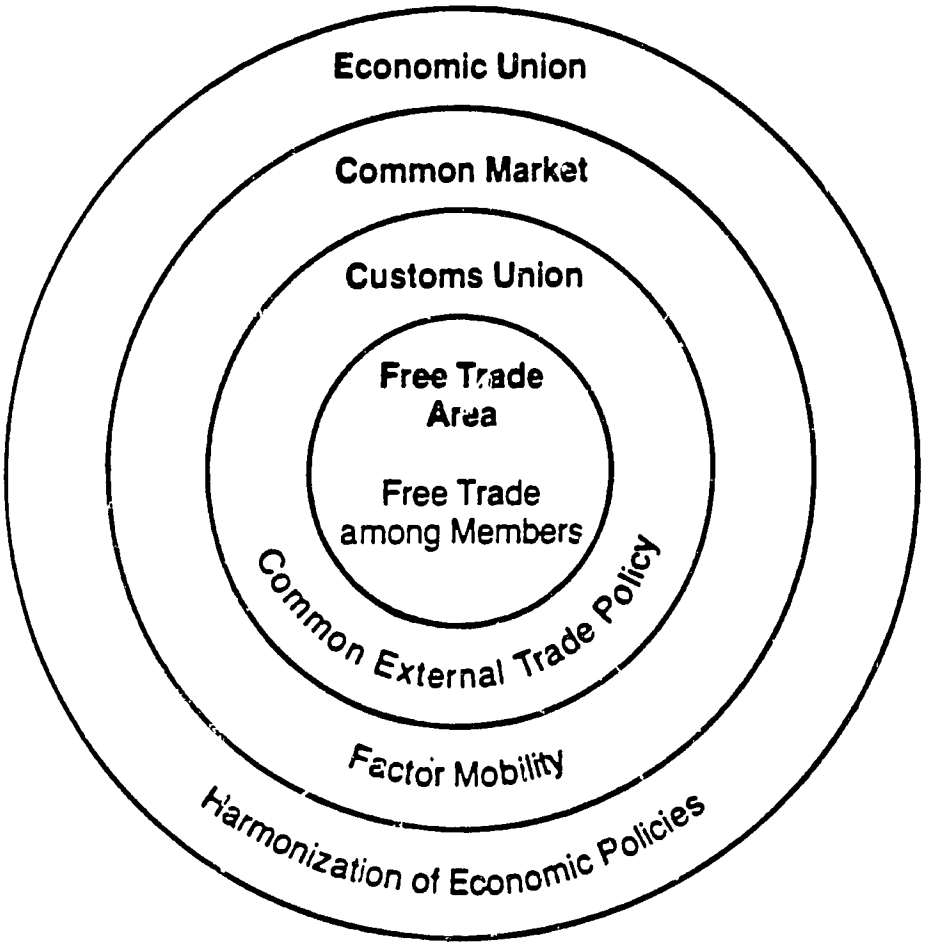
There are literally hundreds of ways to build a barrier. The following list provides just a few of the trade barriers that exporters face.

- Restrictive licensing
- Special import authorization
- Global quotas
- Voluntary export restraints
- Temporary prohibitions
- Advance import deposits
- Taxes on foreign exchange deals
- Preferential licensing applications
- Special taxes and excise duties
- Licensing fees
- Statistical taxes
- Excise duties
- Sales taxes
- Consumption taxes
- Discretionary licensing
- Licenses for selected purchases
- Country quotas
- Seasonal prohibitions
- Health and sanitary prohibitions
- Foreign exchange licensing
- Licenses subject to barter and countertrade
- Customs surcharges
- Stamp taxes
- Consular invoice fees
- Taxes on transport
- Service charges
- Value-added taxes
- Turnover taxes
- Internal taxes

Source: Czinkota, M.R. and I. Ronkainen International Marketing. Copyright © 1992 The Dryden Press. TM 17, Tab. 7.2.

TP 1-27

Levels of Economic Integration



Source: Czinkota, Michael R., et al. *International Business*, second edition. ©1990, The Dryden Press.

TP 1-28

POLITICAL AND LEGAL

Standards

Poland to EC

ISO 9000

Stability

Political

Economic

TP 1-29

CULTURAL

Differences Among Markets

- United States
- European Community
- Asia

TP 1-30

BUSINESS PREFERENCES ACROSS CULTURES

1. In Great Britain, "by the end of the day" means (within 24 hours, at the end of the job).

2. "Bombed" means (a success, a failure) in the US.

3. "Bombed" means (a success, a failure) in Great Britain.

4. It is appropriate to give white flowers to Japanese associates. (true or false)

5. Arabs and Latin Americans like to stand (closer to, farther away from) each other than Northern Europeans do.

6. It is appropriate for business partners to kiss on the lips in (the US, Germany, Slavic Republics).

7. What are usual lunch hours in Spain, Germany, United Kingdom, Norway?

8. What are normal business hours for France, Greece, Norway, Poland?

TP 1-31

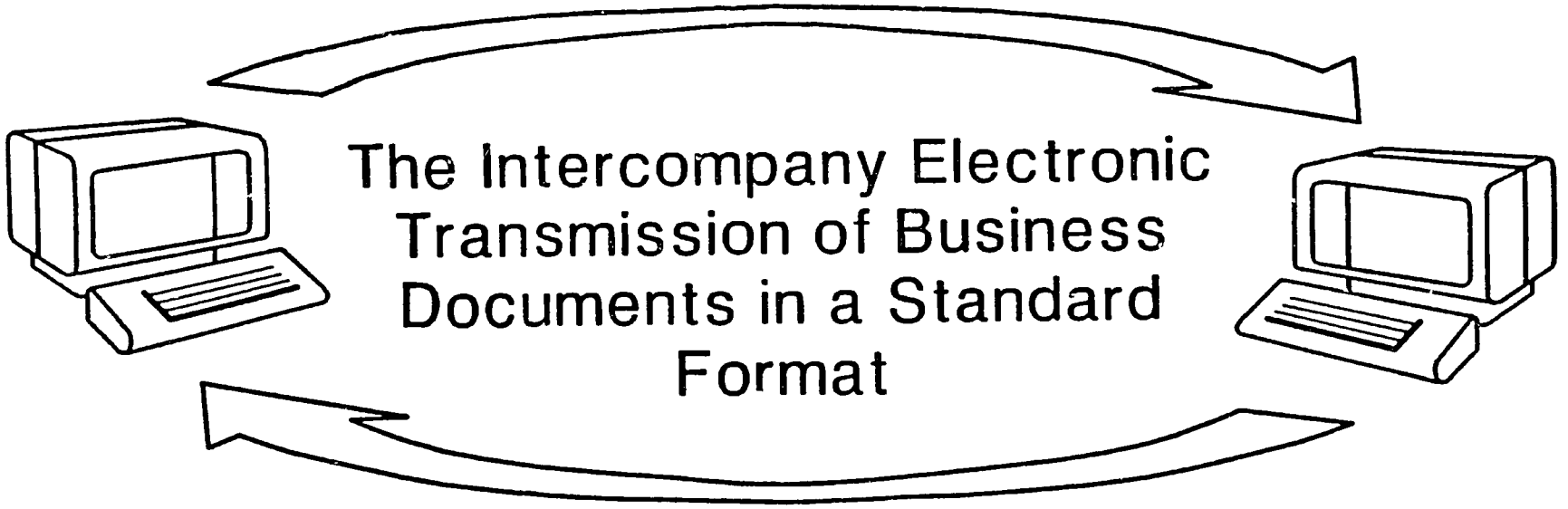
TECHNOLOGICAL

- Differences Between Poland and Other Markets
- Information Technologies
  - EDI, Fax, Telecommunications
  - Substituting Information for Investment

ENVIRONMENTAL

- Effects on Market Openness
- Responsibility

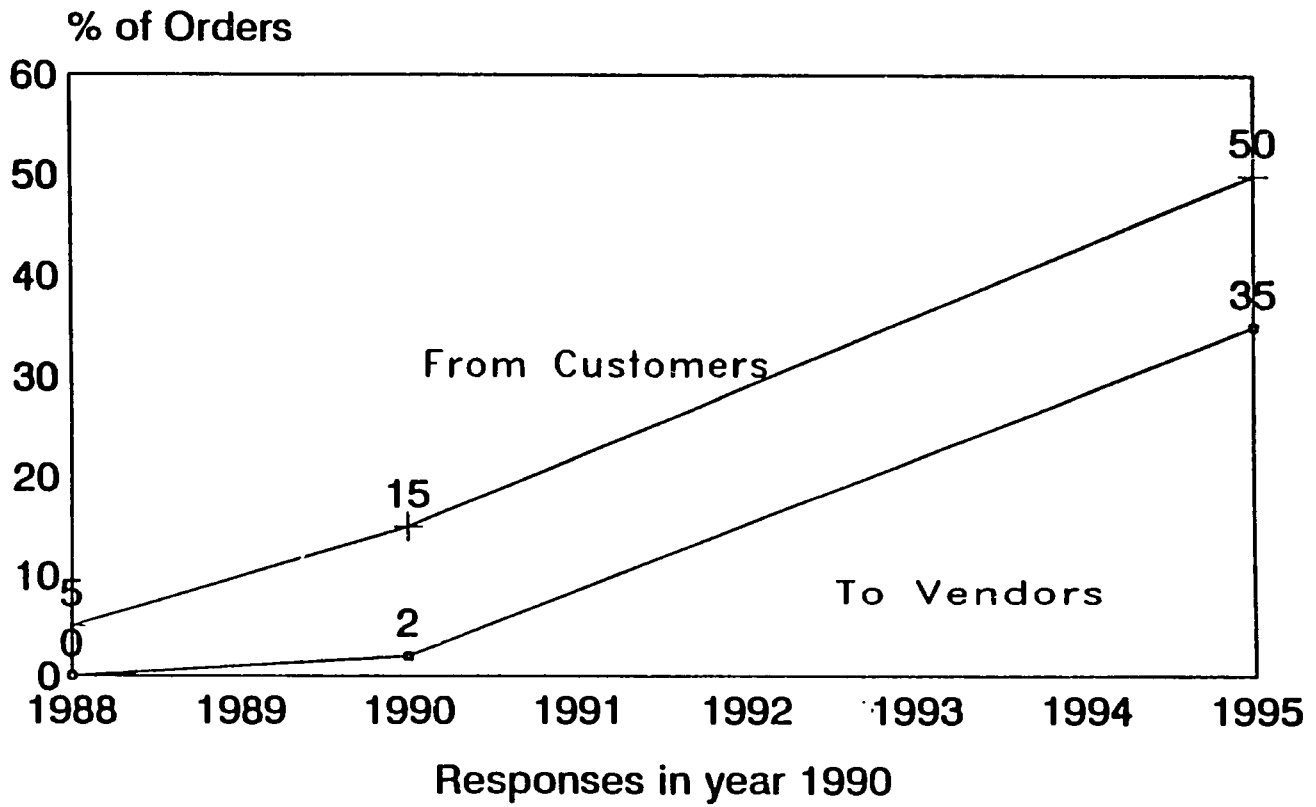
ELECTRONIC DATA INTERCHANGE



Source: House, Robert G. General Electric Information Systems.

Percent of Orders Transmitted by EDI

(Electronic Data Interchange)

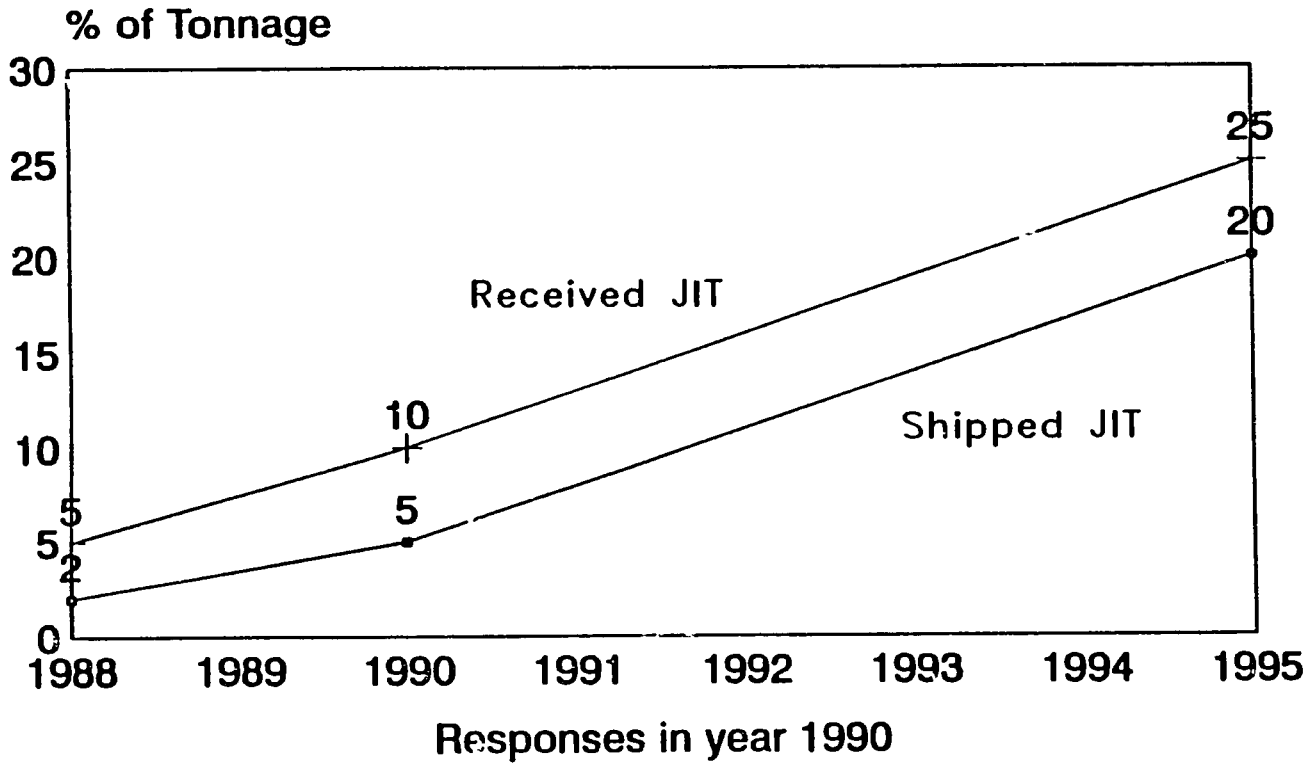


Median Values

Source: *Distribution Handbook*, Cooper, Innis, & Dickson, 1993.

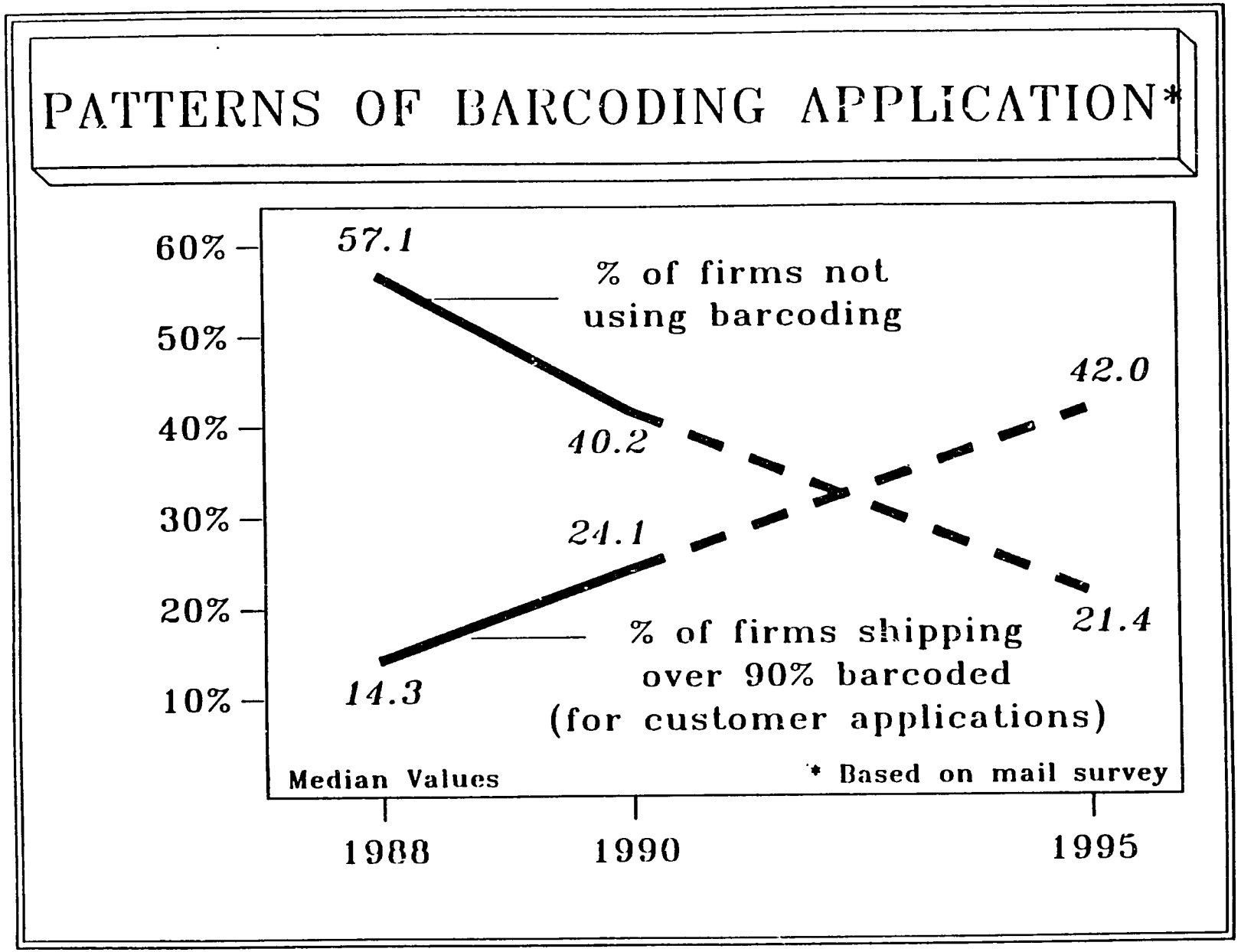
Percentage of Tonnage

Shipped/Received Just in Time



Median Values

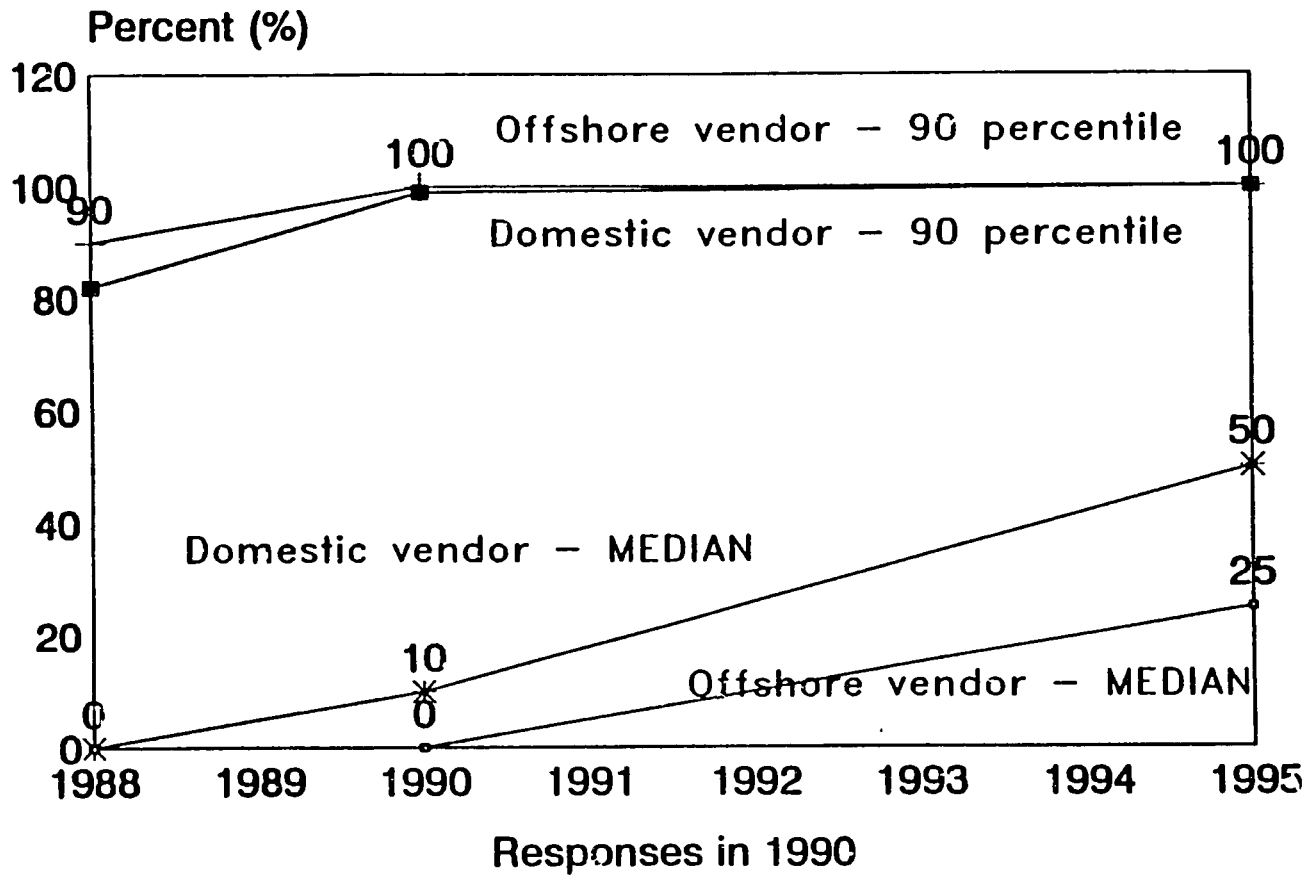
Source: *Distribution Handbook,* Cooper, Innis & Dickson, 1993.



Source: *Distribution Handbook*, Cooper, Innis & Dickson, 1993.

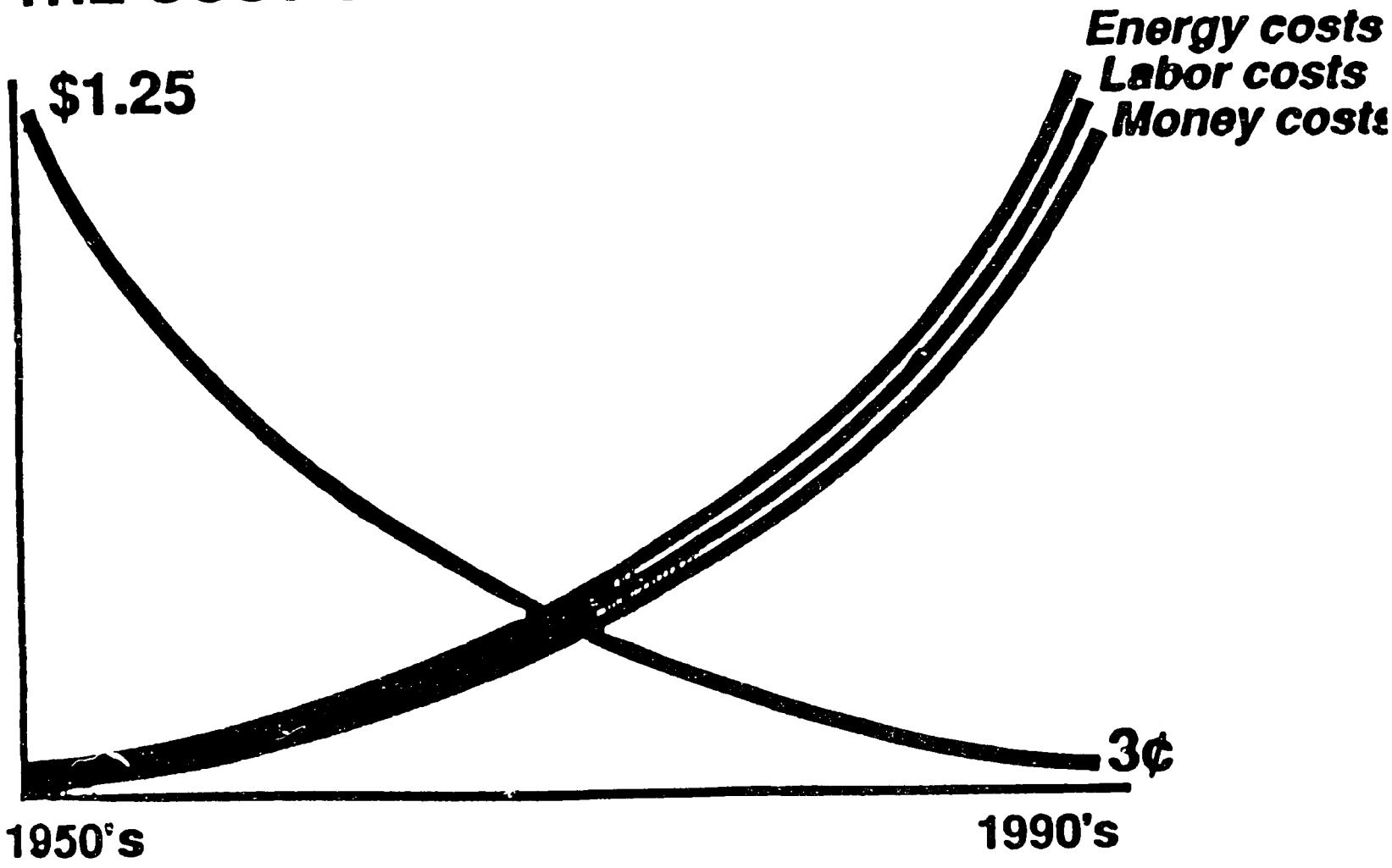
Percentage of Inbound Merchandise Barcoded

(in a format that our company uses)



Source: *Distribution Handbook*, Cooper, Innis & Dickson, 1993.

THE COST OF COMPUTING POWER



Source: Czinkota, Michael R.; Rivoli Pietra; Ilkka A. Ronkainen. *International Business*, Second edition. Copyright © The Dryden Press.

WHY EXPORT?

As technological advances in transportation and communications shrink both time and space, the international business world continues to grow, and more organizations are discovering the many benefits of exporting. These are just some of the advantages that selling abroad may yield:

- Increase overall sales volume
- Enlarge sales base, spreading out fixed costs
- Use excess production capacity
- Improve economies of scale in production, marketing and distribution
- Compensate for the seasonal fluctuations in domestic sales
- Find new markets for products with declining domestic sales
- Exploit the advantages in untapped markets
- Take advantage of high-volume foreign purchases
- Acquire knowledge of more efficient foreign technical methods
- Contribute to the company's overall expansion
- Assist in closing the federal trade deficit
- Create more jobs

As with everything, exporting does not come without risks. Exporting is a very complicated and a potentially risky business. There are both economic and political considerations that must be accounted for by an exporter.

- Economic Considerations
  - Risk of unexpected shifts in the future of foreign cash flows.
  - To hedge or not to hedge[1]?
  - Risk of changes in the value of domestic currency.
  - Availability of foreign exchange.
  - The possible imposition of quotas.

- Political Considerations: Macrorisks and microrisks[2]
  - Risk of governmental policy alterations with direct or indirect bearing on the firm or its products.
  - Risk of domestic social violence that may, in any way, disrupt the free flow of cash and/or cargo.
  - Risk of international disputes and/or military intervention that may disrupt the market.
  - Assessing the political risk of potential market area.

---

[1] *Hedging: The purchase or sale of foreign exchange for the purpose of avoiding any risk in the event of a change in the foreign exchange rate. (As opposed to inaction when it is assumed that the currency fluctuations will be offset by price changes.)*

[2] *Macrorisk: The political risk that exists for all firms in a particular country.*
Microrisk: The political risk that exists for a particular firm or industry of a given country.

HO 1-2

Exporting to 20 Counties
Including the USA

SETI S.C.
Jaskowa Dolina 73
80-252 Gdansk
Phone/fax 058 416424

Background

SETI was started by two couples in 1989. One husband and wife were physicists, the other were chemists. SETI makes wooden puzzles which are classified as toys for importing declarations in other countries. There are approximately 150 puzzles in such shapes as animals, numbers, and letters. The puzzles are painted in bright colors.

The company name SETI originated by the first initial of each of the partner's first names, except that the "J" in one name was changed to the letter "i".

The company presently exports to twenty countries in Europe and North America. At the beginning SETI's sales were 95% export, they are now 85%.

The puzzle designs are not registered outside Poland because of costs, some times several hundred dollars per item. The market is not big so competitors don't copy. Since the puzzles are viewed as a fashion item, the designs are changed frequently.

When did you get started in business?

One partner contacted a Polish designer through a personal relationship of a friend who was an importer in Denmark. The partner learned about the toys and her inspiration began in March/April of 1989. The partners thought this was a good idea. They agreed on the terms of partnership and also the terms with the designer for royalties.

1989 was the last moment to spend money in foreign currency. There were heavily subsidized prices and the black market rate was very high. Later the currency cost five times as much. For example, the rate in January was 40%. If one borrowed $1000 — 1 month, then they had to pay back $1400 — shock therapy. As a result of this, they did not want to borrow any money.

In 1992 the designer of some of their original puzzles went into competition with SETI.

How did you get started in business?

One of the owners comes from a carpentry family. She was a partner for four years in a small firm that contained a saw mill, and a small carpentry shop (3 people). Her husband was forbidden to be in the business since he was a state worker. The president of the University would have had to give him permission to work, so he didn't try. The business was sold in 1988 because work in a saw mill is hard and the profits are not that big.

Another partner had greenhouses where he grew flowers and some vegetables. It was an extremely good business in the 70's but not so good in the 80's. It was very hard work and one had to be tied to the business.

One couple had enough room at their real estate in town so a workshop was built. Everyone worked very hard to finish the construction of the workshop between June and September, 1989. They started production and worked on improving efficiency. Production was very slow in the beginning. They only produced 800 items per month.

How did you select the product?

The product was already determined at the point they decided to supply the Danish importer with puzzles by the designer. The puzzles are individually handmade so that each piece fits together. Every puzzle is cut, polished, and painted separately. They would like to mass produce, but machinery is expensive and doesn't work well with wood (glass is OK). An Ingersoll-Rand machine may cost $200,000.

The puzzles are made with Polish wood, German paint, and German jigsaw blades are used for the Polish machinery (wife's father's).

The wood is soft linden, the gain of pine. It needs careful drying or it is weakened by faults in the grain. However, it has a rough finish. SETI is experimenting with different kinds of wood for their reaction to temperature, and humidity.

SETI is now considering a broader product line. They will try to expand business into educational items, e.g., have letters with associated animals. The letter "S" puzzle contains a snail.

SETI wants to widen its range of production, such as wooden broaches. They also want to start carpentry production, but that requires building a new workshop or renting one.

How did you select the markets?

Once in full production, they realized the Danish importer could not buy all of the production, so they had to find other markets.

SETI uses mainly wholesalers or import agents to reach buyers in the markets.

The original market was the Danish importer. Through marketing research, one partner talked to importers in Germany. They found out about the Nerumberg fair and went in February every year. They exhibit two times per year domestically, but most buyers in Poland are exporters.

What channels did you consider?

A German company distributes these kinds of items in Germany, and they introduced small quantities to other countries. They have only been in the USA for the past two years.

SETI met some problems in Europe because they used no packaging (just a bag made of plastic foil). They now buy only packing and paints approved for the EC. They had to find a producer of this kind of paint and get it tested. It was six months until the first export to Germany. This company was the main customer for the next two years. They were good buyers and payers but difficult because they also represented a Taiwan business who was stronger than SETI. The German company bought 30% of production and paid in 10 days. However, they also sold in countries where SETI already had representatives.

Because of this problem more importers were needed. They widened their range of countries which took two years to distribute to about 20 countries, including Hungary, EC, Canada, United States, and maybe South America.

How do you get your goods to the US and other countries?

Because of financial barriers, import agents do all of the marketing in the country. SETI is just now doing a catalog and printing it for the agents to use. Four color printing is very expensive, so SETI waited until they had the capital to do it, which is their third year in business.

SETI does all customs work themselves rather than pay someone else. There are different needs for different countries. For example, France needs a certificate of origin and origin confirmed by Polish authorities, through agreement between Poland and the EEC allows for producer declaration only and the fabric origin must be written in French. Germany accepts any language.

It helps when one is well educated so one knows how to read the laws. It is wise not to argue with the customs officer. Write what he wants. The officer may not be familiar with the incoterms. Write whatever the officer says but know what is correct. The most common incoterms used are cif and ex-works.

SETI delivers a lot inside Europe by air. For shipments of 100-200 kg, air is competitive against any kind of transport for their products. It represents less than 5% of the value of the shipment. They use LOT or another carrier, usually through Hamburg.

Documents

No Letter of Credit is required of customers.

Invoice

Packing list

Certificate of origin (accompanied by 2 papers — invoices for buying Polish raw materials, application to confirm cert)

Papers accompany each shipment depending on the demands of the customer — e.g., lab tests, compliance with regulations

Custom declaration:
first page for the custom office
second for the statistical purposes
third for the exporter
fourth for the border custom office

Carrier does insurance

How do you determine the price you pay for goods and the price you sell for?

Price in 2 currencies — DM, US$. At first SETI only priced in $US. The retail price the customer pays in the foreign country is between 4—8 times export price, usually 4—5 times.

The catalog is printed in Austria, designed and photographed in Poland. They waited to do the catalogue until four years in business. A classic mistake is to spend too much early in the business on expensive items such as four color catalogs. SETI has avoided this problem. Importers want and will pay for the catalogs, but they have differing ideas on what it should look like.

SETI prices "ex works" but will consider any terms, any mode of transportation (air, truck) to frontier or internal to the foreign country. SETI does not learn about internal regulations.

How are payments/collections handled (e.g., letter of credit)?

No letter of credit is required. Initially customers pay in cash in advance or collect on delivery. Then after one or two times, the terms are 2 10/ net 30 with the money transferred to a Polish bank.

Normally SETI knows its importers personally. After four years of business, they have encountered only 2 firms not honest (both French) who have not paid since September, 1992.

In Poland one has to prove the customer did not pay in order to claim a bad debt. This is a problem.

Disney wants SETI to apply to pay 10,000DM for license and take royalty for making Disney characters. Previously SETI had made samples of Bugs Bunny, Daffy Duck, and the Tasmanian Devil for Warner Bros. but they wanted 1/2 of the product price, so that was not feasible. New businesses need to be careful about taking any kind of business. Some may be very costly.

Contacts: principals of SETI

Mr. and Mrs. Jacek Mizerski
Mr. and Mrs. Stanislaw Szabuniewicz

Note: Sample documents used by the company are attached.

Przed wypełnieniem tego formularza należy dokładnie przeczytać wskazówki podane na odwrotnej stronie.

Formularz

EUR. 2 Nr **A** 0063533

1 Formularz stosowany w handlu preferencyjnym między (1)

POLAND | EEC

2 Eksporter (nazwa, pełny adres, kraj)

SETI S.C.
JACEK MIZERSKI, STANISŁAW
SZABUNIEWICZ, 80-252 GDAŃSK
UL. JAŚKOWA DOLINA 73
POLAND

3 Deklaracja eksportera

Ja, niżej podpisany, eksporter towarów opisanych poniżej, oświadczam, że towary spełniają warunki potrzebne do wypełnienia tego formularza i że towary te uzyskały status produktów pochodzących w oparciu o postanowienia dotyczące handlu preferencyjnego wymienionego w rubryce 1.

»SETI« S.C
Jacek Mizerski & Stanisław Szabuniewicz
80-252 GDAŃSK, ul Jaśkowa Dolina 73
tel /fax (058) 41-64-24

4 Odbiorca (nazwa, pełny adres, kraj)

CEDEX INTERNATIONAL
147 WILLESEDEN LANE
MANCHESTER MN47 2NW
UNITED KINGDOM

5 Miejsce i data

GDAŃSK, 1992.05.04

6 Podpis eksportera

»SETI« S.C
Jacek Mizerski & Stanisław Szabuniewicz
80-252 GDAŃSK, ul.Jaśkowa Dolina 73
tel /fax (058) 41-64-24

7 Uwagi (2)

8 Kraj pochodzenia (3)

POLAND

9 Kraj przeznaczenia (4)

GREAT BRITAIN

10 Masa brutto (kg)

70 kg

11 Znaki, numery przesyłki; opis towarów

1 - 9503 SX/1 TO SX/7
7 CARDBOARD BOXES PUZZLES OF
WOOD HAND-MADE.

12 Urząd w kraju eksportującym (4) odpowiedzialny za sprawdzenie oświadczenia eksportera

URZĄD CELNY w GDYNI
UL. POLSKA 8
GDYNIA
POLAND

(1) Wpisać kraje, grupy krajów lub obszary.

SETI s.c.

Jaśkowa Dolina 73
80-252 Gdańsk
POLAND

tel./fax.:
(058) 416424

Bank account:
Bank Gdański
I Oddz.Gdańsk-Wrzeszcz
Nr 301804-903633-136

For (importer's name):
CEDEX INTERNATIONAL
147 Willeseden Lane
Manchester MN47 2NW
United Kingdom

INVOICE/FAKTURA 53/92 04.05.1992.

	NAME OF A TOY NAZWA ZABAWKI	Art.no.	Unit price Cena jedn. (DEM)	Number of pcs Ilość szt	TOTAL SUMA (DEM)
1.	Snail/Ślimak	0203	3.35	24	80.40
2.	Snail/Ślimak	0202	3.35	12	40.20
3.	Lion/Lew	0204	3.35	24	80.40
4.	Turtle/Żółw	0205	3.35	12	40.20
5.	Pig/Świnia	0220PRB	3.35	48	160.80
6.	Dachshund/Jamniki	0401	5.50	6	33.00
7.	Elephant/Słoń	0402Y	4.00	12	48.00
8.	Pig/Świnia	0403	4.00	6	24.00
9.	Rhino/Nosorożec	0404	4.00	6	24.00
10.	T.Bear/Miś	0405	3.35	36	120.60
11.	Seal/Foka	0408	4.30	12	51.60
12.	Fish/Ryba	0501B	5.00	6	30.00
13.	Penguin/Pingwin	0502	5.00	6	30.00
14.	Dolphin/Delfin	0505	5.00	12	60.00
15.	Lambs/Owce	0506	5.00	6	30.00
16.	Sealing-boat	0510	5.00	6	30.00
17.	Lambs/Barany	0602	5.50	6	33.00
18.	Butterfly/Motyl	0603BYR	5.50	24	132.00
19.	Cat/Kot	0604	5.90	12	70.80
20.	Fish/Ruba	0605	5.50	24	132.00
21.	Hedgehog/Jeż	0607	5.50	18	99.00
22.	Killer whale/Orki	0609SB	5.50	24	132.00
23.	Owl/Sowa	0701GBA	8.50	48	408.00
24.	Woodpecker/Dzięcioł	0703	7.60	12	91.20
25.	Parrot/Papuga	0801	10.30	12	123.60
26.	Parrot/Papuga	0802	10.30	12	123.60
27.	Parrots/Paupugi	0901	11.80	12	141.60
28.	Niels/Nils	1005	6.20	12	74.40
29.	Clown/Klown	1006	5.90	12	70.80
30.	Peacock/Paw	1007	5.90	12	70.80

13 Wniosek o weryfikację	14 Wynik weryfikacji
Prosi się o weryfikację oświadczenia eksportera znajdującego się na pierwszej stronie tego formularza (*)	Przeprowadzona weryfikacja wykazała, że (1) ☐ oświadczenia i informacje podane w tym formularzu są rzetelne ☐ formularz ten nie spełnia wymogów co do autentyczności i rzetelności (patrz wskazówki)
..... (Miejsce i data)	..... (Miejsce i data)
Pieczęć	Pieczęć
..... (Podpis)	..... (Podpis)
	(1) Wstawić X w odpowiednią kratkę

(*) Późniejsze weryfikacje formularza EUR. 2 powinny być wykonywane losowo lub wtedy, gdy władze celne państwa importującego mają uzasadnione wątpliwości co do rzetelności informacji dotyczących autentyczności formularzy i prawdziwego pochodzenia towarów.

Wskazówki dotyczące wypełnienia formularza EUR. 2

1. Formularz EUR. 2 może być sporządzony tylko dla towarów, które w kraju eksportującym spełniają warunki wymienione w przepisach dotyczących handlu, o którym mowa w rubryce 1. Przepisy te należy dokładnie przestudiować przed wypełnieniem formularza.
2. W przypadku przesyłki w postaci paczki przesyłanej pocztą eksporter dołącza formularz do adresu pomocniczego. W przypadku przesyłki listowej wkłada formularz do środka. Informacje „EUR. 2" i numer seryjny formularza powinny być podane odpowiednio w zielonej nalepce (lub ruchomej etykietce) C1 albo w deklaracji celnej C2/CP3.
3. Wskazówki niniejsze nie zwalniają eksportera z wykonania wszelkich innych formalności wymaganych przez przepisy celne lub pocztowe.
4. Eksporter, który używa tego formularza, jest zobowiązany do przedkładania odpowiednim władzom każdego pomocniczego dowodu, jakiego mogą wymagać i do wyrażenia zgody na każdą przeprowadzaną przez nie kontrolę swoich rachunków i procesów wytwarzania towarów opisanych w rubryce 11 tego formularza.

SETI s.c.

Jaśkowa Dolina 73
80-252 Gdańsk
POLAND

tel/fax:
(058) 416424

Bank account:
Bank Gdański
I Oddz.Gdańsk-Wrzeszcz
Nr 301804-903633-136

For (importer's name):

CEDEX INTERNATIONAL
147 Willeseden Lane
Manchester MN47 2NW
United Kingdom

SPECIFICATION/SPECYFIKACJA 53/92 04.05.92

Box no. Pud.nr	Contents Zawartość		pcs szt	Weight(kg) Waga Brutto/netto	cbm
SX/1.	1005	Niels/Nils	12	10.0/9.0	0.06
	0604	Cat/Kot	12		
	0603RY	Butterfly/Motyl	12		
	0402Y	Elephant/Słoń	12		
	0408	Seal/Foka	12		
	0403	Pig/Świnia	6		
	0510	Sealing-boat/Żagl.	6		
SX/2.	0401	Dachshund/Jamniki	6	9.5/8.5	0.06
	0602	Lambs/Barany	6		
	0505	Dolphin/Delfin	12		
	1011S	Monkey/Małpa	12		
	1011A	Monkey/Małpa	12		
	1011R	Monkey/Małpa	12		
SX/3.	0404	Rhino/Nosorożec	6	12.5/10.5	0.06
	0506	Lambs/Owce	6		
	0607	Hedgehog/Jeż	18		
	0609SB	Killer whale/Orki	24		
	1007	Peacock/Paw	12		
	1009	Dragon/Smok	12		
	1008GRB	Lizard/Kameleon	18		
SX/4.	0501B	Fish/Ryba	6	10.0/9.0	0.06
	0605	Fish/Ryba	24		
	0703	Woodpecker/Dzięcioł	12		
	0701G	Owl/Sowa	18		
SX/5.	0801	Parrot/Papuga	12	6.0/5.0	0.06
	0901	Parrot/Papuga	12		
SX/6.	0701BA	Owl/Sowa	30	10.0/9.0	0.06
	0603B	Butterfly/Motyl	12		
	0502	Penguin/Pingwin	6		
	1006	Clown/Klown	12		
	0220R	Pig/Świnia	12		

- 2 -

SX/7.	0405	T.Bear/Miś	36	11.0/9.0	0.06
	0220BP	Pig/Świnia	36		
	0204	Lion/Lew	24		
	0205	Turtle/Żółw	12		
	0203	Snail/Ślimak	24		
	0202	Snail/Ślimak	12		
	0802	Parrot/Papuga	12		
7 boxes			540 pcs	69.5/60.0	0.42

>> S E T I << S.C
Jacek Mizerski & Stanisław Szabuniewicz
80-252 GDAŃSK, ul. Jaśkowa Dolina 73
tel /fax (058) 41-64-24

- 2 -

32.	Dragon/Smok	1009	6.20	12	74.40
33.	Monkey/Małpa	1011SAR	5.90	36	212.40

SUM:	DEM	2,984.40
26.01.93 exchange rate GBP/DEM:		x 0.408
SUM:	GBP	1,217.60
Sea - Freight:	GBP	+ 79.90
SUM TOTAL:	GBP	1,297.50
3% discount for quantity:	GBP	- 36.50
OVERALL TOTAL:	GBP	1,261.00

1. Payment netto in 30 days from the invoice date.
2. 2% discount for the payment in 10 days from the invoice date.
3. Enclosed are: Specification and Certificate of Origin.

>> S E T I << S.C
Jacek Mizerski & Stanisław Szabuniewicz
80-252 GDAŃSK, ul.Jaśkowa Dolina 73
tel /fax (058) 41-64-24

HO 1-2 (continued)

JEDNOLITY DOKUMENT TOWARZYSZĄCY

6 SETI S.C. 008222668
JACEK MIZERSKI, STANISŁAW
SZABUNIEWICZ, 80-252 GDAŃSK
UL. JAŚKOWA DOLINA 73

EX 1

1 1

1 7 53/92

CEDEX INTERNATIONAL
147 WILLESEDEN LANE
MANCHESTER MN47 2NW
UNITED KINGDOM

SETI S.C. UL. JAŚKOWA DOLINA 73
JACEK MIZERSKI WL 0818665

GB 80

008222668

EKSPORTER

GB

WŁADYSŁAW TOJZA

POLSKA WIELKA BRYTANIA

SAMOLOT PL 0 FCA FRANCO PRZEWOŹNIK, GDAŃSK

GBP 1218 24115 11

40

BANK GDAŃSKI I/O GD.-WRZESZCZ
301804 - 903633 - 136

020600

7 KARTONÓW OZNAKOWANYCH SX/1 DO SX/7. 1 95036010
PUZZLE DREWNIANE.

PL 70

60

020

540 1138

FAKTURA 53/92
SPECYFIKACJA 53/92

37

26550

115 100 A

100 A

RĘBIECHOWO

GDAŃSK, 1993.05.04

WŁADYSŁAW TOJZA
AB 7906156

56 Inne zdarzenia podczas przewozu

Stan rzeczy i podjęte środki

G POŚWIADCZENIE ODPOWIEDNICH WŁADZ

H KONTROLA PO DOSTARCZENIU TOWARU (Jeżeli karta [illegible] używana jako świadectwo pochodzenia towarów z EWG).

WNIOSEK O KONTROLĘ

Wnosi się o kontrolę tego dokumentu pod względem jego autentyczności i prawidłowości zawartych w nim danych

Miejsce i data

Podpis

Pieczęć

REZULTATY KONTROLI

Ten dokument (1)

☐ jest poświadczony przez podany w nim UC i dane zawarte w nim są prawidłowe

☐ nie odpowiada wymogom autentyczności i prawidłowości (patrz uwagi poniżej)

Miejsce i data

Podpis

Pieczęć

(1) Odpowiednie zakreślić „X"

I KONTROLA ODBIORCZEGO URZĘDU CELNEGO (POSTĘPOWANIE TRANZYTOWE EWG)

Dzień przybycia

Kontrola zamknięta

Uwagi

Kartę nr 4/5 zwrócono

do

po wpisaniu

nr

Podpis

Pieczęć

POTWIERDZENIE — TRANZYT WSPÓLNOTOWY (wypełnia osoba odpowiedzialna za przedstawienie tej karty w urzędzie przeznaczenia)

Niniejszym oświadczam, że dokument

(do wyjątkiem zdarzeń z pól 55 i 56) wystawiony przez UC w

(nazwa lokalnego urzędu i kraj jego siedziby) pod numerem

został

w nim zarejestrowany nie stwierdzono w nim żadnych nieścisłości podczas transportu towarów, których dokument ten dotyczy

Pieczęć urzędu celnego docelowego

Data

Podpis

HO 1-3

Importing Example (ABC Company)

RIVER
KRAKOW

When did you get started in business?

River is holding company formed in 1988 by 6 partners with a small amount of money. There are separate divisions run as independent businesses:

- computer — hardware (e.g., Oki printers dealer)
  biggest sales and turnover
- GSS — software formed in late 1990
- clothing — manufacturing
- wholesale shoes*
- retail — alcohol and clothing

* Wholesale Shoes division is the focus of this case study.

How did you get started in business?

- started by accident
- met Italian businessman who trusted them
- gave shoes on consignment
- worked for 1 1/2 years
- during recognized market and other sources of goods
- decided to continue
- now one of larger shoe wholesalers in Krakow

How did you select the product?

- kind of product — low to medium-priced shoes
- potential market analysis
- no special department of marketing
  people go to customers, ask what they want, how price compares with others, who is better
- go to shoe fair 2 times per year to show to customers (national)
- go to competitors (20) in Krakow, 3 as big as River

How did you select the source?

1. Built a library of data from all countries

   - from papers — Krakow and foreign
     looked at such places as Ukraine, Czechoslovakia, Greece, France, Taiwan, Singapore, Cyprus, The Netherlands
   - obtained catalogs of national shoe sales listings
     countries such as France, Italy, Hong Kong, China
     also individual suppliers
     now use 200 catalogs and addresses

2. Contacted potential suppliers by various methods

   call, write, fax for catalogs and price list

3. Asked for samples if needed

4. Selected specific suppliers

   - most important criteria are price and warranty of quality
   - also delivery time, packing considerations

What channels did you consider?

- started with trading companies, now more with producers
- some manufacturers, some wholesalers (to control quality)
- when buy more than 1 container of shoes per season, then they are consider themselves a partner with the supplier (wholesaler)
- would like longer term relationships with producers but that takes quantity before producers deal directly with them.

How do you get your goods from the Far East?

Prefer seller to arrange the movement

1. Select supplier

2. Ask for quote, terms of payment, terms of delivery
   - agreement with partner on documents is important for letter of credit

3. Get proforma commercial invoice from partner for prepayment to bank to get letter of

credit or documentary credit

4. Obtain letter of credit — only 3 or 4 banks in Poland can open foreign letter of credit

   a. Go to local bank and ask to open a letter of credit at one of the 3 or 4 banks, e.g., Bank Hanlovy
   b. Local bank asks if River has the money
      - answer is usually no because it is tied up in inventory
   c. Bank puts a block on the River bank account or River asks for credit. The amount is 10% higher than amount to pay because of devaluation and daily rate of $ to zloty ratio.
   d. Bank Hanlovy (Warszawa) then contacts Hong Kong bank who issues letter of credit. Many foreign sellers will not accept Eastern Europe letters of credit. Some bad experiences.

5. Shoes come with a set of documents:

   - commercial invoice (6 copies)
     2 original invoices - 1 for bank, 1 for customs
     If the partner refuses to send 2 original commercial invoices, have to ask customs officer to confirm one copy and take it to the bank.
   - packing list (6)
   - Polish insurance (2)
   - bill of lading (2 or 6)

6. When goods arrive, get information from the transport agent and ask what to do. Send them instructions for container, such as transport to Krakow. When at Krakow, call to have to get customs clearance.

7. Make customs clearance and payment

   - Take invoice and fill out SAD (Single Administrative Document - used by EC)
   - Go to customs and stand in line or use agent (feels it can take more time and be more complicated.) Give SAD to customs officer, get customs to agree that it is what was shipped.
   - Can present documents only in the morning (cheaper to do ourselves than use agent 1,500,000 Z). If miss it, have to wait until the next day.
   - Have warehouse person, transport person, and River representative meet at customs (8-8 p.m.)
   - Pay customs tax (15% for shoes) and turnover taxes (25%)

Note: The language of business is <u>English</u>. All documents concerning the contract are in English.

How do you determine the price you pay for goods and the price you sell for?

- Doesn't matter whether price quoted ex works or cif for River. Can calculate the total price themselves because of experience.
  For example, if hong Kong partner says $4500, know it is at most $2-3000 for transportation.
- More comfortable to be priced to Krakow.

How are payments/collections handled (e.g., letter of credit)?

- Letter of credit (paper — sent by post, slower) or dc(documentary credit transfer by telegraph -quickest)
- Problem with inflation — It takes 3 months from contract to payment to delivery, so money tied up that time with letter of credit. If know the partner for a while, can get better arrangements.

Note: Sample documents for importing are attached.

SELLER

Hong Kong

PROFORMA INVOICE

BUYER:
RIVER SP.Z.O.O.
31-148 KRAKOW,UL WROBLEWSKIEGO 5
POLAND

INVOICE NO. SDL/SF/PL28/92
DATE: JUNE 3, 1992
PRICE ARE: CIF KRAKOW

STYLE NO.	QUANTITY	DESCRIPTION	UNITE PRICE		AMOUNT
				CIF KRAKOW	
SF-8424	3,960 PRS	CHILDREN'S PVC SPORT SHOES.	US$	/PR	US$
SF-8414	5,976 PRS	CHILDREN'S PVC SPORT SHOES.	US$	/PR	US$
				TOTAL:	US$

ASSORTMENT

27	28	29	30	31	32	=36 PRS / CTN
4	6	8	8	6	4	

TOTAL AMOUNT: SAY UNITED STATE THOUSAND HUNDRED AND CENTS ONLY.

TOTAL QUANTITY: 9,936 PRS IN ONE 20FT CONTAINER.

PACKING: EACH PAIR IN BOX, 36 PAIRS IN ONE CARTON.

DELIVERY: ON/BEFORE 15th JULY 1992,SHIPMENT FROM HONG KONG TO KRAKOW.

PAYMENT TERM: BY IRREVOCABLE LETTER OF CREDIT AT SIGHT, SHOULD BE OPEN BEFORE 8th JUNE 1992.

OUR BANK INFORMATION: NAME: WING LUNG BANK LTD
ACCOUNT NAME: SUNDIAL FAR EAST DEVELOPMENT CO LTD
ACCOUNT NO. 17-000-1064-5

For and on behalf of
SUNDIAL FAR EAST DEVELOPMENT CO. LTD.

Authorized Signature(s)

SHIPPER

[redacted] LTD

SELLER

Hong Kong

No. 525/501/020/00280/201

POSEIDON CONTAINER
TRANSPORT GMBH HAMBURG

Ballindamm 17
D-2000 Hamburg 1 West Germany
Telefon (040) 32 81 04-0
Telex 2 14 196

(Carrier)

(CONSIGNEE) ORDER OF

HURTOWNIA KRAKOW

Consignee's Agent of Forwarder (Noshy address)

, HURTOWNIA
KRAKOW UL.
POLAND

Carrier's address or agent for place of delivery (for delivery apply to)

C. HARTWIG
P.O. BOX 375 U.1,
POZNANSKA 15,
P - WARSCHAU, POLAND.

BY First Subcarrier (Vehicle or Vessel)

FROM Place of acceptance: HONG KONG (CY)

BY Main Subcarrier (Vehicle or Vessel): PIONER NAKHODKI 20W

VIA Ports and/or terminals of transfer between Subcarriers (subject to change in Carrier's discretion): VOSTOCHNY (CIS)

BY On Subcarrier (Vehicle or Vessel)

Place of delivery: KRAKOW (F.O.R.)

Final Destination

Number of original B/L: THREE (3)

Marks and numbers	No. and kind of packages	Description of the goods (with Brussels code nos)	Gross Weight (and measurement)	
		SHIPPER'S LOAD & STOW & COUNT & SEAL (KGS)		(CBM)
		1 X 20' CONTAINER S.T.C.		
RIVER C/NO. 1-110 KRAKOW POLAND	276 CTNS ========	CHILDRENS PVC SPORT SHOES SF-8424 - 3,960 PRS, EACH IN BOX. CHILDRENS PVC SPORT SHOES SF-8414 - 5,976 PRS, EACH IN BOX. CONTRACT NO. 0138[illegible]67-92-0004 DRAWN UNDER DOCUMENTARY CREDIT NO. 03/[illegible]92-82655 OF BANK HANDLOWY W.	5327.000	27.950
RIVER C/NO.111-276 KRAKOW POLAND		'FREIGHT PREPAID' [illegible]ARSZAWIE S.A., WARSAW.		
SIZE	CONTAINER NO.	SEAL NO.	FCL/FCL	
20'	CTIU-3233238	1[illegible]79[illegible]	5327.000	2300.000	7627.000	27.950	276

ORIGINAL

TOTAL : ONE (1 X 20') CONTAINER ONLY...

DEAL NO : 14 -

Shipper's declared value: 150 [illegible]

Documents accompanying shipment

Freight and Charges

Freight payable at: HONG KONG

CONTAINER RENT INCLUDED UP TO
7 DAYS AFTER ARRIVAL EXCEEDING
THIS PERIOD THE FOLLOWING CHARGES
WILL BE COLLECTED BY P.C.T. OR
THE NOMINATED AGENT;

US$ 5.-/20FT PER DAY
US$10.-/40FT PER DAY

PCT CONTAINER TRANSPORT GMBH
ON BOARD
15 JUL 1992

Received the above shipment, at the place named above, in apparent good order and condition unless otherwise stated, and to be carried to and delivered at the final destination named above to the holder of this B/L by endorsement (unless marked non-negotiable). Weight, measure, marks, numbers, quality, contents and value as declared by the Shipper but unknown by the Carrier and Subcarriers.

In accepting this Bill of lading the Merchant expressly accepts and agrees to all its stipulations exceptions and conditions whether written printed stamped or otherwise incorporated and in particular to the terms attached hereto as if they all signed by the Merchant.

In witness whereof the number of original Bills of Lading stated above all of this tenor and date has been signed one of which being accomplished the other(s) to stand void.

Place and Date of Issue: HONG KONG 15/JUL/1992

Signed for and on behalf of Poseidon Container Transport GmbH as Carrier by
PCT CONTAINER TRANSPORT LTD.

ZI Insurance
NEW ZEALAND INSURANCE COMPANY LIMITED

DUPLICATE

CENTRAL BRANCH	Date Issued 14/07/92	No. of Copies 2	
Certificate No. 7 2906783 MC	Replacing Cover Note No.	Open Cover No.	Account No. 07 0317307
Insured SELLER			Letter of Credit Reference 03/1M/92-302855
Financial Interest			
Vessel Name/Flight No./Parcel Post PIONER HOLIDAY		Voyage No. 20W	Marks/Air Waybill/P.O. Receipt No. AS PER B/L
Voyage HONG KONG TO KRAKOW, POLAND.			Sailing/Flying/Mailing on or about 15/07/92
Sum Insured USD amount	As Arranged		Premium As Arranged

Declared to be on

RIVER
C/NO.1-110
KRAKOW
POLAND

ONE 20' CONTAINER ONLY.
TOTAL: 276 CARTONS OF:
5,780 PRS OF CHILDRENS PVC SPORT SHOES SC-8424.
5,976 PRS OF CHILDRENS PVC SPORT SHOES SC-8414.

RIVER
C/NO.111-276
KRAKOW
POLAND

Value as above

Conditions of Insurance : As per the wording overleaf, the clauses headed "IMPORTANT" overleaf, and the following clauses of the Institute of London Underwriters, current on date of signature of this policy and/or as otherwise stated.

Institute Dangerous Drugs Clause (as per overleaf)

Notice of Loss Clause (as per overleaf)

Certificate

CLAIMS PAYABLE AT DESTINATION.

COVERING ALL RISKS & WAR, SRCC & TPND, INCLUDING FROM WAREHOUSE TO WAREHOUSE, AND GOODS ON WHOLE WAY FROM SELLER TO KRAKOW AS PER THE FOLLOWING CLAUSES:-

AGAINST ALL MARINE RISKS AS PER INSTITUTE CARGO CLAUSES (A) 1/1/02 INCLUDING COVER AS PER INSTITUTE THEFT, PILFERAGE AND NON DELIVERY CLAUSES 1/12/82, INSTITUTE WAR CLAUSES (CARGO) 1/1/82, INSTITUTE STRIKES CLAUSES (CARGO) 1/1/82.

INCLUDING WAREHOUSE TO WAREHOUSE AS PER INSTITUTE CARGO CLAUSES (A) 1/1/02.

Survey Agents	Settling Agents
POLISH CHAMBER OF FOREIGN TRADE AVERAGE AGENTS OFFICE POLASKIEGO 6, 81-368 GDYNIA, POLAND	POLISH CHAMBER OF FOREIGN TRADE AVERAGE AGENTS OFFICE POLASKIEGO 6, 81-368 GDYNIA, POLAND

Signed for & on behalf of the Company

FAX: (852)4130603

DATE: 21th JULY 1992

PACKING LIST

To: Name
Address
Poland

VESSEL/VOYAGE: PIONER NANKOKI 20W

SHIPPED ON BOARD DATE: 15th JULY 1992

SHIPPING MARKS:

RIVER	RIVER
C/NO.1-110	C/NO. 111-276
KRAKOW	KRAKOW
POLAND	POLAND

DESCRIPTION OF GOODS:

110 CTNS 3,960 PRS CHILDRENS PVC SPORT SHOES SF-8424, EACH PAIR IN BOX,

SIZE & COLOR	27	28	29	30	31	32	
WHITE:	5	5	6	6	7	7	= 36 PRS X 110 CTNS = 3,960 PRS

166 CTNS 5,976 PRS CHILDRENS PVC SPORT SHOES SF-4414, EACH IN BOX.

SIZE & COLOR	27	28	29	30	31	32	
WHITE:	5	5	6	6	7	7	= 36 PRS X 166 CTNS = 5,976 PRS

MEASUREMENT: 27.95 CBM

WEIGHT: 5327 KGS
GROSS WEIGHT: 7627 KGS

DEM. NO. 314
1 9 U A 9 0 2 2
FOR [illegible] OFFICE

For and on behalf of
SUNDIAL FAR EAST DEVELOPMENT Co. Ltd.

Authorized Signature(s)

SELLER

Hong Kong

INVOICE

Invoice No. SDL-90-206

HURTOWNIA
KRAKOW Ul..
POLAND

Date: 21th JULY 1992

CONTRACT NO. 003889557-92-0004

Style No.	Quantity	DESCRIPTION	Unit Price	Amount
			CIP KRAKOW	
SF-8424	3,960 PRS	CHILDREN$ PVC SPORT SHOES, EACH IN BOX.	US$ /PR	US$
SF-8414	5,976 PRS	CHILDRENS PVC SPORT SHOES, EACH IN BOX.	US$ /PR	US$
			TOTAL:	US$

TOTAL: SAY UNITED STATES DOLLARS THOUSAND HUNDRED AND CENTS ONLY.

TOTAL QUANTITY: 276 CTNS CONTAINING 9,936 PRS PACKED IN ONE 20FT CONTAINER.

DOCUMENTARY CREDIT NO. 03/IM/92-382855 OF BANK HANDLOWY W. WARSZAWIE S.A., WARSAW.

VESSEL/VOYAGE: PIONER NAKHODKI 20W

FROM HONG KONG TO KRAKOW, POLAND

SHIPPED ON BOARD DATE: 15th JULY 1992

B/L NO. 525/501/020/00280/201

SHIPPING MARKS: RIVER C/NO, 1-110 KRAKOW POLAND | RIVER C/NO, 111-276 KRAKOW POLAND

SEAL [illegible] 14 - 16 [illegible] 022

For and on behalf of
SUNDIAL FAR EAST DEVELOPMENT CO. LTD.

Authorized Signature(s)

HO 1-3 (continued)

KARTA DLA ODBIORCY / KARTA DLA NADAWCY

8 Importer/Odbiorca Nr 003889557
Hurtownia
ul.
31-553 Kraków

9 Osoba odpowiedzialna za sprawy finansowe

10 Kraj 1-go przeznaczenia HK | 11 Kraj ost./zp | 12 Szczegóły dotyczące wartości | 13 WPR

14 Zgłaszający 000143538-25000000
51-1-572-01009
PSH C.Hartwig Warszawa
Oddział Małaszewicze

15 Kraj wysyłki Hong Kong | 16 Granica wysyłki HK | 17 Środek transportu przy wysyłce

18 Środek transportu w.agon kolejowy | 19 Kont. 1 | 20 Warunki dostawy CIF

18 Kraj pochodzenia towaru Hong Kong | 17 Kraj przeznaczenia towaru

21 Środek transportu na granicy | 22 Waluta i ogólna wartość faktury USD | 23 Kurs waluty | 24 Rodz. warunków

25 Rodz. transp. na granicy 20 | 26 Rodzaj transp. wewn. | 27 Miejsce załadun.

28 Bank i nr konta

29 Urząd celny graniczny | 30 Miejsce odprawy celnej

31 Oznaczenie towaru: Znaki i numery - numery kontenerów
kont.20'WCIU 2270764 buty
615 opakowań wag.SZD 94738059 lp.55717A
wag.PKP - 3151-39032140

HMA223/KK/4/781. KK/422/1434

32 Pozycja 1 Nr | 33 Kod towaru 64041100 | 34 Sposób br. poch. HK | 35 Masa brutto (kg) 5535 | 36 Preferencje

37 PROCEDURA 7100 00 | 38 Masa netto (kg) | 39 Kontingent

40 Deklaracja skrócona

41 Jedn. uzupełn. | 42 Wartość towaru amount | 43 MW

44 Dodatkowe informacje (załączone dokumenty): deklaracja wartości celnej
faktura

1992 05 31

45 Urzędowa ocena towaru

46 Wartość statystyczna

47 Obliczenie opłat

Typ	Podstawa opłaty	Stawka	Kwota (lyt zł)	MP
115			100,-	0
Razem:			100	0

48 Płatność odroczona | 49 Skład celny/WOC

50 Gwarant Nr: Stacja PKP Małaszewicze
zabezpieczenie nie pobrano

51 Przewóz urzędowy towarów (kraj)

52 Gwarancja tranzytowa nie ważna na 130403/003231 TERESPOL

53 Urząd odbiorczy/kraj 050100

54 Miejscowość i data Zamość 25.05.1992

Kraj, nazwisko, nr DO, podpis

55 ADNOTACJE URZĘDOWE
SC.RIVER
pot.ew.UC 00179/Sc/92
pot.ew.Iwcy 3/1-3/92
Tjo 005330/050100

TERESPOL
Oddział w Małaszewiczach Centralnych
UC 1992 .05. 17
003231

TERESPOL
Oddział w Małaszewiczach Centralnych
UC 1992 .05. 17
130403/003231

3 8

INTERNATIONAL MARKETING QUESTIONS
(Part 1)

I. Broad Strategic Issues

What objectives should be pursued in the foreign market?
Which foreign market segments should the firm strive to satisfy?
Which are the best product, place/distribution, pricing, and promotion strategies for the foreign market?
What should be the product-market-company mix to take advantage of the available foreign marketing opportunities?

II. Foreign Market Assessment/Selection

Do opportunities exist in a foreign market for our products and services?
What are the major economic, political, legal, social, technological, and other environmental facts and trends in a foreign country?
What impact do these environmental dimensions have on the specific foreign market for our products and services?
What is the market potential abroad?
Are there foreign markets that the firm can serve?
What new markets are likely to open up abroad?
Who are our present and potential customer abroad?
What are their needs and desires?
What are their demographic and psychographic characteristics-disposable income, occupation, age, sex, opinions, interests, activities, tastes, values, etc.?
What is their life style?
Who makes the purchase decisions?
Who Influences the purchase decisions?
How are the purchase decisions made?
Where are the products purchased?
How is the products used?
What are the purchase and consumption patterns and behaviors?
What is the nature of competition in the foreign market?
Who are our major direct and indirect competitors?
What are the major characteristics of the competitors?
What are our firm's competitive strengths and weaknesses in reference to such factors as product quality, product lines, warranties, services, brands, packaging, distribution, sales force, advertising, prices, experience, technology, capital and human resources, and market share?
What attitudes do different governments (domestic and foreign) have toward foreign trade?
Are there any foreign trade incentives and barriers?
Is there any prejudice against imports and exports?

What are the different governments doing specifically to encourage or discourage international trade?
What specific requirements-for example, import or export licenses-have to be met to conduct international trade?
How difficult are certain government regulations for the firm?
How well developed are the foreign mass communication media? Are the print and electronic media abroad efficient and effective?
Are there adequate transportation and storage/warehouse facilities in the foreign market?
Does the foreign market offer efficient channels of distribution for the firm's products?
What are the characteristics of the existing domestic and foreign distributors?
How effectively can the distributors preform specific marketing functions?
What is the state of the retailing institutions?

Marketing Mix Assessment and Selection

III. Product

Which product should the firm offer abroad?
What specific features-design, color, size, packaging, brand, warranty, etc.-should the product have?
What foreign needs does the product satisfy?
Should the firm adapt/modify its domestic market product and sell it abroad?
Should it develop a new product for the foreign market?
Should the firm make or buy the product for the foreign market?
How competitive is or will be the product abroad?
Is there a need to withdraw the product from the foreign market?
At which stage in its life cycle is the product in the foreign market?
What specific services are necessary abroad at the presale and postsale stages?
Are the firm's service/repair facilities adequate?
What is the firm's product and service image abroad?
What patents or trademarks does the firm have that can benefit it abroad? How much legal protection does the firm have concerning patents, trademarks, etc.?
What should be the firm's product mission philosophy in the foreign market?
Are the firm's products socially responsible? Do the products create a good corporate image?

IV. Promotion-Nonpersonal (Advertising and Sales Promotion)

How should the firm promote its products in the foreign market?
Should it advertise? Should it participate in international trade fairs and exhibits?
What communication or promotion objectives should the firm pursue abroad?

What are the communication needs of the foreign market?
What should be the total foreign promotion budget?
What advertising media are available to promote in the foreign market? What are their strengths and limitations How effective are different domestic and foreign advertising media?
Should the firm use an advertising agency? How should it be selected?
How effective and competitive are the firm's existing advertising and promotion programs concerning the foreign market?
What are the legal requirements?
Are there foreign laws against competitive advertising?

Promotion-Personal Selling

Is there a need for personal selling to promote the product abroad?
What assistance or services do foreign customers need from the sales force?
What should be the nature of personal selling abroad?
How many salespeople should the firm have?
How should the sales personal be trained, motivated, compensated, assigned sales goals and quotas, and assigned foreign territories?
What should the nature of foreign sales effort be?
How does the firm's sales force compare with its competitors?
What criteria should the firm use to evaluate sales performance?
How should the firm perform sales analysis?
How should the firm perform sales analysis?

V. Price

At what price should the firm sell its product in the foreign market?
Does the foreign price reflect the product quality?
Is the price competitive?
Should the firm pursue market penetration or market-skimming pricing objectives abroad?
What type of discounts (trade, cash, quantity) and allowances (advertising, trade-off) should the firm offer its foreign customers?
Should prices differ with market segment?
What should the firm do about product line pricing?
What pricing options are available if costs increase or decrease?
Is the demand in foreign market elastic or inelastic?
How are prices going to be viewed by the foreign government-reasonable, exploitative?

VI. Place/Distribution

Which channels of distribution should the firm use to market its products abroad?
Which channels of distribution are used by the firm's competitors and how effective are these channels?
Where should the firm produce its products and how should it distribute them in the foreign market?
What types of agents, brokers, wholesalers, dealers, distributors, retailers, etc., should the firm use?
What are the characteristics and capabilities of the available intermediaries?
What type of incentives and assistance should the firm provide its intermediaries to achieve its foreign distribution objectives?
Should the assistance of EMCs (export management companies) be acquired?
What forms of transportation should the firm use?
Where should the product be stored?
What is the costs of physical distribution?

Adapted from Vinay Kothari, "Researching for Export Marketing," *Export Promotion: The Public and Private Sector Interaction*, edited by Michael R. Czinkota, pp. 169-172, 1983.

INTERNATIONAL MARKETING QUESTIONS
(Part 2)

II. Foreign Market Assessment/Selection

Do opportunities exist in a foreign market (the U.S.) for our products and services? Why do you think so?

What are the major facts and trends in a foreign country (the U.S.)?

Economic

Political

Legal

Social/Cultural

Technological

Environmental

What impact do these environmental dimensions have on the specific foreign market for our products and services?

What is the market potential abroad (in the U.S.)?

Are there foreign (U.S.) markets that the firm can serve? What are they?

What new markets are likely to open up abroad (in the U.S.)?

Who are our present and potential customer abroad (in the U.S.)?

What are their needs and desires that might make them want our product?

What are their demographic and psychographic characteristics-disposable income, occupation, age, sex, opinions, interests, activities, tastes, values, etc.?

What is their life style, e.g., convenience-oriented, price-sensitive, or status-conscious?

Who makes the purchase decisions?

Who Influences the purchase decisions?

How are the purchase decisions made?

Where are the products purchased, such as grocery stores, hypermarkets, mail order?

How is the products used? Is it for personal use or commercial use? How often is it used and replaced?

What are the purchase and consumption patterns and behaviors related to our product in the U.S.?

What is the nature of competition in the foreign (U.S.) market?

Who are our major direct and indirect competitors?

What are the major characteristics of the competitors, such as, relative size to us?

What are our firm's competitive strengths and weaknesses in reference to such factors as product quality, product lines, warranties, services, brands, packaging, distribution, sales force, advertising, prices, experience, technology, capital and human resources, and market share?

What attitudes do different governments (domestic and foreign) have toward foreign trade?

Poland

U.S.

Are there any foreign trade incentives and barriers?

Is there any prejudice against imports and exports?

What are the different governments doing specifically to encourage or discourage international trade?

What specific requirements-for example, import or export licenses-have to be met to conduct international trade?

How difficult are certain government regulations for the firm?

How well developed are the foreign (U.S.) mass communication media? Are the print and electronic media abroad efficient and effective?

Are there adequate transportation and storage/warehouse facilities in the foreign market?

Does the foreign market offer efficient channels of distribution for the firm's products?

What are the characteristics of the existing domestic and foreign distributors?

How effectively can the distributors perform specific marketing functions?

What is the state of the retailing institutions?

Export/Import Strategies
International Entrepreneurial Project

Objective:

To develop a foreign export/import strategy for a particular product to/from a particular market.

Please select:

One product or service, preferably one of your own.
Choose either exporting or importing.
The export market is the United States (USA).
The import market is the Far East to Poland.

The last day of the seminar, we will share our strategies which will be developed as we proceed through the units.

Your report should cover the following:

1. A brief description of the product or service.

2. A complete market analysis as discussed in Units 1 and 2. Indicate why the country is a good market for the product and what target market(s) you will pursue. Answer the questions in HO 1-5.

3. Determine whether the product needs adaption for the market. Answer questions in HO 3-5.

4. Determine the international communications strategy, including media to be used and the message to be stressed. Answer the questions in HO 4-14.

5. Select a pricing policy and strategy. Determine credit and other sales terms, such as which currency and delivery terms to use. Answer questions in HO 5-17.

6. Determine the type of foreign marketing/acquisition system, e.g., agents, company salespersons, distributors. Determine qualifications for staff, where they will be located, whether they will be Polish or foreign nationals; include supervisory staff. Answer questions in HO 6-14.

7. Decide where to store goods and how to transport them. Determine how much inventory to keep at different locations. Examine packing, shipping, and documentation problems to and in country. Answer questions in NO 7-17.

8. Decide what kinds of business relationships to have with other channel members. Answer questions in HO 8-2.

■ LICENSING REGULATIONS IN 18 NATIONS

	Registration Requirements	*Royalty and Fee Patterns*	*Applicable Tax and Restrictions*	*Comments*
Canada	Registration with government not compulsory. Exclusive license, patent assignments must be registered, but no penalty for failure to register.	Freely negotiated. A maximum royalty of 4 percent for pharmaceuticals.	Tax officials may be strict about "reasonable" royalty payments if they suspect tax avoidance.	Government agencies can be helpful in finding licensees.
United States	No government approval needed for foreign licensing of technology in U.S., but export controls on certain sensitive technologies apply for U.S. firms.	Freely negotiated. Rates vary, but generally range from 2.5 to 5 percent of net sales.	No controls or limitations on remittances.	Rapid obsolescence of technology has decreased average life of agreements and amount of royalties.
Belgium	No government approval required, but should be registered. Assignment of patents, trademarks, or design must be recorded at Patents Department or Benelux Bureau.	No special patterns, though officials question fees over 7.5 percent of sale price of licensed goods.	Freely remitted. No significant restrictions.	Investment by foreign companies more prevalent than straight licensing agreements.
France	French party to agreement must notify Service de la Propriete Industrielle within one month of signing.	Rates vary with industry. Declining rates often used to guarantee minimum income at beginning of contract. Rates fall as production increases.	Freely remitted, but French licensees may be denied tax deductions for payments in excess of 5 to 6 percent.	Licensing used extensively as substitute for or prelude to direct investment.
Germany	No government approval necessary for terms of licensing agreements or royalty payments to foreigners.	Royalties often based on per-unit basis of sales. Many agreements fix annual royalties, payable regardless of sales.	Royalties freely remitted. Disclosure fees sometimes charged.	Agreement can outlast patent right for which it was granted.

Source: Czinkota, Michael R. and Ilkka A. Ronkainen, Chicago, International Marketing, Second Edition, Copyright ©1990 The Dryden Press. Tab.13.1, pp. 388-390.

HO 1-7 *(continued)*

	Registration Requirements	*Royalty and Fee Patterns*	*Applicable Tax and Restrictions*	*Comments*
Italy	No government approval necessary, but royalty payments scrutinized by government.	Determined by commercial considerations and rarely publicized. Finance Ministry specifies level of royalties "acceptable" for tax and exchange purposes.	Royalty remittances subject to exchange control strictures.	Protection of industrial property is weak.
Netherlands	While there is no registration requirement for licensing agreements, it is advisable.	Terms concern only signing parties. No set rule bases royalties on gross or net sales; large concerns often agree on lump-sum payments.	Royalty freely remitted. No restrictions.	Well developed and often-used licensing system.
Spain	Companies must file contract with DGTE, which sends it to Office of Technological Innovation and to competition authorities. If not rejected after 30 days, contract takes effect.	Royalties vary by industry. Percentage allowed depends on importance of products to national economy. Standard rate is 0.5 percent of sales for 5 years.	Government still monitors technology inflows, but has reduced restrictions under EC rules.	New system introduced January 1988 a major improvement over old, but still restrictive.
Sweden	Licensing agreements entirely free of official governmental regulation.	Entirely a matter of commercial negotiation.	No taxes or restrictions, but funds must go through authorized banks.	Tie-in clauses and other practices restricting free competition permitted if not to have "harmful effects" to industry.
United Kingdom	No registration necessary.	Determined solely by commercial considerations. Royalty range for most agreements is 5 to 10 percent of net sales.	Excessive royalty payments may be ruled dividend distribution, thus disallowed as corporate expenses for tax purposes.	Licensing agreements are popular and laws are pro-licensor.
Australia	Agreements require exchange control approval from Reserve Bank.	Royalties under 10 percent allowed. Specific terms vary.	Exchange control approval required for royalty payments.	Procedures for exchange control approval simple and usually granted readily

HO 1-7 *(continued)*

	Registration Requirements	*Royalty and Fee Patterns*	*Applicable Tax and Restrictions*	*Comments*
India	Extensive requirements for government approval. Relevant ministries decide on arrangements that entail "useful or new" technology and no foreign-equity investment	Government keeps royalties low. Maximum is 4 percent of sales computed by a complex formula. Guaranteed minimum, unrelated to sales, prohibited.	Stringent foreign exchange controls and applicable investment rules pose limitations to agreements.	Sound legal counsel, honest partners, and patience necessary for long negotiations. Intellectual property protection poor.
Japan	Proposal must be submitted to Ministry of Finance, and ministry of Industry involved. Agreements not concluded until 30 days after submission.	No legal maximum rates, but MITI considers 5 percent "ideal maximum." Provisions for minimum royalties often included.	Disclosure fees common, but no tax or other limits. Complex approval requirements.	Number of gratis licenses up as a result of cross-licensing deals.
Korea	New law requires only technology imports be reported to Ministry of Finance. Approval automatic after 20 days if no modifications ordered.	Licensees must justify fees above 2 to 3 percent of net sales unless know-how highly advanced. Royalties tax exempt for 5 years.	Government may reject technology imports if deemed low quality, outmoded, or restrict conditions on exports.	New tax rules may discourage local licensees from taking on agreements greater than 3 percent of sales.
Taiwan	Agreements involving FX payments must be approved and are reviewed case-by-case. Details on products, services, etc., should be included. Usually takes one month if agreement is uncomplicated.	Royalties computed on net sales, but sometimes related to output. Most agreements fall below 5 percent and run 5 years.	MOEA won't review licenses for light or labor-intensive industries not companies aiming at lower labor costs.	Government has tightened terms except in high tech, which it promotes. Intellectual property protection improved, but still weak.

HO 1-7 *(continued)*

	Registration Requirements	*Royalty and Fee Patterns*	*Applicable Tax and Restrictions*	*Comments*
Argentina	National Institute of Industrial Technology must approve when licensor owns 49 percent or more of sub. For others, contract need only be registered.	Unlimited by law, but must be in line with market rates. Royalties don't exceed 5 percent of net sales. Cash remittances permitted at FX rate.	Royalty tax of 45 percent applied on following percentages of: technical assistance (60%); patents (80%); and services (100%) not covered in transfer of technology law.	Licensee may not deduct royalty payments as operating expenses. Patents, trademarks should be registered.
Brazil	Must be approved and registered with National Institute of Industrial Property. Agreements between related companies illegal.	Royalties restricted to 1 to 5 percent of net sales. Companies may capitalize technology payments. Trademark royalties maximum 1 percent of net sales.	Severe limitations on remittances. Royalty tax is 25 percent (reduced by some tax treaties). Payments deductible with 1 to 5 percent of gross sales.	Patent piracy, copyright infringement growing problem. Technology transfer a limited profit-making operation.
Mexico	Must be registered with National Registry of Technology Transfer.	3 percent of net sales the norm, though special cases go up to 10 percent. Typical contract length is 10 years. Remittances at controlled exchange rate.	Royalty tax is 21 percent on payments for know-how, technical assistance and 42 percent on straight patents and trademarks.	Stronger intellectual property laws but enforcement still lax.

EXPORTING PAYS OFF

Europe and Japan are prime markets for the distinctive belt buckles and leather belts made by a small Rocklin, California, company. The firm finds that its foreign sales are a big help in making up for the current slack in the U.S. market. We select our export success stories, not because we endorse any particular firm or its business plan and activities, but because we believe their experiences will instruct other companies to improve their export performance. We welcome your export success story. Write or call: Business America, Room 3414, U.S. Department of Commerce, Washington, DC 20230; tel. (202) 377-3251.

"In international sales, isn't paperwork and payment a big hassle?" a business colleague asked Marty McCann, president of Buckles of America, a 23-employee manufacturer from Rocklin, California.

McCann replied, "We fax an invoice to a customer in the Netherlands. Three days later, his payment is in my bank account. I wish some of my domestic customers were so prompt."

McCann has found that it is best to work through distributors. "Instead of sending small shipments to foreign retailers, we have found it makes more sense to send a larger volume to distributors. The firm has an exclusive distributor in the Netherlands and several regional distributors elsewhere.

Buckles of America has three distributors in Japan, which McCann considers to be one of the firm's better markets. "I have found the Japanese to be easy to deal with," he said. "Our distinctive pewter buckles and leather belts are very much 'in' there."

"The Europeans are also easy to do business with," McCann said. "They have savvy on American ways of doing business, and they are very desirous of having the label 'Made in America'. They like products in the giftware category that are a little different and of good quality and value."

Last year, McCann used the U.S. Department of Commerce's Gold Key Service to expand his firm's activities in the European market. The U.S. and Foreign Commercial Service post in Amsterdam briefed him about market conditions, arranged business appointments for him, and helped him participate in a trade show in Utrecht. (For information on the Gold Key Service, contact a district office of the Commerce Department's International Trade Administration–see inside back cover for a listing of district offices.)

McCann finds that having foreign customers is a big help at a time when a U.S. recession is keeping domestic demand down. He displayed his firm's belt buckles and belts at the International Westernware Market in Denver and picked up eight new international accounts. Sixty percent of his sales resulting from the show came from foreign countries. He recently participated in the Los Angeles Gift Show, attended by buyers from the Far East, and this month, he is attending the Variety Merchandise Show in New York City, geared toward Europeans.

Buckles of America, founded by McCann in 1979, now sells 30 percent of its products in 14 foreign countries.

What is the first step a small company should take to break into exporting? McCann's answer: "Work with the Commerce Department's International Trade Administration. When I was very green, I received some good guidance from Mitch Larsen (trade specialist) at the San Francisco District Office of ITA."

Source: Business America, February 24, 1992.

HO 1-9

Gillette Travels to the Third World

The following article appeared in THE WALL STREET JOURNAL College Edition (1986)

Gillette Co. discovered a while back that only 8 percent of Mexican men who shave use shaving cream. The rest soften their beards with soapy water or—ouch!—plain water, neither of which Gillette sells.

Sensing an opportunity, Gillette introduced in Guadalajara plastic tubs of shaving cream that sell for half the price of its aerosol. Today 13 percent of Guadalajaran men use shaving cream, and Gillette is planning to sell its new product, Prestobarba (Spanish for "quick shave"), in the rest of Mexico, Colombia, and Brazil.

Tailoring its marketing to Third World budgets and tastes—from packaging blades so they can be sold one at a time, to educating the unshaven about the joys of a smooth face—has become an important part of Gillette's growth strategy. The company sells its pens, toiletries, toothbrushes, and other products in developing countries. But despite Gillette's efforts to diversify, razor blades still produce one third of the company's revenue and two thirds of its pre-tax profit.

The market for blades in developed countries is stagnant. "The opportunities on the blade side really lie in new geography," says Rodney Mills, an executive vice president for Gillette's international business. "In the Third World, there's a very high proportion of people under 15 years old. All those young men are going to be in the shaving population in a very short time."

Few U.S. consumer-products companies that compete in the Third World have devoted as much energy or made as many inroads as Gillette, which draws more than half its sales from abroad. Since the company targeted the developing world in 1969, the proportion of its sales that come from Latin America, Asia, Africa, and the Middle East has doubled to 20 percent and the dollar volume has risen sevenfold.

Gillette has had a strong business in Latin America since it began building plants there in the 1940s. Fidel Castro once told television interviewer Barbara Walters that he grew a beard because he couldn't get Gillette blades while fighting in the mountains.

The company's push into Asia, Africa, and the Middle East dates to 1969, when Gillette dropped a policy of investing only where it could have 100 percent-owned subsidiaries. That year, it formed a joint venture in Malaysia, which was threatening to bar imports of Gillette products. The company has added one foreign plant nearly every year, in such countries as China, Egypt, Thailand, and India and, Mr. Mills says, is now looking at Pakistan, Nigeria, and Turkey.

The company always starts with a factory that makes double-edged blades—still popular in the Third World—and, if all goes well, expands later into production of pens, deodorants, shampoo, or toothbrushes. Only a few ventures have gone sour: A Yugoslav project never got

off the ground, and Gillette had to sell its interest in Iran to its local partners.

In a few markets, Gillette has developed products exclusively for the Third World. The low-cost shaving cream is one. Another is Black Silk, a hair relaxer developed for sale to blacks in South Africa and now being introduced in Kenya.

More often, Gillette sells familiar products in different packages or smaller sizes. Because many Latin American consumers can't afford a seven-ounce bottle of Silkience shampoo, for instance, Gillette sells it in half-ounce plastic bubbles. In Brazil, Gillette sells Right Guard deodorant in plastic squeeze bottles instead of metal cans. "It's a poor man's aerosol," says David Waldron, Gillette's Latin American marketing manager.

But the toughest task for Gillette is convincing Third World men to shave. The company recently began dispatching portable theaters to remote villages—Gillette calls them "mobile propaganda units"—to show movies and commercials that tout daily shaving.

In South African and Indonesian versions, a bewildered bearded man enters a locker room where clean-shaven friends show him how to shave. In the Mexican one, a handsome sheriff, tracking bandits who have kidnapped a woman, pauses on the trail to shave every morning. The camera lingers as he snaps a double-edged blade into his razor, lathers his face, and strokes it carefully. In the end, of course, the smooth-faced sheriff gets the woman.

In other places, Mr. Mills says, Gillette agents with an oversized shaving brush and a mug of shaving cream later up and shave a villager while others watch. Plastic razors are then distributed free and blades—which, of course, must be bought—are left with the local storekeeper.

Such campaigns win few immediate converts, acknowledges Robert King, director of international marketing, planning, and administration. Migration of peasants to the city does more to boost Gillette sales. "If you slog around in the field all day, there's not much incentive to shave," he says. "If in the next generation, you move into the city and the older son gets a job as a counter clerk, he'll probably have to shave if not everyday, then every other day."

Only recently has Gillette begun to ease a policy of never using its prime trademarks—the Gillette and Papermate names, for instance—in countries where it owns less than 100 percent of a venture. The drawbacks of the old practice became obvious several years ago when Gillette began sponsoring the World Cup in soccer and posting its name on stadium walls that are seen on television around the world.

"All of those messages are wasted in markets where the Gillette name is not being licensed," Mr. Mills says.

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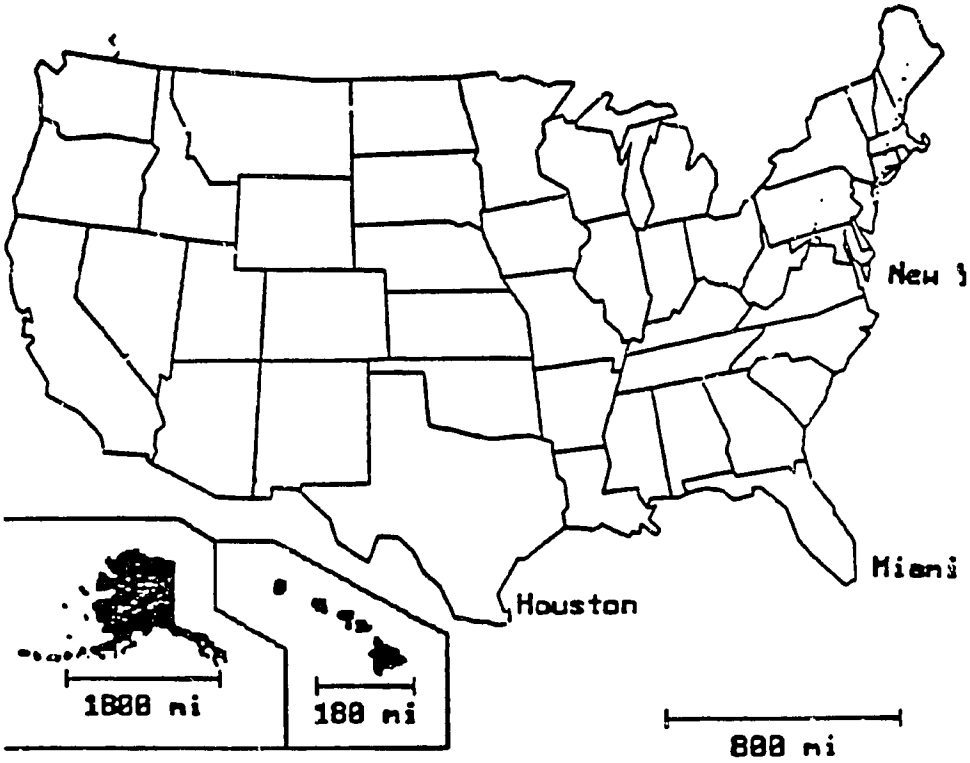
Eksport do USA

HO 1-10

Biuro Radcy Ekonomicznego w Waszyngtonie



Waszyngton, lipiec 1992

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1. WSTĘP

Celem broszurki "Eksport na rynek USA" jest dostarczenie polskim eksporterom ogólnych informacji o warunkach, przepisach i możliwościach sprzedaży na rynek Stanów Zjednoczonych. Rynek ten ze względu na swą wielkość i różnorodność stanowi i będzie niewątpliwie stanowił przedmiot coraz większego zainteresowania naszych przedsiębiorców. Jego wielkość najlepiej określa wartość dochodu narodowego Stanów Zjednoczonych. W 1991 r. wyniosła ona ok. 5750 mld USD; dla porównania dochód narodowy w Polsce osiągnął poziom 75 mld USD. Społeczeństwo amerykańskie, liczące ponad 250 mln ludzi, nie jest przesadnie oszczędne. Dwie trzecie wszystkich wyprodukowanych i importowanych towarów i usług zakupują gospodarstwa domowe, pozostałą część biznes i państwo.

W 1991 r. USA sprowadził towary za sumę 422 mld USD, w tym z Polski za ok. 0,4 mld USD. Zestawienie tych danych wskazuje, że jako eksporter jesteśmy niezauważalni na rynku amerykańskim. Jest jednak szereg towarów polskich, takich jak wyroby ze szkła i kryształu, które widoczne są na wystawach sklepowych. Ponadto w ostatnich dwóch latach eksport wielu naszych towarów rósł dynamicznie (załącznik nr 1). Można wymienić takie z nich, jak: farby, lakiery, wyroby gumowe, sprzęt gospodarstwa domowego, przekładnie i pierścienie, soki owocowo-warzywne, wyroby czekoladowe, obuwie, meble. Założyć więc można, że istnieją duże możliwości zwiększenia polskiej działalności na rynku amerykańskim. Jest to rynek bardzo otwarty, ale jednocześnie obwarowany wieloma przepisami. Podajemy o nich informacje, które, mamy nadzieję, ułatwią polskim eksporterom zorientowanie się w formalnych wymaganiach tego rynku.

Pomoc w tym zakresie świadczą Biuro Radcy Ekonomicznego w Waszyngtonie, Biuro Radcy Handlowego w Nowym Jorku oraz Wydziały Handlowe Konsulatów w Chicago i Los Angeles, będące ośrodkami informacji przemysłowo-handlowej i promocji polskiego eskportu. W Biurach tych można też czasowo skorzystać z przestrzeni biurowej, urządzeń biurowych oraz uzyskać pomoc logistyczną. Wydanie niniejszej informacji zamierzamy uzupełniać bardziej szczegółowymi materiałami na temat wybranych segmentów rynku amerykańskiego.

Jednocześnie przypominamy, że od września 1991 r. Biuro Radcy Handlowego w Nowym Jorku publikuje okresowo Serwis informacyjny przeznaczony dla odbiorcy krajowego, zawierający m.in. informacje o wystawach i targach, o propozycjach współpracy oraz możliwościach lokacyjnych towarów. Biuro wydaje szeroko rozpowszechnia podobne materiały przeznaczone dla środowiska amerykańskiego i biznesu polonijnego; można w nich zamieszczać polskie propozycje handlowe.

drób i wyroby z drobiu, warzywa, paliwa i produkty z paliw, artykuły firmowe.

Import ograniczany rocznymi kwotami ustalanymi w umowach dwustronnych dotyczy: niektórych produktów z drobiu, pokarmów zwierzęcych zawierających mleko, bawełny, bawełnianych odpadów, wyrobów przemysłu lekkiego, orzeszków ziemnych, cukru, syropów, melasy, serów, czekolady, lodów i pszenicy.

Więksi eksporterzy muszą być świadomi, że jeżeli ceny po których sprzedają towar są niższe od cen osiąganych na rynku własnym, mogą być narażeni na wszczęcie postępowania antydumpingowego. Procedura ta zostaje uruchomiana, kiedy na wniosek producenta amerykański Departament Handlu US uznaje, że import taki zagraża przemysłowi lokalnemu. W sytuacji stwierdzenia dumpingu nakładane są dodatkowe opłaty wyrównawcze. Podobny tryb postępowania ma miejsce w przypadku subsydiowania eksportu.

OCHRONA KONSUMENTA

W Stanach Zjednoczonych jest wiele aktów prawnych chroniących konsumentów; są one administrowane przez różne agendy rządowe, m.in.: Consumer Product Safety Commission, Environmental Protection Agency, Food and Drug Administration. Rygorystyczne regulacje nt. bezpieczeństwa stosuje się w odniesieniu do wielu wyrobów konsumpcyjnych, takich jak zabawki, farmaceutyki i wyroby trwałego użytku. Występują również regulacje dotyczące spraw etykietowania i pakowania określonych towarów. Oprócz ustaw federalnych wiele stanów stosuje własne przepisy, które mogą być bardziej surowe od ogólnokrajowych.

Generalną zasadą jest, by importowane artykuły żywnościowe, napoje, lekarstwa, kosmetyki i urządzenia lecznicze odpowiadały takim samym standardom, jakie muszą spełniać ich odpowiedniki amerykańskie. Wszystkie takie produkty importowane podlegają inspekcji przez Food and Drug Administration w momencie przekraczania granicy, nie zastosowanie się do tych wymogów karane jest odmową ich wpuszczenia na teren USA.

Rośliny, przetwory roślinne, żywiec, mięso i drób oraz wyroby przetworzone z części zwierząt, skóry, szczecina lub pierze podlegają regulacjom kwarantanny. Niektóre inne produkty żywnościowe, takie jak pomidory, ziemniaki czy ogórki muszą odpowiadać normom importowym dotyczącym wielkości, jakości i dojrzałości.

Import zwierząt żywych lub ptaków jest obudowany restrykcjami dotyczącymi legalności ich złapania, posiadania lub wywozu oraz zasadami kwarantanny.

PRAWO AUTORSKIE

Według ustawy (copyright act) z 1976 r. ochrona prawa autorskiego w USA jest stosowana automatycznie w momencie stworzenia dzieła i trwa do końca życia autora i przez dalsze 50 lat. Dzieło autorskie kwalifikujące się do prawa autorskiego nie zostało jasno zdefiniowane, ale można zakładać, że objęte nim są: prace literackie, plastyczne, muzyczne, filmowe, programy komputerowe.

W USA prawa autorskie nie są nadawane lub wydawane przez instytucje prawne. Osoby roszczące sobie doń prawo muszą umieścić informację o prawie autorskim na wszystkich publikowanych egzemplarzach dzieła, które jest publicznie rozpowszechniane, by zapewnić sobie ochronę.

PATENTY

Patenty wydawane przez US Patent Office dają prawo wyłącznego korzystania z wynalazku na przeciąg siedemnastu lat.

ilościowych. Pierwsze dotyczy podpisanej we wrześniu 1991 r. nowej umowy tekstylnej na lata 1992-1993, która poważnie zwiększa nasze możliwości eksportowe na rynek USA. Integralną część umowy stanowi list strony amerykańskiej, deklarującej możliwość zlikwidowania kwot importowych po jej wygaśnięciu w końcu 1993 r. Ponadto zasady przerobu uszlachetniającego mają być uregulowane w 1992 r. dodatkowymi zapisami.

Umowa zmniejszyła liczbę kategorii objętych kontyngentami do 9 i zniosła inne ograniczenia grupowe. Do kategorii objętych limitami należą:

wyroby bawełniane

335	płaszcze damskie i dziewczęce
338/339	koszule męskie, chłopięce, damskie i dziewczęce, damskie bluzki z dzianiny

wyroby wełniane

410	tkaniny wełniane (minimum 36% wagowego udziału wełny)
433	marynarki męskie i chłopięce
434	płaszcze męskie i chłopięce
435	płaszcze damskie i dziewczęce
443	garnitury męskie

wyroby z włókien syntetycznych

611	tkaniny zawierające minimum 85% wagowego udziału syntetyków
645/646	swetry męskie, chłopięce, damskie i dziewczęce

Wszystkie pozostałe wyroby przemysłu lekkiego mogą być eksportowane do USA bez żadnych ograniczeń. Informacje o zasadach udziału w przyznancyh Polsce kwotach importowych można uzyskać w MWGZ w Departamencie Regulacji Obrotu Towarowego i Polityki Celnej.

Drugim obecnie artykułem objętym ograniczeniami ilościowymi są polskie sery, na które kontyngent wynosi 1115 ton rocznie. Czynione są starania o uzyskanie znacznie wyższej kwoty, jednakże uzależnione to jest od wyników negocjacji w ramach Rundy Urugwajskiej GATT.

W kwietniu 1992 r. Stany Zjednoczone zniosły ograniczenia ilościowe w imporcie wyrobów stalowych. W tych warunkach przemysł amerykański już podjął i będzie podejmował akcje obronne wobec zagranicznych eksporterów, wykorzystując istniejące ustawy, chroniące przed dumpingiem i subsydiowaniem eksportu. Mając powyższe na uwadze, polscy eksporterzy powinni dokonać annalizy cenowej swojej oferty pod kątem dotrzymywania warunków uczciwej konkurencji.

ZAMÓWIENIA RZĄDOWE

Z rozmów na temt dostępu do amerykańskich zamówień rządowych wynika, że w obecnych warunkach prawnych istnieją realne możliwości uczestnictwa podwykonawców i poddostawców w realizowanych przez firmy amerykańskie projektach. Istnieją również szanse uczestnictwa w realizacji kontraktów budowlanych dotyczących przedsięwzięć wykonywanych poza granicami USA. Szersze uczestnictwo w przetargach na zamówienia rządowe możliwe będzie po przystąpieniu Polski do GATT Government Procurement Code.

Informacje o możliwościach składania ofert oraz o przyznanych kontraktach zawiera "Commerce Business Daily", publikowany codziennie przez Departament Handlu USA.

POŚREDNICY HANDLOWI

W większości przypadków eksport do USA będzie odbywał się za pośrednictwem firm amerykańskich. Posiadają one znajomość miejscowych zwyczajów,

ustawodawstwa poszczególnych stanów zawierają często różniące się od siebie przepisy w zakresie pośrednictwa handlowego. Np. w niektórych stanach przepisy określają długość okresu wymówienia, obowiązek wyrównania strat poniesionych przez pośrednika, odszkodowanie za utracone przyszłe zyski oraz zwrot pewnych kosztów. Biorąc to pod uwagę eksporter powinien uzgodnić w umowie okres próbny, po którym następowałoby jej potwierdzenie;

- wybór prawa rządzącego umową.
- obowiązek zachowania przez pośrednika poufności informacji uzyskanych w trakcie sprawowania pośrednictwa, jak również obowiązek zwrócenia przez niego wszelkich poufnych dokumentów po ustaniu stosunku umownego;
- zasady ochrony własności intelektualnej (znak towarowy, patent, prawa autorskie);
- zasady rozstrzygania sporów. Droga postępowania cywilnego przed sądem powszechnym jest rozwiązaniem najlepszym, jeśli zachodzi potrzeba szybkiego działania, np. wystąpienie o zastosowanie przez sąd środków zabezpieczających. Jest ona także najwłaściwsza tam, gdzie spór dotyczy wielu stron. Należy pamiętać, że strony mogą w umowie ustalić, który sąd właściwy będzie do rozstrzygania przyszłych sporów. Postępowanie przed sądem jest postępowaniem wieloinstancyjnym, co z jednej strony daje możliwość uczestnikom postępownia odwoływania się od niezadawalającego ich orzeczenia sądu niższej instancji, z drugiej jednak strony przdłuża postępowanie i podnosi jego koszty. Alternatywną drogą rozstrzygania sporów jest poddanie przez odpowiedni zapis w umowie przyszłych sporów właściwości sądów arbitrażowych. Do zalet takiego rozwiązania należy możność wyboru przez strony umowy arbitrów z doświadczeniem w konkretnej branży. Postępowanie, jeśli klauzula arbitrażowa została prawidłowo sformułowana, toczy się znacznie szybciej niż przed sądem powszechnym i ma mniej formalny charakter. Ponadto wykonalność orzeczeń sądowych jest ograniczona w wypadku Polski i Stanów Zjednoczonych do obszaru państwa, na terytorium którego zostały wydane. Inaczej jest natomiast w odniesieniu do orzeczeń sądów arbitrażowych. Zarówno USA, jak i Polska ratyfikowały konwencję nowojorską o uznawaniu i wykonywaniu zagranicznych orzeczeń arbitrażowych, w związku z czym orzeczenia takie wydane na terytorium któregokolwiek państwa konwencyjnego będą uznawane i wykonywane zarówno w Polsce, jak i w Stanach Zjednoczonych. Koszty arbitrażu mogą, lecz nie muszą być niższe. Formułując klauzulę arbitrażową w umowie zawsze należy wskazać miejsce i język, w którym prowadzone będzie postępowanie, liczbę arbitrów, tryb ich wyboru, termin, w jakim powinni być wybrani, osobę lub instytucję, która winna dokonać wyboru arbitra za stronę (jeśli ta nie wybrała arbitra w przewidzianym w umowie czasie).

Przy formułowaniu umowy o pośrednictwo handlowe należy brać także pod uwagę amerykańskie przepisy antytrustowe i dotyczące konkurencji, zarówno federalne, jak i stanowe. Przepisy te przewidują odpowiedzialność za (niegodziwe) ustalanie cen (*price fixing*) i inne czyny godzące w zasady uczciwej konkurencji.

jak i jego nabywca. Zgłoszenia dokonać może także koncesjonowany agent celny (licensed customhouse broker). Jeśli konosament lub lotniczy list przewozowy wystawiony jest "na zlecenie", uprawniona do zgłoszenia towaru jest każda osoba legitymująca się takim dokumentem należycie indosowanym przez adresata przesyłki. Uprawniona jest także osoba legitymująca się dokumentem wystawionym przez przewoźnika, tzw. Carrier's Certificate.

ODPRAWA CELNA

Odprawa celna jest postępowaniem składającym się z dwóch etapów: a. przedstawienie dokumentów pozwalających organom celnym na ustalenie, czy towar może być zwolniony z nadzoru (custody) celnego, b. przedstawienie dokumentów zawierających informacje niezbędne do ustalenia wysokości cła i dokonania odpowiednich zgłoszeń statystycznych. W przypadkach towarów, których import podlega ograniczeniom ilościowym, zwolnienie spod nadzoru celnego będzie możliwe dopiero po przedstawieniu dokumentów wymienionych w punkcie a i b.

DOKUMENTY NIEZBĘDNE DO ODPRAWY CELNEJ

Zgłoszenie do odprawy celnej powinno być dokonane w ciągu 5 dni od dostawy towaru do portu granicznego. Zgłaszający zobowiązany jest przedstawić następujące dokumenty:

a. zgłoszenie na formularzu celnym 7533 (Entry Manifest, Custom Form 7533) albo wniosek o zezwolenie na natychmiastowe doręczenie na formularzu celnym 3461 (Application and Special Permit for Immediate Delivery, Custom Form 3461),
b. dokument potwierdzający prawo do przedstawienia towaru do odprawy celnej,
c. fakturę lub fakturę "pro forma",
d. specyfikację przesyłki (packing lists),
e. inne dokumenty, jeśli mogłyby mieć wpływ na dopuszczenie towaru na obszar celny.

Do dokumentów należy dołączyć potwierdzenie złożenia w urzędzie celnym gwarancji zabezpieczającej ewentualne należności celne, podatkowe, grzywny itp. Gwarancję taką w imieniu zgłaszającego złożyć mogą specjalizujące się w tym zakresie firmy poręczycielskie, które niekiedy same zgłaszają w imieniu właściciela towar do odprawy.

Po przedłożeniu dokumentów, ewentualnej kontroli przesyłki i stwierdzeniu, że jej dopuszczenie do obrotu nie narusza przepisów, następuje jej zwolnienie. Opłata celna winna być wniesiona w ciągu 10 dni roboczych od daty zwolnienia.

W niektórych przypadkach, np. gdy towary stanowią eksponaty na wystawy i targi, zgłoszenie do odprawy celnej może poprzedzać przybycie towaru do portu granicznego. Zgłoszenie dokonywane jest wówczas na podstawie wniosku o zezwolenie na natychmiastowe doręczenie na formularzu celnym 3461, co pozwala na zwolnienie towaru do wwozu natychmiast po jego przybyciu do portu. Odprawy celnej nie wymagają towary złożone po przybyciu do portu granicznego w składzie celnym. Okres przechowywania w składzie celnym nie może być dłuższy niż 5 lat. Towary ze składu celnego mogą być bądź wywiezione do innego kraju przeznaczenia, bądź wwiezione po dokonaniu zgłoszenia i opłaceniu cła (wg stawek z dnia zgłoszenia) na rynek wewnętrzny Stanów Zjednoczonych. Towary złożone w składzie celnym mogą być konserwowane, sortowane, przepakowywane, ale nie mogą być przetwarzane.

Towary nie zgłoszone do odprawy celnej w ciągu pięciu dni od przybycia do

2. wyciąg z dokumentu założycielskiego spółki określający przedmiot działania spółki i jej organy,
3. kopię dokumentu, który potwierdza uprawnienie osoby udzielającej pełnomocnictwa do składania takiego oświadczenia woli w imieniu zagranicznej spółki.

Pełnomocnictwo do działania w imieniu spółki jawnej lub komandytowej nie może być udzielone na okres dłuższy niż dwa lata i musi wymieniać nazwiska wszystkich wspólników. W razie zmiany składu wspólników spółki jawnej lub komandytowej udzielone pełnomocnictwa celne tracą ważność.

KONTROLA CELNA

Kontrola celna w zasadzie przeprowadzana jest na podstawie reprezentatywnej próbki towaru pobranej przez urzędnika celnego. Należy liczyć się z tym, że tekstylia i produkty tekstylne, jako tzw. "czułe produkty", podlegać będą szczególnie dokładnej kontroli. Kontrola będzie miała na celu sprawdzenie zgodności przesyłki z jej opisem w dokumentach wysyłkowych. Waga lub wymiary przesyłek mogą być podane w fakturach bądź w jednostkach przyjętych w kraju eksportera, bądź w jednostkach stosowanych w USA. Zgłoszenie celne winno być jednak dokonane w jednostkach metrycznych. Towary, które dotarły do USA w stanie uszkodzonym, pozbawiającym je wartości handlowej traktowane są jako "nonimportation" i w związku z tym nie podlegają ocleniu. Nie będzie to dotyczyło jednakże uszkodzeń wywołanych rdzą w przypadku towarów wytworzonych ze stali lub żelaza. Przy ocenie wagi towaru podlegającego ocleniu odliczana jest waga opakowania. W niektórych przypadkach (przesyłki jabłek, fig, pomidorów, pomarańczy, cytryn, tytoniu, porcelany) przepisy celne określają standardową wagę opakownia.

PAKOWANIE

Właściwe przygotowanie przesyłki do kontroli celnej może skrócić jej przebieg. Poszczególne opakowania powinny być możliwie jednorodne pod względem zawartości, wagi i wartości. Numery lub inne znaki umieszczone na poszczególnych opakowaniach powinny odpowiadać oznaczeniom podanym na fakturach. Faktury zaś powinny w sposób systematyczny określać zawartość poszczególnych skrzyń , bal, paczek przedstawionych do kontroli celnej zgodnie z umieszczonymi na nich specyfikacjami. Kontrolę celną ułatwia także paletyzacja przesyłki. Zalecane rówież jest pozostawienie wolnej przestrzeni między przesyłką a sufitem kontenera pozwalającej na przeprowadzenie kontroli antynarkotycznej przy pomocy psów. Jeśli opakowanie zawiera towary podlegające różnym stawkom celnym, a ich segregacja napotyka na trudności, regułą jest określanie należności celnej od całej zawartości opakowania według stawki najwyższej.

FAKTURA

Zgodnie z przepisami celnymi (Section 141.86, Customs Regulations) faktury dotyczące przesyłek poddanych kontroli celnej powinny zawierać następujące informacje:

1. punkt graniczny, do którego przesyłka jest przeznaczona;
2. data i miejsce sprzedaży oraz nazwy lub nazwiska sprzedawcy i nabywcy, a w wypadku jeśli przesyłka ma być składowana - wskazanie data i portu załadunku, nazwa przewoźnika i

nie później niż przed upływem 120 dni od daty przywozu towaru pod groźbą utraty kaucji.

INFORMACJA CELNA

W związku ze zróżnicowaniem stawek celnych bezpośredni wpływ na wymiar należności celnej mieć będzie klasyfikacja towaru z punktu widzenia taryfy celnej. Wiążącą informację co do przyszłej klasyfikacji towaru można uzyskać zwracając się na piśmie do: Area Director of Customs, New York Seaport, 6 World Trade Center, New York, N.Y.10048 albo do dyrektora któregokolwiek Okręgu Celnego.

4 INFORMACJE OGOLNE

SWIĘTA USTAWOWE

Większość stanów obchodzi następujące święta,(niektóre stany mogą obchodzić też święta dodatkowe):

Nowy Rok
New Year's Day
1 stycznia
Dzień Martina Lutera Kinga
Martin Luther King, Jr. Day
Trzeci poniedziałek stycznia
Urodziny pierwszego Prezydenta
Washington's Birthday
Trzeci poniedziałek lutego
Swięto ku czci poległych w czasie wojen
Memorial Day
Ostatni poniedziałek maja
Swięto narodowe
Independence Day
4 lipca
Swięto Pracy
Labor Day
Pierwszy poniedziałek września
Rocznica odkrycia Ameryki
Columbus Day
Drugi poniedziałek października
Dzień weterana
Veterans Day
11 listopada
Dzień Dziękczynienia
Thanksgiving Day
Ostatni czwartek listopada
Boże Narodzenie
Christmas Day
25 grudnia

WYMAGANIA WIZOWE

Każda osoba wybierająca się do USA powininna posiadać ważną wizę wjazdową, wydaną przez właściwy rejonowo Urząd Konsularny USA w Polsce.

RÓŻNICE CZASOWE

W Stanach Zjednoczonych istnieją cztery strefy czasowe: Wschodnia, Centralna, Górska i Pacyfiku. Generalnie biorąc, w Polsce jest później o: 9 godzin niż w Kalifornii, 7 godzin niż w Chicago, 6 godzin niż w Nowym Jorku czy w Waszyngtonie.

GODZINY URZĘDOWANIA

Biura i urzędy państwowe pracują przeważnie osiem godzin dziennie od poniedziałku do piątku, w godzinach 8 - 13; można przyjąć za pewne, że urzędnika państwowego zastanie się w godzinach 9 - 16, chociaż pomiędzy 12 - 14 spożywa lunch w biurze lub poza nim.
Banki pracują zazwyczaj w godz. 9 - 15. popołudniu. Niektóre pracują również w soboty.

Poland Commercial Section
333 East Ontario Street, Suite 3906B
Chicago, IL 60611
tel. (312) 642-4102,
telex: 283042 polhan cgo
fax: (312) 642-8829
Konsul Handlowy : *Andrzej Orłowski*

Consulate General of the Republic of Poland Commercial Section
3460 Wilshire Blvd., Suite 1200
Los Angeles, CA 90010
tel. (213) 395-7900
fax: (213) 395-7905
Konsul Handlowy: *Stanisław Szwęycer*

Krajowa Izba Gospodarcza
Centrum Promocji
ul. Trębacka 4
00-074 Warszawa
tel. 26-73-76, 27-40-88,
telex: 814361,
fax: 27-46-73, 635-51-37, 27-40-88

B/ Warunki dostępu do rynku USA (taryfa celna, zakazy, ograniczenia, pozwolenia, standardy, itp.): wszystkie wyżej wymienione, oraz:

Ministerstwo Współpracy Gospodarczej z Zagranicą
Departament Regulacji Obrotu Towarowego i Polityki Celnej
Plac Trzech Krzyży 3/5
00-507 Warszawa
tel. 628-68-23
fax: 628-68-08

Ośrodek Informacji Handlowej Ambasady USA US Trade Development Center
ul. Wiejska 20
00-490 Warszawa
tel. 21-45-15,
fax: 21-63-27
Ms. *Joan Edwards*

American Business Center
Pl. Powstańców Warszawy 1
00-950 Warszawa
tel. 27-73-65, 27-97-23,
26-21-97, 26-13-46
fax: 26-11-96

Food and Drug Administration
5600 Fishers Lane,
Rockville, MD 20857
tel. (301) 443-6553

Department of the Treasury
US Customs Service
1301 Constitution Ave., N.W.
Washington, D.C. 20229
tel. (202) 566-8195

Amerykańskie firmy konsultingowe lub prawnicze, działające w Polsce

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00-695 Warszawa
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telex: 825491, fax: 628-79-13
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tel. 43-18-41
fax: 43-79-68
Mr. *Krzysztof Donimirski*

ALTHEIMER & GRAY Law Office
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00-695 Warszawa
tel. 29-83-57, 39-12-13-38
fax: 28-36-40
Mr. *Gabriel Wujek*

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00-490 Warszawa
tel. 625-65-55, 625-52-15

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High Point, NC 27262
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274 Riverside Avenue
Westport, CT 06880
tel. (203) 226-7521
fax: (203) 222-7388
Piotr Wycisło - delegat Centrozapu
wyroby przemysłu hutniczego, stale specjalne, odkówki.

BANK HANDLOWY w Warszawie S.A
405 Park Avenue, Suite 1101
New York, NY 10022
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fax: (212) 371-8391
Eugeniusz Szewczyk - dyrektor
przedstawicielstwo Banku Handlowego

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New York, NY 10016
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fax: (212) 213-2971
Stanisław Kobak - prezes
zakres usług banku komercyjnego świadczonych polskim i amerykańskim przedsiębiorstwom.

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1185 Avenue of the Americas,
36th floor
New York, NY 10036
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fax: (212) 575-2373
(gł. udział. Impexmetal)
Paweł Szymański
wyroby i surowce z metali kolorowych

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Rutherford, NJ 07070
tel. (201) 939-1200
fax: (201) 939-1720
(201) 939-1110
(gł. udział. Universal)
Sławomir Tomkowski - dyrektor
maszyny do szycia, elektryczne art. gospodarstwa domowego, gwoździe, druty, wyroby stalowe, materiały budowlane, półfabrykaty z metali kolorowych,

BSTC Group
Oddział w Warszawie
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tel. 659-7438
fax: 659-7438
02-021 Warszawa
Jerzy Kowalski - dyrektor

DALINCO Corporation (USA)
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Forest Hills, NY 11375
tel. (7180 261-8884
fax: (718) 520-8167
(gł. udział. Stalexport)
Jan Domżoł - dyrektor
import wyrobów hutniczych

GDYNIA AMERYKA LINE Inc.
Steamship Agents and Chartering Brokers
1001 Durham Avenue,
South Plainfield, NJ 07080-2303
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fax: (908) 757-6207
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Andrzej Dachman

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fax: (212) 575-2373
(gł. udział. Animex)
Adam Bachowski - dyrektor
import/eksport produktów rolnych i wyrobów przemysłu rolno-spożywczego.

POL-STEAM USA Inc.
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New York, NY 10004
tel. (212) 422-0182
fax: (212) 422-0936
Edward Jamróg
wyłączny agent Polskiej Zeglugi Morskiej na Amerykę Północną.

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New Orlean, LA 70129
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Krzysztof Reguła

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fax: (212) 689-3060
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TOOLMEX Corporation (Head Office)
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Natick, MA 01760
tel. (508) 653-8897
fax: (508) 653-5110
(gł. udział. Metalexport)
Jan Dul - dyrektor
import narzędzi tnących, pomiarowych, ręcznych, materiałów ściernych, narzędzi medycznych, urządzeń gastronomicznych, kabli elektrycznych, narzędzi elektrycznych, odlewów i odkówek, towarów rynkowych.

TOOLMEX Corporation
Oddział w Warszawie
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fax: 24-73-53
Mieczysław Politowski

TOOLMEX Corporation (Pion Obrabiarek)
Machinery Division Headquarters
1702 Taylors Lane
fax: (609) 786-8133
Cinnaminson, NJ 08077
Jacek Duński
eksport/import obrabiarek do metali.

TOOLMEX Corporation
(Pion obrabiarek i silników elektrycznych)

Załącznik nr 1

PODSTAWOWE POZYCJE W POLSKIM EKSPORCIE DO USA
(wg klasyfikacji SITC, w agregacji trzycyfrowej)

Nazwa towaru/grupa towarowa	1991 w tys. USD	1991/1989 =100	Stawki celne min	Stawki celne max
Mięso i przetwory mięsne	32.924	33,0	0,4	5,0
Wyroby ze szkła	19.754	132,0	0,0	30,0
Marynarki i płaszcze męskie i chłopięce	17.746	88,0	3,0	29,0
Ryby świeże i mrożone	15.310	174,0	0,0	
Tkaniny poza bawełnianymi	14.994	147,0	3,0	41,0
Miedź	14.767	80,0	1,0	4,0
Traktory	13.757	103,0	0,0	2,2
Maszyny i urządzenia elektryczne	13.015	172,0	0,0	10,0
Surówka i wyroby walcowane	11.527	116,0	6,0	
Cukier,melasa i miód	10.107	4300,0	0,2	6,0
Meble	9.893	121,0	0,0	9,6
Obuwie	9.427	113,0	5,0	37,0
Płaszcze damskie i dziewczęce	9.018	86,0	3,0	29,0
Skrobie i gluteny	8.919	84,0	0,0	
Soki owocowe i warzywne	7.947	425,0	0,0	0,9
Odzież pozostała	7.919	133,0	3,6	34,0
Kształtowniki	7.559	91,0	0,9	11,0
Obrabiarki do metali	5.253	134,0	4,2	4,4
Części i akcesoria do obrabiarek	4.649	155,0	4,7	5,8
Łożyska	4.322	121,0	3,5	11,0
Barwniki i lakiery	4.232	252,0	9,0	20,0
Gwoździe i nakrętki	4.221	89,0	0,2	9,0
Sprzęt gospodarstwa domowego	3.770	1013,0	4,2	4,2
Tkaniny	3.657	177,0	14,3	40,0
Ceramika	3.618	128,0	4,5	35,0
Narzędzia	3.464	70,0	0,0	9,0
Sery i twarogi	3.393	73,0	10,0	
Opony i dętki	3.319	2024,0	0,0	
Wyroby z tekstyliów	3.226	224,0	0,0	13,0
Przekaźniki energii elektrycznej	3.043	1252,0	4,9	5,3
Wyroby metalowe	2.939	195,0	0,0	5,7
Wózki dziecięce,zabawki,gry,art.sportowe	2.939	159,0	0,0	12,0
Subst.chemiczne nieorganiczne	2.744	1236,0	3,7	4,2
Nawozy sztuczne	2.705	1418,0	0,0	
Agregaty prądotwórcze (rotating) i części	2.576	158,0	0,0	5,0
Pigmenty,farby	2.453		4,9	
Ziarna zbóż	2.331	-	1,9	
Części i akcesoria pojazdów	2.225	58,0	0,0	3,1
Pojazdy	2.183	82,0	2,5	
Przetwory owocowe	2.115	87,0	3,0	17
Silniki i części	2.108	100,0	0,0	
Maszyny włókiennicze	2.077	77,0	2,5	44,0
Napoje alkoholowe	2.046	402,0	1,8	44,0
Przetwory warzywne	1.837	301,0	7,5	35

We usually end the discussion with a presentation of the life cycle theory as a comprehensive framework for understanding both international trade and investment. Students can be encouraged to offer their own examples of situations where the theory is a descriptive reality.

Suggestions for Group Projects

A useful project is to ask students to consider a particular good or service and research trading patterns in the good or service to see if they correspond to a particular theory. Some students might be assigned commodity—like products (e.g., copper or coffee) to illustrate the usefulness of the classical theories. Others could be assigned specialty products (e.g., software) or services (e.g., insurance). This project helps students to see both the strengths and limitations of the theory.

Questions for Discussion

1. **Explain the concept of absolute advantage. Construct an example.**

   Absolute advantage refers to the ability of a country to produce a good or service at a lower **absolute** cost than another country. The concept is distinct from comparative advantage, which refers to the ability to produce goods or services at a lower **relative** cost.

   For example, suppose that country A can produce tennis balls for $1 per can and tennis racquets for $12 each. Country B can produce the balls for $2 and the racquets for $15. Country A has an absolute advantage in the production of both goods but Country B has a comparative advantage in the production of racquets.

2. **How might the product life cycle theory explain trade and investment patterns in compact disc players?**

   The theory would suggest that the product would be developed in the richer, industrialized countries because (1) these countries have the resources for technological development and (2) consumer demand for such products exists initially in these countries. As the product moves to the growth phase, trade among the industrialized countries will expand and direct investment will occur so that the product market can be protected. As competitive pressures become stronger, the decline phase will induce foreign direct investment away from the industrialized countries toward LDCs, where production costs are likely to be lower.

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Instructor Notes 1-2

DOING BUSINESS WITH NEWLY EMERGING MARKET ECONOMIES AND STATE-OWNED ENTERPRISES

Chapter Objectives

This chapter addresses doing business with newly emerging market economies and state-owned enterprises. Newly emerging market economies, or newly emerging democracies (NEDs), refer to former centrally planned economies currently undergoing major political and economic changes. The chapter provides a brief historic review of the socialistic system and synopsis of the causes that led these former communist countries to accept Western ideology. The realities of economic change are discussed. Although NEDs offer vast market potential, the international manager should be aware of the risks as the concepts of "free trade" and "market forces" are still relatively new.

Despite the trend toward privatization, state-owned enterprises still represent a formidable pool of international suppliers, customers, and competitors for international businesses. The international manager may face competition from such enterprises which, due to their government's backing, are less subject to free market economics and more subject to governmental direction. The manager must keep these two dimensions in mind in working with these state-owned enterprises in order to take advantage of opportunities and understand the risks of such transactions.

Suggestions for Teaching

Given the major political and economic changes in former communist countries, a discussion of the economic reality in the NEDs may be helpful. This discussion should be balanced with issues such as how to successfully develop these markets, given the lack of infrastructure and standards with the vast opportunities and pent-up demand available.

With regard to state-owned enterprises, discussion can focus around understanding the existence of private sector gaps. These gaps can exist due to lack of funds, lack of willingness to take risk, and lack of social obligation by the private sector. It is important to have students understand the difference between meritorious public sector projects, in the context of a domestic economy, and the problems that these very same projects raise in the international context.

In view of the increased privatization of state-owned enterprises, discussion can be stimulated as to why this privatization is taking place and what has changed in the original conception of these firms that now makes them more susceptible to privatization.

Source: Czinkota, Michael R., Rivoli Pietra, Ilkka A. Ronkainen. International Business Manual, Second Edition.
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Questions for Discussion

1. **Discuss the various types of financial risk in terms of their impact on an international marketing entity and their degree of difficulty.**

Financial risk in international marketing comes in the form of commercial risk, political risk, and foreign exchange risk. Commercial risk also occurs in domestic marketing, but in international marketing the risks are heightened by the distance between the buyer and seller. Because the marketer is outside the country, he or she does not promptly receive news about the buyer's condition, its reputation, or its competitors, and thus is out of touch. The commercial risks involve a possible decrease in demand in the foreign buyer's market, which could lead to its insolvency, increased competition leading to decreased demand, or technological change making the product obsolete.

Political risks include the possibility of the imposition of price controls, license retainment (renewal), the state of political relations, which affects the possibility of embargoes and sanctions, and adjustment of shipping prices. These are beyond the control of the international marketer, except that he or she can avoid or withdraw from markets that are politically unstable. At times when the political situation deteriorates very rapidly, as when the Iranian hostage crisis erupted, companies are left with little time to pull out. For some companies, such as the U.S. oil companies in Libya, it is difficult to pull operations out of a country quickly even if they know for quite some time that it is necessary due to deteriorating political relations.

Foreign exchange risks are another form of financial risk. Exchange rates may go up or down during the time that the marketer is awaiting payment, and these changes can increase profits, decrease them, or cause losses.

There are protections against foreign exchange fluctuations and commercial and political risks. The export credit insurance program operated jointly by the Export-Import Bank and the FCIA (Foreign Credit Insurance Association) offers protection against commercial and political risk. Political risk is covered up to 100 percent, but commercial risk is covered only up to 95 percent, depending upon the length of the contract and the type of company. Protection against foreign exchange fluctuations through its own policies. For example, it can increase prices and incur local debt, in order to modify risk; it can determine its times of payment based upon anticipated foreign exchange fluctuation; and it can purchase futures in order to prevent future losses.

2. **FCIA does not finance export sales, yet it indirectly is quite involved. How?**

FCIA insurance coverage makes a firm more attractive to potential lending institutions. FCIA insurance can cover up to 95 percent of commercial risk, which includes insolvency or payment default on the part of the overseas customer. It also covers political risk, including embargoes, sanctions, and expropriation of the foreign buyers' company.

Instructor Notes 1-3

Questions for Discussion

1. **Planning is necessary, yet central planning is inefficient. Why?**

   Central planning is inefficient because it cannot take into account all specific factors and/ or conditions, particularly the needs and wants of individuals, which may affect a project or activity. Central planning may also overlook some of these factors and/or conditions because it does not have the resources to monitor them properly—this oversight can lead to inefficiency. In addition, aspects of a project or activity may be prevented from adapting to meet specific needs due to the lack of resources for monitoring, thereby operating suboptimally.

2. **Discuss the observation that "Soviet products do what they are supposed to do—but only that."**

   Discussions can be based on the fact that the Soviets place emphasis on the use of a product rather than its appearance. It does not matter if the product is rough and unfinished as long as it gets the job done. Furthermore, the products will not exceed the specified limitations, unlike American products which can usually withstand or deliver a bit more than actually specified. As a result, customers may be satisfied but not pleased. Therefore, either major price concessions will have to be made or sales will be low in the West.

3. **How can U.S. consumer acceptance of Soviet products be improved?**

   Possible argument:

   U.S. consumer acceptance of Soviet products can be altered by positive advertising. The Soviets are usually pictured as the "bad guys" in the united States (and vice versa in the U.S.S.R.). If this type of propaganda were reversed, and emphasis placed on the marketability of the product, U.S. consumers might be more receptive to Soviet products. An appeal to people's curiosity might also be useful. Finally, the highlighting of recognized Soviet achievements (e.g., Sputnik) may also be beneficial.

Source: Czinkota, Michael R. and Rivoli Pietra, Ilkka A. Ronkainen. International Business Manual, p. 51, Second Edition. ©The Dryden Press.

Instructor Notes 1-4

EXPORT/IMPORT STRATEGIES
International Entrepreneurial Project

It is preferable to concentrate on one origin/destination for each of importing and exporting. Otherwise, you may have too many alternatives with which to deal.

Our suggestion is to use:

Poland to the USA for the exporting example

Far East to Poland for the importing example

The Product(s):

The entrepreneur should use their own product or service. If they are only interested in the topic and do not have a product or service, it is suggested that you use one product for both importing and exporting. Clothing items are good as these are imported from the Far East, particularly shoes, and exported to the USA, such as Levi's. If you have a local example of a different product, it should be used as information is more easily obtained from the company and there is greater possibility for guest speakers.

The participants should complete the checklists at the end of each unit. The sum of these plus a description of their product/service is the international strategy to be shared during the last class meeting.

You will probably need to check to see that the checklists have been completed from the previous unit at the beginning of each subsequent unit.

FORMULATING AN EXPORT STRATEGY AND EXAMINING SPECIFIC MARKETS

UNIT 2

Title: **FORMULATING AN EXPORT STRATEGY AND EXAMINING SPECIFIC MARKETS**

Purpose: This unit is designed to explore methodology for selecting international markets

Objectives: To evaluate the potential advantages/disadvantages of exporting to a specific market.

Materials:

Transparency 2-1	Overview of unit
Transparency 2-2	Overview of unit
Transparency 2-3	Stages of Market Research
Transparency 2-4	Problem Areas International Stage
Transparency 2-5	The Screening Process in Target Market Choice
Transparency 2-6	Marketing Philosophies
Transparency 2-7	The Process of Target Marketing
Transparency 2-8	SWOT Analysis
Transparency 2-9	Market Segmentation
Transparency 2-10	Segmenting Consumer Markets
Transparency 2-11	Segmenting Organizational Markets
Transparency 2-12	Evaluating Segmentation Methods
Transparency 2-13	Selecting Market Segments
Transparency 2-14	Market Coverage Strategies
Transparency 2-15	Marketing Mix (The 4 P's)
Transparency 2-16	Formulating an Export Strategy/Examining Specific Markets Checklist
Handout 2-1	Foreign Markets Surveys
Handout 2-2	International Marketing Questions
Handout 2-3	Monitors of International Issues
Handout 2-4	Description of Selected U.S. Government Publications and Services
Handout 2-5	China: Four Approaches
Handout 2-6	Caveats for Global Marketers
Handout 2-7	Developing an Exporting Strategy
Handout 2-8	Indicators of Market Size for 117 Countries
Handout 2-9	Successful Strategies for Export
Handout 2-10	Exporting to the United States: Management Implications for Small Manufacturers

Activities: Student exercises are listed in the T-outline.

References for Instructors: More readings for instructors *only* in Book 2:

R2-1: Secondary International Marketing Research (Chap. 8, *IM*)
R2-2: Promotion by U.S. Government, Foreign Governments, Private US Agencies (Kramer, International Marketing chap. 4)
R2-3: The International Economic Environment (Chap.3 *IM*)
R2-4: International Marketing (Chap. 16, *IB*)
R2-5: Planning Strategies Without Data: A European Case Study

Questions for Discussion in Instructor Notes 2-1; 2-2; 2-3 and 2-4 are at the end of the unit.

Guest Speaker: U.S. Trade Development Center, Warszawa.

Estimated time: 2.5 hours

Unit Summary

I. The XYZ Company: Segmenting the Market

II. Export Market Research and Analysis
   A. Examination of U.S. as a Market of Interest
      1. Market Access and Entry Process/Trade Barriers
         a. Customs - rates of duty, special preferences (for Poland), marking, packing and labeling requirements
         b. Government Regulations - quantity restrictions (quotas), health and safety regulations, favored nation status
      2. Competition for the Market
      3. The Stages of International Marketing

III. Use of Planning in Developing Import/Export Programs
   A. Segmentation, Target Marketing, and The Marketing Mix
      1. Marketing Opportunity Analysis
         a. Strengths and Weaknesses
         b. Opportunities and Threats
      2. Define Target Markets - Assessing Target Market Alternatives
         a. Actionable
         b. Accessible
         c. Measurable
         d. Substantive
         e. Profit Potential
      3. Serving Market Segments - The Niching Strategy
      4. Determine Marketing Mix - Product, Price, Promotion, Distribution

IV. Checklist: The Planning and Segmentation Stage

UNIT 2

Formulating An Export Strategy and Examining Specific Markets

CONTENTS	PROCESS
Introduction	
This unit consists of two parts: (1) a general coverage of market research for international business and (2) the identification of export markets.	Pup up TP 2-1 and 2-2: Overview of unit
At the outset it should be emphasized that while market research may not be the most glamorous part of export strategy development, it is certainly critical to its success. International consultants have noted that businesses have jumped into international arrangements that would never have been acceptable at home where they are more familiar with the kinds of information available.	
Examples of lack of surveys 1. Chinese beet sugar refinery to Cuba when they grow sugar cane. 2. Snow plows instead of bull dozers to Indonesia - implies everyone should survey	
I. The XYZ Company: Segmenting the Market	
Show how XYZ decided to export and what target markets were selected.	Have students look at Part II of International Marketing Questions (HO 1-5) handed out at end of Unit 1. Briefly go over them. These should be answered for their course project based on Unit 1 and 2 information.

CONTENT	PROCESS
	At this point, it may be useful to ask participants what they feel the differences would be between domestic and international market research. Refer to Reading for Instructors 2-1. Some answers in Instructor Notes 2-1 (#1).
General importance of market research both Domestic and International 1. Why domestic market research? brand's position, competition, consumer attitudes, possibility for growth. 2. Same in foreign market except add monetary and political stability 3. Done continuously especially government statistics 4. Example: developed whole marketing policy for fall wardrobe, but France devalues the franc. Profit for season is jeopardized.	
II. Export Market Research and Analysis Total foreign market survey consists of: a. general marketing situation, b. general market factors relating to product, c. special issues for the product, d. applicable company operations followed by findings and recommendation.	Discuss HO 2-1: Foreign Market Surveys. Put up TP 2-3: Stages of Market Research. <u>Student Exercise:</u> Ask participants what they would like to know before deciding to export to the U.S. Information requests may be general or product specific to their course project or to

CONTENT	PROCESS
A. Examination of U.S. as a Market of Interest	XYZ Company. Take a blank transparency and write down the pieces of information. May be useful to categorize them according to the macro issues from Unit 1 or to market strategy components. If participants need prompting, have them look at Part II of International Marketing Questions and decide which ones are most important for the U.S. market (HO 2-2).
1. Market Access and Entry Process/ Trade Barriers	Refer to Readings for Instructors 2-1 and 2-2.
a. Customs — rates of duty, special preferences (for Poland), marking, packing and labeling requirements.	Useful to have someone from U.S. Trade Development Center (Warszawa) come to speak about information available.
b. Government Regulations — quantity restrictions (quotas), health and safety regulations, favored nation status.	Hand out readings on Monitors of International Issues (HO 2-3), Description of Selected U.S. Government Publications and Services (HO2-4), (see Reading for Instructors 2-2); and other information sources available.
2. Competition for the Market This is to emphasize that they will be competition. What should they know about the industry and the competitive set?	Refer to Marketing course Market Opportunity Analysis sections and overheads on industry size and competitiveness issues.
3. The Stages of International Marketing There are different levels of commitment to international trade. This may be a good time to review them.	Put up TP 2-4: Main Problem Areas by Internationalization Stage. Refer to Reading for Instructors 1-2 (pp. 221-223). The problems and intensity of analysis before entering international trade differ across these stages.

CONTENT	PROCESS
Now let's put our discussions from today and Unit 1 together to come up with an out-line of the research issues you feel are most critical to your business for either exporting or importing that you cannot find from existing sources. In other words, what do you need to know before proceeding that you cannot find from secondary sources?	Student Exercise: Use primary research outline rather than a full length questionnaire. (Refer to Instructor Notes 2-2).
III. Developing Import/Export Strategies	TP 2-5: The Screening Process in Target-Market Choice.
A. Segmentation, Target Marketing, and The Marketing Mix	
Introduction	
Markets, planning, and market research.	
In developing export programs, it is necessary to understand the nature of the selected markets. Do companies compete for ***all*** of the potential buyers in the selected market? Or, do they attempt to satisfy the needs of only some portion of the potential consumers in that market?	Put up TP 2-6: Market Philosophies.
As markets initially form, sellers frequently adopt a mass marketing philosophy. In mass marketing, produce and market one product for all of the potential buyers in the marketplace.	
Mass marketing is believed to lead to the lowest costs, lowest prices, and largest potential market as it is hoped that the single product will appeal to all	

CONTENT	PROCESS
potential buyers. However, as markets increase in size or as competition for that market increases, sellers may adopt a product-variety philosophy with regard to their marketing efforts. With a product-variety approach, the seller produces and markets more than one product, each with different attributes. The products may have different features, styles, or quality. The different products are created by the seller to provide variety for the potential buyers. It is generally argued that consumers seek variety and change when possible and the creation of multiple products by the seller provides that satisfaction for the potential buyers. When a market has developed to the point that potential buyers are too numerous, too scattered, or too varied in their needs, sellers will often adopt a target marketing approach. With this approach, sellers select to serve one or more segments of the market. The sellers develop products and marketing programs for the specialized or unique needs of the selected market segments, called target markets. Target marketing generally involves greater costs as sellers must develop products and programs for different market segments. However, by better serving the needs of those segments, sellers can achieve a significant competitive advantage and greater long-term profitability.	TP 2-7: The Target Marketing Process.

CONTENT	PROCESS
Target marketing requires three steps. First, the potential market is divided into groups of buyers who respond in relatively similar ways to a product or a marketing program. This is called market segmentation.	
Second, the individual segments must be evaluated in terms of their attractiveness to the seller. This is called market targeting.	
Third, a specific strategy and marketing mix program must be developed that is likely to appeal to the target market and appears different from the offers of competitors. This is market positioning.	
When considering the development of an exporting program, it is important to consider the philosophical approach used by your potential competitors in the markets of interest.	Distribute and discuss of HO 2-5: China: Four Approaches. *Note*: Highlight differences and similarities in approaches by the four companies.
Developed nations are most likely to be characterized by target marketing. Generally, there are significant numbers of potential buyers and competitors for any product category in those nations for target marketing to be successful.	
Developing nations, on the other hand, are more likely to provide opportunities for mass marketing and product - variety marketing. With fewer competitors and/or fewer potential buyers, sellers can more easily identify opportunities where a mass-marketed product or increasing product variety can be a successful way of entering the market.	

CONTENT	PROCESS
It is seldom advisable to use a mass marketing approach in a market characterized by target marketing. When your competitors are serving the specific needs of market segments, it is seldom possible to create a product or a marketing program that successfully appeals to everyone in the market. Individual segments will be better served by sellers whose goals are to serve only the needs of those individual segments.	Put up TP 2-8: SWOT Analysis.
1. Marketing Opportunity Analysis	Hand out a reading in HO 2-6: Caveats for Global Marketers and discuss.
In considering foreign markets, exporters must answer several questions:	Refer to Market Opportunity Analysis sections of Marketing course and SWOT of Strategic Planning course.
What opportunities exist in that market?	
What threats are posed by the market environment?	
What strengths, or competitive advantages, do we possess that will help us appeal to potential buyers in that market?	
Do we have any competitive weaknesses that could make us vulnerable to the actions of competitors or, even, limit our appeal to potential buyers?	
Can we develop a marketing program that has the potential of success in the market of interest?	
Or, can we find partners that can strengthen the potential success of the program that we develop?	Hand out a reading on developing an exporting strategy (HO 2-7).

CONTENT	PROCESS
Regardless of the product, the seller, or the market of interest, sellers considering entry in new markets must analyze not only the environment of that market, but their own ability to meet the demands of that market.	
Although sources of information may be limited and your research skills may be underdeveloped, attempting to enter a market without any knowledge of the market structure, the consumer, or the competition is a surely a plan that will fail.	
At the simplest level, sellers can simply talk to others who have knowledge of the market of interest or of the competitive environment.	*Note*: You are asking questions about the strengths and weaknesses of the company as well as the opportunities and threats in the selected market.
One may even find partners for the venture who have greater access to information. Potential channel partners may serve as information sources. Retailers in the market of interest, for example, may have specific knowledge of the targeted consumers. Or, freight forwarders may have knowledge of the competition in the markets of interest that can aid in the development of an export program.	
2. Market Segmentation	Put up TP 2-9: Market Segmentation.
Given an understanding of the markets of interest, sellers must then decide on the best way to enter those markets.	
When the opportunities present in a market suggest that the best strategy	

CONTENT	PROCESS
involves serving only segments of the total potential market, the seller must decide on the ways in which potential buyers might be grouped into segments. This process of breaking the whole market into segments is called market segmentation.	*Note*: Emphasize the importance of talking to others as a source of information.
How can one divide a group into meaningful segments? What constitutes a meaningful segment?	Ask the group for ways of dividing the class into groups that represent meaningful differences. Make a list of the methods they suggest.
Traditional ways of segmenting consumer markets use demographic, geographic, psychological, or behavioral criteria. In some cases, more than one method may be used to generate market segments that are made up of individuals who are relatively similar in the ways that they use a product or respond to a product offer.	Then compare that list to TP 2-10: Segmenting Consumer Markets. Put up TP 2-11: Segmenting Organizational Markets.
Organizational markets can also be segmented. Demographic, geographic, and organizational characteristics can be used as criteria as well as the personal characteristics of the buyers and the situational factors of the specific purchase.	Note both the similarities and differences between both segmentation lists (e.g. geographic and demographic factors can be used for both buying groups). Put up TP 2-12: Evaluating Segmentation Methods.
For the segmentation method to be effective, the resulting market segments must have four characteristics: Measurability Accessibility Substantiality Actionability	Student Exercise: Instructor Notes 2-3 question #3; using data in HO 2-8: Indicators of Market Size for 117 Countries. Student Exercise: Have participants identify the different market segments within Poland for their

CONTENT	PROCESS
It has been found in the United States that there is a relationship between the preference of a sports team (baseball) and an individual's favorite ice cream. However, using the preference of a baseball team as the basis for segmenting the ice cream market would be foolish as the resulting segments would not have any of the above characteristics.	product/service. Suggest three (3) market segments outside Poland that might be pursued.
	Put up TP 2-13: Selecting Market Segments.
3. Market Targeting	
In selecting the specific target markets, a seller must consider the attractiveness of the market segments.	
The potential size and growth of the segment.	
The structural attractiveness of the segment.	
The seller's objectives and resources.	Put up TP 2-14: Market Coverage Strategies.
Given these considerations, the seller then selects the segments that are most attractive and develops marketing-mix programs for the individual segments (target markets).	
There are three strategies for selecting segments as target markets: - undifferentiated marketing, - differentiated marketing, and - concentrated marketing.	

CONTENT	PROCESS
Concentrated marketing is especially appealing to firms with limited resources. Instead of going after a small share of a large market, the seller goes after a large share of a small. By focusing all of the company's resources on a single segment, the company achieves a competitive advantage that its competitors may be unable to overcome.	
When a seller serves a market segment that is too small to accommodate more than one seller, the seller is said to have established a market niche. Firms with limited resources can be extremely successful by effectively implementing a niching strategy.	
The risk of a niching strategy can be significant. If the niche disappears (the needs or behaviors of that market segment change), the seller may find it difficult or impossible to alter the company's marketing strategy.	
However, the firm with limited resources may find this to be the strategy with greatest potential of success. Exporting firms can find a niching strategy to be a particularly effective way of entering a new market.	
4. Developing Marketing - Mix Programs	Put up TP 2-15: The Marketing Mix.
After developing the strategy, it is then necessary for the seller to develop its marketing-mix	

CONTENT	PROCESS
programs. The marketing-mix consists of the set of control-able marketing variables that the company manipulates to create the desired response from its target markets. The marketing-mix consists of a series of decisions related to the product, the promotion of the product, the price of the product, and the physical distribution of the product. These decisions are frequently referred to as the "4 P's"— product, price, place, and physical distribution.	
These decisions, as they relate to the exporter, are the subject of the next four units of study.	
Determine Marketing Mix — Product, Price, Promotion, Distribution	
Units 3-7 will address this.	TP 2-16: Checklist: The Planning Stage. Distribute HO 2-9 and HO 2-10 if interested.
	More readings for instructors in Book 2.
IV. Checklist: The Planning and Segmentation Stage	Assign readings for Unit 3.

TP 2-1

International Entrepreneurship Course

Unit 2: Formulating an Export Strategy and Examining Specific Markets

The XYZ Company: Segmenting the Market

Export Market Research and Analysis

- **Examination of U.S. as a Market of Interest**
  - **Market Access and Entry Process/Trade Barriers**
    - Customs
    - Government Regulations
  - **Competition for the Market**
  - **The Stages of International Marketing**

TP 2-2

Developing Import/Export Strategies

Segmentation, Target Marketing, and The Marketing Mix

Marketing Opportunity Analysis

- Strengths and Weaknesses
- Opportunities and Threats

Define Target Markets - Assessing Target Market Alternatives

- Actionable
- Accessible
- Measurable
- Substantive
- Profit Potential

Serving Market Segments - The Niching Strategy

Determine Marketing Mix - Product, Price, Promotion, Distribution

TP 2-3

STAGES OF MARKET RESEARCH

General Marketing Situation

General Market Factors Relating to Product

Specific Market Factors Relating to Product

Applicable Company Operations (e.g., price)

MAIN PROBLEM AREAS IN EACH OF THE INTERNATIONALIZATION STAGES[a]

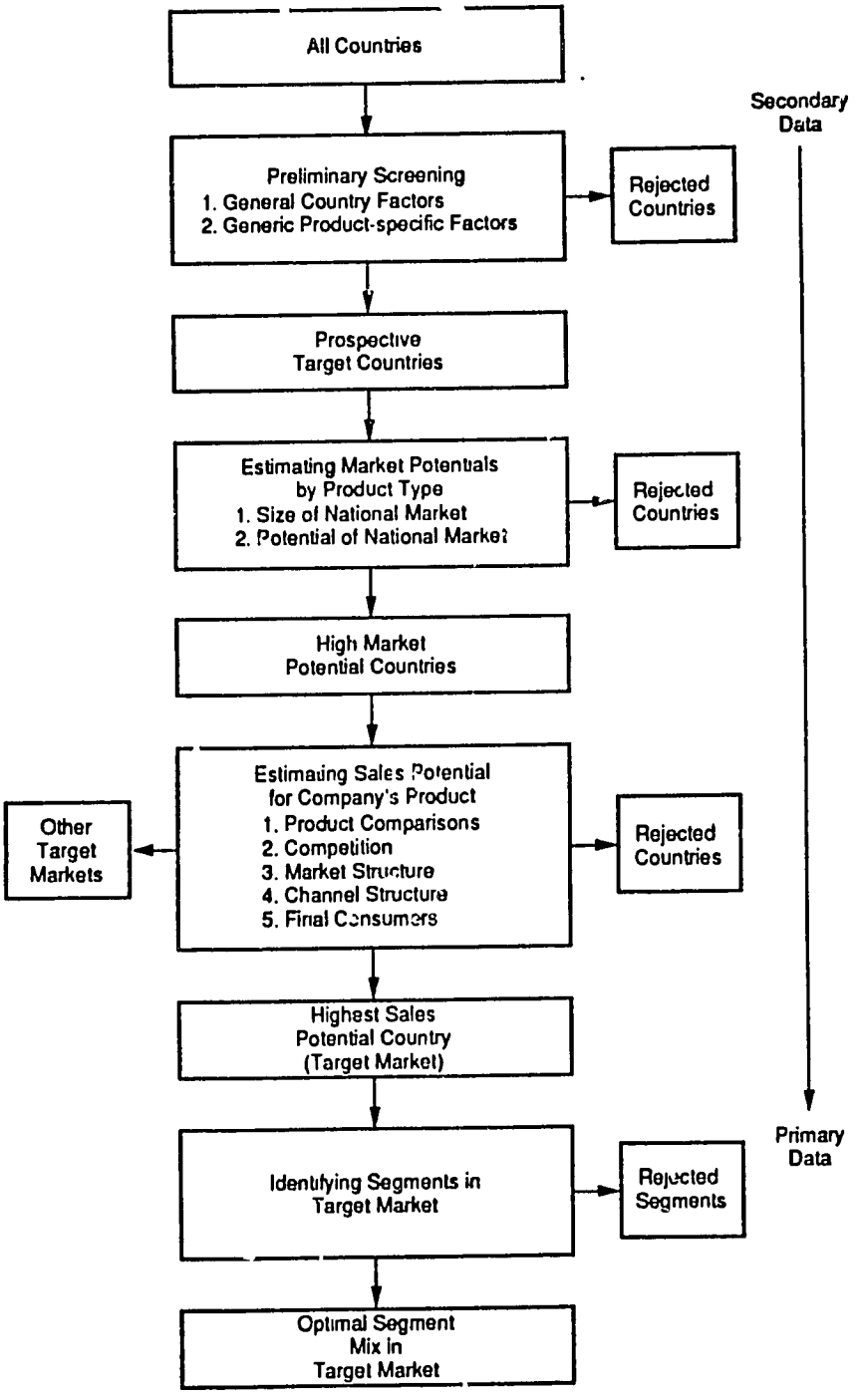
Rank	*2 Partially Interested Firm*	*3 Exploring Firm*	*4 Experimental Exporter*	*5 Experienced Small Exporter*	*6 Experienced Large Exporter*
1	Financing	Communication	Sales effort	Communication	Communication
2	Information on business practices	Sales effort	Obtaining financial information	Sales effort	Sales effort
3	Communication	Marketing information gathering	Physical product	Marketing information gathering	Marketing information gathering
4	Providing technical advice	Information on business practices	Marketing information gathering	Obtaining financial information	Providing repair service
5	Sales effort	Obtaining financial information	Information on business practices	Handling documentation	Information on business practices

[a]Firms in State 1 are uninterested in international activities.

Source: Michael R. Czinkota, Export Development Strategies: U.S. Promotion Policy (New York: Praeger Publishers, 1982), 101.

TP 2-5

The Screening Process in Target-Market Choice



Source: Reprinted by permission of the publisher from *Entry Strategies for International Markets*, p. 34, by Franklin R. Root (Lexington, Mass.: Lexington Books, D.C. Heath & Co., Copyright 1990, D.C. Heath and Co.).

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MASS MARKETING

The seller mass-produces, mass-distributes, and mass-promotes one product to all potential buyers in a market.

The Ford Motor Company was initially a mass-marketer, producing one automobile (the Model-T) in one color (black) for the entire market.

PRODUCT-VARIETY MARKETING

The seller produces two or more products that have different features, styles, quality, or sizes in order to provide greater variety to the consumers in the market.

As competition increased, the Ford Motor Company increased the number of automobiles they produced and the number of features available on each automobile.

TARGET MARKETING

The seller identifies market segments, selects one or more of them, and develops marketing programs tailored to the needs of each.

Now, the Ford Motor Company produces many models of automobilies, each geared to specific market segments.

TP 2-7

THE PROCESS OF TARGET MARKETING

Market Segmentation

↓

Market Targeting

↓

Market Positioning

TP 2-8

SWOT Analysis

Strengths of the Firm

What resources does the firm have that provide it with a potential advantage?

Weaknesses of the Firm

What competitive resources does the firm not possess? In what ways is the firm not competitive?

Opportunities in the Market

Are there any competitive openings in the market?

Threats in the Market

Are there any competitive threats in the market?

TP 2-9

MARKET SEGMENTATION

Dividing a market into distinct groups of buyers who might require separate products or marketing mixes. The process of classifying customers into groups with different needs, characteristics, or behavior.

TP 2-10

SEGMENTING CONSUMER MARKETS

Variable	Possible Breakdowns
Geographic	Region, Country Size, City Size, Population Density, Climate
Demographic	Age, Gender, Family Size, Income Occupation, Education
Psychographic	Social Class, Lifestyle, Personality
Behavioral	Usage Rate, Benefits Sought, Purchase Occasion

TP 2-11

SEGMENTING ORGANIZATIONAL MARKETS

Variable	Possible Breakdowns
Demographic and Geographic	Industry, Company Size, Company Location
Purchasing Approaches	Criteria Used in Purchasing Decisions, Purchasing Policies, Nature of Existing Seller-Customer Relationship
Situational and Personal Factors	Size of Typical Order, Specific Product Application, Buyer-Seller Similarity, Customer Attitudes Toward Risk

TP 2-12

EVALUATING SEGMENTATION METHODS

Measurability	**Can the size and purchasing power of the segments be measured?**
Accessibility	**Can the segments be reached and served?**
Substantiality	**Are the segments large enough or profitable enough?**
Actionability	**Can programs be designed to attract and serve the segments?**

TP 2-13

SELECTING MARKET SEGMENTS

Segment Size and Growth

Is the size and the expected growth rate of the segment compatible with company's skills, resources, preferences? Can the segment be profitable for the company?

Segment Structural Attractiveness

How many and who are the current and potential competitors? Are there substitute products?
Do buyers have power in the buying situation?
Do suppliers have power in the buying situation?

Company Objectives and Resources

What are the company's long-run objectives?
Does the company have the resources/skills necessary to succeed in entering the segment?

TP 2-14

MARKET COVERAGE STRATEGIES

Concentrated Marketing

A strategy in which a firm goes after a large share of one submarket or niche.

Differentiated Marketing

A strategy in which a firm decides to target several market segments and designs separate offers for each segment.

Undifferentiated Marketing

A strategy in which a firm decides to ignore market segment differences and go after the whole market with one market offer.

TP 2-15

MARKETING MIX
(The 4 P's)

- **Product**
- **Price**
- **Physical Distribution**
- **Promotion**

Unit 2: Formulating an Export Strategy/Examining Specific Markets Checklist

1. Complete macro environmental profile on the U.S. based on topics from Units 1 and 2 (based on checklists 1 and 2):

   Economic advantages or constraints

   Political structure

   Culture

   Technology availability

   Environmental concerns

   Competitive environment for the product/service

   Customs requirements that may serve as barriers

   Government regulations affecting the product (e.g., quotas, health and safety regulations)

   Sources of information for completing the evaluation form:

   - Lecture
   - Information from U.S. government sources
   - Export to USA

HO 2-1

Foreign Markets Surveys

A. Total market survey

1. Consists of
   (a) general marketing situation
   (b) general market factors relating to product
   (c) specific market factors relating to product
   (d) applicable company operations (e.g., price)

B. Market

1. Resources and products
   (a) what lets country's economy stability, i.e., stable prices for exports; how many items does economy and exports depend on
   (b) any competition in many country production may affect tariff rates

2. Transportation and location
   (a) how to get to country (any ocean route, ships, seaports, dock facilities)
   (b) inland transportation how to distribute in country
   (rail roads, highway, waterway, airway)
   (c) location — expenses of transportation, communication,
   (1) nearest is cheapest
   (d) charges and services ocean port city rates, keep U.S.and Europe long distance
   charges similar so both will market — does not apply to service, only rate

3. Climate — resources (bananas), productivity rate

4. Population — culture (interest and ability)
   1. necessary population characteristics for particular product

5. Standards of living — purchasing power
   Per Capita Income personal income less cost of living equal total income too

6. Government — rights to do business, extent of for investment permitted, taxes

7. Foreign trade — exports pay for imports; balance of payments (e.g., if U.S. exports little and imports much to country A then excess dollars for country A purchases)
   especially if controlled trade (restrictions)

C. General market factors relate to production

1. Foreign Trade policy — if luxury, high import duty

2. Foreign exchange policy — is it a necessary item to import

D. Specific market factors

1. Domestic production — satisfactory production, price, reliability

2. Imports — external competition pricing

3. Need for product, is it feasible for use in that country, alternate or substitute sources for product

G. Company Operations

1. Company policy — will company adapt if necessary

2. Product — adapt product if necessary

3. Price — changes if necessary

4. Channels of distribution
   - of competing firms; usually use same channels
   - may convince wholesaler to carry your line instead

5. Terms of sale etc.
   (a) credit versus cash sales
   (b) inventory problems
6. Advertizing, taxes, patents, trademarks, other conditions

H. Findings and recommendation

I. Sources of information — U.S. government agencies, for government reports, market research, government agencies, informal sources

On going research conducted by representative in country once trade established

Source: Kramer, Roland L. International Marketing, 1970 Text Book, Chapter 3.
Copyright © South-Western Publishing Company.

HO 2-2

Checklist

INTERNATIONAL MARKETING QUESTIONS

II. Foreign Market Assessment/Selection

Do opportunities exist in a foreign market (the U.S.) for our products and services? Why do you think so?

What are the major facts and trends in a foreign country (the U.S.)?

Economic

Political

Legal

Social/Cultural

Technological

Environmental

What impact do these environmental dimensions have on the specific foreign market for our products and services?

What is the market potential abroad (in the U.S.)?

Are there foreign (U.S.) markets that the firm can serve? What are they?

HO 2-2 (continued)

What new markets are likely to open up abroad (in the U.S.)?

Who are our present and potential customers abroad (in the U.S.)?

What are their needs and desires that might make them want our product?

What are their demographic and psychographic characteristics-disposable income, occupation, age, sex, opinions, interests, activities, tastes, values, etc.?

What is their life style, e.g., convenience-oriented, price-sensitive, or status-conscious?

Who makes the purchase decisions?

Who Influences the purchase decisions?

How are the purchase decisions made?

HO 2-2 (continued)

Where are the products purchased, such as grocery stores, hypermarkets, mail order?

How is our product used? Is it for personal use or commercial use? How often is it used and replaced?

What are the purchase and consumption patterns and behaviors related to our product in the U.S.?

What is the nature of competition in the foreign (U.S.) market?

Who are our major direct and indirect competitors?

What are the major characteristics of the competitors, such as, relative size to us?

What are our firm's competitive strengths and weaknesses in reference to such factors as product quality, product lines, warranties, services, brands, packaging, distribution, sales force, advertising, prices, experience, technology, capital and human resources, and market share?

What attitudes do different governments (domestic and foreign) have toward foreign trade?

Poland

U.S.

Are there any foreign trade incentives and barriers?

Is there any prejudice against imports and exports?

What are the different governments doing specifically to encourage or discourage international trade?

What specific requirements - for example, import or export licenses — have to be met to conduct international trade?

How difficult are certain government regulations for the firm?

How well developed are the foreign (U.S.) mass communication media? Are the print and electronic media abroad efficient and effective?

Are there adequate transportation and storage/warehouse facilities in the foreign market?

HO 2-2 (continued)

Does the foreign market offer efficient channels of distribution for the firm's products?

What are the characteristics of the existing domestic and foreign distributors?

How effectively can the distributors perform specific marketing functions?

What is the state of the retailing institutions?

MONITORS OF INTERNATIONAL ISSUES

Selected Organizations

American Bankers Association
1111 14th Street NW Suite 300
Washington, DC 20005

American Bar Association
750 North Lake Shore Drive
Chicago, IL 60611
and
1800 M Street NW
Washington, DC 20001

American Management Association
440 First Street NW
Washington, DC 20001

American Marketing Association
250 South Wacker Drive Suite 200
Chicago, IL 60606
and
1518 K Street NW
Washington, DC 20005

American Petroleum Institute
1220 L Street NW
Washington, DC 20005

Asian Development Bank
2330 Roxas Boulevard
Pasay City, Philippines

Chamber of Commerce of the United States
1615 H Street NW
Washington, DC 20062

Commission of the European Communities
to the United States
2100 M Street NW Suite 707
Washington, DC 20037

Conference Board
845 Third Avenue
New York, NY 10022
and
1755 Massachusetts Avenue NW Suite 312
Washington, DC 20036

Center for International Business and Trade
School of Business Administration
Georgetown University
1242 35th Street NW Suite 501
Washington, DC 20057

Electronic Industries Association
2001 I Street NW
Washington, DC 20006

European Community Information Service
200 Rue de la Loi
1049 Brussels, Belgium
and
2100 M Street NW 7th Floor
Washington, DC 20037

Export-Import Bank of the United States
811 Vermont Avenue NW
Washington, DC 20571

Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Inter-American Development Bank
1300 New York Avenue NW
Washington, DC 20577

International Bank for Reconstruction and
Development (World Bank)
1818 H Street NW
Washington, DC 20433

Source: International Marketing, Chap. 8, Appendix B. Czinkota, Michael R. and Ilkka A. Ronkainen, Chicago; second edition, 1990. ©The Dryden Press.

International Monetary Fund
700 19th Street NW
Washington, DC 20431

Marketing Research Society
111 East Wacker Drive Suite 600
Chicago, IL 60601

National Association of Manufacturers
1331 Pennsylvania Avenue Suite 1500
Washington, DC 20004

National Federation of Independent Business
600 Maryland Avenue SW Suite 700
Washington, DC 20024

Organization for Economic Cooperation and Development
2 rue Andre Pascal
75775 Paris Cedex Ko, France
and
2001 L Street NW Suite 700
Washington, DC 20036

Organization of American State
17th and Constitution Avenue NW
Washington, DC 20006

Society for International Development
1401 New York Avenue NW Suite 1100
Washington, DC 20005

United Nations

Conference of Trade and Development
Palais des Nations
1211 Geneva 10, Switzerland

Department of Economic and Social Affairs
1 United Nations Plaza
New York, NY 10017

Industrial Development Organization
1660 L Street NW
Washington, DC 20036
and
Post Office Box 300
Vienna International Center
A-1400 Vienna, Austria

Publications
1 United Nations Plaza Room 1194
New York, NY 10017

Statistical Yearbook
1 United Nations Plaza
New York, NY 10017

U.S. Government

Agency for International Development
Office of Business Relations
Washington, DC 20523

Customs Service
1301 Constitution Avenue NW
Washington, DC 20029

Department of Agriculture
12th Street and Jefferson Drive SW
Washington, DC 20250

Department of Commerce
Herbert C. Hoover Building
14th Street and Constitution Avenue NW
Washington, DC 20230

Department of State
2201 C Street NW
Washington, DC 20520

Department of the Treasury
15th Street and Pennsylvania Avenue NW
Washington, DC 20220

Federal Trade Commission
6th Street and Pennsylvania Avenue NW
Washington, DC 20580

International Trade Commission
701 E Street NW
Washington, DC 20436

Small Business Administration
Imperial Building
1441 L Street NW
Washington, DC 20416

Trade Development Program
1621 North Kent Street
Rosslyn, VA 22209

World Trade Centers Association
1 World Trade Center Suite 7701
New York, NY 10048

Indexes to Literature

Business Periodical index
H.W. Wilson Co.
950 University Avenue
Bronx, NY 10452

Wall Street Journal Index
Dow Jones & Company
200 Liberty Street
New York, NY 10281

Periodic Reports, Newspapers, Magazines

Advertising Age
Crain Communications Inc.
740 North Rush Street
Chicago, IL 60611

Advertising World
Directories international Inc.
150 Fifth Avenue Suite 610
New York, NY 10011

Arab Report and Record
84 Chancery Lane
London WC2A 1DL, England

Barron's
University Microfilms International
300 North Zeeb Road
Ann Arbor, MI 48106

Business America
U.S. Department of Commerce
14th Street and Constitution Avenue NW
Washington, DC 20230

Business International
Business International Corp.
One Dag Hammarskjold Plaza
New York, NY 10017

Business Week
McGraw-Hill Publications Co.
1221 Avenue of the Americas
New York, NY 10020

Commodity Trade Statistics
United Nations Publications
1 United Nations Plaza Room DC2-853
New York, NY 10017

Conference Board Record
Conference Board Inc.
845 Third Avenue
New York, NY 10022

Customs Bulletin
U.S. Customs Service
1301 Constitution Avenue NW
Washington, DC 20229

Dun's Business Month
Goldhirsh Group
38 Commercial Wharf
Boston, MA 02109

The Economist
Economist Newspaper Ltd.
25 St. James Street
London SW1A 1HG, England

Europe Magazine
2100 M Street NW Suite 707
Washington, DC 20037

The Financial Times
Bracken House
10 Cannon Street
London EC4P 4BY, England

Forbes
Forbes, Inc.
60 Fifth Avenue
New York\, NY 10011

Fortune
Time, Inc.
Time & Life Building
1271 Avenue of the Americas
New York, NY 10020

Global Trade
North American Publishing Co.
401 North Broad Street
Philadelphia, PA 19108

Industrial Marketing
Crain Communications, Inc.
740 North Rush Street
Chicago, IL 60611

International Financial Statistics
International Monetary Fund
Publications Unit
700 19 Street NW
Washington, DC 20431

Investor's Daily
Box 25970
Los Angeles, CA 90025

Journal of Commerce
110 Wall Street
New York, NY 10005

Sales and Marketing Management
Bill Communications Inc.
633 Third Avenue
New York, NY 10017

Wall Street Journal
Dow Jones & Company
200 Liberty Street
New York, NY 10007

World Agriculture Situation
U.S. Department of Agriculture
Economics Management Staff
Information Division
1301 New York Avenue NW
Washington, DC 20005

World Development
Pergamon Press Inc.
Journals Division
Maxwell House
Fairview Park
Elmsford, NY 10523

World Trade Center Association (WTCA) Directory
World Trade Centers Association
1 World Trade Center
New York, NY 10048

Directories

American Register of Exporters and Importers
38 Park Row
New York, NY 10038

Arabian Year Book
Dar Al-Seuassam Est.
Box 42480
Shuwakh, Kuwait

Directories of American Firms Operating in Foreign Countries
World Trade Academy Press
Uniworld Business Publications Inc.
50 East 42nd Street
New York, NY 10017

Encyclopedia of Associations
Gale Research Company
Book Tower
Detroit, MI 48226

Polk's World Bank Directory
R.C. Polk & Co.
2001 Elm Hill Pike PO Box 1340
Nashville, TN 37202

Verified Directory of Manufacturers' Representatives
MacRae's Blue Book Inc.
817 Broadway
New York, NY 10003

World Guide to Trade Associations
K.G. Saur & Company
175 Fifth Avenue
New York, NY 10010

Encyclopedias, Handbooks, and Miscellaneous

A Basic Guide to Exporting
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Doing Business in . . . Series
Price Waterhouse
1251 Avenue of the Americas
New York, NY 10020

Economic Survey of Europe
The United Nations
United Nations Publication Division
1 United Nations Plaza Room DC2-0853
New York, NY 10017

Export-Import Bank of the United States Annual Report
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Exporting for the Small Business
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Exporting to the United States
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Export Shipping Manual
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Foreign Business Practices: Materials on Practical Aspects of Exporting, International Licensing, and Investing
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

A Guide to Financing Exports
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Handbook of Marketing Research
McGraw-Hill Book Company
1221 Avenue of the Americas
New York, NY 10020

Economic Survey of Latin America
United Nations
United Nations Publishing Division
1 United Nations Plaza Room DC2-0853
New York, NY 10017

Encyclopedia Americana, International Edition
Grolier Inc.
Danbury, CT 06816

Encyclopedia of Business Information Sources
Gale Research Company
Book Tower
Detroit, MI 48226

Europa Year Book
Europa Publications Ltd.
18 Bedford Square
London WC1B 3JN, England

Export Administration Regulations
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Exporters' Encyclopedia—World Marketing Guide
Dun's Marketing Services
49 Old Bloomfield Road
Mountain Lake, NJ 07046

International Encyclopedia of the Social Sciences
MacMillan and the Free Press
866 Third Avenue
New York, NY 10022

Marketing and Communications Media Dictionary
Media Horizons Inc.
50 West 25th Street
New York, NY 10010

Market Share Reports
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Media Guide International: Business/ Professional Publications
Directories International Inc.
150 Fifth Avenue Suite 610
New York, NY 10011

Overseas Business Reports
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Trade Finance
U.S. Department of Commerce
International Trade Administration
Washington, DC 20230

World Economic Conditions in Relation to Agricultural Trade
U.S. Government Printing Office
Superintendent of Documents
Washington, DC 20402

Yearbook of International Trade Statistics
United Nations
United Nations Publishing Division
1 United Nations Plaza Room DC2-0853
New York, NY 10017

DESCRIPTION OF SELECTED U.S. GOVERNMENT PUBLICATIONS AND SERVICES

Macrodata

World Population is issued by the U.S. Bureau of the Census, which collects and analyzes worldwide demographic data. Information is provided about total population, fertility, mortality, urban population, growth rate, and left expectancy. Also published area detailed demographic profiles, including an analysis of the labor force structure of individual countries.

Foreign Trade Highlights are annual reports published by the Department of Commerce. They provide basic data on U.S. merchandise trade with major trading partners and regions. They also contain brief analyses of recent U.S. trade developments.

United States Trade Performance and Outlook is published by the Department of Commerce and provides an overview of trade flows among nations. In addition, a special topics section addresses major changes in trade regulation and trade policy that have taken place during the year.

Foreign Trade Report FT410 provides a monthly statistical record of shipments of all merchandise from the United States to foreign countries, including both the quantity and dollar value of exports to each country. It also contains cumulative export statistics from the first of the calendar year.

World Agriculture, a publication of the U.S. Department of Agriculture, provides production information, data, and analyses by country along with a review of recent economic conditions and changes in agricultural and trade policies. Frequent supplements provide an outlook of anticipated developments for the coming year.

Country Information

Country Market Profiles (CMP) are multi-country, multi-industry reports that include trade contacts, specific trade leads, and statistical analyses.

International Market Research (IMR) reports provide in-depth analyses of one industry in one country. Each report typically includes information such as behavioral characteristics, trade barriers, market share figures, and trade contacts.

Overseas Business Reports (OBR) present economic and commercial profiles on specific countries and provide background statistics. Selected information on the direction and the volume and nature of U.S. foreign trade is also provided.

Source: International Marketing, Chap. 8, Appendix B. Czinkota, Michael R. and Ilkka A. Ronkainen, Chicago; second edition. ©The Dryden Press.

Background Notes, prepared by the Department of State, present a survey of a country's people, geography, economy, government, and foreign policy. The reports also include important national economic and trade information.

Foreign Economic Trends presents recent business and economic developments and the latest economic indicators of more than 100 countries.

Product Information

Export Statistics Profiles analyzes exports for a single industry, product by product, country by country, over a five-year period. Data are rank-ordered by dollar value for quick identification of the leading products and industries. Tables show the sales of each product in an industry to each country as well as competitive information, growth, and future trends. Each profile also contains a narrative analysis that highlights the industry's prospects, performance, and leading products.

Custom Statistical Service offers data on products not covered in one of the standard export statistics profiles. It allows firms access to data tailored specifically to their needs. Data are available in formats such as quantity, unit quantity, unit value, and percentages as well as on imports.

Annual Worldwide Industry Review publications provide a combination of country by country market assessments, export trends, and five-year statistical tables of U.S. exports for a single industry integrated into one report. They show the industry's performance for recent years in many countries.

U.S. Industrial Outlook, an annual publication of the U.S. Department of Commerce, provides an overview of the domestic and international performance of all major U.S. industries, complete with employment and shipment information and a forecast of future developments.

Market Share Reports provide basic data to evaluate overall trends in the size of markets for exporters. They also measure changes in the import demand for specific products and compare the competitive position of U.S. and foreign exporters.

Country Trade Statistics provides details of all U.S. exports to a single country over a five-year period. It shows leading U.S. exports by industry and country. Each country report contains four key statistical tables showing the top U.S. exports of about 150 product categories and other indicators of which U.S. products are in demand.

Export Information System Data Reports, available from the U.S. Small Business Administration, provide small businesses with a list of the 25 largest importing markets for their products and the 10 best markets for U.S. exporters of the products. Trends within those markets and the major sources of foreign competition are also discussed.

Services

Agent Distributor Service (ADS): The Foreign Commercial Service (FCS) provides a customized search for interested and qualified foreign representatives for a firm's product.

Catalog Exhibitions: The Department of Commerce organizes displays of product literature and videotape presentations overseas.

Comparison Shopping Service: The FCS provides a custom foreign market survey on a product's overall marketability, names of competitors, comparative prices, and customary business practices.

Economic Bulletin Board: The Department of Commerce provides access to the latest economic data releases, including trade opportunities, for on-line users.

Foreign Buyer Program: The FCS brings foreign buyers to U.S. trade shows for industries with high export potential.

Matchmaker Events: The Department of Commerce introduces U.S. companies to new markets through short visits abroad to match the U.S. firm with a representative or prospective partner.

Seminar Missions: The Department of Commerce sponsors technical seminars abroad designed to promote sales of sophisticated products and technology.

Trade Missions: Groups of U.S. business executives, led by Commerce Department staff, are brought in direct contact with potential foreign buyers, agents, and distributors.

Trade Opportunity Program: The FCS daily collection of trade opportunities worldwide is published and electronically distributed to subscribers.

World Traders Data Reports: The FCS publishes background research conducted by FCS officers abroad on potential trading partners, such as agents, distributors, and licensees.

HO 2-5

China: Four Approaches

The following article appeared in THE WALL STREET JOURNAL College Edition (1986).

When Fluor Corp. opened its office in Peking back in 1978—one of the early American companies to do so—its officials knew they would need staying power.

"We never had any illusions," says Fluor Chairman David Tappan. "It's a long-term opportunity, a long-term potential." It was a good thing they felt that way; the company, he says, has been putting more money into all its projects there than it has been taking out.

Now that China has embarked on a major business push, Fluor thinks the cash is going to start flowing back out, and the company is forging ahead. "We've decided...to significantly increase the time, manpower, and effort devoted to China," says Mr. Tappan. In early 1985 Fluor signed a big petrochemical joint venture contract there.

No one knows for sure whether doing business with China henceforth really is going to be easier or more profitable than in the past. But scores of American companies are starting to think—like Fluor—that it's time to try harder to find out.

The number of U.S. companies' Peking representative offices spurted by 20 percent in 1984, to over 140. One U.S. commercial officer says his business-seeking visitors have doubled since 1984. Adds an American lawyer there, "If my firm lets loose every client who wants to do China business, I'll be dead tomorrow."

Herewith are the experiences of four major U.S. companies that have started major ventures recently to cash in on the business push.

1. When Gould Inc. Vice Chairman David Simpson arrived in Peking in October 1984, to open his company's first office there, he was feeling a sense of urgency. Then days earlier, China had announced a dramatic new market-oriented policy. Do-business fervor was in the air.

   "My gut feeling is an enormous rush to get into the door before it closes; he said after the celebratory banquet. "The faster you get in, the better." He was thinking of the competition, not political reversals. "If you don't get through the gate, you'll be locked out," he said.

   The lure for Gould, which makes computer equipment to regulate industrial processes, is China's huge, aging industrial base. One of China's major goals is to upgrade and modernize as many of its million factories as possible. "If they're all prepared to upgrade, then the spending power is enormous," Mr. Simpson concludes.

Still, he admits, the actual size and growth of the market for Gould's products is hard to estimate. "We haven't got a figure for the China market," he says. "But it's big."

Gould isn't staking the shop on that feeling, though. It isn't investing any capital, concentrating instead on licensing Chinese factories to produce Gould products. In 1984, it signed one $12 million licensing agreement, two more are on the way, and its Peking office is sifting through prospects.

Right now, sales of Gould's computers, either directly or in systems being installed in Chinese factories by other companies, represent just a tiny fraction of Gould's sales, which in 1983 totaled $1.32 billion. Still, says Mr. Simpson, "It's the biggest opportunity we have worldwide because it's brand new. It's virgin territory."

2. Otis Group Inc. President Francois Jaulin was looking over his should enroute to the China market. A Swiss competitor, Schindler Holding AG, had set up shop in Shanghai back in 1980. And the Japanese had invaded. Elevators in luxury hotels rising throughout China increasingly bear names like Mitsubishi and Hitachi.

China was installing 5,000 elevators a year in 1985. Chinese officials predicted that within 10 years demand would grow to 10,000 a year. Otis, a unit of United Technologies Corp.—which accounts for 20,000 of the 100,000 elevators sold in the world each year—figured it couldn't let China slip away.

"I can't miss the train with competitors in the Pacific and me not having access to the source," Mr. Jaulin said as he came to sign a joint venture to build elevators in Tianjin.

Under an interim agreement approved in 1983, Otis sold 100 elevators and escalators here, and since has sold some more. But China is pressing to build at home. "It would be crazy to assume China is going to import elevators forever," Mr. Jaulin said.

In 1985 Otis had seven of its own employees working in a Chinese factory, helping upgrade production of the 600 elevators a year the factory makes, and working toward turning out at least 2,000 a year after 10 years. The Chinese company is profitable, but Mr. Jaulin doesn't expect to take out any profits for years. Because of China's urge to hang onto foreign exchange, the joint venture will have to make its own foreign exchange-generating sales to get money for Otis to take home.

Mr. Jaulin said the venture will make its "best efforts" to export 25 percent of the factory's output within three or four years. But clearly his mind is on the China market. "Every country wants to export half its production," he says. "But if we did that, the sea would be full of elevator parts."

3. For Nabisco Brands Inc., the China market has an age-old attraction: the lure of a billion mouths to feed.

"This is a great market," says William Seidler, a Nabisco senior vice president who helped negotiate a joint-venture contract under which Nabisco and a Chinese company will jointly build a factory in Peking to make Ritz crackers. Within 100 miles of the plant, he says, are millions of people who need convenience food, who spend a lot of their disposable income on edibles, and who like baked goods. "It's mind-boggling in terms of potential," he declares.

Nabisco is starting out small. The total venture is valued at $8.8 million. the 6,000-ton annual capacity, one-production-line plant the company plans to build is "tiny" compared with operations in other parts of the world, Mr. Seidler says. In the United States, its smallest plant has three production lines; the largest, 20.

But the sense of huge promise is present. As the company was discussing how to plan its contractual commitment to export, officials decided not to make the pledge in terms of a certain percentage of sales. Instead, it promised to export a certain number of tons of crackers—between 300 to 900 tons a year at first. "If this thing grows as fast as we hope it will, 5 percent of sales will flood the world," says Mr. Seidler.

4. Fluor Corp. opened its China office and signed its first contract back in 1978. It has stayed there through a number of Chinese reversals, including one that cost it a major venture. After 18 months and 235,000 worker-hours of engineering work by Fluor, China canceled a plan to build the world's largest copper mine.

In the fall of 1984, Fluor entered a ;major ;joint-venture engineering project with a Chinese petrochemical company to upgrade existing oil refineries and contract for new ones. Fluor won't discuss financial terms of the contract.

As Mr. Tappan has been telling other business executives in speeches over the past few months, the company bases its positive view of China partly on political factors. The year "1984 will go down as a very significant year for U.S.-China trade relations," he says, noting the visit of Chinese Premier Zhao Ziyang to the United States, the visit of President Reagan to China, and China's participation in the Olympics in the United States.

Also, Fluor's operations there seem to be changing for the better. This year, says Mr. Tappan, "It's the beginning of a reverse" into a positive cash flow.

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HO 2-6

Caveats for Global Marketers

The following article appeared in THE WALL STREET JOURNAL College Edition (1986).

Grey Advertising Inc., which has done global marketing for such products as Revlon's Flex shampoo and BankAmerica travelers' checks, suggests three questions companies should ask themselves about selling products in other countries. A negative answer to even one indicates that a single global marketing strategy probably would flop:

Has the market developed in the same way from country to country? Grey notes that Kellogg's Pop-Tarts failed in Britain because toasters weren't used widely. The continued popularity of clotheslines in Europe similarly meant little demand for fabric-softener sheets used in dryers.

Are the consumer targets similar in different nations? Canon found that in advertising 35mm cameras in the United States, it had to appeal to people who are fearful about complex technological products. Many Japanese consumers, ont he other hand, seek sophisticated, high-tech products.

Do consumers share the same wants and needs around the world? In the United States, General Foods Corp. successfully positioned Tang as a substitute for orange juice at breakfast, but discovered that in France people drink little orange juice, and almost none at breakfast. General Foods had to create a totally different advertising approach promoting Tang as a refreshment for any time of day.

In a survey of big multinational companies, Grey found that half favor a world ad campaign. About 60 percent of the respondents are centralizing their advertising management, and 75 percent believe that hiring one agency to handle all international marketing would be ideal. About 71 percent still employ more than one agency, however.

The companies surveyed also say they ar encountering resistance from the managers of their overseas offices who view global marketing as a threat to their autonomy. "The whole idea has been oversimplified by some people," says Barbara Feigin, an executive vice president at Grey. "There's not a simple answer for every company and every brand in every single country."

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Developing an Exporting Strategy

By Don R. Wright
Office of European Community Affairs
U.S. Department of Commerce

The European Community is the largest regional market for U.S. exporters. Since 1985, U.S. exports to the EC have doubled. In 1991, U.S. exports topped $100 billion, and the United States recorded its largest trade surplus ever with the EC—estimated at $17 billion for the year. Continued growth in the EC market means that there are still opportunities available for U.S. companies that come prepared with a developed export strategy.

The success of a U.S. company seeking to enter the EC marketplace depends on many factors. One of the most important is the development and implementation of a realistic business strategy. With the movement toward a Single Internal Market in the EC by 1993, and increased competition, strategy development will play an even more significant role in the exporting process. The U.S. Department of Commerce offers a wide range of services and programs to exporters, and can assist in market identification and strategy development.

Developing a Strategy

There are several factors that must be considered when designing a company export strategy. First, a company should tailor its strategy to highlight the unique features of the products or services it intends to sell. Quality products and services are very marketable, and U.S. manufacturers should increase their awareness of quality standards recognized by EC consumers when targeting the market.

Second, a company should gather as much information as possible about relevant legislation and technological developments in its product area. This information can have a profound effect on the marketability of a product. As a result of changing legislation, markets throughout the EC are opening for new products and services. New legislation not only affects the way U.S. companies do business in the EC, it will also affect the way EC companies—their competitors—conduct business with each other. Department of Commerce experts can assist a company in identifying legislation relevant to its market interests.

Third, a company should study trends in EC markets as a means of targeting potential markets for its products or services. Statistical information is widely available, and can provide an understanding of the direction product and services markets may take. Marketing/exporting analyses are prepared by many U.S. government agencies and this information is often distributed at no charge or at a nominal fee.

There are several phases to developing an exporting strategy. These apply equally to marketing in the EC as to other foreign markets. As a first step, you should establish objectives that reflect the aims of your company. Make sure that your objectives are manageable, and take into consideration both the current and long-range export potential of your product. Set a timetable for future export initiatives. In many cases, a two-to-five-year timeframe allows for changes in the product line, production, financial, and personnel structure within the company. Take time to outline the technique to be utilized in the exporting venture. Techniques often include meetings, trade fairs, export programs, conference calls, and overseas visits. It is important to learn the technique preferred by the importer of your products. Some companies prefer using face-to-face meetings instead of conference calls, while others might prefer the use of trade fairs (see listing of upcoming European trade promotion events, page 24). Finally, your export strategy should outline the financial resources available for the endeavor. Include all financial account reports, credit sheets, data sheets, and marketing reports that could be useful in preparing a strong export strategy.

Entering the European Market

The EC is open to exports and will remain so after 1992. EC law does not require you to invest to take advantage of the EC Single Market. There are several options to consider when entering the European marketplace. Many companies choose to market their products by advertising in foreign trade magazines and journals. This type of marketing allows the potential exporter to market to a large number of potential importers as well as to target specific markets. However, it requires having a substantial amount of capital tied up in advertising charges.

Exporting to EC member states by using existing national or local agents and distributors is very popular. U.S. companies can benefit from having a distributor or agent who is already equipped to sell products in the marketplace. Agents and distributors are generally capable of advising exporters on licensing and other agreements recognized in EC countries, as well as providing trade leads to companies that are new to doing business inside the EC. However, you need to become familiar with the bona fides of the European agents and distributors that you utilize. You also need to be aware of Community-wide requirements covering the negotiation of contracts with commercial agents and distributors as well as the often stiff penalties involved in premature

termination of such agreements.

Another channel for entering products into the EC marketplace is by purchasing existing distribution channels. This enables a company to maintain its base in the United States and take advantage of an established distribution system. This can be expensive for many companies. However, for companies with long range goals, this strategy can prove to be beneficial.

Underestimation of market potential can result in the loss of numerous trade opportunities. Targeting larger countries in the EC can be profitable, but don't overlook marketing possibilities in some of the smaller countries such as Denmark and Portugal. While the EC is rapidly becoming a legally integrated marketplace, it is still important for U.S. exporters to recognize that each country will still have independent ways of conducting business.

1992: How It Will Affect Your Export Strategies

As Jan. 1, 1993, approaches, changes in the European Community marketplace are progressing. With U.S. and other exporters scrambling to beat the competition, it is important to realize that export strategies might have to be altered to take account of these changes.

Although in the past, many company export strategies targeted a single European country, you might want to alter your strategy to reach several countries. Regionalization is a way in which many exporters have decided to approach the EC marketplace. For example, instead of exporting to only one agent in one country, the exporter ships the products to three or more countries taking advantage of distribution channels established by one centralized sales and distribution center in Europe.

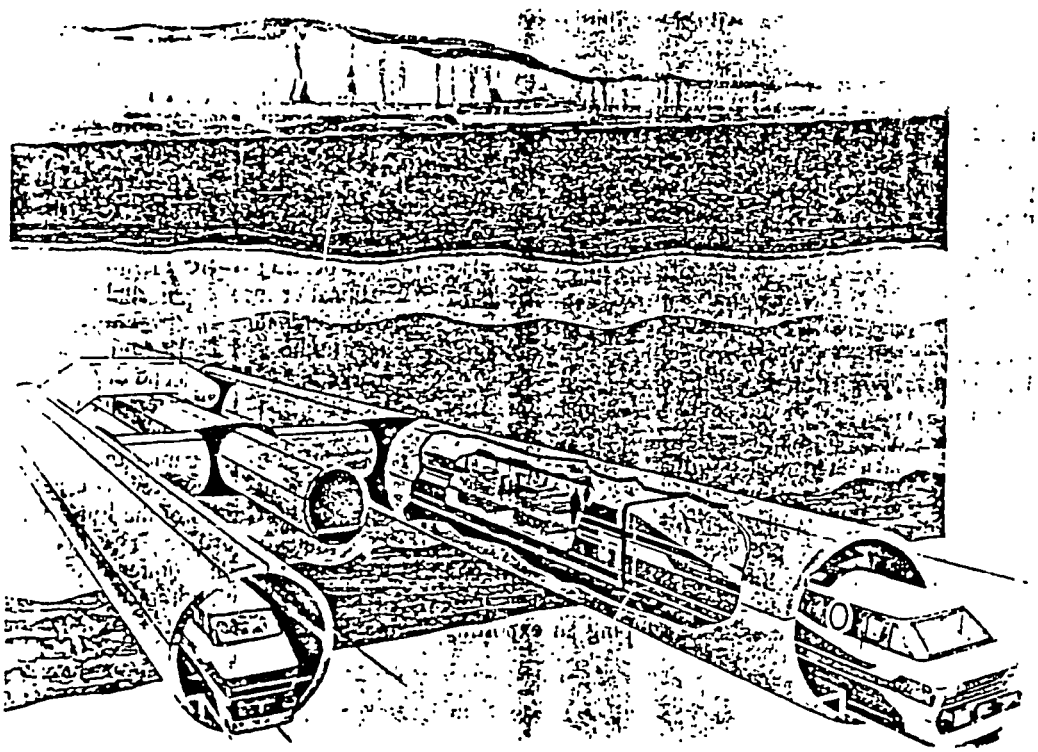
Under the EC 1992 program, border checks will be eliminated thus reducing transportation costs, and natural trading zones are already being established. Countries such as Portugal, Spain, France, and Italy, as well as Germany and the United Kingdom, are sure to benefit from the expansion of trade due to the Single Market program. Moreover, with the development of more transnational transportation projects, such as the Channel Tunnel that will link the United Kingdom with France, U.S. exporters should benefit from the easier movement of goods.

The Single Internal Market will improve the cost effectiveness of most business endeavors. As regulatory differences between countries diminish, U.S. exporters will find it less expensive to market in the EC. Already as a part of the internal market program, the EC has eliminated the need for extraneous exporting documents. The Single Administrative Document (SAD) has replaced the cumbersome and often expensive procedure of preparing multiple documents for exports.

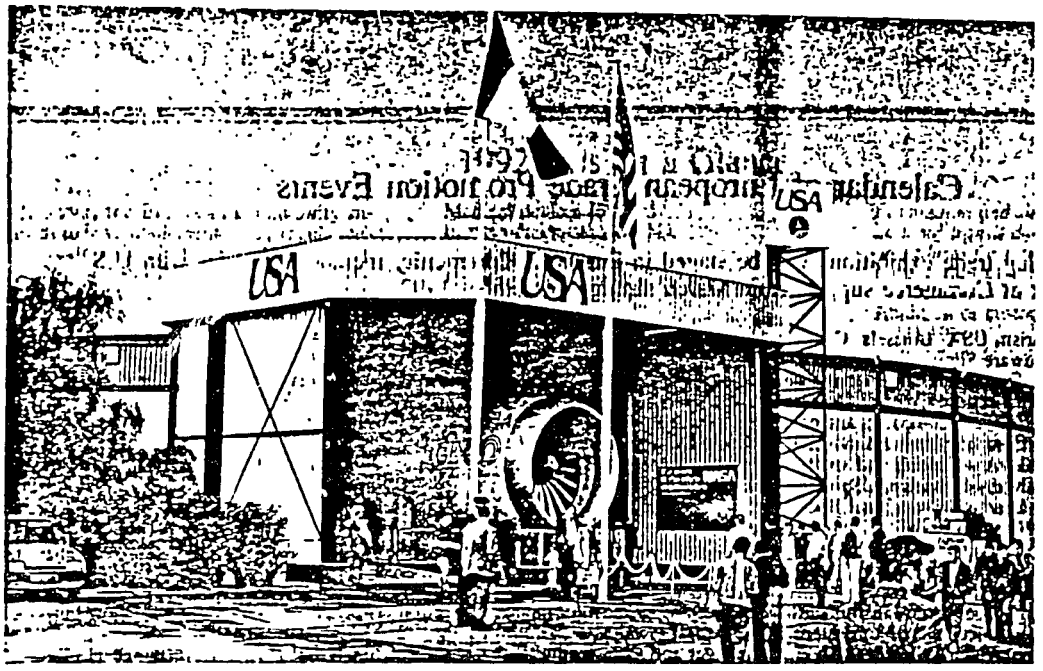
Harmonization of standards within the EC should also mean reduced costs for many exporters. In the past, products had to be tested and certified to meet different member state standards. This was a costly avenue for most exporters. With the introduction of harmonized standards and certification procedures for most products in the EC, products for which certification costs were previously prohibitive should now be more marketable. In addition, U.S. exporters should benefit from the harmonization of product labelling, patents and trademarks, and transport licenses.

Commerce Department Services

There is a wide range of export counseling services available to U.S. businesses through the U.S. Depart-



The Channel Tunnel connecting Folkestone, United Kingdom and Sengatts (near Calais), France, is scheduled to open in the fall of 1993. As shown by the artist's drawing, the Channel Tunnel will carry rail passenger coaches as well as trucks and individual autos on flatbed rail cars. (Credit: Delegation of the European Communities.)



Some 147 U.S. companies in the USA National Pavilion produced over 8,000 sales leads and reported over $45 million in off-the-floor sales at the 39th annual Paris Air Show held in June 1991.

ment of Commerce, at locations both in the United States and overseas. The International Trade Administration (ITA) includes regional, country-specific and industry-specific personnel able to provide assistance to exporters.

The U.S. and Foreign Commercial Service (US&FCS) has personnel located in 68 U.S. cities and 68 foreign countries. US&FCS provides information on foreign markets, agent/distributor services, trade leads, and financing. US&FCS district offices—see inside back cover for a listing—serve as local resource centers for exporters, providing access to exporter-oriented databases such as the Economic Bulletin Board (on-line trade leads and statistical information from the Census, Bureau of Economic Analysis, Bureau of Labor Statistics, and other agencies) and the National Trade Data Bank, the NTDB (stored on CD-ROM, the NTDB contains more than 100,000 trade-related documents. Statistical data includes U.S. export data by country and product. Market research reports are available through the NTDB, as are the names and addresses of potential importers of U.S. products). Commercial officers at overseas posts assist U.S. businesses on location in foreign markets (see article on page 38 for an overview of US&FCS services).

The Single Internal Market Information Service (SIMIS) in the Office of EC Affairs is a primary contact point within the U.S. government for U.S. business questions on the commercial and trade implications of the EC 1992 program. SIMIS staff maintain a comprehensive database of EC directives and regulations, as well as copies of specialized documentation published by the EC Commission, the U.S. government and the private sector. SIMIS offers U.S. exporters a variety of services, including a basic information packet on EC 1992; a quarterly newsletter, *Europe Now*; specialized guides to EC legislation; information on EC duties, taxes, and customs requirements; informational seminars; and individual business counselling. SIMIS staff field business inquiries on EC 1992 issues and refer inquiries to various Commerce specialists for counseling and assistance.

Country desk officers for individual European countries provide businesses with information on new marketing/exporting opportunities specific to their country. As part of the EUROpportunity Program, Commerce's European desk officers can serve as a U.S. company's "eyes and ears" to keep them informed of specific market opportunities and help them expand sales. Information is available from the desks on national regulations, trade data, market size and growth rates.

Industry specialists work with manufacturers and related associations to improve the competitiveness of U.S. industries in international markets. They assist U.S. businesses to identify trade opportunities and barriers that affect particular industry sectors and/or products, and provide advice on developing marketing plans and programs. Industry specialists also assist in organizing trade missions, seminars, and trade fairs for their product areas.

Conclusion

Establishing an export strategy is important to doing business in the EC. Your strategy should be precise as to what you expect out of the venture. Companies must thoroughly investigate using as much market research information as possible to insure against unexpected competition. The Single Internal Market will bolster competition between companies in the EC, and U.S. companies must be prepared to face changes occurring as a result of the changing regulatory and commercial environment. The Department of Commerce is well equipped to assist potential exporters, with programs tailored to your individual needs. Advance planning could be the key to success for your company.

HO 2-8

INDICATORS OF MARKET SIZE FOR 117 COUNTRIES

Some terms require a word of explanation in order to make country-by-country comparisons more meaningful.

Population figures are midyear UN estimates. Working age is defined as ages 16 to 64 inclusive.

Gross Domestic Product (GDP) is the total value at current market prices of all goods and services produced by residents of a country before deduction of depreciation charges on fixed capital. It is equal to the sum of (1) personal consumption expenditures; (2) gross domestic capital formation (investments), including inventory changes; (3) the net of exports minus imports of goods and services; and (4) government consumption expenditures. GDP differs from GNP by excluding net factor incomes received from abroad (an amount usually about 1 percent of GDP). GDP and GNP reports tend to run later and are subject to constant revision (the United States normally makes about a half dozen changes after its first estimate). Thus, the 1984 figures are often provisional or are estimates made by Business International analysts.

National Income is the sum of the incomes of nationals of a country, whether resident or not, before deduction of direct taxes. The main components are wages and salaries, employees' benefits, corporate earnings accruing to residents, income from business operations, net interest, and royalties. Source: *International Financial Statistics* (IMF).

Average Wages in Manufacturing are subject to inconsistencies in reporting and definitions of manufacturing, as well as differences in the workweek and treatment of overtime, benefits, payments in kind, etc. Wages at current prices have been adjusted for inflation using the private consumption deflator to obtain real growth in manufacturing wages. Source: *Yearbook of Labor Statistics* (International Labor Organization).

Total Exports are presented f.o.b. (approximately the seller's price before transportation). Often in trade statistics, this is compared to imports f.o.b. to obtain the country's balance of trade. However, BI believes imports c.i.f. (which include transportation and insurance costs) gives a better picture of the significance of imports to a nation's economy. Sources: *Direction of Trade Statistics* (IMF), central banks', and government publications.

Private Consumption Expenditure is the value of final expenditure by households and private nonprofit institutions on current goods and services, less sales of similar goods.

Source: "Indicators of Market Size for 117 Countries," *Business International*, June 1988. (Appendix)
Sources used by BI editors include: *Monthly Bulletin of Statistics* (UN); *OECD Economic Surveys: Director of Trade Statistics* (IMF); *International Financial Statistics* (IMF); U.S. Department of Commerce; Agency for International Development; *World Automotive Market* (Johnston International Publishing Corp.); *The World's Telephones* (American Telephone and Telegraph); *World Radio-TV Handbook* (AT&T Communications); *Statistical Yearbook* (UN); *Yearbook of Labor Statistics* (ILO); *Yearbook of National Accounts Statistics* (UN); *Yearbook of Energy Statistics* (UN); *International Iron and Steel Institute; Key Indicators of Developing Member Countries of ADB* (Asian Development Bank); *Selected World Demographic Indicators by Countries, 1950-2000* (UN); central banks', and government publications.

Sources: BI area forecasting studies, *Monthly Bulletin of Statistics* (UN), *International Financial Statistics* (IMF), *Yearbook of National Accounts Statistics* (UN).

Passenger Cars in Use denotes motor vehicles seating fewer than eight persons, including taxis, jeeps, and station wagons. Source: *World Automotive Report* (Johnston International Publishing Company).

Trucks and Buses in Use includes vans, lorries, buses, and tractor and semitrailer combinations (except trailers and farm tractors). Source: *World Automotive Report* (Johnston International Publishing Company).

Telephone Access Lines includes both public and private telephones installed that can be connected to a central exchange. Source: *The World's Telephones* (AT&T).

Television Sets in Use is a total number of receiving sets in each country. Source: *World Radio and TV Handbook.*

Computers refers to the total number of installed large-scale systems. Large-scale systems are either general-purpose computers or high-speed scientific computers with a typical system price of over $1 million. Generically referred to as mainframes, these systems typically support more than 128 users in a normal commercial environment. Source: International Data Corporation.

Steel Consumption is apparent consumption of crude steel (that is, production plus imports minus exports) disregarding inventory changes. Source: International Iron and Steel Institute.

Cement Production includes all types. Sources: *Monthly Bulletin of Statistics* (UN), *European Annual Review* (Cembureau).

Electricity Production combines generation of electricity by utility firms for public use and production by companies for their own use. If grand totals from electricity production in 1984 were not available, estimates made on available monthly data were used. Source: *Monthly Bulletin of Statistics* (UN).

Energy Consumption is denominated in per-capita oil equivalent. Coal equivalent can be calculated by dividing the oil equivalent figures by 0.687623. Source: *Yearbook of Energy Statistics* (UN).

In addition to the caveats accompanying the definition of terms, the following should also be kept in mind.

Currency conversion. For the presentation of GDP and private consumption expenditure on a comparative basis, BI has converted data in local currencies to U.S. dollars, using average exchange rates for the year from the *Monthly Bulletin of Statistics* (U.S.). In cases in which multiple exchange rates are used, a choice was made based on BI's best judgment.

Although conversion to a common currency is often essential for comparisons between

countries, it should be recognized that a degree of distortion is inevitably involved. An important contribution to this distortion is the fact that exchange rates apply only to goods in world trade. Countries vary in their degree of involvement in international trade, which results in differences in the volumes and prices of nontraded goods among economies.

Another source of distortion is the tendency of floating currencies to overshoot in the process of adjusting to market forces. In some countries, inflation and managed currency rates are not necessarily in step. In both cases, data converted to dollars may appear relatively high or low compared with those of other countries in a given year or with data for the same country in previous years.

Variation in national accounting. East European countries and the Soviet Union use Net Material Product instead of Gross Domestic Product as a measure of economic activity for the nation as a whole. This concept deliberately excludes certain services, including government services, and is thus 20 to 30 percent lower than GDP would be if these services were counted.

In general, data reported in national accounts must be regarded with special care because they are subject to frequent revision and sometimes underestimate the contribution of inflation in early estimates.

Market Size shows the relative dimensions of each national or regional market as a percentage of the total world market. The percentages for each market are derived by averaging the corresponding data on total population (doubled weighted), urban population, private consumption expenditure, steel consumption, cement and electricity production, and ownership of telephones, passenger cars, and televisions.

Market Intensity measures the richness of the market, or the degree of concentrated purchasing power it represents. BI's measure of world-economy intensity is designated as 1.00, and the intensity of each market is calculated in proportion to it. The intensity figure is arrived at by averaging per-capita energy consumption, telephone access lines, and passenger cars. Double weight is given to private consumption expenditure. The proportion of urban population is also taken into account (and double weighted), since in many developing countries much of the rural population does not actively participate in the money economy.

Market Growth is an average of the growth rates of several indicators over the past five years: population; steel consumption· electricity production; and ownership of passenger cars, trucks, and buses; televisions, private consumption expenditure; and real GNP.

Adjustments have been made for missing or misleading data in computing the three composite indices. The estimates that have been made for LDCs with scant data are likely to be on the low side.

The table demonstrates how some key markets have changed over the past decade. For the sake of historical comparability, Chine has been omitted. However, because it is emerging as one of the world's more interesting markets, we have recalculated the 1986 intensities to include it in the chart.

	Population				GDP[1]		National Income[10]		Average Hourly Wage[11]	
	Total 1986 (million)	Past 5-year constant compound % increase	Working age 1986 (million)	Past 5 year constant compound % increase	Total 1986 ($ billion)	Past 5 year constant compound % increase	Total 1985 ($ billion)	Per capita 1986 ($)	1985 ($)	Past 5 year constant compound % increase
WESTERN EUROPE										
EC										
Belgium	9.9	0.1	6.7	—	109.6	1.2	86.2	3,707	5.84	−5.5
Denmark	5.1	0.0	3.4	0.0	82.4	3.2	58.7	11,510	6.51	1.0
France	54.6	0.3	36.3	0.9	723.8	1.5	537.0	9,835	4.97	−0.7
Germany	60.7	−0.[illegible]	42.7	0.9	1,001.6	1.7	643.0	10,558	8.48	0.3
Greece	9.9	0.5	6.5	2.1	40.1	1.6	34.2[9]	3,455	2.13	−1.2
Ireland	3.7	1.2	2.2	3.2	13.7	0.9	16.9	4,694	5.19	2.4
Italy	57.3	0.1	36.8	0.8	408.0[9]	1.9	363.3[9]	6,340	4.41[4]	−5.5
Luxembourg	0.4	0.0	0.3	—	4.8[9]	1.3	5.0	9,974	6.44	—
Netherlands	14.5	0.5	10.0	1.0	171.2	1.2	132.4	9,131	5.33[4]	−8.2
Portugal	10.3	0.7	6.7	1.4	29.3	1.6	16.6[4]	1,661	1.09[4]	−7.3
Spain	38.8	0.6	25.1	0.6	229.1	2.1	142.4[4]	3,680	3.66	−2.9
United Kingdom	56.2	0.1	36.7	0.1	546.9	2.5	330.5	5,891	5.29	−1.0
TOTAL EC[1]	321.57		215.3		3,362.3		2,388.4			
EFTA										
Austria	7.5	0.0	5.1	1.0	94.4	2.0	76.8[9]	10,240	5.51	4.0
Finland	4.9	0.5	3.4	0.5	70.6	3.1	51.7	10,551	5.94	1.7
Iceland	0.2	1.2	0.2	2.1	3.7	1.6	2.2	10,476	—	—
Norway	4.2	0.3	2.7	0.9	69.7	4.0	58.4[9]	13,661	6.09	0.5
Sweden	8.3	0.1	5.4	0.0	132.3	2.1	97.5	11,747	7.71	−6.2
Switzerland	6.4	0.2	4.4	0.5	135.5	1.7	103.9	16,492	9.07	6.9
TOTAL EFTA	31.51		21.1		506.2		390.5			
Turkey	50.3	2.1	29.9	2.4	58.1	5.4	28.3[9]	780	0.26[4]	—
Yugoslavia	23.[illegible]	0.8	15.6	—	41.8[9]	1.0	28.6[9]	1,252	0.89	—
TOTAL WESTERN EUROPE[1]	426.72		282.1		3,968.2		2,828.6			
EASTERN EUROPE										
Bulgaria	9.1	0.5	6.0	—	25.1[9,9]	3.6	—	—	1.58	9.7
Czechoslovakia	15.6	0.4	10.1	—	79.3[9,9]	2.4	—	—	1.36	−11.2
East Germany	16.6	0.0	11.3	—	93.9[9,9]	4.4	—	—	2.68	—
Hungary	10.7	0.0	7.0	—	19.2[9]	1.0	19.4	1,813	0.76	7.8
Poland	37.5	0.9	24.5	—	54.1[9]	2.9	—	—	0.66	−8.8
Romania	23.2	0.7	11.4	—	47.8[9]	5.4	46.5[9]	2,004	1.28	—
USSR	278.6	1.0	165.2	—	836.0[9]	3.3	—	—	1.49[4]	5.4
TOTAL EASTERN EUROPE[1]	391.47		255.6		1,155.4[9]		65.9			
MIDDLE EAST										
Bahrain	0.5	4.4	0.3	—	4.0	0.0	—	—	—	—
Egypt	48.0	2.4	27.1	1.8	45.5	4.8	40.9[4]	887	—	—
Iran	45.9	2.9	24.7	4.9	165.0	3.8	94.3[4]	2,188	—	—
Iraq	16.5	3.8	8.3	4.0	63.5	—	23.9[4]	1,593	—	—
Israel	4.3	1.8	2.6	0.9	27.5	1.9	14.5	3,452	2.56	−0.4
Jordan	3.7	3.7	1.8	4.0	4.6	3.0	5.0[9]	1,351	—	—
Kuwait	1.9	5.5	1.1	12.7	16.3	−4.7	25.7[4]	18,063	—	—
Libya	3.7	3.9	1.9	4.3	19.9	—	—	—	—	—
Oman	1.3	4.7	0.7	—	9.0[9]	5.3	7.6[4]	6,333	—	—
Qatar	0.3	6.6	0.2	—	6.4[9]	4.2	—	—	—	—
Saudi Arabia	12.0	4.2	6.4	6.1	77.4	−6.9	111.3[4]	10,702	—	—
Syria	10.9	3.5	5.3	2.2	23.1[9]	−0.2	—	—	—	—
United Arab Emirates	1.4	6.0	0.9	—	25.6[9]	−3.2	22.9[4]	1,877	—	—
North Yemen	7.0	2.7	3.5	3.2	2.6	6.6	3.6[3]	571	—	—
TOTAL MIDDLE EAST[1]	157.41		84.8		492.6		319.7			

	Total Exports		Total Imports		Imports from U.S.		Imports from Japan		Imports from EEC	
	1986 f.o.b. ($ million)	Average annual % increase (past 5 years)	1986 c.i.f. ($ million)	Average annual % increase (past 5 years)	1986 c.i.f. ($ million)	Average annual % increase (past 5 years)	1986 c.i.f. ($ million)	Average annual % increase (past 5 years)	1986 c.i.f. ($ million)	Average annual % increase (past 5 years)
WESTERN EUROPE										
EC										
Belgium	68,819[9]	6.2	68,624[4]	3.7	3,463[9]	−3.8	1,896[9]	15.6	49,678[9]	8.5
Denmark	21,156	6.6	22,844	6.4	1,207	2.1	1,293	26.2	11,892	10.6
France	124,946	7.1	129,399	3.4	9,676	2.1	4,666	13.6	76,927	9.5
Germany	243,515	9.2	191,068	5.7	12,351	1.7	11,112	22.2	99,784	7.9
Greece	5,652	7.7	11,358	3.4	332	−4.6	688	−3.4	8,667	10.6
Ireland	12,571	11.9	11,812	4.9	1,840	10.6	442	11.6	7,819	3.7
Italy	97,827	7.6	99,925	4.0	5,669	−0.2	2,099	16.5	55,540	12.1
Luxembourg	—	—	—	—	—	—	—	—	—	—
Netherlands	80,550	5.2	75,738	4.5	5,950	1.0	2,490	20.6	48,344	9.0
Portugal	7,345	15.5	9,766	1.6	667	−7.7	322	4.5	5,797	15.7
Spain	27,206	7.7	35,056	3.1	3,445	−5.2	1,729	16.1	17,665	18.1
United Kingdom	107,088	2.6	126,328	6.3	12,549	1.9	7,243	12.5	65,410	10.6
TOTAL EC[1]	796,677		781,716		57,179		33,980		445,523	
EFTA										
Austria	22,473	10.1	26,823	9.3	665	4.6	1,168	23.6	16,016	11.9
Finland	16,358	6.2	15,335	3.6	735	−2.0	992	16.5	6,612	10.9
Iceland	1,098	13.2	1,119	18.6	78	0.9	21	−14.1	592	9.2
Norway	18,261	1.1	20,289	6.1	1,400	0.3	1,500	16.9	10,171	11.1
Sweden	37,315	6.9	32,228	4.2	2,492	1.6	1,747	15.0	16,351	7.3
Switzerland	37,456	10.5	41,409	10.4	2,214	3.1	1,909	17.7	29,596	13.0
TOTAL EFTA	132,959		137,203		7,784		7,337		83,738	
Turkey	7,205	6.5	11,6[illegible]7	7.6	1,275	15.7	752	26.6	5,120	21.2
Yugoslavia	10,296	0.1	11,756	169.8	873	−1.2	146	12.8	3,860	−3.0
TOTAL WESTERN EUROPE[1]	947,139		942,592		66,911		42,217		538,241	
EASTERN EUROPE										
Bulgaria	2,033	1.0	3,731	7.7	106	20.3	176	32.7	1,606	15.0
Czechoslovakia	5,821	2.6	6,013	6.7	101	6.2	68	0.1	2,123	13.2
East Germany	5,296	2.1	5,168	−0.2	53	−29.9	132	−1.7	1,159	12.3
Hungary	9,158	0.9	9,593	2.3	184	9.6	141	12.0	2,159	4.7
Poland	11,950	1.1	12,029	4.5	151	2.0	147	39.0	2,384	4.8
Romania	10,705	−9.9	9,315	−9.2	251	3.4	112	7.1	961	−0.7
USSR	33,696	−1.3	42,807	4.0	1,372	−8.5	3,496	−0.8	10,654	7.2
TOTAL EASTERN EUROPE[1]	76,659		88,659		2,218		4,274		21,054	
MIDDLE EAST										
Bahrain	2,501	−15.4	2,390	−9.6	214	12.9	134	−11.3	560	0.2
Egypt	3,761	5.0	12,132	11.3	2,160	21.6	624	27.7	4,959	10.5
Iran	9,005	−13.1	9,775	−0.9	36	−16.6	1,270	31.4	4,013	5.6
Iraq	7,634	−6.2	6,847	−16.9	560	−5.5	346	1.6	3,012	−22.0
Israel	7,130	6.3	10,491	2.2	1,769	3.6	307	19.7	4,950	13.9
Jordan	604	3.4	3,694	4.7	343	−12.2	200	−6.1	952	−11.1
Kuwait	7,707	−7.3	5,634	−9.1	723	−7.4	1,354	−6.1	2,063	−7.9
Libya	6,412	−16.1	4,553	−12.6	51	−15.4	216	−5.1	2,603	−14.2
Oman	2,687	−6.0	2,741	4.0	175	−2.6	320	−6.6	1,184	7.2
Qatar	2,106	−9.0	1,095	−1.3	66	−19.2	184	−20.6	500	−10.4
Saudi Arabia	24,776	−23.1	22,[illegible]14	−13.9	3,794	−19.4	3,065	−19.7	6,888	−10.5
Syria	1,136	−3.5	2,616	−10.0	44	−24.4	76	−6.7	[illegible]734	−9.6
United Arab Emirates	11,397	−5.6	6,750	−6.3	543	−19.1	1,147	−9.5	2,713	−5.8
North Yemen	50	25.3	1,412	−2.1	67	30.7	137	−6.5	119	−16.7
TOTAL MIDDLE EAST[1]	87,106		94,244		10,629		10,360		37,450	

HO 2-8 *(continued)*

Part II (cont)

	Private Consumption Expenditure					Passenger Cars		Trucks and Buses		Telephone Access Lines	Televisions		Computers	Steel		Cement		Electricity		Energy
	1985 total ($ billions)	Average annual % real increase (past 5 years)	1985 % for food	1985 % for clothing	1985 % for household	1986 (thousands)	Cumulative % increase (past 5 years)	1986 (thousands)	Cumulative % increase (past 5 years)	1984 (thousands)	1987 (thousands)	Cumulative % increase (past 5 years)	1986 (thousands)	1986 (K MT)	Average annual % increase (past 5 years)	1986 (K MT)	Cumulative % increase (past 5 years)	1985 (M KWH)	Cumulative % increase (past 5 years)	kg per capita 1984 oil equivalent
CARIBBEAN AND OTHERS																				
Barbados	0.7	—	—	—	—	35	29.6	7	16.7	51	60	11.4	—	—	—	—	—	0.36	13.7	968
Cuba	—	—	—	—	—	—	—	—	—	265	1,525	2.1	—	1,183	8.2	3,312	4.5	12.20	18.1	1,000
Dominican Republic	7.8[6]	0.6	—	—	—	106	3.9	6.5	1.6	136	500	35.3	—	123	2.9	—	—	4.02	14.6	333
Guyana	—	—	—	—	—	29	−6.5	12	0.0	—	—	—	—	—	—	—	—	0.39	−14.2	487
Haiti	—	—	—	—	—	31	14.8	17	41.7	—	25	−76.9	—	—	—	—	—	0.38	4.2	36
Jamaica	1.4	3.4	50.7	4.3	6.9	107	0.0	30	3.4	—	350	62.7	—	—	—	240[5]	55.6	2.40	2.5	822
Netherlands Antilles	—	—	—	—	—	66	13.6	14	27.3	45	[illegible]	6.0	—	—	—	—	—	2.40	31.9	7,553
Panama	3.1	7.5	—	—	—	144	28.3	65	41.3	156	300	31.3	—	—	—	—	—	2.57	35.3	463
Puerto Rico	15.5	3.6	28.3	8.3	6.2	1,102	12.9	192	2.1	493	620	0.8	—	—	—	1,028	12.5	12.32	−8.3	1,722
Trinidad & Tobago	2.6[6]	−4.9	—	—	—	242	46.7	79	51.9	66	345	47.5	—	110	13.8	324[5]	122.0	3.04	54.1	3,535
TOTAL CARIBBEAN[1]	31.1					1,862		481		1,212	3,985		—	1,416		4,904		40.07		
TOTAL LATIN AMERICA[1]	323.1					24,539		8,982		18,023	68,713			31,219		56,888		492.64		
ASIA																				
Afghanistan	—	—	—	—	—	32	−3.0	25	−7.4	—	20	67.3	—	—	—	—	—	1.06	7.7	72
Bangladesh	13.6	2.8	—	—	—	47	0.0	34	6.3	—	302	23.0	—	439	21.4	288	4.3	4.87	75.4	40
Burma	—	—	—	—	—	28	−6.7	43	−2.3	—	64	125.0	—	—	—	432[5]	−36.3	1.76	19.0	62
China	—	—	—	—	—	182	160.0	1,630	103.3	—	9,950	0.6	—	75,718	16.8	161,364	78.1	410.70	34.0	485
Hong Kong	22.2	6.4	19.5	19.0	12.0	186	−20.2	87	−2.2	1,554	1,312	3.3	34	2,368	4.4	2,232	55.0	19.2[9]	83.0	1,189
India	133.9	4.1	57.0	10.1	4.2	1,128	24.4	1,189	32.0	2,667	5,000	172.6	450	14,784	1.4	25,896[5]	24.7	188.48	55.5	178
Indonesia	48.5	5.1	—	—	—	956	30.8	1,040	27.8	503	4,900	78.8	—	2,838	3.1	10,104[5]	80.3	12.90	60.7	179
Japan	919.8	3.2	22.1	6.3	5.5	27,845	9.0	18,313	15.9	44,967	30,250	0.2	5,750	69,941	0.4	71,265	−10.0	673.41	23.0	2,600
Dem Kampuchea	—	—	—	—	—	—	—	—	—	—	7	−107.8	—	—	—	—	—	0.08	−41.7	2
Korea, North	—	—	—	—	—	—	—	—	—	—	175	—	—	—	—	—	—	48.00	31.0	1,877
Korea, South	89.2	5.7	44.2	6.7	4.6	557	82.0	557	33.3	4,810	10,100	40.0	258	11,600	11.1	23,400	30.8	62.72	55.8	1,130
Laos	—	—	—	—	—	—	—	—	—	—	31	4.2	—	—	—	—	—	1.35	31.5	26
Malaysia	16.6	3.4	—	—	—	1,124	30.4	324	62.8	700	1,505	55.5	—	2,146	−2.2	3,218	11.3	14.92	56.3	1,103
Nepal	1.6	—	—	—	—	—	—	—	—	—	18	—	—	—	—	—	—	0.41	85.5	12
Pakistan	26.4	5.7	—	—	—	392	11.0	270	35.0	409	1,850	105.1	—	1,084	−10.3	4,980	34.7	25.73	50.0	175
Philippines	25.5	0.1	38.0	65.0	13.9	360	4.3	521	−0.6	379	3,997	374.6	—	1,237	0.0	3,075[5]	−30.5	21.02	31.8	203
Singapore	8.3	3.9	29.2	9.0	11.5	240	23.7	140	29.6	680	485	3.4	—	1,937	−6.1	—	—	9.88	32.7	5,385
Sri Lanka	4.3	—	54.4	6.8	4.5	149	10.4	132	20.0	80	350	732.8	—	—	—	556	2.4	2.46	31.8	77
Taiwan	—	—	—	—	—	916	54.7	429	26.4	3,577	6,085	20.3	18	7,640	11.7	—	—	—	—	—
Thailand	25.7	4.7	45.4	11.8	8.6	485	12.3	702	34.0	479	3,300	12.5	—	2,135	−0.9	7,920[5]	−44.8	24.18	21.4	292
Vietnam	—	—	—	—	—	—	—	—	—	—	5,000	152.8	—	—	—	—	—	5.00	—	82
TOTAL ASIA[1]	1,335.8					34,827		25,638		60,805	84,701		6,573	194,065		314,720		1,528.15		
OCEANIA																				
Australia	96.2	2.5	22.6	6.2	8.7	6,842	6.7	2,137	28.7	6,187	8,000	2.0	725	5,925	1.5	6,012	4.4	118.97	15.3	4,591
New Zealand	13.1	—	—	—	—	1,500	9.0	302	7.9	1,189	931	−1.7	—	607	−6.2	900	15.4	26.78	17.9	2,402
TOTAL OCEANIA[1]	109.3					8,342		2,439		7,378	8,931		725	6,532		6,912		145.73		

*Member of Andean Common Market (Ancom).

Footnotes: (1) Total of available data; (2) 1982; (3) 1983; (4) 1984; (5) 1985, (6) 1986, (7) Including Namibia; (8) Includes Luxembourg; (9) Net Material Product; (10) Business International estimate; (11) See text on currency conversion.

Part II (continued)

	Private Consumption Expenditure					Passenger Cars		Trucks and Buses		Telephone Access Lines	Televisions		Computers	Steel		Cement		Electricity		Energy
	1985 total ($ billions)	Average annual % real increase (past 5 years)	1955 % for food	1985 % for clothing	1985 % for household	1981 (thousands)	Cumulative % increase (past 5 years)	1986 (thousands)	Cumulative % increase (past 5 years)	1984 (thousands)	1977 (thousands)	Cumulative % increase (past 5 years)	1986 (thousands)	1986 (K MT)	Average annual % increase (past 5 years)	1986 (K MT)	Cumulative % increase (past 5 years)	1985 (M KWH)	Cumulative % increase (past 5 years)	kg per capita 1984 oil equivalent
AFRICA																				
Algeria	—	—	—	—	—	589	2.6	377	40.[illegible]	444	1,540	8.7	—	1,969	−8.5	4,500[4]	—	12.27	81.8	537
Angola	—	—	—	—	—	128	−10.0	42	−4.5	—	32	48.9	—	—	—	—	—	1.79	18.1	85
Burkina Faso	0.7[4]	—	—	—	—	11	−15.4	13	0.0	—	4[illegible]	131.3	—	—	—	—	—	0.12	—	20
Cameroon	5.3[3]	—	—	—	—	85	21.4	74	39.8	—	2	—	—	—	—	—	—	2.24	55.8	313
Congo	0.8[4]	—	—	—	—	26	38.2	20	25.0	—	5	0.0	—	—	—	—	—	0.24	81.3	87
Ethiopia	—	—	—	—	—	41	0.0	19	58.3	—	40	−13.9	—	—	—	—	—	0.83	20.0	12
Gabon	—	—	—	—	—	—	—	—	—	2	37	95.2	—	—	—	—	—	0.54	20.0	814
Ghana	3.5	0.9	—	—	—	59	−9.2	46	−8.0	38	140	157.3	—	—	—	—	—	3.04	−30.3	83
Ivory Coast	4.7	—	—	—	—	181	20.1	89	11.3	—	550	77.2	—	—	—	—	—	1.79	−9.7	—
Kenya	0.2	3.4	—	—	—	126	−3.1	133	13.7	96	192	199.8	—	223	3.3	1,110[4]	−22.8	2.49	55.7	58
Madagascar	1.9	1.5	—	—	—	49	−9.3	44	−8.3	—	98	675.0	—	—	—	28	0.0	0.45	5.8	28
Malawi	0.7[4]	—	—	—	—	15	7.1	15	7.1	—	—	—	—	—	—	70	18.7	0.51	35.3	26
Mauritius	0.8	3.7	—	—	—	31	24.0	12	−20.0	38	110	31.3	—	—	—	—	—	0.10	−71.4	202
Morocco	8.8	—	—	—	—	448	5.2	199	10.8	201	1,099	8.0	—	527	−6.3	3,636[5]	−1.9	8.95	48.2	229
Mozambique	—	—	—	—	—	87	−10.3	24	0.0	—	20	375.0	—	—	—	—	—	1.95	−71.8	83
Nigeria	41.8[3]	—	—	—	—	788	23.8	619	8.0	—	500	10.9	—	1,932	−8.7	3,600[4]	—	9.00	66.7	159
Senegal	2.4	2.3	—	—	—	82	5.1	37	6.8	—	55	9.8	—	—	—	408[5]	8.1	0.70	3.2	117
Sierra Leone	0.9[3]	—	—	—	—	19	−20.8	10	−9.1	—	25	17.0	—	—	—	—	—	0.28	13.2	51
South Africa	25.4	0.8	33.6	7.7	9.7	2,912	18.9	1,218	18.2	2,120	2,500	23.8	—	5,302	−3.1	6,252	−24.8	122.29	7.1	2,147
Tanzania	—	—	—	—	—	32	[illegible]	51	0.0	—	8	−25.0	—	49	−10.4	372[5]	−6.0	0.88	—	—
Tunisia	5.8	4.2	—	—	—	175	32.6	179	35.6	152	400	0.0	—	445	−5.8	2,964	61.4	4.02	50.0	532
Uganda	—	—	—	—	—	32	0.0	13	0.0	—	90	23.0	—	—	—	—	—	0.65	—	18
Zaire	—	—	—	—	—	94	0.0	88	0.0	—	15	19.2	—	22	12.0	—	—	4.62	—	45
Zambia	0.7	3.1	—	—	—	98	−3.9	68	3.0	43	66	−90.6	—	28	34.4	204[5]	41.7	10.09	—	228
Zimbabwe	2.9	−4.2	35.1	12.1	7.3	176	−0.6	80	6.1	104	112	16.4	—	415	27.6	812[5]	4.1	4.34	−3.7	307
TOTAL AFRICA[1]	107.3					6,248		3,463		3,238	7,875			10,912		23,770		192.16		
NORTH AMERICA																				
Canada	194.0	2.5	17.8	8.3	8.7	11,116	5.2	3,149	−4.4	10,468	15,300	12.0	1,045	12,539	7.9	10,272	28.1	460.41	21.8	6,937
United States	2,584.3	3.6	14.7	11.7	6.1	132,108	5.8	39,583	11.0	106,239	145,037	2.5	12,350	94,872	3.8	71,112	22.8	2,525.19	8.6	6,894
TOTAL NORTH AMERICA	2,778.3					143,226		42,732		116,707	101,220		13,395	107,411		81,384		2,985.60		
LATIN AMERICA																				
LAIA																				
Argentina	19.1[3]	—	—	—	—	3,832	11.7	1,427	8.1	2,523	5.925	0.2	—	2,517	−0.5	4,692[5]	−32.1	45.27	28.3	1,192
*Bolivia	3.0	−1.8	—	—	—	33	−2.9	47	−2.1	158	300	−28.1	—	41	−0.5	—	—	1.73	11.9	214
Brazil	90.1	—	—	—	—	10,027	18.0	2,214	7.7	6,325	38,000	70.7	—	14,477	9.6	20,818[5]	−17.1	192.95	33.7	484
Chile	—	—	—	—	—	496	−1.2	241	3.4	484	2,300	−30.5	—	632	19.0	1,440	27.7	13.69	16.9	623
*Colombia	15.7[4]	1.6	36.6[3]	8.0[3]	5.3[3]	591	−27.4	599	201.0	1,384	3,800	138.7	—	1,330	5.7	5,738	25.5	26.80	24.9	588
*Ecuador	7.7	1.0	36.6	11.4	7	77	0.0	178	2.3	296	600	41.7	—	369	14.0	—	—	4.49	35.4	447
Mexico	90.7[4]	−0.5	—	—	—	5,157	12.3	2,254	18.6	3,223	9,490	32.1	—	6,694	−3.7	19,500	0.4	93.41	27.8	1,174
Paraguay	4.4	2.4	—	—	—	61	69.4	30	7.1	84	231	227.1	—	—	—	—	—	1.54	74.6	178
*Peru	11.0[4]	−2.8	—	—	—	385	4.1	209	7.2	301	1,701	118.0	—	550	7.6	—	—	12.12	19.6	414
Uruguay	3.0	−6.1	—	—	—	166	−4.8	83	−5.7	244	500	17.0	—	—	—	—	—	6.60	81.9	424
*Venezuela	31.0	—	52.4	4.6	6.2	1,564	6.8	916	6.8	1,514	2,750	48.7	—	2,748	3.6	—	—	45.40	18.7	2,205
*Ancom Subtotal[1]	68.4					2,850		1,949		3,713	9,151			5,038		5,738		90.53		3,868
TOTAL LAIA[1]	275.7					22,389		8,198		16,596	63,297			29,356		51,984		444.18		7,943
CACM																				
Costa Rica	2.2	1.9	—	—	—	79	−2.5	66	8.2	—	470	5.8	—	163	30.3	—	—	2.83	22.3	340
El Salvador	2.3	−0.3	—	—	—	53	0.0	65	0.0	75	400	41.7	—	70	9.4	—	—	1.70	5.5	121
Guatemala	9.3	−1.0	—	—	—	97	2.1	94	0.0	106	300	57.9	—	130	0.8	—	—	1.78	−9.1	139
Honduras	2.5	1.1	—	—	—	27	0.0	50	2.0	34	50	−42.3	—	84	32.5	—	—	1.07	27.6	154
Nicaragua	—	—	—	—	—	32	−6.6	28	−6.7	—	171	27.7	—	—	—	—	—	1.06	5.8	7,553
TOTAL CACM	16.3					288		303		215	1,431			447		—		8.40		

Part I (continu

	Population				GDP[1]		National Income[10]		Average Hourly Wage[11]	
	Total 1986 (million)	Past 5 year constant compound % increase	Working age 1986 (million)	Past 5 year constant compound % increase	Total 1986 ($ billion)	Past 5-year constant compound % increase	Total 1985 ($ billion)	Per capita 1986 ($)	1985 ($)	Past 5-year constant compound % increase
AFRICA										
Algeria	22.4	3.0	11.4	3.3	51.4	2.5	—	—	—	—
Angola	9.0	2.5	4.7	5.9	—	—	—	—	—	—
Burkina Faso	7.1	2.4	3.8	−0.9	[illegible]	—	0.8[3]	107	—	—
Cameroon	10.2	2.7	5.4	3.1	13.2	7.0	6.2[4]	667	—	—
Congo	1.8	2.6	0.9	1.7	2.2	2.4	1.5[3]	882	—	—
Ethiopia	44.7	2.5	23.5	11.0	5.5	1.7	4.9[4]	141	—	—
Gabon	1.1	1.6	0.7	5.3	3.7	2.2	—	—	—	—
Ghana	14.0	3.2	7.1	3.0	6.4[5]	2.5	5.9[5]	457	—	—
Ivory Coast	10.2	3.7	5.2	3.7	—	1.2	—	-	—	—
Kenya	21.5	4.1	9.6	5.[illegible]	5.6[5]	3.2	5.7[4]	292	0.79	—
Madagascar	10.3	2.8	5.4	2.7	2.7	0.5	—	—	—	—
Malawi	7.2	3.1	3.7	2.9	1.2	3.1	0.9[3]	132	0.27[4]	—
Mauritius	1.1	1.9	0.7	—	1.4	—	1.0	1,000	0.27	—
Morocco	22.5	2.5	12.4	2.5	15.1	4.2	11.4[4]	498	—	—
Mozambique	14.3	2.6	7.7	9.3	3.4[5,6]	−8.0	—	—	—	—
Nigeria	98.5	3.3	46.6	4.8	67.1	−4.0	62.3[3]	731	—	—
Senegal	6.6	2.6	3.5	3.0	—	4.8	—	—	—	—
Sierra Leone	3.7	1.8	2.0	0.7	3.8	1.8	—	—	—	—
South Africa	33.2	2.5	18.2	2.0	64.4	0.4	51.5[6,7]	1,551	1.45	—
Tanzania	23.3	3.5	11.4	4.7	—	2.2	—	—	—	—
Tunisia	7.2	2.0	4.1	2.5	6.9	2.8	8.4[4]	1,167	—	—
Uganda	16.0	3.3	7.9	1.8	—	2.8	—	—	—	—
Zaire	30.9	2.9	16.1	3.1	2.6[5]	2.3	2.5	143	—	—
Zambia	6.9	3.3	3.4	2.6	2.9[5]	−0.2	2.2[4]	333	0.59[4]	—
Zimbabwe	9.1	3.5	4.5	3.3	—	1.9	—	—	—	—
TOTAL AFRICA[1]	432.82		222.2		262.7		165.2			
NORTH AMERICA										
Canada	25.7	1.1	17.5	0.2	368.0	2.6	291.4	11,472	6.28	3.2
United States	240.1	0.9	159.4	0.9	4,168.9	2.8	3,750.6[8]	15,621	9.53	4.5
TOTAL NORTH AMERICA	265.8		176.9		4,534.9		4,042.0			
LATIN AMERICA										
LAIA										
Argentina	31.0	1.6	16.8	2.0	76.1[4]	0.4	76.0	2,676	1.17	—
*Bolivia	6.5	2.7	3.5	2.6	1.4	−3.0	3.2	516	0.23[4]	—
Brazil	141.5	2.2	62.0	2.9	270.9	3.7	242.8[3]	1,716	—	—
Chile	12.2	1.6	7.8	2.4	15.9	−0.1	9.7	615	0.87	−13.6
*Colombia	29.3	2.2	17.4	2.9	26.4	2.7	32.5	1,157	—	—
*Ecuador	9.6	2.9	5.3	4.8	9.3	1.6	10.0[3]	1,042	—	—
Mexico	81.0	2.6	43.9	3.1	127.5	−0.6	131.8[3]	1,734	0.90	−25.4
Paraguay	3.8	3.0	2.1	3.0	7.6	0.7	6.8[3]	1,789	—	—
*Peru	20.2	2.6	11.3	2.5	21.2	0.8	10.4	528	0.24[4]	−9.7
Uruguay	3.0	0.7	1.9	1.7	6.2	−5.8	4.9	1,633	0.85	—
*Venezuela	17.8	2.8	10.1	1.7	49.6[5]	−0.1	43.7	2,526	—	—
*Ancom Subtotal[1]	83.5		47.5		107.9		99.8			
TOTAL LAIA[1]	358.0		203.9		612.1		571.8			
CACM										
Costa Rica	2.7	2.6	1.6	4.4	4.3	1.6	4.5[5]	1,667	0.91	−5.3
El Salvador	5.7	2.9	3.0	3.4	4.0	0.1	3.7[5]	649	1.42	8.0
Guatemala	8.2	2.8	4.2	3.4	11.1[5]	−1.6	10.8[5]	1,317	—	—
Honduras	4.5	3.4	2.3	4.7	3.7	1.5	3.4[5]	758	0.28	39.8
Nicaragua	3.4	3.3	1.7	4.7		2.2				
TOTAL CACM[1]	24.5		12.8		23.1[5]		22.4			

	Total Exports		Total Imports		Imports from US		Imports from Japan		Imports from EEC	
	1985 f o b ($ million)	Average annual % increase (past 5 years)	1986 c i f ($ million)	Average annual % increase (past 5 years)	1986 c i f ($ million)	Average annual % increase (past 5 years)	1986 c i f ($ million)	Average annual % increase (past 5 years)	1986 c i f ($ million)	Average annual % increase (past 5 years)
AFRICA										
Algeria	7,953	−8.9	8,251	−4.4	498	−14.8	262	−21.4	5,045	−0.3
Angola	1,787	1.9	1,080	5.4	91	−9.0	20	−2.8	603	19.3
Burkina Faso	88	11.3	397	13.2	11	11.3	16	25.0	221	16.1
Cameroon	1,790	21.8	1,809	11.3	52	−9.4	114	12.0	1,277	9.3
Congo	795	−1.5	527	−13.3	10	−23.7	20	−3.7	423	−8.1
Ethiopia	496	6.6	1,257	13.3	114	68.6	73	5.1	563	18.2
Gabon	1,211	−9.2	878	2.8	28	0.8	45	−1.7	87	−14.9
Ghana	876	7.2	875	7.6	42	3.6	37	18.2	427	13.8
Ivory Coast	3,346	10.7	1,917	−2.1	65	−3.0	107	16.6	1,164	5.0
Kenya	1,339	7.7	1,631	2.1	76	−5.0	190	12.2	898	14.3
Madagascar	351	1.5	442	−3.6	28	12.5	25	26.1	203	0.3
Malawi	282	3.8	287	−8.3	3	−5.4	13	−1.1	97	6.9
Mauritius	662	18.0	676	10.7	12	−11.2	47	27.6	241	17.2
Morocco	2,312	3.0	3,962	−1.5	511	31.4	67	4.7	2,237	6.7
Mozambique	166	−13.3	485	−11.2	26	19.0	20	10.2	177	0.8
Nigeria	8,823	−11.9	5,650	−17.1	450	−22.2	217	−35.0	3,155	−17.2
Senegal	589	13.0	1,087	6.0	55	30.4	21	9.2	617	0.6
Sierra Leone	176	−13.4	160	−6.5	25	72.7	10	−9.7	93	2.6
South Africa	19,713	3.2	12,781	−6.9	1,229	−13.6	1,338	−1.0	4,657	−6.5
Tanzania	379	−1.0	1,003	3.6	42	5.9	110	3.5	354	−1.8
Tunisia	1,730	−3.1	2,653	−4.3	189	−4.4	46	9.6	1,951	−2.2
Uganda	453	5.7	332	−1.5	5	−7.6	17	26.0	129	−1.4
Zaire	1,532	33.1	1,548	38.7	115	4.6	53	0.0	846	11.0
Zambia	688	−2.9	591	−10.6	35	9.9	40	4.9	226	−1.5
Zimbabwe	1,001	−5.2	1,160	−3.6	68	−11.8	43	−9.3	338	−4.3
TOTAL AFRICA[1]	58,543		51,659		3,830		2,951		28,631	
NORTH AMERICA										
Canada	89,708	6.2	85,636	10.2	56,094	10.1	5,496	18.1	9,104	18.9
United States	217,291	0.7	367,075	11.3	—	—	85,457	21.4	79,520	16.1
TOTAL NORTH AMERICA	306,997		472,761		56,094		90,953		88,624	
LATIN AMERICA										
LAIA										
Argentina	7,477	−0.2	5,067	0.8	935	−3.2	376	0.7	1,561	7.8
*Bolivia	657	−5.2	685	9.6	123	3.3	32	18.6	88	9.5
Brazil	24,551	3.6	16,390	−5.3	4,029	8.4	1,063	9.0	3,646	13.7
Chile	4,226	−2.7	3,132	−1.5	641	−7.9	253	20.6	874	4.9
*Colombia	5,174	15.1	4,077	−7.1	1,450	−8.5	428	9.6	933	6.3
*Ecuador	2,940	11.0	2,074	3.5	661	−6.2	301	21.4	486	7.9
Mexico	16,579	−5.2	12,899	2.2	8,272	8.7	771	14.4	1,766	2.7
Paraguay	234	−4.2	579	−[illegible].4	[illegible]	25.7	29	7.5	93	−0.1
*Peru	2,505	−5.7	2,089	−8.9	473	−16.1	165	−12.7	368	−11.6
Uruguay	1,355	10.4	1,066	6.3	110	11.4	34	14.8	236	21.0
*Venezuela	8,412	−14.5	6,475	−6.4	3,503	−5.5	529	−6.0	2,053	2.1
*Ancom Subtotal[1]	19,688		17,400		6,210		1,455		3,928	
TOTAL LAIA[1]	74,110		56,533		20,267		4,024		11,906	
CACM										
Costa Rica	1,213	9.0	1,137	7.2	455	11.1	117	34.2	187	18.2
El Salvador	789	4.2	1,186	8.5	570	21.1	37	11.9	106	8.7
Guatemala	1,471	7.4	1,106	−5.0	449	1.7	50	1.2	160	5.8
Honduras	925	6.0	890	5.9	400	7.6	78	20.9	104	17.3
Nicaragua	315	−5.9	544	−7.6	3	−39.9	10	17.4	166	20.7
TOTAL CACM[1]	4,713		4,863		1,898		292		703	

Part I (continued)

	Population				GDP[1]		National Income[10]		Average Yearly Wage[11]	
	Total 1986 (million)	Past 5-year constant compound % increase	Working age 1986 (million)	Past 5 year constant compound % increase	Total 1986 ($ billion)	Past 5 year constant compound % increase	Total 1985 ($ billion)	Per capita 1986 ($)	1985 ($)	Past 5-year constant compound % increase
CARIBBEAN AND OTHERS										
Barbados	0.3	0.3	0.2	0.0	1.2	1.0	—	—	—	—
Cuba	10.1	0.6	6.8	2.8	15.3[6]	—	—	—	1.16	—
Dominican Republic	6.4	2.3	3.6	0.9	5.1	1.0	9.8[4]	1,465	—	—
Guyana	1.0	2.0	0.6	4.9	0.5	−4.8	0.4	444	—	—
Haiti	6.8	2.5	3.6	2.8	0.5	0.7	2.2[4]	150	—	—
Jamaica	2.4	1.5	1.4	1.5	2.1[6]	0.0	1.6	783	—	—
Netherlands Antilles	0.3	—	—	—	—	—	—	—	6.67	—
Panama	2.2	2.2	1.3	2.7	4.8	2.5	4.4	2,095	—	—
Puerto Rico	4.3	1.5	2.2	2.8	15.6	2.6	13.8[6]	3,209	5.18	4.2
Trinidad and Tobago	1.2	1.6	0.7	1.5	4.8	−4.9	4.5	4,091	—	—
TOTAL CARIBBEAN AND OTHERS[1]	34.9		20.3		50.1		36.9			
TOTAL LATIN AMERICA	415.5		237.0		685.3		631.1			
ASIA										
Afghanistan	17.2	0.6	9.3	0.6	—	—	—	—	—	—
Bangladesh	103.9	2.7	53.1	2.2	15.5	3.3	—	—	0.13[4]	—
Burma	37.9	1.9	22.0	1.8	8.0	4.7	7.5[6]	198	—	—
China	1,072.2	1.2	696.5	2.4	263.4	6.2	241.9[6]	226	0.15	—
Hong Kong	5.6	1.9	3.9	1.6	37.4	5.7	34.1	6,200	1.41	11.0
India	772.7	1.9	454.5	2.7	185.9	5.2	158.6[4]	215	—	—
Indonesia	169.5	2.0	97.7	2.2	73.3	2.9	77.9	460	—	—
Japan	121.4	0.7	82.3	0.5	1,676.6	3.7	1,357.6	11,246	7.52	3.7
Dem Kampuchea	7.5	2.6	4.8	2.5	—	—	—	—	—	—
Korea, North	20.9	2.5	12.0	3.2	—	—	—	—	—	—
Korea, South	42.6	1.9	27.2	2.0	77.7	8.4	73.7[4]	1,793	1.31	1.7
Laos	4.2	2.2	2.3	1.4	0.5	—	—	—	—	—
Malaysia	15.9	2.5	9.5	2.7	28.1	4.0	25.6[6]	1,610	—	—
Nepal	16.9	2.7	9.1	2.7	2.3	3.5	1.8	109	—	—
Pakistan	102.9	3.1	55.0	3.4	33.4	6.5	33.4[6]	325	—	—
Philippines	55.6	2.4	31.3	1.6	30.4	−1.5	26.4[6]	473	0.47	—
Singapore	2.6	1.2	1.7	0.0	17.3	4.5	—	—	1.65	9.1
Sri Lanka	16.5	1.8	10.0	1.4	6.4	4.7	5.6[4]	360	0.19	4.9
Taiwan	19.8	1.4	—	—	70.5	8.8	53.1[4]	2,780	2.18	6.5
Thailand	52.3	2.0	31.4	2.9	42.4	4.7	263.8[6]	5,044	—	—
Vietnam	60.9	2.0	34.5	3.0	—	5.4	—	—	—	—
TOTAL ASIA[1]	2,716.9		1,648.0		2,489.1		2,381.4			
OCEANIA										
Australia	15.9	1.3	10.5	2.1	162.0	3.1	140.7	9,019	6.69	−2.9
New Zealand	3.3	0.9	2.2	0.0	22.1[2]	1.9	19.5	5,909	4.27	−5.2
TOTAL OCEANIA	19.2		12.7		184.1		160.2			

	Total Exports		Total Imports		Imports from US		Imports from Japan		Imports from EEC	
	1986 f.o.b. ($ million)	Average annual % increase (past 5 years)	1986 c.i.f. ($ million)	Average annual % increase (past 5 years)	1986 c.i.f. ($ million)	Average annual % increase (past 5 years)	1986 c.i.f. ($ million)	Average annual % increase (past 5 years)	1986 c.i.f. ($ million)	Average annual % increase (past 5 years)
CARIBBEAN AND OTHERS										
Barbados	280	3.7	572	1.3	235	7.4	33	18.2	120	11.0
Cuba	875	−8.7	2,543	17.6	1	0.0	326	35.4	741	17.8
Dominican Republic	212	−18.4	861	−10.5	12	−24.6	128	22.1	154	19.4
Guyana	242	6.5	231	−4.2	52	1.7	19	67.7	47	2.3
Haiti	163	9.0	654	29.9	426	7.4	30	2.3	76	9.8
Jamaica	583	−4.1	969	−7.5	491	−0.6	36	2.6	119	−3.7
Netherlands Antilles	1,434	−17.8	1,732	−25.9	437	−10.0	53	−7.2	300	−7.7
Panama	576	16.4	4,685	66.0	783	10.8	546	61.0	665	105.6
Puerto Rico	11,202	6.6	10,182	7.5	6,172	3.6	—	—	—	—
Trinidad and Tobago	1,372	−16.9	1,332	−22.2	571	−14.5	142	−12.9	280	−15.2
TOTAL CARIBBEAN AND OTHERS[1]	16,939		23,761		9,180		1,313		2,510	
TOTAL LATIN AMERICA	95,762		85,157		31,345		5,629		15,119	
ASIA										
Afghanistan	636	−2.7	1,028	16.6	6	9.5	130	6.5	73	0.1
Bangladesh	689	4.7	2,502	6.4	212	6.5	346	7.7	412	4.4
Burma	506	14.1	304	4.8	17	−6.7	234	−1.0	112	−13.2
China	31,366	9.5	43,503	25.1	4,718	7.6	12,463	39.9	7,757	44.4
Hong Kong	35,420	17.6	35,360	14.0	2,980	4.6	7,226	9.0	4,059	9.8
India	10,317	8.1	18,830	12.7	1,690	−0.4	2,331	13.3	6,251	11.0
Indonesia	14,824	−1.6	10,724	−9.9	1,462	−5.6	3,126	−7.4	1,636	−10.3
Japan	210,804	11.3	127,660	−0.6	29,410	5.2	—	—	14,173	18.6
Dem Kampuchea	—	—	—	—	—	—	—	—	—	—
Korea, North	684	3.3	620	−5.6	0	—	204	−11.3	81	−4.1
Korea, South	35,624	13.3	33,335	8.3	6,735	3.1	10,999	20.7	3,584	20.5
Laos	14	−6.9	70	−2.4	0	—	14	30.5	6	1.5
Malaysia	18,382	11.7	10,819	−2.9	2,034	—	2,221	−6.2	1,585	1.7
Nepal	144	19.4	316	−10.9	8	20.8	73	9.0	43	11.3
Pakistan	3,383	11.3	5,367	0.1	705	9.2	874	5.5	1,450	9.0
Philippines	4,787	−0.6	5,213	−10.6	1,293	−6.4	887	−12.2	571	−6.9
Singapore	22,490	2.2	25,506	−2.4	3,619	1.6	5,078	0.7	2,971	0.8
Sri Lanka	1,163	4.6	1,829	−2.0	118	4.0	319	4.9	284	−0.4
Taiwan	39,785	17.3	24,175	7.4	5,415	4.8	8,244	15.8	—	—
Thailand	8,776	6.9	9,303	2.7	1,278	7.1	2,440	4.7	1,479	12.5
Vietnam	320	14.6	829	2.0	53	2.9	209	20.6	63	−5.3
TOTAL ASIA[1]	440,314		357,291		61,955		57,424		46,792	
OCEANIA										
Australia	22,541	0.9	26,211	1.3	5,235	0.6	5,348	3.5	5,850	4.9
New Zealand	5,930	1.7	5,997	1.3	1,050	4.3	1,264	5.2	1,355	6.6
TOTAL OCEANIA	28,471		32,208		6,285		6,612		7,205	

*Member of Andean Common Market (Ancom).

Footnotes: (1) Total of available data; (2) 1982, (3) 1983; (4) 198-; (5) 1985; (6) 1986; (7) including Namibia; (8) includes Luxembourg; (9) Net Material Product; (10) Business International estimate; (11) See text on currency conversion.

	Private Consumption Expenditure					Passenger Cars		Trucks and Buses		Telephone Access Lines	Televisions		Computers	Steel		Cement		Electricity		Energy
	1985 total ($ billions)	Average annual % real increase (past 5 years)	1985 % for food	1985 % for clothing	1985 % for household	1986 (thousands)	Cumulative % increase (past 5 years)	1986 (thousands)	Cumulative % increase (past 5 years)	1984 (thousands)	1987 (thousands)	Cumulative % increase (past 5 years)	1986 (thousands)	1986 (K MT)	Average annual % increase (past 8 years)	1986 (K MT)	Cumulative % increase (past 5 years)	1985 (M KWH)	Cumulative % increase (past 8 years)	kg per capita 1984 oil equivalent
WESTERN EUROPE																				
EC																				
Belgium	60.7	0.5	21.6	7.4	10.1	3,494	3.0	366	3.1	2,818	3,040	1.7	213	3,568	−7.3	5,760	−9.3	56.36	11.3	3,499
Denmark	37.5	2.9	23.9	5.9	7.0	1,501	9.4	267	9.4	2,458	1,952	3.4	118	1,798	1.5	2,028	15.0	29.06	59.7	3,734
France	392.6	1.8	20.8	6.3	8.3	20,940	3.2	3,426	27.4	31,482	17,950	4.8	1,048	14,541	−4.0	22,584	−13.6	326.40	25.2	2,809
Germany	423.3	0.9	22.6	8.8	8.9	26,099	5.1	1,723	4.6	23,630	22,908	4.4	1,527	30,508	7.4	26,460	−11.8	406.71	10.3	4,024
Greece	20.3	2.3	42.2	9.0	8.1	1,264	26.5	621	17.8	2,714	1,725	1.1	—	1,721	1.0	12,828	−2.9	27.74	29.6	1,832
Ireland	12.2	−2.1	45.0[4]	6.2[4]	8.0[4]	710	0.1	102	38.0	613	918	34.2	—	365	−5.8	1,248	−23.0	11.74	7.8	2,159
Italy	253.8	1.0	29.2	8.8	—	21,500	13.1	1,824	12.9	15,601	14,521	8.2	708	22,308	1.9	37,152[5]	−11.7	182.24	5.2	2,303
Luxembourg	2.4	1.1	24.7	7.0	9.8	—	—	—	—	142	91	0.0	—	—	—	—	—	0.50	−58.5	8,072
Netherlands	88.3	0.2	19.1	8.7	7.2	4,901	5.9	426	10.3	5,462	4,833	5.0	256	4,019	3.9	3,096	−0.4	62.94	−1.8	4,027
Portugal	15.2	—	—	—	—	1,185	4.7	356	−7.0	1,248	1,530	0.8	—	1,227	−4.9	5,412	−8.0	19.01	18.8	911
Spain	116.7	0.5	29.4	7.8	7.4	9,274	11.0	1,610	8.9	8,457	9,920	0.1	222	8,925	2.0	21,924	−25.9	125.56	13.4	1,528
United Kingdom	305.9	2.8	18.9	7.0	6.8	19,369	20.4	2,753	52.4	20,200	18,716	−1.0	1,402	14,350	−0.7	13,416	3.5	294.77	6.1	3,439
TOTAL EC[1]	1,728.7					110,217		13,478		114,826	97,904		5,492	103,528		151,908		1,543.03		
EFTA																				
Austria	44.8	2.1	23.5	11.0	7.2	2,531	4.4	258	17.8	7,548	2,600	−17.9	119	2,523	1.2	4,548	−9.3	43.92	2.4	2,7[illegible]
Finland	33.2	3.2	25.3	5.0	8.5	1,546	14.3	200	10.5	4,870	1,792	3.9	90	1,844	−2.7	1,260	−30.0	47.10	20.0	3,664
Iceland	1.8	—	19.4	19.5	13.3	103	19.8	13	30.0	99	64	2.0	—	—	—	—	—	4.04	25.2	3,539
Norway	31.9	3.8	24.8	7.3	7.8	1,514	13.2	250	38.1	1,554	1,369	4.1	98	1,582	0.0	1,752	2.8	103.19	10.3	4,555
Sweden	58.1	0.9	23.8	7.3	6.3	3,151	7.3	231	11.6	5,017	3,266	1.2	211	3,537	0.4	2,368[6]	−5.2	136.54	38.8	3,472
Switzerland	87.9	1.2	27.5	4.5	5.1	2,617	4.0	211	14.7	3,095	2,216	5.7	218	2,431	5.3	4,368	0.5	53.87	12.3	2,664
TOTAL EFTA	237.5					11,462		1,183		22,183	11,307		734	11,897		14,316		389.67		
Turkey	—	—	—	—	—	984	20.1	553	13.1	1,873	5,010	2.2	—	5,368	7.7	20,018	27.3	33.31	33.5	848
Yugoslavia	19.0	—	—	—	—	2,849	—	299	—	2,091	4,000	−17.5	—	5,565	1.7	9,120	−8.1	73.94	23.1	1,784
TOTAL WESTERN EUROPE[1]	1,985.2					125,512		15,491		140,773	118,221		6,226	128,356		195,360		2,038.95		
EASTERN EUROPE																				
Bulgaria	—	—	—	—	—	1,030	88.3	150	12.8	—	2,100	6.3	—	2,950	−1.6	5,724	1.9	41.63	12.6	4,004
Czechoslovakia	—	—	—	—	—	2,695	9.6	425	8.7	1,772	4,368	0.5	—	11,157	−0.1	10,296	−0.2	80.63	8.9	4,382
East Germany	—	—	—	—	—	3,[illegible]08	19.6	417	−25.4	18,701	5,985	0.3	—	8,932	−2.4	11,988	2.3	113.83	15.2	5,454
Hungary	—	—	—	—	—	1,436	25.0	223	43.1	658	3,500	28.8	—	3,499	−1.3	3,884	−11.5	26.78	−1.5	2,724
Poland	—	—	—	—	—	3,671	37.4	863	15.9	2,217	9,467	13.5	—	15,997	2.7	15,828	−1.3	137.71	19.7	3,245
Romania	—	—	—	—	—	250	0.0	150	12.8	—	3,910	0.3	—	11,471	−0.6	11,196[5]	−24.1	75.27	9.6	3,345
USSR	—	—	—	—	—	11,000	11.9	9,000	7.0	—	90,000	15.6	—	165,122	2.4	135,108	9.0	1,544.0	18.5	4,292
TOTAL EASTERN EUROPE[1]						23,388		11,228		21,348	119,328			219,128		194,004		2,019.85		
MIDDLE EAST																				
Bahrain	1.5[3]	—	—	—	—	70	—	26	30.0	56	135	13.3	—	59	−10.5	—	—	2.13	—	8,958
Egypt	—	—	—	—	—	428	−1.8	244	37.1	—	2,010	−59.9	—	2,452	0.1	5,364[8]	56.3	23.23	21.2	483
Iran	96.5[4]	6.1	43.8[4]	9.7[4]	6.4[4]	1,589	43.3	539	18.2	1,202	2,100	0.0	—	3,817	−3.9	—	—	37.30	97.9	878
Iraq	—	—	—	—	—	258	0.6	273	−1.4	323	605	−5.9	—	605	−12.0	—	—	18.76	112.1	454
Israel	11.0	1.8	28.9	4.1	2.6	636	23.5	128	13.3	1,103	620	3.1	—	804	11.4	1,864[4]	−9.8	15.70	13.5	1,704
Jordan	3.9	—	—	—	—	138	34.7	64	18.5	—	240	−17.9	—	194	−15.4	1,600	127.3	2.47	109.3	660
Kuwait	9.1	—	—	—	—	555	18.3	204	2.5	232	450	−28.0	—	328	−14.6	—	—	15.69	57.7	4,993
Libya	—	—	—	—	—	415	0.0	320	−4.2	—	235	46.8	—	506	11.9	—	—	8.17	136.3	2,475
Oman	3.4	—	—	—	—	109	—	168	159.4	—	400	962.0	—	208	−2.5	—	—	2.85	—	5,807
Qatar	—	—	—	—	—	78	—	65	—	87	150	43.9	—	132	39.2	—	—	3.52	—	14,600
Saudi Arabia	40.4[3]	—	—	—	—	1,300	21.7	1,450	8.3	691	3,700	60.0	—	2,830	−16.7	—	—	32.41	216.8	2,524
Syria	12.5	−3.4	—	—	—	95	25.0	190	150.0	81	400	−25.0	—	241	−4.5	4,358	62.8	7.32	54.3	860
United Arab Emirates	8.9	3.6	—	—	—	240	—	143	57.1	181	145	39.8	—	—	—	—	—	3.89	—	5,092
North Yemen	3.1	—	—	—	—	20	11.1	61	19.6	—	44	660.7	—	—	—	—	—	0.30	15.0	131
TOTAL MIDDLE EAST[1]	188.3					5,927		3,873		4,136	11,234			12,178		13,404		176.52		

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Successful Strategies for Export

Peter Williamson

To some, exports are little more than a way to soak up temporary excess capacity when domestic sales are slow. Others see exporting as a way of building a significant and long-term defensible share in a foreign market Evidence from 462 product categories, spanning socks to air compressors, where British firms exported into the U.S. market suggests the former view is both prevalent and destructive. Compared with Japanese and West German exporters competing in the same U.S. markets, British firms show, on average, much higher price volatility in U.S.$ terms and lower investment in local sales, marketing and distribution infrastructure Despite some notable exceptions, the overall result is relatively low and unstable share of total U.S. imports in each product category. Examining some of the roots of these pricing and investment policies, we look at how long-term planning input into export strategy could help.

Ask a British manager about the role of exports in his firm and you are likely to hear one of two sentiments:

> 'Export orders are unreliable. They come out of a tap which is turned on and off by exchange rate fluctuations, government fiat, and relative costs around the world.'

> 'We are in a long term campaign to build substantial market positions overseas.'

Against the background of a seemingly persistent U.K. trade deficit, especially in manufactured goods, this paper takes a look at the reflection of these views in actual behaviour of British export prices into the United States market compared with Japanese and West German exporters and how longer term planning might improve companies' success in capturing a solid base of market share in overseas markets.

The Roots of 'Short-termism' in Export Policies

Historically, discussions of export pricing have emphasized costs as the primary determinant of price. Trends in British export competitiveness were often explained by trends in productivity adjusted wage rates. Case studies point to 'cost plus' pricing as U.K. exporters' traditional norm.[1] Relatively little attention was paid to the structure of demand and competition inside the target market. The mentality of a 'price taker' is to export only when the gyrations of GDP growth, inflation and exchange rates create a window of price advantage for British supply.

The argument often advanced in support of the paramount role of costs was that the 'world markets' in which exports were sold were highly competitive. Prices would therefore be driven down to reflect costs of the cheapest supplier. One way to compete in this unattractive environment was to relegate exports to a 'capacity filling' role, taking up the slack when domestic demand weakened. Evidence of this behaviour has been found in U.K. industries as diverse as bedding, boats, and candles.[2] Interestingly, exporters' concern with the approach was not that erratic supply might damage their position in foreign markets. Rather, their nervousness was that profitable domestic business might have to be turned away in the future because of a pipeline 'clogged with export orders'.

Taking domestic costs plus margin as a base, conversion at the prevailing exchange rate to reach a foreign selling price has been the norm In the first instance this reflects the common practice among British firms of pricing exports in Sterling. A long run of Department of Trade and Industry surveys, for example, showed that only 20–25 per cent of exports were priced in terms of the importers' own currencies. The November 1988 survey found that some 62 per cent of export orders (by value) were invoiced in Sterling. Without adjustment, such a policy implies that buyers in the foreign market accept all of the impact of exchange rate fluctuations so that British export prices become volatile in overseas currency terms.

Even when prices are quoted in foreign currency, most of the exchange rate fluctuations have tradi-

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tionally been passed on. Studying the impact of devaluation on business policies, Hague[3] found that of 19 case studies, 9 firms reduced their foreign prices by the full amount of a devaluation, across the board. 'Hardly any firm cutting prices considered the possibility of reducing prices by less than the net amount of devaluation.' Of those holding foreign prices constant, most did as a result of internal 'constraints', such as inadequate cash flow or low export profitability, rather than analysis of the foreign buyer or overseas competitors.

The popular press confirms the persistence of this view that foreign prices should move in line with exchange rates. In 1989 the *Financial Times* expressed surprise that Jaguar had been unable to impose any price increase in the U.S. following the rise of Sterling, as if somehow American consumers willingness to pay should have changed.

In terms of market selection, British exporters have often been criticized for spreading their efforts too thinly across large numbers of markets, leading to a small market share in each. Such a strategy is not necessarily poorly founded. Selling specialist products to a few customers in each market may maximize margins, avoid retaliation from local competitors, and minimize selling costs (e.g. by restricting promotions to a few international fairs). It does mean, however, that the substantial fixed costs involved in setting up a marketing and distribution infrastructure in each country are difficult to support.

Finally there are issues around the mix of conduits used for making foreign sales. Exporting, as but one alternative, may be relegated to the role of a short-term market solution. Buckley and Prescott[4] examined exports, licensed sales and sales arising from direct investment as a basket of tools for serving foreign markets. They found that for Western Europe and the developing world exports were the dominant form of foreign market servicing. For the U.S.A. and other Developed Countries, however, sales arising from foreign direct investment predominated.

One hypothesis is that British firms have opted for investment in local manufacturing whenever they regarded a non-European market as having substantial long-term potential for their products. In a recent study of British investment overseas, Shepherd *et al.*[5] found that some 50 per cent of firms establishing foreign manufacturing operations regarded continued export as a viable, although not preferable, alternative. A 1989 survey by KPMG calculated that the ratio of British domestic investment to expenditure on foreign acquisitions is 2·9 times. This is the lowest ratio of the 16 countries in the survey and compares with 78·8 times for Japan and 84 times for West Germany.

Of course, establishing production facilities for one line of goods in a country may open up potential for complementary exports of intermediate products or other parallel lines of finished goods. Buckley and Pearce[6] examined this relationship for 329 multinationals. They found a positive relationship between foreign production and intra-firm exports to that subsidiary. On the other hand, external (third party) exports are found to decline at high levels of foreign production, so that total exports fall. This substitution of foreign production for exports appears particularly pronounced for multinationals of U.K. and U.S. parentage.

When the variable costs of exporting are higher than for local production in the target market, there will come a level of sales where it pays the exporter to switch to foreign investment in manufacturing. The puzzle here, however, is that before that point it should pay to invest in the generally lower fixed costs of distribution and sales infrastructure. Yet, as we see in what follows, many British firms often make high fixed costs investment in manufacturing without the prelude of a well developed sales, distribution and service network supplied from U.K. exports. This is despite the belief that costs are equivalent or lower in the U.K. The important implication suggested by this behaviour is that investment in distribution and marketing infrastructure was either felt to be inadequate to achieve sufficient customer responsiveness, or not considered as an alternative.

In summary, and at the risk of considerable simplification, we might impute five primary maxims as drivers of much of the evolution of British export strategy:

- ☆ 'Export competitiveness is primarily cost driven'
- ☆ 'Exports are an important way to fill excess capacity when domestic demand turns down, especially since marginal cost pricing makes them competitive'
- ☆ 'Export pricing should be determined by taking local costs, adding a margin and converting at the present exchange rate'
- ☆ 'Low market shares spread across a large number of markets is the most effective, lowest risk way to compete'
- ☆ 'Proximity of manufacturing to the customer is key. If a market has demonstrated real potential, put down a plant as soon as practicable.'

Combining these leads to the suspicion that British firms may have a bias towards short-termism in export strategy compared with some of their major foreign-based competitors.

Price Volatility the Facts

Perhaps one of the most direct measures of the short-termism hypothesis is to look at the volatility

of prices faced by potential overseas buyers of British products relative to alternative sources. In other words, does the potential buyer find the British product attractively priced relative to another import this year, only to find it relatively expensive next year, and back below average the year after. Clearly, the answer may differ depending on the channel through which 'British' products are supplied, whether direct export, trading overseas by establishing manufacturing capacity, joint ventures or licensing. Here the focus in on goods manufactured in the U.K. and subsequently sold overseas either direct to the customer, through independent or joint venture distribution, or to an overseas affiliate.

Choosing the U.S. market, data were collected for the average U.S.S prices of imports in 462 disaggregated product categories defined by the American customs authorities at the '7 digit' level. A typical example would be 'Domestic Refrigerators with Capacity Between 2·5 and 7·5 cu. ft.'. The sample is restricted to manufactured goods, although it covers a broad range of consumer and industrial products as well as components and intermediate goods for which data were available. For each category, the price of exports supplied from Britain, Japan, and West Germany relative to this average was computed. The volatility (measured by the variance standardized by the mean) of British, Japanese and West German relative prices between 1982 and 1985 was also calculated. Finally, we collected data for the market share (by value) of exports from the three source countries as a per cent of total U.S. imports in their category.*

Figure 1 plots the relationship between the values of relative price, volatility and market share, averaged across the unweighted sample.

Although the distributions understandably show a large variation between individual products, the average levels show some interesting suggestive patterns. Firstly, the Japanese exporters maintained both low and *stable* prices relative to U.K. and West German exporters. British exporters had the highest price volatility.

Other evidence suggests some reasons for this relatively low volatility of the U.S.S price of Japanese exports compared with those from other countries. A high proportion (some 82 per cent in 1986) of exports to the U.S.A. are priced in U.S.S.

*Research Data the data were drawn from the U S customs records 1982-1985 They therefore cover all British, Japanese and West German exporters in the relevant product category Highly disaggregated product categories were used to minimize the likelihood of lumping together very dissimilar products Extreme observations, which suggested that the products supplied by each country were for very different end uses, were removed All product categories where Britain, Japan and West Germany were continuous exporters to the U S A year to year were included in the sample, provided that the customs category had not been re-defined during the period *This based data was supplemented by selected interviews with British, Japanese and German companies*

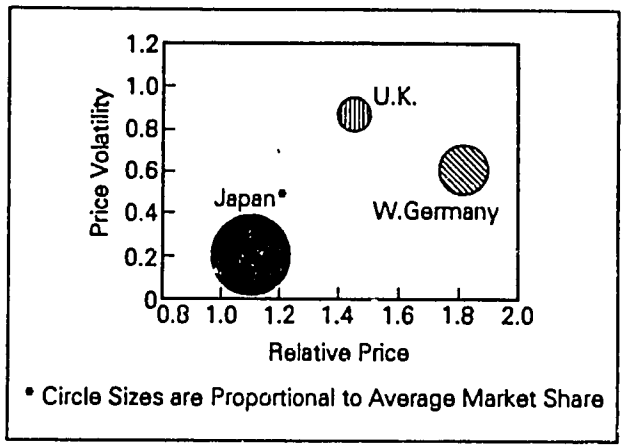


Figure 1. Export strategy and export performance

This creates a natural tendency for exchange rate fluctuations to be absorbed. Passing on the impact requires active price adjustment. This pass-through tends to be muted in practice. A recent study of Japanese motor vehicle exports to the U.S. found that some 58 per cent of exchange rate changes were passed on into final customer prices of trucks between 1974 and 1987. On a tariff increase of 21 percentage points in 1980, 13 per cent was passed on, while 8 per cent was absorbed in the form of lower profit margins. Both ratios showed evidence of declining pass-through over the period.[7]

More generally, it appears that many Japanese exporters regard a rising Yen as a signal that their costs must fall, rather than that foreign currency prices must rise. This reflects a strategy of long-term commitment to continuity of export sales. Evidence of the thinking has been reported by *The Economist* during 1989 in connection with a number of industries including electric and non-electric machinery, transport equipment, and precision instruments.

West German exporters exhibit relatively high prices on average. This is combined, however, with significantly lower price volatility than the U.K. although well above Japan. Again, casual evidence is available that many West German exporters regard rising exchange rates as a signal that costs must be reduced. The U.K. data, meanwhile, are consistent with the shorter term, full 'pass-through', capacity balancing approach to exports described by the 'five maxims' above.

Long Term Implications

Another interpretation of this so called 'short-termism' is, of course, that British exporters are simply more entrepreneurial traders, taking advantage of opportunities as they arise more effectively than their slothful competitors. The key issue here, therefore, is whether or not this price volatility has any negative consequences in the longer term.

There are a number of reasons why a potential foreign customer may be wary of a supplier whose prices fluctuate between being competitive one moment and uncompetitive the next.

Firstly, to the extent that reputation is important, it may be preferable for the exporter to maintain a steady stream of sales. Gaps in sales caused by the pass-through of unfavourable exchange rates may cause a product's reputation and brand awareness asset to depreciate at a rapid rate. Absorbing some of an adverse exchange rate movement into the profit margin to preserve sales volume is therefore equivalent to an investment in maintaining the stock of brand awareness in the country.

Secondly, for products where the customer must make an investment in set-up costs, employee training, knowledge of handling or service procedures, or spare parts, the expectation of continuous availability at a fairly stable price relative to local supply will be a strong encouragement to consider purchase. In choosing to install foreign machines along with the set-up and support services involved, for example, many customers might well regard the availability of additional units in the future at a similar price relative to domestically produced models as a key buying criteria. A detailed study of the international machinery trade, for example, found evidence that customers were influenced by expectations of relative price over at least 3 years.[8]

A similar argument holds for raw materials and components which require investment in process adjustment, or product design. Users will be more willing to make the necessary investments in adapting to a foreign product where its future price competitiveness is relatively certain. Expectations of relative price stability, in turn, will be promoted by a history of absorbing short or medium term exchange rate and cost fluctuations into profit margins or increased efficiency. The expectation of volatile prices, with associated uncertain economics, on the other hand, will be a powerful discouragement to buying from an overseas supplier.

Thirdly, in products where the customer is uncertain about the quality until actually trying it (so called 'experience goods'), retailers might have to sustain a period of low profit, or even loss, in order to establish their product in the market. This may take the form of promotional offers or free sampling. Alternatively, they may have to invest in product specific displays or advertising. They will only make these necessary investments if they believe the discounted present value of future profit, adjusted for risk, is positive. Faced with a foreign supplier whom they suspect will raise the price when his costs or exchange rate go against him, causing sales volume to fall or retailer margins to be squeezed this risk premium will increase. Again, suppliers offering explicit or implicit contracts for relative price stability, thereby unloading some of the risk faced by intermediaries, will be more likely to recruit retailers or wholesalers to assist in building share.

In sum, although short-run profit maximization may dictate volatile pricing in target market currency terms as costs and exchange rates, this may not be true for long-run profit or sales maximization. Building market share will often require stabilization of the price of exports relative to alternative suppliers to a target market including other exporters and domestic producers. This, in turn, implies that profit margins on exports will instead be volatile as they absorb both micro and macro economic shocks over time.

If price volatility results in an erratic volume of sales, it is also likely to reinforce biases towards lack of investment of management time and money in long term development of a foreign market. In particular, volatile volume will discourage the exporter from establishing the kind of fixed cost base in the target market which would be associated with maintaining its own salesforce, distribution or service network locally or putting cash into marketing and advertising. All of these require the expectation of long-term sales, sustained at a volume sufficient to spread the fixed costs, in order to be viable.

Traditionally the distribution and marketing of many exports has been handled by agents, brokers or distributors in the target market. Only low levels of marketing and sales support were often provided to these channels. Their margin was supposed to support the necessary expenditure. However, there is growing evidence across a wide spectrum of different products that substantial investments in marketing and distribution infrastructure in the target country are now necessary to gain any significant share of the market.

A study of U.S. semiconductor firms' entry into overseas markets, for example, found that 'the establishment of a wholly owned marketing office in a foreign market is a prerequisite for (although no guarantee of) significant market share in the foreign market'.[9] The establishment of this marketing infrastructure required a large, indivisible initial investment. This reflected the fixed costs of creating the necessary physical and communications links between the firm and the market. These included the costs of training the salesforce, setting up a distribution and service network, bringing the product into conformity with local standards, creating new links among existing sales offices, the supplying manufacturing groups, and the regional and world-wide marketing management.

Only an exporter with a long-term commitment to the target market will be willing to make these investments. Having done so there will be a strong incentive to grow volume to reduce the unit costs

by spreading the fixed costs associated with this investment and its maintenance. Moreover, most of these investments will not be possible to liquidate on a decision to exit the market, except with a very substantial write-off. An exporter who has made a substantial investment will therefore have a strong incentive to stay in the market when conditions reduce short term profitability with the aim of earning a satisfactory return on this investment in the longer term.

Investment in Marketing and Distribution: the Facts

Data were also collected on the investment in distribution and marketing infrastructure by British, Japanese, and West German firms in the U.S.A. Although only highly aggregated data are available the contrasts are stark. As is clear from Figure 2, almost 40 per cent of the total stock of foreign owned wholesale distribution assets in the U.S.A. are owned by the Japanese, dramatically higher than for Britain or West Germany. In fact, distribution accounts for 70 per cent of total Japanese direct investment in the U.S.A. compared with 13·5 per cent of British investment in the U.S. and 18 per cent of West German investment.

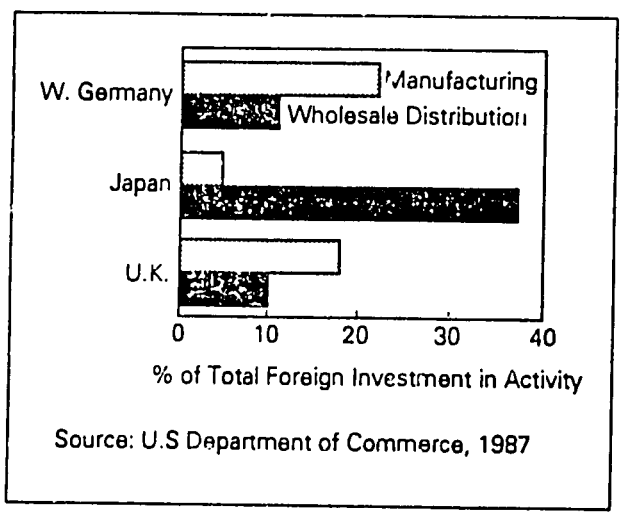


Figure 2. Foreign investment in the U.S.A.

As we hypothesized above, the ownership of distribution infrastructure in the U.S. may play an important role in the ability of Japanese companies to control service to the customer and enhance the differentiation of their products. It can also be expected to increase their control over the flow of marketing information to customers, as well as maintaining discipline in pricing. It may well be a contributor to the strong rating of Japanese products among U.S consumers identified in the 1988 survey reported in Figure 3.

The Retreat to Market Niches

Taking together the impact of price volatility and

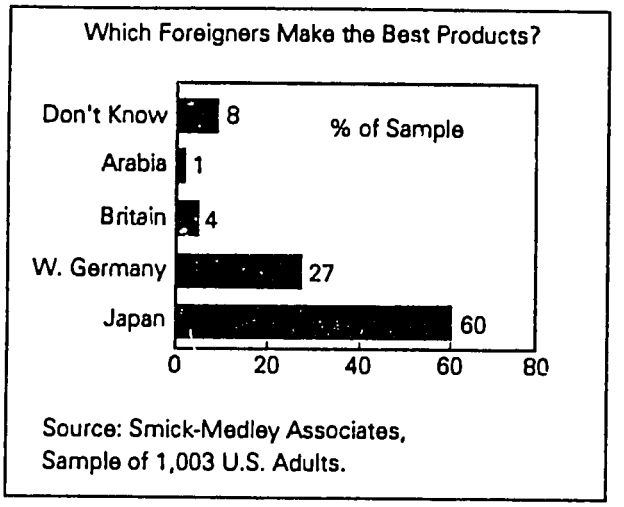


Figure 3. Customer perception of imported products

the comparatively low levels of investment in distribution infrastructure, the result is an (unweighted) average British share of 6 per cent total U.S. imports by value in each product category. This compares with 11 per cent for Germany and 21 per cent for Japanese exporters.

Perhaps more importantly, however, the British exporters' market shares were not only relatively low, but also less stable from year to year. On average, the annual volatility of market share in our data for British exporters was 17 per cent higher than West Germany and 35 per cent higher than Japanese exporters.

At worst, this might imply that British exporters were retreating to niches within the U.S. market which, instead of reflecting the demand of specialized customers for high value added products, represented fickle, price sensitive buyers who opportunistically buy British only when relative price dips. This would mean a viscous cycle where the lack of loyal customers and installed based made long term expansion of market share virtually impossible.

In order to examine the segment retreat hypothesis, data for the U.S. distribution requirements and the extent of 'push' and 'pull' marketing, sales support, service backup provided by American competitors themselves, were collected and analysed using factor and regression analysis. This enabled the identification of different export strategies for different product classes and a comparison of their relative success. A brief summary of the results will suffice here, detailed methodology and quantitative estimates are reported elsewhere.[10]

Fortunately, the picture is not quite as bleak as the segment retreat hypothesis suggests. British exporters have built relatively strong and stable U.S. share in mass market consumer goods where well developed third party distribution networks exist and 'pull' marketing through the mass media is

effective. Good examples would be in the U.S. spirits market (scotch, gin and so on), condiments, and confectionery. They have also been relatively successful exporters in products where the manufacturer's own, U.K.-based salesforce is able to deal with relatively few customers and ship directly to them.

On the other hand, British exporters have generally been much less successful in building market share in products which require heavy investment in distribution or service in the U.S.A., large networks of sales staff permanently on the ground, or intensive 'push' marketing such as dealer training and incentives and heavy point of sale promotion. It is here, by contrast, the Japanese excel. The way export marketing and support is planned, levels of investment in distribution, allocation of manufacturing slots, pricing policies, and the role of exports in the strategy of British firms would seem to be important contributors to the lack of British presence in these important product sectors.

The British Exporter

Exports are 'second class citizens' in many British companies, pushed out of the way when domestic order books are flush, with pricing dominated by domestic costs and Sterling exchange rates rather than competition in the target market. The dominant concept is one of obtaining export orders, rather than penetrating an offshore market using export supply.

Looking at the data on price and volume, the revealed strategy is best described as one of opportunism: we sell what we can when capacity is available and the external market conditions make it profitable. The resulting instability of sales volume means that substantial investment in distribution is difficult to justify. The preference is to sell direct to the customers from the U.K. if you can, leave it to the local distributors if you can't.

Much of British export strategy also casts the distributor in an narrow role. There is a strong preference for 'pull' marketing with the distributor acting primarily as a logistics channel. This underexploits the potential of local distributors as a valuable source of information about customer reaction to the product and changing needs as well as a 'push' marketing advocate, aspects which have been used very successfully by the Japanese.

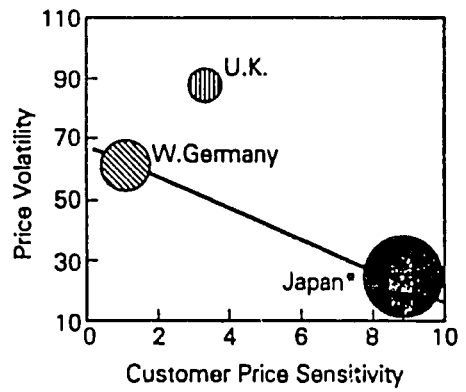
Looking across the wide spectrum of products included in this study, spanning from socks, through rivets, to machine tools, it is difficult to avoid the conclusion that many British export philanderers have received their just deserts in terms of low and volatile market share. Retreat into serving a small segment of fickle customers, who are loyal only while prices and exchange rates are favourable, seems all too common.

The Role of Long Term Strategy

The results in this paper emphasize the importance of long range planning of export strategy in two dimensions in particular:

- ☆ the maintenance of a relatively stable price in the potential buyer's own currency, which maintains competitiveness with domestic and other export suppliers despite fluctuations in relative costs, exchange rates and capacity availability;
- ☆ planning for the level of investment in local distribution, sales, service, and marketing necessary to develop loyal customers, an installed base, and continually build on existing market share.

The precise strategy must clearly depend on your particular industry. Looking at the average data for our large sample products, however, suggests that it pays to keep two generic strategies, epitomized by West Germany and Japan (Figure 4), in mind.



* Circle Sizes are Proportional to Average Market Share

Note: Customer Price Sensitivity Estimates are the Response Co-efficients of a Regression of price on Quantity Sold for Our Sample (See Note 10).

Figure 4. Segment choice and pricing policy

Japanese exporters have generally focused, at least initially, on the price sensitive end of their target markets. By maintaining a competitive relative price over a long period, despite external fluctuations, and constantly investing in control of the U.S. distribution, sales, and service support networks for their products, they have continually built market share, customer and dealer loyalty. This has permitted a gradual lift in price realization, which our data show had moved from below average for import categories where they competed to above average by 1984, with minimal exposure to loss of market share.

West German exporters, by contrast, have permitted higher volatility of their relative prices. They have absorbed lower proportion of external shocks, such as cost and exchange rate movements into their profit margins and passed more of the burden onto the customer. This is, however, consistent with focus on much less price sensitive markets where we see the bulk of their penetration. By choosing specialist customers and providing them with products differentiated on technology, quality or service, they have also succeeded, albeit by a very different route, in building long-term market share.

The Japanese Exporter

Defines his objective not as export sales, but market penetration: the process of building and maintaining a significant share of the overseas market. Experience in Japan has taught him that breaking into distribution is the key barrier to entering a market but also that, once distribution relationships are built, they are an invaluable asset in protecting and growing share.

Unlike their British and West German counterparts, Japanese exporters have therefore expended a great deal of money and managerial effort on developing distribution. Initially using powerful distributors and retailers to gain market share quickly with competitive prices, they have then used these distribution relationships as a powerful conduit through which market and product information flows This ready-made source of practical market research has provided the information guide product improvement and differentiation It also acts as the channel for 'push' marketing, which dominates the Japanese export approach Where appropriate third party distribution has been lacking, Japanese exporters have built their own

As products and customer awareness have improved, so has price realization Pricing policy is dominated by the conditions of the local market rather than production costs at home. The bulk of exchange rate fluctuation has been absorbed into profit margins so that the U S. customer sees a slow rising trend as quality and familiarity increase, rather than volatile prices relative to local competitors. Stable growth in volume, capable of supporting the fixed costs of local distribution has been the result

The German Exporter

Selling a technological edge is the linchpin of the typical West German exporter's strategy. This level is used to dominate a relatively specialist segment, achieving both premium prices and low price sensitivity to an appreciating Deutsche Mark There is a clear preference for selling direct to the customer using a technical salesforce based in Germany, followed by direct product despatch Local distributors are a less popular alternative Adding an extra stage complicates the information flow and reduces customer contact, critical elements in the German approach to building brand loyalty and an emphasis on 'made to order' customer specifications in the German strategy. Investment in local facilities is generally modest, dominated by service and parts supply capabilities Technical differentiation and close contact with customers have combined to stabilize sales volume, despite fluctuations in relative price

Many British exporters show up as falling between the two stools. As evident from Figure 4, they have often imposed highly volatile prices on their potential customers in product segments which are at least moderately price sensitive. Not surprisingly, their market share has been correspondingly erratic from year to year. In many cases this destroys the chance to incrementally build on a sound base and makes it impossible to justify the fixed cost investment in local distribution, sales, service and marketing which would support it. The result is low average market share and retreat to unattractive niches.

None of this is inevitable. If your firm's export approach is even partly a reflection of our 'five maxims', some of the problem is self-inflicted. The first major step towards solution is a corporate recognition that exporting must be about 'a long term campaign to build substantial market positions overseas' rather than a 'top up capacity filler' loved only when domestic demand slackens, or the solution for markets in which serious commitment is lacking.

A key role of the long term planner is to remove the philosophy that 'we sell our export product *from* our home base', with all its connotations of pricing in Sterling, based on local costs and dealing with the customer from Britain direct or through intermediaries. Our results validate the successful exporter's catchery: 'we sell our export product *in* the target market'. This implies minimizing price volatility to continually maintain competitiveness in the overseas market environment, with the backup of investment in local sales, marketing, service and distribution infrastructure; in short, reforming the philanderer before his demise.

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Exporting to the United States: Management Implications for Small Manufacturers

There are four tasks which every firm considering export market entry must perform:

1. *assess the relevant market opportunities;*
2. *determine the resources required for entry and expansion;*
3. *identify appropriate administrative arrangements for handling exports;*
4. *manage these administrative arrangements.*

While all are important, we consider the third and fourth tasks to be especially critical to export success. The export literature, however, is relatively silent about company practice in establishing their sales/distribution networks (task three) and managing these to achieve success (task four). This silence is surprising, given that the decisions that flow from tasks three and four transform strategy into action, and, hopefully, a market opportunity into actual export sales.

Most small and medium-size firms find that the servicing requirements of foreign buyers and their own shortage of financial and managerial resources lead them to distribute and sell through foreign-based agents and distributors. Recent research evidence shows that the choice of foreign market selling and distribution arrangement, and its management over time, play a major role in export success.

This article examines these tasks in the broader context of U.S. market entry by three small Canadian firms. The firms are in the carpet and rug, building supplies, and semi-conductor industries, and have achieved varying success in the U.S.

The article proceeds by:

- *describing the three firms and analyzing their experiences and;*
- *drawing managerial implications and lessons from the above which are important for successful export performance in the U.S. market.*

EXHIBIT 1

	Anobilia	Lock-Wood	Process Technology
Product	woven rugs	wooden windows and doors	low pressure chemical vapor deposition processes and equipment
Location	Montreal	Scoudouc, New Brunswick	Oromocto, New Brunswick
Established	early 1983	1933	early 1982
Startup Exports	early 1986	early 1983	mid-1982
Sales $ 1986	1 million	15-20 million	4-5 million
% Export/Total Sales	6%	5-7%	92%
% Sales in U.S.	6%	5-7%	80%
Major U.S. Markets	Upstate N.Y. Massachusetts Arizona	New England	U.S. Wide
Sales Method	Independent U.S. reps.	Independent U.S. reps	Independent U.S. reps.
Number of Employees peak	25	375	130
Number of Sites	1	1	1
Main Customers	Mass merchandise outlets	Building supply dealers	Integrated circuit manufacturers

The three companies whose export experiences we examine are unidivision, independent Canadian-owned manufacturers from Quebec and New Brunswick. They were drawn from a sample of 90 small and medium sized firms whose export structures, strategies and performances are being investigated with a Social Sciences and Humanities Research Council grant.

The three companies are Anobilia products Inc., Lock-Wood Ltd., and Process Technology Ltd. A snapshot view of these firms is provided in Exhibit 1 in which their export experience in the U.S. is described.

Export Experiences of the Selected Firms

Anobilia Products Inc. (API) produces area rugs from synthetic waste materials through a unique manufacturing process which gives its rugs an imported Berber rug texture. The rugs are cheap, durable, and machine-washable. They are sold through mass merchandisers to a consumer market dispersed across the U.S., but with more positive response from Upstate New York, Massachusetts and Arizona. The company is three years old, and can only make marketing investments requiring little managerial and/or financial resources. Its major competition is from cheap 100%-cotton imported Indian rugs.

Lock-Wood Ltd. (LWL) has over 50 years experience in window manufacturing and general millwork. Its full line of quality windows can be fitted together in 'Lego-like' combinations. Thus, it offers most of the popular permutations required in both new construction and renovation. About 80% of its sales are of windows, with the balance accounted for by doors. LWL has positioned itself as selling in the medium- to high-end of the market. Its customer base has been New England with some penetration into the mid-Atlantic area. Specifically as regards marketing, it has an excellent dealer training and support program. However, the market is very competitive and well serviced by established

firms with good product design.

Process Technology Limited (PTL) successfully sells equipment/services to some of the world's largest and most technologically-advanced semiconductor firms. Its customers are dispersed across the U.S. and operate multi-plant sites, each having autonomy in equipment purchases. It is a newcomer with no track record; a production staff that is trained on-site and made up primarily of new recruits; extremely limited financial resources, precluding marketing investments on the scale of competitors; and market-relevant knowledge primarily confined to its founder. PTL's competitors have an installed customer base; product demonstration facilities near markets; well-trained work forces; several years of profitable operations; and a well-established and extensive network of industry contacts. In addition, these competitors are U.S.-based, operate internationally, and have company-owned sales offices covering the U.S.

Entry and Expansion

Analysis of each company's experience and activities shows their U.S. entry and expansion strategy: (1) capitalized on inherited resources; (2) strategically responded to market requirements; and (3) fitted a particular market niche.

API's resources extended mainly to its ability to manufacture attractive synthetic rugs very cheaply. Thus, it was able to focus on a market niche which had no real competition except from Indian rugs. The answer to that competition required regional selection where consumers would be more interested in the long-lasting qualities of API rugs and their machine washability. API's president knew that he had to rely heavily on U.S. agents and was conscious that their efforts would be facilitated if stocks were maintained in the U.S. A warehouse location was organized in Plattsburgh, New York and pricing was done in U.S. dollars.

LWL's resources included good product design, knowledge of potential customers, and experience in dealer support programs. Unlike many firms, it thoroughly understood from its many years of experience that its products must be sold through the distribution channel. LWL did not require much adaption to U.S. customer requirements, but it quickly responded to the extent needed. It priced competitively and in U.S. dollars. Later it developed a new window to fill an important product gap. Moreover, the market niche it pursued and the export organization used represented a strategic fit.

PTL's resources included inherited knowledge of potential customers and their requirements. The firm exploited this knowledge base to identify U.S. market opportunities (large semiconductor manufacturers), secure appropriate product exposure (at key industry trade shows) and select appropriate channel modes and agencies (independent representatives with established personal networks). PTL had limited managerial resources for autonomously conducting the required prospecting and selling activities. However, using independent agents, with similar characteristics to competitors, PTL could more effectively compete in the U.S. market. The importance of that market was reflected in PTL's strategy: pricing in U.S. dollars, sourcing from U.S. suppliers, promotion primarily aimed at U.S. customers, employing U.S. channel intermediaries and using a company-owned plane to transport products and personnel to the U.S. market.

The market niche that PTL pursued and the export organization used represented a strategic fit. Independent reps. had previously worked with/or had dealings with PTL's customer market and competitors. Contactual functions were conducted by chief executives of its sales rep. agencies and/or PTL's president. Independent sales agencies, similar in size to PTL, offered more room for a balanced channel relationship.

Strategic Considerations

Export sales/distribution channels must be chosen and managed on the premise of adaptability to changing market conditions. If not, the tasks and functions that were originally assigned to these channels will no longer be appropriate and can affect the achievement of export success.

API found it difficult to get the required marketing push from its present U.S. agents. But it did not possess the financial resources to generate much more marketing effort. It could concentrate on certain regions and there provide more promotional display push, plus visits by a company salesman to mass merchandiser outlets. Another not necessarily conflicting strategy, but one that would require fair marketing research, was to develop a new product using wool waste. Such a product

would be in a class of its own; well above the cheap rug, but priced well below imported higher quality wool rugs. Success there would depend on consumer response to a medium quality wool rug as compared to a medium quality synthetic rug made by carpet mills.

LWL's strategic considerations were similarly not caused by changing market conditions but by the need for export channel adaptations. They had a turnover in U.S. sales representatives. The choice was to create a company-owned sales force or continue to cooperate with a strong U.S. rep. who would operate a "fill-in warehouse". This warehouse operation would create immediate availability of LWL products whenever dealers required a few items. But LWL would still be dependent on the motivation of that rep.

PTL was in a much more volatile market. The recent downturn in the semiconductor industry had a major impact on PTL; forcing employee layoffs. The situation illustrates both the advantages and vulnerability in using an independent sales rep. PTL's independent agents have characteristics suitable for exploiting one customer market. However, these strengths can be illusory when other market segments are being considered. The control of an independent marketing arm (sales rep.) is more apparent than real and relied on PTL's ability to produce products which were a good fit with its existing rep's customers.

Two not-necessarily conflicting strategies are available to the company, expanding the range of products manufactured so that the reps. can carry a broadened portfolio, and establish some direct links with customers to deal with weaknesses in existing market coverage. PTL has since recovered, but with considerably less growth than historically the case. It has extended its product line, offering additional processes and developing second and third generation equipment, and has stepped up its personal contact with its U.S. customers.

Managerial Implications

Although these companies were in very distinct markets as regards to their products and PTL was in a volatile market compared to the mature ones faced by the others, these case studies offered several similar export-related managerial implications. These are:

1. *Strategic planning will help the smaller company focus its limited resources on specific export marketing goals.*

All three firms pursued a market niche strategy, and had good product design and an adequate product line. But of the three firms studied, only LWL had laid out specific export marketing goals. Even if smaller firms do not have adequate skills or resources to devote to strategic planning, third parties such as marketing consultants, distributors, noncompeting manufacturers and export trading companies can provide much-needed assistance. While there may be some expense involved in getting this help, the costs that flow from making poor strategic decisions will far outweigh such investments in planning.

2. *Canadian firms thinking of exporting to the U.S. must engage in adequate marketing research on an ongoing basis in order to achieve and maintain a successful export drive.*

API had no prior idea why U.S. customers might or might not buy their rugs or the hues that might be preferred in different U.S. regions. The lack of buyer behavior thinking and research affected their ability to select geographical regions on which to concentrate. LWL developed a new product, only to discover later that New England builders had a negative attitude toward it because their design did not allow them to carry gyproc to upper stories through the window. Further, LWL also found out that the market structure in the Mid-Atlantic region was far more competitive than in New England. LWL products were over-built and over-priced for the former market. PTL knew that the sales potential and buyer behavior varied according to the end market served. However, PTL lacked information that would enable them to make a realistic assessment of how these customer markets would respond to the prevailing industry slump.

3. *Smaller Canadian firms wishing to export to the U.S. should realize that they must be prepared to commit significant resources to the venture.*

All three firms found out fairly soon that the U.S. market is very competitive, and that export market development requires more resources than they had anticipated. API needed additional resources for dealer support, in-store promotion, and sales visits. LWL had to stress its commitment to the U.S. market in order to obtain the cooperation of the dealers. This involved key

resource decisions: whether a contribution should be made towards a rep's warehouse; should a company salesperson be employed to cover New England?; and the possibility of significantly increasing the promotional budget. Similarly, PTL was faced with the key strategic question of establishing a company-owned sales force to supplement the selling effort; and the recognition of inadequacies in their advertising and promotion budget compared to competition.

4. *Smaller Canadian firms can easily select a less-than-optimal U.S. marketing channel* and underestimate the difficulties involved in obtaining adequate performance from members of the channel or channels.

All three Canadian exporters underestimated the above difficulties. API relied principally on one large agent, for whom API products did not constitute a major line. Further, API did not perceive the importance of supplementing this with adequate in-store promotional support until export sales slumped. LWL initially relied on two U.S. manufacturers' representatives who would sell directly to dealers. One was a successful "trail-blazer" who later was not as competent at maintaining dealer relations. LWL then switched to another rep. The second manufacturers' representative was working in a competitive region and with little headway made, switched his interests to other producers' lines. PTL exhibited at trade shows, and used independent U.S. sales representatives who also carried different suppliers' products. PTL had difficulties in obtaining market reports and the names of customer contacts from the sales representatives. Now PTL was considering employing a company sales representative for part of the market.

As new exporters, these and other firms had to take the sales/distribution channels they could get. Few options were open to them as newcomers and, to some extent, this led to difficulties after the initial years in the U.S. market.

Lessons to be Learned

• The U.S. market is not homogeneous. Administrative choices regarding the organization of export activities must reflect potential customer characteristics and how these have an impact on market coverage. Such characteristics include market size, accessibility, location, dispersion and purchasing behavior. These transaction-related factors suggest that a standard distribution strategy for the U.S. will leave some market segments unserviced.

• The market scanning function must be considered a central business activity. Export intermediaries represent strategic and essential substitutes for resources in which small firms are deficient. However, exporters must realize that intermediaries pursue their own objectives and operate in customer markets of their own choice. Consequently, intermediary contributions, in terms of market surveillance and market information provision functions, are restricted. Thus, the exporter must also monitor and assess overall market activity. In particular, understanding product adoption behavior is crucial for determining, evaluating and segregating relevant market opportunities, including those of future significance.

• Selecting an export method and agent is a fundamental decision. The decision to use independent export intermediaries is subject to modification and/or change. However, the flexibility this choice affords is similar to choosing an express highway as a motor route. On a highway, exits are structurally determined, the direction and path are fixed and visibility is limited to nearby terrain. Use of intermediaries imposes contractual obligations and severely constrains the scope for managerial action, compared with company-owned administrative arrangements. Thus the benefits gained from having independent export organizations are a trade-off for the increased rigidity their use imposes.

• Market opportunity is dynamic and firms must adapt administratively to such changes. In the U.S., the number of potential transactions available for many firms are significantly greater, in both magnitude and variety, than in Canada. These market characteristics should be recognized in the organization and structure that is chosen for exploiting the U.S. market. Further, firms should not regard the methods they initially choose to handle markets as fixed.

• Managing interfirm relationships is the critical element in export success. This involves the explicit recognition that the intermediary, although autonomous, is an integral part of the exporter's operation. Firms should therefore recognize limits and strengths in their own administrative capacity before selecting export intermediaries.

Conclusions

For the small Canadian manufacturer, conducting business in the U.S. is in some aspects different, in other aspects similar, to doing business in foreign markets elsewhere. The U.S. market is physically closer when the Canadian penetration is in areas close to the Canadian home base; for example LWL's market area was New England and the mid-Atlantic. Consequently, many customers are not remote. Certainly LWL could reach its customers fairly easily: also API's main agent was in New York. However, a firm cannot assume that U.S. buyer behavior will be akin to that experienced in Canada. The U.S. market is far from being homogeneous and should realistically be seen as a group of distinct regional markets.

Similarities with doing business in the U.S. and other foreign markets arise from the fact that the choice of export organization and agent is critical; and the best channels for reaching customers are often preempted by established competitors. Moreover, the firm that anticipates a major dependence on the U.S. market should consider the eventuality of establishing a company-owned sales force as the export thrust develops.

The observations in this article drew managerial implications and lessons emanating from the export experiences of three small Canadian firms. However, these firms are comparatively new entrants to the U.S. as an export market. Although our results are consistent across the firms, the issue of to what extent adaptability to the U.S. market is a feature of long run export success needs to be examined. We plan to conduct similar studies on small Canadian companies that have been in the export market longer. This will enable us to provide information on the nature of those adaptations and their resulting effectiveness.

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Key Success Factors For Small/Medium Sized Canadian Manufacturers Doing Business in the United States

Kenneth G. Hardy

In the March, 1987 issue of *Business Quarterly*, Kenneth G. Hardy, a professor at School of Business Administration, The University of Western Ontario, reported on research conducted among trade commissioners and successful Canadian exporters to the U.S. (page 67). His principal conclusions were:

Failures

1. Mainly, failures reflected deficient management skills, rather than resource or technological deficiencies, and one of the main problems was weak marketing.

2. Unsuccessful exporters demonstrated a lack of understanding of the commitments required in exporting.

3. Unsuccessful exporters were frequently not organized properly for exports.

Successes

1. The products produced by these firms were specialty or niche products, i.e. narrowly-defined products and/narrowly-defined applications.

2. In deciding to export to U.S. markets, the exporting firms had realized that the Canadian market was too small for them.

3. The successful firms were committed to U.S. markets and willing to invest time and money in them.

4. The relative importance of exporting overall, and specifically to the U.S., was large for most of these firms.

5. Firms found trade shows to be absolutely critical in developing the market, and in finding new channels of distribution.

6. Channels of distribution were perceived as being different in the U.S.—more manufacturers' reps or agents are used.

7. Most firms found that selling FOB U.S. destination, or FOB U.S. entry point, removed buyers' fears of buying something foreign.

8. Small things do matter!

9. Government export assistance programs were viewed as useful and worth continuing.

10. The perceived impact of free or freer trade was judged to be negligible.

Editor's note: Reprints of Dr. Hardy's article are available by calling *Business Quarterly* (519) 661-3309

Instructors Notes 2-1

Questions for Discussion

1. What is the difference between domestic and international research?

The basic difference between domestic and international research lies in the environment in which the research is conducted. Although the research objectives are often the same, a different approach must be used for international research because of four factors: new parameters, new environmental factors, a greater number of variables involved, and a broader definition of competition.

In transacting business across borders, firms encounter parameters not found domestically, such as duties, foreign exchange rate fluctuations, and logistics of distribution. Other new parameters will also be encountered depending on the mode in which the firm is entering international markets, be it through exporting, licensing, foreign direct investment or as part of a joint venture. These international activities often require research that is different from domestic research.

The environmental differences that require specialized international research include cultural, legal, political, language differences, and differences in levels of technological advancement.

The greater number of factors involved in international research occurs because a firm must consider one or more environments other than its own, as well as the interactions between these environments.

The larger group of competitors also makes international research different from domestic research. A firm often enters the international marketplace because of international competition, so it is aware of its direct competitors. However, it also needs to evaluate firms that are potential competitors.

2. How does "going international" affect the environment perspective of a firm?

When a firm goes international, it must automatically broaden its analyses of the environment to include the situation in each country with which it interacts. Because of the number of factors involved, the international environment is much more complex than the domestic one; as a result, the firm must refrain from making assumptions that may be true for its domestic environment but not necessarily the international environment and be alert to the interaction of the various factors and the possible effects. The elements which should be evaluated include the needs of the consumers, their culture, social structure, technology, legal system, and political situation, as well as the economy of each country

Source: International Business Manual, Czinkota, Michael R., Rivoli Pietra, Ilkka A. Ronkainen; p. 72.
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involved. These factors provide the basis for decisions which may differ in each foreign environment.

3. **You are employed by National Engineering, a U.S. firm that designs subways. Because you have had a course in international business, your boss asks you to spend the next week exploring international possibilities for the company. How will you go about this task?**

To begin international research, one needs to define the research objective. The first research objective for National Engineering would be to acquire general market information in order to analyze foreign market opportunities and to select certain countries for more thorough research. To evaluate the foreign market needs for subways, one might concentrate on large population centers. One would conduct preliminary research covering population figures, urban population, total and per capita GNP. These secondary data are available from the U.S. government, other governments, and international organizations. This broad research would make it possible to narrow down the potential target countries for which to conduct more detailed research.

With the first phase of research completed, secondary data are still helpful to further narrow down the potential markets. One would analyze the potential target market trends, growth rates, legal restrictions, and demand for transportation systems. These data are available from the U.S. government, trade associations, and other firms. For example, the U.S. government publication, Export Statistics Profiles, might show sales of transportation related products to each country, competition levels, growth of the transportation industry, and future trends. Weather statistics would also point out markets that might need subways because of harsh winter climates. Areas where earthquakes are common might be eliminated from the list of potential markets. When using data from various sources, units of measurement may vary, and some data may be more accurate than others. Also, different times of data collection must be taken into account, because environmental factors such as the state of the economy and the level of transportation infrastructure could change. In these preliminary stages of research one would narrow down target markets and select potential opportunities, being careful to avoid unnecessary or inaccurate data.

4. **Please discuss the possible shortcomings of secondary data.**

There are several drawbacks to secondary data. First, the data were originally collected for a certain purpose and subsequently had certain constraints. In reusing the data, the researcher may have different constraints, hereby invalidating the relevancy of the secondary data. Furthermore, the quality of the source and the method in which the data

were collected may be questionable. Secondary data are also often outdated, and in rapidly changing environments often not adequate.

5. Why should a firm collect primary data in its international research?

A firm should collect primary data because secondary research may not answer specific questions which are of particular concern to a firm. Secondary data is "old" primary research Therefore, as the secondary data were first generated with certain questions and constraints in mind, the results may not be valid for other later questions, which may have different constraints. Only the general findings will be useful to the firm using secondary data. Because the usefulness of secondary data is limited (and possibly outdated), firms should use primary research to analyze situations and answer specific questions.

6. How is the international research affected by differences in language?

International research is greatly affected by language. When researching the international market, one has to understand the respective cultures; in order to dot his properly, the researcher must be familiar with the **local** language (the formal language as well as the "slang" and local expressions commonly used). Direct translation from one language to another alone is not enough, as the meaning of what is being translated will most likely change. More information will be available to the researcher if he or she is literate in the respective language—local libraries, governmental papers/research, talking to a wider variety of people, etc....

7. Is highly-priced, personalized advice from an individual really worth the money?

The advice received is just one person's opinion, which may or may not reflect the market trend. However, if that individual has special access to information valuable to a firm, it may be worthwhile.

8. What type of data would you enter into your international information system?

The data entered into the international information system must be relevant, timely, flexible (available in the formats needed by management), accurate, exhaustive and convenient (easily accessible). The student needs to identify here the purpose of the IIS and build the system based on data which meet the above criteria.

Instructor Notes 2-2

Suggestions for Group Project

A good way to let students understand the value and shortcomings of secondary data is to assign short group projects (with lead time of one week or less) which require the use of such data. Emphasis can be placed on the creative use of such data by forcing students to think about proxy variables (e.g., number of television sets as proxy for potential use of VCRs). The goal should not be to have students develop a complete international business strategy, but rather to enable them to narrow down the number of options, for example in terms of countries, from a very large number to a more manageable one.

We have also found that it is an excellent exercise to require students to prepare a report of one page for the class. This way, even if vast quantities of data have been found, the students are forced to recognize that this finding cannot necessarily translate into presentations of extraordinary length.

As far as primary research is concerned, we have not found it practical in most instances to ask students to carry out a primary international research project in the classroom. The length of the semester is simply too short to permit students to do an adequate job. However, it is useful to let students go over the exercise of preparing a primary research project by developing a research outline. Such an outline can include possible sources of information, prescreening of markets for potential research problems (through secondary data), and developing potential sampling frames. These exercises have turned out best when linked with specific countries and specific products so that students can narrow down their focus rather than wallow in generalities.

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3. Using the data in the Appendix to Chapter 3 (HO 2-1), assess the market potential for (a) power generators and (b) consumer appliances in (1) the Philippines, (2) Jordan, and (3) Portugal.

Based on 1982 figures, in order of volume of consumer spending, Portugal would have the highest market potential for consumer appliances, the Philippines the second, and Jordan the third. In Portugal, consumption expenditures per capita were $1,656, with $169 of that spent on household durables. For the population of 10 million, total expenditures on household durables were approximately $1.69 million. Consumption expenditures per capita in the Philippines were $506, with $27 going to household durables, and total expenditures on household durables were $1.4 billion. Jordan had higher per capita expenditures on household durables than the Philippines, $52, but the population was smaller and the resulting total expenditures on household durables were approximately $183 million, the least of the three countries.

In the power generator market, Portugal seems to have the greatest potential. It consumes 12.3 percent of the U.S. consumption of electricity, yet produces three billion less kilowatt-hours than the Philippines, which consumes only 3.4 percent of the U.S. consumption.

4. From the international marketer's point of view, what are the opportunities and problems caused by increased urbanization in developing countries?

Increased urbanization in developing countries is advantageous for international marketing because it centralizes the potential market, thereby centralizing the market research area and advertising area. Urbanization also simplifies the logistics of product distribution. The greater ease of distribution to urban areas brings down the costs of the product, and the savings may be passed on to consumers, thereby potentially increasing consumption. One phenomenon of marketing that occurs in urban areas is that consumers are influenced by other consumes around them. This can result in advertising affecting more people than it directly reaches, through the demonstration effect. In contrast, in rural areas where there are few stores and products are not displayed, consumers are not as aware of what is available to satisfy their existing needs.

Newly urban environments in developing countries are different than urban settings in developed countries, and marketers must adjust their techniques accordingly. For example, in developing countries people who are entering the urban environment often have left poor economic situations and are looking for new opportunities in the city. Thus, they often have very little money and might not buy many things other than subsistence items for a few years. They may also send most of their income to family members outside of the urban setting in order to support them. Another difference is that the infrastructure needed in order to use certain products may not be in place. For example, China's per capita energy consumption is 5.6 percent that of the United States. This would have a large impact on a company planning to market electrical appliances or any energy-related product there.

Source: Czinkota, Michael R. and Ilkka A. Ronkainen. International Marketing Manual. Chicago, Second Edition, Copyright ©1990 The Dryden Press. Chapter 3, p. 19.

Instructor Notes 2-4

Questions for Discussion

1. **Many rational reasons exist for rejecting a particular market in the earlier stages of screening. Because such decisions are made by humans, some irrational reasons must exist as well. Suggest some.**

   The two basic dangers in screening foreign markets are (a) screening too many and (b) screening too few. In either of these alternatives, the criteria used may not be only the rational ones textbooks advocate. Consider, for example, that markets within a region (such as Latin America or Africa) may be stereotyped in such a way that individual market characteristics are not acknowledged. Individual bad experiences with a market, or even with individuals from a given market, may cause a rejection without rational explanation.

2. **If, indeed, the three dimensions of distance are valid, to which countries would U.S. companies initially expand? Consider the interrelationships of the distance concepts.**

   The distance dimensions, economic, cultural, and geographic, often push companies into choosing similar markets to their own in the initial stages of their internationalization processes. Therefore, one tends to find that U.S. companies have started off with Canada, and, in the case of European expansion, with the United Kingdom. In both of these cases, the distances spanned by all dimensions are the shortest possible. In the case of Mexico, geographic distance is indeed short, but the remaining dimensions cause major challenges.

3. **Is globalization ever a serious possibility or is the regional approach the most the international marketer can hope to attain in terms of standardization?**

   For many, regionalization is seen as a transitory step en route to global strategy. Marketing may be one of the functions for which this transition is necessary. For example, in many companies production may already be global, but marketing may be on a regional basis.

   Some of the reasons for this transition may be (1) the number and size of units (i.e., the necessity of grouping subsidiaries if they are numerous and small in size); (2) closeness (i.e., possibilities of spillover effects and similarity in customer behavior); as well as (3) integration (i.e., the lack of trade restrictions between nations of certain regions).

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4. Is a "world car" a possibility?

This question can be answered partly by showing the film "The World Car is Born," which documents efforts by the Ford Motor Company to build a car to satisfy worldwide consumer needs. It is available from the Modern Talking Show Picture Service (5000 Park Street North, St. Petersburg, FL 33709).

To produce a "world car," a number of challenges have to be met. One of the major ones is the internal challenge; i.e., how to get an auto manufacturer's largely autonomous units to collaborate in the way needed.

A good example of such an attempt was the Ford Escort. The Escort was initially designed by Ford of Europe to have common parts on both sides of the Atlantic. Indeed, when the car was introduced in the late 1980, ads showed it covered with a large draped cloth made up of the flags of different nations, to emphasize its international heritage. In international sales, the Escort was a winner; in terms of a "world car," not really. The U.S. side started almost immediately after the launch of the concept to change it. North American engineers did not like the door design, for example, because it would have required new equipment at U.S. factories. As they altered one part, specifications for others missed by millimeters. By the time the Escort made its U.S. debut, the European and the American versions shared only one part—a water pump seal. Today, Ford is tackling such problems with its "centers of excellence." (For a discussion, please see chapter 21, especially Global Perspective 21.2.)

PRODUCT ANALYSIS AND STRATEGY

UNIT 3

Title: **PRODUCT ANALYSIS AND STRATEGY**

Purpose: This unit is designed to examine changes needed to the product for marketing internationally.

Objectives: To assess any needed adaptations of a specific product for selected markets.

Materials:

Transparency 3-1	Unit Overview
Transparency 3-2	What is a product?
Transparency 3-3	Definition of Product
Transparency 3-4	The Levels of a Product
Transparency 3-5	Standardization Versus Adaptation
Transparency 3-6	Definitions of Standardized and Adapted Marketing Mixes
Transparency 3-7	Examples of Standardization
Transparency 3-8	Examples of Adaptation
Transparency 3-9	Product Adaptation Strategies
Transparency 3-10	Straight Extension
Transparency 3-11	Product Adaptation
Transparency 3-12	A Successful Adaptation or Straight Extension?
Transparency 3-13	Product Invention
Transparency 3-14	Factors Affecting Product Adaptation Decisions
Transparency 3-15	Definition of Competitive Advantage
Transparency 3-16	Definition of Received Value
Transparency 3-17	Product Differentiation
Transparency 3-18	Worthwhile Product Differences
Transparency 3-19	Product Positioning
Transparency 3-20	Successful Positioning
Transparency 3-21	Checklist: Product Analysis
Handout 3-1	Can World Brands Cross Borders?
Handout 3-2	Searching for New Ideas Overseas
Handout 3-3	Canadian Foremost Ltd Case
Handout 3-4	Checklist: Product Analysis

References for Instructors: Reading for Instructors *only* in Book 2:

R3-1: International Product Policy: The Basic Product and Its Attributes.

Activities: Case Discussion: Canadian Foremost Ltd (Optional)
Other short exercises are listed in the T-outline.

Estimated Time: 2 hours

Unit Outline

I. Introduction and Overview

II. What is a Product?

III. International Standardization versus Adaptation
   A. Profitability tradeoffs
   B. Sources of information

IV. Product Adaptations
   A. Positioning, regulatory, and non-tangible product changes
   B. Core and tangible product modifications

V. Product Advantages
   A. Identifying competitive advantage
   B. International business blunders

VI. Case Discussion

VII. Checklist: The Product Adaptation Stage

UNIT 3

Product Analysis and Strategy

CONTENT	PROCESS
I. Introduction and overview	Put up TP 3-1: Unit Overview.
The goal of this unit is to develop an understanding of the possible product adaptation that may be needed in order to introduce a product into selected markets or market segments.	
To achieve this goal it is first necessary to have a clear understanding of the definition of a product. From that foundation, we can discuss the implications of two general product strategies, international standardization and product adaptation. After that discussion, we can examine the sources of product advantages that can be used to make your product more competitive in the global arena.	
II. What is a product?	Put up TP 3-2: What is a product?
What is a product?	
Is a product simply a physical good?	
Can the services provided by a lawyer be considered a product?	
Can a watch, for example, provide more than a simple knowledge of the time of day?	*Note:* Encourage students to respond to these questions and explain their responses. Allow students to think of situations when the watch is more than a timepiece. Consider adding other examples of products and apply the same questions.
Can that watch be a fashion accessory? Can it provide status? If received as a gift, can the watch represent tradition, respect, or affection?	

CONTENT	PROCESS
The answer to these questions is "YES."	
A physical object can represent more and provide more benefits than might suggested by the object's physical characteristics.	
This is why marketers define a product as being:	
"Anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or a need."	Present TP 3-3: Definition of Product.
A product can include physical objects, services, persons, places, organizations, and/or ideas.	
Business persons need to think of a product as having three levels.	
First, at the most basic level, there is a <u>core product</u>. The core product consists of the benefit or service that consumers are seeking by buying the product. Theodore , a professor at Harvard University, has used the example that buyers "do not buy quarter-inch drills; they buy quarter-inch holes." In other words, buyers do not purchase a drill for its physical attributes, but rather for the benefits having the drill will provide them. In this example, the benefit is a hole of specific width.	Put up TP 3-4: The Levels of a Product. <u>Exercise</u>: Think of an example of two products representing a product category and discuss how they differ in terms of the three product levels. For example, "What are the core, tangible and augmented products of: — a bottle of catsup?" — a Volvo sedan?" — a Rolex watch?"
Second, there is the <u>tangible product</u> (or, actual product). The tangible product consists of the characteristics of the marketed good or service. There can be as many as five different characteristics, including some or all of the following: 1. the <u>Quality</u> level	

CONTENT	PROCESS
2. the product Features 3. the product Styling 4. the Brand name 5. the Packaging	
Finally, an augmented product may exist around the core and tangible products. The augmented product includes any additional benefits, services, or goods that are provided with the core and tangible products. For example, warranties of parts, free delivery, credit terms, after-sales service, and training can all be part of the augmented product.	
When developing and marketing products, one must identify the core consumer needs that the offering will satisfy. Then, he must construct a tangible good or an actual service and augment it in ways that will result in a bundle of benefits that will best satisfy consumers.	Exercise: Use the watch example again. "How do different watch makers make their product offers different by altering the core, tangible, and augmented products?"
In developed countries, much of the competition between companies takes place at the product augmentation level with companies adding additional services and benefits to a basic product offering to satisfy consumers better than their competitors.	
III. Standardization versus Adaptation	
Given the differences in the market or markets that have been targeted, one must decide how much, if any, to adapt their products and programs for the unique characteristics of each market and/or the different needs of the consumers in those markets.	Put up TP 3-5: Standardization vs. Adaptation.

CONTENT	PROCESS
One option is to use a standardized product offering and marketing program worldwide.	
The other option is to adapt, or differentiate, the product offering for each target market or sub-market.	
A standardized marketing mix means that the same basic product, promotion, and distribution are used in all of a company's markets.	
An adapted marketing mix requires that a company change major aspects of its product, promotion, or distribution in order to be competitive in each of its international markets.	
A <u>standardized marketing mix</u> offers the promise of the lowest possible costs as no changes in the design, production, distribution, or promotion are made as the product is introduced to new markets. Economies of scale can be achieved as product production increases to meet the demands of new markets.	TP 3-6: Definitions of Standardized and Adapted Marketing Mixes <u>Discussion</u>: "Can World Brands Cross Borders?" Discuss how the homework reading relates to today's topic (HO 3-1).
Products that are standardized are frequently referred to as world brands.	
The potential disadvantage of a standardized marketing mix is that costly mistakes can be made.	
Sony Corporation markets the Sony Walkman in the same way in all of its markets. Sony has been successful in developing standardized products for the global market.	Discuss TP 3-7: Examples of Global Standardization.
Black & Decker and Coca-Cola have essentially standardized marketing mixes although each company has made minor modifications	

CONTENT	PROCESS
of either the product or the promotional strategy to accommodate cultural differences.	
On the other hand, Campbell Soup failed to understand the barriers that would exist in England when they introduced their condensed soups. A standardized marketing mix was clearly inappropriate in this case. Another potential disadvantage of a world brand is that long-run profitability may suffer because the standardized offering never achieves its full potential in markets characterized by differences in consumer preferences, culture, and habit.	
An adapted marketing mix promises larger market share and profit return as the tradeoff for higher costs. With an adapted marketing mix, elements of the marketing mix (product, price, promotion, and physical distribution) are changed for each market, sub-market, or target market. The resulting increase in costs are expected to be offset by higher levels of consumer acceptance, consumer satisfaction, and market share.	Discuss TP 3-8: Examples of Adaptation. *Note:* Be sure to emphasize that this approach is not a panacea, as shown in the Campbell's Soup example.
IV. Product Adaptation Strategies	
In fact, standardization and adaptation are only extremes in a continuum of possibilities that the business person can choose in evaluating a product or other elements of the marketing mix.	Put up TP 3-9: Product Adaptation Strategies.
There are three common product strategies that may be chosen — straight extension, product adaptation, and product invention.	

CONTENT	PROCESS
Introducing a product in a foreign market with no changes is referred to as a straight extension. This is a low cost strategy because it involves little or no additional expense, but it does require that the business person confirm that the foreign consumer will use the product.	TP 3-10: Straight Extension. Exercise: Ask participants, "Suggest products that would lend themselves to straight extensions."
Product adaptation involves modifying an existing product to meet local conditions or preferences. The extent of the product modifications can be extensive or superficial. Versions of a product can be made for geographic regions (Western Europe), countries (France), cities (Paris), or even channel intermediaries (different versions for different retailers).	TP 3-11: Product Adaptation. Exercise: Ask participants, "How must an automobile be adapted for different markets?"
For developing countries, some companies have modified products to meet basic needs limiting the number of product characteristics in order to keep costs and prices low. This allows consumers in those countries to buy needed products at prices they can afford. As there is frequently little competition in these developing markets, a basic needs product offering can be successful and profitable for the companies involved.	TP 3-12: A Successful Product Adaptation, or Straight Extension? Exercise: Which is it? (more straight extension with changes in the message).
Product invention involves creating new products for the foreign market or introducing older product forms that are better suited to the country's needs/ development than newer forms.	TP 3-13: Product Invention. Exercise: Ask participants, "Which adaptation strategy is used here?" (Product adaptation — although the core product has not been changed, the augmented product has been.)
Product invention is the most costly product adaptation strategy, but it can be the most successful because it is developed with the specific needs of specific consumers in	TP 3-14: Factors Affecting Product Adaptation Decisions Discussion: "Searching for New Ideas Overseas" (HO 3-2).

CONTENT	PROCESS
mind. It requires the careful study of the selected market's characteristics and the potential demand for the product.	*Note*: This reading highlights the fact that companies solve consumer's problems in different ways in different countries. An existing product in one country may be entirely new in another. The advantage for companies finding these differences is that they can introduce "new" products in their own countries without the costs related to product invention.
V. Assessing Product Advantages	
A competitive advantage is the answer to the question, "How does this product provide greater **value** to the consumer than other products?" Essentially, all differences between your product and the products of competitors are potential sources of advantage. Worthwhile differences are those that increase the value of the product to the consumer—the value of the benefits increases or the cost of the product decreases	Put up TP 3-15: Definition of Competitive Advantage.
By value, we mean the received value of the product offering. Received value is the difference between the total value of the benefits derived from a product offering (the, core, tangible, and augmented product offering) less the total cost of the product (the price, opportunity costs, purchasing expenses, psychological costs).	Put up TP 3-16: Definition of Received Value. Exercise: Ask participants, "What is the received value of a meal purchased in a restaurant?"
However, not all differences are worthwhile, because not all differences increase the benefits or decrease the costs of the product to the consumer	Exercise: Think of a change to a product that doesn't add value (take away wanted features, or add a feature the market doesn't want).
Worthwhile differences must be evaluated. Those that meet the criteria listed below can be used to position the product offering. Worthwhile differences are generally related	Put up TP 3-17: Product Differentiation.

CONTENT	PROCESS
to the product's features, performance, conformance (to standards), durability, reliability, repairability, or style. One can identify existing differences or create differences by changing the product (through augmentation, perhaps).	
Those criteria include:	Discuss TP 3-18: Worthwhile Differences.
1. Importance Is the difference important to consumers?	Exercise: Ask participants, "What makes an Audi different from a Mercedes? A Mercedes from a Volvo? A Volvo from an Audi?"
2. Distinctive Does the difference make the product offering distinctive?	
3. Superior Does the difference make the product offering better than competitive offers?	"Rank Order the three automobiles in terms of quality. Which is better? Why do you believe this is a correct ordering?"
4. Communicable Will it be easy to communicate this difference to potential buyers?	
5. Preemptive Can you beat others to the market in promoting this difference in your offering?	
6. Affordable Can you provide this additional benefit(s) without raising your own costs unreasonably?	
7. Profitable Will this difference lead to greater profitability for you?	

CONTENT	PROCESS
Those product differences that meet the above criteria are your competitive advantage. The effectiveness with which you communicate and promote that advantage determines your success in the marketplace.	
If successful, you will have positioned your product. In other words, your product will be seen as unique, without competition. A successful positioning strategy results in consumers having a clear understanding or your competitive advantage and clear expectations about what they are likely to receive if they purchase the product.	Put up TP 3-19: Product Positioning. Put up TP 3-20: Successful Positioning.
VI. Case Discussion: Canadian Foremost This case can be used to illustrate many of the points discussed in the lecture. If you choose not to use this case, alternative activities would include: 1. Identifying brands of products from a single product category and discussing their desired position (How was the company trying to position the product?) and their achieved position (How do most consumers view the product?). Define the positions of the brands and challenge groups of students to develop a product concept that would be different from the brands discussed and might serve some consumers' needs. Cigarettes are usually a popular example. 2. If a number of students have products of their own, encourage those students to discuss the differences between their product and their competitors' products.	Discuss the reading on "Canadian Foremost Ltd Case" (HO 3-3). Encourage students to relate the problem in the case to the material discussed in the lecture. Encourage creative solutions to the problems encountered by Canadian Foremost.

CONTENT	PROCESS
Then, encourage other students to discuss the possibility of extending or adapting that product into another country (Perhaps, Germany or Hungary). Can the students identify barriers in the product offering that would prevent its acceptance in the other country? Can the students identify competitive advantages of that product that would extend successfully into the other country?	Refer to Reading for Instructors 3-1.
VII. Checklist: Product Analysis Discuss the list of questions presented in TP 3-21.	Put up TP 3-21: Checklist: Product Analysis. Distribute HO 3-4. *Note*: For the student's own benefit, they should relate the questions on the list to the lecture.

TP 3-1

Unit 3: Product Analysis and Strategy

Unit Overview

I. Introduction and Overview

II. What is a Product?

III. International Standardization Versus Adaptation

IV. Product Adaptations

V. Product Advantages

VI. Case Discussion

VII. Checklist: Product Analysis

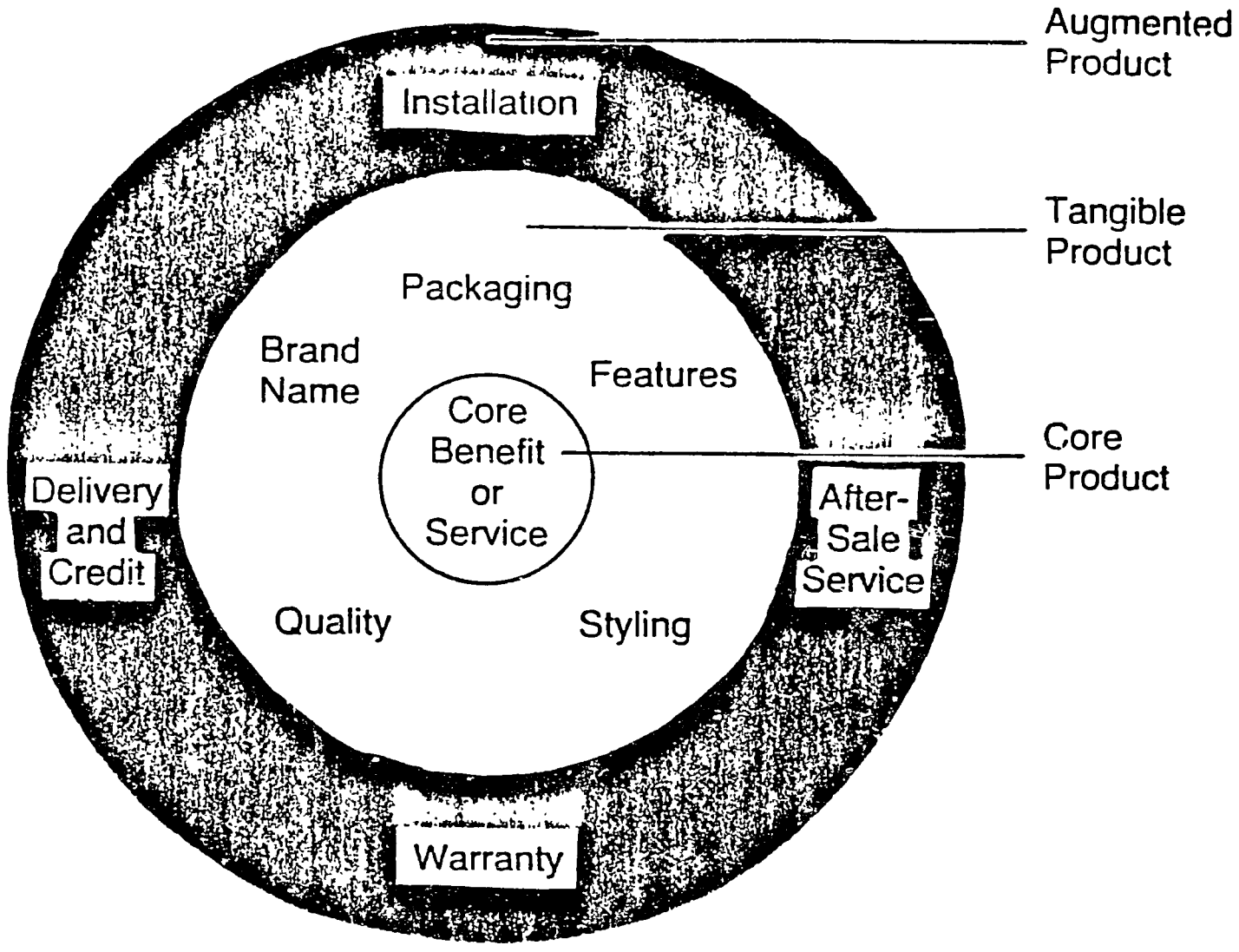
What is a product?

TP 3-3

PRODUCT

Anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need.

A product can include physical objects, services, persons, places, organizations, and ideas.



Source: Philip Kotler, *Principles of Marketing*, 3/e, (c) 1986, 297.

TP 3-4

TP 3-5

GLOBAL STANDARDIZATION

versus

PRODUCT ADAPTATION

TP 3-6

Standardized Marketing Mix

An international marketing strategy for using basically the same product, advertising, and distribution channels in all of the company's international markets.

Adapted Marketing Mix

An international marketing strategy for adjusting the marketing mix elements to each international target market, bearing more costs but hoping for a larger market share and a larger return.

TP 3-7

EXAMPLES OF PRODUCT STANDARDIZATION

- Black & Decker, the tool manufacturer markets the same tools with similar promotional approaches in many different countries.

- Sony Walkmans are the same worldwide.

- Coca-Cola is considered a global product although it is less sweet or less carbonated in some countries.

- Unfortunately, Campbell Soup lost an estimated $30 million in introducing its condensed soups in England--Consumers saw the small cans and did not realize that water was to be added.

TP 3-8

EXAMPLES OF PRODUCT ADAPTATION

- Gillette sells over 800 products in more than 200 countries. It now finds itself in the position of using different brand names and formulations for the same products in different countries.

- McDonald's serves beer in its restaurants in Germany, chili sauce instead of ketchup on its hamburgers in Mexico.

- IBM produces different computer keyboards to match different languages--20 different keyboards in Europe alone.

- Mister Donut serves coffee in smaller and lighter cups in Japan to better fit the fingers of the average Japanese consumer.

TP 3-9

PRODUCT ADAPTATION STRATEGIES

1. Straight Extension

2. Product Adaptation

3. Product Invention

TP 3-10

STRAIGHT EXTENSION

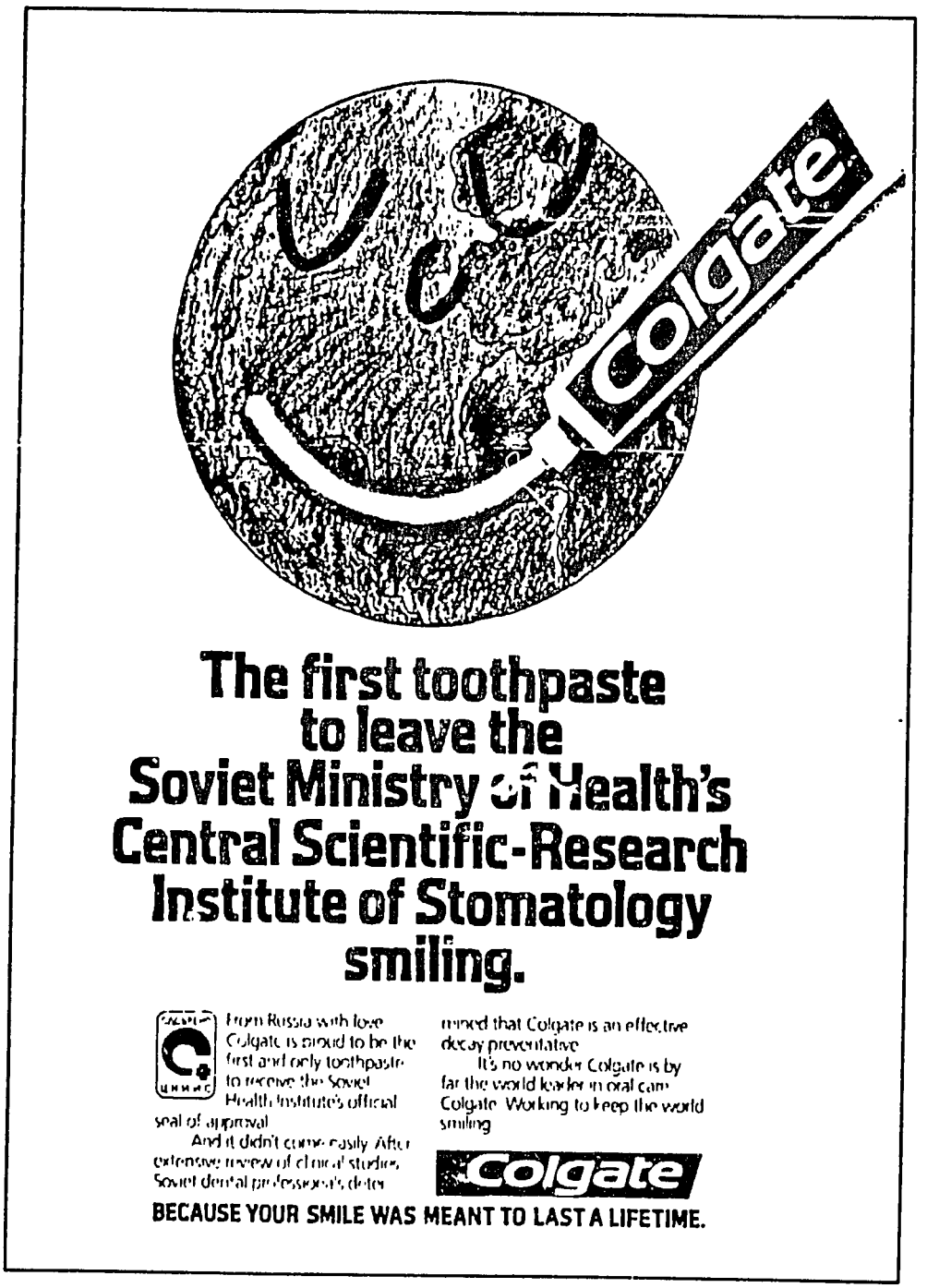
Marketing a product in an international market without any change.

TP 3-11

PRODUCT ADAPTATION

Changing a product to meet the local requirements, conditions, or wants of a foreign market.

TP 3-12
A Successful Adaptation, or Straight Extension?



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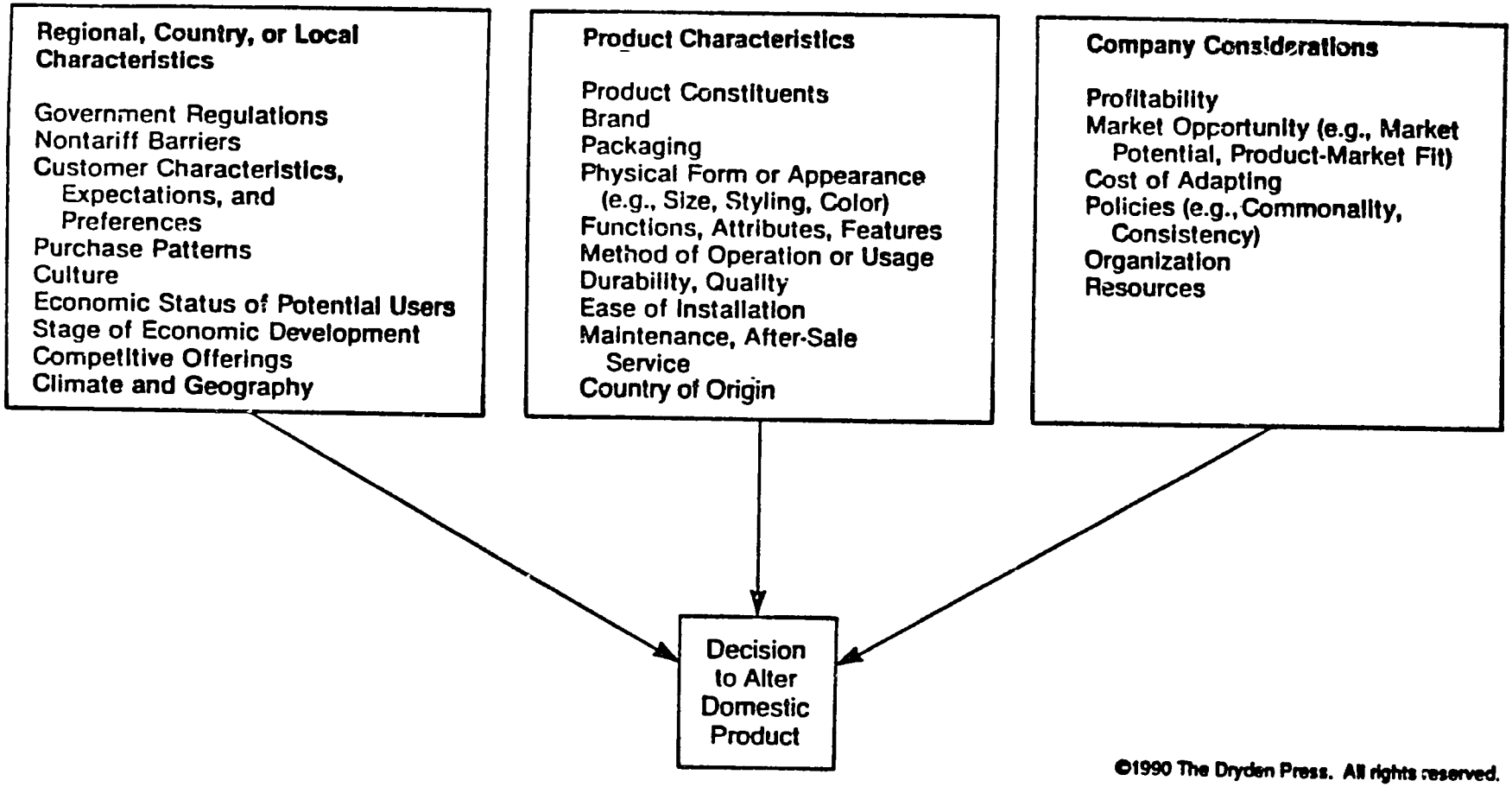
TP 3-13

PRODUCT INVENTION

Creating new goods or services for foreign markets.

Factors Affecting Product-Adaptation Decisions



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Source: V. Yorio, *Adapting Products for Export* (New York: The Conference Board, 1983), 7. Reprinted with permission.

TP 3-15

COMPETITIVE ADVANTAGE

An advantage over competitors gained by offering consumers greater value -- either through lower prices or by providing more benefits that justify higher prices.

TP 3-16

RECEIVED VALUE

(TOTAL VALUE DERIVED FROM PRODUCT)

minus

(TOTAL COST OF PRODUCT)

equals

(TOTAL VALUE RECEIVED FROM ACQUISITION AND USE OF PRODUCT)

TP 3-17

PRODUCT DIFFERENTIATION

Determining how one product offer will differ from the offers of all significant competitors by altering the product's features, performance, conformance, durability, reliability, "repairability," and/or style.

TP 3-18

WORTHWHILE PRODUCT DIFFERENCES

Differences between your product and the products of competitors are deemed to be worthwhile bases for product differentiation if they meet the criteria of:

1. Importance
2. Distinctiveness
3. Superiority
4. Communicability
5. Pre-emptive
6. Affordable
7. Profitability

TP 3-19

PRODUCT POSITIONING

The way the product is defined by consumers on important attributes--the place the product occupies in the consumers' minds relative to competing products.

TP 3-20

SUCCESSFUL POSITIONING

The best positionings are always simple and clear. Customers have little time or interest in remembering details about a product or service. A company that over-complicates its positioning often ends up leaving little or no impression with the consumer.

TP 3-21

CHECKLIST: PRODUCT ANALYSIS (HO 3-4)

Which product should the firm offer abroad?

What specific features - design, color, size, packaging, brand, warranty, etc.- should the product have?

What foreign needs does the product satisfy?

Should the firm adapt/modify its domestic market product and sell it abroad?

Should it develop a new product for the foreign market?

Should the firm make or buy the product for the foreign market?

How competitive is or will be the product abroad?

What specific services are necessary abroad at the presale and postsale stages?

Are the firm's service/repair facilities adequate?

What patents or trademarks does the firm have that can benefit it abroad? How much legal protection does the firm have concepatents, trademarks, etc.?

HO 3-1

Can World Brands Cross Borders?

The following article appeared in THE WALL STREET JOURNAL, College Edition (1986)

If advertising agencies had their way, multinational companies would all be racing to develop "world brands" that could be marketed the same way around the globe. "As you expand brands across continents, you keep getting bigger economies of scale and more power," says John O'Toole, chairman of Foote, Cone & Belding Communications Inc.

But multinational companies still have reservations about attempting to create world brands despite such well-known success stories as Coca-Cola and Marlboro cigarettes. Sweeping theories about world brands leave out some important differences among countries, they reply. And while some things like soft drinks have been successful in many countries, executives find the obstacles much tougher with other products.

Mark Sloan, European planning director for General Foods Corp., wishes it were true that the world brand concept worked consistently. "It would save a lot of time," he says. Instead, he finds it necessary to keep tailoring products to different national markets.

But differences from country to country are moderating, says Prof. Theodore Levitt of the Harvard Business School. He has become the high priest of the global-brands movement and is a frequent consultant to the major advertising agencies.

As international communication increases, consumer tastes become more similar around the world, Prof. Levitt says. Smart companies save costs by operating "as if the entire world were a single entity," he adds. The benefits from this strategy "make the multinational corporation obsolete and the global corporation absolute," he maintains.

Big U.S. ad agencies such as Young & Rubicam Inc., Foote Cone & Belding and Doyle Dane Bernbach International Inc. agree with the global strategy idea. World brands are marketing's "most important development since television," a New York advertising executive declares. Another advocate is Europe's biggest agency, London-based Saatchi & Saatchi PLC.

Some cynics say that the biggest beneficiaries of global marketing are the major ad agencies. At Saatchi & Saatchi, global campaigns have fueled much of the agency's rapid growth in the past few years. When it won the British Airways account in 1982, it developed uniform television commercials that now appear in 34 countries with only the voice-over changed for each market. (In the United States, it is referred to as the "Manhattan Landing" commercial.)

These ads amount to a "British Airways campaign for Saatchi & Saatchi," says a London management consultant. The British ad agency doesn't like the criticism, but it has become more subdued about its global strategy. It concedes that "if you do dull advertising," no worldwide approach can compensate for it.

At Unilever PLC, the Anglo-Dutch food and detergent company, executives say it takes patience to cash in on a gradual merging of national tastes. Standard preferences are more common in detergents and soaps than in foods, they add. Unilever's Jif brand liquid soap sells well across Europe, but its margarine has different names and styles in each country. And Unilever says its Italian-style ice cream had to be modified for France even though sales were good elsewhere in Europe. The reason: a French belief that if it wasn't French, it wasn't worth eating.

In technology as well, international companies find global strategies can be hit and miss. Stand-alone products such as heart pacemakers can easily be sold the same way worldwide, says an ITT Corp. official. But telecommunications equipment has to function within the local phone system, and it would be naive to ignore national differences, the official adds. Personal computers, too, are being sold with plenty of variations. Acorn Computers PLC, a British personal-computer maker, plays up technical specifications in ads for the highly competitive British market but puts more emphasis on how easy its machines are to use in ads for the German market.

Commonly cited as a company with a successful global strategy is Levi Strauss & Co., the San Francisco blue-jeans maker. That amuses Rudolf Deutekom, head of Levi Strauss's European operations, because a few years ago the strategy started to go awry when the Swedes stopped buying jeans.

At first, Levi Strauss figured Sweden was an oddity. But with the U.S. market for ordinary jeans fading as well, the company moved into the broader market for casual clothes in those two countries, even selling clothing without the Levi name attached.

Then other European markets also cut back on jeans buying. So Levi Strauss is experimenting with different kinds of casual clothes, including a range of tops, trousers, and matching outfits, in France, Germany, and Italy. At such times as these, Mr. Deutekom says, it is essential to know how to switch between a global and a multinational strategy.

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HO 3-2

Searching for New Ideas Overseas

The following article appeared in THE WALL STREET JOURNAL, College Edition (1986)

Browsing in a West German supermarket, executives from Minnetonka Inc. of Chaska, Minnesota, happened upon an intriguing product—toothpaste in a pump dispenser. This alternative to messy tubes hadn't yet reached U.S. shores, so Minnetonka quickly contacted Henkel, the German manufacturer.

Together, the companies brought the concept to America in the form of Check-Up toothpaste. Now, Colgate, Crest, and other major brands are being rushed out in pump form, too. "We make grocery shopping a regular part of our business trips to Europe," says Grant Wood, vice president of marketing at Minnetonka. "In this case, it helped give us a jump on our bigger competitors. We were like the tortoise beating the hare."

So much for Yankee ingenuity. In addition to pump toothpastes, U.S. marketers have looked abroad and found inspiration for such recent products as aseptic beverage cartons, hair-styling mousses, and body fragrance sprays. "The search across oceans and borders for new products is heating up," says Ervin Shames, president of General Foods Corp.'s international division. He adds that the energy shocks of the 1970s and the Japanese automobile invasion helped teach U.S. marketers and consumers "that we can't do it all, and that we can't necessarily do it best."

Facing sluggish growth in most consumer-goods markets, companies are racing to roll out new products that might net them a couple of extra market-share points. By copping an idea that has worked in another country, they can spare themselves months of research and perhaps millions of dollars. It's also a way to hedge against the high risk of new-product failure, says John Summers, director of new business development at Robin Hood Multifoods, a unit of International Multifoods Corp.

Whenever he travels abroad, Mr. Summers takes along an empty suitcase to load with samples. Lately, he says, "the cookie environment in the United Kingdom has been pretty interesting," and he has his eye on Scandinavian fiber-grain snack foods.

In a survey of senior marketing executives at a new-products conference in Canada in 1984, 86 percent said they deem foreign products a valuable source of ideas. But what is lacking at many companies is an "international intelligence" network. Product Initiatives, a new-product consulting company in Toronto, estimates that only 10 percent of companies have a regular system for tracking hot products.

Some companies subscribe to international new-product newsletters published in Britain and Japan; others use product-retrieval services that employ housewives to hunt for samples in grocery stores around the world. To satisfy reader demand, Dancer Fitzgerald Sample Inc., a New York ad agency, is adding a special international list to its *New Product News* bulletin.

Despite the keen interest, companies say they don't count on being able to duplicate the success of foreign products in the United States. Take tofu and soymilk from Japan. Both are struggling to find a niche in the United States. Food in tubes, likewise, hasn't caught on even though other countries sell everything from mayonnaise to caviar in what look like fat toothpaste tubes. "That's one of the great unexplained mysteries," says Norman Barnes, director of international marketing at Campbell Soup Co.

Gillette Co. brought out Body Flowers spray a year ago, but sales are weaker than in Europe. U.S. women view the sprays just as fragrances, whereas Europeans also use them as deodorants.

Although it monitors the foreign competition closely, the Life Savers subsidiary of Nabisco Brands Inc. doesn't find confectionery products easily adaptable to the United States. "The cultural differences in food are vast," John Burke, manager of marketing research, says, noting that the popular hard candy flowers in Britain are currant and violet, and in South Africa, musk.

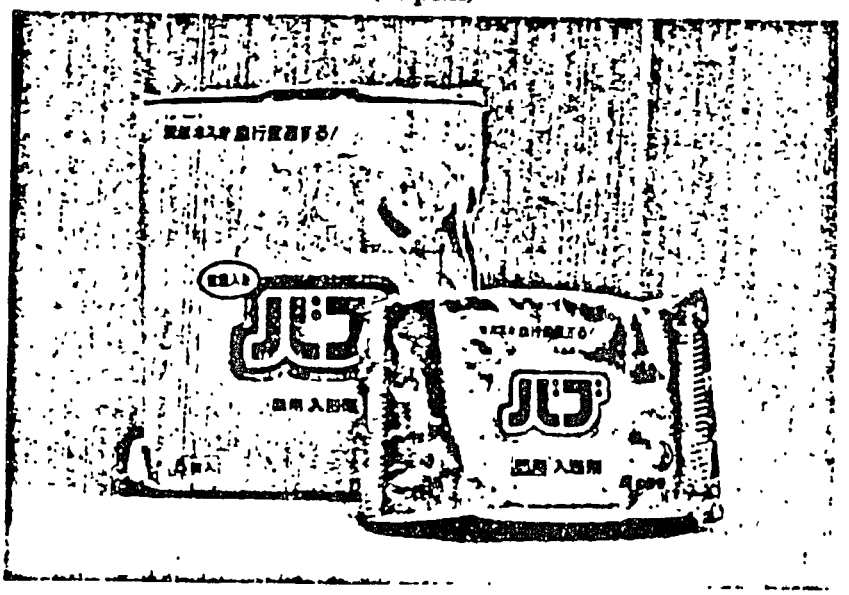
A new service will offer guidance on how well foreign products might fare in North America. Product Initiatives, the Toronto company, will select 50 new products quarterly and survey 400 consumers to measure their buying interest. In a pilot test, consumers gave high marks to such exotic offerings as a combination window cleaner/bug killer spray from South Africa and a Japanese carbonated bubble bath for reducing stress.

Such data could prove valuable because U.S. marketing executives tend to misjudge consumer tastes for foreign products. Many thought the British concept of selling yogurt and cereal in a two-section carton would be a hit. But in the pilot study, consumers were cool to the idea.

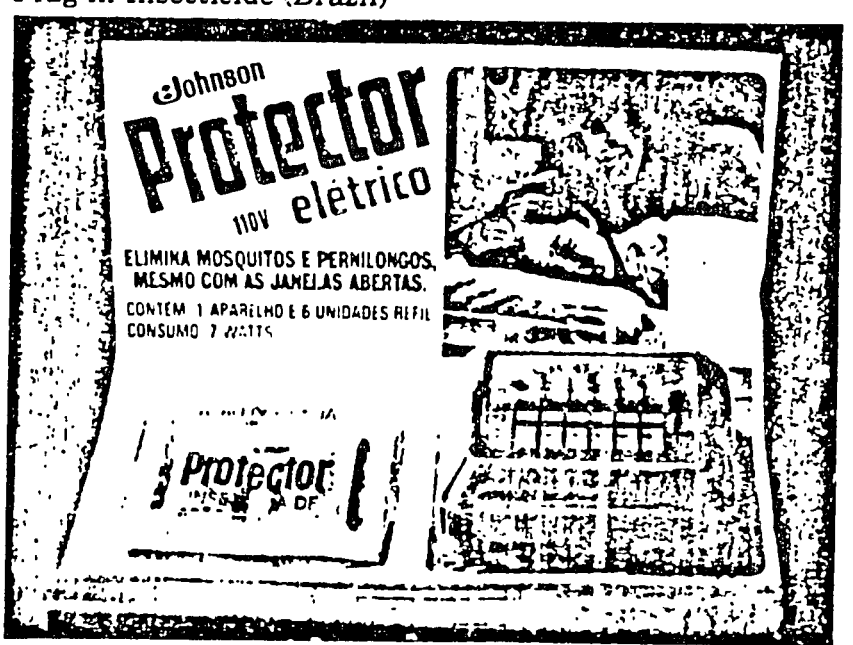
Sometimes, foreign products may simply need to be repackaged or repositioned. Consumer panelists frowned on an insecticide device from Brazil that could be plugged into an electrical outlet. The package showed a sleeping child, and the thought of a chemical wafting for hours through a child's bedroom was unnerving. Similarly, consumers didn't go much for champagne ice cream from France. The flavor wasn't the problem. Rather, people objected to the gimmicky plastic champagne bottles the dessert came in.

Most market researchers agree that Americans are becoming a ripe audience for innovative foreign products. People travel more and have more cosmopolitan tastes. They also want to have more fun at the supermarket. Although consumer panelists hooted when Product Initiatives showed them disposable men's underwear from Europe, they said they would love to be able to try such products. "They want pushing a shopping cart to be an adventure," says Edward Ogiba of Product Initiatives. "Too often, it's a drudgery."

Carbonated Bubble Bath (Japan)



Plug-in Insecticide (Brazil)



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HO 3-3

Canadian Foremost Ltd.*

Talaat Abdel-Malek

After reviewing Canadian Foremost Ltd.'s activities over the past four years to develop its sales potential in China, Jack Nodwell summed up the situation: "What can be seen here is a continually moving target. We have been trying to identify the Chinese requirements and approach to business and at the same time work to our company philosophy. The essential question now is whether we are doing the right things." As president of Canadian Foremost Ltd., Mr. Nodwell had successfully negotiated several sales contracts with the U.S.S.R. since 1968 and was now directly involved in efforts to promote Foremost's business prospects in China. In early 1985, he was anticipating an invitation for another visit to China, probably in late May or June. His immediate task was to decide whether a change in strategy was necessary and to determine what further actions were required to enter that market. The People's Republic of China was believed to hold considerable long-term potential for the company.

BACKGROUND

Canadian Foremost specialized in the design, manufacture and marketing of high-mobility vehicles and hydraulic oilfield pumping systems. Through three operating division, the company served a broad range of primarily energy-related industries throughout the world. In fiscal 1983, more than 80% of total revenues were derived from sales to customers outside Canada. With its expertise in moving heavy loads over soft ground, the company had placed its large vehicles in 23 countries throughout the world. A five-year financial summary of the company's operations is given in *Exhibit 1*.

PRODUCT LINE

For three decades, Canadian Foremost had been providing industry with heavy-duty, off-highway transportation vehicles (*Exhibit 2*). Payload capacities varied from 4 to 70 tons. Because of their mobility in marginal terrain and high load capacities, Foremost's vehicles were used by many industries for resource development projects in remote areas, for example in pipeline and powerline construction, geophysical exploration, mining, construction, and oilfield handling.

About 200 custom-built vehicles were produced per year. There were two main types. The first was tracked vehicles. Designed with wide flexible tracks to substantially reduce

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Source: Lovelock Ch. H., Weinberg Ch. B. Marketing Challenges, Cases and Exercises. Second Edition, Copyright ©McGraw-Hill Book Company.

ground bearing pressure, these vehicles provided greater traction and more stability than conventional vehicles in the transport of heavy equipment, supplies and personnel over soft terrain conditions. Tracked vehicles could be fitted with a wide variety of auxiliary equipment such as drills, cranes and backhoes.

The second type was wheeled vehicles. These were equipped with all-wheel drive and articulated steering, and were built for maximum mobility in difficult terrain. Specially designed low-pressure terra tires evenly distributed the load over a greater area, thus improving vehicle traction and effectively increasing vehicle mobility and gradeability. These vehicles also could be quipped with a wide range of auxiliary equipment. Supplied with a deck, they served as versatile logistical support units transporting loads weighing up to 70 tons across rough terrain.

Canadian Foremost's policy was to provide a comprehensive warranty program, on-site operator start-up, training and maintenance instruction, as well as complete after-sales maintenance with every vehicle purchased. In addition, Foremost insisted on providing to foreign customers spare parts for two years of operation with each vehicle sold as part of the sale contract at a cost to the client of approximately 18% of the vehicle(s) sold.

Prices of vehicles depended on size, type, and special features built in the vehicles to meet specific needs. However, prices ranged from $190,000 for a Delta-3 model to $300,000 for a Pioneer to as much as $500,000 or more for a Husky-8.

The Competition

Foremost had very few competitors and was considered by many to be the Cadillac of its industry. The other Canadian producer of off-road vehicles was the Quebec-based Bombardier, which received significant support from the Quebec provincial government. Bombardier produced a wide product line, of which off-road vehicles represented a small portion beside such products as sailboats, subway cars, and skidoos.

Oshkosh was another competitor. This was a very large U.S. company which built large trucks primarily for use by the military. Oshkosh modified conventional trucks for heavy-duty use and had secured several military contracts. Foremost's management believed that it would be difficult for Oshkosh to do custom work, and that its trucks lacked the maneuverability and mobility of Foremost's all-terrain vehicles. However, Oshkosh had appointed an agent in Beijing and was actively pursuing market opportunities in China.

EXHIBIT 1

Canadian Foremost LTD.: Five-Year Financial Summary*

	1983	1982	1981	1980	1979
Financial Results					
Revenue	$17,124	$13,817	$28,563	$20,390	$8,689
Research and development	542	1,027	1,340	1,525	803
Income (loss) before taxes and extraordinary loss	1,559	(887)	2,089	768	(631)
Income taxes	474	(393)	718	146	(325)
Net income (loss)	1,085	(494)	1,371	622	(306)
Earnings (loss) per share	0.29	(0.13)	0.37	0.17	(0.09)
Funds from operations	1,743	(543)	2,289	878	(664)
Dividends					
Preferred	----	----	----	19	----
Class A nonvoting and Class B	447	447	447	426	426
Financial Positions					
Assets	19,085	10,836	14,489	13,957	9,924
Liabilities	10,333	2,722	5,434	5,826	1,970
Shareholder's equity	8,752	8,114	9,055	8,131	7,954
Working capital	7,068	6,064	7,634	6,101	6,272
Property, plant and equipment, at cost	2,438	2,248	2,179	1,766	1,441
Log term debt	----	----	----	----	----

*Dollar amounts are in thousands, except in case of per share figures.

Markets

Canadian Foremost's management realized that its highly specialized custom-built products required a world-wide market for viable operations. The North American market, regarded by the company as its domestic market, was subject to cyclical fluctuations in demand caused by changes in economic conditions and in government policies aimed at key sections, like oil and gas.

The depressed state of the North American market since the late 1970s induced Foremost to pursue a more aggressive export policy. As a result, the share of offshore markets rose from 40% of sales in the early 1970s to 60% in the early 1980s.

Foreign Markets

Offshore markets included mainly the U.S.S.R., Peru, Venezuela, Iran and Antarctica. Mr. Nodwell felt that his company had gained a good position in these markets, many of which

continued to show good potential for Foremost's vehicles. Recalling his experience in the Russian market, he said, "It took us two years at the beginning to get to the negotiating stage with the Soviets. But since then we have sold them over 350 machines valued at more than $100 million over a 15-year period. Future prospects look good. We feel we now have a good understanding of how a centrally planned economy works."

Earlier Efforts in China

Canadian Foremost had made considerable efforts, especially during the past four years, to ascertain China's needs for Foremost-type vehicles. To gain first-hand familiarity with the market, executives had made a number of trips to Beijing and oilfield sites. They also appointed China Traders Inc. (CTI), an American agency with offices in the U.S., and Beijing. as Foremost's agent in China. CTI was recommended by another heavy equipment manufacturer and represented several foreign suppliers of industrial and oilfield equipment in China. Foremost agreed to pay the agent a retainer of $12,000 plus a commission of 5% of net selling price or 2.5% on third party sales.

Mr. Nodwell led a company team on a visit to China in 1983. During that visit the team was satisfied that its vehicles could effectively meet transportation needs arising from China's expanding oilfield exploration and development activities. This assessment was confirmed by the Chinese technical and managerial personnel with whom the team met during company-organized technical seminars and other functions. The next step was to identify specific types and models of vehicles which would be required by the Chinese. Requests had been made earlier to Foremost for detailed sales and technical proposals with respect to four models, namely, the Delta-3, Commander-C, Chieftain and Husky. The proposals were delivered to the Chinese side shortly thereafter.

Meanwhile, the Chinese intimated on several occasions that Foremost's vehicles were overpriced by something like 30%, although no explanation was given as to how this percentage was arrived at. The team's visit also revealed the complexity of pursuing equipment sales contracts in China. While end-users had to be convinced of the technical merits of the vehicles, the decision to purchase rested with other agencies such as national or provincial foreign trade corporations and the Ministry of Petroleum. Moreover, many equipment purchases were subject to international tender arrangements especially when external financing was provided by such agencies as the World Bank. Foremost had not yet sold vehicles under these terms.

In December 1983, shortly after their return from China, executives at Canadian Foremost received a proposal to consider a co-production arrangement that would enable China to assemble vehicles locally. These vehicles would then be used in all Chinese oilfields.

HO 3-3 *(Continued)*

EXHIBIT 2
CANADIAN FOREMOST PRODUCT LINE

Product Line

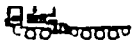
TRACKED VEHICLES

NODWELL 60

NODWELL 110

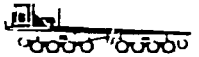
NODWELL 110 C

CHIEFTAIN

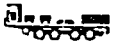


PIONEER

HUSKY 8G

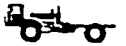


NODWELL 240 VIBROCARRIER

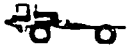


WHEELED VEHICLES

DELTA 2B



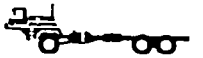
DELTA 2C



DELTA 3B

MARAUDER

COMMANDER C



SUPER COMMANDER C

MAGNUM 4

TERRA BUS

POWERED CHASSIS

Co-Production Proposal

The co-production proposal was made by Mr. Zhang, Chief Mechanical Engineer, Petroleum Administration, Bureau of Zhongyuan Oilfield. Foremost had earlier identified that major oilfield area as its initial prime target market.

Mr. Zhang suggested that "Foremost's vehicles would be assembled in China from components supplied by the company. The chassis (type and model to be determined) would then be mounted with either Chinese and/or foreign rigs for use not only in Zhongyuan but also in all other oilfields as well." He indicated that preliminary approval for the project had been received from the Ministry of Petroleum. Co-production was not a favored option for Canadian Foremost since it represented a major undertaking for a company its size. Among other things, such as arrangement would require a minimum of four key technical people spending at least one year in China. It also meant dealing with a different ministry and a different foreign trade organization in Beijing, with which the company did not presently have contacts. In any case, Foremost's preference (next to a straight equipment sale) would be for a licensing agreement under which the company would supply components and technical know-how in return for an acceptable royalty.

Shortly after the co-production was transmitted through CTI, Mr. Nodwell called a meeting of the senior management committee to consider it. At that meeting, it was agreed that the company should be prepared to discuss the proposal but that additional information was required. Estimates of production volume, models to be assembled, time period for the proposed agreement, adequacy of local production and assembly facilities, prior experience with assembly or other equipment, and arrangements for selling the assembled vehicles t other oilfields were all matters to be clarified. Although co-production was not likely to be technically and managerially viable, Foremost decided to respond in a positive way as a matter of strategy. It was prepared to send a team to China to discuss the proposed arrangement and to supply a sample of technical drawings that would help determine its feasibility. Foremost was also anxious to make an on-the-spot tour of available facilities and to recommend that specific model vehicles be tested beforehand to judge their appropriateness for use in China.

If nothing else, the co-production proposal was viewed as an opportunity to arrange another visit to China to further explore prospects and determine how best to penetrate that market. With this in mind, the decision was reached at the committee meeting that Richard Yost, Regional Sales Manager, should ask CTI to request the Chinese side to invite Canadian Foremost over for a visit, preferably in January 1984.

Further Assessment of Prospects

In the meantime, it was decided that a further assessment of prospects be undertaken by consulting with knowledgeable Canadian government officials and other sources. historically, Zhongyuan was *the* oilfield which other oilfields in China emulated. It commanded both political and financial power due to its size. However, the Minister of Petroleum, who originally came from that region, resigned in 1979. The new minister did not have an oil-related background but had visited Foremost during a mission to Canada in 1972. Some of his senior staff appeared to be anti-Zhongyuan. However, Zhongyuan still produced 50% of China's oil.

Recently officials at Zhongyuan recommended a purchase of drilling rigs from both Alberta and the United States, but the Minister authorized purchase from one source only—and the United States got the order, for reasons that were not clear. Central government agencies had the final say in equipment purchases.

It was noted that twinning arrangements between Canadian provinces and cities and Chinese counterparts were on the rise. These would make it feasible for a company such as Canadian Foremost to be introduced and endorsed at the political level to the appropriate authorities in China.

In addition, the Export Development Corporation (EDC) had extended to China $2 billion in credit facilities, which had so far been virtually unused. It was worth discussing the use of some of these facilities to make equipment purchases by the Chinese more cost attractive to them.

It was also suggested that Foremost stick to "bare essentials" in technical specifications. This would bring prices down and be in line with China's relatively less sophisticated needs. Foremost's management had some difficulty accepting this advice as they pointed out that "the price difference between us and our competitors is in the guts of the unit we sell. We are unwilling to supply substandard equipment. We have also noted that the specs for required vehicles in China are written in such a way that the Chinese can get anything from a farm tractor to a Foremost unit." This was illustrated when a wide range of vehicles competed for the World Bank tender for two-tracked vehicles, announced in December 1983. Foremost proposed a Nodwell-110 vehicle but lost to the lowest bidder, a French company, which proposed a much lighter-duty vehicle that was unlikely to meet the requirements of the terrain the Chinese had in mind.

Foremost waited patiently for a invitation to visit China while these consultations continued. CTI was advised by the Chinese that the situation was still under review. In the meantime, CTI learned that the Minister of Petroleum suggested to Mr. Zhang that he view in person the Dawson-5 unit which had been purchased from

Foremost in 1972.[1] Anxious that this not cause Zhang to receive the wrong impression, the company instructed its agent to explain once again the circumstances in which that unit was purchased by the Chinese and how different Foremost's marketing policies were now.

June 1984 Visit

An invitation was subsequently received, and Mr. Yost visited China in June 1984 to discuss the co-production proposal. A lot of technical preparations had been made for that trip including a detailed submission which dealt with Foremost's technical capabilities, key components, materials management procedures, manufacturing time, inspection procedures and so on. Discussions with the Chinese side illustrated the complexity of production requirements and the necessity of meeting the exacting standards. It became evident to the Chinese that co-production was not feasible at that time. This led to the idea of test Foremost's vehicles in China prior to entering into any negotiations. It was agreed that Foremost would prepare a test program proposal for discussion at the next visit a few months later.

October 1984 Visit

Certain objectives were set for the October visit. These included the selection of a suitable test site and agreement on specific models to be tested and the terms under which the vehicles would be sent to China. Foremost also saw an opportunity to convince the Chinese of the company's ability to determine the most suitable models and load sizes. Achieving these objectives could lead to setting a tentative date for commercial negotiations.

Arriving in Zhongyuan on October 17, the team consisted of Fred Holmes (Vice President and General Manager, Tracked Vehicle Division), Richard Yost, and a representative from CTI in Beijing. The banquet given by the Chinese hosts that same evening was not an occasion to discuss more than generalities. Significantly, however, the price issue was brought up. The following day began with a meeting attended by 15 people on the Chinese side, let by Mr. Zhang who represented the Zhongyuan Petroleum Administration Bureau. Others represented various drilling companies in the oilfield, the auto repair shop, and the newly-created Zhongyuan Petroleum Technical Import Office.

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[1] In 1972, Canadian Foremost displayed one of its earlier vehicles, the Dawson-5, at a Canadian Oilfield Equipment Show in Beijing. Despite instructions not to sell the vehicle, company representatives did just that when approached by a Chinese buyer who expressed greater interest in Foremost's product than in competing products. The vehicle was sold for $40,000. Foremost subsequently tried to contact the Chinese customer in order to provide manuals and training and to sell him the necessary spare parts. But its efforts failed. It was learned later on that the vehicle had been sent to Liaohe—a tidal swamp area. No spare parts went with it and the operators received no training. Very quickly the machine ran out of spare parts and was left idle after logging a mere 790 hours of operation. It was put in storage in 1975.

Although four test vehicles were on the agenda, discussion soon centered on the Husky-8 and the Commander-C. Mr. Zhang disclosed that the 30 amphibious vehicles they purchased in 1981 from Rolligon Corporation in the United States (for $40,000 each) for work in the Liaohe Oilfield did not work well as the tires kept balling up with mud. These vehicles were too small (5-ton capacity) for oilfield operations and were assigned to a tidal flat area in which they had not been tested beforehand. The result was that while the vehicles stayed on top of the silty mud, they ceased to be mobile.

Other discussions revealed that the biggest operating problem facing the Chinese was mobility during March and April, when the thawing ground was muddy on top and frozen underneath. Maximum travel distance was 300 kilometers through scattered swamps. There was no continuous road to the outer edge of the oilfield. The maximum load requirement was 40 tons, but this was likely to be needed only once a year. The trade-off between the number of trips and alternate payloads was discussed at length. Foremost advised that only the Husky-8 would operate in the most difficult circumstances, and that a different vehicle-mix from that proposed initially might be advisable. For example, if a Husky unit were to get stuck, only another Husky could retrieve it. This made it important that all test units be put to work in the same area. Meanwhile, the team explained that the Commander model was not really necessary since it was required only once a year (to haul a 40-ton load).

Mr. Zhang wanted the vehicles on site by April, 1985, if at all possible. Allowing for production and delivery schedules, Mr. Yost said that negotiations would have to be finalized by mid-December 1984 to meet that target date. Mr Zhang responded by saying that they would try their best and later added that "price may be the key problem." In any case, Foremost's proposal would have to be submitted to the authorities in Beijing. There was also some discussion among members of the Chinese delegation about the need for Foremost to guarantee the success of the test program.

In the afternoon, a visit was made to the first test site, which was classified as "normal but slightly on the worse side." It was still the dry season. The swamp area turned out to be silt quicksand with a hard bottom one to two meters down. A Husky unit could operate in the swamp area only marginally. As certain parts of this region were even worse, Foremost did not feel that site to be acceptable. A second site was inspected the following day. Here, the water table was about one meter down with the top meter consisting of a combination of sand and clay. Below it was a wet silty material. Chinese rigs, each weighing 60 tons, were being used. Average drilling time was seven to ten days. Distance between drilling locations ranged from half a kilometer to two kilometers. A Husky unit could be used year round and a Commander unit would be nonoperational only during the worst time in the spring. This area, however, had many swamps, which the Chinese said were too far to visit in the time available. Both sides agreed not to use this as a test site.

Subsequent discussions led to the selection of the first site for testing purposes but vehicles would be tested only on existing rig roads and rig pads where equipment presently on site could not function during the spring break-up and rainy seasons. These discussions were interrupted by frequent references to Foremost's price being a key problem. In fact, a message

was received during the meeting that the Ministry of Petroleum was unlikely to approve any deal unless the price was lowered. Foremost was requested to do so before negotiations could commence. No clear agreement was reached about the cost of testing. Canadian Foremost was to ship the units and test them under its supervision. If the vehicles did not perform, the company was to take them back.

The visit was concluded with both sides confirming that test vehicle models should be selected quickly, that testing be conducted as agreed, and that the Chinese would try to begin commercial negotiations by the end of November. As Mr. Zhang was due to be away until the end of December, Mr. Yost and his colleagues felt that not much was likely to happen before January 1985. The test program was tentatively scheduled for the spring of 1985, although it could be delayed to late summer during the rainy season.

In early November, through CTI, Mr. Zhang advised that the Ministry of Petroleum was not enthusiastic about the test arrangement and preferred a 25-ton unit instead of the Husky-8 which was "too big." The Ministry reiterated that the price was too high. Mr. Zhang had yet to select the test vehicles and, when asked by CTI, did not know when negotiations could begin. CTI felt that the Ministry of Petroleum might suspect that Foremost was trying to push something down their throat by promoting the Husky vehicle only.

Changing of the Guard

A week later, Mr. Yost learned from CTI that Mr. Zhang was being phased out of the project and a new man was being put in charge. This was Mr. Lu, Head of the Planning Department at the newly formed Zhongyuan Petroleum Technical Import Office. Mr. Lu had been summoned by the Ministry of Petroleum to discuss the project and offered the opinion that Zhongyuan did not have adequate facilities to assemble Foremost's vehicles. He recommended that the co-production proposal be dropped. At the same time, the Minister did not like the test proposal, as it was going to create "an obligation" to purchase Foremost's equipment. He proposed instead that a company be selected and units be purchased outright for the test. Mr. Lu was instructed to find similar (i.e., competing) vehicles to allow price comparisons to be made. The lower priced unit would then be selected, as per normal policy. With this in mind, Mr. Lu was to visit the United States to inspect a military vehicle which sold at a lower price. Mr. Lu was also entering into negotiations with American suppliers to purchase well drilling and servicing equipment. On learning of these developments, Mr. Yost asked the CTI office in Houston to arrange a meeting for Mr. Nodwell and himself with Mr. Lu during the latter's U.S. tour.

The Houston Meeting

The meeting took place at the end of November in Houston. Mr. Nodwell outlined his company's experience, types of vehicles and conditions under which they were used, stressing

custom design to meet specific needs. A brief review was then made of earlier visits to China and key points discussed with various officials. Reference was also made to the test program and to test areas inspected. Mr. Lu said he appreciated Foremost's efforts to identify China's needs over many months but pleaded for patience as he was not yet familiar with Foremost's vehicles. His priorities now were to ask his engineers to determine load requirements for the Zhongyuan oilfield operations, then consider the much bigger needs beyond Zhongyuan and how to cope with the swamp areas. He was not clear on why some people suggested a payload of 15 tons, while others suggested 25 tons, and Foremost was recommending 40 tons. He was anxious not to repeat the mistake of purchasing vehicles which could not be utilized properly. He was also concerned that the Husky-8 would damage their roads and did not want to stock too many spare parts. He appealed again for patience until these matters had been discussed with his officials and hoped to have the answers by January 1985.

In the meantime, Mr. Lu asked for information about the Commander vehicle, which he thought might be appropriate due to the large pot holes on the roads in the spring. He also stated that "experience with the Dawson-5 left doubt in some minds about Foremost's equipment." Finally, he had to ensure cost effectiveness in future purchases and was planning to compare Canadian Foremost with Oshkosh. Mr. Nodwell responded by stressing the importance of differences in specifications and the fact that his company did not initially inflate its prices in anticipation of requests for discounts. He also restated Foremost's willingness to go ahead with the test program if the Chinese so desired. Mr. Lu promised to have his staff draw up an overall plan and then invite Foremost for a visit. Mr. Nodwell learned that mr. Lu's new department was now responsible for all allocations of foreign funds acquired by Zhongyuan oilfields. This department was not associated with Techimport (one of the foreign trade corporations) in Beijing. The Ministry of Petroleum was not likely to be involved in the decision but had to be kept aware of what was happening. Negotiations for equipment sale would be conducted with Machimpex (National Machinery Import/Export Corporation) in Beijing with Mr. Lu representing the end-user in this instance.

Other Developments

In assessing Foremost's prospects in China, Mr. Nodwell and his team had taken note of other important developments. The first was the conclusion of a loan agreement under which Japan extended $2.4 billion of credit to China to develop the latter's oilfields, including Zhongyuan. Mitsui, a major Japanese company, had recently contacted Canadian Foremost to discuss the possibility of building the Husky unit in Japan under license for mounting drill rigs. Foremost had yet to respond to that inquiry.

Secondly, Bombardier had just signed an agreement in principle to build snowmobiles i China and was promoting an older style TF-900 for the oilfield market. This vehicle was higher priced than the Husky-8 and had a 50-ton capacity. However, Bombardier also had a 21-ton vehicle which was lower priced than Foremost's Pioneer and might appeal to the Chinese "buy cheap" philosophy despite the fact that it did not match Pioneer's specs.

Thirdly, following Mr. Lu's visit to Oshkosh in Houston, that supplier was now proposing a military-type truck capable of negotiating marsh and water up to one meter deep. This vehicle was limited to a five to ten-ton load and had poor traction. Although Oshkosh planned to modify it for oilfield use, Foremost engineers believed the vehicle would still be deficient in tests of load capacity, mobility, and loading area requirements. However, Oshkosh was pursuing Chinese prospects aggressively and Foremost suspected that Mr. Lu was being actively romanced by that supplier. The Chinese were apparently impressed with the vehicle. Oshkosh had already sold 24 units of another type of vehicle which were being used for crash and fire rescues at Chinese airports, at an estimated price of $300,000 per unit.

In the meantime, many Chinese perceived Canada as industrially underdeveloped relative to the United States. They believed they could buy more cheaply from American companies than from their Canadian subsidiaries or other Canadian suppliers. Added to this was the fact that many American and European manufacturers had offered large discounts in attempting to sell to China in recent years due to a sluggish world market.

In January 1985, Mr. Lu requested the Beijing office of CTI to obtain a more detailed proposal on Foremost's 25, 30 and 40 ton vehicles and alluded to prices being "not clear." CTI suggested that Foremost resubmit a photocopy of the detailed proposals presented earlier in case the Chinese had misplaced them.

Jack Nodwell estimated that Foremost had spent at least $500,000 (including the equivalent of two man-years of its technical and marketing managers' time) to develop sales prospects in China. Most of this sum was spent in the past two years. He wondered what results might have been obtained had these resources been directed to other market areas. Meanwhile, he was optimistic that the knowledge acquired and contact made in China would lead to an agreement soon. The task facing him and his executives now was to put together a plan of action in anticipation of making another visit to China during which negotiations could be resumed. If all went well, the initial order was likely to be for three vehicles (two Husky-8's and either a Pioneer or a Commander) with a sales value of $1.5 million. It was also estimated that the Zhongyuan oilfield alone would ultimately require 180 vehicles of the types produced by Foremost.

HO 3-4

Product Checklist

Which product should the firm offer abroad?

What specific features - design, color, size, packaging, brand, warranty, etc.- should the product have?

What foreign needs does the product satisfy?

Should the firm adapt/modify its domestic market product and sell it abroad?

Should it develop a new product for the foreign market?

Should the firm make or buy the product for the foreign market?

How competitive is or will be the product abroad?

What specific services are necessary abroad at the presale and postsale stages?

Are the firm's service/repair facilities adequate?

What patents or trademarks does the firm have that can benefit it abroad? How much legal protection does the firm have concerning patents, trademarks, etc.?

What should be the firm's product mission philosophy in the foreign market?

Are the firm's products socially responsible? Do the products create a good corporate image?

For existing products in foreign markets:

What is the firm's product and service image abroad?

Is there a need to withdraw the product from the foreign market?

At which stage in its life cycle is the product in the foreign market?

PN-ABC-154

EXPORT/IMPORT FOR SMALL BUSINESS INSTITUTES IN POLAND

Part Two

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Gdańsk, Poland

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Center on Education and Training for Employment
The Ohio State University
Columbus, Ohio

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EXPORT/IMPORT FOR

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FOREWORD

The United States Agency for International Development (U.S.AID) sponsored this project as part of the U.S. Congress initiative entitled Secure Eastern European Democracy (SEED Act). This project is one of a number of university-based initiatives to provide education for university faculty in emerging countries about business management and economics in support of the newly established market economy.

Since June of 1991, the International Enterprise Academy at The Ohio State University has worked cooperatively with the Solidarity Economic Foundation in Gdańsk, Poland, to facilitate the creation of three Polish-American Enterprise Institutes in connection with the universities in Białystok, Poznań and Rzeszów. In each site two coordinators and fifteen or more faculty members have established courses for business owners in Entrepreneurship, Marketing, Management, Finance, Strategic Planning, and Export-Import. In addition, we developed skills among the faculty for business advising in these areas and developed case studies of Polish entrepreneurs.

The development of the six curriculum products took place over a two-year period and were the cooperative efforts of the coordinators from the Polish Institutes and the faculty from various American Universities. We are indebted to the following people for their dedication, patience and understanding in addition to their outstanding expertise in the area.

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Because these curriculum products include many copyrighted materials that we have obtained limited permission to use for this project, this product may not be published or used for other purposes without express permission from The Center on Education and Training for Employment at The Ohio State University.

We believe that these materials will provide long-term benefits to the faculty for whom they were designed and the business owners who will participate in their courses. We hope that these American models of business training will make a difference in the communities where they are used and impact on their success in a market economy.

M. Catherine Ashmore
Director, International Enterprise Academy

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EXPORT/IMPORT MODULE

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International Entrepreneurship Course

Overview

Business managers are increasingly involved in international trade by either importing or exporting products or materials for manufacturing. This course is intended to help business managers to assess and plan for basic differences between sourcing and marketing in the home country and in other countries around the world, including culture, common business practices, taboos.

Participants will analyze potential markets for size, penetrability, potential competition, profitability, in short an environmental analysis on the viability of exporting to specific markets. They will then develop an exporting strategy involving selection of specific markets to enter, product configuration, pricing, promotion, and distribution network. An important part of any international trade strategy is determining the methods of goods movement. Participants will assess the advantages and disadvantages of different distribution alternatives and constraints.

The course will draw on business skills from the other business courses with emphasis on differences between domestic and international trade.

Strategic Planning

Differentiate among the methods of international trade, such as direct foreign investment, exporting, licensing

Marketing

Use the marketing strategy framework for developing an international marketing strategy.

Management

Assess the legal, personnel differences needed for international trade.

Accounting/finance.

Define international banking terminology. Assess potential affects of international finance on the exporter. Execute the basics of obtaining proof of payment, e.g., letter of credit.

International Entrepreneurship Course

Competencies

Business managers attending this course should be able to:

1. Introduce and describe potential effects of macro issues on the viability of importing and exporting.

2. Evaluate the potential advantages/disadvantages of exporting to a specific market.

3. Assess any needed adaptations of a specific product for selected markets.

4. Indicate potential options for promoting in different cultural markets.

5. Define the considerations for setting prices in a foreign market. Assess potential affects of international finance on importing or exporting.

6. Evaluate the different goods movement and storage options.

7. Assess the advantages of and disadvantages of different distribution alternatives and constraints.

8. Determine methods of establishing good business relationships, including partnerships and joint ventures.

9. Know where and how to obtain assistance in the home country and other countries.

INTERNATIONAL PROMOTION AND COMMUNICATIONS STRATEGY

UNIT 4

Title: **INTERNATIONAL PROMOTION AND COMMUNICATIONS STRATEGY**

Purpose: This unit is designed to evaluate the promotion and communication alternatives for international marketing

Objectives: To indicate potential options for promoting in different cultural markets.

Materials:

Transparency 4-1	Unit Overview
Transparency 4-2	Guy Laroche Ad (HO 4-1)
Transparency 4-3	Time Warner Ad (HO 4-2)
Transparency 4-4	AIDA Model
Transparency 4-5	Examples of Promotional Adaptation
Transparency 4-6	Advertising Media Types
Transparency 4-7	Examples of Media Availability and Limitations
Transparency 4-8	International Sales Promotion Regulations
Transparency 4-9	Product Facts (HO 4-4)
Transparency 4-10	Austrian Air Ad
Transparency 4-11a	A Summary Classification of Consumer Needs
Transparency 4-11b	A Summary Classification ... (continued)
Transparency 4-12	Learn-Feel-Do
Transparency 4-13	Feel-Do-Learn
Transparency 4-14	Do-Feel-Learn
Transparency 4-15	Media Suitability
Transparency 4-16	Best Copy for Print (HO 4-7)
Transparency 4-17	The Selling Process
Transparency 4-18	The Promotional Mix
Transparency 4-19	The Use of Promotional Tools
Transparency 4-20	Definitions of Promotional Tools
Transparency 4-21	Evaluating Media: Reach and Frequency
Transparency 4-22	International Spending on Advertising (HO 4-13)
Transparency 4-23	Advertising Media Types (HO 4-11)
Transparency 4-24	Selecting media
Transparency 4-25	A Coordinated Approach to International Advertising
Transparency 4-26a/b	Checklist: International Communication and Promotion (HO 4-8)

Handout 4-1	Guy Laroche Ad (TP 4-2)
Handout 4-2	Time Warner Ad (TP 4-3)
Handout 4-3	Advertising Media Types
Handout 4-4	A Checklist of Product Facts (TP 4-9)
Handout 4-5	Austrian Air Ad (TP 4-10)
Handout 4-6	What is the Feature? What is the Benefit?
Handout 4-7	Best Copy for Print (TP 4-15)
Handout 4-8	What are you Selling?
Handout 4-9	Definitions of Promotional Tools
Handout 4-10	International Spending on Advertising
Handout 4-11	Profiles of Major Media Types
Handout 4-12	Cost of Selected Print Media (United States)
Handout 4-13	Coordinated Approach to International Advertising
Handout 4-14	Checklist: International Communication and Promotion
Handout 4-15	Playing by International Rules

Activities:

Exercise 1 What is the Feature? What is the Benefit? (HO 4-6)
Exercise 2 What are you Selling? (HO 4-8)

Other student exercises are listed in the T-outline.

Instructor Notes:

Clio Awards 1988 Video
What are you selling?

Estimated Time: 3 hours

Unit Outline

I. Identify Available Communications Alternatives

   A. Determine Communication Norms in Targeted Markets
   B. Identify Available Media in Targeted Markets

II. Develop the Communications Strategy

   A. Define the Message
   B. Copywriting for Ads and Sales Talks
      1. Learn-Feel-Do Methods
      2. Copywriting Checklist
   C. Video: Clio Awards Film (Edited)
   D Choose the Promotional Method
   E. Select the Medium

III. Checklist: The Promotion and Communication Checklist

UNIT 4

Promotion and Communications Strategy

CONTENT	PROCESS
Introduction	
The goal of this unit is to introduce you to the promotional options available for communicating to a target market about your product offering.	Put up TP 4-1: Unit Overview.
First, there is a discussion of the potential complexities of developing a multinational promotional strategy given the variance that can exist technologically, legally, and culturally regarding business promotions.	
Second, there is a brief discussion of message creation. If one chooses to promote a product offering, then obviously that firm believes that there is some aspect of that product offering worth communicating. This communication becomes increasingly important as markets become more competitive. When consumers have the luxury of choosing between competing products, it is vital for firms to effectively communicate the benefits to be derived from their product offering.	
Third, a discussion of the various forms of promotion is presented to suggest the range of promotional alternatives that may exist.	
I. Identify Available Communications Alternatives.	
As with developing a product strategy, developing an international communications strategy requires decisions about the need for adaptation.	

CONTENT	PROCESS
Minor adaptations may be required to adjust for differences in language and culture. Or, major changes may be required to account for differences in the way consumers perceive, acquire, and/or use a product in a particular market.	*Note*: Both TP 4-2 and TP 4-3 represent a firm's effort to modify their communications strategy to accommodate differences in cultural norms and expectations.
All marketing communications have two basic parts, a message and a medium. The message contains those ideas or concepts that permit the communicator to achieve specific communication objectives.	Present TP 4-2: Guy Laroche Ad and provide the participants with HO 4-1. Exercise: "How are these two versions different?"
In addition to the message, a communicator must select a medium that best suits the presentation of the message, the limited resources of the firm, and reaches the desired target audience.	Present TP 4-3: Time Warner Ad and provide the participants with HO 4-2. Exercise: "What is Time Warner trying to communicate?"
These parts of the message exist regardless of the promotional form. The different types of promotion are referred to as the promotion mix. The promotion mix consists of advertising, personal selling, sales promotion, and public relations. A promotion program will consist of specific objectives implemented with the use of one or more promotion types.	
All promotional programs have an underlying set of communication objectives. Specific promotional objectives might be: to ATTRACT attention to the product, to increase INTEREST in the product benefits or features, to generate a DESIRE (or preference) on the part of the consumer to possess the product (or receive its benefits), or	Present TP 4-4: AIDA Model.

CONTENT	PROCESS
to stimulate the buying public to the ACTION of buying the product.	
This hierarchy of objectives is known as the AIDA model.	
While one hopes that all in the target market ultimately purchase the product, it is unrealistic to expect all consumers to recognize their need or desire for a product with first exposure to it. Thus, it is important to recognize that promotional communications are an ongoing process. In international marketing, the process of constructing a promotion and communications strategy is complicated by the variation in the target markets and the availability of media.	
A. Determine Communication Norms in Targeted Markets.	Discuss TP 4-5: Examples of Promotional Adaptation
As with the product, the promotional message may be standardized or adapted to meet local market conditions. However, even in a standardized approach some adaptations will be required.	
There are three levels of adaptation for a promotional message.	Exercise: Ask participants, "What behaviors are considered unacceptable in promotion here? That is, what can you not do in advertising, personal selling, or sales promotion?"
First, at the simplest level, the firm may present a uniform message in all markets adapting only the language, the brand name, or the colors of an advertisement	
Second, the firm may use the same theme but alter the actual message.	

CONTENT	PROCESS
Third, the firm may choose to fully adapt the message for local conditions, changing both the message and the overall theme of a promotional campaign.	
B. Identify Available Media in Targeted Markets.	Present TP 4-6: Advertising Media Types. Hand out a reading on advertising media types (HO 4-3)
In selecting appropriate media for a promotional message, it is important to recognize that the availability of media varies from country to country.	
In some countries, potential buyers have limited access to print media or televisions. In other countries, promoters have limited access to the media.	Present TP 4-7: Examples of Media Availability.
<u>EXAMPLES:</u>	
Commercial TV and/or radio simply does not exist in some Scandinavian countries and in the Middle East. Thus, broadcast media is unavailable for advertising.	<u>Exercise</u>: Ask participants, "What other limits might exist in other countries?"
Certain countries, including the United States, restrict the kinds of messages that can be presented on TV. In the U.S., cigarettes cannot be advertised on TV and there are limits to the ways alcoholic beverages can be displayed on TV.	
Other accepted promotional techniques may also be limited or the acceptance of those techniques by consumers may vary from market to market.	
Sales promotion, for example, can consist of coupons, contests, financial	

CONTENT	PROCESS
incentives, or non-financial incentives. However, different countries place different limits on the types of sales promotion that can be used.	
EXAMPLES:	
Germany and Greece prohibit the use of coupons as a promotional device although they are a primary sales tool in the United States.	TP 4-8: International Sales Promotion Regulations.
France prohibits games of chance and limits gifts and premiums to only 5% of a product's monetary value.	
The effectiveness of print media may also vary from country to country. Magazines are particularly effective in Italy but much less so in Austria.	
Trade fairs, a promotional technique used to gain channel acceptance of a product, appear to be more common and popular in Europe than they are in the U.S.	
Therefore, when considering the promotion of a product in another market, it is vital to identify the constraints imposed in that market on promotional messages, promotional media, or the promotional technique.	
Those constraints may be limits on the media or the message imposed by government agencies, societal norms, or cultural characteristics.	
Frequently, multinational firms choose to use local contacts to identify media and evaluate message quality in those local markets. This is generally a wise	

CONTENT	PROCESS
action as the difficulty in identifying those constraints from outside the country's borders is extremely difficult.	
II. Develop the Communications Strategy	
In developing a communications strategy for multinational markets, many of the same fundamental rules of promotion management apply. After setting promotional objectives, the selling firm must create a message and select media consistent with those objectives and the firm's overall positioning strategy.	
In developing a communications strategy, consider whether the cost of each possible promotional method is offset by the expected benefits of promotion via that method. In other words, is the planned promotion worth the cost? For small businesses, this question is crucial.	
Small businesses must realistically examine their marketing and promotional objectives before considering their promotional alternatives. Can those objectives be achieved using methods that are both available and affordable? If the firm is unable to pay for the method or methods suitable to achieving its objectives, then new objectives should be considered.	
When appropriate methods are unavailable, creativity must be employed to find adequate substitutes. For example, use public relations and have news stories written about your firm or product. This reduces the amount of advertising needed.	
It is important to continually examine how much business (profit) is produced per unit of currency spent for promotion.	

CONTENT	PROCESS
A. Define the Message	
Success in defining a communications message depends on a thorough understanding of the product and market as well as the creativity of the firm.	
First, a review of the product and the market can provide useful product facts.	Put up TP 4-9: Product Facts. Distribute HO 4-9.
Second, distinguishing between the characteristics of the product offer and the benefits sought by the consumer can provide useful insights and valuable ideas for the developing message.	
Critical to the development of the message is understanding the difference between the product's characteristics/ features and the benefits derived from the product by the consumer. Sometimes one can promote the features of a product and consumers will understand the implied benefits. At other times, it is necessary to imply the features and clearly state the benefits.	TP 4-10: Austrian Air Ad (HO 4-5). Exercise: Ask participants, "What are the benefits stated in the Austrian Air ad?" "What are the product features described in the Austrian Air ad?"
In addition to the product's benefits, the firm should use its communications to reinforce is competitive advantage and positioning strategy.	Exercise: What is the feature? What is the benefit? (HO 4-6). *Notes*: The goal of this exercise is to emphasize the difference between the simple characteristics of a product the complex needs that the product may satisfy. The product described in the exercise can be replaced by descriptions of any products that may be commonly understood by the group of participants.

CONTENT	PROCESS
B. Copywriting for Ads and Sales Talks	
The purpose of writing ad copy or developing a sales talk is to present the most persuasive communication to the potential buyer. The difference between the two is that advertising is one-way communication, the speaker is unable to assess the effectiveness of the communication, and a sales presentation is two-way communication, that is the speaker is able to adapt the talk according to the immediate response of the prospective buyer.	
Critical to the development of a communications strategy is an understanding of the motives, or needs, that motivate the consumer to buy a particular product. A motive is an enduring predisposition that arouses and directs behavior toward specific goals. The act of purchasing is initiated by need activation. Activation occurs when there is a recognized discrepancy between one's actual state and a preferred state of being. For example, hunger can activate the need for food when it becomes "sufficiently" noticeable.	
Activated needs (motives) are expressed in consumer behavior and consumption in the form of expected benefits, either utilitarian or hedonic. Utilitarian benefits are objective, functional product attributes. Hedonic benefits include emotional responses, sensory pleasures, even daydreams. Hedonic benefits are extremely subjective and symbolic.	
Both forms of expected benefits can be used simultaneously to evaluate purchase alternatives.	

CONTENT	PROCESS
Marketers need to recognize the types of needs that may motivate targeted consumers to purchase the marketer's product. The goal in developing a communications strategy is to appeal to the most salient needs of the consumer.	
Although there is no agreement on how needs may be classified, one suggested classification is presented in TP 4-11A.	TP 4-11a/b: Classification of Needs. Exercise: Ask participants, "What needs motivate you: — to buy a car? — to buy a pair of blue jeans? — to buy a loaf of bread?"
1. How Sales Promotion Works: Short Run Incentives The types of sales promotions are diverse, including cents-off coupons, contests, samples, and premiums. They all share three characteristics. First, they all provide some incentive that provides value to the consumer. Second, they invite the consumer to engage in a transaction immediately. Third, they provide a form of communication in order to attract attention. Firms use sales promotion to create a stronger or quicker sales response in the short-term. As such, sales promotion is not effective in building long-run brand preference. Sales promotion focuses on providing the consumer, or customer (the buyer), an immediate incentive to buy. These promotions can target the consumers (consumer promotion), members of the distribution channel (trade promotion), or the salesforce (salesforce promotion).	

CONTENT	PROCESS
Although sales promotion is not effective in building long-term brand loyalty and market share, it can be very effective in attracting attention to a product and improving short-term sales.	
2. How Advertising Works: The Learn-Feel-Do Models of Persuasion.	
The attitude of the prospective buyer can be altered in one of three ways. The prospective buyer can be presented with information or facts that generate positive thoughts about the product (LEARN). Then a preference for the product is developed (FEEL). This is followed by the desired action of purchasing the product (DO).	Put up TP 4-12: Learn-Feel-Do. Exercise: Ask participants, "Which of the two ads shown earlier, Guy Laroche and Time Warner, use a Learn-Feel-Do strategy?"
This LEARN-FEEL-DO model of persuasion parallels the AIDA model of promo-tional objectives, where attention/ interest is the result of thoughtful consideration or learning, desire is the result of acquiring a positive feeling for the product, and action is the behavioral outcome desired by the advertiser.	
With products that are very involving (high cost, related to the individual's status, or high risks), consumers tend to form their attitudes toward alternative products based on the factual information and logical arguments that are presented to them. They learn, then feel, then do (purchase the product).	
The purchase of an automobile may be a product that has these	

CONTENT	PROCESS
characteristics. Because an automobile is expensive and may be seen as being a risky purchase for the consumer, ads for automobiles must present some logical or factual arguments for making the purchase.	
However, other products do not have the same requirements. Some products can be advertised with appeals that are primarily emotional nature (FEEL). These feelings may be related to the product or the ad itself. It is these feelings that trigger a purchase response (DO).	Put up TP 4-13: Feel-Do-Learn. Go back and show Dakkar and Austrian Air ads. Ask which each represents.
It is only after the consumer acquires the product that s/he learns about the actual product and its benefits. If the product performs satisfactorily, then the consumer may become loyal to that brand, purchasing it regularly.	
This FEEL-DO-LEARN approach is generally used when the product's <u>benefits are hard to demonstrate</u> or when the product is <u>difficult to differentiate</u> from the competitors' products. In implementing an advertising strategy for this type of product, the advertiser focuses on the image of the product or on the potential emotional responses to possessing the product.	
In promoting chocolate candy, for example, one might focus on the simple pleasure of eating chocolate rather than on the product attributes. It is the pleasurable feelings attached to eating candy that results in the desired action — purchasing your brand of chocolate candy.	<u>Exercise</u>: Ask participants, "What other products would be good candidates for a Feel-Do-Learn communications strategy?"

CONTENT	PROCESS
Still, in some cases, a DO-FEEL-LEARN process applies. When the purchase of the product presents little risk to the consumer, an advertisement can immediately trigger the purchase response with very little thoughtful consideration and without a strong preference on the part of the consumer.	Put up TP 4-14: Do-Feel-Learn. Exercise: Ask participants, "Which strategies are used in sales promotions?" (Sales promotions generally are created to stimulate immediate action, Do-Feel-Learn)
The purchase of household paper goods, for example, may be considered low risk. If a price reduction occurs for those goods, advertising the price reduction may cause many to purchase the goods even though they have no immediate need for them and may know little about the brand. The advertisement will provide information about the product's new, lower price, but it does not present any arguments for buying the product. In this case, the fact about the price may be enough.	TP 4-15: Media Suitability Exercise: Ask participants, "Why are these rules valid? Why is T.V. suitable for emotional ads?" Discuss TP 4-16: Best Copy for Print. *Note:* Go through TP 4-16/HO 4-7 slowly. Ask participants to explain the reasons behind the listed rules of thumb.
3. How Personal Selling Works: Anticipating Objections Like advertising, personal selling involves identifying the approach that will best work to achieve the desired response-agreement to purchase the product (known as a CLOSING, or "closing a sale"). Approaches similar to the LEARN-FEEL-DO models can be applied. Essentially, one identifies the unique selling proposition for the product and structures the sales talk around that concept.	TP 4-17: The Selling Process.

CONTENT	PROCESS
The unique selling proposition is the information (DO), emotional appeals (FEEL), or logically persuasive arguments (LEARN) that differentiate your product from those of your competitors and make it a potentially good purchase or good value for your target market.	
What is different in personal selling is that one needs to anticipate the objections of the prospective customer and develop responses for those objections. It is the ability to overcome the objections of the prospect that will most seriously impact on your ability to close the sale.	Exercise: Ask participants, "How is personal selling going to be used to get your products exported?" (If nothing else, different potential members of the distribution channel will have to be "sold.")
C. Video: Clio Awards Film (Edited).	Instructor Notes 4-1. *Note:* After showing the videotape, select one or more of the commercials as the focus of the suggested class discussion. Discussion Points: Ask the group to evaluate the ad(s) in terms of the AIDA Model and the Learn-Feel-DO Models. Which Learn-Feel-Do method did the advertiser employ? What do you believe was the advertiser's communications objective (AIDA)? Compare the objectives and approaches of two of the ads on the videotape.
STUDENT EXERCISE: "What are you selling?" [optional]	Distribute HO 4-8: What are you Selling? and run the exercise. *Note*: This exercise should be used only when there are a number of participants who

CONTENT	PROCESS
	produce or sell products themselves. Instructor Notes are provided at the end of this unit. For a non-entrepreneur group, substitute another commonly found product or products as the focus of the exercise. Have participants compare and discuss the results of the exercise.
D. Choose the Promotional Method	
Promotions can be classified by the method of communication used to impart the message. The firm's choice and investment in the various communication methods is referred to as the <u>Promotion Mix</u>. The Promotion Mix includes (TP 4-18): Advertising Personal Selling Sales Promotion Public Relations	Put up TP 4-18: The Promotional Mix. TP 4-19: The Use of Promotional Tools.
As can be seen on the transparency (TP 4-20) the promotional forms differ in terms of media used, type of communication used, and foci of the messages communicated. Each form of promotion has distinct advantages and disadvantages. The purpose each in a particular promotion plan can vary depending on the specific promotional objectives. It is critical that the firm identify a target audience for its promotional communications. The target audience differs from a target market in that the	TP 4-20: Definitions of Promotional Tools (HO 4-9).

CONTENT	PROCESS
promotional communications may be directed at people who influence the buying decisions of the consumers in the target market, but who are not necessarily potential buyers of the product.	
For example, a wife may influence her husband's choice of clothes to purchase although she herself is not a member of the target market for men's clothing. She influences his decision, making her a potential target for the promotional communications of a men's clothier.	Exercise: Ask participants, "Can you think of any more examples of purchases that are influenced by people not part of the target market?"
Another important consideration in developing a promotional strategy is identifying the promotional tools and promotional media that will most clearly reach your target audience and that will have the most significant impact on that target audience.	Put up TP 4-21 Reach and Frequency.
Finally, it should go without saying that some promotional media, while potentially effective, may be too expensive given the limited resources of a firm.	
Thus, while the variety of promotional alternatives may be great, there are constraints that will tend to limit the realistic alternatives for a firm.	
Advertising The variety of advertising media available makes it extremely flexible, but it can be costly and ineffective.	Discuss TP 4-22 International Advertising Expenditures (HO 4-13)
The selection of specific advertising media will depend on four factors:	TP 4-23: Advertising Media (HO 4-11).
1. The media habits of the target audience.	Distribute HO 4-12 which shows costs of selected printed media in the U.S.A.

CONTENT	PROCESS
2. The nature of the product. 3. The types of messages constructed. 4. The cost of placing ads on that media. **Personal Selling** Given that personal selling employs two-way communication (the salesperson can respond to reactions, comments, and objections of the potential buyer), it can be very effective. Of course, for mass-marketed goods or markets characterized by small units of sale, the costs of personal selling can be prohibitive. **Sales Promotion** In the United States, sales promotions are the fastest growing form of promotion. Coupons, gifts, sales allowances, and trade allowances can all stimulate short-term sales dramatically. Unfortunately, the nature of sales promotions limit the amount of actual communication that occurs. Essentially, sales promotions focus on immediate action following a communications strategy of Do-Feel-Learn. Thus, in the long-term, consumers may not have learned enough from sales promotions to develop a strong preference and loyalty for the product. **Public Relations** Public relations is very useful in developing an image, introducing potential channel members to the product, and increasing awareness (attention) of the firm/product.	

CONTENT	PROCESS
E. Select the Medium	Discuss TP 4-24: - Media Criteria.

The choice of promotional methods depends on:

1. The type of product or market. Are there many potential consumers (advertising might be recommended) or few (personal selling could be cost effective)? Does the product need to be demonstrated to be understood (TV advertising or personal selling)?

2. Whether the target audience is the final consumer of the good or a potential member of the distribution channel. This is known as business-to-business marketing.

3. The buyers readiness to purchase the product. Are they ready to act? Or, do they still need to be informed about the potential benefits (the Attention or Interest objective from the AIDA model)?

4. The current level of acceptance of the product in the market. Is the product new to the market (Are people totally unaware of the product and its functions and benefits?)? Have most people in the market place been exposed to or used the product (Are you asking people to replace the brand they currently own with your brand?)? (This is an application of what is known as the Product Life Cycle to the media selection decision.)

Exercise:
Ask participants, "How would you promote a new brand of compact disk player in this country, and why?"

CONTENT	PROCESS
In international marketing, all of these decisions need to be coordinated among the different foreign markets and the domestic producer. It requires a great deal of coordination and people in those foreign markets who understand that market. However, it also requires that the domestic producer understand his/her own product and the benefits of that product.	TP 4-25: A Coordinated Approach to International Promotion.
III. Checklist: International Communication and Promotion	TP 4-26: Checklist: International Communication and Promotion (HO 4-14). Hand out a reading on playing by international rules (HO 4-15).

TP 4-1

Unit 4: International Promotion and Communications Strategy

Unit Overview:

I. Identify Available Communications Alternatives

II. Develop the Communications Strategy

   A. Define the Message

   B. Copywriting for Ads and Sales Talks

   C. Video: Clio Awards Film

   D. Choose the Promotional Method

   E. Select the Medium

III. Checklist: The Promotion and Communication Checklist

TP 4-2

Adjustment of a Standardized Campaign

Source Michael Field "Fragrance Marketers Sniff Out Rich Aroma" *Advertising Age* January 30 1986 10

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TIME WARNER
The world is our audience.

Source: Ad created and produced by Grey Advertising Inc. Photo by Todd Haiman. Reprinted with permission from Time Warner Inc.

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TP 4-4

ADVERTISING OBJECTIVES

The AIDA Model

Attention
↓
Interest
↓
Desire
↓
Action

TP 4-5

PROMOTIONAL ADAPTATION

In Japan, where consumers find it difficult to say "snap, crackle, and pop," Kellogg changed their slogan for Rice Crispies Breakfast Cereal to "patchy, pitchy, putchy."

Kellogg also changed the name of their "Bran Buds" cereal in Sweden where the name roughly translates to "burned farmer."

The Schwinn Bicycle Company uses a theme of pleasure to promote bicycles in the United States, but focuses on the safety of their product when promoting in Scandanavia.

Colors of products and ads may also have to be changed. White is a mourning color in Japan; purple is associated with death in much of Latin America; green is associated with jungle sickness in Malaysia.

Source: Kotler, Philip, Marketing Management, Prentice Hall, 1991.

TP 4-6

ADVERTISING MEDIA TYPES

Newspapers

Magazines

Television

Radio

Direct Mail

Posters

Point of Sale

TP 4-7

EXAMPLES OF INTERNATIONAL MEDIA AVAILABILITY AND LIMITATIONS

Commercial TV and/or radio simply does not exist in some Scandanavian countries and in the Middle East. Thus, broadcast media is unavailable for advertising.

Certain countries, including the United States, restrict the kinds of messages that can be presented on TV. In the U.S., cigarettes cannot be advertised on TV and there are limits to the ways alcoholic beverages can be displayed on TV.

Source: Kotler, Philip, Marketing Management, Prentice Hall, 1991.

TP 4-8

INTERNATIONAL SALES PROMOTION LIMITATIONS AND REGULATIONS

Country	*Category*	*No Restrictions or Minor Ones*	*Authorized with Major Restrictions*	*General Ban with Important Exceptions*	*Almost Total Prohibition*
Australia	Premiums	x			
	Gifts	x			
	Competitions		x		
Austria	Premiums				x
	Gifts		x		
	Competitions		x		
Canada	Premiums	x			
	Gifts	x			
	Competitions		x		
Denmark	Premiums			x	
	Gifts		x		
	Competitions			x	
France	Premiums	x			
	Gifts	x			
	Competitions	x			
Germany	Premiums				x
	Gifts		x		
	Competitions		x		
Hong Kong	Premiums	x			
	Gifts	x			
	Competitions	x			
Japan	Premiums		x		
	Gifts		x		
	Competitions		x		
Korea	Premiums		x		
	Gifts		x		
	Competitions		x		
United Kingdom	Premiums	x			
	Gifts	x			
	Competitions		x		
United States	Premiums	x			
	Gifts	x			
	Competitions	x			
Venezuela	Premiums		x		
	Gifts		x		
	Competitions		x		

Source: Boddewyn, J.J., *Premiums, Gifts and Competition*, 1988, published by International Advertising Association.
Copyright © The Dryden Press, 1990. International Marketing, Instructor Manual.

A CHECKLIST OF PRODUCT MARKET FACTS

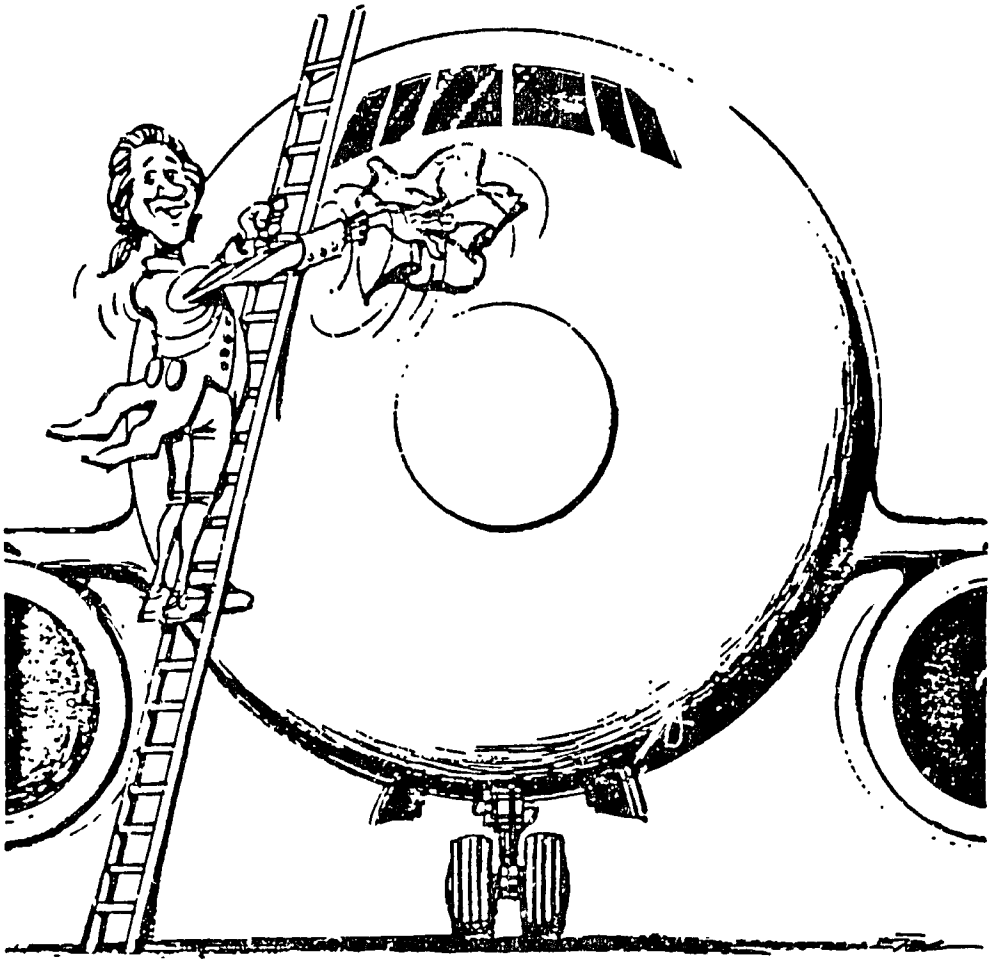
- ☐ Identity
- ☐ History
- ☐ Performance
- ☐ Consumer use
- ☐ Life
- ☐ Product Image
- ☐ Effectiveness
- ☐ Distribution
- ☐ Competitive information
- ☐ Market position
- ☐ Manufacturing
- ☐ Research
- ☐ Packaging

Source: Bovee, Courtland L. and William S. Arens, Contemporary Advertising, Richard Erwin Publishers, 1982.

TP 4-10

Austrian Airlines. The youngest aircraft to Vienna and beyond.

"There's nothing quite like a finely tuned instrument."



Apart from his genius, what distinguished Mozart from other composers was his youth. Today, that same distinction can be made between Austrian Airlines and most other airlines.

When you fly our New York/Vienna non-stops, you're traveling with an airline whose fleet is one of the world's youngest–averaging only 5½ years of age.

And our superb maintenance program insures that our planes stay young. Our standards are high –and highly regarded. In fact, we overhaul planes of several major international airlines.

Travel to Vienna and beyond, with Austrian Airlines. Because, like our famed composer, we know that the key to superior performance is a finely tuned instrument. For information, consult your travel counselor or call 800-843-0002.

AUSTRIAN AIRLINES
The professional's choice.

Fly Business Class on Austrian Airlines, and you'll be upgraded to First Class on connecting American, Northwest and USAir flights.

Source: Czinkota, Michael R. and Ilkka A. Ronkainen, *International Marketing, Instructor Manual.* Copyright © The Dryden Press, 1990.

A SUMMARY CLASSIFICATION OF CONSUMER NEEDS

1. Physiological: the fundamentals of survival, including hunger, thirst, and other bodily needs.

2. Safety: concern over physical survival and safety.

3. Affiliation and Belongingness: a need to be accepted by others, to be an important person to them.

4. Achievement: a basic desire for success in meeting personal goals.

5. Power: a desire to gain control over one's destiny as well as that of others.

6. Self-expression: the need to develop freedom in self-expression and to be perceived by others as significant.

A SUMMARY CLASSIFICATION (continued)

7. Order and Understanding: the desire to achieve self-actualization through knowing, understanding, systematizing, and constructing a system of values.

8. Variety Seeking: maintenance of a preferred level of physiological arousal and stimulation, often expressed as variety seeking.

9. Attribution of Causality: estimation or attribution of the causality of events and actions.

Source: James F. Engel, Roger D. Blackwell, and Paul W. Miniard (1990). Consumer Behavior, 6th edition. Chicago: The Dryden Press, p. 267.

LEARN-FEEL-DO

Is applicable to situations where consumers are engaged in high involvement decision making.

Consumers base attitudes on information presented in ads.

Consumers form thoughtful evaluations of the product and preferences for a specific brand prior to purchase.

The goal is to present a logical, persuasive argument for purchasing the product.

TP 4-13

FEEL-DO-LEARN

Advertisements evoke feelings and emotions in consumers.

These feelings can be related to the ad or to the product.

These feelings trigger a purchase response. (The consumers transfer the feelings triggered by the ad to the product.)

Can occur at any level of involvement in the decision.

The consumer learns about the product and its benefits after purchasing it.

The emphasis is on stimulating emotion and creating a specific product/company image.

TP 4-14

DO-FEEL-LEARN

Is generally used when consumers are engaged in low involvement decision making.

Low perceived risk in making the purchase prompts the actual purchase.

It is the perceived reduction in risk expressed in the communication that triggers the purchase.

The purchase is made with little thoughtful evaluation and no strong brand preference.

An immediate purchase response is desired.

MEDIA SUITABILITY

If the goal is to persuade logically, then print media or broadcast media that fit the product (farming equipment might be advertised in a magazine that presents farming related articles) can be used to advertise or personal selling can be effective. (Learn-Feel-Do)

Color print ads or TV advertising can be used effectively to present emotional advertisements. (Feel-Do-Learn)

If the purpose is to trigger an immediate response, then sales promotion, newspaper advertisements, billboard advertisements, radio advertisements, or TV commercials may be used. (Do-Learn-Feel)

TP 4-16

Best Copy for Print

Newspaper and Magazine Advertisement Checklist

Use simple layouts

Always put a caption under a photograph

Don't be afraid of long copy

Avoid negative headlines

Don't be afraid of long headlines

Look for story appeal

Photographs are better than drawings

Look at your advertisement in its editorial environment

Develop a single advertising format

Before-and-after photographs make a point better than words

Do not print copy in reverse type

Make each advertisement a complete sale

Source: Bovee, Courtland L. and William S. Arens, Contemporary Advertising, Richard Erwin Publishers, 1982.

TP 4-17

THE SELLING PROCESS

Prospecting and Qualifying Potential Customers

↓

↓

Preapproach Planning

↓

↓

Approach

↓

↓

Presentation and Demonstration

↓

↓

Handle Objections

↓

↓

Close the Sale

↓

↓

After-Sale Service

TP 4-18

THE PROMOTIONAL MIX

ADVERTISING

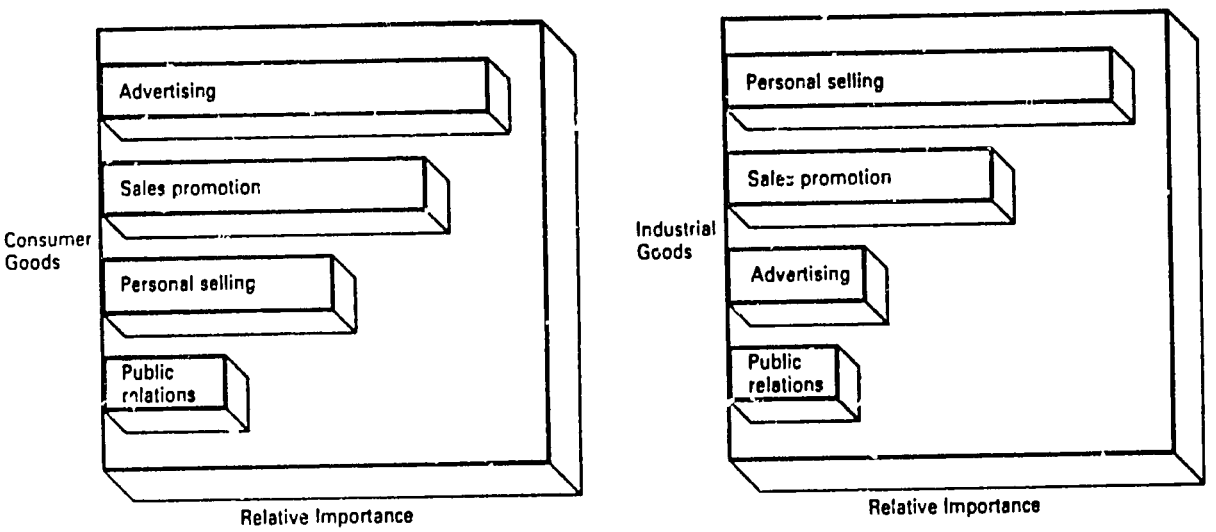
PERSONAL SELLING

SALES PROMOTION

PUBLIC RELATIONS

TP 4-19

THE USE OF PROMOTIONAL MIX



Source. Kotler, Philip, Marketing Management, Prentice Hall, 1991.

DEFINITIONS OF PROMOTIONAL TOOLS

ADVERTISING

Any paid form of nonpersonal presentation of ideas, goods, or services by an identified sponsor. This presentation can take the form of print advertising, broadcast advertising, billboards, or direct mail.

PERSONAL SELLING

The oral (and personal) presentation of ideas, goods, or services in conversation with one or more prospective purchasers for the purpose of making (closing) sales.

SALES PROMOTION

Short-term incentives to encourage purchase of a product or service.

PUBLIC RELATIONS

Building good relations with the company's various constituencies by obtaining favorable publicity, promoting a good corporate image, and effectively responding to unfavorable rumors, stories, or events.

TP 4-21

EVALUATING MEDIA: REACH AND FREQUENCY

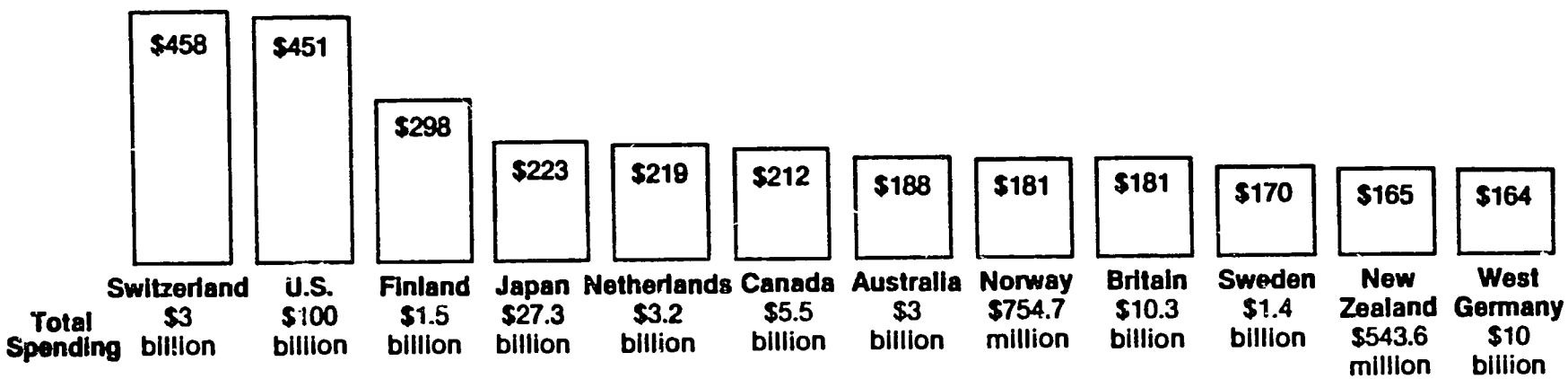
REACH

The reach of a medium is the percentage of the target market (or target audience) that has been exposed to the advertisement at least once in a specified amount of time. The expected reach of a particular medium is often used as the basis of the price asked for advertising space.

FREQUENCY

The frequency of a medium is the average number of times the target market (or target audience) has been exposed to the advertisement in a specified time. One increases frequency of TV advertising by showing the ad more often. The frequency of a magazine may be high because people read and the re-read the magazine, exposing themselves to a single ad multiple times.

Worldwide Advertising Spending



Note: Figures reflect advertising expenditures for 68 countries in 1987.
Source: "Where the Pitch Is Loudest." Copyright 1989, *U.S. News & World Report*.
Reprinted with permission from the March 20, 1989 issue, p. 90.

TP 4-23

PROFILES OF MAJOR MEDIA TYPES

MEDIUM	VOLUME IN BILLIONS	PERCENTAGE	EXAMPLE OF COST	ADVANTAGES	LIMITATIONS
Newspapers	$31.2	26.4%	$33,615 for one page, week-day *Chicago Tribune*	Flexibility; timeliness; good local market coverage; broad acceptance; high believability	Short life; poor reproduction quality; small "pass along" audience
Television	25.7	21.8%	$1,500 for thirty seconds of prime time in Chicago	Combines sight, sound, and motion; appealing to the senses; high attention; high reach	High absolute cost; high clutter, fleeting exposure; less audience selectivity
Direct mail	21.1	17.9%	$1,800 for the names and addresses of 40,000 veterinarians	Audience selectivity, flexibility; no ad competition within the same medium; personalization	Relatively high cost; "junk mail" image
Radio	7.8	6.6%	$700 for one minute of drive time (during commuting hours, A.M. and P.M.) in Chicago	Mass use; high geographic and demographic selectivity; low cost	Audio presentation only; lower attention than television; nonstandardized rate structures; fleeting exposure
Magazines	6.1	5.2%	$100,980 for one page, four-color, in *Newsweek*	High geographic and demographic selectivity; credibility and prestige; high-quality reproduction; long life; good pass-along readership	Long ad purchase lead time; some waste circulation; no guarantee of position
Outdoor	1.1	0.9%	$25,500 per month for seventy-one billboards in metropolitan Chicago	Flexibility; high repeat exposure; low cost; low competition	No audience selectivity; creative limitations
Other	25.0	21.2%			
Total	118.0	100.0%			

Source: Columns 2 and 3 are from *Advertising Age*, May 14, 1990, p. 12, Printed with permission. Copyright © 1990. Crain Communications, Inc.

TP 4-24

SELECTING MEDIA

Creative Disadvantages and Advantages

Newspapers

Magazines

Television

Radio

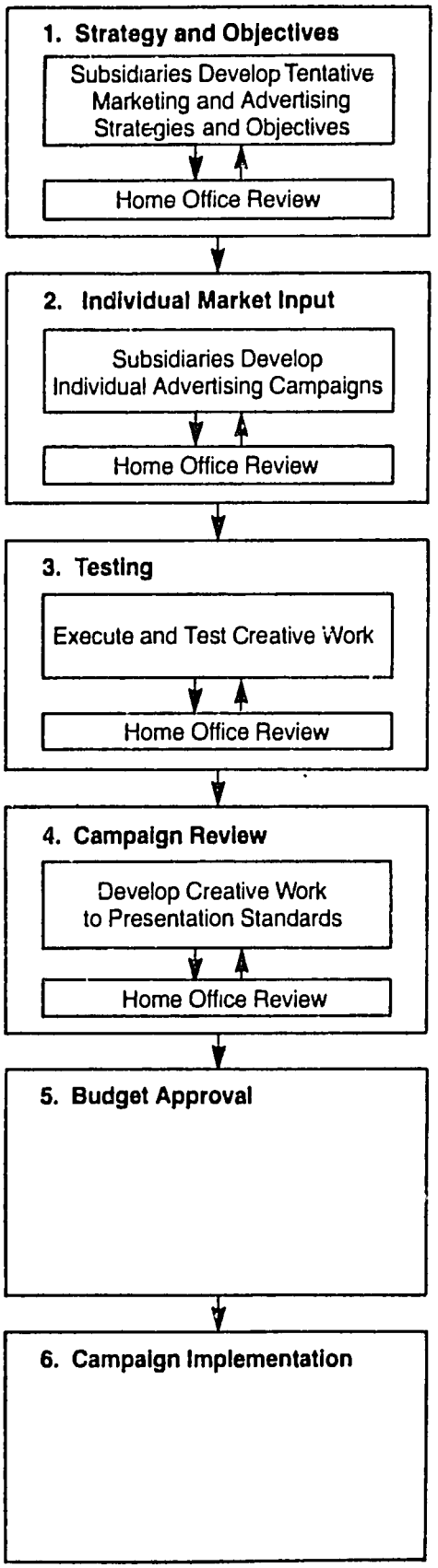
Direct Mail

Posters

Point of Sale

Source: Bovee, Courtland L. and William S. Arens, Contemporary Advertising, Richard Erwin Publishers, 1982.

Coordinated Approach to International Advertising



Source: Czinkota, M. R., Rivoli P., Ronkainen I. International Business, Manual. Copyright © 1992, The Dryden Press.

TP 4-26

CHECKLIST: International Communication and Promotion (HO 4-14)

Promotion-Nonpersonal (Advertising and Sales Promotion)

How should the firm promote its products in the foreign market? Advertise? Trade fairs and exhibits?

What communication or promotion objectives should the firm pursue abroad?

What should be the total foreign promotion budget?

What advertising media are available to promote in the foreign market? What are their strengths and limitations? How effective are different domestic and foreign advertising media?

Should the firm use an advertising agency? How should it be selected?

Are there foreign laws against competitive advertising?

CHECKLIST: International Communications and Promotion

Promotion-Personal Selling

Is there a need for personal selling to promote the product abroad?

What assistance or services do foreign customers need from the sales force?

What should be the nature of personal selling abroad?

How many salespeople should the firm have?

How should the sales personal be trained, motivated, compensated, assigned sales goals and quotas, and assigned foreign territories?

How does the firm's sales force compare with its competitors?

What criteria should the firm use to evaluate sales performance?

How should the firm perform sales analysis?

HO 4-1

Adjustment of a Standardized Campaign

Source Michael Field, "Fragrance Marketers Sniff Out Rich Aroma," *Advertising Age*, January 30, 1986, 10

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Why Boris knows the difference between ERA, MIT, and the NAACP.

The answer is CNN International. Transmitting the news of America, our values and viewpoints, to millions of people all over the world.

It's an amazing accomplishment made possible through the technical capabilities and creative vision of cable TV. Yet, it is but one of many. Think of The Discovery Channel, C-SPAN, BET and A&E. Risk-taking ventures, costly ventures. But cable made the investment. Because we knew that cable had the potential to provide us with a whole new way to look at the world.

We are also proud of our abilities to keep, since 1972, the costs of cable lower than the rate of inflation. And cable operators have continually plowed back their profits into better programming and greater channel capacity. It's exactly this kind of commitment that has made cable television the value it is today.

We thank Congress for having the wisdom to pass the 1984 Cable Act. The freedom it has given us is a privilege we cherish. One we will continue to exercise with responsibility and great care.

TIME WARNER
The world is our audience.

Source: Ad created and produced by Grey Advertising Inc. Photo by Todd Haiman Reprinted with permission from Time Warner Inc.

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HO 4-3

ADVERTISING MEDIA TYPES

	Creative Disadvantages	Creative advantages
Newspapers	Loss of fidelity, especially in reproduction of halftone illustration. Too many ad-format variations among newspapers. Variance in column widths. Difficulty in controlling ad position on page.	Almost any ad size available. Impact of black against white (still one of the most powerful color combinations). Sense of immediacy. Quick response; easy accountability. Local emphasis. Changes possible at short notice.
Magazines	Size not as large as those of newspapers or posters. Long closing dates, limiting flexibility. Lack of immediacy. Tendency to cluster ads. Possible difficulties in securing favorable spot in an issue.	High-quality reproduction. Prestige factor. Accurate demographic information available. Graphic opportunities (use of white space, benday screen, reverse type). Color.
Television	No time to convey a lot of information. Air clutter (almost 25% of broadcasting is nonprogramming material). Intrusiveness (TV tops list of consumers' complaints in this respect). Capricious station censorship.	Combination of sight and sound. Movement. A single message at a time. Viewers' empathy. Opportunity to demonstrate the product. Believability: "What you see is what you get."
Radio	Lack of visual excitement. Wavering attention span (many listeners tune out commercials). Inadequate data on listening habits (when is the "listener" really listening?). Fleeting nature of message.	Opportunity to explore sound. Favorable to humor. Intimacy. Loyal following (the average person listens regularly to only about two stations). Ability to change message quickly.
Direct Mail	Damper of state, federal, and postal regulations on creative experimentation. Censorship often unpredictable. Formula thinking encouraged by "proven" direct-mail track records.	Graphic and production flexibility, such as use of three-dimensional effect (folding, die-cuts, pop-ups). Measurable. As scientific as any other form of advertising. Highly personal.
Posters	Essentially a one-line medium with only a limited opportunity to expand on the advertising message. Inadequate audience research, especially in transit advertising.	Graphic opportunities. Color. Large size. High-fidelity reproduction. Simple, direct approach. Possibility of an entirely visual message.
Point of Sale	Difficulty in pinpointing audience. Failure of retailers to make proper use of material submitted to them.	Opportunities for three-dimensional effects, movement, sound, and new production techniques.

HO 4-4

A CHECKLIST OF PRODUCT MARKET FACTS

Identity
- ☐ Trade name
- ☐ Trademark
- ☐ Product symbol
- ☐ Other copyrighted or patented information

Performance
- ☐ What does it do?
- ☐ What might it be expected to do that it does not?
- ☐ How does it work?
- ☐ How is it made or produced?
- ☐ What is in it?
  - Raw materials
  - Chemicals
  - Nutrients
  - Preservatives
  - Special ingredients
- ☐ What are its physical characteristics?
  - Color
  - Smell
  - Taste
  - Appearance
  - Others
  - Texture

Life
- ☐ What is its life or use span?

Effectiveness
- ☐ Is there proof that it has been tested and works well?
- ☐ Are there any government or other regulations that need to be mentioned or observed?

Competitive information
- ☐ Who are the competitors?
- ☐ Does it have any advantages over them?
- ☐ Does it have any disadvantages?
- ☐ Are they all about the same?
- ☐ Do rival products present problems that this one solves?

Manufacturing
- ☐ How is it made?
- ☐ How long does it take?
- ☐ How many steps in the process?
- ☐ How about the people involved in making it?
- ☐ Are there any special machines used?
- ☐ Where is it made?

Packaging
- ☐ Unit size or sizes offered
- ☐ Package shape
- ☐ Package design
  - Styling
  - Color
  - Special protection for product
  - A carrier for product
- ☐ Package label

History
- ☐ When was it created or invented?
- ☐ Who introduced it?
- ☐ Has it had other names?
- ☐ Have there been product changes?
- ☐ Is there any "romance" to it?

Consumer use
- ☐ How is the product used?
- ☐ Are there other possible uses?
- ☐ How frequently is it bought?
- ☐ What type of person uses the product?
- ☐ Why is the product bought?
  - Personal use
  - Gift
  - Work
- ☐ What type of person uses the product most (heavy user)?
- ☐ What amount of the product is bought by the heavy user?
- ☐ Where does the best customer live?
- ☐ What kind of person is a heavy user or buyer?

Product Image
- ☐ How do people view the product?
- ☐ What do they like about it?
- ☐ What do they dislike about it?
- ☐ Is it a luxury?
- ☐ Is it a necessity?
- ☐ Is it a habit?
- ☐ Is it self-indulgent?
- ☐ Do people have to have it but wish they didn't?

Distribution
- ☐ How widely is the product distributed?
- ☐ Are there exclusive sellers?
- ☐ Is there a ready supply or limited amount?
- ☐ Is it available for a short season?

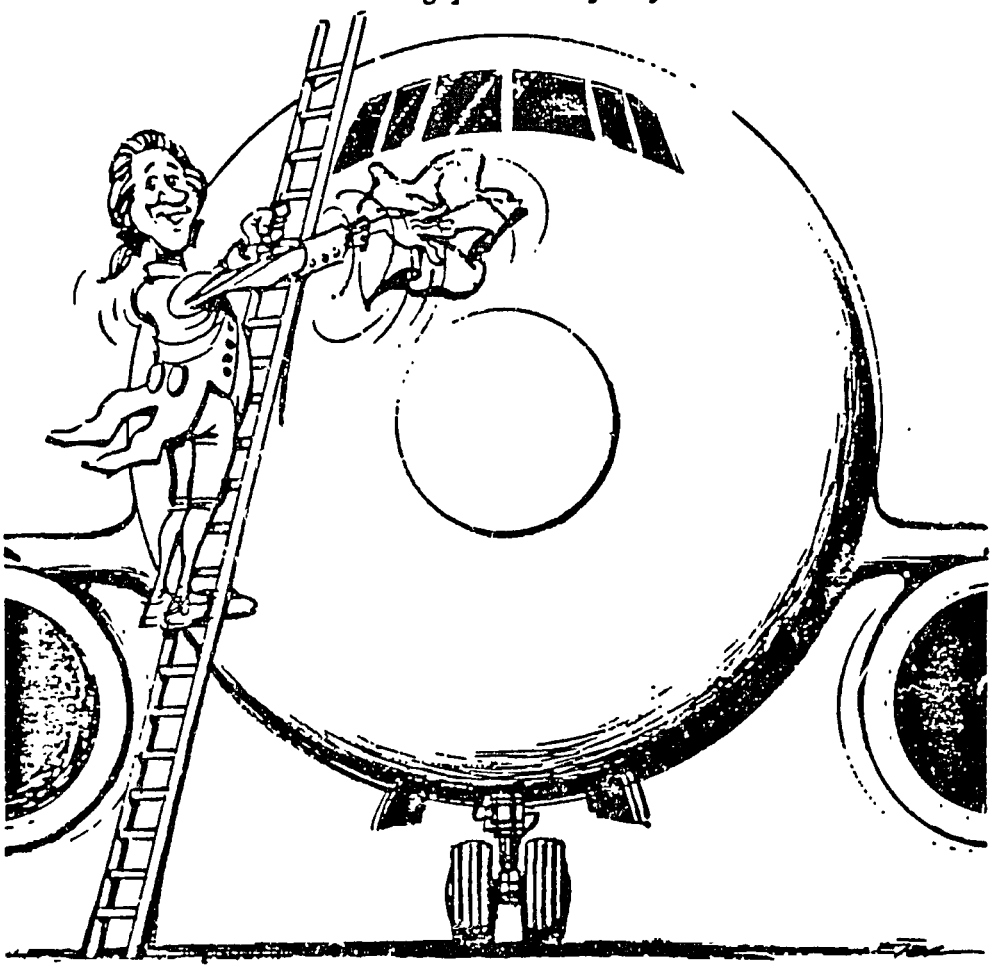
Market position
- ☐ What is its share of the total market?

Research
- ☐ What research about the product does the supplier have?
- ☐ Is research available?

Source: Bovee, Courtland L. and William S. Arens, Contemporary Advertising. Richard ERwin Publishers, 1982.

Austrian Airlines. The youngest aircraft to Vienna and beyond.

"There's nothing quite like a finely tuned instrument."



Apart from his genius, what distinguished Mozart from other composers was his youth. Today, that same distinction can be made between Austrian Airlines and most other airlines.

When you fly our New York/Vienna non-stops, you're traveling with an airline whose fleet is one of the world's youngest–averaging only 5½ years of age.

And our superb maintenance program insures that our planes stay young. Our standards are high –and highly regarded. In fact, we overhaul planes of several major international airlines.

Travel to Vienna and beyond, with Austrian Airlines. Because, like our famed composer, we know that the key to superior performance is a finely tuned instrument. For information, consult your travel counselor or call 800-843-0002.

AUSTRIAN AIRLINES
The professional's choice.

Fly Business Class on Austrian Airlines, and you'll be upgraded to First Class on connecting American, Northwest and USAir flights.

Source: Czinkota, Michael R. and Ilkka A. Ronkainen, *International Marketing, Instructor Manual.* Copyright © The Dryden Press, 1990.

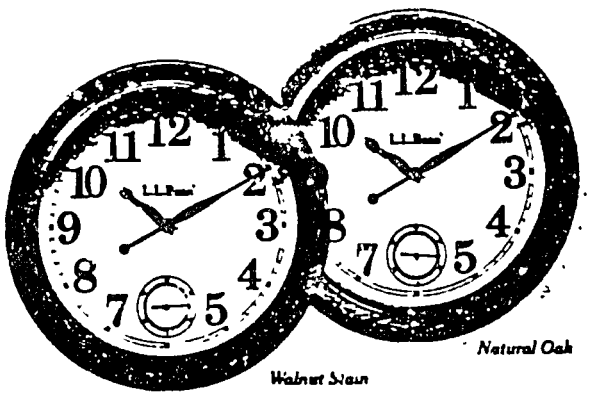
EXERCISE 4.1
WHAT IS THE FEATURE? WHAT IS THE BENEFIT?

Read the product description below. It is a promotional description of a wall clock. Try to identify the product features, those objectives and concrete characteristics of the product, and the product benefits, those satisfactions to be derived by the consumer by acquiring or using the product.

Oak Gallery Clock

The simple elegance of this traditional New England-styled clock fits beautifully into your home, cottage or office. Rich hand-rubbed finish highlights a solid oak frame. Features large, easy-to-read numbers and two independent quartz movements to ensure accuracy. Runs on two AA batteries, not included. Wall mount. 11" clock face with protective plexiglass cover. Overall 14" diam. Imported. **Q870RL $129.00**

Two colors: Walnut Stain. Natural Oak.



FEATURES	BENEFITS
solid oak frame	will last a long time
hand-rubbed finish	elegant design
two independent quartz movements	will be accurate
large numbers on clock face	numbers are easy to read
requires two AA batteries	plexiglass cover will protect clock face
11" clock face	
14" overall diameter	
plexiglass cover	
wall mount	
available in two colors	

Are there any other features or benefits identified or implied by the descriptive copy? What are they?

Are all of the product benefits clearly stated or are some implied by the promoted product features?

Why is the hand-rubbed finish important? What benefits might be derived from this characteristic by consumers?

EXERCISE 4.1
WHAT IS THE FEATURE? WHAT IS THE BENEFIT?

Now, its your turn.

Read the two product descriptions below. Make lists of the products' features and benefits.

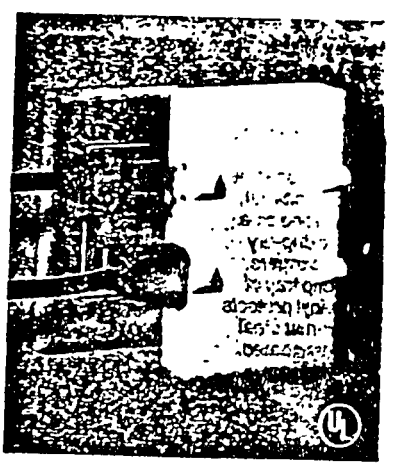
For what reasons would consumers choose either of these products over any other comparable product?

HYDE PARK OXFORD

A tough day of hard work and travel may wear you out, but not this "sturdier weight" workhorse.

Our Hyde Park™ Oxford is an indomitable dress shirt. With a fabric traditionalists applaud. A fabric woven of hearty two-ply "20's singles" yarns and weighing in at a full 5.25 oz. per sq. yd. You'll find it wears formidably and has an elegant, classy drape to it.

We tailor our Hyde Park indomitably too. With strong single-needle stitched seams throughout. Seams that lie flat and feel smooth. Other luxury details include an authentic (not mock) four-piece split back yoke and back box pleat for shoulder and back roominess. There's even a locker loop. We've been offering our Hyde Park for a decade now. And our customers tell us that it never lets up. No matter how long their hard day of work and travel. Machine wash.
Made in the USA.



NEW! 4 Plugs In The Space Of 2! Side-entry outlet cover turns a double outlet into a quadruple! Saves space where many appliances/electronics are used at once, minimizes the need for messy extension cords! Side entry design is ideal for sliding cords behind furniture—no jutting plugs! Connects to any double outlet. Sturdy white ABS plastic; 4¾x1⅝x3" high. Use with polarized double prongs or standard double prongs—how-to's included. UL-listed. You'll want more than one!
929888 Side-Entry Outlet Cover $9.98 2 for $18.98

BEST COPY FOR PRINT

Here is a checklist to help you create effective newspaper and magazine advertisements.

- Use simple layouts. One big picture works better than several small pictures. Avoid cluttered pages. (Layouts that resemble the magazine's editorial format are well read.)

- Always put a caption under a photograph. Readership of picture captions is generally twice as great as of body copy. The picture caption can be an advertisement by itself.

- Don't be afraid of long copy. The people who read beyond the headline are *prospects for your product or your service.* If your product is expensive — like a car, a vacation, or an industrial product — prospects are hungry for the information long copy gives them. Consider long copy if you have a complex story to tell, many different product points to make, or an expensive product or service to sell.

- Avoid negative headlines. People are literal-minded and may remember only the negatives. Sell the positive benefits in your product — not that it won't harm or that some defect has been solved. Look for emotional words that attract and motivate, like *free* and *new* and *love.*

- Don't be afraid of long headlines. Research shows that on the average long headlines sell more merchandise than short ones.

- Look for *story appeal.* Next to the headline, an illustration is the most effective way to get a reader's attention. Try for story appeal — the kind of illustration that makes the reader ask: "What's going on here?"

- Photographs are better than drawings. Research says that photography increases recall an average of 26 percent over artwork.

- Look at your advertisement in its editorial environment. Ask to see your advertisement pasted into the magazine in which it will appear. Or, for newspapers, photostatted in the same tone as the newspaper page. Beautifully mounted layouts are deceptive. The reader will never see your advertisement printed o high-gloss paper, with a big white border, mounted on a board. It is *misleading* for you to look at it this way.

- Develop a single advertising format. An overall format for all print advertising can double recognition. This rule holds special meaning for industrial advertisers. One format will help readers see your advertisements as coming from one large corporation, rather than several small companies.

- Before-and-after photographs make a point better than words. If you can, show a visual contrast — a change in the consumer, or a demonstration of product superiority.

- Do not print copy in reverse type. It may look attractive, but it reduces readership. For the same reason, don't surprint copy on the illustration of your advertisement.

- Make each advertisement a complete sale. Your message must be contained in the headline. React to the overall impression, as the reader will. Only the advertiser reads all his advertisements. Any advertisement in a series must stand on its own. *Every one* must make a complete sale. Assume it will be the only advertisement for your product a reader will ever see.

EXERCISE 2
What are you Selling?

Write a short paragraph describing your own product. What does it do? How is it made? How is it used? Be as thorough as time or space permits.

Look at the paragraph you have just written. List the phrases or statements that identify product features or physical characteristics.

EXERCISE 2
What are you selling?

Now, list the phrases or statements from your written paragraph that identify the benefits derived by the customer from acquiring, consuming, or owning your product.

Given the benefits that consumers derive from your product, answer the question "How is your product different from competing products in delivering benefits to consumers?"

EXERCISE 2
What are you selling?

You should now have several lists of potential sources of competitive advantage. In the space below, write a sentence or even several sentences that presents an argument for someone to purchase your product. You are now creating the basis for a sales talk or for advertising copy. Be as persuasive as you can.

DEFINITIONS OF PROMOTIONAL TOOLS

ADVERTISING

Any paid form of nonpersonal presentation of ideas, goods, or services by an identified sponsor. This presentation can take the form of print advertising, broadcast advertising, billboards, or direct mail.

PERSONAL SELLING

The oral (and personal) presentation of ideas, goods, or services in conversation with one or more prospective purchasers for the purpose of making (closing) sales.

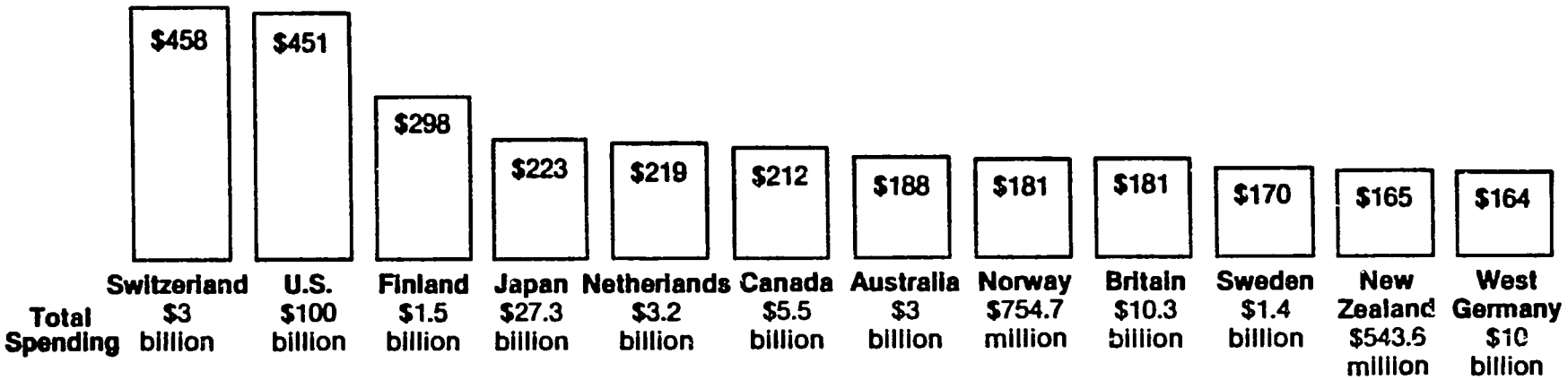
SALES PROMOTION

Short-term incentives to encourage purchase of a product or service.

PUBLIC RELATIONS

Building good relations with the company's various constituencies by obtaining favorable publicity, promoting a good corporate image, and effectively responding to unfavorable rumors, stories, or events.

Worldwide Advertising Spending



Note: Figures reflect advertising expenditures for 68 countries in 1987.
Source: "Where the Pitch Is Loudest." Copyright 1989, *U.S. News & World Report*. Reprinted with permission from the March 20, 1989 issue, p. 90.

HO 4-11

PROFILES OF MAJOR MEDIA TYPES

MEDIUM	VOLUME IN BILLIONS	PERCENTAGE	EXAMPLE OF COST	ADVANTAGES	LIMITATIONS
Newspapers	$31.2	26.4%	$33,615 for one page, week-day *Chicago Tribune*	Flexibility; timeliness, good local market coverage; broad acceptance; high believability	Short life; poor reproduction quality; small "pass along" audience
Television	25.7	21.8%	$1,500 for thirty seconds of prime time in Chicago	Combines sight, sound, and motion; appealing to the senses; high attention; high reach	High absolute cost; high clutter, fleeting exposure; less audience selectivity
Direct mail	21.1	17.9%	$1,800 for the names and addresses of 40,000 veterinarians	Audience selectivity; flexibility; no ad competition within the same medium; personalization	Relatively high cost; "junk mail" image
Radio	7.8	6.6%	$700 for one minute of drive time (during commuting hours, A.M. and P.M.) in Chicago	Mass use; high geographic and demographic selectivity; low cost	Audio presentation only; lower attention than television; nonstandardized rate structures; fleeting exposure
Magazines	6.1	5.2%	$100,980 for one page, four-color, in *Newsweek*	High geographic and demographic selectivity; credibility and prestige; high-quality reproduction; long life; good pass-along readership	Long ad purchase lead time; some waste circulation; no guarantee of position
Outdoor	1.1	0.9%	$25,500 per month for seventy-one billboards in metropolitan Chicago	Flexibility; high repeat exposure; low cost; low competition	No audience selectivity; creative limitations
Other	25.0	21.2%			
Total	118.0	100.0%			

Source: Columns 2 and 3 are from Advertising Age, May 14, 1990, p. 12, Printed with permission. Copyright © 1990. Crain Communications, Inc.

COST OF SELECTED PRINT MEDIA (UNITED STATES)

Newspaper	Circulation	Quantity	Rate
Columbus Dispatch	266,432 (weekday) annual purchase	126" bulk	$83.10/in.
The New York Times	1,201,970 (weekday) annual purchase	126" bulk	$395./in.
Periodical	1 ad 1 time purchase		Rate
Columbus Monthly	1/2 page black and white		$1480.
	1/2 page 4-color		$2275.
	Covers 4-color		
	2nd cover		$4410.
	3rd cover		$4065.
	4th cover		$4765.
Newsweek	1/2 page black and white		$46,020.
	1/2 page 4-color		$74,435.
	Covers 4-color		
	2nd cover		$114,535.
	3rd cover		$114,535.
	4th cover		$146,815.
House and Garden	1/2 page black and white		$3,200.
	1/2 page 4-color		$4,200.
	Covers 4-color		
	2nd cover		$8,525.
	3rd cover		$7,850.
	4th cover		$9,300.

Source: Standard Rate and Data Service, *Newspaper Rates and Data*, Nov. 1992.
Standard Rate and Data Service, *Consumer Magazine and Farm Publication Rates and Data*, Nov. 1992.
Standard Rate and Data Service, *Spot Radio Rates and Service*, Oct. 1992.
Standard Rate and Data Service, *Spot Television Rates and Data*, Oct. 1992.
Standard Rate and Data Service, *Consumer Magazine and Farm Publication Rates and Data*, Nov. 1992.
Standard Rate and Data Service, *Newspaper Rates and Data*, Nov. 1992.

MANSFIELD (254)

WAPQ (FM)

1990
CRESTLINE
COUNTY: Crawford

(This is a paid duplicate of the listing under Crestline, Ohio.)

Location ID: 4 RLST OH — Mid 056406-000
WAPQ Inc
2282 Village Mall Drive, Mansfield, OH 44906 Phone 419 747 9670 FAX 419 747 2679
Cities of ID: Crestline/Mansfield.
WAPQ (FM) Target Audience Adults 25-54 MUSIC Album Oriented Rock Rec'd 3/10/92

1. PERSONNEL
Pres—Redge A. Mahaffey
Gen Mgr—Robert Cohen
Oper Dir—Deb Tidmore
2. REPRESENTATIVES
Katz & Powell
2A. NETWORK/GROUP AFFILIATION
Affiliated with Unistar Radio Network.
3. FACILITIES
ERP 1,800 w (horiz.) 1,800 (vert.) 98.7 mhz. Stereo
Antenna ht. 400 ft. above average terrain
Operating schedule 24 hours daily EST
4. AGENCY COMMISSION
15%
Bills payable 15 days

TIME RATES
Received March 18, 1992

6. SPOT ANNOUNCEMENTS
5:00 AM MIDNIGHT MONDAY SUNDAY R.O.S/B.T.A.

	1 wk	90 days	6 mo	12 mo
30 SECONDS				
6 u	18.50	17.50	16.50	15.50
12 u	17.00	16.00	15.00	14.00
24 u	15.50	14.50	13.50	12.50
36 u	14.50	13.50	12.50	11.50
48 u	13.50	12.50	11.50	10.50
ONE MINUTE				
6 u	22.50	21.50	20.50	19.50
12 u	21.00	19.50	18.00	17.00
24 u	19.50	18.00	17.00	16.00
36 u	18.00	16.50	15.50	14.50
48 u	16.00	15.00	14.00	13.00
FIXED—MONDAY SUNDAY				
30 SECONDS				
6 u	20.50	19.50	18.50	17.50
12 u	19.00	18.00	17.00	16.00
24 u	17.50	16.50	15.50	14.50
36 u	16.50	15.50	14.50	13.50
48 u	15.50	14.50	13.50	12.50
ONE MINUTE				
6 u	24.50	23.50	22.50	21.50
12 u	23.00	21.50	20.00	19.00
24 u	21.50	20.00	19.00	18.00
36 u	20.00	18.50	17.50	16.50
48 u	18.00	17.00	16.00	15.00

(SMD D)

WMAN

1939
MANSFIELD
COUNTY: Richland

Location ID: 4 RLST OH — Mid 012991-000
Treasure Radio Associates
Box 8 1400 Radio Lane Mansfield, OH 44901 Phone 419 524 2211 FAX 419 525 2116
2. REPRESENTATIVES
Republic Radio Sales, Inc

WRGM

1987
MANSFIELD
COUNTY: Richland

Location ID: 4 RLST OH — Mid 043695-000
G S M Media Corp
2900 Park Ave West Mansfield, OH 44906 Phone 419-529 5900

FORMAT DESCRIPTION
WRGM Programmed to adults 35+ MUSIC Contemporary Easy Listening Contact Representative for further details Rec'd 1/7/88

1. PERSONNEL
Oper Mgr—James Holmer
2. REPRESENTATIVES
Regional Reps Corp
2A. NETWORK/GROUP AFFILIATION
Member Ohio Radio Network
3. FACILITIES
1,000 w., 1440 khz Directional Stereo
Operating schedule 24 hours daily EST
4. AGENCY COMMISSION
15%, payable 10th of month

TIME RATES
Eff 7/1/87—Rec'd 10/12/87.

7. PACKAGE PLANS
WEEKLY SATURATION

PER WK:	10 tl	15 tl	20 tl	30 tl	40 tl	50 tl
1 min	15.90	15.30	14.70	17.10	13.50	13.00
30 sec	13.00	12.30	11.70	11.20	10.60	10.00

Guaranteed times, extra 10%
12/88

WSWR (FM)

1961
SHELBY

Location ID: 4 RLST OH — Mid 036954-000
See SRDS Spot Radio Small Markets Edition.

WVNO (FM)

1962
MANSFIELD
COUNTY: Richland

Location ID: 4 RLST OH — Mid 012993-000
Johnny Appleseed Broadcasting Co
2900 Park Ave W., Mansfield, OH 44906. Phone 419-529 5900

FORMAT DESCRIPTION
WVNO (FM) Programmed for adults 25-54 MUSIC Current Pop and Classic Hits NEWS at 60 emphasis on local coverage for both news & public affairs, AP, network plus mobile units Contact Representative for further details Rec'd 7/30/92

1. PERSONNEL
Pres/Gen'l Mgr—Gunther Meisse
General Sales Manager—Glenn E. Cheesman.
2. REPRESENTATIVES
Regional Reps Corp
2A. NETWORK/GROUP AFFILIATION
Affiliated with Unistar Radio Networks.
Member Ohio Radio Network
3. FACILITIES
ERP 50,000 w (horiz.), 50,000 w (vert.), 106.1 mhz. Stereo
Antenna ht. 350 ft. above average terrain
Operating schdiule 24 hours daily EST
4. AGENCY COMMISSION
15.0, 10th of month

TIME RATES
Eff 2/1/88—Rec'd 1/25/88

7. PACKAGE PLANS

PER WK:	10 tl	15 tl	20 tl	30 tl	40 tl	50 tl
1 min	25.50	24.40	23.10	20.20	18.40	17.20
30 sec	21.50	20.40	19.70	15.50	15.10	14.80

12/90

WYHT-FM

1962
MANSFIELD
COUNTY: Richland

Location ID: 4 RLST OH — Mid 033707-000
Treasure Radio Associates
Box 8 1400 Radio Lane Mansfield, OH 44901. Phone 419 524 2211. FAX 419 525 2116.
2. REPRESENTATIVES
Republic Radio Sales, Inc

MARIETTA

See Parkersburg-Marietta, WV-OH

STEUBENVILLE-WEIRTON (231)

WEIR

1950
WEIRTON, WV
COUNTY: Hancock

Location ID: 4 RLST OH — Mid 013035-000
WEIR Radio Corp.
3578 Pennsylvania Ave., Weirton, WV 26062. Phone 304-723-1430
2. REPRESENTATIVES
HNWH
Pittsburgh—Dome & Associates, Inc.
1 min rate 1x: 20.00.

WRKY (FM)

1947
STEUBENVILLE
COUNTY: Jefferson

Location ID: 4 RLST OH — Mid 013037-000
WSTV, Inc.
320 Market St., Steubenville, OH 43952. Phone 614-283-4747.

Cities of ID: Steubenville/Wheeling, WV

FORMAT DESCRIPTION
WRKY (FM) Targeted for adults 18-44 MUSIC Contemporary Hits. Steve Kline 5:30-10 am Cindy Taylor 10 am-2 pm, Scott Feist 2-6 pm Dulcie McVicker 6 pm-midnight, "The Bear" midnight 6 am FEATURES Rick Dees Weekly Top 40 9 am 1 pm Sat. Open House Party Sat & Sun 7 pm midnight Contact Representative for further details Rec'd 3/13/92

1. PERSONNEL
Gen Mgr—William B. Chesson
Prog Dir—Cindy Taylor
2. REPRESENTATIVES
OH—Regional Reps Corp
3. FACILITIES
ERP 16,000 w (horiz.), 16,000 w (vert.), 103.5 mhz Stereo
Antenna ht. 1,943 ft. above average terrain
Operating schedule 24 hours daily EST
Primary signal coverage Steubenville/Wheeling
4. AGENCY COMMISSION
15/0 time only
5. GENERAL ADVERTISING REGULATIONS
General 1, 2, 3
Rate Protection 15
Cancellation 21a
AM facilities WSTV

TIME RATES
Received October 16, 1991

6. SPOT ANNOUNCEMENTS

GRID:	I	II	III
WRKY (FM)	65	60	55
WRKY/WSTV Combo	115	95	85

7. PACKAGE PLANS
TAP—1/4 EACH DAYPART, 6 AM MIDNIGHT

	I	II
WRKY (FM)	50	45
WRKY (FM)/WSTV COMBINATION	75	65

12/89

WSTV

1940
STEUBENVILLE
COUNTY: Jefferson

Location ID: 4 RLST OH — Mid 013038-000
WSTV, Inc
320 Market St., Steubenville OH 43952 Phone 614 283-4747
Cities of ID: Steubenville OH/Weirton WV

FORMAT DESCRIPTION
WSTV Targets Adults 35-64 News, talk information & sports with emphasis on local audience & community involvement SPORTS local year round coverage of college & pro football FEATURES Rush Limbaugh noon-3 pm, Tom & Wendy, 6-9 am, "You're On" 9 am-noon, "Open Mike" 3-5 pm, "Evening Edition" 5-5:30 pm Contact Representative for further details Rec'd 10/16/91.

1. PERSONNEL
Gen Mgr—William B. Chesson
Oper Dir—Joyce Nicholson
2. REPRESENTATIVES
OH—Regional Reps Corp
2A. NETWORK/GROUP AFFILIATION
Affiliated with NBC—Talknet
Affiliated with Sun Radio Network
Affiliated with MBS
3. FACILITIES
1,000 w; 1340 khz Non-directional
Operating schedule 24 hours daily EST
Primary signal coverage Steubenville OH, Weirton WV.
4. AGENCY COMMISSION
15/0 time only.
5. GENERAL ADVERTISING REGULATIONS
General 1, 2, 3, 5
Rate Protection. 15.
Cancellation 21a
Prod. Services 82
FM facilities WRKY (FM)

TIME RATES
Received October 16, 1991
AAA—Mon thru Sat 6 am-7 pm.
AA—All other times

6. SPOT ANNOUNCEMENTS

GRID:	I	II	III
WSTV	50	45	40
WSTV/WRKY(FM) COMBO	105	95	85

12/89

TOLEDO (79)

WCWA

1938
TOLEDO
COUNTY: Lucas

Location ID: 4 RLST OH — Mid 013040-000
Reams Broadcasting Corp
124 N. Summit St., Suite 400, Toledo, OH 43604 Phone 419-248-2627. FAX 419 244-2483.
2. REPRESENTATIVES
Eastman Radio, Inc

(A)

INDIANA

Madison—cont

SIMMONS CABLE TV OF KENTUCKY/ INDIANA—cont

Production Van with 3-5 cameras audio lighting, graphics & one technician 200 00/hour or 800 00/day Each additional personnel and 20 00/hour
Editing 3/4" 80 00 hour Editing 1" 150 00/hour,
Script writing 30 00/hour telescripting 20 00/hour
Carners Cards 30 00 each.
Graphics and or audio tags 20 00/spot.
Audio voice overs music beds 30 00 per spot.
Dubbing 3/4" or VHS 1/2" 30 00 each including tape.

10C. SUBSCRIBER DATA

SWORN SUBSCRIBER STATEMENT
Statements filed February 1990

Subscriber totals as of February 1990	Subscribers
Total	5,800

Marion

Grant County—Map Location E-4

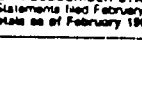
See Indianapolis
(Including Bloomington, Marion)

South Bend-Elkhart

St. Joseph County—Map Location D-2
Elkhart County—Map Location D-1

WHME-TV

(Airdate July 27, 1974)
SOUTH BEND



Location ID: 6 TLST IN — Mid 007413-000

LeSea Broadcasting
61300 S. Ironwood Rd., South Bend, IN 46614 Phone 219-291-8200 FAX 219-291 9043
Mailing Address P.O Box 12, South Bend, IN 46624

1. PERSONNEL
Gen Mgr—Peter Sumrall.
2. REPRESENTATIVES
Landin Media Sales, Inc.
3. FACILITIES
Video 1,120 000 w., audio 100,000 w.; ch 48.
Antenna ht. 882 ft. above average terrain.
Operating schedule: 24 hours daily EST.
4. AGENCY COMMISSION
15% to recognized agencies; no cash discount.
5. GENERAL ADVERTISING REGULATIONS
General 2a, 2b, 3a, 3b 3c, 3d 4b, 5 6a, 7b
Rate Protection 10b, 11b, 12b, 13a, 14b, 15, 16, 16a, 17.
Contracts 20a, 21 22a, 22c, 23 24a, 25 26, 27a, 28, 29, 31a, 31b, 31c, 32a, 32c, 32d, 34, 34d.
Basic Rates: 40b, 41a, 41c, 41d, 42, 44b, 45c, 46, 47, 47a, 49, 51, 52.
Comb Cont Discounts: 60d, 60f 61c, 62b.
Cancellation: 70b, 71, 72, 73a, 73b.
Prod. Services: 82, 83, 84 85 86, 87c.
(1) Station reserves right to schedule spots with less than 15 minutes separation.
(1) Contracts for announcements are firm for the first two (2) weeks and subject to cancellation on seven (7) days advance notice in writing thereafter
6. TIME RATES
Effective January 31, 1992.
Received May 21, 1992.
7. SPOT ANNOUNCEMENTS
30 SECONDS

	I	II	III
MON THRU FRI, AM:			
6:30-7, Alvin & the Chipmunks	70	85	95
7-7:30, Merrie Melodies	75	85	95
7:30-8, Tiny Toon Adventures	75	85	95
8 am-2 pm, Religious Various	60	70	85
PM:			
2-2:30 Bullwinkle	70	85	95
2:30-3 The Flintstones	75	85	95
3-3:30 Ducktales	95	110	125
3:30-4 Chip N Dale	110	125	135
4-4:30 Tale Spin	110	125	135
4:30-5 Darkwing Duck	125	135	185
5-5:30 Brady Bunch	125	135	185
5:30-6 Saved By The Bell	95	125	135
6-6:30 Andy Griffith	85	95	110
6:30-7 Father Knows Best	85	95	110
7-8 Bonanza	85	95	110
8 pm-8:30 News Center 16	60	65	80
8:30-1 am, Religious Various	60	65	80
SAT AM:			
7 12, Kid's Programming Various	70	85	95
11-Noon Kids Adventure Zone	80	90	105
Noon-2 pm, Movie	125	110	150
PM:			
3-5 pm, Movie #1	70	85	95
5-6 pm Wonderful World of Disney	75	85	95
6-8 Movie #2	70	85	95
8 pm-1 am, Religious Various	60	70	85
SUN:			
All Day Religious Various	60	70	85

60 sec double the 30 sec.
15 sec. 75% the 30 sec.
10 sec 60% of 30 sec
II—2 week pre notice
III—1 week preemptible.
IV—Immediately preemptible

10. PROGRAM TIME RATES
6 pm-midnight Mon thru Sat, 7 am-midnight Sun.

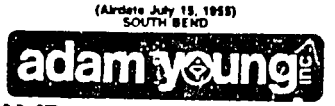
WNDU	1 hr I	1 hr II	1 hr III	1 hr IV	1/2 hr I	1/2 hr II	1/2 hr III	1/2 hr IV
52 x	850	575	500	425	400	350	275	250
13 x	725	650	550	475	450	400	325	300
1 x	1200	1150	1075	1060	850	800	725	700

	1/4 hr I	1/4 hr II	1/4 hr III	1/4 hr IV	5 min I	5 min II	5 min III	5 min IV
52 x	300	250	175	150	225	175	100	75
13 x	350	300	225	200	250	200	125	100
1 x	400	350	275	250	275	225	150	125

11. SPECIAL FEATURES
COLOR
Schedules network color film, slides tape and live.
Equipped with 3/4" cassette, 1" reel, 2" reel.
13. CLOSING TIME
All finished commercial material, including slides, tape, and film must be received by station at least 72 hours before air time

WNDU-TV

(Airdate July 19, 1955)
SOUTH BEND



Location ID: 6 TLST IN — Mid 007413-000

Michiana Telecasting Corp
54516 Business U.S. 31 North, South Bend IN 46637 Phone 219-239-1818, TWX, 810-299-2594 FAX 219-239-1600
Mailing Address: P.O Box 1818, South Bend, IN 46634

1. PERSONNEL
Pres/Gen Mgr—Cazil O'Hagan.
Gen Sales Mgr—Michael Leyes.
Prog Dir—Karen Hessler
2. REPRESENTATIVES
Adam Young, Inc.
3. FACILITIES
Video 3 770 000 w., audio 754 000 w., ch 16 Stereo.
Antenna ht. 1 072 ft. above average terrain.
Operating schedule 6-2 a.m EST
Satellite capabilities uplink & downlink.
4. AGENCY COMMISSION
15/0 to recognized agencies on net time, except as specified in contract.
5. GENERAL ADVERTISING REGULATIONS
General 2a, 3a, 4a, 5, 5b, 7b 8
Rate Protection 10m, 11m, 12m, 13m
Contracts 20a, 22a, 23, 24b, 25, 26, 27a, 28, 30, 31b, 32a, 33, 34d.
Basic Rates: 40a, 42, 45a, 47a, 47j, 52
Comb. Cont. Discounts. 60a
Cancellation. 70, 72, 73a, 73b.
Prod. Services. 80, 83 84, 86, 87a
The rates and discounts for time periods designated herein apply only to products of a single advertiser
Affiliated with NBC Television Network.
6. TIME RATES
Rates not submitted.
11. SPECIAL FEATURES
COLOR
Schedules network color, closed caption.
Equipped with 3/4" cassette, 1" reel; D-2; BetaCam SP; M-II.
13. CLOSING TIME
72 hours prior telecast.

(A)

WSBT-TV

(Airdate December 21, 1952)
SOUTH BEND

Location ID: 6 TLST IN — Mid 007414-000

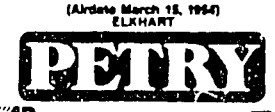
WSBT, Inc.
300 W Jefferson Blvd., South Bend, IN 46601 Phone 219-233 3141, TWX, 810-299-2500 FAX 219-289-8630

1. PERSONNEL
Pres/Gen Mgr—James D Freeman.
Station Mgr/Gen Sales Mgr—Roland T. Adeszko.
Prog Mgr—Julius DeCocq.
2. REPRESENTATIVES
Katz Television Group, Continental.
3. FACILITIES
Video 4 790 000 w., audio 479 000 w., ch 22.
Antenna ht. 1 074 ft. above average terrain.
Operating schedule 5 30am-1 00am Mon, Thur, Fri; 6 00am-1 00am Sat, 7 00am-1.30am Sun.
4. AGENCY COMMISSION
15/0 to recognized agencies on time only.
5. GENERAL ADVERTISING REGULATIONS
General 2a 3a 4a 5 6a, 7b 8
Rate Protection 14l 16a, 13c.
Contracts 20a 22a 24b, 25 26 30 32a, 32d 33, 34
Basic Rates 40b 41a, 41d 42 45a 47a, 49, 50 51, 52
Comb Cont Discounts 60d 61b 62b
Cancellation 70a 70 71 72 73a
Prod Services 80 86 87c
Time Change
Station reserves the right to adjust rates or rate classifications without normal rate protection because of schedule changes occasioned by change in network feed or clock time
Affiliated with CBS Television Network.
6. TIME RATES
Rates not submitted

11. SPECIAL FEATURES
COLOR
Schedules network color film, slides, tape and live
Equipped with 1/2" cassette-Beta, 1/2" cassette-VHS, 1/2" MII, 3/4" cassette; 1" reel 2" reel; closed caption.
13. CLOSING TIME
72 hours prior film, slides and all commercial copy; 1 week artwork.

WSJV-TV

(Airdate March 15, 1964)
ELKHART



Location ID: 6 TLST IN — Mid 007415-000

WSJV Inc.
58096 County Rd 7 South, Elkhart, IN 46517 Phone 219-293-0516 219-674 5106 TWX Easy Link, 62000775 FAX 219-294-1324
Mailing Address P.O Box 1846 Elkhart, IN 46515

1. PERSONNEL
VP/Gen Mgr—Don E Fuller
Gen Sales Mgr—Richard S Fnd.
Traffic Mgr—Peggy Naper
2. REPRESENTATIVES
Petry Television
3. FACILITIES
Video 5 000 000 w., audio 500 000 w., ch 28
Antenna ht. 1 048 ft. above average terrain.
Operating schedule 6 am-1 am EST.
4. AGENCY COMMISSION
15/0 to recognized agencies on time only
5. GENERAL ADVERTISING REGULATIONS
General 2a, 3a, 4a, 5 6a, 7a, 8
*Rate Protection 10l 11m 13m 14k, 15
Contracts 20a 21 22a, 23, 24b, 25, 26, 27a 28 31a, 31b 31c, 32a 33 34b
Basic Rates 40a, 41a, 41c, 43a, 44b, 45c 46, 47a 49 51b
Comb. Cont Discounts 60a 60d 60e 60f 61c 62a
Cancellation 70a 70o 70p 71 72 73a 73b
Prod Services 80 83 84 86 87a 87b 87c
(*) Fixed 90 days all others 28 days
Affiliated with ABC Television Network
6. TIME RATES
Rates not submitted
11. SPECIAL FEATURES
COLOR
Schedules network color, slides tape and live
Equipped with 1/2" cassette-VHS, 1" cassette; 3/4" cassette 2" reel; MII.
13. CLOSING TIME
72 hours prior slides, artwork and all commercial copy.

Terre Haute

Vigo County—Map Location C-6

WBAK-TV

(Airdate April 3, 1973)
TERRE HAUTE

Location ID: 6 TLST IN — Mid 007416-000

Terre Haute Independent Broadcasters, Inc.
138 Poplar Terre Haute, IN 47807, Phone 812 234-1515 FAX 812 235-3854
Mailing Address P.O Box 718, Terre Haute, IN 47808

1. PERSONNEL
Gen Mgr—Linda Snyder.
2. REPRESENTATIVES
Seltel, Inc.
3. FACILITIES
Video 2 140 000 w., audio 214 000 w., ch 38
Antenna ht. 980 ft. above average terrain.
Operating schedule 6 30-1 am. EST
4. AGENCY COMMISSION
15/0 to recognized agencies on time net 10th of month.
5. GENERAL ADVERTISING REGULATIONS
General 2a, 3a, 3d 4a, 5 6a, 7b 8
Rate Protection 10k, 11k, 12k, 13k, 14k, 15 16b
Contracts 20a 21, 22a, 27a 28 30 31b, 32a, 34a, 34b
Basic Rates 40b 41b 41d 42 47a, 47c, 50 52a
Comb Cont Discounts 60a 62a.
Cancellation 70a, 70i 73d
Prod Services 80 81, 82 83 84, 85, 86, 87c.
Affiliated with ABC Television Network.
6. TIME RATES
3rd Quarter Effective June 28 1992
Received July 21 1992
7. SPOT ANNOUNCEMENTS
30 SECONDS

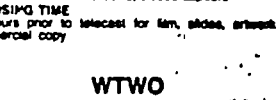
	I	II	III
MON THRU FRI AM			
7 9 Good Morning America	30	25	20
9 10 700 Club	30	25	20
10-11 30 Home	30	25	20
11 11 30 People's Court	30	25	20
11 30 Noon, Loving	30	25	20
PM			
Noon-1 All My Children	30	25	20
1 2 One Life to Live	30	25	20
2 3 General Hospital	30	25	20
3 3 30 Tekwon	75	70	65
3 30-4 Darkwing Duck	75	70	65
4 4 30 Teenage Mutant Ninja Turtles	75	70	65
4 30 5 Saved by the Bell	75	70	65
5-5 30 Swans Crossing	75	70	65
5 30 6 ABC World News	75	70	65
6-6 30 Entertainment Tonight	75	70	65
6 30 7 Love Connection	85	80	75
10-10 30 Best of Love Connection	50	45	40
10 30-11 ABC Nightline	50	45	40
11 Midnight Arsenio Hall Show	45	40	35
SAT, AM:			
6-6 30 Valley Point of View	20	20	15
6 30-7 Bullwinkle	25	20	15
7 am-Noon, ABC Kids Rotation	80	75	70
PM			
6-7, Karaoke Showtime	80	75	70
10 10 30 Emergency Call	50	45	40
10 30 pm-12 30 am 3 Late Movie	45	40	35
12:30-1 30 am, WCW Wrestling	45	40	35
SUN AM			
6 30-7 Bullwinkle	25	20	15
7 7 30 Game Pro	30	25	20
7 30-8 Way Cool	35	30	25
8-9 Main Event Wrestling	35	30	25
9-9 30 Toxic Crusaders	35	30	25
9 30-10 Valley Point of View	35	30	25
10-10 30 Business World	45	40	35
10 30-11 30 This Week w/David Brinkley	85	80	75
11 30 am-noon Ronn Mott & Terre Haute	55	50	45
PM			
Noon-2 Movies/Various	55	50	45
5-5 30 Super Sports Fables	70	65	60
5 30-6 ABC World News	70	65	60
10 11 Entertainment this Week	45	40	35
11-Midnight, Arsenio Hall Weekend Jam	45	40	35
PRIME TIME			
MON			
7 7 30 FBI The Untold Stories	300	250	200
7 30-8 American Detective	300	250	200
8 10 ABC Movie	300	250	200
TUES			
7 7 30 Full House	350	300	250
7 30 8 Home Improvement	350	300	250
8-8 30 Roseanne	450	400	350
8 30 9 Coach	450	400	350
9-10 Jack's Place	300	250	200
WED			
7 7 30 Wonder Years	350	250	200
7 30-8 Growing Pains	300	250	200
8-8 30, Doogie Howser M D	300	250	200
8 30-9, Who's The Boss	300	250	200
9 10, Civil Wars	300	250	200
THURS			
7 9, ABC Movie	350	250	200
9-10 Primetime Live	350	250	200
FRI			
7 7 30 Family Matters	400	350	300
7 30-8 Baby Talk	400	350	300
8-8 30 Dinosaurs	400	350	300
8 30-9 Up To No Good	400	350	300
9 10 20/20	350	300	250
SAT			
7 8 Macgyver	250	200	150
8 9 Human Target	250	200	150
9 10 The Commish	250	200	150
SUN			
6 7 Life Goes On	300	250	200
7 7 30 America's Funniest Videos	600	550	500
7 30-8 America's Funniest People	600	550	500
8 10 ABC Sunday Night Movie	400	350	300

7-10 pm M S ROS Prime (No Guaranteed Pos.) — 125

60 sec twice the 30 sec.
10 sec 50% of 30 sec
ROS Prime—Mon thru Sun 8-11 pm; 125.00
11. SPECIAL FEATURES
COLOR
Schedules network color, film slides and tape,
Equipped with 3/4" cassette; closed caption.
13. CLOSING TIME
72 hours prior to telecast for film, slides, artwork and commercial copy

WTWO

(Airdate September 1, 1968)
TERRE HAUTE



Location ID: 6 TLST IN — Mid 007416-000

TCS Television Partners
U S Hwy 41 South Farmersburg, IN 47850 Phone 812-696-2121 TWX 810 350 2477 FAX 812-696-2734
Mailing Address P O Box 299 Terre Haute, IN 47808.

1. PERSONNEL
VP/Gen Mgr—Richard Hartsson.
Sales Mgr—John Chadwick.
Prog Dir—Phyllis Mamindale
2. REPRESENTATIVES
Petry Television.
3. FACILITIES
Video 100 000 w audio 19 500 w., ch 2
Antenna ht 954 ft above average terrain.
Operating schedule 24 hours daily Mon thru Sun.
4. AGENCY COMMISSION
15/0 to recognized agencies on time only
5. GENERAL ADVERTISING REGULATIONS
General 1a 3a 5 8
Rate Protection 10c 13m 14b
Contracts 32a 34
Basic Rates 41d 43a 47a 47h
Comb Cont Discounts 60b 60e 60f 62a
Cancellation 70a 70h
Prod Services 87a 87b 87c
Base rate assignments in primetime may be changed and 28 days rate protection will be granted to the advertiser. Announcements rotating within participating programs may include the minute immediately preceding or following that program.
Program accepted only when the subject matter is of genuine interest in the opinion of station management. The rates and discounts for time periods designated herein apply only to products of a single advertiser. Note also that the station reserves the right to implement special rates presented to or within Special Events, as may from time to time seem appropriate
Affiliated with NBC Television Network
6. TIME RATES
Rates not submitted

THE NEW YORKER

ABC MPA

(This is a paid duplicate of the listing under classification No. 22.)

Location ID: 8 MLST 36A Mid 000486-000

Published weekly by The New Yorker Magazine, Inc., 20 W. 43rd St., New York, NY 10036. Phone 212-840-3800. Telex 236799.

For shipping info., see Print Media Production Data.

PUBLISHER'S EDITORIAL PROFILE

THE NEW YORKER discusses current ideas and events in metropolitan America. The magazine blends domestic and international news analysis with cartoons, regular criticism of sports, fashion and the arts, biographical "Profiles," short fiction, poetry and "Letters" from correspondents around the world. A listing of "Goings On" in New York precedes "The Talk of the Town," an every-issue assortment of essays, interviews and anecdotes. Rec'd 6/12/78.

1. PERSONNEL

Pres/CEO—Steven T. Florio
VP/Pub—Lynn Guthrie Heiler
VP/Dir of Manufacturing—Pamela Older
VP/Mktg Dir—Matthew D. Roberts.
Ad Dir—Lance J.O. Ford.

2. REPRESENTATIVES and/or BRANCH OFFICES

Chicago 60601—Jean Hoover, Mgr., 111 E. Wacker Drive. Phone 312-644-7666.
San Francisco 94133—Nicole Brown, Mgr., 41 Osgood Place. Phone 415-434-3232.
Los Angeles 90036—Janet Suber, Mgr., 5900 Wilshire Blvd., Suite 1460. Phone 213-931-8115.
Atlanta, Miami, Tampa, Toronto—Metropolitan Publishers Representatives, Inc.
Dallas—Carol Orr & Co.
London W1X 7LF—Jeff Foley, Mgr., 1-11 Hay Hill. Phone 71-499-5248. Telex 28232.
Milan 20121—Catherine Bifulco, Hampton Group, S.R.L., via Pinamonte D4, Vimercate. Phone (39-2) 29001796.
Hong Kong, Singapore—Seaven Ltd.

3. COMMISSION AND CASH DISCOUNT

15% to recognized agencies. Bills to agencies with credit recognition are rendered once every four weeks and are due within 10 days from date of invoice.

4. GENERAL RATE POLICY

New rates announced 6 weeks in advance of cover date.

ADVERTISING RATES
Effective January 1, 1992.
Rates received December 3, 1991.

5. BLACK/WHITE RATES

	1 ti	7 ti	13 ti	17 ti	26 ti
1 page	23,950	23,471	22,992	22,513	22,034
2/3 page	17,180	16,836	16,493	16,149	15,806
1/2 page	13,170	12,907	12,643	12,380	12,116
1/3 page	8,860	8,683	8,506	8,328	8,151
1/6 page	4,550	4,459	4,368	4,277	4,186
1/12 page	2,295	2,249	2,203	2,157	2,111

	39 ti	52 ti	65 ti	78 ti
1 page	21,555	21,078	20,597	20,118
2/3 page	15,462	15,118	14,775	14,431
1/2 page	11,853	11,590	11,326	11,063
1/3 page	7,974	7,797	7,620	7,442
1/6 page	4,095	4,004	3,913	3,822
1/12 page	2,066	2,020	1,974	1,928

Minimum 1 inch, 990.00. Nondiscountable units are available from 1" up to a maximum depth of 9" in 1/2" increments.

DISCOUNTS

Discounts apply to black and white space used in pages, 2/3 pages, 1/2 pages, 1/3 pages, 1/6 pages or 1/12 pages; to 2-color ROP in pages, 2/3 pages, 1/2 pages and 1/3 pages; and to 4-color space in pages, 2/3 pages, 1/2 pages or 1/3 pages. Spreads count as 2 insertions in computing discounts. Advertising schedules composed of mixed discountable space units are entitled to discounts except when the use of the smaller or smallest units lowers the total cost of the campaign below the amount that the larger units reached at their earned rate.

VOLUME DISCOUNTS

For every 13 pages greater than 78, an additional 2% discount will be allowed up to 104 times.

6. COLOR RATES

2-Color

	1 ti	7 ti	13 ti	17 ti	26 ti
1 page	25,125	24,623	24,120	23,618	23,115
2/3 page	18,355	17,988	17,621	17,254	16,887
1/2 page	14,320	14,034	13,747	13,461	13,174
1/3 page	10,050	9,849	9,648	9,447	9,246

	39 ti	52 ti	65 ti	78 ti
1 page	22,613	22,110	21,608	21,105
2/3 page	16,520	16,152	15,785	15,418
1/2 page	12,888	12,602	12,315	12,029
1/3 page	9,045	8,844	8,643	8,442

4-Color

	1 ti	7 ti	13 ti	17 ti	26 ti
1 page	38,195	37,431	36,667	35,903	35,139
2/3 page	30,965	30,346	29,726	29,107	28,488
1/2 page	24,440	23,951	23,462	22,974	22,485
1/3 page	17,950	17,591	17,232	16,873	16,514

	39 ti	52 ti	65 ti	78 ti
1 page	34,376	33,612	32,848	32,084
2/3 page	27,869	27,249	26,630	26,011
1/2 page	21,996	21,507	21,018	20,530
1/3 page	16,155	15,796	15,437	15,078

Sheen metallic ink (noncommissionable, nondiscountable) extra — 410
5th color extra — 3,800
5th color (bleed), extra — 4,400

7. COVERS

4 Color

	1 ti	7 ti	13 ti	17 ti	26 ti
2nd cover	45,835	44,918	44,002	43,085	42,168
3rd cover	40,105	39,303	38,501	37,699	36,897
4th cover	47,735	46,780	45,826	44,871	43,916

	39 ti	52 ti	65 ti	78 ti
2nd cover	41,252	40,335	39,418	38,501
3rd cover	36,095	35,292	34,490	33,688
4th cover	42,962	42,007	41,052	40,097

8. INSERTS

9. BLEED

Extra — 15%

10. SPECIAL POSITION

Orders for 13 or more full pages in black and white or in 4-color on regular cycles may be given guaranteed positions if available. Cancellation of any portion of a contract nullifies position protection for the remainder of the contract. 4-color center spread, continuous print spread, 2nd cover and 4th cover positions are guaranteed. However, special units of 4 or more pages may on occasion preempt smaller units in the center spread position. Information concerning availability of dates supplied upon request.

4-color

	1 ti	7 ti	13 ti	17 ti	26 ti
Center spread	85,785	84,070	82,354	80,638	78,922

	39 ti	52 ti	65 ti	78 ti
Center spread	77,206	75,490	73,776	72,060

11. CLASSIFIED/MAIL ORDER/SPECIALTY RATES

DISPLAY CLASSIFICATIONS

RETAIL, MAIL ORDER AND HOTEL

Also applies to Publishers, Real Estate, Schools and Camps.

BLACK AND WHITE RATES

	1 ti	7 ti	13 ti	17 ti	26 ti
1 page	19,155	18,722	18,389	18,066	17,623
2/3 page	13,745	13,470	13,195	12,920	12,645

	39 ti	52 ti	65 ti	78 ti
1 page	17,240	16,856	16,473	16,090
2/3 page	12,371	12,096	11,821	11,546

	1 ti		1 ti
1/2 page	10,330	1/12 page	1,805
1/3 page	6,945	Minimum 1 inch	755
1/6 page	3,570		

Nondiscountable units are available from 1" up to a maximum depth of 9" in 1/2" increments.

Special frequency discounts apply for advertisers who run 3 or more units of 1/2 page or less.

COLOR RATES.

2-color

	1 ti	7 ti	13 ti	17 ti	26 ti
1 page	20,110	19,708	19,306	18,903	18,501
2/3 page	14,685	14,391	14,098	13,804	13,510

	39 ti	52 ti	65 ti	78 ti
1 page	18,099	17,697	17,295	16,892
2/3 page	13,217	12,923	12,629	12,335

	1 ti
1/2 page	11,235
1/3 page	7,885

Sheen metallic ink (noncommissionable and nondiscountable), extra — 430

4-color

	1 ti	7 ti	13 ti	17 ti	26 ti
1 page	30,555	29,944	21,333	20,722	28,111
2/3 page	24,770	24,275	23,779	23,284	22,788
1/2 page	19,550	19,159	18,768	18,377	17,986
1/3 page	14,360	14,073	13,786	13,498	13,211

	39 ti	52 ti	65 ti	78 ti
1 page	27,500	26,888	26,277	25,666
2/3 page	22,293	21,798	21,302	20,807
1/2 page	17,595	17,204	16,813	16,422
1/3 page	12,924	12,637	12,350	12,062

5th color, extra — 3,100
5th color (bleed), extra — 3,600

RESTAURANT AND AMUSEMENT

Applies to Hotel Dining Rooms, Night Clubs, Films, Movie Houses, Theatres, Concerts, Sports Events, and similar miscellaneous amusements or exhibits where admission is charged.

4-Color

	1 ti	7 ti	13 ti	17 ti	26 ti
1 page	15,565	15,254	14,942	14,631	14,320
2/3 page	11,165	10,942	10,718	10,495	10,272

	39 ti	52 ti	65 ti	78 ti
1 page	14,009	13,[illegible]97	13,386	13,075
2/3 page	10,049	9,825	9,602	9,379

	1 ti		1 ti
1/2 page	8,390	1/12 page	1,460
1/3 page	5,650	Minimum 1 inch	630
1/6 page	2,900		

Nondiscountable units are available from 1" up to a maximum depth of 9" in 1/2" increments.

Special frequency discounts apply for advertisers who run 3 or more units of 1/2 page or less.

COLOR RATES.

2-color

	1 ti	7 ti	13 ti	17 ti	26 ti
1 page	16,330	16,0[illegible]	15,677	15,350	15,024
2/3 page	11,930	11,691	11,453	11,214	10,976

	39 ti	52 ti	65 ti	78 ti
1 page	14,697	14,370	14,044	13,717
2/3 page	10,737	10,498	10,260	10,021

	1 ti
1/2 page	9,125
1/3 page	6,405

Sheen metallic ink (noncommissionable and nondiscountable), extra — 430

4-color

	1 ti	7 ti	13 ti	17 ti	26 ti
1 page	30,555	29,944	29,333	29,722	28,111
2/3 page	24,770	24,275	23,779	23,284	22,788
1/2 page	19,550	19,159	18,768	18,377	17,986
1/3 page	14,360	14,073	13,786	13,498	13,211

	39 ti	52 ti	65 ti	78 ti
1 page	27,500	26,888	26,277	25,666
2/3 page	22,293	21,798	21,302	20,807
1/2 page	17,595	17,204	16,813	16,422
1/3 page	12,924	12,637	12,350	12,062

SMALL SPACE ADVERTISER DISCOUNT PROGRAM

Advertisers who run 3 or more 1/2 page or smaller black and white or 2-color units during 1992 are entitled to 1 additional ad at no extra cost. Offer is available only to advertisers who pay the Retail/Mail Order Rate (incl. Hotels, Publishers, Real Estate and Schools) or the Restaurant/Amusement Rate. 4-color advertisers do not qualify.

PROGRAM SPECIFICATIONS.

For every 3 ads placed that meet the above specifications, the advertiser earns 1 additional ad of the same size at no extra cost. Every 6 ads will earn 2 bonus ads; every 12 ads will earn 4 bonus ads, etc.

If an advertiser has run 3 ads that qualify but in different sizes the advertiser earns 1 bonus ad of the smaller size. All ads, the qualifying units and the bonus units, must be run within the 1990 calendar year.

All small space ads (both paid and bonus) contribute to an advertiser's total frequency level. However, the small space ads do not earn any additional frequency discounts other than those to which they are entitled under the [illegible]

SHOWROOM

Available to trade or showroom advertisers who have wholesale showrooms open only to accredited interior design trade and derive their business from sales to interior designers or architects.

BLACK AND WHITE RATES

	1 ti	7 ti	13 ti
1 page	16,770	16,602	16,435
2/3 page	12,030	11,910	11,789
1/2 page	9,220	9,128	9,036
1/3 page	6,200	6,138	6,076
1/6 page	3,185	3,153	3,121

COLOR RATES

2-color

	1 ti	7 ti	13 ti
1 page	17,590	17,414	17,238
2/3 page	12,845	12,717	12,588
1/2 page	10,030	9,930	9,829
1/3 page	7,035	6,963	6,894
Sheen metallic ink, extra	430		

4-color

	1 ti	7 ti	13 ti
1 page	26,735	26,468	26,200
2/3 page	21,670	21,453	21,237
1/2 page	17,110	16,939	16,768
1/3 page	12,585	12,439	12,314

HOMES AND ESTATES

BLACK AND WHITE RATES

1 page	11,975	1/6 page	2,235
2/3 page	8,590	1/12 page	1,125
1/2 page	6,460	2 inches	965
1/3 page	4,345	1 inch	485

COLOR RATES.

4-color

1 page	19,100	1/2 page	12,235
2/3 page	15,430	1/3 page	8,920

Advertisers in the "Homes & Estates" section earn a 10% discount on the above rates when a 26-time frequency is achieved (units must be 1/12 page or larger in order to contribute to and earn the frequency discount).

ART AND ANTIQUES

BLACK AND WHITE RATES

1 page	11,975	1/6 page	2,235
2/3 page	8,590	1/12 page	1,125
1/2 page	6,480	2 inches	965
1/3 page	4,345	1 inch	485

COLOR RATES.

4-color

1 page	19,100	1/2 page	12,235
2/3 page	15,430	1/3 page	8,920

Art & Antiques advertisers earn a 10% discount on the above rates when a 26-time frequency is achieved (units must be 1/12 page or larger in order to contribute to and earn the frequency discount).

12. SPLIT-RUN

Available on a limited basis.

Geographic Splits:

	2-way	3-way	4-way
1 page, 2/3, 1/2 or 1/3 pg (b/w)	1,000	8,200	8,200

Geographic Split charges also apply to 2 and 4-color units.

A/B Split:
1 page or smaller (b/w) 1/2 col min. — 650
1 page or smaller (2 color) — 700
1 page, 2/3 and 1/2 page (4 color) — 1,100

Only full page units accepted after mid-September through first 2 issues of January.

All prices non-discountable and non-commissionable.

Standardized E/W splits are offered. If matched for same issue, separate advertisers may buy either region.

14. CONTRACT AND COPY REGULATIONS

See Contents page for location—items 1, 2, 3, 7, 8, 9, 10, 11, 12, 14, 16, 19, 20, 21, 24, 25, 30, 31, 34, 36.

15. GENERAL REQUIREMENTS

Also see SRDS Print Media Production Data.
Printing Process: WEB OFFSET LITHO Full Run.
Trim Size: 8-1/4 x 10-7/8; No./Cols. 3.
Binding Method: Saddle Stitched.
Colors Available: Matched; 5th cylinder.
Covers: 4-color process.

AD PAGE DIMENSIONS

Sprd	15 x 10		1/3 v	2-1/4 x 10
1 pg	7 x 10		1/6 v	2-1/4 x 4-7/8
2/3 v	4-5/8 x 10		1/6 h	4-6/8 x 2-3/8
1/2 h	7 x 5		1/12 v	2-1/4 x 2-3/8

1/3 SQ PAGE 4-[illegible] x 4-7/8
1/2 PG SPRD 15 x [illegible]

16. ISSUE AND CLOSING DATES

Published weekly, dated Monday; issued Monday preceding.

Issue	Closing	(**)	Issue	Closing	(**)
Jan 6	12/18	12/16	Feb 17	1/30	1/27
Jan 13	12/26	12/20	Feb 24	2/6	2/3
Jan 20	1/2	12/30	Mar 2	2/12	2/10
Jan 27	1/9	1/6	Mar 9	2/20	2/14
Feb 3	1/16	1/13	Mar 16	2/27	2/24
Feb 10	1/23	1/17	Mar 23	3/5	3/2

(**) 4/C insertion order and offset material.

Issue	Closing	(**)	Issue	Closing	(**)
Mar 30	3/12	3/9	May 11	4/23	4/20
Apr 6	3/19	3/16	May 18	4/30	4/27
Apr 13	3/26	3/23	May 25	5/7	5/4
Apr 20	4/2	3/30	Jun 1	5/14	5/11
Apr 27	4/9	4/6	Jun 8	5/20	5/18
May 4	4/15	4/13	Jun 15	5/28	5/21

(**) 4/C insertion order and offset material.

Issue	Closing	(**)	Issue	Closing	(**)
Jun 22	6/4	6/1	Aug 3	7/16	7/13
Jun 29	6/11	6/8	Aug 10	7/23	7/20
Jul 6	6/18	6/15	Aug 17	7/30	7/27
Jul 13	6/25	6/22	Aug 24	8/6	8/3
Jul 20	7/1	6/29	Aug 31	8/13	8/10
Jul 27	7/3	7/6	Sep 7	8/20	8/17

(**) 4/C insertion order and offset material.

Issue	Closing	(**)	Issue	Closing	(**)
Sep 14	8/27	8/24	Oct 26	10/8	10/5
Sep 21	9/2	8/31	Nov 2	10/15	10/8
Sep 28	9/10	9/3	Nov 9	10/22	10/19
Oct 5	9/17	9/14	Nov 16	10/29	10/26
Oct 12	9/24	9/21	Nov 23	11/5	11/2
Oct 19	10/1	9/28	Nov 30	11/12	11/9

(**) 4/C insertion order and offset material.

Issue	Closing	(**)	Issue	Closing	(**)
Dec 7	11/18	11/16	Dec 21	12/3	11/30
Dec 14	11/24	11/23	Dec 28	12/10	12/7

(**) 4/C insertion order and offset material.

All dates listed under the heading titled "closing" above are at noon for B/W and 2/C insertion orders and offset material.

17. SPECIAL SERVICES

A.B.C. Supplemental Data Report released May 6, 1991 issue.

18. CIRCULATION

Established 1925. Single copy 1.75; per year 32.00.
Summary data—for detail see Publisher's Statement.

A.B.C. 6-30-92 (6 mos. aver.—Magazine Form)

Tot. Pd.	(Subs.)	(Single)	(Assoc.)	(Bulk)
623,104	606,098	20,006		—

Average Total Non-Paid Distribution (not incl. above): Total 14,472

TERRITORIAL DISTRIBUTION 5/92—[illegible]

N.Eng.	Mid.Atl.	E.N.Cen.	W.N.Cen.	S.Atl.	E.S.Cen.
69,473	156,382	67,553	27,861	68,932	14,173

W.S.Cen.	Mtn.St.	Pac.St.	Canada	Foreign	Other
27,063	27,148	118,526	13,125	13,298	2,080

Publisher status: Effective with January 2, 1991 issue, rates based on a circulation average of 600,000.

(D-CL D-Q)

USE SRDS PUBLICATIONS

They're the all-inclusive source for your media needs. To help you plan and buy, take advantage of SRDS listings and SRDS Service-Ads.

Check each section of the media listings you're comparing to get the most complete picture of your media choices.

Locate the media Service-Ads to help you learn even more about your options.

Compare the most current information, by working with the most up-to-date editions of SRDS.

Use SRDS editions for information on print, broadcast and direct response media.

USE SRDS—and buy more efficiently and effectively.

TV LOG—cont

18. CIRCULATION
Net Paid—Sworn 3-31-92

Combined (TV Supplements & Dailies)	Non-Paid	Paid	Total
Monday-Thursday	.	80 046 577	80,046,577
Friday	.	79,408 019	79 408,019
Saturday	...	76,143 729	76,143,729
TV Supplement		44,150,796	44,150,796
Daily			
Monday-Thursday	..	85 895,781	35,895,781
Friday	..	35,421,516	35,421,516
Saturday	.	32,537,749	32,537,749
Sunday	...	48,101,904	48,101,904

USA TODAY

1000 Wilson Blvd., Arlington, VA 22229
Phone 703-276-5200/, 703 276-6503

ABC

Location ID: 1 NBNL 501 Mid 037290-000

MORNING (except Saturday & Sunday)

1. PERSONNEL
Sr VP/Adv Assoc Pub—Carolyn Vesper, 703-276-5314
VP/Dir Adv Sales—Jim Gath 212-715-5573
VP/Assoc Ad Dir—Jack Dickman, 703 2... 937
VP/Travel Related Sales—Janet Smith 703-276 5321.
Pres—David Mazzarella (Int'l), 212 715-5427

2. REPRESENTATIVES and/or BRANCH OFFICES
Washington-D C. Phone 703 276-6383
New York 10022—535 Madison Ave Phone 212-715-5350
Detroit 48075—3000 Town Center, Ste 2040, Southfield, MI Phone 313 357-7904
Chicago 60611—444 N Michigan Ave, Ste 200 Phone 312-670-0210
Los Angeles 90025—11111 Santa Monica Blvd, Suite 2100, Phone 310-444 2120
Dallas 75234—12920 Senlac Dr, Ste 190 Phone 214-484-0733
Boston 02116—420 Boylston St Phone 617-262 5818
Toronto Ontario—American Publisher's Representatives, Ltd Phone 416-363 1388
Mexico—Publishers' Representatives International, Inc Phone 817 332-1990
Great Britain—USA Today Intl London Eng W1V3HG 10 Wardour St Phone 071 734-4004
Tokyo, Japan—International Communications Inc, 2-14 2 Nagata-Cho, Chiyoda Ku, Tokyo 100 Phone 3 593-1441
Hong Kong—USA Today Int'l Room 1030 Ocean Center, 5 Canton Rd, TST, Kowloon Phone 852-730 6556
Paris, France 75116—Publi World 5 Rue Rude Phone 1-45-01-80-70

3. COMMISSION AND CASH DISCOUNT
15% to recognized advertising agencies, no cash discount.

4. POLICY-ALL CLASSIFICATIONS
30 day notice given on any rate revision The subject matter form size wording illustrations and typography of all advertising are subject to approval of the publisher All advertising which may appear to resemble news matter can, at the publisher's option, be labeled with the word "advertisement"
Special clauses in insertion orders or contracts that provide for sequential liability or circulation guarantees shall neither be accepted by nor legally binding on Publisher Advertiser and its advertising agency shall be jointly and severally liable for compliance with the terms of the Contract including payment of all advertising

ADVERTISING RATES
Effective January 1, 1992
Received November 18, 1991

5. BLACK/WHITE RATES

	Mon-Thurs	Friday
Spread	115 010 00	131 620 00
1/2 page spread	69 003 00	78 969 00
Full page	57 505 00	65 610 00
2/3 page	47,177 00	53,991 00
1/2 page	35 941 00	41,131 00
1/3 page	27,192 00	31,119 00
1/4 page	22,284 00	25 503 00
1/6 page	15,365 00	17,584 00
1/8 page	12,220 00	13,984 00
Fixed strip	18,754 00	21,406 00

ANNUAL VOLUME DISCOUNTS

Pages	
6	10%
13	12%
26	14%
39	16%
52	18%
65	20%
78	22%
91	24%
104	26%
117	28%
130	30%
150	35%

National advertisers also receive their volume discount on regional advertising Regional advertising counts toward the fulfilment of national contract levels on a national page equivency basis

ANNUAL FREQUENCY DISCOUNTS

Frequency	
6	2%
13	4%
26	6%
39	8%
52	10%
65	12%
78	14%
91	16%
104	18%
117	20%

Frequency discounts are available to all advertisers who run fractional units of 1/3 page or less

MULTIPLE INSERTION DISCOUNT

Ads of same product/same size/same coloration appearing within a calendar week qualify for Multiple Insertion Discount. National ads running 2 or more insertions on same day Back cover & color buyouts. Volume and frequency discount levels apply only to first insertion in a calendar week. Additional ads are not credited toward advertiser's volume or frequency discount levels. Friday ads can be used as the 2nd 3rd, 4th or subsequent insertions within the MID schedule, with the discount taken from Friday open rate Discount Structure 1st ad, earned rate 2nd ad 25% off open rate, 3rd ad and additional ads 35% off open rate

INTERNATIONAL EDITION

Published Tuesday thru Saturday	Int'l	Europe
Spread	16,456.00	13,930 00
1/2 pg spread	10,850.00	9,185.00
Full page	9,041 00	7,654 00
2/3 page	7,233 00	6,123 00
1/2 page	5,426 00	4,593 00
1/3 page	3,918 00	2,806 00
1/4 page	2,938 00	2,298.00
1/6 page	1,959 00	1,534 00
1/8 page	1,469 00	1,148 00
1/12 page	979.00	765 00
1/16 page	735.00	574 00
1/24 page	490 00	383.00

Published Tuesday thru Saturday	Asia
Spread	6,873 00
1/2 pg spread	3,938 00
Full page	3,282 00
2/3 page	2,625 00
1/2 page	1,970 00
1/3 page	1,203 00
1/4 page	984 00
1/6 page	656 00
1/8 page	492 00
1/12 page	328 00
1/16 page	246 00
1/24 page	164 00

7. COLOR RATES AND DATA

	b w/1 c	4 c
Monday-Thursday		
Spread	138,011 00	149,515 00
1/2 spread	86 255 00	103,506 00
Full page	69 005 00	74,757 00
2/3 page	61 330 00	66,048 00
1/2 page	46,723 00	50,317 00
1/3 page	38,069 00	40,787 00
Friday		
Spread	157,944 00	171,104 00
1/2 spread	98,712 00	118,453 00
Full page	78,972 00	85,552 00
2/3 page	70,188 00	75,587 00
1/2 page	53,471 00	57,584 00
1/3 page	43,567 00	46,680 00

INTERNATIONAL EDITION—FOUR COLOR

Published Tuesday thru Saturday	Int'l	Europe
Spread	24,682 00	20,894 00
1/2 pg spread	16,276 00	13,778 00
Full page	13,562 00	11,480 00
2/3 page	10,849 00	9,184 00
1/2 page	8,139 00	6,890 00
1/3 page	5,877 00	4,210 00
1/4 page	4,408 00	3,444 00

Published Tuesday thru Saturday	Asia
Spread	8,959 00
1/2 pg spread	5,908 00
Full page	4,922 00
2/3 page	3,938 00
1/2 page	2,954 00
1/3 page	1,805 00
1/4 page	1,477 00

9 SPLIT RUN
Single Market Copy Split—Advertisers running an ad in size 8 5/8" x 10 1/2 or larger may change copy as many times as they wish up to and including changing copy in 25 different regions so long as the same size, same page and in same color purchased for the entire national run. Charge per copy change 250 00, black/white, color 300 00 International copy splits at no charge.

14. CLOSING TIME
NATIONAL Camera ready Black and White, Full or Partial Page - 2 working days prior to publication. Color, Full or Partial page - 4 working days prior to publication. Black and White or Color Spread - 5 working days prior to publication.
REGIONAL Camera ready Black and White or Color, Full Page, Partial Page or Spread - Tuesday prior to week of publication.
MARKET COPY SPLITS Cameraready materials 5 working days prior to publication.
ART AND MECHANICAL Black and White or Color - 10 working days prior to publication.
INTERNATIONAL EDITION BONUS - SECTIONS, REGIONAL PROGRAM INSERTS Close times will vary Please call (703) 276-6414 for additional information
OTHER Materials may also be received via AD/SAT, PREPRESS EXPRESS and Scitex tapes. Call for details and deadlines.

15. MECHANICAL MEASUREMENTS

PRINTING PROCESS Offset

6 col; ea 1-7/10"; 5/32" betw col.

17. CLASSIFIED RATES
For complete data refer to classified rate section.

20. CIRCULATION
Net Paid—A.B C. 3-31-92* (Newspaper Form)

	Total
Morn (Mon-Thu)	1,540,698
Morn (Fri)	1,903,944

(*) for 26 weeks.

D-Q

U. S. Suburban Press Inc., Newspaper Network

Caller # 4020, 927 N. Plum Grove Rd., Schaumburg, IL 60173.
Phone 708-605-8262, FAX, 708-605-8654.

Location ID: 1 NBNL 501 Mid 019041-000

Includes the following 56 suburban market packages with a total of 1,019 Suburban Newspapers with daily and non-daily frequency
Anaheim/Orange County
Atlanta
Atlanta ADI
Atlanta ADI Sunday
Baltimore
Boston
Bridgeport/Fairfield County
Buffalo
Charlotte
Chicago
Chicago Extended
Chicago Sunday
Cincinnati
Cleveland
Columbus
Dallas/Ft. Worth
Dayton
Denver
Detroit
Hartford
Hawaii
Houston/Galveston
Indianapolis
Kansas City
Los Angeles
Los Angeles ADI
Los Angeles Extended
Miami/Ft. Lauderdale/West Palm Beach
Northern Michigan
Northern Michigan Extended
Milwaukee
Minneapolis
Nashville
Nassau-Suffolk
New Jersey North
New Orleans
New York/ADI
Oklahoma City
Philadelphia
Phoenix
Pittsburgh
Portland
Riverside/San Bernardino
Rochester
Sacramento
Salt Lake City
San Antonio
San Diego
San Francisco/Oakland
San Francisco/ADI
San Fransico Extended
San Jose
Seattle/Tacoma
Tampa
Washington, D. C.
Wilkes-Barre

MAILING INSTRUCTIONS
Send orders and materials to 927 Plum Grove Rd Schaumburg, IL 60173. Ads must run in all papers, same copy, same calendar week and be ordered in market names to qualify for network rate

1. PERSONNEL
VP Pub Relations—Robert J. Noga.

2. REPRESENTATIVES and/or BRANCH OFFICES
U S Suburban Press, Inc.

3. COMMISSION AND CASH DISCOUNT
15% to agencies, net 10 days, no cash discount.

4. POLICY-ALL CLASSIFICATIONS
Network rates subject to change twice yearly, January and July.
30-day notice given of any rate revision.

ADVERTISING RATES
Effective July 6, 1992.
Received June 5, 1992.

5a. ZONE EDITIONS
See Individual listings.

6. GROUP COMBINATION RATES-B/W & COLOR
Total 53 suburban market national packaged rate:
Minimum ad size 10.5".
SAU per inch 5,342.08

7. COLOR RATES AND DATA
See individual listings.

12. R.O.P. DEPTH REQUIREMENTS
Ads over 18" in broadsheets and 13" or more in tabloid charged full depth.

14. CLOSING TIME
10 working days before Monday of week of publication.
14 working days for typesetting dealer listings.

15. MECHANICAL MEASUREMENTS
Also see SRDS Print Media Production Data.
Broadsheet:

6 col; ea 2-1/16".
Inches charged full depth: col 21.5; pg. 129.
Tabloids:

5 col; ea 2-1/16".
Inches charged full depth: col. 16, pg. 80.

20. CIRCULATION

DAILIES ONLY
Net Paid—Audited Combined 3-31-92

	Total
Morning & Evening Combined	3,053,795

WEEKLIES ONLY
Net Pd & Non-Pd (Audited) Combined 3-31-92

	Non-Paid	Paid	Total
Weeklies Combined	7,975,890	2,631,684	10,607,574

DAILIES & WEEKLIES
Net Pd & Non-Pd (Audited) Combined 3-31-92

	Non-Paid	Paid	Total
Total Combined	7,975,890	5,685,479	13,661,369

NATIONAL TV NETWORKS

ABC TELEVISION NETWORK

Location ID: 6 TREG NT Mid 027833-000
77 W 66th St New York, NY 10023 Phone 212 456-7777
Other Office 3000 Town Center Suite 2910, Southfield, MI 48075 Phone 313-350-2500
Other Office 190 N State St, Chicago, IL 60601 Phone 312 899 4000
Other Office 2040 Avenue Of The Stars, Century City, CA 90067 Phone 213-557-7777

(G)

CBS TELEVISION NETWORK

A CBS AFFILIATE

Composed of
Interconnected Stations

ALABAMA
WJSU-TV—Anniston
WBMG-TV—Birmingham
WTVY—Dothan
WHNT TV—Huntsville
WKRG-TV—Mobile
WAKA-TV—Montgomery/Selma
WCFT-TV—Tuscaloosa

ALASKA
KTVA—Anchorage
KTVF—Fairbanks
KTNL-TV—Sitka

ARIZONA
KTSP TV—Phoenix
KOLD-TV—Tucson
KECY-TV—Yuma/El Centro CA

ARKANSAS
KFSM-TV—Fort Smith
KTHV—Little Rock

CALIFORNIA
KERO-TV—Bakersfield
KHSL TV—Chico
KVIQ-TV—Eureka
KJEO-TV—Fresno
KCBS-TV—Los Angeles
KMST—Monterey
KXTV—Sacramento
KFMB TV—San Diego
KPIX—San Francisco
KCOY-TV—Santa Maria

COLORADO
KTVS—Sterling
KKTV—Colorado Springs
KMGH-TV—Denver
KREY-TV—Durango
KREG-TV—Glenwood Springs
KREX-TV—Grand Junction
KREY-TV—Montrose

CONNECTICUT
WFSB—Hartford

DISTRICT OF COLUMBIA
WUSA—Washington

FLORIDA
WINK TV—Fort Myers
WJXT—Jacksonville
WCIX TV—Miami
WCPX TV—Orlando
WCTV—Tallahassee
WTVT—Tampa
WPEC TV—West Palm Beach

GEORGIA
WAGA TV—Atlanta
WRDW TV—Augusta
WRBL—Columbus
WMAZ TV—Macon
WTOC-TV—Savannah

HAWAII
KGMD TV—Hilo
KGMB—Honolulu
KGMV—Wailuku

IDAHO
KBCI TV—Boise
KIDK-TV—Idaho Falls
KLEW TV—Lewiston
KMVT-TV—Twin Falls

ILLINOIS
WCIA—Champaign
WBBM TV—Chicago
WMBD-TV—Peoria
WHBF TV—Rock Island
WIFR-TV—Rockford

INDIANA
WEHT—Evansville
WANE TV—Fort Wayne
WISH TV—Indianapolis
WLFI-TV—Lafayette/Kokomo
WSBT TV—South Bend
WTHI TV—Terre Haute

IOWA
KGAN TV—Cedar Rapids
KCCI TV—Des Moines
KIMT—Mason City
KMEG TV—Sioux City

KANSAS
KBSD TV—Ensign
KBSL TV—Goodland
KBSH TV—Hays
WIBW TV—Topeka
KWCH TV—Wichita/Hutchinson

KENTUCKY
WYMT TV—Hazard
WKYT TV—Lexington
WLKY TV—Louisville

LOUISIANA
WAFB TV—Baton Rouge
KLFY TV—Lafayette
KNOE TV—Monroe
WWL TV—New Orleans
KSLA TV—Shreveport

MAINE
WABI TV—Bangor
WGME TV—Portland
WAGM TV—Presque Isle

MARYLAND
WBAL TV—Baltimore
WBOC-TV—Salisbury

MASSACHUSETTS
WHDH TV—Boston

MICHIGAN
WBKB-TV—Alpena
WWTV—Cadillac
WJBK TV—Detroit
WJMN TV—Escanaba
WWMT—Kalamazoo
WLNS-TV—Lansing
WWUP TV—Sault St Marie
WEYI-TV—Saginaw

MINNESOTA
KCCO-TV—Alexandria
KDLH-TV—Duluth
KEYC-TV—Mankato
WCCO-TV—Minneapolis
KCCW-TV—Walker

MISSISSIPPI
WCBI TV—Columbus
WXVT—Greenville
WHLT—Hattiesburg
WJTV—Jackson
WTZH—Meridian

MISSOURI
KFVS-TV—Cape Girardeau
KRCG-TV—Jefferson City
KHQA-TV—Hannibal/Quincy IL
KODE-TV—Joplin/Pittsburg KS
KCTV—Kansas City
KOLR—Springfield
KMOV-TV—St. Louis

MONTANA
KTVQ—Billings
KXLF TV—Butte
KXGN-TV—Glendive
KRTV—Great Falls
KPAX-TV—Missoula

NEBRASKA
KGIN—Grand Island
KMTV—Omaha
KOLN—Lincoln
KSTF—Scottsbluff

NEVADA
KLAS-TV—Las Vegas
KTVN—Reno

NEW MEXICO
KGGM-TV—Albuquerque
KBIM TV—Roswell

NEW YORK
WRGB—Albany/Schenectady
WBNG-TV—Binghamton
WIVB TV—Buffalo
WCBS-TV—New York
WROC-TV—Rochester
WTVH—Syracuse
WWNY TV—Watertown-Carthage

NORTH CAROLINA
WBTV—Charlotte
WFMY TV—Greensboro
WNCT TV—Greenville
WRAL-TV—Raleigh
WJKA—Wilmington

NORTH DAKOTA
KXMB-TV—Bismarck
KXMA-TV—Dickinson
KXJB-TV—Fargo Valley City
KXMC-TV—Minot
KXMD-TV—Williston

OHIO
WCPO-TV—Cincinnati
WJW TV—Cleveland
WBNS-TV—Columbus
WHIO-TV—Dayton
WTOL-TV—Toledo
WKBN-TV—Youngstown

OKLAHOMA
KXII—Ardmore
KWTV—Oklahoma City
KOTV—Tulsa

OREGON
KCBY-TV—Coos Bay
KVAL-TV—Eugene
KPIC—Roseburg
KTVL—Medford
KOIN-TV—Portland

PENNSYLVANIA
WTAJ TV—Altoona
WSEE TV—Erie
WHP-TV—Harrisburg
WLYH-TV—Lancaster/Lebanon
WCAU-TV—Philadelphia
KDKA-TV—Pittsburgh
WYOU-TV—Scranton-Wilkes-Barre

RHODE ISLAND
WLNE—Providence

SOUTH CAROLINA
WCSC—Charleston
WLTX-TV—Columbia
WBTW—Florence
WSPA-TV—Spartanburg

SOUTH DAKOTA
KDLO-TV—Florence
KCLO-TV—Rapid City
KPLO-TV—Reliance
KELO-TV—Sioux Falls

TENNESSEE
WDEF TV—Chattanooga
WJHL-TV—Johnson City
WKXT—Knoxville
WREG-TV—Memphis
WTVF—Nashville

TEXAS
KTAB-TV—Abilene
KFDA TV—Amarillo
KTBC-TV—Austin
KFDM-TV—Beaumont
KBTX-TV—Bryan
KZTV—Corpus Christi
KDFW TV—Dallas
KDBC-TV—El Paso
KGBT-TV—Harlingen
KHOU-TV—Houston
KVTV—Laredo
KLBK TV—Lubbock
KOSA-TV—Odessa
KLST—San Angelo
KENS-TV—San Antonio
KWTX-TV—Waco
KAUZ TV—Wichita Falls

UTAH
KSL-TV—Salt Lake City

VERMONT
WCAX TV—Burlington

VIRGINIA
WTKR TV—Norfolk
WTVR TV—Richmond
WDBJ—Roanoke

WASHINGTON
KEPR TV—Pasco
KREM TV—Spokane
KIMA-TV—Yakima

WEST VIRGINIA
WOWK TV—Huntington
WDTV—Weston-Clarksburg
WTRF-TV—Wheeling

WISCONSIN
WFRV TV—Green Bay
WKBT—La Crosse
WISC-TV—Madison
WITI-TV—Milwaukee
WSAW-TV—Wausau

WYOMING
KGWC-TV—Casper
KGWN TV, Cheyenne
KOWY-TV—Lander
KWW-TV—Rock Springs

Location ID: 6 TREG NT Mid 029729-000
51 W 52nd St., 29th Fl., New York, NY 10019 Phone 212 975-4321

4. AGENCY COMMISSION
15% to all recognized agencies with respect to all charges hereunder unless otherwise specified. Payment of all charges hereunder in connection with any broadcast shall be made monthly so as to be received by CBS no later than the 15th day of the month for all broadcasts during the preceding month or 10 days after receipt of CBS's bill whichever is later.

5. GENERAL ADVERTISING REGULATIONS
ACCEPTABILITY & TERMS
CBS Television Network as a national advertising medium solicits those orders which will in its judgement provide the largest nationwide circulation and the programming most suitable for a given time period & leave no substantial portion of the nation without CBS. While it is not necessary to order all stations affiliated with the CBS, the foregoing objectives will be considered in determining whether to accept a particular order. Subject to the foregoing & to appropriate additional charges for the additional facilities & services involved CBS will endeavor when practicable to accommodate regional advertisers who desire to order the same program & time period on stations in different but complementary regions of the U.S.
Acceptability of programs, products and commercials will be determined by CBS. While advertiser supplied programs are welcomed, type of audience, program balance & availability of facilities may affect acceptability of programs, products & commercials for specific time periods. Terms & rates for particular time sales may be subject to negotiation in light of prevailing circumstances, including (i) information affecting audience potential such as nature of adjacent & competing programming, & current audience estimates, (ii) the nature of the ... by ... programming. Orders received by CBS are subject to its final approval & written acceptance.

ORIGINATION CHARGE
The gross charge per commercial for services normally required for network origination and distribution from standard CBS Television Network origination and distribution points (including the preparation of prints for delayed broadcast) is $277.

6. TIME RATES
No 40 Effective September 16, 1991
Received November 4, 1991
Rate card #39 together with the CBS Facilities Guide, and its Supplements, sets forth rates for network facilities for the broadcast of programs supplied by advertisers. It attempts to reflect period-of-year variations in time period values by time of day & estimates of audience potential. Prices for the broadcast of commercials in specific programs supplied by CBS are available. Such prices also include all program charges & charges for all program-related elements as well as the standard Origination Charge. Not included in such prices are the applicable Commercial Insertion Charges. Charges for other facilities & services of CBS Television Network are also available. The rates given are those for a period of a half hour. The time classification for broadcast periods hereunder is the current New York time of the originating network broadcast.
The charge for a broadcast period of five minutes within the same time classification will be one-third of the half-hour rate.

7. SPOT ANNOUNCEMENTS
FACILITIES GUIDE
The following network facilities rates include charges for all CBS affiliated stations in the United States, its territories and possessions and Bermuda. They are based on a broadcast period of a half-hour and expressed as a percentage of the gross Network Time Charge of $480,000.

ANALYSIS 1991-92—NIGHTTIME, MON THRU SUN

Periods:	1	2	3	4	5	6	7	8	9	10	11	12
# of wks:	3	4	7	3	7	6	4	4	6	4	3	3
PM												
6-6 30	61	61	61	47	52	52	58	58	54	51	51	51
6 30-7	61	61	61	47	52	52	58	58	54	51	51	51
7-7 30	66	66	66	56	62	62	66	60	61	55	55	55
7 30-8	74	74	76	66	70	70	75	76	64	58	58	58
8-8 30	55	81	85	63	87	85	81	87	81	59	48	61
8 30-9	57	83	87	54	89	88	84	902	62	62	48	83
9-9 30	65	94	96	6,	100	99	111	111	80	78	81	78
9 30-10	65	94	96	60	100	94	111	112	81	79	62	78
10-10 30	64	93	94	58	98	95	110	110	76	74	56	72
10 30-11	64	93	94	58	98	95	110	110	76	74	56	72
11-11 30	64	93	94	58	98	95	110	110	76	74	56	72
11 30 pm-1 am	27	39	47	30	51	51	65	65	45	39	25	39
1 2 am	7	10	18	8	18	18	26	26	18	15	7	14
2-6 am	5	5	6	5	5	5	6	5	5	5	5	5

Periods:	13
# of wks:	2
6-6 30	50
6 30-7	50
7-7 30	56
7 30-8	60
8-8 30	64
8 30-9	68
9-9 30	82
9 30-10	83
10-10 30	75
10 30-11	75
11-11 30	76
11 30 pm-1 am	30
1 2 am	13
2-6 am	5

1—9/16-9/29/91
2—9/30-10/27/91
3—10/28-12/19/91
4—12/20/91 1/5/92
5—1/6-2/23/92
6—2/24-3/29/92
7—3/30-4/26/92
8—4/27 5/24/92
9—5/25-6/28/92
10—6/29-7/26/92
11—7/27-8/9/92
12—8/10-8/30/92
13—8/31-9/13/92

NIGHTTIME DAILY ADJUSTERS
In order to more closely approximate the inherent audience potential of the different nights of the week on CBS, the following percentage factors should be applied to the computed time period costs to determine actual charges for the particular day. If a broadcast time period commences prior to 6 pm but continues beyond 6 pm or commences prior to 11 30 pm but continues thereafter, the appropriate factor shall be applied to the computed costs for the entire broadcast time period.

Su	M	Tu	W	Th	F	Sa
128	147	105	92	82	80	68

DAYTIME ANALYSIS 1991 92 MON THRU SUN

Periods:	1	2	3	4	5
# of wks:	12	15	10	3	12
6-9 am	14	17	16	16	13
9-10 am	14	15	17	15	14
10-11 am	15	14	17	15	15
11 am-noon	27	24	29	24	26
Noon-1 pm	27	24	29	24	26
1 2 pm	26	25	26	23	25
2-3 pm	26	27	22	22	24
3-4 pm	26	27	22	22	24
4 5 pm	28	29	24	24	26
5-6 pm	34	35	29	28	31

1—9/23-12/15/91
2—12/16/91 3/29/92
3—3/30-6/7/92
4—6/8-6/28/92
5—6/29-9/20/92

COMMERCIAL INSERTION CHARGES
An additional gross charge will be made as follows for the insertion and integration of each uninterrupted period of commercial continuity that consists of one or more commercial spots for an advertiser.

MON THRU FRI	
2-6 am	30
6-7 am	125
7-10 am	250
10 am-6 pm	275
... pm	560
11 pm-2 am	275
...	...
6 am-6 pm	275
6-11 pm	560
SUN	
6-9 am	60
9-10 30 am	250
10 30 am 6 pm	275
6-11 30 pm	550

COMMERCIAL & BILLBOARD INTEGRATION
General policies and requirements relating to commercial and billboard integration including services and costs ... set forth in the CBS Television Network Commercial Integration Manual.

FOX BROADCASTING COMPANY

FOX BROADCASTING COMPANY

Comprised of
Interconnected Stations by Satellite

ALABAMA
WTTO-TV—Birmingham
WDAU-TV—Dothan
WZDX TV—Huntsville
WPMI TV—Mobile
WCOV-TV—Montgomery

ALASKA
KTBY-TV—Anchorage
KFBK TV—Fairbanks

ARIZONA
KNXV-TV—Phoenix
KMSB-TV—Tucson

ARKANSAS
KPBI—Ft. Smith
KLRT—Little Rock

CALIFORNIA
KMPH-TV—Fresno
KTTV—Los Angeles
KCBA—Monterey/Salinas
KTXL—Sacramento
XETV—San Diego
KTVU—San Francisco
KADE-TV—San Luis Obispo

COLORADO
KXRM—Colorado Springs
KDVR-TV—Denver

CONNECTICUT
WTIC-TV—Hartford

DISTRICT OF COLUMBIA
WTTG—Washington
WYVN-TV—Washington

FLORIDA
WFTX-TV—Ft. Myers
WOGX-TV—Gainesville
WAWS-TV—Jacksonville
WSVN-TV—Miami
WOFL—Orlando
WPGX-TV—Panama City
WTLH-TV—Tallahassee
WFTS-TV—Tampa
WFLX-TV—West Palm Beach

GEORGIA
WFXL TV—Albany
WATL—Atlanta
WFXG-TV—Augusta
WXTX—Columbus
WTGS-TV—Savannah

GUAM
KTGM—Tamuning

HAWAII
KHNL-TV—Honolulu

IDAHO
KTRV—Boise

ILLINOIS
WFLD-TV—Chicago
WYZZ TV—Peoria
WQRF-TV—Rockford
WRSP-TV—Springfield/Champaign

INDIANA
WEVV-TV—Evansville
WFFT TV—Fort Wayne
WXIN—Indianapolis

IOWA
KOCR-TV—Cedar Rapids
KJMH—Burlington
KLJB TV—Davenport
KDSM TV—Des Moines
KOIA TV—Ottumwa

KANSAS
KSAS-TV—Wichita

KENTUCKY
WXNT-TV—Bowling Green
WDKY-TV—Lexington
WDRB-TV—Louisville
KBSI-TV—Paducah

LOUISIANA
WGMB-TV—Baton Rouge
KADN-TV—Lafayette
KVHP—Lake Charles
WNOL TV—New Orleans
KMSS-TV—Shreveport

MAINE
WPXT-TV—Portland

MARYLAND
WBFF-TV—Baltimore

MASSACHUSETTS
WFXT-TV—Boston

MICHIGAN
WGKI TV—Cadillac
WKBD-TV—Detroit
WSMH-TV—Flint
WXMI TV—Grand Rapids
WSYM TV—Lansing

MINNESOTA
KITN-TV—Minneapolis

MISSISSIPPI
WXXV-TV—Biloxi
WDBD—Jackson

MISSOURI
KSHB-TV—Kansas City
KDEB—Springfield
KDNL TV—St. Louis

NEBRASKA
KPTM—Omaha

NEVADA
KVVU-TV—Las Vegas
KAME-TV—Reno

NEW MEXICO
KGSW TV—Albuquerque

NEW YORK
WXXA TV—Albany
WUTV—Buffalo
WNYW—New York
WUHF-TV—Rochester
WSYT—Syracuse
WFXV-TV—Utica

NORTH CAROLINA
WCCB—Charlotte
WNRW TV—Greensboro
WFXI-TV—Greenville
WLFL-TV—Raleigh/Durham

NORTH DAKOTA
KVRR-TV—Fargo

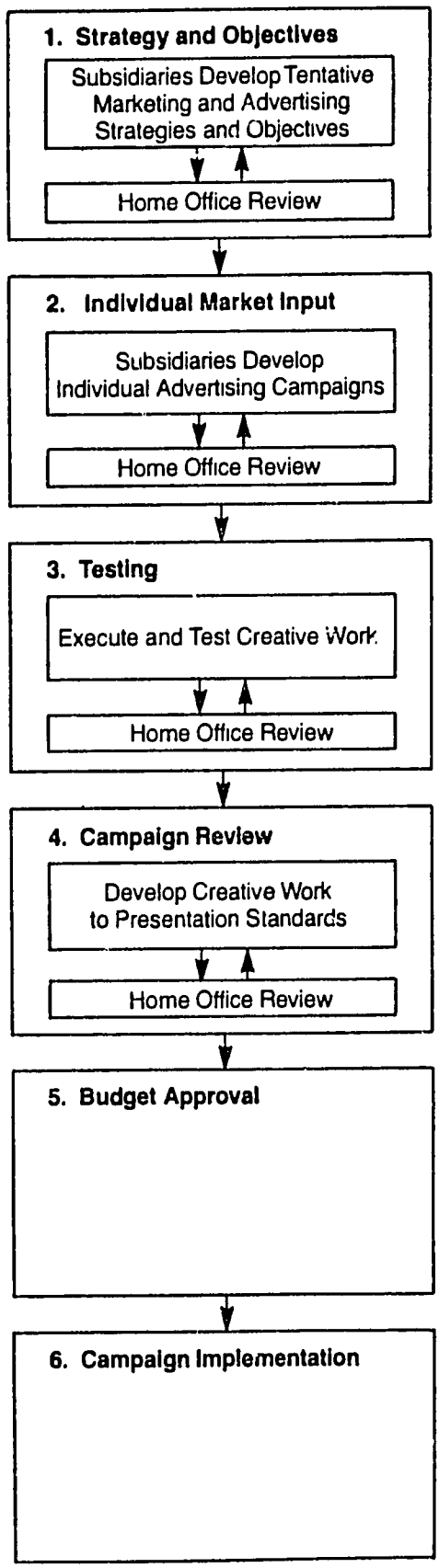
OHIO
WXIX-TV—Cincinnati
WOIO—Cleveland
WTTE-TV—Columbus
WRGT—Dayton
WUPW-TV—Toledo

OKLAHOMA
KOKH—Oklahoma City
KOKI-TV—Tulsa

OREGON
KLSR—Eugene
KPDX—Portland

continued

Coordinated Approach to International Advertising



Source: Czinkota, Michael R., Rivoli Pietra and Ronkainen A. Ikka. International Business, Instructor Manual. Copyright © 1992 The Dryden Press.

HO 4-14

CHECKLIST: International Communication and Promotion

Promotion — Nonpersonal (Advertising and Sales Promotion)

How should the firm promote its products in the foreign market?

Should it advertise? Should it participate in international trade fairs and exhibits?

What are the communication needs of the foreign market?

What communication or promotion objectives should the firm pursue abroad?

What should be the total foreign promotion budget?

What advertising media are available to promote in the foreign market? What are their strengths and limitations? How effective are different domestic and foreign advertising media?

Should the firm use an advertising agency? How should it be selected?

How effective and competitive are the firm's existing advertising and promotion programs concerning the foreign market?

What are the legal requirements?

Are there foreign laws against competitive advertising?

CHECKLIST: International Communication and Promotion

Promotion — Personal Selling

Is there a need for personal selling to promote the product abroad?

What assistance or services to foreign customers need from the sales force?

What should be the nature of personal selling abroad?

How many salespeople should the firm have?

How should the sales personnel be trained, motivated, compensated, assigned sales goals and quotas, and assigned foreign territories?

How does the firm's sales force compare with its competitors?

What criteria should the firm use to evaluate sales performance?

How should the firm perform sales analysis?

Playing by International Rules

The following article appeared in THE WALL STREET JOURNAL, College Education (1986)

When General Mills Inc. decided to advertise Action Man soldiers in West Germany, it wasn't a simple matter of changing the language in its commercials. The company had to film an entirely different TV spot to tone down the violence. Instead of holding machine guns and driving tanks, the toy soldiers could be shown on German television only if they were unarmed and seated in jeeps rather than tanks.

In Austria, where companies aren't permitted to use children in commercials, some advertisers have resorted to hiring dwarfs and showing animated drawings of kids instead. And the Marlboro cowboy has been sidelined altogether by stiff regulations in Britain. The reasoning: Heroic figures in cigarette ads might have special appeal and encourage people to start smoking.

Such restrictions have become a nettlesome fact of life for advertisers as more countries regulate the content of ads and as companies step up their international marketing. The maze of government regulations makes it difficult to create a universal ad campaign that can work in dozens of countries. "You have to be infinitely more creative and flexible now to make advertisements that can be used in a number of places," says Edward Roncarelli, president of the multinational business group at the Foote, Cone & Belding ad agency.

At the J. Walter Thompson ad agency, executives point to a 30-second Kellogg cereal commercial produced for British TV to show how much regulations in Europe alone can sap an ad. References to iron and vitamins would have to be deleted in the Netherlands; a child wearing a Kellogg's T-shirt would be edited out in France where children are forbidden from endorsing products on TV. And in Germany, the line, "Kellogg makes their cornflakes the best they've ever been" would be axed because of rules against making competitive claims. After the required changes, the commercial would be about five seconds long.

Lately, there has been a push in particular to restrict ads for cigarettes, children's products, liquor, and pharmaceuticals. "It's really a thicket for drug companies to pick their way through," says James Adler, director of Saatchi & Saatchi Compton Worldwide, an ad agency. "Some countries don't allow analgesic ads at all, some refuse comparative ads, and others won't allow companies to mention whether doctors recommend the product." Doyle Dane Bernbach, another ad shop, notes that a Panadol ad lost much of its selling power when the Singapore government required the headline to be watered down to, "Panadol relieves headaches."

Source: The Wall Street Journal on Marketing. 8/7

The International Advertising Association has formed a global commission on product marketing that hopes to head off more government rules by encouraging advertisers to regulate themselves. Some companies blame the regulatory trend on the growing influence of consumer advocacy groups in some countries.

Nationalistic policies also are curbing advertiser's freedom. More countries now are requiring local production of at least a portion of TV commercials to build fledgling film industries and create more jobs. "These rules wreck the economies of scale for big companies like Revlon," says Anthony Thurston, vice president and general manager at Grey Advertising Inc.'s international division.

In one Revlon commercial for Jontue perfume, a young woman trips through a pastoral estate filled with deer and peacocks and gets scooped up by a man on horseback. The ad has a fantasy feel to it, with little sense of time or place. Still, Revlon ended up spending an extra $100,000 to film nearly identical versions in Australia and Colombia. Both countries refused the U.S. ad.

Some companies try to hold extra production expenses to a minimum by flying film crews from restrictive foreign countries to a commercial shooting site in the United States. Often, such people get paid for just standing around with their hands in their pockets, but their unions and government officials seem appeased nonetheless.

It's becoming especially tough for cigarette companies to find legal ways to keep their brand names and images before the public. "The situation is getting absolutely ridiculous," complains Robert Barocci, president of the international division of the Leo Burnett Co, ad agency. He says that in Britain, where the Marlboro cowboy is outlawed, Philip Morris couldn't even show a chuck wagon and a lit camp fire in its ads. That would indicate that the cowboy was lurking nearby.

The United States, of course, has its share of government and TV network regulations: Cigarettes can't be pitched on TV at all, and actors in beer commercials aren't permitted to guzzle the brew on camera. "But in the area of children's products, the United States is an advertiser's paradise compared with many countries," says Christopher Campbell, international marketing director at the Parker Brothers subsidiary of General Mills.

The other countries' aim is to protect kids from exploitation. For instance, candy companies must show a toothbrush in their ads in the Netherlands. And in France, Mr. Campbell says, he can spend a maximum of just $130,000 a year per toy on ads.

Parker Brothers plays it safe by using animation and showing only the hands of children playing with games or turning the pages of books. It also avoids celebrities believed to have some influence over children. "In the United Kingdom," says Mr. Campbell, "we would violate the rules if we used someone like Captain Kangaroo or Mister Rogers in a commercial before 9 p.m."

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Instructor Notes 4-1

CLIO AWARDS 1988 VIDEO

Before presenting the video, prepare the participants by asking them to look specifically for ads that focus on LEARN, FEEL, or DO strategies. Ask them to write down the ads that fall into each category.

Then, ask them to identify any ads that they feel combine more than one copy strategy.

Finally, ask the participants to note the cultural differences in the ads.

After presenting the video, encourage a discussion of the issues listed above. Most of the ads will fall into the LEARN or FEEL categories. However, some will use the visual components to present an emotional appear (even a humorous appeal) while the ad copy presents strong persuasive arguments (i.e., PCM Sound).

Instructor Notes 4-2 (HO4-8)

EXERCISE
What are you Selling?

Allow students to complete the following pages using their own products as the subject if you are working with entrepreneurs. If you are working with non-entrepreneurs, select several common products and assign small groups (3 to 4 people) to complete the following pages for one of the products you have selected.

When the following pages have been completed, have participants present their persuasive arguments for buying their products. Encourage the presenter to explain their reasons behind their argument. Then, allow the other participants to openly discuss/question the strengths and weaknesses of the argument.

It is important for participants to understand that there may be several competitive advantages for any one product and many different arguments used to promote that one product. It is also critical that participants focus on the benefits that consumers derive from a product and <u>not</u> on the reasons that producers may want to sell the product.

INTERNATIONAL PRICING STRATEGY

UNIT 5

Title: **INTERNATIONAL PRICING STRATEGY**

Purpose: This unit is designed to examine the aspects of international pricing strategy

Objectives: To define the considerations for setting prices in a foreign market.
Assess potential affects of international finance on importing or exporting.

Materials:

Transparency 5-1	Overview of unit
Transparency 5-2	Overview of unit
Transparency 5-3	Export Pricing Approaches: Pricing Policies
Transparency 5-4	Pricing Strategies
Transparency 5-5	Pricing, Quotation and Terms of Sale
Transparency 5-6	Example of Net Price and Added Costs
Transparency 5-7	Deciding Responsibility
Transparency 5-8a/b	Alternative Terms of Sale
Transparency 5-9	International Banking Facilities
Transparency 5-10	Foreign Exchange
Transparency 5-11	General or Economic Factors Affecting Exchange Fluctuations
Transparency 5-12	How The Businessperson Deals with Foreign Exchange Risk
Transparency 5-12a	Example of Foreign Exchange Impact
Transparency 5-13	International Commercial Payments
Transparency 5-14	Cash
Transparency 5-15	Open Account
Transparency 5-16	Bill of Exchange/Draft
Transparency 5-17	Letters of Credit
Transparency 5-18	Letters of Credit
Transparency 5-19	Advantages of Letter of Credit to Buyer
Transparency 5-20	Letter of Credit Example
Transparency 5-21	Bank Advertisement - letter of credit
Transparency 5-22	Comparison of Means of Payment
Transparency 5-23	Foreign Collections, Credit Guarantees and Insurance
Transparency 5-24	Credit Guarantees and Insurance for Payment
Transparency 5-25	Factoring
Transparency 5-26	Barter and Countertrade
Transparency 5-27	Countries Requesting Countertrade

Transparency 5-28	Countertrade Usage Involving U.S. Firms by Types
Transparency 5-29	Advertisement Offering Countertrade Services
Transparency 5-30	Countertrade Usage by Types
Transparency 5-31	Countertrade Services Employed

Handout 5-1	Dumping
Handout 5-2	Three General Price-Setting Strategies
Handout 5-3	Export-Price Escalation
Handout 5-4	Revised American Foreign Trade Definitions
Handout 5-5	Alternative Terms of Sale
Handout 5-6	Terms of Sale (Definitions)
Handout 5-7	Pricing Under Different Terms of Sale
Handout 5-8	Hedging Example
Handout 5-9	Exchange Rate Exercise
Handout 5-10	Example of Foreign Exchange Impact
Handout 5-11	The Letter of Credit and Draft
Handout 5-12	Examples of Letters of Credit from Polish Commercial Bank (to be obtained in Poland)
Handout 5-13	Checking Export Letters of Credit
Handout 5-14	Factoring
Handout 5-15	Countertrade as an Export Strategy
Handout 5-16	The Promotion of Export with Barter
Handout 5-17	Checklist: The Pricing Strategy

Activities:

Pricing Under Different Terms of Sale Exercise(HO 5-7)
Price and Changing the Exchange Rate Exercise (HO 5-9)

Other short exercises are listed in the T-outline.

References for Instructors: More readings for instructors *only* in Book 2:

R5-1: Export Pricing Strategies (Chap. 10 *IM*)
R5-2: The Export Strategy: "The Export Price"

Teaching Suggestions in Instructor Notes 5-1 and
Questions for Discussions in Instructor Notes 5-2; 5-4; 5-5

Estimated Time: 3 hours

Unit Outline:

I. Overview of the unit

II. Export Pricing Approaches
   A. Pricing Policies
   B. Pricing Strategies

III. Pricing, Quotation, and Terms of Sale
   A. Quotation
   B. Alternative Terms of Sale (1990)
   C. Common Terms of Sale
      1. FOB
      2. CIF

IV. International Banking Facilities
   A. Foreign Exchange
   B. International Commercial Payments - Cash, Open Account, Bill of Exchange, Letter of Credit
   C. Foreign Collections, Credit Guarantees

V. Factoring

VI. Barter and Countertrade
   A. Russia/Ukraine
   B. How do you value products?

VII. Checklist: The Pricing Decision

FOR THE INSTRUCTOR
International Entrepreneurship
Unit 5: Pricing Strategy

CONTENT	PROCESS
I. Overview of the unit	TP 5-1 and 5-2 overview of unit.
This unit is particularly critical to international entrepreneurs. We do not cover determining the base price for which the product will be offered. This is in the Marketing Module. What we concentrate on here is the effects of international price quotations and banking concerns. Profit can be lost by not understanding the costs involved in various terms of sale. Fluctuations in foreign exchange rates and the creditworthiness of the buyer can also adversely affect revenue. We conclude with a discussion of barter and counter-trade.	
Before we begin, let me ask if you have completed all of the checklists to this point. We are about half way through the course. At the end of the course, we will each briefly describe the international strategy we have been constructing using the checklists.	
Are there any questions?	(Here you may field questions about how to find more data. You do not have to know all the answers. The references given in Unit 2 should be helpful. Also consult embassies, trade missions, the Ministry of Trade, for ideas of where to get information. As you teach the course over and over, you will become familiar with more sources of information. Once information is gathered, determining market size and share are critical. Refer back to Unit 2 and also the Marketing course.
II. Export Pricing Approaches	
<u>To Avoid Confusion</u>:	
1. For new foreign business, spell out all details, Include all transportation export/	

CONTENTS	PROCESS
import charges insurance charges involved. 2. Later after trade is established, use contract agreed upon to continue to avoid confusion.	
Reasons:	
1. Different foreign business persons may interpret other than your intentions. 2. Avoid misunderstanding and delay. 3. Avoid loss of business because expectations were not met. 4. There are many other systems so need to be clear on intentions.	
A. Pricing Policies	Put up TP 5-3: Export Pricing Approaches.
How to determine price for goods in the market place:	
1. Usually use domestic price unless there are extenuating circumstances, such as dumping - (lower than domestic price), done because of low purchasing power in the market (can't afford to pay more) or there is extra production capacity. It is often not legal. Duties added to bring price back up.	Hand out a reading on dumping (HO 5-1).
Prices must reflect market positioning (e.g., premium or price-competitive). One must consider target market price expectations and potential demand levels when setting prices. - Skimming - high price - Market price	Refer to Reading for Instructor 5-1 (pp. 297-299).

CONTENTS	PROCESS
- Penetration - low price to gain market share	
B. Pricing Strategies	
Once the positioning policy has been determined, then the entrepreneur can assess alternative pricing strategies.	Put up TP 5-4: Pricing Strategies.
Standard worldwide price.	Hand out a reading on price-setting strategies (HO 5-2). Refer to Reading for Instructor 5-1 (pp. 299-301)
Dual - export price based on marginal (direct) costs of producing and selling (lower cost than foreign domestic products sold).	
Market differentiating - based on market demand (different in different markets)	
III. Pricing, Quotation and Terms of Sale	Put up TP 5-5: Pricing, Quotation and Terms of Sale.
A. Quotation	
<u>List and Net</u>	
1. List price is a general price published in a catalog, price list, or advertisement.	
Good for a longer period since it doesn't consider exchange fluctuations:	
(a) there should be a standard discount if printed (b) when using the same catalog in various markets use standard currency base.	
Using cost to home port is usually better (more stable prices.)	

CONTENTS	PROCESS
2. Net price indicates that a definite f.o.b., c.i.f., or other quotation is not subject to trade or quantity discounts.	
(a) usually short lived because of changes in the various costs. (b) simpler quotations	Work through TP 5-6: Export-Price Escalation. Distribute HO 5-3.
<u>Bases for price quotations:</u>	
1. Quantity - bulk material (bulk or net) or unit price for items;	
2. Quality - e.g., grade, mineral content;	
3. Time - credit sales - eg 2/10, net (60 30); interest charges?	
4. Others: (a) market price at given time, e.g., wheat sales (b) cost plus	
Government control of prices, e.g. price support for surplus agricultural products.	
Several costs are incurred in international goods movement. The buyer and seller must decide who pays which ones.	Discuss TP 5-7.
This depends on:	
(a) place of delivery, (b) transportation and related charges (discussed below), (c) agreed responsibility of each party: 1) respective duties of buyer and seller depends on f.o.b., etc. agreements.	

CONTENTS	PROCESS
Also who pays demurrage - charge for causing delay by not loading or unloading vessel. 2) liability for loss or damage, (buyer responsible for war insurance). 3) other insurance depends on f.o.b., etc. terms	Reference to HO 5-4 chart if interested.
B. Alternative Terms of Sale revised trade definitions - 1990: - ex works, point of origin - f.o.b. (free on board) - f.a.s. (free alongside ship), - c.i.f. (cost, insurance, freight, etc.)	Put up TP 5-8 Alternative Terms of Sale. Hand out readings on alternative terms of sale (HO 5-5 and HO 5-6).
C. Common Terms of Sale (1990) The more common terms in Poland are: FOB for importing CIF for exporting	
<u>The Impact of Pricing Under Alternative Terms of Sale</u> Now let's see what effect these different terms have on the overall profit margin of the seller.	<u>Exercise</u>: Pricing Under Different Terms of Sale. Work through an example from HO 5-7. Reference in Readings for Instructor 5-2.
IV. International Banking Facilities Why do we need them? Discrimination on loans and bills of exchange; transfer of funds; collections, credit checks, surveys. Two basic types - private, government.	<u>Exercise</u>: Ask participants why they would need banks other than those in Poland. Then put up TP 5-9: International Banking Facilities.

CONTENTS	PROCESS
Overseas arrangements of banks: (a) Correspondent - most common 1) Agreement with foreign banks to maintain balances with each other. 2) Advantages: Familiar with country; Established business; No resentment of foreigners; Cover greater area. 3) Disadvantages: Services may not be satisfactory; bank may fail. (b) Foreign branches of domestic bank: 1) Advantages: Controlled by home bank; Gather market data 2) Disadvantages: Strict regulation in some countries Banking Terms: - Acceptance - note on a bank - Discount - paid less than face value	
A. Foreign Exchange Price quotation - options: (a) exporter's currency - no loss to exporter due to fluctuation; avoids price changes due to fluctuation; (b) exporter may hedge if use importer's currency; (c) importer prefers own currency; to promote trade, exporter may oblige; (d) price in terms of the third country if others unstable or banking facilities are in another country.	Put up TP 5-10: Foreign Exchange.

CONTENTS	PROCESS
Talk briefly about businessperson concerns: 1. profit 2. in importer's or exporter's foreign currency, can eat up profits 3. in own currency affects whether importer can afford to buy (may refuse delivery) 4. affects whether shipments made on time or at all 5. increases exporter's credit and commercial risks.	Exercise: Ask participants why businesses need to be concerned about foreign exchange fluctuations. They will probably concentrate on international trade. Ask if it has any effect on domestic trade. One answer should be that it affects the competitiveness of outside sellers in the home market.
General or economic factors affecting exchange, fluctuations 1. Law of supply and demand - if free exchange situation. Low exchange - demand for domestic currency, therefore, foreign exchange is less expensive: (a) in U.S., transactions affecting supply of foreign exchange, that tend to decrease exchange rates (i.e. demand for dollars): American exports, stocks and bonds sold abroad, foreign capital, movement to U.S. High exchange - demand for foreign currency, therefore, domestic less expensive or heavy offering of domestic currency: (b) demand for foreign exchange, which increases exchange rates (flow out of U.S.): imports, foreign stocks and bonds sold here, U.S. tourists going abroad.	Put up TP 5-11: Factors Affecting Exchange Fluctuations.

CONTENTS	PROCESS
2. Kinds of bills of exchange - bank or commercial: (a) commercial (other than a bank) - should be clean (no problems), can be drawn for payments or acceptance, collateral behind it can be sold, need to check credit standing of drawer and drawee, (b) Bank - vary by length of term to maturity.	
3. Abnormal factors affect exchange rates: (a) devaluation (b) inflation (c) depression (d) government stability	
4. Speculation in foreign exchange - futures.	
5. Interest rates.	
<u>How The Businessperson Deals with Foreign Exchange Risk</u>	Discuss up TP 5-12: How the Businessperson Deals with Foreign Exchange Risk.
Problems with exchange fluctuation and payment: a) spot exchange - agrees to purchase a given amount at time of purchase at current quote; b) future exchange - agrees to purchase a given amount of exchange at a fixed future date (or within a fixed period) at a rate specified in a future contract (above or below spot rate)	Consider the sophistication of the participants and how realistic it is for them to participate in exchange markets. It is an important concept but may not be that viable now.
<u>Depends on:</u> 1. supply and demand for currency in the future,	

CONTENTS	PROCESS
2. speculation about the market in the future.	
Exporter's means of protection: a) do nothing if risk small b) hedging	Headging Example in HO 5-7. *Note:* You may use zlotys instead of dollars. Change dates and exchange rate to be current information of your choosing.
Importer's options: a) hedging b) buy currency now	Possible exchange markets - Zurich, London, Frankfurt
Effect of depreciated foreign exchange upon exports and imports	Use Exercise: Savings or Loss from Exchange Rates (HO 5-9).
1. Commodity price levels may be different inside country versus outside, occurs if international prices are not re-adjusted to reflect outside price changes.	Distribute HO 5-10.
2. Inflation, devaluation - same as national concerns.	Exercise: Ask students to check where the exchange rates are compared with their forecasts from Unit 1.
B. International Commercial Payments - Cash, Open Account, Bill of Exchange, Letters of Credit	Put up TP 5-13: International Commercial Payments.
Next, let's examine the options for how the exporter is paid by the importer.	Refer to Reading for Instructor 5-1 (pp. 306).
Cash	Put up TP 5-14.
1. Term of remittance - have reciprocal bank deposits.	Refer to Reading for Instructor 5-1 (p. 309)
2. Term of payment - rare (a) unattractive to buyer because pays before goods delivered or inspected (b) used for: 1. bad credit 2. weak exporter finances 3. special materials in goods	

CONTENTS	PROCESS
4. raw materials 5. custom products (c) partial payment - cover shipping and return, insurance.	
Open Account	Put up TP 5-15.
Used if consignee's credit is good and there is a stable political and economic system.	
1. Disadvantage to exporter - no transfer of responsibility; entire financial burden is on exporter.	
2. Advantages - simple, the accounting entry evidences the obligation; no banking arrangements.	
Bill of Exchange/Draft	Put up TP 5-16.
Bank Draft is used for very good (trust) or very bad credit (no trust), like writing a check.	
Bills of Exchange are the most common means of payment - provide evidence of obligation.	
Drawn by seller. Calls for payment or acceptance to pay at a determinable future time.	
Entire financial burden not sustained by importer or exporter.	
1. Trade acceptance - signed by buyer: - transferable - definite time of maturity.	
2. Time of payment: (a) sight - could be payable before goods arrive; pay "on sight" (b) on arrival	

CONTENTS	PROCESS
(c) specific date - usually 30, 60, 90 day credit paid	
3. Accompanying documents: (a) Ocean Bill of Lading - shows receipt of goods, contract to carry, evidence of title to property. (b) Marine Insurance (c) Commercial Invoice	
4. Disposition options: (a) discounting or borrowing against it, (b) placing it for collection; seller has time to wait for maturity; gives documents to his bank for collection, (c) additional costs - interest, bank charges should be included in price.	
5. Risks born by exporter - but subject to recourse through legal system.	
Trade bill transaction - importer may reject goods.	
<u>*Letters of Credit*</u>	Put up TP 5-17, 5-18, 5-19.
Instrument issued by a bank at the request of the buyer whereby the bank undertakes to accept and/or pay drafts drawn upon the bank by the seller of merchandise concerned. This separates bank acceptance from mercantile (trade) acceptances.	Discuss TP 5-20: The Mechanics of the Letter of Credit and Sight Draft.
Parties to letter of credit - only need 3 (buyer, issuer, beneficiary or seller).	Hand out a reading on the letter of credit (HO 5-11). Present an example of letter of credit - TP 5-21. Refer to Reading for Instructors 5-1 (p. 308). Hand out and example of letter of credit (HO 5-12).
In reality, there are more:	
1. <u>confirming bank</u> - in seller's	

CONTENTS	PROCESS
(beneficiary's) country; assumes paying responsibility also; 2. paying bank - drafts are drawn on this bank; could be different from the bank writing letter of credit; 3. advising bank - in beneficiary's country, notifies beneficiary of opening of credit; if it is a confirmed letter of credit, then confirming and advising banks are the same; 4. negotiating bank - voluntary paying (not by instruction of issuing bank) (a) usually applies to 2 and 3, (b) receive interest and bank charges for services. *Kinds of Letters of Credit* 1. Revocable (not legally binding), Irrevocable. 2. Confirmed (a bank confirms the irrevocable obligation of the issuing bank, similar responsibility to endorser of a check). Unconfirmed (no second bank confirming issuing bank). 3. Prefer irrevocable, confirmed. Assignment of Letters of Credit is done if the seller needs the money now. 1. Back-to-Back credits - get loan against letter of credit	
Checking Export Letters of Credit: 1. Exporter checks letter of credit	Hand out a reading on checking export letters of credit. (HO 5-13).

CONTENTS	PROCESS
2. Exporter checks documents necessary to collect: (a) commercial invoice (b) insurance (c) bill of lading - clean (d) check number of copies required Additional kinds of letters of credit: 1. Local or foreign currency. 2. Revolving letter of credit - either automatic or reestablish for a certain amount for a certain payment period. Advantages of letter of credit to buyer: 1. Definite shipping date for order. 2. Gets lower prices since seller doesn't have to cover risk of non-payment. 3. May get discount for providing letters of credit. 4. What is the advantage to the seller? <u>Example</u> of a car sold for 1000 pounds Sterling using a letter of credit from Commerce Bank of Chicago - promise by a bank to pay all bills of exchange drawn against it under conditions stated in letter sent to seller (shipping conditions, insurance): (b) car shipped with ocean bill of lading, seller has it; (c) with letter of credit and bill of lading, seller claims payment with bill of exchange drawn on seller's bank interest (Midland) discounted for lost and risk of fluctuation, he gets 994 pounds Sterling;	

CONTENTS	PROCESS
(d) bank sends bill of exchange, etc., to N.Y. corresponding bank (Chase Manhattan ECM) for collection.	
(e) CM sends bill to Commerce Bank for acceptance; Commerce Bank writes "acceptance" and date on it. It now becomes a bank acceptance (usually due 60 days hence);	
(f) Commerce Bank keeps bill of lading and gives to buyer, sends acceptance back to CM (can now be resold);	
(g) CM credits Midland account with sale price;	
(h) on the day before the acceptance is due, buyer pays Commerce Bank plus a charge if not already paid;	
(i) purchaser of acceptance presents for payment on due date and is paid.	
C. Foreign Collections, Credit Guarantees and Insurance (handling failure to pay)	Put up TP 5- 22: Comparison of Means of Payment and TP 5-23: Foreign Collections, Credit Guarantees and Insurance.
1. <u>Making Collections</u>	
a. Better to avoid - let importer know you are sure he will pay. Work through non-confrontive techniques first.	
b. If failure to pay - investigate reasons: (1) buyer may have claims against exporter - go to arbitration, conciliation,	

CONTENTS	PROCESS
(2) financial embarrassment, be patient at first, firm if insolvency is possible.	
c. Alternatives: 1. collection agencies 2. Bank protest 3. Foreign Service offices inquiries 4. conciliation, arbitration 5. litigation - the last resort	
2. <u>Credit Guarantees and Insurance for payment</u>	Put up TP 5-24: Credit Guarantees and Insurance for Payment.
a. Banks - letter of credit, accepting drafts "without recourse" (must pay).	
b. Credit guarantees by factor - outside agent takes over credit operations. For the exporter, the collection fee may range from .75 percent to 2 percent.	
c. Credit guarantees by sales agents - they assume credit risk for a fee.	
d. Credit guarantees by individuals - when banks, custom houses, etc., can't or don't provide services.	
e. Self insurance of export credits - reserve for bad debts; boost selling price to cover anticipated bad debts.	
f. Export credit insurance (Export Credit Indemnity exchange) - insolvency of customer. Uncollectibility of obligation at law. Doesn't cover exchange rate or government restrictions.	

CONTENTS	PROCESS
V. Factoring	Put up TP 5-25.
A factor (non-U.S.) is a manager or adminis-trator of a business in the name of another. May bind the principal in all matters in which the factor is granted authority.	Hand out a reading on factoring (HO 5-14).
2-4 percent discount (charge) for factor house assuming receipt of inventory.	
VI. Barter and Countertrade	Put up TP 5-26, TP 5-27: Country Requesting Countertrade; TP 5-28: Countertrade Usage Inolving U.S. Firms, by Types and TP 5-29: Advertisement Offering Countertrade Services of an MNC (Multinational corporation) Subsidiary.
A. Russia/Ukraine	
B. How do you value products?	Put up TP 5-30: Countertrade Usage - by Types and TP 5-31: Countertrade Services Employed.
	See Instructor Notes 5-1.
	Exercise: Have participants talk about their barter experiences. Then move to how to handle this internationally.
	Hand out a reading on countertrade as an export strategy (HO 5-15) and on promotion of export with barter (HO 5-16).
VII. Checklist: The Pricing Decision	Exercise: Have participants work on checklist for 10 minutes.(HO 5-17)

TP 5-1

International Entrepreneurship Course

Unit 5: International Pricing Strategy

Export Pricing Approaches

- Pricing Policies
- Pricing Strategies

Pricing, Quotation, and Terms of Sale

- Quotation
- Alternative Terms of Sale (1990)
- Common Terms of Sale
- FOB
- CIF

TP 5-2

International Banking Facilities

- Foreign Exchange
- International Commercial Payments
- Foreign Collections, Credit Guarantees

Factoring

Barter and Countertrade

- Russia/Ukraine
- How do you value products?

Checklist: The Pricing Decision

TP 5-3

EXPORT PRICING APPROACHES

Pricing Policies

How to determine price for goods in the market place:

domestic price unless there are extenuating circumstances, such as dumping (lower than domestic price)?

Prices must reflect market positioning

Skimming - high price

Market price

Penetration - low price to gain market share

TP 5-4

PRICING STRATEGIES

- Standard worldwide price

- Dual - export price based on marginal (direct) costs of producing and selling (lower cost than for domestic products sold)

- Market differentiating - based on market demand (different in different markets)

TP 5-5

Pricing, Quotation and Terms of Sale

Quotation

List and Net Prices

Bases for price quotations:

1. Quantity - bulk material (bulk or net)
   also unit price for items

2. Quality - e.g., grade, mineral content

3. Time - credit sales - eg 2/10, net (60 30);
   interest charges?

4. Others
   eg. wheat sales, market price at given time
   cost plus

TP 5-6

Export-Price Escalation

International Marketing Channel Elements and Cost Factors	Domestic Wholesale–Retail Channel	Case 1 Same as Domestic with Direct Wholesale Import C.I.F./Tariff	Case 2 Same as 1 with Foreign Importer Added to Channel	Case 3 Some as 2 with VAT Added	Case 4 Same as 3 with Local Foreign Jobber Added to Channel
	Export Market Cases				
Manufacturer's Net Price	6.00	6.00	6.00	6.00	6.00
+ Insurance and Shipping Cost (C.I.F.)	—	2.50	2.50	2.50	2.50
= Landed Cost (C.I.F. value)	—	8.50	8.50	8.50	8.50
+ Tariff (20% on C.I.F. value)	—	1.70	1.70	1.70	1.70
= Importer's Cost (C.I.F. value + tariff)	—	10.20	10.20	10.20	10.20
+ Importer's Margin (25% on cost)	—	—	2.55	2.55	2.55
+ VAT (16% on full cost plus margin)	—	—	—	2.04	2.04
= Wholesaler's Cost (= Importer's Price)	6.00	10.20	12.75	14.79	14.79
+ Wholesaler's Margin (33⅓% on cost)	2.00	3.40	4.25	4.93	4.93
+ VAT (16% on margin)	—	—	—	.79	.79
= Local Foreign Jobber's Cost (= Wholesale Price)	—	—	—	—	20.51
+ Jobber's Margin (33⅓% on cost)	—	—	—	—	6.84
+ VAT (16% on margin)	—	—	—	—	1.09
= Retailer's Cost (= Wholesale or Jobber Price)	8.00	13.60	17.00	20.51	28.44
+ Retailer's Margin (50% on cost)	4.00	6.80	8.50	10.26	14.22
+ VAT (16% on margin)	—	—	—	1.64	2.28
= Retail Price (what consumer pays)	12.00	20.40	25.50	32.41	44.94
Percentage Price Escalation over Domestic		70%	113%	170%	275%
Percentage Price Escalation over Case 1			25%	59%	120%
Percentage Price Escalation over Case 2				27%	76%
Percentage Price Escalation over Case 3					39%

Source: Helmut Becker, "Pricing: An International Marketing Challenge," in International Marketing Strategy, eds. Hans Thorelli and Helmut Becker (New York: Pergamon Press, 1980), 215. Reprinted with permission.

Source: Czinkota, Michael R. and Ikka A. Ronkainen, International Marketing. Chicago, second edition. Copyright © Dryden Press 1990. Tab. 10.1, p. 302.

TP 5-7

Several costs are incurred in international goods movement. The buyer and seller must decide who pays which ones.

This depends on:

- place of delivery
- transportation and related charges
- agreed responsibility of each party

TP 5-8a

ALTERNATIVE TERMS OF SALE

Revised trade definitions -- 1990

Ex Works **- point of origin**

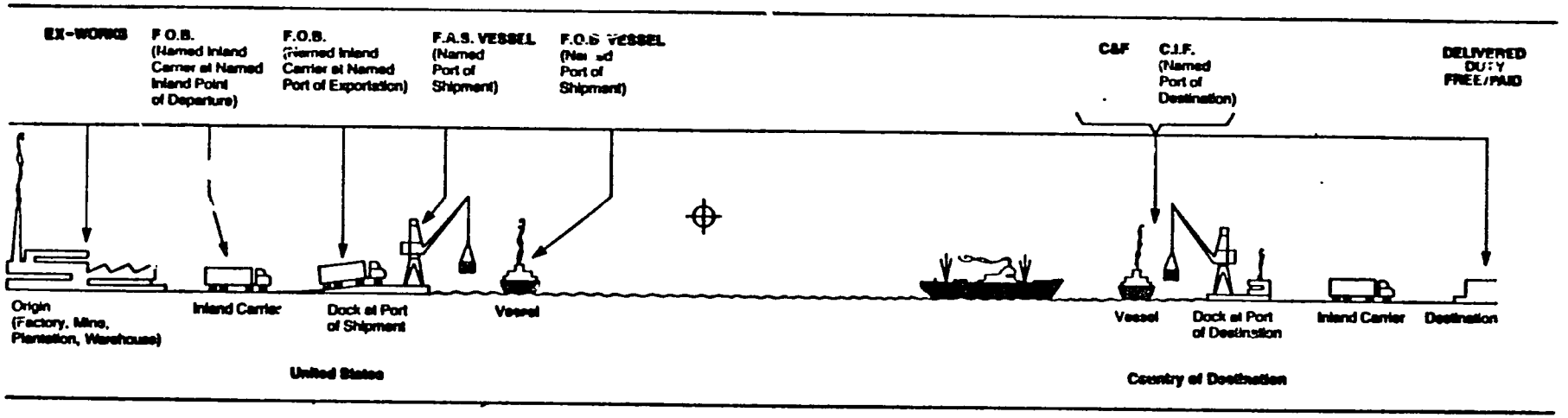
F.O.B. **(Free On Board) plant**

F.A.S. **(Free Alongside Ship)**

C.I.F. **(Cost, Insurance, Freight, etc.)**

Delivered Duty Free/Paid

ALTERNATIVE TERMS OF SALE



TP 5-9

INTERNATIONAL BANKING FACILITIES

Why do we need them?

Overseas arrangements of banks:

- Correspondent - most common
- Foreign branches of domestic bank

TP 5-10

FOREIGN EXCHANGE

Price quotation - Options:

- Exporter's currency.
- Importer prefers own currency.
- Price in terms of 3rd country if others unstable or banking facilities are in another country.

TP 5-11

GENERAL OR ECONOMIC FACTORS AFFECTING EXCHANGE FLUCTUATIONS

1. Law of supply and demand

2. Kinds of bills of exchange - bank or commercial

3. Abnormal factors affect exchange rates

   (a) devaluation
   (b) inflation
   (c) depression
   (d) government stability

4. Speculation in foreign exchange - futures

5. Interest rates

TP 5-12

HOW THE BUSINESSPERSON DEALS WITH FOREIGN EXCHANGE RISK

- Problems with exchange fluctuation and payment

    a. Spot Exchange
    b. Future exchange

- Exporter's Means of Protection

    a. Do nothing if risk small
    b. Hedging

- Importer's Options

    a. Hedging
    b. Buy currency now

Source: Rowland L. Kramer, International Marketing, ©Southwestern Publishing Co., Cincinnati, Ohio, 1970.

TP 5-12(a)

Example of Foreign Exchange Impact

Monthly contract, Pounds Sterling 1,000

Cost of goods to marketer, $1,650

Date	Exchange Rate	Revenue	Cost	Net Income
1/1	1 L* = $1.70	$1,700	$1,650	$50
2/1	1 L* = 1.65	1,650	1,650	0
3/1	1 L* = 1.60	1,600	1,650	(50)

L* means Pounds Sterling

Source: Czinkota, Michael R. and Ilkka A. Ronkainen, International Marketing Chicago; second edition, 1990. The Dryden Press, 1990.

TP 5-13

INTERNATIONAL COMMERCIAL PAYMENTS

- Cash
- Open Account
- Bill of Exchange
- Letter of Credit

TP 5-14

CASH

- Rare Term of Payment
- Unattractive to buyer because pays before goods delivered or inspected

  Used for:

  1. bad credit
  2. weak exporter finances
  3. special materials in goods
  4. raw materials
  5. custom products

TP 5-15

OPEN ACCOUNT

- Used if consignee's credit is good and there is a stable political and economic system
- Entire financial burden on exporter

Advantages:

Simple - the accounting entry evidences the obligation

No banking arrangements

TP 5-16

BILL OF EXCHANGE/DRAFT

- Bank Draft is used for very good (trust) or very bad credit (no trust)

- Time of payment:

  (a) on sight - could be payable before goods arrive
  (b) on arrival
  (c) specific date - e.g., 30, 60, 90 day credit paid

- Accompanying documents:

  (a) Ocean bill of lading
  (b) Marine insurance
  (c) Commercial invoice

- Disposition options:

  (a) discounting or borrowing against it
  (b) Placing it for collection

- Risks born by exporter

TP 5-17

LETTERS OF CREDIT

- Instrument issued by a bank at the request of the buyer whereby the bank undertakes to accept and/or pay drafts drawn upon the bank by the seller of merchandise concerned.

- Parties to letter of credit - only need three :

  - buyer
  - issuer
  - beneficiary or seller

- May also have:

  1. confirming bank
  2. paying bank
  3. advising bank
  4. negotiating bank

TP 5-18

LETTERS OF CREDIT:

- WRITTEN UNDERTAKING OF A BANK
  - Buyer's (applicant) request
  - Honor drafts or seller (beneficiary)
  - Strict compliance with specified conditions

- TYPES OF LETTERS OF CREDIT
  - REVOCABLE → amend or cancel anytime
  - IRREVOCABLE → amend or cancel with beneficiary approval
  - CONFIRMED → applicant and beneficiary banks' guarantees
  - UNCONFIRMED → only applicant bank's guarantee

- EXCRUCIATING ADMINISTRATIVE ADHERENCE TO TERMS

- TERMS AND CONDITIONS SHOULD BE UNDERSTOOD EARLY:
  - CREDIT AMOUNT - expiration date
  - SHIPPING DATE - insurance coverage
  - DOCUMENTS OBTAINABLE
  - SHOULD BE SPECIFIED IN SALES CONTRACT

Source: R. Smith, IMPEX, 1992

TP 5-19

KINDS Of LETTERS OF CREDIT

1. Revocable (not legally binding), Irrevocable.

2. Confirmed or unconfirmed (no second bank confirming issuing bank).

3. Prefer irrevocable, confirmed.

ADVANTAGES OF LETTER OF CREDIT TO BUYER

1. Definite shipping date for order.

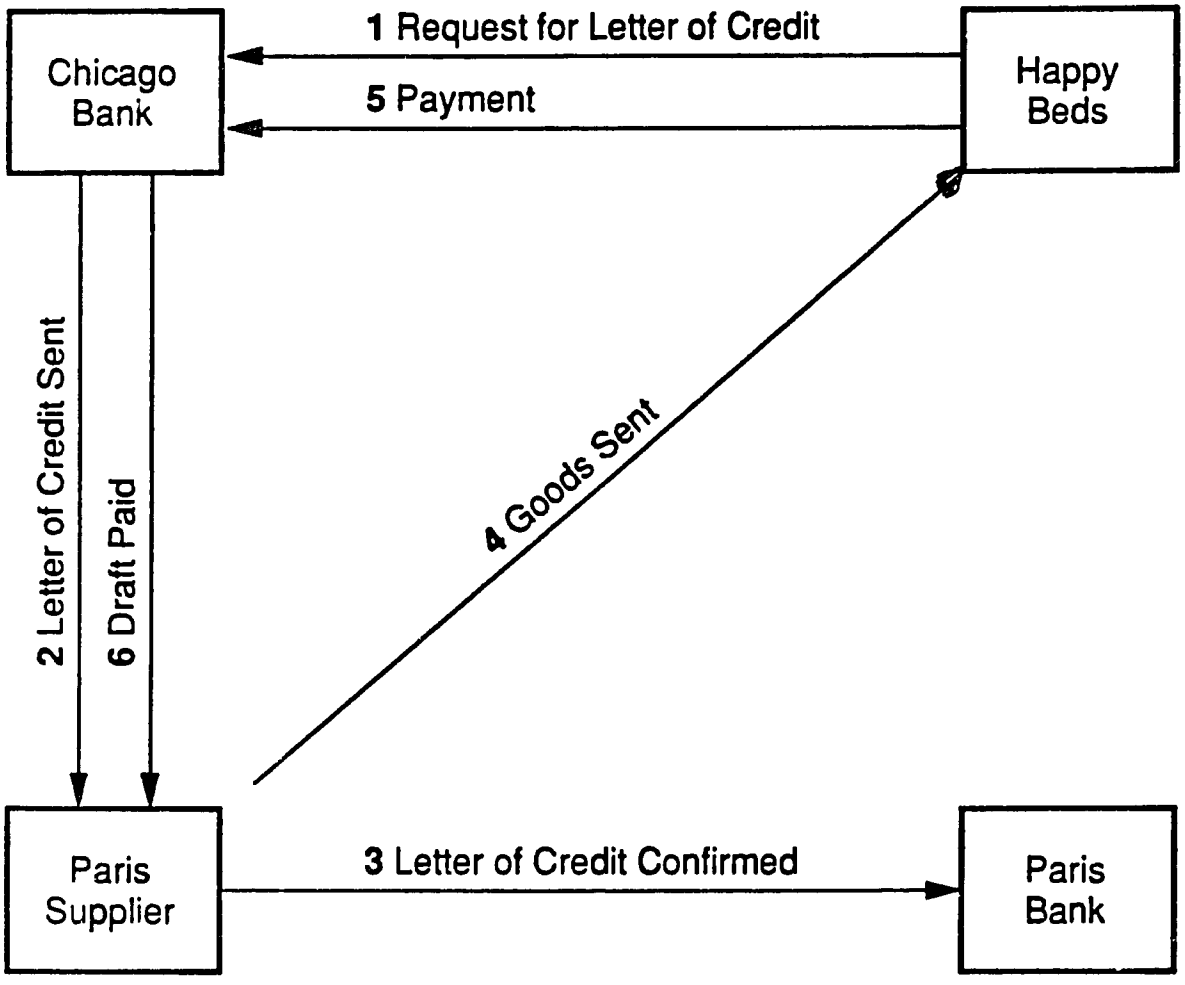
2. Gets lower prices since seller doesn't have to risk of non-payment.

3. May get discount for providing letters of credit.

4. What is advantage to seller?

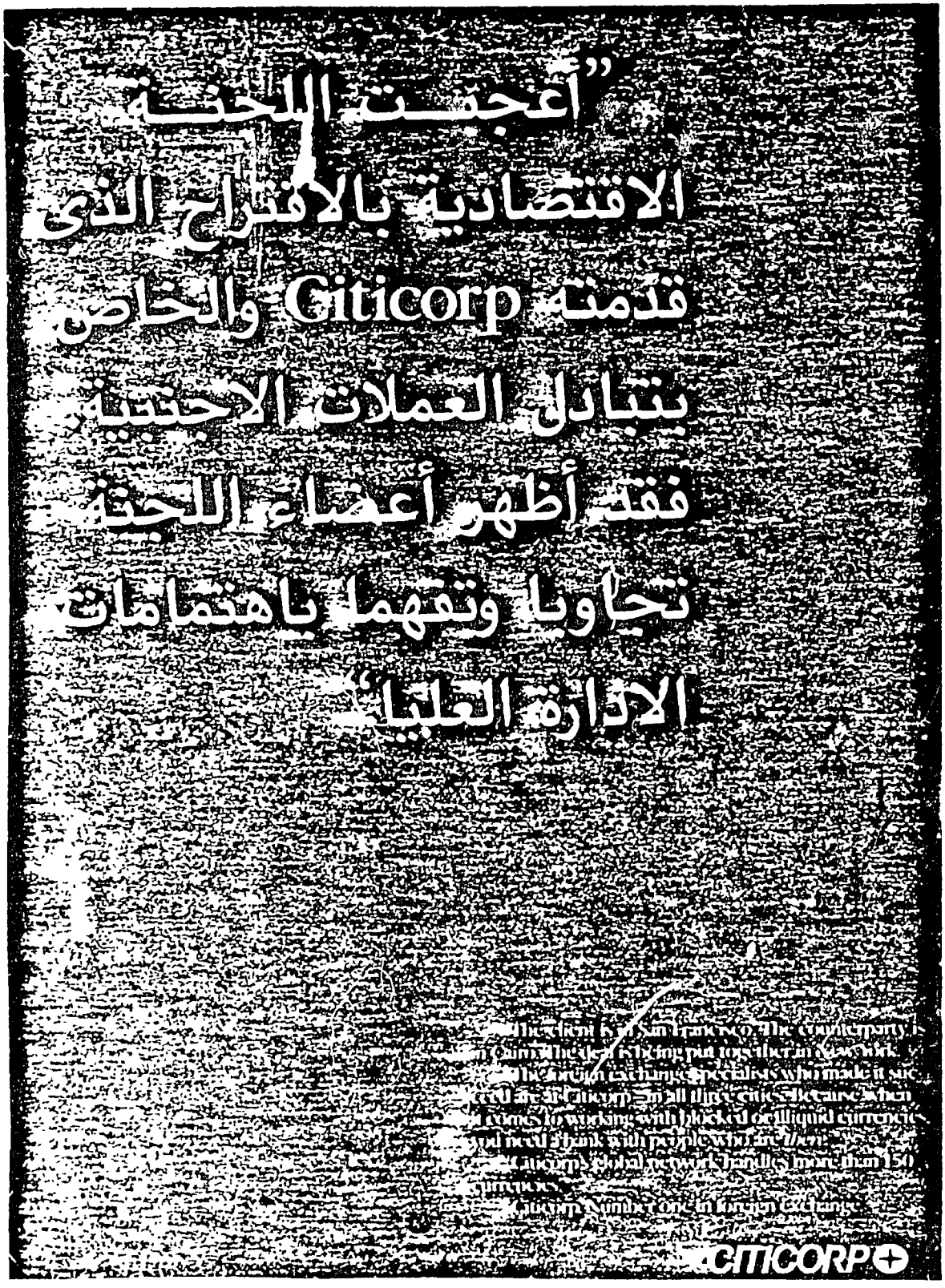
TP 5-20

The Mechanics of the Letter of Credit and Sight Draft



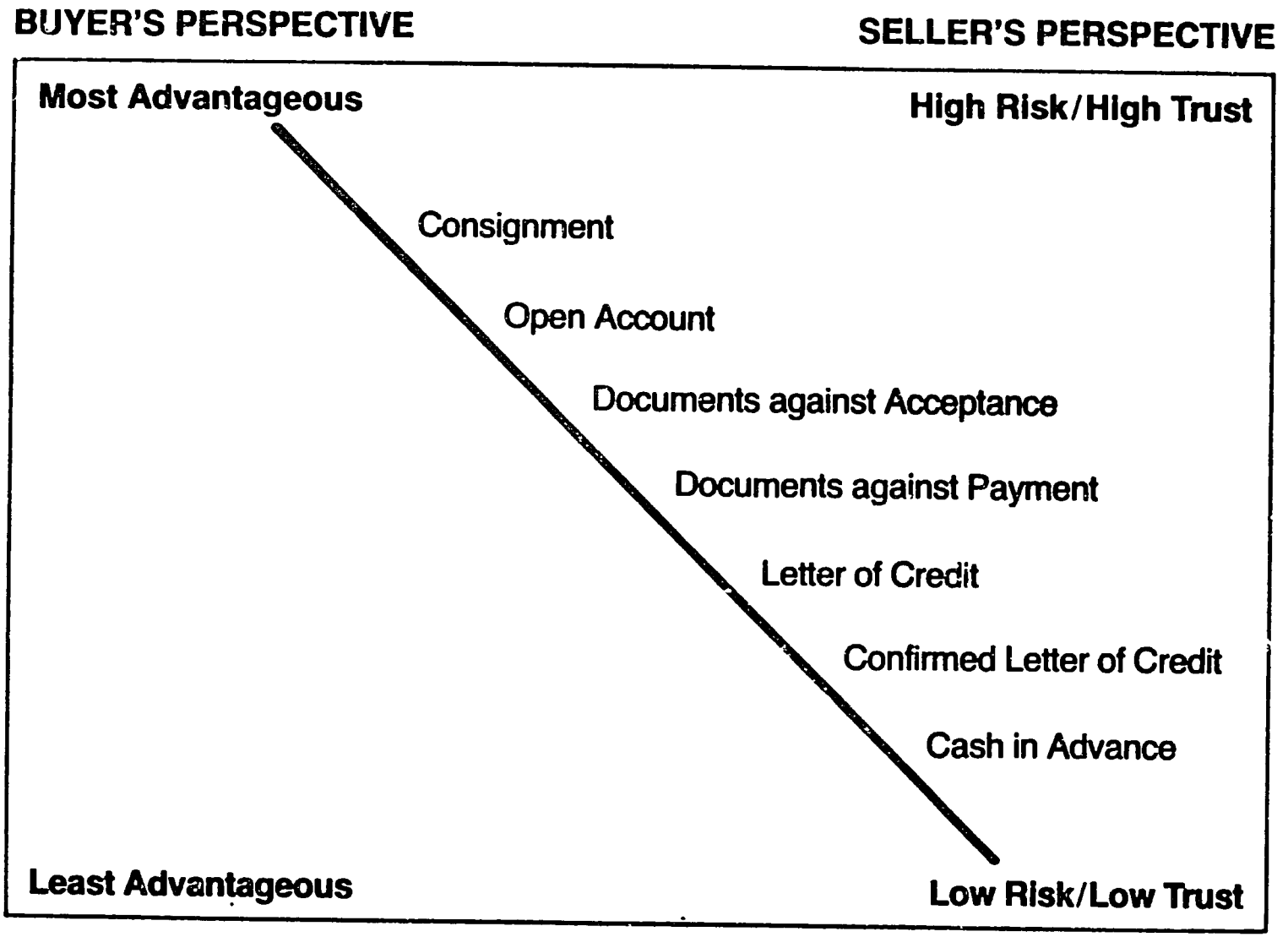
Source: Czinkota Michael R., Rivoli Pietra, Ronkainen Ikka A. International Business, Second Edition. Copyright ©1992 The Dryden Press.

TP 5-21
Global Services by Citicorp



Source: Czinkota Michael R., Rivoli Pietra, Ikka A. Ronkainen. *International Business*. Second edition. Copyright © 1990 The Dryden Press Chapter 10, p. 308.

Risk Triangle



Source: Chase Manhattan Bank, *Dynamics of Trade Finance* (New York: Chase Manhattan Bank, 1984), 5.

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TP 5-23

FOREIGN COLLECTIONS, CREDIT GUARANTEES & INSURANCE
(handling failure to pay)

Making Collections

Better to avoid

Alternatives:

1. Collection agencies
2. Bank protest
3. Foreign Service offices inquiries
4. Conciliation, arbitration
5. Litigation - last resort

TP 5-24

CREDIT GUARANTEES AND INSURANCE FOR PAYMENT

1. Banks - letter of credit

2. Credit guarantees by factor - outside agent takes over credit operations for exporter

3. Credit guarantees by sales agents - assume credit risk for a fee

4. Credit guarantees by individuals - when banks, custom houses, etc. can't or don't provide services

5. Self insurance of export credits - reserve for bad debts; boost selling price to cover anticipated bad debts

6. Export credit insurance - if available

FACTORING

- A factor (non-U.S.) is a manager or administrator of a business in the name of another. May bind the principal in all matters in which the factor is granted authority.

- 2-4% discount (charge) for factor house assuming receipt of inventory

TP 5-26

BARTER AND COUNTERTRADE

Countries Requesting Countertrade

by 1972
15

PRC
USSR
DDR
Poland
CSSR
Hungary
Rumania
Bulgaria
Albania
Cuba
Yugoslavia ...plus
India
New Zealand
Australia
USA (CCA Program)

by 1979
27

North Korea
Iraq
Iran
Israel
Libya
Argentina
Brazil
Colombia
Ecuador ...plus
Uruguay
Switzerland
Austria

Singapore
Vietnam
Korea
Philippines
Thailand
Hong Kong
Malaysia
Indonesia
Burma
Bangladesh
Pakistan
Sri Lanka
Trinidad
Jamaica
Dominican Republic
Costa Rica
El Salvador
Guatemala
Honduras
Panama
Chile
Paraguay
Peru
Venezuela

by 1983
88

Mexico
Algeria
Nigeria
Angola
Cameroon
Ethiopia
Ghana
Ivory Coast
Egypt
Kenya
Togo
Uganda
Upper Volta
Zaire
Zambia
Zimbabwe
South Africa
Sweden
Canada
Finland
Turkey
Spain
Belgium
Netherlands
Greece
France
Germany
Norway
Denmark
Italy
U.K.

by 1989
94

Mozambique
Portugal
Morocco
Liberia
Guinea
Tunisia ...plus

Cyprus
Malta
Saudi Arabia
Jordan
Guyana
Bolivia

Source: Willis A. Bussard, "Countertrade: A View from U.S. Industry," *Countertrade and Barter Quarterly*, May 1984, 54; and Popilu Verzanu, Office of Barter and Countertrade, U.S. Department of Commerce, May 1989.

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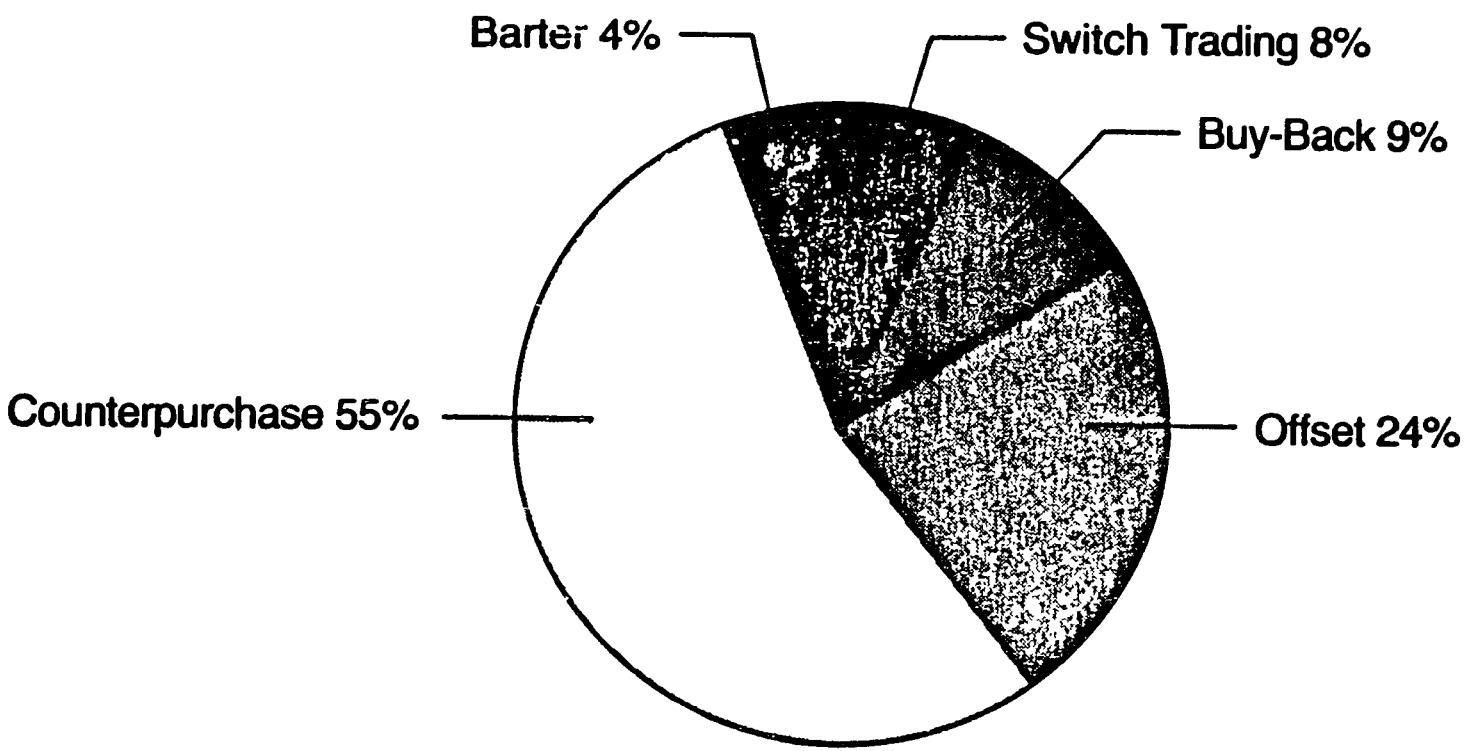
Countertrade Usage Involving U.S. Firms, by Types



Source: Willis A. Bussard, "An Overview of Countertrade Practices of Corporations and Individual Nations," in *International Countertrade*, ed. C. Korth (Westport, Conn.: Quorum Books, a division of Greenwood Press, Inc., 1987), 18.

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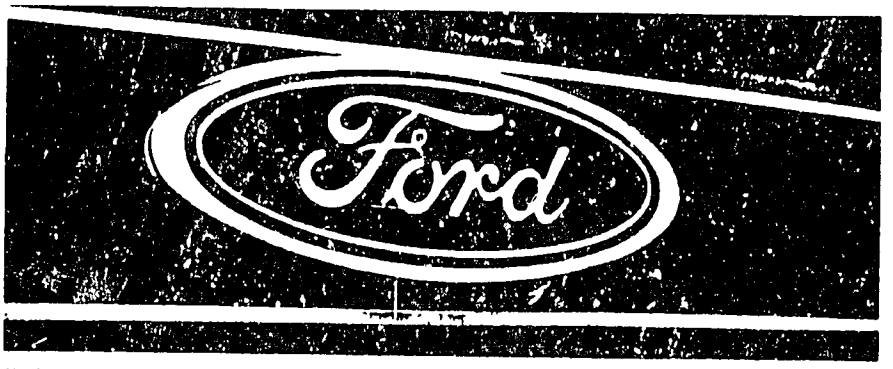
TP 5-29

Advertisement Offering Countertrade Services of an MNC Subsidiary.

One name makes the countertrade package even better.



You know Ford for cars and trucks and tractors. It's one of the best known names in the world.

But did you know that Ford New Holland does business on six continents, in more than 100 nations?

Our worldwide marketing network includes over 8,000 dealerships, distributors, national Ford companies and regional sales offices. Ford tractors are assembled in numerous plants on four continents. What's more, our experience in barter and countertrade spans decades.

We have important contacts with major banks, traders, agricultural producers, businesses, and fleet and government purchasers almost everywhere.

We work closely with banks, traders and end users on countertrade arrangements that may involve anything from blue jeans to crude oil. Ford tractors have been traded for farm commodities such as tobacco, hemp and bananas and industrial products like alloy steel gears.

Leading in so many ways

We're market leaders in the United Kingdom and in many nations of Europe, Africa, South America, and Australasia. Many of the developing nations look to Ford New Holland to supply their farm tractor and equipment needs.

But there's another reason why you should make Ford New Holland your countertrade partner. And that's its affiliation with Ford Motor Company.

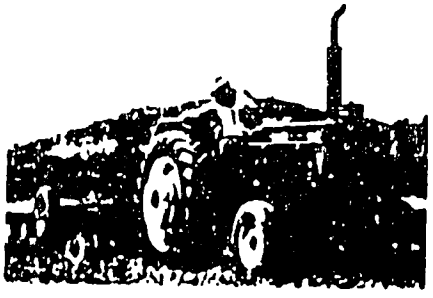
Ford is a major organization with highly diversified products and technologies. In addition to cars, trucks and tractors, Ford is involved in communications satellites, space exploration systems, microelectronics, plastics, glass, diesel engines, alternative fuel technologies, and more.

Let's talk

Whether your barter plans call for countertrade, buyback, offset or switch business, Ford tractors can help you make the package even better.

In the United Kingdom, contact Phil Evans,
Manager–
Special Transactions,
Dept. 32/310,
Ford New Holland Ltd.,
Basildon, Essex SS14 3AD.
Telephone (44) 0268 3000
Telex 851 99281
FORDIA G

If you're closer to the U.S., get in touch with George Davis,
Operations Controller,
Ford New Holland, Inc.,
2500 Maple Road,
Troy, Michigan 48084
Telephone 313-637-7110.
Telex 23 5772.



Ford
FORD
NEW HOLLAND

Source: Courtesy of Ford New Holland, Inc.

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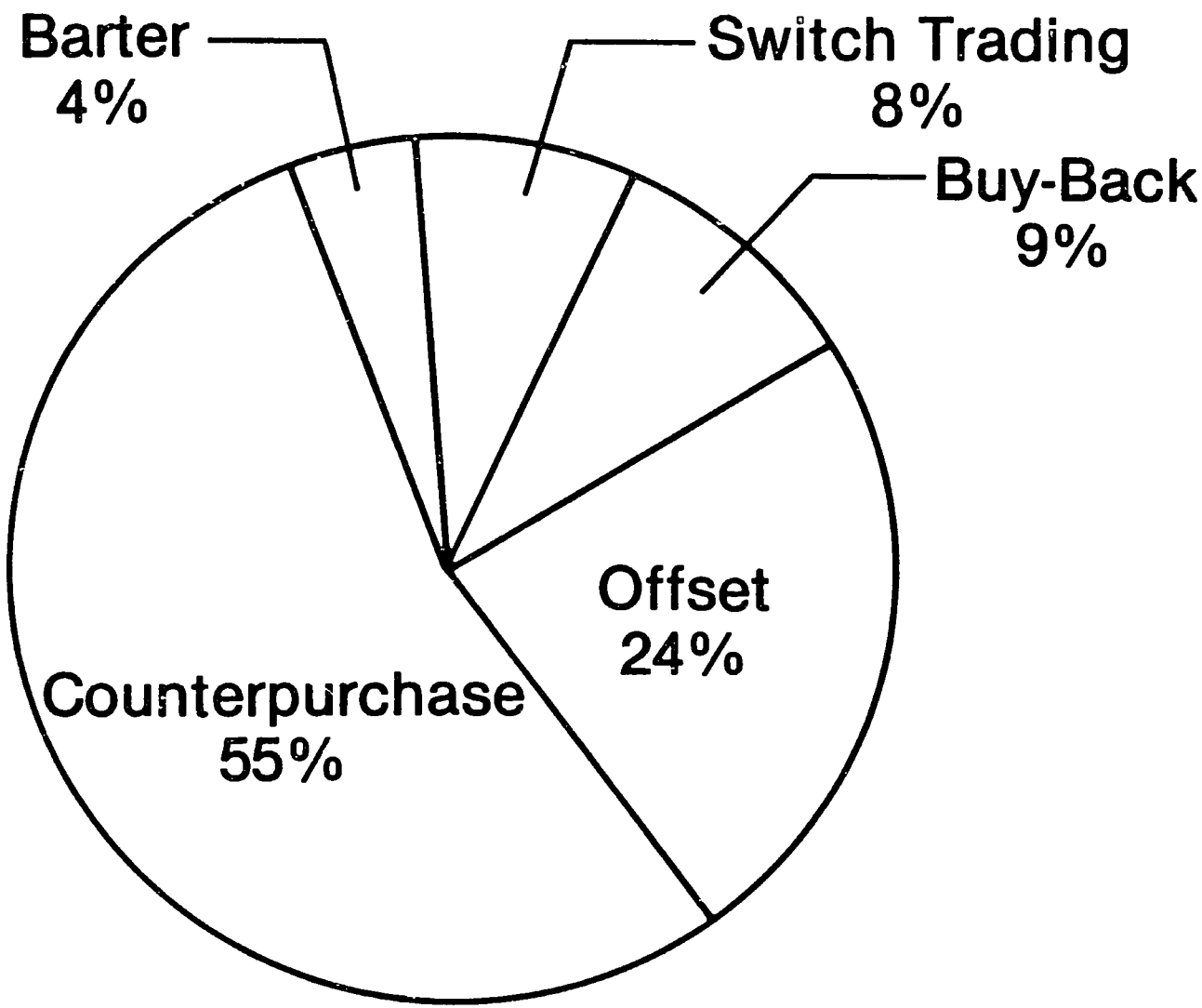
Countertrade Usage--by Types



Source: Willis A. Bussard, "An Overview of Countertrade Practices of Corporations and Individual Nations," in *International Countertrade*, ed. C. Korth (Westport, Conn.: Quorum Books, 1987), 18.

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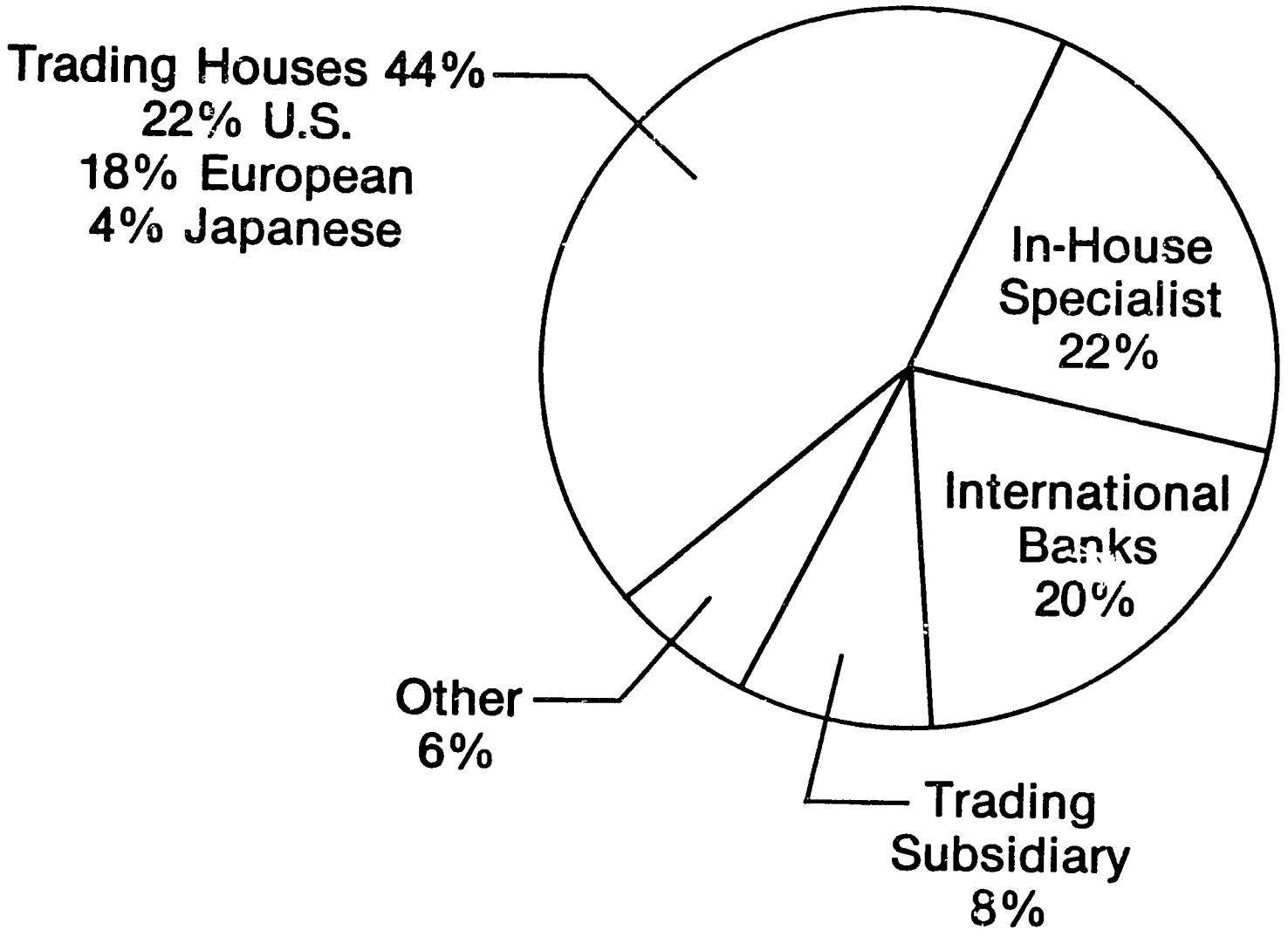
Countertrade Services Employed



Source: Willis A. Bussard, "An Overview of Countertrade Practices of Corporations and Individual Nations," in *International Countertrade*, ed. C. Korth (Westport, Conn.: Quorum Books, 1987), 21.

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HO 5-1

Inexpensive imports often trigger accusations of **dumping**—that is, selling goods overseas for less than in the exporter's home market, or at a price below the cost of production, or both. Cases that have been reported include charges by Florida tomato growers that Mexican vegetables were being dumped across the border and the ruling of the Canadian Anti-Dumping Tribunal that U.S. firms were dumping radioactive diagnostic reagents in Canada.

Dumping ranges from predatory to unintentional. Predatory dumping is the tactic of a foreign firm that intentionally sells at a loss in another country in order to increase its market share at the expense of domestic producers. This amounts to an international price war. Unintentional dumping is the result of time lags between the dates of sales transaction, shipment, and arrival. Prices, including exchange rates, can change in such a way that the final sales price is below the cost of production or below the price prevailing in the exporter's home market.

In the United States, domestic producers may petition the government to impose antidumping duties on imports alleged to be dumped. The remedy is a duty equal to the dumping margin. International agreements and U.S. law provide for countervailing duties. They may be imposed on imports that are found to be subsidized by foreign governments. They are designed to offset the advantages imports would otherwise receive from the subsidy.

Source: Czinkota, Michael R. Ikka A. Ronkainen. International Marketing. Copyright © The Dryden Press. Second editin, Chicago. Cahpter 16, p. 425-426.

Three Strategies

Three general price-setting strategies in international marketing are a standard worldwide price; dual pricing, which differentiates between domestic and export prices; and market-differentiated pricing[1]. The first two are cost-oriented pricing methods that are relatively simple to establish, easy to understand, and cover all the necessary costs. The **standard worldwide price** is based on average unit costs of fixed, variable, and export-related costs.

In **dual pricing,** the export price is often based on marginal cost pricing, resulting in a lower export price than domestic price. This method, based on incremental costs, considers the direct costs of producing and selling products for product as the floor beneath which prices cannot be set, while other fixed costs (such as basic R&D) are considered to have been recaptured by domestic operations. This may open the firm to dumping charges, because determination of dumping has generally been based on average total costs, which can be considerably higher. Lower export prices are common, especially among Western European companies, which have a heavier tax burden on their domestically sold products than on exported products. The reason is that the value-added tax is refunded for the exported products. Cost-oriented pricing creates some major problems because it (1) is based on arbitrary cost allocations, (2) does not take into consideration highly differing market conditions, and (3) is subject to differing internal conditions with respect to the various markets, such as entry mode and stage of the product's life cycle in the respective markets.

On the other hand, **market-differentiated pricing** is based on a demand-oriented strategy and is thus more consistent with the marketing concept. This method also allows the exporter to consider competitive forces in setting of the export price. The major problem is the exporter's perennial dilemma: lack of information. Therefore, in most cases, marginal costs provide a basis for competitive comparisons, on which the export price is set.

[1]Richard D. Robinson, Internationalization of Business: An Introduction (Hinsdale, IL; The Dryden Press, 1984), 49-54.

Source: Czinkota Michael R., Rivoli Pietra, Ikka A. Ronkainen. International Business. Second Edition. Copyright © 1990 The Drydon Press. Chapter 10, p. 300-301

Export-Price Escalation

International Marketing Channel Elements and Cost Factors	Domestic Wholesale–Retail Channel	Export Market Cases: Case 1 Same as Domestic with Direct Wholesale Import C.I.F./Tariff	Case 2 Same as 1 with Foreign Importer Added to Channel	Case 3 Same as 2 with VAT Added	Case 4 Same as 3 with Local Foreign Jobber Added to Channel
Manufacturer's Net Price	6.00	6.00	6.00	6.00	6.00
+ Insurance and Shipping Cost (C.I.F.)	—	2.50	2.50	2.50	2.50
= Landed Cost (C.I.F. value)	—	8.50	8.50	8.50	8.50
+ Tariff (20% on C.I.F. value)	—	1.70	1.70	1.70	1.70
= Importer's Cost (C.I.F. value + tariff)	—	10.20	10.20	10.20	10.20
+ Importer's Margin (25% on cost)	—	—	2.55	2.55	2.55
+ VAT (16% on full cost plus margin)	—	—	—	2.04	2.04
= Wholesaler's Cost (= Importer's Price)	6.00	10.20	12.75	14.79	14.79
+ Wholesaler's Margin (33⅓% on cost)	2.00	3.40	4.25	4.93	4.93
+ VAT (16% on margin)	—	—	—	.79	.79
= Local Foreign Jobber's Cost (= Wholesale Price)	—	—	—	—	20.51
+ Jobber's Margin (33⅓% on cost)	—	—	—	—	6.84
+ VAT (16% on margin)	—	—	—	—	1.09
= Retailer's Cost (= Wholesale or Jobber Price)	8.00	13.60	17.00	20.51	28.44
+ Retailer's Margin (50% on cost)	4.00	6.80	8.50	10.26	14.22
+ VAT (16% on margin)	—	—	—	1.64	2.28
= Retail Price (what consumer pays)	12.00	20.40	25.50	32.41	44.94
Percentage Price Escalation over Domestic		70%	113%	170%	275%
Percentage Price Escalation over Case 1			25%	59%	120%
Percentage Price Escalation over Case 2				27%	76%
Percentage Price Escalation over Case 3					39%

Source: Helmut Becker, "Pricing: An International Marketing Challenge," in International Marketing Strategy, eds. Hans Thorelli and Helmut Becker (New York: Pergamon Press, 1980), 215. Reprinted with permission.

"REVISED AMERICAN FOREIGN TRADE DEFINITIONS–1941" WITH CERTAIN PRACTICAL ADDITIONS

Breakdown Dividing Responsibility and Charges Between Buyer and Seller, as Pertaining to the American Export Trade on the Commonly Used Services

Service	Ex Point of Origin		F.o.b. Named Inland Carrier Named Inland Point of Departure		F.o.b. Named Inland Carrier Named Inland Point Freight Prepaid to Named Point of Exportation		F.o.b. Named Inland Carrier Named Inland Point Freight Allowed to Point of Exportation		F.o.b. Named Inland Carrier Named Point of Exportation		F.o.b. Vessel Named Port of Shipment		F.o.b. Named Inland Point in Country of Importation		F.a.s. Named Port of Shipment		C. & F. Named Point of Destination		C.i.f. Named Point of Destination	
	Resp.	Chg.	Resp.	Chg.	Resp.	Chg.	Resp.	Chg.	Resp.	Chg.	Resp.	Chg.	Resp.	Chg.	Resp.	Chg.	Resp.	Chg.	Resp.	Chg.
Warehouse storage charges	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
Warehouse labor charges	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
Export packing	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Loading at origin	B	B	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S	S
Inland freight	B	B	B	B	B	S	B	••	S	S	S	S	S	S	S	S	S	S	S	S
Transportation at port	B	B	B	B	B	B	B	B	B	B	S	S	S	S	S	•••• S	S	S	S	S
Storage at port	B	B	B	B	B	B	B	B	B	B	S	S	S	S	S	•••• S	S	S	S	S
Forwarder's fee	B	B	B	B	B	B	B	B	B	B	S†	S†	S	S	B	B	S	S	S	S
Consular fee*	B	B	B	B	B	B	B	B	B	B	B	B	S	S	B	B	S	B	S	B
Loading on ocean carrier	B	B	B	B	B	B	B	B	B	B	S	S	S	S	B	B	S	S	S	S
Oceanfreight	B	B	B	B	B	B	B	B	B	B	B	B	S	S	B	B	S	S	S	S
Marine insurance*	B	B	B	B	B	B	B	B	B	B	B	B	S	S	B	B	B	B	S	S
Charges in foreign port	B	B	B	B	B	B	B	B	B	B	B	B	S	S	B	B	B	B	B	B
Customs duties & taxes abroad	B	B	B	B	B	B	B	B	B	B	B	B	S	••• S	B	B	B	B	B	B

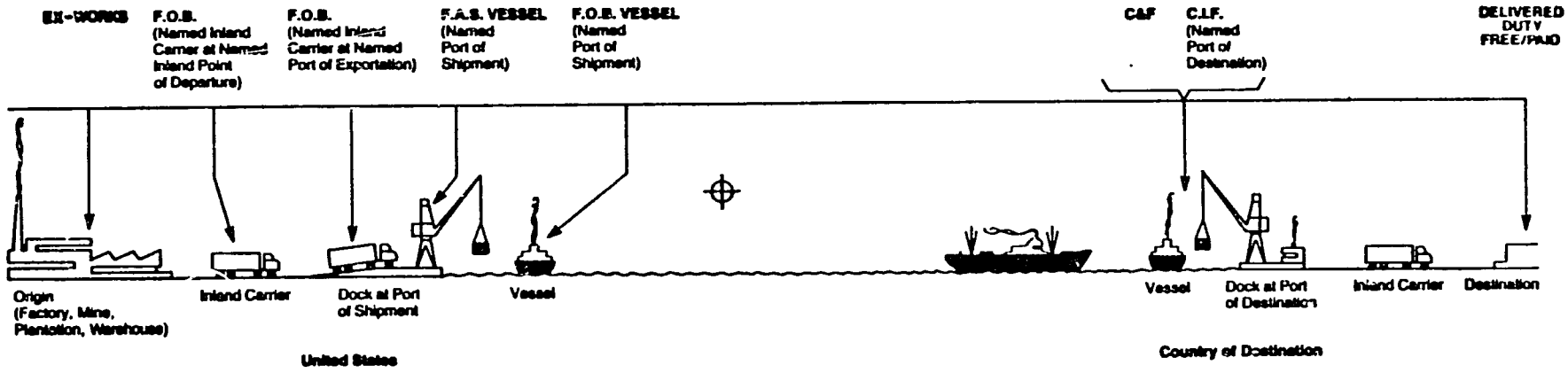
* Export packing, war risk insurance, and consular fees are sometimes controversial, depending on the contract of sale.
•• Shipped "Collect" and deducted from the invoice amount.
••• Seller is also responsible for foreign inland freight.
•••• Prior to delivery on dock subsequent charges for account of buyer.

This presentation patterned after the one used by Dr. Roland L. Kramer, Professor of Commerce and Transportation, Wharton School, University of Pennsylvania.

Source: George W. Tomlinson, *Pointers on Export Letters of Credit*, The First National (now First Pennsylvania) Bank (Philadelphia: 1953).
†Present author would change these S's to B's.

Abbreviations
Resp. ..... Responsibility
Chg. ..... Charges
S. ..... Seller
B. ..... Buyer
F.o.b. ..... Free on board
F.a.s. ..... Free alongside ship
C. & F. ..... Cost and freight
C.i.f. ..... Cost, insurance, and freight

Source: Kramer, International Marketing, Coomon Division of Responsibilities and charges between Buyer and Seller. p. 146.



TERMS OF SALE

The responsibilities of the buyers and the seller should be spelled out as they relate to what is and what is not included in the price quotation. Although the same terms may be used in domestic transactions, they gain new meaning in the international arena. In the U.S. domestic market, it is customary to use F.O.B. (free on board) with a specified place and with payment usually C.O.D. (cash on delivery). However, exporters should use the **C.I.F. (cost, insurance, freight)** quotation, because it gives the would be importer a clear understanding of costs involved. The most common terms used in international marketing are summarized in Fig.1.

Prices quoted **ex-works** (factory, mine, plantation, or warehouse) apply only at the point of origin and the seller agrees to place the goods at the disposal of the buyer at the specified place on the date or within the fixed period. All other charges are for the account of the buyer.

Free alongside ship (F.A.S.) at a named U.S. port of export means that the exporter quotes a price of goods, including charges for delivery of the goods alongside a vessel at the port. The seller handles the cost of unloading and wharfage; loading, ocean transportation, and insurance are left to the buyer.

Under the terms **free on board (F.O.B.)**, the seller quotes a price for the goods, including the cost of loading them into transport vessels at a named point. There are a number of variations of this term, including:

- F.O.B. (named inland point). The price quoted applies only at a designed inland shipping. The seller is responsible for loading goods into the transport vessel; the buyer, for all subsequent expenses.
- F.O.B. (named port of exportation) includes the cost of transporting the goods to the named port.
- F.O.B. vessel (named port of shipment). The seller quotes a price covering all expenses up to, and including, delivery of goods upon an overseas vessel provided by or for the buyer.

Under **cost and freight (C&F)** to a named overseas port of import the seller quotes a price for the goods, including the cost of transportation to the named port of debarkation. The cost of insurance and choice of insurer is left to the buyer.

With cost, insurance, and freight (C.I.F.) to a named overseas port of import, the seller quotes a price including insurance, all transportation, and miscellaneous charges to the point of debarkation from vessel or aircraft. Items that may enter into the calculation of the C.I.F. cost are (1) port charges: unloading, wharfage (terminal use) handling, storage, cartage, heavy lift, and demurrage; (2) documentation charges: certification of invoice certificate of origin, weight certificate, and consular forms; and (3) other charges, such as fees of the freight forwarder, and freight (inland and ocean) insurance premiums (marine, war, credit).

With **delivery duty free/paid**, the seller delivers the goods, import duties paid, including inland transportation from import point to the buyer's premises. Ex-works signifies the maximum obligation for the buyer; delivered duty free/paid puts the maximum burden on the seller.

The careful determination and clear understanding of terms used and their acceptance by the parties involved ate vital id subsequent misunderstandings and disputes ate to be avoided.

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INCOTERMS 1990

EXW - EX WORKS	:	"Ex works" means that the seller fulfills his obligation to deliver when he has made the goods available at his premises (i.e. works, factory, warehouse, etc.) to the buyer. In particular, he is not responsible for loading the goods onto the vehicles provided by the buyer or clearing for export, unless otherwise agreed. The buyer bears all costs and risks involved in taking the goods from the seller's premises to the desired destination. This term thus represents the minimum obligation for the seller.
FCA - FREE CARRIER	:	"Free Carrier" means that the seller fulfills his obligation to deliver when he has handed over the goods, cleared for export, into the charge of the carrier named by the buyer at the named place or point. If no precise point is indicated by the buyer, the seller may choose within the place or range stipulated where the carrier shall take the goods into his charge. When, according to the commercial practice, the seller's assistance is required in making the contract with the carrier (such as in rail or air transport) the seller may act at the buyer's risk and expense.
FAS - FREE ALONGSIDE SHIP	:	"Free Alongside Ship" means that the seller fulfills his obligation to deliver when the goods have been placed alongside the vessel on the quay or in lighters at the named point of shipment. This means that the buyer has to bear all costs and risks of loss or damage to the goods from that moment. The FAS term requires the buyer to clear the goods for export.
FOB - FREE ON BOARD	:	"Free on Board" means that the seller fulfills his obligation to deliver when the goods have passed over the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss or damage to the goods from that point.
CFR - COST AND FREIGHT	:	"Cost and Freight" means that the seller must pay the costs and freight necessary to bring the goods to the named port of destination but the risks of loss or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered on board the vessel, is transferred from the seller to the buyer when the goods pass the ship's rail in the port of shipment.
CIF - COST INSURANCE & FREIGHT	:	"Cost, Insurance and Freight" means that the seller has the same obligations as under CFR but with the addition that he has to procure marine insurance against the buyer's risk of loss or damage to the goods during the carriage. The seller contracts for insurance and pays the insurance premium.
CPT - CARRIAGE PAID TO	:	"Carriage paid to" means that the seller pays the freight for the carriage of the goods to the named destination. The risk of loss or damage to the goods, as well as additional costs due to events occurring after the time the goods have been delivered to the carrier, is transferred from the seller to the buyer when the goods have been delivered into the custody of the carrier.
CIP - CARRIAGE & INSURANCE PAID TO	:	"Carriage and insurance paid to" means that the seller has the same obligations as under CPT but with the addition that the seller has to produce cargo insurance against the buyer's risk of loss or damage to the goods during the carriage.

DAF - DELIVERED AT FRONTIER	:	"Delivered at Frontier" means that the seller fulfills his obligation to deliver when the goods have been made available, cleared for export, at the named point and place at the frontier, but before the customs border of the adjoining country. It is of vital importance that the frontier in question be defined precisely.
DES - DELIVERED EX SHIP	:	"Ex Hip" means that the seller fulfills his obligation to deliver when the goods have been made available to the buyer on board the ship uncleared for import at the named port of destination. The seller has to bear all the costs and risks involved in bringing the goods to the named point of destination.
DEQ - DELIVERED EX QUAY (DUTY PAID)	:	"Delivered Ex Quay (duty) paid)" means that the seller fulfills his obligation to deliver when he has made the goods available to the buyer on the quay (wharf) at the named port of destination, cleared for importation. The seller has to bear all risks and costs including duties, taxes and other charges of delivering the goods thereto. If the parties wish to exclude from the seller's obligations some of the costs payable upon importation of the goods (such as value added tax (VAT)), this should be made clear by adding words to this effect: "Delivered ex quay, VAT unpaid (...named port of destination)".
DDU - DELIVERED DUTY UNPAID	:	"Delivered duty unpaid" means that the seller fulfills his obligation to deliver when the goods have been made available at the named place in the country of importation. The seller has to bear the costs and risks involved in bringing the goods thereto (excluding duties, taxes and other official charges payable upon importation) as well as the costs and risks of carrying out customs formalities. The buyer has to pay any additional costs and to bear any risks caused by his failure to clear the goods for import in time. If the parties wish the seller to carry out customs formalities and bear the costs and risks resulting therefrom, this has to be made clear by adding words to this effect. If the parties wish to include in the seller's obligations some of the costs payable upon importation of the goods (such as value added tax (VAT), this should be made clear by adding words to this effect :Delivered duty unpaid, VAT paid (named place of destination).
DDP - DELIVERED DUTY PAID	:	"Delivered duty paid" means that the seller fulfills his obligation to deliver when the goods have been available at the named place in the country of importation. The seller has to bear the risks and costs, including duties, taxes, and other charges of delivering the goods thereto, cleared for importation. Whilst the EXW term represents the minimum obligation for the seller, DDP represents the maximum obligation. If the parties wish to include from the seller's obligations some of the costs payable upon importation of the goods (such as value added tax (VAT), this should be made clear by adding words to this effect: "Delivered duty paid, VAT unpaid (...named port of destination)."

HO 5-7

PRICING UNDER DIFFERENT TERMS OF SALE

Example #1

Product Costs	U.S. $200
Markup (40%)	80
Quoted Ex Warehouse Price	$_____
Inland Freight	25
Port Charges	25
Forwarding Charges (documentation, etc.)	50
FOB Value	$_____
Freight & Insurance	200
CIF Value	$_____
Import Duties (10% CIF Value)	_____
Landed Cost to Importer	$_____

Example #2

Product Costs	U.S. $200
Inland Freight, Port Charges, etc.	100
FOB Value	$_____
Markup (40%)	_____
Quoted FOB Price	$_____
Freight & Insurance	200
CIF Value	$_____
Import Duties (10% CIF Value)	_____
Landed Cost to Importer	$_____

PRICING UNDER DIFFERENT TERMS OF SALE

Example #3

Product Costs	U.S. $200
Inland Freight, Port Charges, etc.	100
FOB Value	$_____
Freight & Insurance	200
CIF Value	$_____
Markup (40%)	_____
Quoted CIF Price	$_____
Import Duties (10% CIF Value)	_____
Landed Cost to Importer	$_____

Source: Bonafina, p.141.

HO 5-8

HEDGING EXAMPLE (SELLER)

To avoid loss due to exchange rates:

	Merchandise Transaction	Futures Transaction
Jan. 1		
	Sell order for 6,250,000 lira worth of goods. At $.0016 per lira, this equals.....$10,000.00	Sells 90-day contract for 6,250,000 lira at $.0016.....$10,000.00
April 1		
	Receives payment of 6,250,000 lira worth $.0016125...10,078.13	Buys spot lira to cover at $.0016125..10,078.13
	Profit due to exchange..$78.13	Loss on futures contract. $78.13

Source: Kramer, Roland L, International Marketing. Copyright ©1970 South Western Publishing Co.,

HEDGING

Example I:

November 26 exchange rate is $.4073/mark. $10,000 = 24,600 mark

For the Buyer

If the seller will receive 24,600 marks in April, the buyer can:

1. Buy spot exchange on November 26 and hold it until April so there is no loss or gain.

2. Wait and buy marks in April and take the chance that the dollar doesn't drop any more or may increase in value relative to the mark. For example, If the April exchange rate is $39.43 ($1 buys more marks), then $10,000 buys 25,361 marks. It only takes $9,700 to buy the 24,600 marks needed and there is a profit of $300 due to the exchange rate.

   But if the dollar is worth less, it would cost more to buy $24,600 marks. For example, if the April exchange rate is $.4184/mark, then $10,000 will only buy $23,900 marks. It would cost $10,300 to buy $24,600 marks. This is a savings of $300.

3. If the buyer is to hedge, the buyer guesses that the dollar will be worth less in April, so the buyer finds someone who thinks it will be worth more. The buyer sells a hedging contract on November 26 for $10,000 payable in April in Deutchmarks at the current rate of $.4073/mark = 24,600 mark

For the Seller:

The seller could:

1. Wait and exchange in April. Could make or lose as in 1. above.

2. Try to avoid foreign exchange loss by selling a futures contract to deliver 24,600 marks after payment is received for $10,000 in April and so no loss.

HO 5-9

SAVINGS OR LOSS FROM EXCHANGE RATES

1. Date of Purchase Agreement _____

2. Amount of Purchase (fixed at time of purchase)

   a. in zlotys _____

   b. Exchange rate on purchase date (zlotys/mark) _____

   c. in Marks (2.a./2.b.) _____

3. Payment Date _____

4. Savings or Loss

   a. Estimated exchange rate at delivery date (zlotys/mark) _____

   b. Value in zlotys (2,c. * 4.a.) _____

   c. Possible savings or loss (2,a. - 4,b.) _____

EXCHANGE RATE EXAMPLE
(U.S. $)

	Tues.,Oct 10	Fri.,Oct 27	Thurs.,Nov 9
	$	$	$
Israel (pound)	.2381	.2381	.2381
Philippines (peso)	.1485	.1485	.1485
W. Germany	.1996	.1984	.1988
France	.3126	.3120	.3120
G. Britain	2.4194	2.3480	2.3455

Pick three dates and insert exchange rates for your currency

EXCHANGE RATE EXAMPLE
(Zloty)

	Tues.,Oct 10	Fri.,Oct 27	Thurs.,Nov 9
	Zloty	Zloty	Zloty
Israel (pound)			
Philippines (peso)			
W. Germany			
France			
G. Britain			

Example of Foreign Exchange Impact

Monthly contract, £1,000
Cost of goods to marketer, $1,650

Date	*Exchange Rate*	*Revenue*	*Cost*	*Net Income*
1/1	1£ = $1.70	$1,700	$1,650	$50
2/1	1£ = 1.65	1,650	1,650	0
3/1	1£ = 1.60	1,600	1,650	(50)

Source: Czinkota, Michael R. and Ikka A. Ronkainen International Marketing; Second Edition. Copyright © 1990 The Drydon Press. Tab. 6.7; p. 179.

The Letter of Credit

The **letter of credit** is the most common mechanism of financing international trade. Returning to our previous example, it will be recalled that the Happy Beds hotel in Chicago had agreed to purchase linens from a Paris firm for 10,000 francs. The Paris firm, however, is unlikely to be willing to ship the linens without some form of payment assurance. Happy Beds is equally unlikely to be willing to pay without some form of assurance that the goods will be received. The letter of credit presents a solution to this dilemma.

Happy Beds would request from its Chicago bank a letter of credit on behalf of the Paris firm. In this letter, the Chicago bank would promise to pay the Paris firm (or its bank) the amount specified once certain conditions have been met. Typically, these conditions consist of presentation of proof that the goods agreed upon have been shipped and satisfactorily insured. Happy Beds now has assurance that the goods will be received. The Paris firm no longer has to concern itself with Happy Bed's creditworthiness. Instead, the firm has a claim on the Chicago bank, which in turn has a claim on Happy Beds. The credit risk has been transferred to the Chicago bank. Of course, Happy Beds is likely to be well known to the Chicago bank, and the task of credit analysis of Happy Beds is much more easily performed by the bank than by the Paris firm.

Letters of credit may be *irrevocable* or *revocable*. A revocable letter of credit may be changed or canceled before payment occurs. An irrevocable letter of credit, as the name implies, cannot be canceled or changed without the consent of all parties.

Letters of credit may also be *confirmed* or *unconfirmed*. In a **confirmed letter of credit**, the exporter receives a promise of payment from its own bank as well as the importer's bank. The confirmed letter of credit would be useful if the Paris firm is worried because it is unfamiliar with the creditworthiness of the chicago bank. The firm would request that the letter of credit be confirmed by its own bank. The effect of the confirmed letter of credit would be to add its own bank's promise to pay to that of the Chicago bank. The Paris firm would then have a claim on its own bank, which has a claim on the Chicago bank, which has a claim on Happy Beds.

Drafts

The letter of credit is a *promise* to pay but not a *means* of payment. Actual payment is accomplished by means of a draft, a document quite similar to a personal check. Like a check, it is an order by one party to pay another. A draft may be either a **sight draft** or a **time draft**. A sight draft, as the name implies, is an order to pay "on sight." The bank on which the draft is drawn will make payment when the draft is presented. A time draft, on the other hand, is similar conceptually to a postdated check. The bank will pay it after some amount of time, typically 30, 60, or 90 days. The bank accepts the draft by stamping the word "accepted" on it, which confirms its promise to pay on the specified date. This occurs once the bank has examined the necessary documents and is assured that the specified goods have been shipped and insured. Figure 1 illustrates the use of a confirmed letter of credit and sight draft for the Chicago and Paris firms.

If the accepting bank is a large and creditworthy bank, the accepted draft may become a negotiable instrument called a **banker's acceptance**. This means that the party scheduled to receive the funds can sell his or her claim on the bank to an outside party. To illustrate, suppose a U.S. firm had a time draft accepted by Citibank for $1 million to be paid in 90 days. Suppose, furthermore, that the firm has an immediate need for funds. The firm could contact an acceptance dealer and sell the acceptance at some discount, depending on the market rate of interest. If, for example, the annual interest rate was 12 percent, the acceptance could be sold for $970,873 (1,000,000 divided by 1.03). These instruments are traded in an active secondary market. Interest rates for banker's acceptances of various maturities are listed daily in *The Wall Street Journal.*

Even if the draft is not traded in the secondary market, the exporter may convert it to dash by **discounting**. To discount the draft simply means that the draft is sold to a bank at a discount from face value. If the discounting is *with recourse*, the exporter is liable for the payment to the bank if the importer defaults. If the discounting is without resource, the exporter will not be liable in the event that the importer does not pay the bank. Discounting without resource is also known as **factoring**.

In cases of high credit risk and longer term receivables, a special case of factoring called **forfeiture** may be used. Again, the draft is discounted without recourse. However, the importer promises to pay the discounting bank in installments over a period of several years at a fixed interest rate, and in freely convertible currency. This technique is used in the sale of long-term assets, or capital goods, to countries where the risk of exchange controls is present.

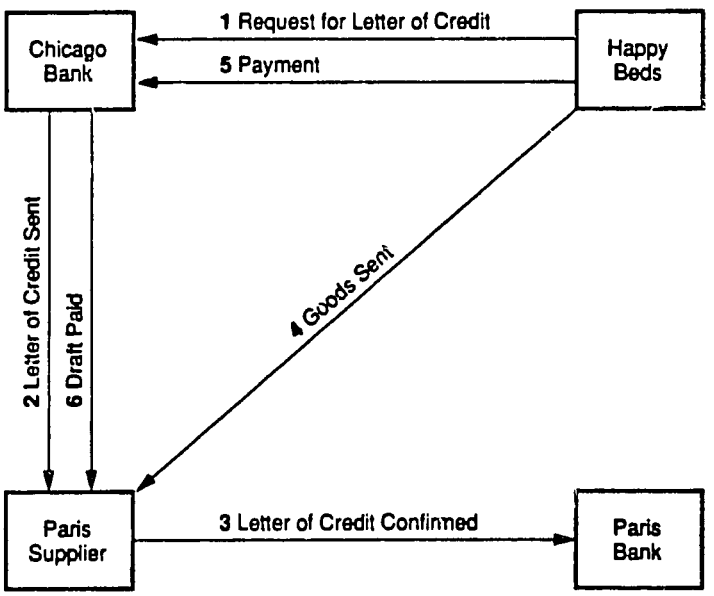

Fig.1 The Mechanics of the Letter of Credit and Sight Draft

Source: Czinkota Michael R. Rivoli Pietra, Ikka A. Ronkainen. International Business. Copyright © 1990 The Dryden Press. Chap. 18, pp. 469-471.

APPLICATION FOR COMMERCIAL LETTER OF CREDIT

To

HO 5-12

Gentlemen: _____ 19____

Please issue for our account an irrevocable letter of credit substantially according to this application and transmit it:

☐ through your correspondent by: ☐ Mail ☐ Airmail ☐ Cable/Telegraph

☐ to us for transmission to beneficiary

in favor of _____

available by drafts on _____ at _____ Sight / Date

for account of _____

for a sum or sums not exceeding in all (_____)

_____ (amount in words)

for full / ____% invoice value of _____

(Commodity—State exactly as desired; ELIMINATE DETAILS NOT ESSENTIAL)

(Please indicate which, if any, of the following terms are to appear in the credit)

☐ C I F _____ ☐ C & F _____ ☐ F O B _____

Drafts must be accompanied by the documents specified below:

☐ Commercial Invoice.

☐ Consular Invoice.

☐ Railroad bills of lading.

☐ Full set clean On Board Ocean Bills of Lading to your order.

Marked: "Notify _____

☐ Marine Insurance Certificate.

☐ War Risk Insurance Certificate.

☐ Other Risks _____ (specify)

☐ Other documents: _____

evidencing shipment from _____ to _____

Partial shipments permitted not permitted (Delete one) Transshipment permitted not permitted (Delete one)

Bills of lading must be dated on or before _____

☐ Drafts must be drawn and negotiated on or before _____

☐ Drafts must be presented at your office on or before _____

(Check one)

Marine and War Risk insurance to be effected by shipper / me/us under blanket policy number _____

issued by _____

(Insurance Note—If this Letter of Credit provides for rail or truck shipment or ex-dock or ex-warehouse delivery, please state below (in space provided for remarks) by whom and under what policy insurance is to be covered. If terms are F.A.S., please state by whom and under what policy you will be covered until you receive payment from your buyer.)

REMARKS: _____

Please send us.... .. . copies of the letter of credit.

Your Correspondent's advising commission, if any, for ☐ Our Account, ☐ Beneficiaries' Account. (Check one).

(If credit is in foreign currency the foreign exchange is to be/is not to be (Delete one) purchased for our account immediately.)

(If credit is at sight in a foreign currency we do/we do not (Delete one) desire cable advise of payment.)

I/We authorize you, without reference to or approval by us, to set forth the terms of this application in the Letter of Credit in such language as you may deem appropriate, with such variations from such terms as you may in your discretion determine (which determination shall be conclusive) are necessary and are not materially inconsistent with this application.

Unless mentioned above to the contrary, it is understood that part shipments may be made and that Bills of Lading showing transshipment(s) may be accepted under this Credit and that the date of the bills of lading is to be considered sufficient evidence to you and/or your correspondents of the date of shipment.

In consideration of your opening such Credit I/we agree to sign, unless the same shall already have been signed, your form of continuing Agreement, and I/we agree that the provisions of said Agreement, whether or not signed by us prior to the issue of the Letter of Credit shall apply with respect to all matters relating to the Credit hereby applied for.

Very truly yours,

_____

(Kindly sign with signature(s) authorized to sign such agreements)

S.V.

APPLICATION FOR IRREVOCABLE COMMERCIAL LETTER OF CREDIT

Continental Illinois National Bank and Trust Company of Chicago
231 South La Salle Street, Chicago, Illinois 60693

Date _____

issue an irrevocable commercial letter of credit substantially in accordance with this application and transmit it as indicated below (by : "X"). In issuing the Credit you are expressly authorized to make such changes from the terms herein below set forth as you, in your sole :tion, may deem advisable provided that no such changes shall vary the principal terms hereof.

irough your correspondent for delivery to the beneficiary by ☐ Airmail ☐ Brief Cable ☐ Full Cable
) us for transmission to the beneficiary ☐ Directly to the beneficiary

This part for bank use only unless you designate advising bank	APPLICANT
BENEFICIARY	AMOUNT IN FIGURES IN WORDS
	EXPIRY DATE IN THE COUNTRY OF THE BENEFICIARY SHOWN AT LEFT UNLESS OTHERWISE INDICATED

lable by drafts at _____ (tenor, i.e., "at sight", "30 days sight", etc.) for _____ % (100 or less) of invoice amount nerchandise, drawn on Continental Illinois National Bank and Trust Company of Chicago or on your branch or your correspondent, dis- nt charges, if any, for account of the ☐ applicant ☐ beneficiary. Drafts must be accompanied by the following documents (in duplicate ss otherwise specified):

Commercial invoice in _____ ☐ Special U. S. Customs invoice in _____
Packing list in _____ ☐ Certificate of origin in _____ ☐ Weight list in _____
egotiable marine/air insurance policy or certificate covering: ☐ All risks ☐ War risks
Other risks (please specify) _____
Other documents, if any: (show number of copies) _____

Full set of clean on board ocean bills of lading issued to order of shipper, endorsed in blank, marked "freight Collect or ☐ Prepaid" and "Notify _____
Clean airway bill in _____ consigned to _____
Notify _____
Covering shipment of: _____

(PLEASE MENTION COMMODITY ONLY, OMITTING DETAILS AS TO GRADE, QUALITY, ETC.)

C.I.F. ☐ C&F ☐ C&I ☐ F.O.B. _____ (NAME OF CITY OR PORT)

PMENTS FROM	Partial Shipments ☐ Permitted ☐ Prohibited Transshipments ☐ Permitted ☐ Prohibited

nsurance effected by ourselves. We agree to keep insurance coverage in force until this transaction is completed.
nstruct first negotiating bank to send one original bill of lading with commercial invoice, special customs invoice, packing list _____ directly by airmail to: _____

(GIVE COMPLETE NAME, ADDRESS, AND ZIP CODE)

HER INSTRUCTIONS:

ess otherwise instructed, documents will be forwarded to us in one airmail by the negotiating bank. The credit will be subject to the Uniform toms and Practice for Documentary Credits (1962 revision), the International Chamber of Commerce brochure no. 222.

PLEASE DATE AND OFFICIALLY SIGN THE AGREEMENT
ON THE REVERSE SIDE OF THIS APPLICATION

Checking Export Letters of Credit. Exporters are seeking to encourage the issuance of letters of credit suitable to them by preparing guides for the use of banks issuing such credits. The guides are sent to buyers abroad when negotiating a contract of sale, and the terms and terminology of the credit are expected to follow the contract terms. For example, the contract may call for the purchase of specific products; the credit then specifies these particular products. Thus, if this procedure is followed, there can be no misunderstanding when the sales invoice and the letter of credit are compared.

As a guide to good practice in connection with the receipt of the advice of a letter of credit, George W. Tomlinson suggests that the following questions be considered by the beneficiary:[6]

1. Has the correct title been used in addressing you as beneficiary?
2. Has the correct title of the buyer been used?
3. Is the amount sufficient? Take into consideration the terms of the sale and possible addition of any charges.
4. Is the tenor of the drafts the same as your quotation to the buyer?
5. Is the credit available at the banking institution or in the locality requested by you?
6. Are the documents required in the credit in accordance with your arrangements with the buyer and can you furnish such documents?
7. Is the description of the merchandise correct? (Check unit price, trade definition, point of shipment, and destination.)
8. Do you agree with any special instructions which may appear in the credit?
9. Is the expiration date and place of expiration satisfactory?
10. Is the credit confirmed by a domestic bank, or is an unconfirmed credit satisfactory?

Checking Documents. Since the terms of a commercial letter of credit are so exacting and the payment under the credit depends upon meeting all of the requirements set forth therein, the beneficiary cannot be too careful in checking every step in the transaction. The following pertinent questions may be asked at this stage in an endeavor to develop a procedure for checking documents.[7]

1. Are all the required documents presented, and have you the correct number of copies?
2. Do the marks and numbers and description identify the documents as covering the same shipment, or are other means of identification provided? (It is not uncommon for an exporter to make similar shipments under different letters of credit and mix up the documents.)

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[6]Tomlinson, *op. cit.*, p.11. Reproduced by permission of the First Pennsylvania Banking and Trust Company.
[7]*Ibid.*, pp.17-25. Revised by author to conform to July 1, 1963, revision of *Uniform Customs and Practice for Commercial Documentary Credits.*

Source: Kramer, Roland L., *International Marketing.* Copyright © 1970 South Western Publishing Co., p. 287-290.

3. This operation consists of checking each individual document, beginning with the draft.
   a. Is the credit unexpired?
   b. Do the figures and filling agree?
   c. Does the amount of the draft agree with the total of the invoice?
   d. Is the amount within the limits of the credit?
   e. Is the drawer the same as the beneficiary appearing on the letter of credit?
   f. Is the drawee correct?
   g. Does the draft indicate the number of the credit under which it is drawn?
4. Commercial Invoice:
   a. Is it the beneficiary's invoice?
   b. Is it addressed to the "account" party mentioned in the credit? Article 30 of the *Uniform Customs and Practice for Commercial Documentary Credits* states invoice should be addressed in the name of the applicant or others mentioned in the credit. (Hereafter reference to the *Uniform Customs and Practice for Commercial Documentary Credits* will be made only by giving the Article number.)
   c. Does the description, quantity, price, and trade definition agree with the credit?
      Article 30 states description of goods on commercial invoice must correspond with description in the credit.
   d. Are there any additions not specifically mentioned in the invoice but which justify payment because of the conditions of the credit? This is where use is made of trade definitions.
   e. Is the calculation correct?
      Article 32 states where the word "about" is used it may be construed as permitting a difference of 10 percent more of less. This can apply to the amount of the credit, the quantity, or the unit price, but it must preface the one involved. Article 32 also permits a 3 percent leeway on the quantity specified, when the quantity is given by weight or measurement but does not apply to containers, units, or individual items. The object is to overcome the shipment of partially filled containers. Article 33 permits partial shipments, unless the credit stipulates otherwise. If more than one type of article is to be shipped, and the prices are not shown in the credit, it is advisable to consult the paying bank for their interpretation of the pro rata amount. When a credit prohibits partial shipment, two bills of lading on the same steamer generally are permitted, provided they are both "on board" bills of lading.
      Article 34 provides that if shipment by instalments within given periods is stipulated and any instalment is not shipped within the period allowed for that instalment, the credit ceases to be available for that or any subsequent instalment, unless otherwise specified in the credit.
   5. Insurance
      a. What documents?
      Article 24 states that insurance documents issued by companies or their agents or by brokers or underwriters are acceptable; and must be as specifically described in the credit.
   b. Is the insurance issued in the same currency as the letter of credit?
      Article 26 states coverage should be so issued.
   c. Is the insured valuation not less than the c.i.f. value or not less than the amount of the draft or the amount of the commercial invoice, if the latter is greater?
      This is a requirement covered by Article 26. (When dealing with f.o.b. shipments, many banks prefer at least a ten percent coverage of the f.o.b. value.)
   d. Are the risks covered as called for in the credit?

e. If the policy or certificate is issued in original and duplicate, do you have both copies?
f. Has the "loss payable party" provided his endorsement?
g. Is the policy or certificate dated subsequent to the date of shipment?
Article 25 gives banks the right to use their discretion in refusing or paying. (The object is to have insurance coverage at the commencement of the voyage.)

6. Bills of Lading:
a. Do you have a full set?
b. Are the bills of lading "clean"?
Article 16 explains that a clean shipping document is one that bears no superimposed clauses expressly declaring a defective condition of the goods or packaging. The appearance of any clauses on shipping documents is something which should be discussed with the paying bank beforehand.
c. Do the bills of lading indicate an "on board" shipment?
Article 18 states an "on board" shipment can be evidenced by a statement signed or initialed on behalf of the carrier. This method is employed when a form of bill of lading other than the usual "on board" form is used.
d. Are the bills of lading in negotiable or nonnegotiable form?
e. Is the correct consignee and "notify party" used?
f. Do the bills of lading require endorsement?
g. Is the consignor satisfactory?
Article 21 gives banks the right to require the name of the beneficiary to appear on the bill of lading as shipper or endorser.
h. Are the bills of lading signed by the carrier?
i. Is the freight "prepaid" or "collect"?
Article 15 states the stamping of bills of lading with the words "freight paid" or "freight prepaid" or words of similar import will be considered sufficient proof of the payment of the freight, but the words "freight prepayable" or "freight to be prepaid" or words of similar import are not acceptable.
j. Is the destination correct?
k. Is transshipment permitted?
l. On deck shipments evidenced by the bill of lading will not be accepted unless specifically authorized in the credit. Article 20.
Article 19 rules that banks may accept bills of lading permitting transshipment provided the same bill of lading covers the entire voyage, and provided the terms of the credit do not prohibit transshipment.
m. Are the bills of lading stale dated?
Article 41 gives banks the right to refuse the documents if in their judgment they are presented to them with undue delay. (Generally speaking, his definition applies mostly to stale dated bills of lading. Many banks classify bills of lading as stale dated when it is impossible for the documents to reach the issuing bank on or before the arrival date of the carrying vessel.)

7. Other Documents:
Article 7 gives banks the right to accept such documents as tendered without responsibility on their part, provided the letter of credit does not further define such documents except by name.

Forfaiting and Factoring

A trade financing technique that was developed in Europe has only in the past decade become widely known in the United States. **Forfaiting** was first used by European commercial banks in financing trade to the Eastern European countries and has since spread to banks throughout the world. Forfaiting provides the exporter with cash as the time of the shipment. In a typical forfait deal, the importer pays the exporter with bills of exchange or promissory notes guaranteed by a leading bank in the importer's country. The exporter can sell them to a third party (for example, Citicorp) at a discount from their face value for immediate cash. The sale is without recourse to the exporter and the buyer of the notes assumes all of the risks. The discount rate takes into account the buyer's creditworthiness and country, the quality of the guaranteeing bank, and the interest cost over the term of the credit[1].

The benefits to the exporter are the reduction of risk, simplicity of documentation (because the documents used are well-known in the market), and 100 percent coverage, which official sources such as export-import banks do not provide. In addition, forfaiting does not involve either content or country restrictions. In contrast, Eximbank in the United States, for example, does not cover financing of military goods, and its charter prevents it from participating in deals with the Soviet Union2. The major complaints about forfaiting center around availability and cost. Forfaiting is not available where exporters need it most; that is, the high-risk countries. Furthermore, it is usually a little more expensive than using public sources of trade insurance.

Certain companies, known as **factoring** hours, may purchase an exporter's receivables for a discounted price (2 to 4 percent less than face value). Factors enable the exporter to receive payment for goods and provide relief of the administrative burden of collection. Arrangements are typically with recourse, leaving the exporter ultimately liable for repaying the factor in case of a default. Some factors accept export receivables without recourse but require a large discount.

[1]Louis G. Guadagnoli, *Practical Guide to Export Financing and Risk Management*(Arlington, VA: Government Information Service. 1989), III-33.

[2]"How U.S. Exporters Can Benefit from Forfait Financing". *Business International Money Report*,December 21, 1987, p. 418-420.

Source: Czinkota, Michael R. and Ikka R. Ronkainen. International Marketing. Second Edition. Copyright ©1990 The Drydor Press. Chap. 6, pp. 165-166.

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Countertrade as an Export Strategy

Matt Schaffer

For countries with limited funds or nonconvertible currencies, countertrade provides an established trading vehicle. The author describes how this strategy can encourage trade between the U.S. and developing markets.

The Christmas 1989 revolution in Romania and the U.S. invasion of Panama, when considered together, depict a U.S. dilemma. The United States has more than adequate military power to rescue a potentially troubled regime close to home. Yet, the United States has few economic tools as a government to assist Romania and its Eastern European neighbors now that they are becoming free.

For example, a U.S. trading company could establish barter and counterpurchase agreements with this emerging part of the world. (Romania could buy U.S. products and pay in cash if a company, in advance, agrees to buy its products.)

There is no U.S. Government trading company in the general sense while Japan, West Germany, and other European countries have many such companies in their private sectors.

The United States has also severely cut back on its U.S. export-import bank loans; there are hardly any funds for making bank loans and guarantees to Eastern Europe. These loans might enable these countries to buy U.S. exports to speed their development. In the 1990s, it appears that Japan and Europe are better positioned than the United States to trade with Eastern Europe, the Soviet Union, and many Third World countries.

With their nonconvertible currencies, Eastern Europe and the Soviet Union, along with many other countries, use various forms of countertrade. The United States has gotten into the countertrade business reluctantly.

The United States pretends that countertrade does not exist, when much of the world trades this way. U.S. companies do a better job, often without the government support that is available in Europe and Japan. A few U.S. companies, such as General Motors, General Electric (GE), Monsanto, Coca-Cola, Pepsico, and Combustion Engineering, have established trading companies or units that use countertrade to increase sales.

Many U.S. companies, however, still do not use countertrade. And when a major transaction is in the works, even the best-prepared U.S. company must turn to a foreign trading company to market the products that are accepted in the countertrade. In its recent $100 million sale of radar equipment to Jordan in exchange for phosphate, Westinghouse relied on the Japanese trading giant Mitsubishi to sell the mineral through its network.

This transaction illustrates the theory behind modern countertrade. It takes the idea that a product can be substituted for money in part of the transaction and adds a crucial idea: the concept of linked trading or mandated reciprocity.

Types of Countertrade

There are several types of countertrade arrangements, including the following:

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Source: *THE JOURNAL OF BUSINESS STRATEGY* May/June 1990.

"As a government, the United States pretends that countertrade does not exist, when much of the world trades this way."

☐ **Counterpurchase.** In 1983, Rockwell used the counterpurchase technique to win a hotly contested sale to Zimbabwe of an $8 million printing press. A key element of Rockwell's successful bid was the offer of 100 percent counterpurchase.

Rockwell Trading Company offered to buy $8 million of ferrochrome and nickel, knowing that Zimbabwe has these minerals in oversupply. This agreement to purchase or "counterpurchase" the minerals and export them elsewhere was linked to the basic sales agreement calling for Zimbabwe to pay Rockwell cash for the printing press—cash financed with favorable credit from Great Britain's export credit agency, ECGD. Rockwell sourced or produced the press in Great Britain expressly to secure this favorable financing since U.S. Export-Import Bank loans were not available.

U.S.-based Rockwell developed this counterpurchase and financing strategy for a very simple reason. Its French competitor, Harris, had already been awarded the sale, thanks to a heavily subsidized French loan, which required no down payment, a twenty-year repayment, and 4 percent interest. However, Zimbabwe had not signed the contract and promptly reawarded it to Rockwell after receiving the U.S. company's new offer.

Counterpurchase has been picked up more formally by the countries of Eastern Europe and by several countries in Latin America, including Mexico, Venezuela, and Colombia, which makes it national policy. In counterpurchase, the products traded are not a substitution for money but a catalyst for the creation and release of hard currency. Counterpurchase, like countertrade, flourishes where money or hard currency is scarce.

☐ **Barter.** While pure barter is rare in modern countertrade, barterlike transactions occur very often.

In 1981, GE resorted to this approach when U.S. Eximbank financing was withdrawn after production on a turbine generator for Romania had already begun. Rather than take a loss on start-up costs already committed, GE agreed to accept Romanian chemicals, metals, steel, rebar and nails on a credit basis as payment over several years. GE founded its own trading company within two years to turn these items into cash and to handle the trade finance arrangements on individual transactions.

☐ **Offsets.** In 1975, offset became popular among European countries with NATO's purchase of F-16 aircraft from General Dynamics and with the Swiss purchase of Northrop's F-5. A key feature of the F-16 sale was a coproduction agreement, which set up a production facility in the Netherlands for this state-of-the-art fighter plane. The Swiss added to the coproduction idea by convincing Northrop to export manufactured products from Switzerland (mainly machine tools and electronic components).

Today, offset is requested in nearly all major U.S. military exports; it is spreading beyond the military area into such fields as telecommunications and commercial aircraft.

Offset may involve a complex set of commitments requested from the company seeking to win an export sale. In its 1984 sale of 160 F-16s to Turkey, worth $4.2 billion in 1983 dollars, General Dynamics offered an offset package including (1) coproduction, (2) technology transfer, (3) the export of miscellaneous Turkish products (called indirect offsets), and (4) electronic and military components (called direct offsets because they are more directly related to the F-16 program).

Countries often place a higher value on direct rather than indirect offsets because the related exports tend to strengthen their own domestic defense industry. Thus, when Great Britain and France bought the AWACs airborne radar plane from Boeing in the mid-1980s, these countries valued a commitment by the aircraft manufacturer to purchase certain components for the AWACs in the two countries. This commitment was

in addition to prized coproduction agreements calling for Boeing's investment in the French and British manufacturers who supplied components for the plane.

By creating an eventual competitor, U.S. companies try to design an offset that does the least damage to their future sales. This issue is vital for deciding how much technology to transfer.

A U.S. company might bet that technology transferred today will become outmoded in two or three years and, therefore, may not be a threat. The Japanese place great emphasis on technology transfer, stressing it more than any other aspect of the offset concept. In several recent military sales, the Japanese have been aggressive and skillful in extracting a transfer of technology or at least access to it. A succession of military sales to Japan has become increasingly controversial, including Sidewinder missiles from Raytheon, Aegis destroyers from RCA, and FSX planes from General Dynamics (a modified version of the F-16).

The Aegis and FSX were the subject of bitter disputes in Congress during 1988 and 1989 when critics expressed dismay over the large Japanese content in each system and the implications of technology transfer. The companies argued that some sale was better than no sale and that offering a buyer domestic content and access to technology is an accepted marketing technique.

Critics in Congress complained that the United States is simply frittering away its technological advantage and speeding Japan toward its expressed goal of becoming a major exporter of military systems. Japan, they argued, could act more forcefully to reduce the trade deficit by purchasing larger military items "off the shelf" without insisting on the joint venture concept that is so much a part of Japanese business culture and that is central to the notion of offset.

In order to compete, U.S. companies must begin to design offset packages. Japan, South Korea, Australia, Canada (despite the highly touted free-trade agreement), and all European nations have offset policies while the United States does not.

Ideally, no company should negotiate a commitment without a concrete plan for how the commitment will be carried out, even though such precision may not always be possible. Accepting a heavy penalty beyond 3 percent or 4 percent of the unfulfilled offset may be unwise. As with a bank loan, seeking the longest term for carrying out the commitment is often a good idea. Above all, maintaining flexibility for how the offset can be fulfilled is essential. The list of products for export should be as broad as possible, including the right to substitute procurement of components, investment in-country, or the transfer of technology.

General Dynamics has found that investment in-country yields the greatest offset credit for each dollar spent. So far, on a worldwide basis, the company has been able to spend less than $0.04 on average for each $1 of offset credit received.

☐ **Coproduction.** A key feature of General Dynamics's F-16 sale to Turkey was a coproduction arrangement where the company and its main U.S. subcontractors invested $137 million in an F-16 assembly plant in that country as well as in Turkey's aircraft industry.

Coproduction of this sort, if it can be offered, is becoming a key feature of offsets. For example, in order to sell its twin-jet MD-82 to the Chinese government, McDonnell-Douglas built the first-ever commercial aircraft coproduction factory within the People's Republic. The first airplane in a projected fleet of twenty-five rolled off the assembly line in July 1987.

☐ **Compensation.** Compensation takes the idea of coproduction one step further. The investing company is repaid with the product of its manufacturing or mining investment while the host government often gives its formal ap-

"Offset is spreading beyond the military areas into such fields as telecommunications and commercial aircraft."

proval and is a partner in the venture.

In the People's Republic of China, where compensation agreements are popular, Occidental Petroleum received a long-term contract to take back ore and refined minerals in return for developing a large mining facility. In Egypt, a major Swiss company, Aluswiss, exports alumina to its newly constructed plant and takes back a portion of the finished aluminum as payment for its investment.

The gradual reduction of trade barriers in the Soviet Union and in the People's Republic of China has spurred countertrade during the past decade. Pepsico has engineered a series of spectacular countertrades with the Soviet Union, trading vodka in the West for soft-drink concentrate over there. More recently, Pepsico agreed to invest in a shipbuilding venture where a portion of the hard currency generated will be used to pay for even more soft-drink sales.

Another factor in the spread of countertrade has been the development of this specialized trade capability within several large U.S. companies in the last ten years, even as Japan and West Germany benefited more naturally from the prior existence of their large general trading companies. Without a Mitsubishi, a Metallgesellschaft, or a national trading network on which to rely, several U.S. corporations have built successful in-house trading companies. Many additional U.S. companies are being slowly drawn into countertrading through third parties or on their own account. The development of this nascent countertrade structure in the United States suggests at least the perception of countertrade as a longer-term trade strategy.

"The Japanese place great emphasis on technology transfer, stressing it more than any other aspect of the offset concept."

Countertrade in Corporate Strategy

The role of countertrade as both a financial instrument and a sweetener is illustrated by these three transactions:

☐ **Ericsson in Uruguay.** This 1984 sale of a $90 million telephone switching system to Uruguay helps to explain how countertrade can play a critical role in the formulation of an overall strategy to win a large export.

Ericsson, a Swedish telecommunications firm, triumphed mainly for two reasons. First, the company made the best countertrade offer with a coherent plan to implement it.

Ericsson asked the British investment banking firm Samuel Montague to offer Uruguay 100 percent offset—in other words, a commitment to export $90 million worth of Uruguayan products, including beef, leather goods, and fish. Samuel Montague traded the products through Surinvest, a joint venture trading and financing house co-owned in Montevideo with Uruguayan partners.

A second reason for Ericsson's success was attractive export credit financing. This financing was offered at a bad time for U.S. companies when potentially comparable financing from the U.S. Export-Import Bank had been sharply cut back.

Both Sweden and Brazil, Ericsson's partners, offered a financing package at subsidized rates. The inclusion of Brazil as a major subcontractor was also a clever political tactic, the next best thing to Uruguayan content in the transaction. Brazil was able to exert more political pressure on neighboring Uruguay than would have been possible from a European country acting on its own.

☐ **Westinghouse in Jordan.** Westinghouse devised an equally effective strategy for winning a $100 million air defense radar system. The Pentagon's foreign military sales funds were not available, yet Jordan still wanted to purchase the radar. Commercial bank terms were unacceptable. In the absence of adequate financing, Westinghouse asked Mitsubishi's trading company to sell the phosphate that Jordan was prepared to offer as a form of payment.

The prime contractor was Lor-West of Bermuda, 20 percent owned by Westing-

house and 80 percent owned by Lorad, a subsidiary of Wraxall Group in the United Kingdom. Westinghouse Defense was a subcontractor to Lor-West.

Between June 1985 and December 1987, Mitsubishi was able to sell $70 million in phosphate rock through its worldwide trading network, ahead of the delivery schedule for the radar. The foreign exchange proceeds for the sale were remitted from Mitsubishi back to a special account in the central bank of Jordan.

To establish viable and secure payment procedures, separate contracts were set up between Lor-West and Mitsubishi, Mitsubishi and the central bank, and Lor-West and the central bank. The central bank issued an unconfirmed letter of credit to Lor-West.

As payments for the air defense system were required, they were automatically drawn through the letter of credit out of an escrow account in Chase Manhattan Bank of the United Kingdom's Channel Islands. This offshore payment mechanism, outside either the buying or selling country, provided additional assurance to Lor-West and Westinghouse that funds would be transferred smoothly as the delivery for the radar was met.

☐ N-Ren in Madagascar. The problems that N-Ren International faced and overcame with countertrade are the stuff of legend.

N-Ren, a small engineering and construction firm based in Brussels, began building a $60 million fertilizer plant in 1979. By 1983, Madagascar ran out of money to pay for the plant, even though the plant was 95 percent complete and 98 percent of the equipment was delivered. The delayed payments created cost overruns and drove up the price of finishing the plant.

Tom Snyder, the U.S. president of N-Ren, personally traveled several times to Tananarive, the capital of Madagascar, trying to resolve the impasse—all to no avail. Finally, when the situation seemed hopeless, a breakthrough occurred. Madagascar proposed to pay for the plant's completion with cloves, a spice for which the country is famous. Snyder obtained approvals from the Ministries of Finance and Agriculture, The Revolutionary Council (or cabinet of ministers), and ultimately President Didier Ransiraka.

Fortunately, the government of Madagascar already had direct and convenient access to the cloves, routinely buying the spice from twelve private sector buyers with local currency (the Malgache franc). Depending on the country, it is not always so easy for the government to buy commodities with local currency. The Malgache franc was also tied to the French franc, giving it a stabler value.

Between 1983 and 1988, four shipments of cloves took place in order to generate hard currency funds for the completion of the factory. The ships docked and took the cloves at Tamatave, the port where the fertilizer factory was also located. The ships then sailed for Rotterdam, the port where Catz International, one of the world's foremost spice trading companies and N-Ren's partner, was established.

The first two shipments were valued at approximately $10 million each (1,200 tons for the first shipment and 2,000 tons for the next one, as the world's cloves price continued to fall).

For each shipment, numerous technical problems were overcome. N-Ren took out Lloyd's insurance through a Belgian agent. A shipping agent in Hamburg, West Germany, arranged transportation space on a suitable ship. The general manager of the fertilizer plant was at dockside to inspect every 50 kilo bag loaded on board. For each bag, there were about eight to ten documents concerning such issues as weight, origin, quality, and health factors. Nonconforming bags were rejected at dockside. The cloves were sold against documents called bills of lading, whose physical transfer signified the passing of title.

As savvy traders, Catz made N-Ren take title to a portion of the cloves at

"The problems that N-Ren International faced and overcame with countertrade are the stuff of legend."

Tamatave, knowing the price would have fallen further by the time a ship reached port in Rotterdam and offering the prospect of a greater profit on resale. Catz guaranteed payment to N-Ren for the rest of the cloves at a fixed price.

To support this guarantee to N-Ren, Catz opened up a letter of credit with its bank, Credit Anstalt, in London. The letter of credit was confimred by the American Express bank in Hamburg. Once the ship arrived in Rotterdam, documents were presented to Credit Anstalt; it immediately paid N-Ren under the letter of credit.

"Pepsico has engineered a series of spectacular countertrades with the Soviet Union, trading vodka in the West for soft-drink concentrate over there."

In one shipment, the captain persisted in unloading the cloves during violent rainstorms in Rotterdam, despite pleas from N-Ren executives and even though it is well-known that water can damage cloves. He claimed that he was under pressure to meet another contracted shipping schedule and could not wait for a change in the weather.

Catz's bonded warehouse salvaged much of this shipment of cloves by bringing in a specialized kiln company to dry the spice, allowing the bags to be repackaged. A year-long dispute finally resulted in an insurance settlement of several hundred thousand dollars for the damaged portion of the cloves.

In another transfer of the spice, N-Ren's general counsel found that the ship actually vanished for several days. He finally tracked it down in a small port north of Lisbon. Use of the vessel's time had come under legal dispute. N-Ren and French, Swiss, and West German companies with cargo on board all had to make a payment of tribute to the vessel's owner to get the ship's time released. As the fourth and final shipment came to a close, Snyder and the government of Madagascar were hopeful that the proceeds would give the completed plant operating capital during its early years of production.

N-Ren learned many lessons from its experience, aside from the fact that small companies can also do countertrade. The company wisely insisted that local weights govern the transaction since cloves take on weight and water by up to 3 percent in a tropical climate and lose weight in a drier climate. The falling price of cloves over the five-year period created another favorable precondition since, in a strong market, the government would not likely have offered the spice.

Developing a relationship with Catz International was essential, especially for the first two or three shipments because of N-Ren's initial lack of trading experience. Careful attention was paid to all the documentation, which helped during the insurance proceedings related to the one partially damaged shipment. Snyder and his colleagues meticulously monitored the transaction all the way through and resourcefully solved problems each time that they surfaced. Above all, in the crucial early stages, Snyder succeeded in developing a personal relationship with key government officials that helped expedite the transaction.

As this and the previous examples illustrate, countertrade is a way of doing business and thinking about business that raises the almost tribal concept of reciprocity to a new level of importance. The relationship between trading partners is critical, taking on ever greater importance as less cash for products is available and as more barter takes place. ■

The Promotion of Exports with Barter

THE COMPETITIVENESS OF WORLD EXPORT MARKETS

Competition for most major products in the world export markets is very intense. This is especially true for primary products such as coffee, soybeans, sugar, and iron ore—the type of products that form the core of exports from Brazil, most of Latin America, and the rest of the Third World.

Those products are commonly of critical importance to producing countries and companies. At the same time, there are many producers for most primary products, and the markets tend to be cyclical with wide swings in both demand and prices. For example, coffee prices dropped from more than $3 per pound in 1977 to $1.60 per pound in mid-1982; bananas fell from 19¢ to 13¢ per pound in just three months.[1]

This high degree of competitiveness among exporters is true throughout the economic cycles for most products. It is especially true during recessions. World markets have been troubled by economic weakness and recurring recession since 1974. As Table 3.1 illustrates, the 1974-75 and 1980-81 periods witnessed widespread recession in the industrial world. Furthermore, in only one year since 1973 has economic growth in industrial countries been as high as the 1962-72 average of 4.8 percent. This condition is aggravated by the increased tendency in the 1970s and early 1980s for recessions in major industrialized markets to be synchronized to a very high degree and to a much greater extent than was true in 1960s. As a result of such economic trends, the demand for exports can be very volatile. In 1981 world export volume actually declined.

Tab. 3.1
Industrial Countries: Changes in Real Output (GNP)

	1961-72*	1973	1974	1975	1976	1977	1978	1979	1980	1981
All industrial countries	4.8	6.3	0.7	-0.6	5.2	3.9	4.0	3.7	1.2	1.1
United States	4.0	5.8	-0.6	-1.1	5.4	5.5	4.8	3.2	-0.2	2.0
Japan	10.4	10.0	-0.3	1.4	6.5	5.3	5.1	5.6	4.2	2.9
France	5.5	5.4	3.2	0.2	5.2	3.1	3.7	3.5	1.2	0.4
Federal Republic of Germany	4.5	4.9	0.5	-1.8	5.2	2.8	3.6	4.5	1.8	-0.3
Italy	4.8	6.9	4.2	-3.5	5.9	1.9	2.7	4.9	4.0	-0.2
United Kingdom	2.9	7.1	-2.0	-1.1	2.8	1.6	3.9	1.7	-1.7	-2.2

*Average.
Source: International Monetary Fund, Annual Report 1982, Tab. 1.

Source: *Export Promotion: The Public and Private Sector Interaction*, edited by Michael R. Czinkota, N.Y. 1983: "The promotion of export with barter", Korth, Chapt.3.

A third important factor in this competitive equation, in addition to the economic weakness and synchronization of major economies, is that when a country or specific producer is trying to break into a new market (either when introducing a traditional product into new geographical markets or when introducing new products for which a reputation has never been established) foreign markets can be even more difficult to penetrate. For Third World countries, which are aggressively striving to diversify their export base, these competitive difficulties can present especially difficult hurdles.

Competitive Advantages

Successful competitors have a limited variety of ways by which they are able to establish and maintain their positions in the market. Both newcomers and those anxious to expand their penetration of world markets or change a product image have a limited variety of options.

One obvious way of establishing a successful position in any market, including export markets, is to demonstrate superior product quality. However, this can be hard to do. This approach is most tenable for high technology and other innovative products. When the export involves a commodity or other relatively standardized products, the demonstration of superior quality can be extremely difficult. Therefore, demonstration of product superiority offers only limited potential for most exporters.

A second approach to successful selling involves the development of an effective marketing effort. Even though a product may not be intrinsically unique, the seller may be successful in convincing consumers that a particular brand of wine, perfume, detergent, chicken, or shirt is indeed unique. An alternative to establishing the uniqueness of the product is the creation of an image of uniqueness for the company. For example, the company may develop a reputation for reliable delivery (for example, West German machine tools) or exceptional service after a sale (for example, IBM).

The third basic path to establishing successful penetration of an export or other market is via attractive pricing. Obviously, if two products are perceived by the market as identical (for example, light crude oil), then the product with the lower price is likely to sell better. This has been the primary tool for seizing market share in the consumer electronics industry (for example, calculators, electronic watches, and now the introduction of the Timex Sinclair home computer for $100).

There are several ways to achieve pricing superiority. The sticker price is only one of these. Other approaches include offering a favorable payment or discount period, percentage of discount, and interest rate (if any) on extended or delinquent accounts. Often governmental export-supporting agencies provide financial assistance for exporters either directly or through the provision of purchasing assistance for the buyer (for example, via the various export promotion facilities of the Banco do Brazil or the Export-Import Bank of the United States).

Price differentiation is especially critical in the markets for commodities and other relatively standardized products. However, in such markets the price is often dictated by market

conditions, including standard terms for interest, payment, and discount. Even where such standardization of terms is not public knowledge, the efforts of buyers to squeeze the best price from suppliers tend to spread the knowledge of such terms throughout the market. As a result competitors have a strong tendency to match pricing concessions. Furthermore, such developments often lead to cutthroat pricing and damage for all competitors (for example, the scramble for markets among oil-exporting countries). Thus it is often very difficult to offer financial terms that competitors are unable or unwilling to match and that therefore permit the exporter or the exporting country to establish a unique pricing niche in the market.

BARTER AS A PRICING TOOL

A different approach to product differentiation based upon pricing can be employed if sellers are willing to be flexible in the means by which some or all of their products are bought. Specifically, if exporters are willing to accept nonmonetary compensation for products, then they may be able to attract buyers who are interested in an alternative to either paying cash or borrowing and adding to their debt. This sale or purchase of goods or services in exchange for other goods or services is, of course, barter.

Barter is a tool for sales promotion that can be custom designed to satisfy the buyer; it can thus provide a strong bargaining position for the seller. Since most companies are unfamiliar with barter in a modern context and may be unwilling to "dirty their hands" with such an old-fashioned, nonconventional method of payment, the imaginative and aggressive company may be able to use barter: (1) as a pricing tool in a highly competitive market; (2) to gain penetration to new markets; (3) to dispose of excess inventories; and (4) for compensation when exchange controls bar payment on receivables.

Whether or not a particular exporter is attracted to barter, it is here to stay in international markets. It is currently used by the governments of Brazil, the United States, West Germany, the Soviet Union, and Algeria, as well as such companies as General Motors, Mitsui, Pepsi Cola, Phillips, Ford, IBM, Volkswagen, and Siemens.

Basics Types of Barter

The approaches used by corporations and governments today int he employment of barter are far more sophisticated than the fairly primitive forms of barter used historically. Four basic approaches to barter are commonly employed: (1) simple barter (also called straight or pure barter); (2) parallel barter (often called counterpurchase); (3) clearing-account barter; and (4) buy-back barter (or compensation-agreement barter).[2] These transactions may be bilateral or multilateral. They can be completed directly by the barterers or via the use of intermediaries. More will be said below about some of the principal types of intermediaries.

Simple (or straight or pure) barter is the traditional, primitive form of barter. It involves a direct exchange of goods (or services) between two parties that intend to use the acquired goods themselves. When used today it would involve a single contract and typically would not involve

intermediaries. The goods will not be transferred to third parties. No money is involved (except indirectly since both parties will undoubtedly bear in mind some approximate shadow price for both the products offered and products received). Such "simple barter" is relatively rare today.

Parallel barter (or counterpurchase) is a refinement of simple barter. It is essentially an adjustment for the fact that many companies will only sell goods or services in exchange for money (primarily hard currency) because of accounting practices, customs or exchange requirements, tax laws, bank demands, corporate policies, and so on.

Under a parallel-barter arrangement, two separate contracts, which specify the goods and services to be exchanged, are signed. These are commonly, but not necessarily, of equal value. In addition payment on each contract will be made with money (although frequently the means to pay on at least one side of the contract result from either trade credit or bank credit). However, since the two parallel contracts require a quid pro quo exchange of goods, it is a form of barter.

Sometimes a parallel barter obligates one party to assist the other in selling its products abroad. This type of arrangement is sometimes called an offset. For example, Northrup and General Electric committed themselves to market $150 million of Swiss goods as part of a $500 million contract for F-5 fighter aircraft.[3]

Another special case of parallel barter is reverse reciprocity,[4] whereby parallel contracts are signed granting each party access to needed resources (for example, oil in exchange for nuclear power plants). Parallel barter is the predominant form of international barter today.

Clearing-account barter is more flexible in format than either straight or parallel barter. In a clearing-account barter, each party agrees in a single contract to purchase a specified value of goods or services from the other party over a stated, often lengthy, period of time. Thus trade may be out of balance at the end of the first year or even after several years but will balance over the term of the contract.

The total value of the contract is stated in some artificial unit of account, such as "clearing dollars." Furthermore, this clearing currency can typically only be used within one country. It is in effect a line of credit for a customer in another country. No money is actually involved in such barters. Each company or government thus provides the other with offsetting barter credits.

Frequently, clearing dollars can be used to purchase a variety of products. In other cases they can only buy a specified product. Accordingly, one observer has quipped that various cases might involve "apple clearing dollars" or "horseradish clearing dollars."

Nevertheless, clearing-account barter generally allows greater flexibility than other forms of barter to either or both parties in terms of both time of drawdown on the "lines of credit" and type of products available.

Buy-back (or compensation-agreement) barter is a special form of barter that has evolved in response to the reluctance of Communist countries to permit ownership of productive resources by the private sector—especially by foreigners. Although Poland, Romania, and Hungary now permit joint ventures with corporations from outside of the Communist bloc, such arrangements are not common. Much more common is a sharing of the output without a sharing of the ownership, that is, the buy-back (or "compensation") agreement. For example, in 1978 Citroen signed a $370 million contract with East Germany to receive transmissions from a plant that the company is helping to set up for the East German government.

Buy-back barter is tied to assistance from a company in constructing and/or running a factory or distribution system in another country. The assistance may take such forms as the inflow of equipment, financial capital, patents, technical and managerial assistance, or distribution assistance. In exchange, the contract provides that the supplying company will "buy back" some of the output from the new facility. For example, Levi Strauss has entered into buy-back barter with Hungry. Some of the "Levis" produced in Hungary will be sold locally, while the rest will be sold in Western Europe by Levi Strauss.

A variation of buy-back barter permits a partner to purchase not only "resultant" goods (that is, those goods resulting from the investment), but also "nonresultant" products (that is, those goods not stemming from the investment), which is a more flexible arrangement.[5]
From the viewpoint of a host government, this arrangement provides valuable assistance without sacrificing control and sometimes with little or no commitment of local capital. Also, continued assistance in quality control, technical training, and so on is frequently required.

From the viewpoint of the supplying company, this buy-back arrangement can provide access to untapped markets (for example, many contracts stipulate that the supplying company receive a share of the gross revenues from all sales other than what the company itself buys) and can provide an alternative source of low-cost production for its own markets.

REASONS FOR THE RESURGENCE OF BARTER

These new variations on barter indicate the possibility for more flexible utilization of barter than was possible in the past. However, they do not explain why there has been a strong resurgence in the use of barter, nor do they explain the rationales of the various participants.

If a company can receive full payment in cash, there would be little incentive for it to engage in barter. However, there may be strong incentive for a producer to consider the use of barter when payment involves deferred receipt via the use of credit, when the buyer may have trouble paying cash, when competition is very tight, when the producer is anxious to take advantage of economies of scale, when demand is very weak, when supplies are high, or when the seller is reluctant to blatantly violate published cartel or association prices.

In certain service industries where the costs of additional units of service are minimal, there can be very strong incentives for a company to engage in barter—even when market conditions are not poor. For example, the advertising, hotel, and airline businesses are all industries

where, except when demand is very strong, there is generally much excess capacity, since advertising space, hotel rooms, and airline seats cannot be inventoried for later use. For example, when a magazine goes to press or when an airplane takes off, any unused capacity is irretrievably lost. As a result, companies in these and comparable service industries have a strong incentive to try to utilize their capacity in imaginative ways. As a result, barter is very prevalent in these fields.

Another important group of barterers today are the Communist countries. There is still a strong emphasis upon maximizing the trade between the countries within the COMECON bloc. There is also a strong desire by the members that the use of convertible Western currencies in such trade be minimized. As a result, there is an extensive amount of barter between the Communist countries. Much of this is done in the form of clearing-account barter. A willingness of exporters to accept barter can greatly increase sales when buyers are short of foreign exchange.

Some of the OPEC countries have also made extensive use of barter. In order to avoid the appearance of violating their agreements to maintain posted oil prices, members of OPEC, such as Iran, Libya, and Algeria, have been frequent users of barter. These governments have used barter also to gain access to military and sophisticated industrial equipment; their control of a vital resource, petroleum, has been employed as a strong bargaining ploy to buy equipment that might otherwise have been more difficult for them to acquire. Despite the ownership of such a readily marketable commodity as petroleum, barter can sometimes be an attractive part of the export package.

Barter is also sometimes supported by governments in order to ease economic problems of low capacity utilization, high unemployment, shortage of foreign exchange, and high level of foreign debt. Similar motivations (for example, pressures resulting from rampant inflation, persistent recession, excess inventories, shortages of critical raw material, and the like) have induced many corporations to engage in barter. Corporations are also strongly affected, as discussed above, by the opportunity to gain the edge over a less flexible competitor. Failure to do so can lead to a loss of sales; for example, a California company has reported that, a though the Egyptian government admitted that the company's overall bid for a major project was the lowest, the company's failure to be willing to accept part payment in bartered goods caused it to lose the sale.[6]

In summary, these examples illustrate a variety of common conditions that have led companies and governments to utilize barter:

To utilize excess capacity and gain greater economies of scale (for example, airline seats, advertising space, and even industrial capacity that can offer greater economies because of the low cost of production of marginal units);

As a matter of government policy (for example, between Communist governments or between OPEC countries and major customers);

In response to market imperfections (for example, inflation, recession, excess inventories, and so on);

As an explicit marketing tool (for example, to gain access to a new market or to increase market share).

This does not imply that barter is the solution for all of a company's or government's problems. Cash payment is generally preferable for the seller and usually for the buyer as well. It is both more efficient and simpler. However, when economic or market conditions dictate, barter can be very useful. It may not be feasible in many industries or for many contracts, but the seller and the buyer should familiarize themselves with barter. It should be considered as a possibility if buyers or sellers demand or suggest barter, if competitors are employing it, if it helps in gaining access to a restricted market or supplier, if money and credit are scarce, and so on.

DISADVANTAGES OF BARTER

Now that the prevalence and some of the attractions of barter have been discussed, the disadvantages should also be examined. As has been noted, there are many inefficiencies to barter that greatly reduce its appeal. Some modern variations of barter (for example, clearing accounts and parallel barter) have reduced some of the traditional hurdles. However, there is a variety of shortcomings to barter that the potential user should bear in mind.

The strongest charge is that barter is cumbersome, time consuming, and generally inefficient. A survey of U.S. companies that have engaged in barter with the Soviet Union indicated that more time and more trips to the Soviet Union were needed to arrange barter than a cash deal.[7]

Another criticism is that it is disruptive. The Commission of the European Economic Community has formally disapproved of barter, saying that it could permanently perturb the markets since companies could accept goods in barter and subsequently try to sell products with which they are unfamiliar.[8]

Similarly, the International Monetary Fund has voiced its strong disapproval of what it considers to be a potentially disruptive practice.

Barter deals can also sometimes snap back and affect the markets of the company or country that sold the goods via barter. For example, Ghana and Guinea unintentionally disrupted their own cocoa export markets in a series of poorly structured barter deals. Also, the Western European chemical industry has been adversely affected by competition from Eastern European factories, which the Western Europeans has built in exchange for barter of resultant goods.

Finally, the buyer of bartered goods needs to be very wary of the quality of the goods being offered. Barter has often been used to dispose of items that are hard to sell due to low quality and obsolescence.

BARTER INTERMEDIARIES

The above caveats are not intended to discourage companies and governmental agencies from considering the use of barter. The warnings are merely intended, as in any market situation, to remind buyers to be cautious. Caveat emptor is an especially appropriate injunction when the buyer is venturing into unfamiliar types of transactions. The same can be said for the seller: caveat venditor.

These warnings and basic prudence should cause the trader to ask: What am I going to do with the goods received in barter? In some cases, of course, the seller can sue the bartered merchandise (for example, the newspaper that barters advertising space with an airline in exchange for airline tickets). However, very frequently the goods and services made available are of no direct use to the company. The use of barter credits (for example, with clearing accounts) can ameliorate this situation. However, some companies and governments have entered into some rather surprising and seemingly inappropriate deals. For example, General Motors once sold 1,500 Opels to Rumania in exchange for a train load of strawberries. McDonnell-Douglas once bartered commercial jets in exchange for Yugoslavian cheese, wine, hams, glassware, leather coats, and rubber bumpers.

As in almost any market, when inefficiencies arise, specialists appear to benefit from the situation and, in the process, increase the efficiency (or perhaps reduce the inefficiencies) of that market. The same has occurred in barter.[9] Some companies have set up their own in-house barter units to facilitate their efforts. For example, Mitsui, Seimens, Technip, and Control Data are among the companies that have created such units. However, most companies would be best served by employing a barter specialist.

The most prevalent barter specialists are what are known as switch traders.[10] These intermediaries are essentially brokers who help to bring together companies that have received bartered goods, services, or credits in their export activities (or, sometimes, even through their domestic activities, although switchers generally specialize in exports). The brokers help to multilateralize what had been initiated as a limited and limiting bilateral contract.

Switching is, in effect, a secondary market for bartered goods, services, and credits. With this option available to companies, barter transactions are sometimes made contingent upon the ability of a switch trader to satisfactorily dispose of the items.

The switch-trading function can often be quite complicated. Some arrangements are models of ingenuity. For example, Daimler-Benz once sold 30 trucks in exchange for 150 Rumanian jeeps. A switch trader was commissioned by Daimler-Benz. The trader bartered the jeeps for Ecuadorian bananas, which were sold to a West German supermarket chain for deutschemarks.[11]

Even the use of clearing credits can require some imaginative marketing by a switch trader. For example, a U.S. company once sold used tire-making equipment in exchange for an inconvertible Eastern European currency. A switcher used the currency to buy "clearing" Turkish lira from another East European government that had been running a trade surplus with

Turkey. The lira were used to buy chromium from Turkey, which was then sold in another country for hard currency.[12]

As brokers, switch traders do not take ownership of what they sell. Indeed, they generally do not take possession of the goods or responsibility for shipping merchandise. A different type of facilitator, who might best be described as a barter merchant, takes title to the merchandise that is being traded. However, because of the large volumes and diverse locations of what they buy, merchants typically will not take possession of the merchandise nor be directly responsible for delivering what they sell. This type of company is also a barter intermediary because, although it buys goods, services, or clearing credits for its own account, the items purchased are paid for with barter credits. Such credits can then be used by the seller to buy any of a wide range of goods or services that the barter merchant may have available at that time or int he future form other barter purchases.

The barter merchant thus has an inventory of goods available at all times. Customers, however, have the option of when to utilize their credits. Sometimes, barter merchants will attempt to find specific merchandise at the request of their customers. Thus if a customer or prospective customer is interested in exchanging only for specific items, the merchant might try to arrange the swap. Such an activity could also be attempted by a switch trader. The difference rests with whether or not the intermediary takes ownership; if the barter merchant takes ownership, the switch trader does not.

Barter in the modern context is still in its infancy. As a result, the development of intermediary services is still relatively basic. There undoubtedly will be many further developments in coming years. Some of the possibilities are already appearing—at least ont he retail level: barter exchanges (where barter needs can be directly arranged by the seller or buyer); barter credit cards, barter charge accounts, and barter credit lines. For example, some commercial banks in Europe and Asia have developed departments to help advise their customers and help finance barter trade. The further development of these and kindred services will do much to facilitate the use of barter and make it much more attractive and more readily available to many more companies.

BARTER AS A TOOL OF EXPORT PROMOTION

The above discussion of the various types of barter, the facilitating services that exist, and the ways in which barter may be os use suggests many ways in which a company or government can use barter as a tool of export promotion. As was noted, companies and governments can employ barter either in response to difficulties of the economy or as an active managerial policy. The former involves the use of barter as a reaction to adverse conditions, while the latter uses barter as an active tool in promotion of specific managerial policies.

For companies and governmental agencies that are actively interested in promoting exports and breaking into new foreign markets, barter can offer an attractive avenue for marketing their goods or services. It is, of course, only one of the many variables (for example, quality, marketing effort, and price) involved in selling and financing goods or services. It is not necessarily going to be the best solution for all companies or for all transactions. Indeed, as has been seen repeatedly, cash is usually best for most sellers. However, barter does offer a viable

alternative approach. Furthermore, especially under distressed economic circumstances, there are likely to be an unusually large number of potential customers requesting or favorably oriented toward considering an offer of barter.

The exporter obviously needs to carefully consider some very important variables when examining the barter option: the type of goods, services, or credits that would be acceptable; how much cash or monetary credit should also be involved (barter is commonly only part of the total compensation); how bartered receipts will be disposed of; and how to value merchandise sold and bough via barter.

THE FUTURE OF BARTER IN INTERNATIONAL TRADE

The use of barter as a tool for promoting international trade has been booming in recent years. Yet its use is still not widely known. Also the flexibility that current barter techniques and various facilitating intermediaries provide is not well known.

Barter suffers a serious image problem. This is understandable since even under the best of circumstances, barter is likely to be more cumbersome and less efficient than cash sales, for example, the need to provide long-term trade credits, which entail greater risk, the factoring of receivables, the issuance of warrants and options, and so on. All of these are innovations that have served to increase the flexibility of business transactions. In international trade, letters of credit and bankers' acceptances were developed to overcome some of the inefficiencies historically present when selling over long distances, between different countries, or in an environment in which communication was slow and difficult. However, these and other innovations have since become standard parts of modern business life. They may not all be attractive to or even feasible for a particular company or governmental agency. However, they are a very real part of business life. Furthermore, they do serve a very useful purpose by helping to facilitate business. The same is true of barter.

[1] "Commodity Prices", International Financial Statistics, September 1982, p.57

[2] Discussed in greater detail in Christopher M. Korth, "Barter - An Old Practice Yields New Profits" Business (September-October 1981); 2-8.

[3] Everett Martin, "U.S.Firms Are Pressed to Offer Barter Terms by Overseas Customers" Wall Street Journal, May 18, 1977, p. 27.

[4] Jack G. Kaikati, "The Reincarnation of Barter Trade as a Marketing Tool", Journal of Marketing, Vol. 40 (April 1976); 23.

[5] Irene Lange and James F. Elliot, "U.S. Role in East-West Trade: An Appraisal", Journal of International Business Studies, Vol. 8 (Fall/Winter 1977); 12.

[6] Martin, "Barter Terms", p. 27.

[7] Michael R. Czinkota, 1977 "Barter Deals - A major Factor in the Future Development of the Trade Between the U.S. and the Soviet Union". Proceedings of the 40th Chicago World Trade Conference, p. 32.

[8] Eastern European Report, November 3, 1973, p. 320.

[9] "Barter and Countertrade: A New Upsurge", Morgan Guaranty Survey, October 1978, p. 13.

[10] Robert E. Weigan, "International Trade Without Money", Harvard Business Review, Vol. 55 (Nov.-Dec. 1977):30.

[11] Newsweek, June 26, 1978, p. 63.

[12] Norma Sklarewitz, "Barter Gains Favor in Foreign Trade", Wall Street Journal, August 22, 1968. p.26

HO 5-17

The Pricing Strategy Checklist

At what price should the firm sell its product in the foreign market?

Does the foreign price reflect the product quality?

Is the price competitive?

Should the firm pursue market penetration or market-skimming pricing objectives abroad and why?

What type of discounts (trade, cash, quantity) and allowances (advertising, trade-off) should the firm offer its foreign customers?

Should prices differ with market segment?

What should the firm do about product line pricing?

What pricing options are available if costs increase or decrease?

Is the demand in foreign market elastic or inelastic?

How are prices going to be viewed by the foreign government — as reasonable or exploitative?

Instructor Notes 5-1

COUNTERTRADE

Chapter Objectives

International countertrade, i.e., trade linked to anything other than money, is increasing in importance. The reasons are lack of hard currency, greater indebtedness, the desire for new market expansions, and increased bilateralism.

Countertrade has the potential of severely distorting trade flows, since trading partners may be chosen on the basis of their ability to take back merchandise rather than ont he basis of competitive prices and product performance. Publicly, most international organizations and most countries condemn countertrade, yet countertrade is often privately seen as the only viable alternative to no trade at all. As a result, many multinational corporations have formed countertrade units, and some of them are using countertrade capabilities as aggressive business tools.

Companies confronted with countertrade demands should not automatically shy away from such business transactions. However, be very clear on the inherent risks. With countertrade, despite the fact that the two transactions are linked, two entirely separate business activities need to be carried out and planned simultaneously.

Suggestions for Teaching

A good way to bring the subject of countertrade closer to students is by beginning a discussion around domestic barter. Many students will be able to contribute examples, particularly since, in earlier years, due to a lack of money, many of them will have carried out barter transactions with their peers. From that discussion one can then gradually introduce the notion of inefficiency, which becomes very obvious when larger volumes of transactions are considered.

It is important for the students to understand that the matching of needs suddenly becomes much more complex. This complexity means more business activities and, therefore, more expenses. As a result, the cost of countertrade transactions is higher when compared to the cost of transactions which do not include countertrade. At the same time, however, it is useful to focus on the quite limited financial resources of many companies and countries, and have students develop the theme whether or not some trade is better than no trade at all. Given the increased trade dependency of many companies and nations, usually the option of some trade will be preferred.

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Instructor Notes 5-2

Questions for Discussion

1. What are some of the major causes for the resurgence of countertrade?

Perhaps the major causes for the resurgence of countertrade are the world debt crisis in the early 1980s and the current newly emerging market economies. Because of a shortage of hard cash, lack of credit, unwillingness to part with precious hard currencies, the riskiness of cash transactions and balance of payments problems, more and more countries are opting to use countertrade. Countertrade is also viewed as a mechanism to enter markets which would otherwise be closed or difficult to enter. Other reasons include bilateralism and stability for long term sales.

2. What forms of countertrade exist and how do they differ?

The most basic form of countertrade is called a **simple barter** and is just the simultaneous exchange of goods for goods of approximately equal value. A **counter purchase or parallel barter agreement** refers to the transaction where one sale is dependent upon a reciprocal sale of goods. The two sales are back to back, and some money may be involved as the goods or services traded may not be of the exact same value. Another form of countertrade which requires considerably more time and money is a **buy-back or compensation agreement.** In this form of trade, the party whose goods or services are in demand agrees to be paid for those goods with the results of the technology or equipment which he supplied to the second party. The above-mentioned forms of countertrade only involve two parties. A more refined form of barter trade is called **switch-trading**. In switch-trading, a clearing account is established between two countries as payment rather than money. The credits accrued are usually designated for certain products, and the credit may be traded to third parties. This type of countertrade reduces the bilateral effect and extends the time frame in which the transactions take place. The last form of countertrade is called **offset**. Here a purchase is dependent upon certain conditions or arrangements, rather than a counterpurchase of a product or service. examples of such conditions or arrangements are: on-site assembly of the product, co-production, licensing, subcontracting or joint ventures. **Swaps** involve the exchange of debt and are used as debt-for-debt swaps, debt-for-nature swaps, or debt-for-education swaps.

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3. Discuss the advantages and drawbacks of countertrade.

Countertrade is a mechanism by which a party can make a sale which perhaps it could not have made in any other manner — either because of a lack of credit, hard currency, unwillingness to part with hard currency, or for any other reason. The risk of the transaction is also lessened in view of currency devaluations. Another advantage of countertrade is that it can provide entry into a new market. In the case of buy-backs or compensation deals, the countertrade ensures that the transfer of technology is complete as the selling party is repaid by the product of what it has sold and wants to ensure that the type of goods obtained in exchange are of high quality. Drawbacks are that one may not need the goods offered in exchange, or be unable to use the goods. A firm could waste valuable time by trying to find a buyer for the goods received in exchange of the original purchase. Another disadvantage is that the restrictions imposed on countertrade by one party may cause the costs of the other party to rise, thereby decreasing the potential profit. Also, because a transaction is dependent on other transactions, it is very difficult to determine the value of the transaction for accounting and taxation purposes.

6. Suppose that a producer sells pet rocks to a wholesaler for $5 per dozen and the wholesaler in turn sells them to a retailer for $8 per dozen. Because the producer simply collected the rocks from the beach, his cost of producing them was zero. How much would the VAT tax be (a) in total and (b) at each stage of the distribution process?

The producer would pay a VAT of .1($5) = .50. The wholesaler would pay a VAT of .1($3) = .30. The retailer's VAT would be .1($2) = .20. Total VAT paid is therefore $1.

7. A U.S. Firm operates a branch in France that had income of $50,000 in 1990. Corporate tax rates are 34 percent in the United States and 45 percent in France. Illustrate the U.S. firm's tax liability for the branch income under double taxation, the use of a tax deduction, and the use of a tax credit.

	Double taxation
Branch income	$50,000
French tax	22,500
U.S. tax	17,000
Total tax	$39,500

	Tax deduction
Branch income	$50,000
French tax	22,500
U.S. taxable income	27,500
U.S. tax	9,350
Total tax	$22,500

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Instructor Notes 5-4

Suggestions for Group Projects

If this material is covered toward the beginning of the term, a useful project is to have student groups make foreign exchange rate projections. Students can be asked to analyze PPP factors, relative inflation rates and interest rates and make projections for exchange rates at the end of the term. The project allows the students to appreciate both the usefulness and limitations of the theory. In addition, the project typically motivates students to follow the market on a day-to-day basis. As a result, they are able to see how news relating to the economic "fundamentals" influences exchange rates.

QUESTIONS FOR DISCUSSION

1. **If the direct quote on the French franc is .15, what is the indirect quote?**

   The indirect quote represents the amount of foreign currency that can be purchased with one dollar. Therefore, the indirect quote is I/.IS = 6.66.

2. **If a trader sells dollars forward in the expectation of making a profit, what is his or her projection about the value of the dollar?**

   The trader is promising to sell at a certain price and must therefore expect the value to fall.

3. **Explain why the forward rate must represent the market's expectation of the future spot exchange rate.**

   If participants expect a currency value to rise to a certain level, they will bid the price of the currency in the forward market up to that level. Conversely, if a decline is expected, participants will sell forward until the price matches the market expectation.

4. **If francs sell spot at 6.50/$ and the 180 day forward rate is 6.55/$, is the franc at a forward premium or discount? What is the annual premium or discount?**

   The franc is at a forward discount; it is cheaper purchased forward than spot. The amount of the discount is:

   $$\frac{.1526 - .153}{.153} (2) = -1.6$$

Source: Czinkota M. R. Rivoli P., Ronkainen A. International Business. Second Edition. Copyright ©1992, The Dryden Press.

6. Under what circumstances might a manager wish to buy a put option on a foreign currency?

If the manager anticipates an inflow of foreign currency and wishes to protect against a depreciation in the foreign currency, the put option allows the manager to sell the currency at a pre-specified price. However, the manager is not obligated to sell. As a result, the firm can profit if the foreign currency appreciates.

9. Suppose that the direct quote is $1.60 per British pound and $.65 per German mark. What is the exchange rate between the pound and the mark?

The exchange rate is 2.462 marks per pound.

10. Suppose that annual interest rates are 10 percent in the United States and 12 percent in France. If the spot rate is $.22/franc, what is the likely 180-day forward rate?

The likely forward rate is $.218 per pound.

5. The domestic retail price of a product is $12. The retail price in Continental Europe is $44.94 due to the following factors: insurance and shipping, tariffs (20% on C.I.F. value), importer margin (25% on cost), wholesaler's margin (33.3% on cost), jobber's margin (33.3% on cost), and retailer margin (50% on cost). Added to all is VAT (e.g., 16%) which is added to all margins. If this type of price escalation put the firm out of competition, what can it do to reduce the effect?

Price escalation is the effect of both clear-cut and hidden costs on the final export price which boosts it beyond the domestic price. The implications of this phenomenon are:

a) The marketer must look again at the entire marketing mix to analyze whether any elements of the mix should be changed for the exported good as a result of the increased price. A price increase will usually lead to a repositioning of the product int he consumer's mind. Therefore, a higher level of promotion and/or a change in the distribution channels may be required to achieve the desired brand image.
b) Unless the marketing mix is adjusted to match the characteristics of the target market, the price increase may lead to decreased consumer demand. In addition, the marketer may lose his competitive position int eh foreign market since the price of the exported good far exceeds the cost of the good domestically.
c) One of the major implications is the reaction of the middlemen. Unless they can pass on the price increase to the consumers, they will be left with a lower margin. As a result, the middlemen may resort to distributing competing goods and end distribution of the marketer in question.
d) Any price escalation will have to meet company policies in terms of profit maximization, market share, return on investment and competitive policies.
e) Price escalation complicates the process of setting price quotations in terms of planning for hidden costs.

The international marketer has several options in dealing with the problem of price escalation:

a) to lower transportation costs by shipping modified or unassembled products
b) to reduce the markup effect by lowering the export price at the originating point
c) to attempt to change freight and/or duty classifications
d) to identify a lower-cost source of the merchandise, possibly manufacturing locally or shipping from another source

Source: Czinkota M. R. Rivoli P., Ronkainen A. International Business. Second Edition. Copyright ©1992, The Dryden Press.

CHANNELS OF DISTRIBUTION

UNIT 6

Title: **CHANNELS OF DISTRIBUTION**

Purpose: This unit is designed to examine the advantages and disadvantages of different distribution alternatives and constraints.

Objectives: Assess different channels of distribution for the market.

Materials:

Transparency 6-1	Overview of Unit
Transparency 6-2	Overview of Unit
Transparency 6-3	ABC Importer's Acquisition Channel
Transparency 6-4	List of Documents Needed to Get Goods to Importer.
Transparency 6-5	International Marketing Alternatives in Home Market
Transparency 6-6	International Marketing Alternatives Abroad
Transparency 6-7	Active Soviet Licenses in the U.S.
Transparency 6-8	Qualifications of International Sales People
Transparency 6-9	International Support Services
Transparency 6-10	Data Sources for Locating Foreign Intermediaries
Transparency 6-11	Selection Criteria for Choosing an International Distributor
Transparency 6-12	Overview of remainder of Unit 6 and all of 7
Transparency 6-13	Modes of Transportation
Transparency 6-14	Airline Container Types
Transparency 6-15	Intermodal Transportation
Transparency 6-16	Intermodal Rail Options

Handout 6-1	Export Marketing: Methods of Exporting and Channels of Distribution
Handout 6-2	Kinds of Channel Intermediaries and Their Responsibilities in the Home Market, e.g. Poland and in the Foreign Market, e.g. the U.S.
Handout 6-3	Selected Licensing Restrictions
Handout 6-4	Active Soviet Licenses in the United States
Handout 6-5	EMCs/ETCs: What They Are, How They Work
Handout 6-6	Personal and Professional Qualifications
Handout 6-7	Freight Forwarding
Handout 6-8	Locating Foreign Representatives and Buyers
Handout 6-9	Data Sources for Locating Foreign Intermediaries

Handout 6-10	Selection Criteria for Choosing an International Distributor
Handout 6-11	Elements of a Distributor Agreement
Handout 6-12	Rediplant Case
Handout 6-13	Transportation
Handout 6-14	Checklist

Activities: Student exercises are listed in the T-outline.

References for Instructors: More readings for instructors *only* in Book 2:

R6-1: International Marketing Channels in the Home Market (Chap. 23, Kramer)
R6-2: Licensing, Franchising, and Export Intermediaries (Chap. 13, *IM*)
R6-3: International Channels of Distribution (Chap. 12 *IM*)
R6-4: International Logistics (Chap. 15, *IM*)

Questions for Discussion in Instructor Notes 6-1; 6-2 and 6-4.
Teaching Objectives for HO 6-12: Rediplant Case in Instructor Notes 6-3.

Estimated Time: 2 hours

Unit Outline:

I. Overview

II. An Example of Importing

III. Direct Channel - Doing It Yourself

IV. Indirect Alternatives

A. International Marketing Channels in the Home (e.g., Poland)

1. The foreign firms' connections to sell in home markets
2. Resident Buyers in the Home Market
3. Home Market Middlemen

B. Options in the Foreign (Host) Market

1. Foreign Producers Licensed to Make the Product
2. Foreign Import and Export Houses
3. Wholesalers and Retailers in foreign markets

4. Distributors
5. Factors
6. Foreign Brokers and Agents
7. Commercial gatherings
8. Export Management Companies
9. Export Salesmen And Import Buyers

C. Some Third Party Services

1. Customs Brokers
2. Freight Forwarders
3. State Import/Export Agency

D. Selection and Evaluation of Channel Intermediaries

V. Overview of Goods Movement

A. Transportation

1. Formulas
2. Regulations by Mode

FOR THE INSTRUCTOR
International Entrepreneurship
Unit 6: Channels of Distribution

CONTENT	PROCESS
I. Overview	TP 6-1 and TP 6-2 Overview of this unit.
Given the many possible challenges of international trade that we have discussed so far, it may be wise to consider different channel intermediaries to help in our import and export process.	
We have tried to find out something about our markets and (re)designed our product, promotion, and pricing strategies for them. Now we must determine how to get our goods to other markets or to get goods from other markets. Should we hire others to do it for us or do it ourselves?	
Units 6 and 7 consider the logistics of goods movement and management.	
Unit 6 examines different ways to move goods in terms of channel alternatives and transportation alternatives.	
Unit 7 includes inventory, customer service, customs documentation, packaging, and insurance.	
II. An Example of Importing	TP 6-3: ABC Importer's Acquisition Channel.
We begin with our ABC importer example and how this company gets its goods from the Far East.	Discuss TP 6-4: List of Documents Needed to Get Goods to Importer.
III. Direct Channel - Doing It Yourself	Hand out a reading on export marketing (HO6-1). Should read HO 1-3 from Unit1.
<u>Very difficult:</u>	
- May not know the language, the customs, the common business practices,	

CONTENT	PROCESS
the available distribution channels, the law. Depends on: 1. The size of the firm. 2. The nature of its products. 3. Previous export experience and expertise; 4. Business conditions in the selected country.	
Regardless of how the goods are obtained or distributed, you do need your people (at least those dealing with international aspects of the business) to have an international perspective.	Discuss how to internationalize and give failure rates in paragraph 2. of Notes for Instructors 2-1.
IV. Indirect Alternatives Because of the intricacies of international goods sales and movement, it is wise to have some help, particularly in the beginning. One traffic manager who is responsible for shipping and receiving all over the world called the use of freight forwarders (a kind of channel intermediary) "cheap insurance" because "It never hurts to have an experienced set of eyes look over the documentation for something you might have missed." For those who know less about international trade, intermediaries can save money, time, and misunderstanding.	Distribute HO 6-2: Kinds of Channel Intermediaries and Services Preformed. Have participants think about whether they need marketing support or financing from a foreign partner. That will help them choose the kind of intermediary.
We will approach this section in terms of how you might buy from foreign companies in Poland, in other words from the importer's perspective. Then we will look at how you might sell your goods in foreign markets, the exporter's perspective.	*Note:* if this Unit is too long (excluding transportation), may want to summarize HO 6-1 and invite in a speaker who is one of the kinds of intermediaries such as an agent.

CONTENT	PROCESS
A. International Marketing Channels in the Home Market (e.g., Poland)	Put up TP 6-5: Home Market Alternatives. Reference in Readings for Instructors 6-1.
1. <u>The foreign firms' connections to sell in home markets</u>	
The firm's sales people from abroad call on local buyers.	
Home market agents find buyers.	
Distributors buy goods and distribute them locally.	
The firm may establish branches for sales support or manufacturing.	
Licenses may be granted by the firm for home market firms to produce the product. This is an opportunity for local manufacturers to obtain technology and enter the market quickly with competitive products.	Distribute HO 6-3: Selected Licensing Regulations. Can discuss licensing in more detail based on Reading for Instructors 6-2.
2. <u>Resident Buyers in the Home Market</u>	
a. Buying for foreign private firms, e.g., large contractors, utilities who would need large quantities.	
b. Foreign (government) purchasing missions.	
3. <u>Home Market Middlemen</u>	
a. <u>Export/Import commission house</u> acts in the interest of the buyer (for a commission).	
Export commission house places order with home market	

CONTENT	PROCESS
producers for foreign buyers. Import commission house places orders with foreign producers for home market buyers.	
b. Export/Import Merchant buys for itself and resells to local merchants, for example certain food products.	
c. Manufacturer's Export Agents represent the interests of the seller abroad (for a commission).	Refer to Reading for Instructor 6-3. Have the participants discuss: What makes an exporter agent different from any other channel member? (Instructor Notes 6-2).
d. Export/Import brokers bring buyer and seller together, often in staple goods, such as agricultural products.	
e. Export Houses (Trading Companies) may handle both exports and imports. They perform many services. May have branches in other countries. Some in business for more than a century. Many headquartered in Europe and Japan. They often specialize by commodity or region. May provide financing and freight forwarding.	Have the participants discuss: Is there a need for export trading companies? (Instructor Notes 6-2).
B. Alternatives in the Foreign (Host) Market e.g., Polish firms exporting	Put up TP 6-6: International Marketing Alternatives Abroad.

CONTENT	PROCESS
1. Foreign Producers may be licensed to make the product.	Discuss an example of Soviet Licenses in the United States - TP 6-7 and provide the participants with HO 6-4.
2. Foreign Import and Export Houses help obtain goods or sell them.	
3. Wholesalers and Retailers in foreign markets buy goods for resale. These are often consumer goods.	
4. Distributors promote the sale of the exporter's product in some defined territory.	
5. A factor (non-U.S.) is a manager or administrator of a business in the name of another. May finance sales so exporter gets paid more quickly. May bind the principal in all matters in which granted authority. In the U.S., factors are generally only financial, loaning against goods as collateral.	
6. Foreign Brokers and Agents are similar to home market brokers and agents.	
7. Commercial gatherings, such as trade fairs (discussed in Unit 4) and auctions (e.g., international flower auctions in Holland).	
8. Export Management Companies (EMC's) can do entire marketing function or any part of it.	Hand out a reading on EMCs/ETCs (HO6-5).
9. Export Salesmen and Import Buyers Traveling representatives may have the entire responsibility for foreign transactions. If there are existing agents for the firm in the foreign market, the traveling representative	Put up TP 6-8: Qualifications of Sales People.

CONTENT	PROCESS
may demonstrate the latest features for these agents. An additional reason for using salespersons is the need for a technical expert to demonstrate and install or buy complicated equipment.	
Resident Salesman and buyers work for one firm and live there.	
Some salesmen and buyers work for more than one firm. Buyers buy several different products. Sellers carry more than 1 manufacturer.	
<u>Qualifications of International Sales People:</u>	Hand out a reading on personal and professional qualifications (HO 6-6).
<u>Personal:</u> a) personality b) reliability c) socialibity d) tact and courtesy e) tenacious - patient, persevering f) accuracy	
<u>Professional</u>: a) knowledge of product b) knowledge of country c) knowledge of languages d) knowledge of current events	
The company should help in traveling salespeople through: 1. providing letters of introduction, 2. helping to plan the itinerary, 3. agreeing on the latitude of salespeople to conduct business for the firm.	

CONTENT	PROCESS
There are often foreign regulations affecting commercial travelers: 1. license fees and taxes, 2. import duties on sales samples, 3. documents required. Conditions favoring the direct, personal attention of salespeople and buyers: 1. certain lines of merchandise, such as technical products, specialties and novelties, goods requiring a quality judgment; 2. volume of trade - sufficient to justify a salesperson; 3. concentrated sales territory for selling or markets for buying.	
C. Some Third Party Services 1. Customs Brokers help goods enter or leave a country.	Put up TP 6-9: International Support Services: Customshouse Broker and International Freight Forwarder
2. Freight Forwarder facilitates goods movement.	Hand out a reading on freight forwarding (HO 6-7).
3. State Import/Export Agency e.g. AmerPol was previously part of the only Polish Agency/Freight Forwarder and operated by the government.	
D. Selection and Evaluation of Channel Intermediaries Finding them	Put up TP 6-10: Data Sources for Locating Foreign Intermediaries.
Finding good channel intermediaries can be a challenge. Experience can be a great teacher but there are other	Hand out a reading on locating foreign representatives and buyers (HO 6-8).

CONTENT	PROCESS
sources also. It is important to contact several potential representatives before making a decision. These can be located through international associations of such middlemen, contacting your government, or through advertisement in the market that you wish to enter.	Distribute HO 6-9: Data Sources for Locating Foreign Intermediaries. Refer to Readings for Instructors 6-3.
Selecting Representatives Discuss selection alternatives in the TP.	Put up TP 6-11: Selection Criteria for Choosing an International Distributor. Distribute HO 6-10: Selection Criteria for Choosing an International Distributor Exercise: Have participants evaluate a current distributor or other channel intermediary using the handout. Then ask them to think about how this might be different for a foreign intermediary. Many are probably the same. Pass out HO 6-11: Elements of a Distributor Agreement and discuss 5-10 points you feel are key.
Evaluating their performance It is important to evaluate the relationship over time. Periodic contact in both written, oral, and face-to-face if possible, is recommended. Assess whether both parties are comfortable with the progress of the relationship (will discuss more in Unit 8) and the success of both businesses. Unfortunately, it may be necessary to replace an intermediary but this must be done carefully and with knowledge of who will be the replacement. Potential measures of success include, sales volume, profitability, cooperativeness, and how important you are to the intermediary. The decision of the kind of intermediary and the specific firm to use are critical to the success of your international efforts.	Discuss Case: Rediplant (HO 6-12 and Instructor Notes 6-3). This case introduces customer service for

CONTENT	PROCESS
	Unit 7 and examines different channel alternatives. Discuss: What courses of action are open to an international marketer who finds all attractive intermediaries already under contract to competitors (Instructor Notes 6-4).
V. Overview of Goods Movement The remainder of this Unit and Unit 7 address the physical movement and management of goods internationally. We will first discuss transportation before moving to inventory management, customer service, customs documentation, packaging, and insurance.	Put up TP 6-12 Overview of remainder of Unit 6 and all of 7.
A. Transportation There are four major modes of transportation: water, rail, lorry/truck, and air. Some call "intermodal" a fifth kind, though it is a combination of the others. We are omitting pipeline from this discussion.	Put up TP 6-13: Modes of Transportation. Hand out a reading on transportation (HO6-13). Put up TP 6-14: Airline Container Types; TP 6-15: Intermodal Transportation; TP 6-16: Intermodal Rail Options. Refer to Reading for Instructors 6-4 (pp. 384-391).
1. <u>Formulas</u> To be supplied in Poland. These are how transportation rates are determined (from the user's level of needing to know).	
2. <u>Regulations by Mode</u> Same as above. Need to have Polish regulations of transportation. Also those of the EC.	
VI. Checklist: Place/Distribution.	<u>Exercise</u>: Have the participants work on checklist (HO-6-14).

TP 6-1

International Entrepreneurship Course

Unit 6: Channels of Distribution

Overview

An Example Of Importing

Direct - Doing It Yourself

Indirect Alternatives

- International Marketing Channels in the Home Market (e.g., Poland)
  - The foreign firms' connections to sell in home markets
  - Resident Buyers in the Home Market
  - Home Market Middlemen

TP 6-2

Options in the Foreign (Host) Market, e.g.,

- **Wholesalers and Retailers in foreign markets**
- **Factors**
- **Commercial gatherings**
- **Export Management Companies**
- **Export Salesmen And Import Buyers**

Some Third Party Services

Selection and Evaluation of Channel Intermediaries

Overview of Goods Movement

Transportation

TP 6-3

ABC COMPANY ACQUISITION CHANNEL

Far East Manufacturer

Far East Distributor

Arranges Transportation to Poland

Local Carrier to Krakow

Customs Clearance in Krakow

TP 6-4

Documents Needed for ABC Company to Import

Commercial Invoice (6 copies)

2 Original Invoices (Bank, Customs)

Packing List (6)

Polish Insurance (2)

Bill of Lading (2 or 6)

TP 6-5

INTERNATIONAL MARKETING ALTERNATIVES IN HOME MARKET

1. Foreign firms' connections in the home market, e.g., Poland:

   Salesmen from abroad
   Agents and distributors
   Branches
   Licensees

2. Resident buyers in the home market, e.g., Poland, for:

   Private firms located abroad
   Foreign (government) purchasing missions

3. Home market (Polish) international marketing middlemen:

   Export and/or import commission houses and merchants
   Manufacturer's export agents
   Export and import brokers
   Export houses or trading firms

Source: Kramer, Roland L., International Marketing. Copyright © 1970 South-West Publishing Co, (Cincinnati, Ohio)

TP 6-6

INTERNATIONAL MARKETING ALTERNATIVES ABROAD

Producers:

- **Licensees**
- **Contract manufacturing**

Import and export houses

Wholesalers and retailers

Brokers

Factors

Resident or Traveling salesperson and buyers

Lessees

Agents

Distributors

Commercial gatherings

Source: Kramer, Roland L., International Marketing. Copyright ©1970 South-Western Publishing Co.,

TP 6-7

Active Soviet Licenses in the United States

Technology	Sold to	Approximate Date
Surgical stapling instruments	U.S. Surgical Corp. 3M	1964 1979
Hydraulic rock crusher	Joy Manufacturing	1969
Pneumatic underground punch "Hole Hog"	Allied Steel & Tractor	1971
Evaporative stave cooling of blast furnaces	Audco Engineering	1972
Aluminum silicon alloy	Ethyl Corporation	1973
Production of hollow ingots by electroslag remelting	Cabot	1973
Flux cored electrodes	Chemetron	1974
Magnetic impact bonding	Maxwell Laboratories	1074
Drug pyrroxan for treating central nervous system disorders	American Home Products	1974
Ethnozin for treating cardiac arrest	DuPont	1974
Electromagnetic casting of aluminum	Kaiser Aluminum Reynolds Aluminum Alcoa	1975
Carboxide insect repellant	American Home Products	1975
In-situ underground coal gasification	Texas Utilities Services, Inc.	1975
Carminomycin and ftorafur anti-cancer agents	Bristol-Myers	1976
Bulat process for titanium nitriding	Multiarc Vacuum Systems	1979
Flash butt welding of large-diameter pipes	J.R. McDermott	1980
Electromagnetic casting of copper alloys	Olin Brass	1980
Cone crusher	Rexnord	1981
Air column separator	Air Products	1981
Medical preparation riocidin	Ciba-Geigy USA	1982
Biodegradable polymer pin for orthopedics	Medco	1982

Source: John W. Kiser, III. "Tapping Soviet Technology," in *Common Sense in U.S.-Soviet Trade*, eds. M. Chapman and C. Marcy (Washington, D.C.: American Committee on East-West Accord, 1983), 107-108.

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TP 6-8

QUALIFICATIONS OF INTERNATIONAL SALES PEOPLE

Personal

Personality

Reliability

Socialibity

Tact and Courtesy

Tenacious - patient, persevering

Accuracy

Professional

Knowledge of Product

Knowledge of Country

Knowledge of Languages

Knowledge of Current Events

TP 6-9

INTERNATIONAL SUPPORT SERVICES

- CUSTOMSHOUSE BROKER
  - Licensed by United States Customs
  - Represents Clients in Import Entry Transaction
    - prepare paperwork
    - advised on and advances duty
    - arranges for release and liquidation

- INTERNATIONAL FREIGHT FORWARDERS
  - Licensed by F.M.C (ocean) or I.A.T.A (air)
  - Assists Clients in:
    - arranging export shipments
    - preparing export documentation
    - product classifications
    - carrier bookings
    - shipment tracing

TP 6-10

DATA SOURCES FOR LOCATING FOREIGN INTERMEDIARIES

Distributor Inquiries

U.S. Department of Commerce
- New Product Information Service
- Trade Opportunities Program
- Foreign Traders Index
- Agent/Distributor Service
- World Traders Data Report

Trade Sources
- Magazines, Journals
- Directories
- Associations
- Banks, Advertising Agencies, Carriers

Field Sales Organizations

Customers

Direct Mail Solicitation/Contact of Previous Applicants

Independent Consultants

Source: Czinkota M. and Ronkainen I. International Marketing, Second Edition
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TP 6-11

SELECTION CRITERIA FOR CHOOSING AN INTERNATIONAL DISTRIBUTOR

CHARACTERISTICS	*WEIGHT* (0-10)	*RATING* (1-10)
Goals and Strategies		
Size of Firm		
Financial Strength		
Reputation		
Trading Areas Covered		
Compatibility		
Experience		
Sales Organization		
Physical Facilities		
Willingness to Carry Inventories		
After-sales Services		
Capability		
Use of Promotion		
Sales Performance		
Relations with Local Government		
Communications		
Overall Attitude		

Source: Franklin R. Root, Foreign Market Entry Strategies (New York: American Management Association, 1983),74-75. Printed in International Marketing, Second Edition, Dryden Press 1990.

TP 6-12

OVERVIEW OF INTERNATIONAL GOODS MOVEMENT

Transportation

- **Formulas**
- **Regulations by Mode**

From Unit 7:

- **Customer Service**
- **Inventory Management**
- **Cost/Service Tradeoffs**
- **Customs and Importing Regulations**
- **Documentation**
- **Insurance**
- **Packaging**

TP 6-13

MODES OF TRANSPORTATION

Water

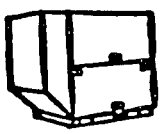
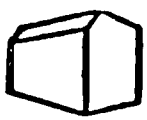
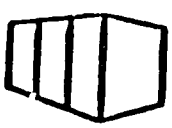
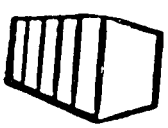
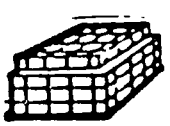
Rail

Lorry/Truck

Air

Intermodal

AIRLINE CONTAINER TYPES

CONTAINERS	MAXIMUM EXTERNAL DIMENSIONS LxWxH (IN/CM)	MAXIMUM GROSS WEIGHT (LBS/KG)	HANDLING FEATURES FOR SHIPPERS
LD-3 	79" x 60" x 64" 200.6 x 152.4 x 162.56 cm	3,500 lbs 1,591 kg	3-way forkable. Folding metal doors.
M-1H 	96"x 125" x 118" 243.84 x 317.5 x 299.72 cm	15,000 lbs 6,818 kg	Roller bed chassis.
M-1 	96" x 125" x 96" 243.84 x 317.5 x 243.84 cm	15,000 lbs 6,818 kg	Roller bed chassis also available for Garment on Hangers (GOH)
M-2 	238.5"x 96"x 96" 605.8 x 243.8 x 243.8 cm	25,000 lbs 11,340 kg	Intermodal - ISO corner fittings for overroad service. Top liftable. Forkable.
A-2	98"x 125"x 82" 223.52 x 317.5 x 208.28 cm	13,300 lbs 6,045.5 kg	Pallet-Dolly Transporters available. Available as net and pallet combination. Weather protection is afforded by using plastic sheeting/bags.
L-7 	125"x 88"x 64" 317.5 x 223.52 x 162.56 cm	10,200 lbs 4,536.36 kg	Pallet-Dolly Transporters available. Available as net and pallet combination. Weather protection is afforded by using plastic sheeting/bags.

Source: Smith R., IMPEX, Columbus Ohio, 1992

TP 6-15

INTERMODAL TRANSPORTATION

- UNIT LOAD DEVICES HANDLED ACROSS TRANSPORT MODES

  - no breakdown or reload required
  - door to door rates

- COOPERATIVE AGREEMENTS ACROSS MULTIPLE TRANSPORT MODES

  - ocean/rail/truck
  - air/truck

TP 6-16

INTERMODAL RAIL OPTIONS

- CONTAINER-ON-FLAT-CAR (C.O.F.C.)
- TRAILER-ON-FLAT-CAR (T.O.F.C.)
- DOULBE STACK CONTAINER--ON-FLAT-CAR

HO 6-1

EXPORT MARKETING
Methods of Exporting and Channels of Distribution*

The most common methods of exporting are indirect selling and direct selling. In indirect selling, a second Polish firm acts as a sales intermediary and normally assumes responsibility for finding overseas buyers and shipping products. In direct selling, the original Polish firm deals directly with a foreign firm.

There are several factors to consider when deciding whether to market indirectly or directly, including:

- The size of the firm
- The nature of its products
- Previous export experience and expertise; and
- Business conditions in the selected overseas markets

The paramount consideration in determining whether to market indirectly or directly is the level of resources a company is willing to devote to the international marketing effort.

Distribution Considerations:

- Which channels of distribution should the firm use to market its products abroad?
- Where should the firm produce its products and how should it distribute them in the foreign market?
- What types of agents, brokers, wholesalers, dealers, distributors, retailers, etc., should the firm use?
- What are the characteristics and capabilities of the available intermediaries?
- Should the assistance of an EMC (export management company) be acquired?

Indirect Exporting

The principal advantage of indirect marketing for a smaller Polish company is that it provides a way to penetrate foreign markets without getting involved in the complexities and risks of exporting. There are several kinds of intermediary firms that provide a range of export services. Each type of firm offers distinct advantages for the Polish company.

Commission Agents

Commission or buying agents are "finders" for foreign firms that want to purchase Polish products. They seek to obtain the desired items at the lowest possible price and are paid a commission by their foreign clients. In some cases, they may be foreign government agencies

Source: Passport to Export, St. Clair Community College.

or quasi-governmental firms empowered to locate and purchase desired goods. Foreign government purchasing missions are one example.

Export Management Companies

An export management company (EMC) acts as the export department for one or several manufacturers of noncompetitive products. It solicits and transacts business in the names of the manufacturers it represents or in its own name for a commission, salary, or retainer plus commission. Some EMC's provide immediate payment for the manufacturer's products by either arranging financing or directly purchasing products for resale. Typically, only larger EMC's can afford to purchase or finance exports.

There are over 2,000 EMC's in the United States, the majority of which are small. Due to their size limitations, EMC's usually specialize either by product, by foreign market, or both. Because of their specialization, the best EMC's know their products and the markets they serve very well and usually have well-established networks of foreign distributors already in place. This immediate access to foreign markets is one of the principal reasons for using an EMC, since establishing a productive relationship with a foreign representative may be a costly and lengthy process.

One disadvantage in using an EMC is that a manufacturer may lose control over foreign sales. Most manufacturers are properly concerned that their product and company image be well maintained in foreign markets. An important way for a company to retain sufficient control in such an arrangement is to carefully select an EMC that can meet the company's needs and maintain close communications with it. For example, a company may ask for regular reports on efforts to market its products and may require approval of certain types of efforts, such as advertising programs or service arrangements. If a company wants to maintain this type of relationship with an EMC, it should negotiate points of concern before entering an agreement, since not all EMC's are willing to comply with the company's concerns.

A further description of services rendered to exporters by EMC's (and suggestions for choosing an appropriate firm) is available through the U.S. Department of Commerce's pamphlet, The EMC--Your Export Department (Publications Distribution, Room 1617D, U.S. Department of Commerce. Washington, DC 20230). Also, the Association of Export Management Companies in New York can be contacted for a list of EMC's in different regions. The Directory of Leading U.S. Export Management Companies is available from Bergano Book Company, P.O. Box 190, Fairfield, CT 06430, $37.50.

Export Trading Companies

An export trading company (ETC) is an organization designed to facilitate the export of Polish goods and services. It can be either a trade intermediary, providing export related services to producers, or an organization set up by producers themselves. An ETC is similar to an export management company. Traditionally, however, EMC's do not take title to goods being

exported and typically provide only export facilitation services. An ETC is generally understood to be an organization that provides a broader range of services than an EMC, though there may be little practical distinction.

The goals of the Export Trading Company Act, passed in 1982, are to stimulate U.S. exports by:

1. Promoting and encouraging the formation of export trading companies.
2. Expanding the options available for export financing by permitting bank holding companies to invest in export trading companies and reducing restrictions on trade finance provided by financial institutions.
3. Reducing uncertainty regarding the application of U.S. antitrust law to export operations.

This act allows banks, for the first time in recent history, to make equity investments in those commercial ventures qualifying as export trading companies. In addition, for the first time, the EximBank is allowed to make working capital guarantees to U.S. exporters. Through the Office of Export Trading Company Affairs (OETCA) within the International Trade Administration, the Department of Commerce promotes the formation of export trading companies, administers the antitrust certification process, and issues Certificates of Review.

OETCA informs the business community of the benefits of ETC's through conferences, presentations before trade associations and civic organizations, and publications. The major publication covering ETC's is the Export Trading Company Guidebook, which provides examples of model ETC's. OETCA provides specific assistance to businesses seeking to take advantage of the Act.

OETCA has also established the Contact Facilitation Service (CFS) to provide an information clearinghouse for producers of U.S. goods and services and for organizations that provide trade facilitation services. ACFS directory is updated and published annually. The directory provides users with the names and addresses of banks, ETC's, manufacturing firms, and service organizations as well as the export products or the export related services that these firms supply.

Firms and individuals interested in obtaining a copy of either the Export Trading Company Guidebook or the Contact Facilitation Service Directory, or who are interested in additional information, should contact the Office of Export Trading Company Affairs, Room 5618, U.S. Department of Commerce, Washington, DC 20230. Telephone: (202) 377-5131.

Export Agents, Merchants or Remarketers

Export agents, merchants, or Remarketers purchase products directly from the manufacturer, packing and marking the products according to their own specifications. They then sell overseas through their contact, in their own names, and assume all risk for accounts.

In transactions with export agents, merchants, or remarketers, a Polish firm relinquishes control over the marketing promotion of its product, which could have an adverse effect on future sales efforts abroad. For example, the product could be underpriced or incorrectly positioned in the market or, after sales, service could be neglected.

Piggyback Marketing

Piggyback marketing is an arrangement in which one manufacturer or service firm distributes another's product or service. The most common piggybacking situation is when a Polish company has a contract with an overseas buyer to provide a wide range of products or services. Often, this company does not produce all of the products it is under contract to provide, and it turns to other Polish companies to provide the remaining products. The original Polish producer piggybacks its products to the international marketplace, generally without incurring the marketing and distribution costs associated with exporting. Successful arrangements usually require that the product lines be complementary and appealing to the same customers.

Direct Exporting

The advantages of direct exporting for a Polish company include more control over the export process, potentially higher profits, and a closer relationship to the overseas buyer and marketplace. These advantages do not come easily, however, since the Polish company needs to devote more time, personnel, and other corporate resources than are needed with indirect exporting.

When a company chooses to export directly to foreign markets, bypassing the use of EMC's or other intermediaries in the United States, it usually makes internal organizational changes to support more complex functions. A direct exporter normally selects the markets it wishes to penetrate, chooses the best channels of distribution for each market, and then makes specific foreign business connections in order to sell its product.

Organizing for Exporting

A company new to exporting generally treats its export sales no differently from domestic sales, using existing personnel and organizational structures. As international sales and inquiries increase, however, the company may separate the management of its exports from that of its domestic sales.

The advantages of separating international from domestic business include the centralization of specialized skills needed to deal with the international marketplace. Another advantage is a focused marketing effort, one that is more likely to lead to increased international sales. A possible disadvantage of such a separation is the less efficient use of corporate resources due to segmentation.

When a company separates international from domestic business, it may do so at different levels within the organization. For example, when a company first begins to export, it may create an export department with a full or part-time manager who reports to the head of domestic sales and marketing. At later stages a company may choose to increase the autonomy of the export department to the point of creating an international division that reports directly to the president.

Larger companies at advanced stages of exporting may choose to retain the international division or to organize along product or geographic lines. If a company has distinct product lines, it may choose to create an international department within each product division. A company with products that have common end-users may choose to organize geographically; for example, it may form a division for Europe, another for the Far East, etc.

The above examples of organizing a separate international structure within a company generally apply once international sales become significant or within a large company with substantial financial resources. A small company's initial needs may be satisfied by a single export manager who has responsibility for the full range of international activities.

Regardless of how a company organizes for exporting, it should insure that the organization facilitates the marketer's job. Successful marketing skills can help the firm overcome the handicap of operating in an unfamiliar market. Experience has shown that a company's success in foreign markets depends less on the unique attributes of its products than on its marketing methods.

Once a company has been organized to handle exporting, the proper channel of distribution needs to be selected in each market. These channels include agents, distributors, retailers and end-users.

Sales Representatives or Agents

Overseas, a sales representative uses the company's product literature and samples to present the product to potential buyers. The sales representative usually works on a commission basis, assumes no risk or responsibility, and is under contract for a definite period of time (renewable by mutual agreement). The contract defines territory, terms of sale, method of compensation, and other details. The sales representative may operate on either an exclusive or nonexclusive basis.

Distributors

The foreign distributor is a merchant who purchases merchandise from an exporter (often at substantial discount) and resells it at a profit. The foreign distributor generally provides support and service for the product, relieving the company of these responsibilities. The distributor usually carries an inventory of products, a sufficient supply of spare parts, and maintains adequate facilities and personnel for normal servicing operations. The distributor

normally carries noncompetitive but complementary products.

The payment terms and length of association between the U.S. company and the foreign distributor are established by contract. Some U.S. companies prefer to begin with a relatively short trial period and then extend the contract if the relationship proves satisfactory to both parties.

Foreign Retailers

A company may also sell directly to a foreign retailer, although in such transactions, products are generally limited to consumer lines. This method relies mainly on traveling sales representatives who directly contact foreign retailers, though results may be accomplished by mailing catalogs, brochures, or other literature. While the direct mail approach can eliminate commissions and traveling expenses, a firm that uses it may find that its products are not receiving proper consideration.

Direct Sales to End-Users

A business may sell its products or services directly to end-users in foreign countries. These buyers can be foreign governments, institutions such as hospitals, banks, schools, or businesses. Buyers can be identified at trade shows, through international publications, or through government contact programs, such as the U.S. Department of Commerce's Export Mailing List Service.

The company should be aware that if a product is sold in such a direct fashion, the exporter is responsible for shipping, payment collection, and product servicing, unless other arrangements are made. If the cost of providing these services is not built into the export price, a company could end up making far less than originally intended.

HO 6-2

KINDS OF CHANNEL INTERMEDIARIES AND THEIR RESPONSIBILITIES THE HOME MARKET, e.g. Poland							
Intermediaries	Take Title?	Receive Commission?	Represents More Than One Firm	Marketing Support?	Home or Host Market?	Provides Financing?	Personal Contact Needed?
Salespeople							
Agents							
Distributors							
Branches							
Resident Buyers							
Commission Houses							
Export and/or Import Merchants							
Brokers							
Trading Companies							

HO 6-2
(continued)

KINDS OF CHANNEL INTERMEDIARIES AND THEIR RESPONSIBILITIES THE FOREIGN (HOST) MARKET, e.g. the U.S.							
Intermediaries	Take Title?	Receive Commission?	Represents More Than One Firm	Marketing Support?	Home or Host Market?	Provides Financing?	Personal Contact Needed?
Licensees							
Agents							
Distributors							
Wholesalers and Retailers							
Import and/or Export Houses							
Brokers							
Factors							
Trading Companies							
Export Salespeople and Import Buyers							

HO 6-3

Selected Licensing Restrictions

	Registration Requirements	Royalty and Fee Patterns	Applicable Tax and Restrictions	Comments
United States	No government approval needed for foreign licensing of technology in U.S., but export controls on certain sensitive technologies apply for U.S. firms.	Freely negotiated. Rated vary, but generally range from 2.5 to 5 percent of net sales.	No controls of limitations on remittances.	Rapid obsolescence of technology has decreased average life of agreements and amount of royalties.
Germany	No government approval necessary for terms of licensing agreements or royalty payments to foreigners.	Royalties often based on per-unit basis of sales. Many agreements fix annual royalties. payable regardless of sales.	Royalties freely remitted. Disclosure fees sometimes charged.	Agreement can outlast patent right for which it was granted.
Italy	No government approval necessary, but royalty payments scrutinized by government.	Determined by commercial considerations and rarely publicized. Finance Ministry specifies level of royalties "acceptable" for tax and exchange purposes.	Royalty remittances subject to exchange control strictures.	Protection of industrial property is weak.
Korea	New Law requires only technology imports be reported to ministry of Finance. Approval automatic after 20 days if no modifications ordered.	Licensees must justify fees above 2 to 3 percent of net sales unless know-how highly advanced. Royalties tax exempt for 5 years.	Government may reject technology imports if deemed low quality, outmoded, or restrict conditions on exports.	New tax rules may discourage local licensees from taking on agreements greater than 3 percent of sales.
Argentina	National Institute of Industrial Technology must approve when licensor owns 49 percent or more of sub. For others, contract need only be registered.	Unlimited by law, but must be in line with market rates. Royalties don't exceed 5 percent of net sales. Cash remittances permitted at FX rate.	Royalty tax of 45 percent applied on following percentages of: technical assistance (60%); patents (80%); and services (100%) not covered in transfer of technology law.	Licensee may not deduct royalty payments as operating expenses. Patents, trademarks should be registered.

Source: Czinkota, M. R. and Ronkainen I. A. International Marketing, Second Edition. Copyright ©1990 The Dryden Press. Tab. 13.1.

Active Soviet Licenses in the United States

Technology	Sold to	Approximate Date
Surgical stapling instruments	U.S. Surgical Corp. 3M	1964 1979
Hydraulic rock crusher	Joy Manufacturing	1969
Pneumatic underground punch "Hole Hog"	Allied Steel & Tractor	1971
Evaporative stave cooling of blast furnaces	Andco Engineering	1972
Aluminum silicon alloy	Ethyl Corporation	1973
Production of hollow ingots by electroslag remelting	Cabot	1973
Flux cored electrodes	Chemetron	1974
Magnetic impact bonding	Maxwell Laboratories	1074
Drug pyrroxan for treating central nervous system disorders	American Home Products	1974
Ethnozin for treating cardiac arrest	DuPont	1974
Electromagnetic casting of aluminum	Kaiser Aluminum Reynolds Aluminum Alcoa	1975
Carboxide insect repellant	American Home Products	1975
In-situ underground coal gasification	Texas Utilities Services, Inc.	1975
Carminomycin and ftorafur anti-cancer agents	Bristol-Myers	1976
Bulat process for titanium nitriding	Multiarc Vacuum Systems	1979
Flash butt welding of large-diameter pipes	J.R. McDermott	1980
Electromagnetic casting of copper alloys	Olin Brass	1980
Cone crusher	Rexnord	1981
Air column separator	Air Products	1981
Medical preparation riocidin	Ciba-Geigy USA	1982
Biodegradable polymer pin for orthopedics	Medco	1982

Source: John W. Kiser, III. "Tapping Soviet Technology," in *Common Sense in U.S.-Soviet Trade*, eds. M. Chapman and C. Marcy (Washington, D.C.: American Committee on East-West Accord, 1983), 107-108.

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EMCs/ETCs: What They Are, How They Work

By Richard Barovick and Patricia Anderson
National Federation of Export Associations

Export intermediaries are the specialized firms that market American products and services abroad on behalf of manufacturers, farm groups, and distributors.

They are generally found to pursue one of two major business strategies or patterns, or a combination of the two. One of these strategies is known as the export management company, the other as the export trading company.

Export Management Companies

The export management company acts as the export arm of one or more U.S. manufacturers, helping to establish an overseas market for the company's products, usually on an exclusive basis.

The management company, therefore, maintains close contact with its clients, and is supply-driven. Relationships with manufacturers are important to the success of this type of company, but close ties with overseas distributors are also a key factor.

Often EMCs use the manufacturer's own letterhead, visit the factory regularly to learn the details of new products, and develop marketing strategies for each targeted country in close cooperation with the producer.

Export management companies may take title to the goods they sell, making a profit on the markup, or they may charge a commission, depending on the type of products they are handling, the overseas market, and the manufacturer-client's needs.

Some export management companies also work on a retainer basis, especially if they are providing significant training and advice to their client or undertaking considerable up-front marketing.

Export Trading Companies

The export trading company, in contrast, is demand-driven and transaction-oriented. It can play many roles, but most often it acts as an independent distributor, linking buyers and sellers to arrange a transaction.

ETCs identify what overseas customers want to buy and work with a variety of U.S. manufacturers to fulfill those requirements.

In some cases, ETCs perform a "sourcing" function, shopping the U.S. market for specific requests from overseas customers. Some firms specialize in this role.

Most export trading companies take title to the products involved, but some work on a commission basis. They keep up with the markets they serve by continual travel, participating in trade shows in the United States and abroad, and working closely with distributors and customers.

Examples of EMCs

International Trade and Marketing Corp., a Washington, D.C.-based EMC, has exclusive agreements with 10 U.S. suppliers of orthopedic equipment and supplies, marketing these firms' products on a worldwide basis, but focusing primarily on developed countries. ITM takes title to 90 percent of the goods it handles, marking them up for resale.

Overseas Operations, Inc., a Redondo Beach, Calif. export management company founded in 1948, handles builders hardware, housing accessories, door closures and locks, and computer software and accessories on a worldwide basis. The company represents a number of U.S. manufacturers on an exclusive basis and manages all aspects of each sale. The products are shipped directly from the manufacturers. Overseas Operations buys products as orders are obtained, making its profit on the markup.

Examples of ETCs

Ultramedic International, in New Hyde Park, N.Y., specializes in medical equipment and supplies, filling orders or sourcing for customers in Latin American markets. In-country agents provide it with the necessary information to submit bids or pursue business, and act as liaisons between Ultramedic and its customers. Because the firm represents many product lines, it usually has several distributors or agents in each country. Ultramedic makes its profit by buying products from the manufacturer at a 15 to 40 percent discount. The firm maintains a warehouse in New Jersey where all export packing and shipping is handled.

Brost International Trading Company, in Chicago, is a demand-driven firm, identifying products in demand and buyers that have purchasing capacity, then lining up U.S. suppliers. It buys and sells a variety of industrial products, including building materials and agricultural equipment, marketing to government and private buyers overseas. Brost has worked often with U.S. engineering companies on projects abroad, including U.S. Agency for International Development (AID) projects. Brost has also developed a sizable market for do-it-yourself products in Europe and Canada. The firm buys from several manufacturers, including 3M Company.

The Meridian Group of Companies, in Los Angeles, has made a specialty of swimming pool equipment. It supplies distributors and end-users with the varying elements of a swimming pool, which are not made by the same manufacturers. These include the filter systems and the underwater lights, two very different product sectors. Meridian, which has been exporting these items for over 40 years, works with several U.S. suppliers in each product group.

The Manufacturer-Exporter Relationship

This relationship is shaped by several variables. In many cases EMCs work under a commission arrangement, getting paid for each sale on a percentage basis, and sometimes including a retainer. Increasingly, however, EMCs, like ETCs, buy products from manufacturers and resell them at a profit. Under both arrangements, the EMC and its clients (U.S. manufacturers) usually share the overseas marketing costs, such as advertising, participation in trade show events, and business travel.

Typically, the export management company will require at least a one-year contract to handle the manufacturer's products, or a specific selection of those products. More often, however, the relation has a three-year contract, since it requires at least six to twelve months to produce significant results. The contract will spell out which products are covered and which markets are to be pursued.

Making the EMC-manufacturer relationship effective requires constructive effort by both parties. Usually, the manufacturers and EMCs will map out a marketing plan for the countries in which they will do business together. For its part, the manufacturer supplies sales promotion materials, product catalogs, and technical data, refers inquiries and orders to the exporter, and keeps the EMC informed on product modifications and company policies. The EMC, on the other hand, will actively promote the products involved in specific markets, working with its sales network, and offering quotations to customers on behalf of the manufacturer.

Export trading companies, because they are demand-driven, work with a variety of manufacturers or suppliers in a specific sector rather than maintaining exclusive relationships with individual producers. However, they often work closely with the same suppliers over time, having recognized what items their overseas customers are willing to buy. They become specialists in the products they buy for resale abroad.

Characteristics of Export Intermediaries

Through research undertaken by the National Federation of Export Associations (NFEA) during the past few years, a typical company profile has evolved. (The NFEA is the national association representing the EMC/ETC industry.) Below are some of the characteristics that EMCs/ETCs exhibit.

In size, most of these companies are small, with employee rolls ranging from 2 to 50 people.

'Trading Company Sourcebook'

This article was extracted from *Trading Company Sourcebook*, published by the National Federation of Export Associations, the national-level organization representing the export intermediary industry. It was prepared under a grant program funded in part by the Economic Development Administration, U.S. Department of Commerce.

This new publication is "designed to assist companies that already are acquainted with the export intermediary industry as well as those just beginning to explore how to work with an export management or trading company, or how to establish one," according to Stanley W. Epstein, National Federation President.

"*Trading Company Sourcebook* is designed to respond to the many inquiries the Federation has received regarding the export intermediary industry," said Epstein. "It will both inform users about the industry and assist them in locating U.S. export management and trading companies (EMCs/ETCs) that have the specific experience they require."

The new volume is a Yearbook and a directory of firms belonging to the National Federation of Export Associations.

The Yearbook section provides industry information with specific examples of how export management and trading companies operate. It also examines the role of EMCs and ETCs in several fast-growth export sectors, such as medical equipment and supplies and processed foods.

The Directory section provides an alphabetical listing of EMCs and ETCs, along with an index of companies by product specialization for easy use by U.S. manufacturers and others interested in identifying firms that are active in a particular industry.

A model contract that can help guide the relationship between export intermediaries and the manufacturers with whom they work is included as well.

Copies of *Trading Company Sourcebook* are available for $18 from NFEA, 4905 Del Ray Ave., Suite 302, Bethesda, Md. 20814 (only checks or money orders are accepted).

More than 60 percent of export intermediary respondents to a 1989 U.S. Department of Commerce survey stated that they employ six or fewer persons. Nearly 15 percent, however, reported employing 21 or more persons.

In gross revenues, the firms are all over the spectrum,

but tend to be smaller rather than larger. Approximately a third (34 percent) of the firms surveyed by the Commerce Department reported earning less than $1 million a year, with another third (34 percent) earning between $1 and $5 million annually. Yet 11 percent of the firms surveyed report annual revenues between $10 and $50 million, and a few firms report earning as much as $500 million or more each year.

AJC International, Inc., in Atlanta, Ga., is one of the few larger firms. It is an exporter of food products worldwide and has reported earnings of around $200 million annually.

What's more, while the size of export management and trading companies tends to be small, the size of their "principals," the manufacturers whose products they sell, can be large or small.

One export management company specializing in value-added food products, for example, markets canned fruits and vegetables produced by Fortune 500 manufacturers in specific countries. In this case, the EMC has had a strategically-placed network in the Far East and the Middle East that is a more cost-effective approach to these markets than the large producers could maintain themselves. The EMC enjoys the benefit of spreading the costs of a market presence among several U.S. manufacturers.

Export intermediaries are entrepreneurial in style and performance, reflecting their small business profile. Most of them maintain active networks of agents and distributors overseas, and some maintain their own overseas offices and warehouses.

Approximately one-quarter of export intermediaries have at least one overseas office, including those of affiliates, according to the Department of Commerce survey, and many firms have more.

Intertrade Services, an intermediary in Ventura, Calif., maintains an office in Indonesia, thus making it possible to pursue major projects on behalf of American manufacturers.

Moises & Azar International Corp. in Kenner, La., is an 11-year-old export management company that specializes in Mexico. It has offices in Mexico City, Veracruz, Merida, and Cancun, and warehouses in several of these locations.

Reflecting their entrepreneurial nature, some intermediaries import as well as sell foreign-made products in third countries.

Alkorin, Inc. in Los Angeles has imported products from Russia and Armenia for sale in the United States.

Crown Pacific International, in Irvine, Calif., uses barter, trading goods for goods, to conduct some business in the former Soviet republics. It sells the republics' products wherever it can find buyers, both in the United States and other overseas markets.

In product range, export intermediaries may handle a narrow group of items in a single sector, such as medical equipment and supplies, aircraft spare parts, or clothing, or a much more varied cluster of items, such as industrial machinery in several sectors.

Most intermediaries, however, achieve economies of scale through specialization, which makes it possible for them to build and operate effective networks of business affiliates and to acquire expertise in specific products and markets.

Corvus Group, Inc., a Miami, Fla., export trading company, for example, focuses its efforts on fulfilling "turnkey" orders, supplying equipment and products for entire hospitals, clinics or other facilities. The company utilizes its own library of catalogs and product literature to complete these orders.

Within an industry sector, some firms may focus on high-tech products that require a lot of expertise, while others handle lower-tech products that require little follow-through or maintenance.

International Hospital Supply, in Tarzana, Calif., handles the full range of medical equipment and supplies and emphasizes the importance of followup and service, especially for high-tech items.

In contrast, Ultramedic in New Hyde Park, N.Y., deals in high-tech medical items that do not require training and after-sales service.

In overseas markets, the intermediaries show considerable diversity of focus, some specializing in countries or regions and others operating on a worldwide basis.

Advanced Technology International Corp. in Chicago sells automotive and industrial items in as many as 40 markets.

Montero International Inc., a Los Angeles-area exporter, sells motion picture and television production equipment throughout Latin America.

ITBR, Inc., in Austin, Tex., is an export trading and management company that focuses on Mexico, exporting a range of products from medical equipment to auto parts, food processing equipment, and computers.

The backgrounds of EMCs/ETCs vary, but some recurring elements can be found:

Some export intermediaries are family-owned businesses, and are sometimes passed from parents to children.

First Gulf International, Inc., in Houston, Tex., is an export management company owned and operated by the four Hamouie brothers with the help of a few employees and some part-time salesmen.

The Joseph F. Risso Company in Scottsdale, Ariz., is a 55-year-old export management and trading company that is run by its founder and his daughter, Mary Ann Risso, who is now president of the firm.

Other export trading and management firms are run by a team of experienced exporters, each bringing a particular expertise to the business.

Tradex International, Inc., a Newport Beach, Calif., export trading company, has gathered a group of specialists with varied geographical and technical experience, enabling the firm to operate worldwide and in several product areas.

Some intermediaries are owned by larger companies. Certified Growers of (CA) International (CERGROW), in Los Angeles, is a division of a 23-year-old California

wholesale company which carries an inventory of approximately 40,000 different food and grocery items.

In addition to conducting overseas marketing for its own extensive line of U.S. branded products, Certified Growers has acted as an export management company for Sisco, a major U.S. food processor, Permi Rice, and to some extent Del Monte.

Exporters often make use of existing links from earlier experience, including members of ethnic groups that have networks in their country of origin.

Chula Lumber Corp., a National City, Calif., export trading company, exports almost exclusively to Mexico. Company president Trinidad Gonzalez and his family come from Mexico and have maintained contacts there. Chula employs its knowledge of the Mexican culture and language as a competitive resource.

Many individuals have worked in the export departments of large manufacturers.

Before starting Corbin & Company, an export management company in Minneapolis, Minnesota, Terry Corbin worked for the international division of Medtronic, an orthopedic products manufacturer.

While many export intermediaries served an apprenticeship with another exporter, others started out as domestic wholesaler-distributors and then went into export.

Marco International, in Little Rock, Ark., for example, was established in 1987 by Vernon Markham to export building materials and consumer goods. Markham earlier ran United Pacific Trading Co., a joint venture of U.S. and Asian firms that focused mostly on wood products.

West Coast Wholesale, in North Hollywood, Calif., is an export trading company that sells medical supplies to Hungarian buyers The company began as a U.S. distributor of office and computer supplies, working closely with the 3M Company. Then, a contact working for one of the biggest Hungarian medical distributors asked for a quote on some 3M medical supplies. Now the company has established extensive Hungarian contacts and does business with numerous medical supplies distributors there.

Increasingly, the export intermediary has become a risk-taker, taking title to goods and working with banks, credit risk insurance firms, and government agencies to provide the capability required in carrying foreign receivables. As a result, export management and trading companies have become more frequent users of federal and state government export finance programs.

In California, for example, the state's Export Finance Office has worked actively with export intermediaries.

In Washington, the Export-Import Bank's working capital guarantee program has been used by export management and trading companies.

Intermediaries have also been users of the Small Business Administration's export revolving line of credit program.

Growing use of countertrade operations (requiring an exporter to accept payment in goods as a condition of sale) has also been a stimulus to greater activity by export intermediaries, since EMCs/ETCs offer the benefit of a worldwide network through which these countertrade goods can be converted to hard currency.

In Eastern Europe and the former Soviet republics, where countertrade is especially common, one Maryland intermediary regularly accepts goods as payment, selling these products in the United States if possible, but often reselling them to other overseas markets.

The U.S. export intermediary pattern contrasts sharply with that of Europe and Japan, where trading firms are often quite large and are heavily engaged in both exporting and importing.

In the United States the typical export trade intermediary is a specialized exporting firm that does not do much importing (through exceptions can be found).

Government Recognition

Government recognition of the unique value of trade intermediaries has helped create national awareness of these companies within the business community and among state governments and other official supporters of export development.The media has also increased its coverage of the industry.

The 1982 Export Trading Company Act adopted regulatory changes in the antitrust and banking spheres to encourage greater use of intermediaries.

The U.S. Commerce Department maintains an Office of Export Trading Company Affairs to promote the use of EMCs/ETCs, working closely with the export intermediary industry.

The Small Business Administration and state governments have also focused on promoting the use of intermediaries.

Encouraged by the 1982 Act and the Commerce Department, the EMC/ETC function is now being developed by industry associations and several public sector agencies. For example, the New York-New Jersey Port Authority operates an ETC subsidiary, XPORT.

For more information on U.S. government programs for EMCs/ETCs, contact:

The Office of Export Trading Company Affairs
International Trade Administration
U.S. Department of Commerce
Room 1800 A
Washington, D.C. 20230
(202) 377-5131
or
Your Commerce District Office
(See listing on inside back cover)

HO 6-6

Personal and Professional Qualifications

Personal Qualifications. The essential personal qualifications of an export sales-man and import buyer include a good personality, reliability, sociability, tact and courtesy, tenacity, and accuracy.

Personality. A foreign representative should have a good personality; his character, disposition, temperament, and well-groomed appearance should mirror his personality and demonstrate his aptitude for his job. Self-control is a necessity because the restraint imposed by home ties or convention is absent. Habits at all times must be moderate. Vexations, delays, and tensions should not result in ill temper.

Reliability. The export salesman and the import buyer, of course, should be reliable and should have sound judgment. Often thousands of miles away from the home office, the foreign representative must be capable of standing "on his own." Decisions must be his responsibility.

Sociability. He should possess good social qualities. Export salesmen and import buyers, as is generally true of all business representatives, should be good "mixers". The man who draws a close line of color, race, or creed is at one handicapped and his intellect warped by prejudice. In other countries there are people whose cultures, benefits, and traditions are different from ours. A foreign representative should be capable of associating with these people as his equals. A superiority complex is apt to cause resentment and to result in failure.

Tact and Courtesy. He should be tactful and courteous, and this implies a willingness to consider the point of view and feeling of other people. This comment applies particularly to the sales representative. Much has been said about the courtesy that custom decrees in foreign countries, while at the same time too little emphasis has been placed upon the importance of tact. An overzealousness in courtesy is quite conceivable, but the tactful person is at all times in a comfortable and even enviable position. Social customs that engender the display of courtesy on the part of foreigners may be gradually acquired by the tactful visitor from alien shores. An overeagerness to acquire and conform to the requirements of foreign social usage has at times led to submerged ridicule.

Tenacity. The exporter's choice frequently goes to the tenacious individual rather that to the temperamental one. Particularly in export selling, results ate often long in coming and without that courage and tenacity of purpose to be found in the "plugger", there is bound to be discouragement.

Accuracy. Accuracy in the many details of business is essential everywhere, and it is particularly important in export selling and import purchasing. Errors, even though slight, are bound to cause irritation and misunderstanding. An appreciation of the importance of this characteristic will make the sales representative exacting in the transmission of orders, in making promises, and in other activities that call for accuracy. Care taken at this contact point between an exporter and his overseas customers will assuredly facilitate the maintenance of goodwill. Accuracy is equally as important for the import buyer. His ability to size up a situation affecting the supply of an article that he seeks, to get at prices and at the delivered costs of goods, bear a decided relation to the profitability of purchasing the articles in question.

Professional Qualifications. Another group of qualifications may be noted as indicating what foreign representatives should know, rather than what they should be.

Knowledge of Product. It is obviously important that any salesman should possess a thorough knowledge of his product. Because of the distance that an export salesman may travel, it is particularly important that he be thoroughly conversant with every aspect of the product he is selling - its technical description, its utility, its assembly, and its operation. Frequently it is found advisable to train such men in the production branch o the business. in order they may acquire this information.

If knowledge of product is essential for a salesman, it is just as important for a buyer. A buyer must be capable of judging the quality and marketability of products. This examination will not stop with one line or one brand but may extend over many. Whereas the salesman already possesses the produc. and goes out to get business, the buyer's task is to procure a product that will in turn result in business for his firm. One is inclined to say that, proportionately, knowledge of merchandise is even more essential for import buyers than for export salesmen.

Knowledge of Country. Knowledge of the country to be visited is an important asset. Preference is given by many exporters and importers to persons who have previously traveled abroad, especially in the countries to which they are to be sent. The salesman or the buyer who has not made such trips, however is not barred, as other qualifications are of equal or greater importance. Considerable knowledge of a foreign country may be obtained through study, although this cannot be considered the equivalent of actual experience.

Knowledge of Language. Knowledge of the language of the country to be visited is often a prime qualification for business travelers. It is highly desirable for a representative who is going abroad to be able to converse in the language of the country. The employment of interpreters is a practice now frowned upon. Especially in selling, the sales appeal frequently loses its effectiveness when translated and delivered by an interpreter. Buyers connected with importing firms in many countries, however, may pride themselves on their knowledge of English, and therefore, prefer to converse in that language.

English is widely employed in trading circles all over the world. It is spoken in the United Kingdom and all British colonies and dominions, including such vast areas as Canada, Australia, New Zealand, and South Africa. Furthermore, English is the language used in Far Eastern trade generally, and it is widely employed in countries of northern Europe. French, Spanish, and German are usually considered as the balance of the commercial language of the world, except that Portuguese is necessary in the case of Brazil and Portugal.

Americans have in the past been considered unwilling to acquire the knowledge of a foreign language, but this attitude has been changing. A strong impetus to the study of Spanish and Portuguese was initiated by conditions arising from World War II.

Knowledge of Current Events. When buying or selling in foreign land where the approach is tedious and slow, conversation is likely to shift to andy subject except the business on which the representative is bent. Many topics that come up for discussion relate to problems and conditions existing in the home country of the traveler. The Free World's industrial. commercial, and financial organization and development are closely followed by foreign businessmen. Political and international problems are likewise of interest. It becomes evident, therefore, that the purchase or sales representative who is traveling in foreign lands should be fully informed on such matters. His presentation of the pertinent facts involved in questions such as these may have a decided bearing upon the esteem in which his country, as a nation, is to be held by foreigners. When abroad, the traveler represents his nation as well as his house. Obviously, the education, experience, reading, breadth of interest, and knowledge o the export salesman or import buyer are o importance in surveying his qualifications.

This list of qualifications can be expanded with the help of Stefan J. Rundt, international marketing consultant, who adds the following:[1]

1. Tolerance
2. Flexibility
3. Humility
4. Justice and fairness
5. Adjustability to varying tempos
6. Curiosity and interest
7. Liking for others
8. Ability to command respect
9. Ability to integrate.

[1]Stefan J.Rundt, "When in Rome," *The Management Review* (New York City: American Management Associate, February, 1960).

Source: Kramer, Roland L. International Marketing 1970, Text Book. pp. 472-475.

HO 6-7

FREIGHT FORWARDING

What is a Foreign Freight Forwarder?

A foreign freight forwarder brings together all the loose ends that must be coordinated if products are to be shipped to foreign buyers in the course of our national/international trade.

They are both small and large firms as fit, willing, and able to provide the expert know-how and experience needed to arrange for the movement of cargo from inland points to foreign destinations with maximum speed and efficiency and the least cost to the exporter. In the U.S., they have been licensed by the Federal Maritime Commission.

Acting as agent of the exporter, the forwarder must be able to advise on the myriad government regulations affecting foreign trade, as well as the import rules of various foreign countries.

The freight forwarder must have a detailed knowledge of his ports and their facilities and be able to advise the shipper as to the best port of shipment for the fastest transit time. He prepares and/or checks on various shipping documents and necessary licenses. He books or confirms space on the ocean vessel, and arranges transportation of cargo to shipside by rail or truck, he arranges cargo insurance on behalf of the exporter. He, the freight forwarder also pays ocean freight for his principal and generally orchestrates the entire movement of goods from point of origin to seaboard and beyond in the most efficient and cost-saving manner.

The foreign freight forwarder must have an intimate knowledge of transportation techniques, both their possibilities and their limitations, and has to know how to advise and act in the best interests of his exporter.

Often called the "Architect of Transport," the forwarder performs an essential role in America's constantly growing foreign trade.

An exporter's needs in regards to a freight forwarder may vary depending on the sophistication of the company's export department. The lack of knowledge can be compensated with a knowledgeable, automated, stable freight forwarder.

A freight forwarder should be able to provide the type of consulting services that will give the exporter information regarding his cargo from the time it leaves Poland until it reaches its final destination. Your freight forwarder should be able to advise on government regulations as well as import rules and regulations in the country to which you are importing. Knowledge of all ports, their facilities, and how to get your cargo to its destination in the shortest time should be the main concern of your freight forwarder. Your freight forwarder prepares and review various shipping documents and necessary licenses. He also books or confirms space on ocean vessels. Your freight forwarder orchestrates the entire movement of goods from point of origin to seaboard and beyond in the most efficient and cost saving manner.

Source: Passport to Export, St. Clair Community College.

Using a freight forwarder who provides (non-vessel operating common carrier services) provides you with the simplification of having one contact for door-to-door shipping. A freight forwarder also can provide the capacity to provide service on less-than-container loads that may be consolidated, thereby giving your shipment full container status at an economic rate. Your freight forwarder should also be able to handle Marine insurance, helping you decide how much and what type of insurance best suits your needs.

GLOSSARY

Foreign Freight Forwarder — This group is an extension of the shipper. They are the middleman between the shipper and the freight carrier.

The freight forwarder can do all of the work for a shipper, i.e., from quotation to the goods arriving at the foreign port. Or, the forwarder can simply screen documents, issue the ocean bill of lading, and trace the shipment. A shipper will have to decide how involved he wants the forwarder to be involved in his business.

Steamship Lines — There are two basic methods of doing business with steamship carriers; full ocean container loads or less than container loads.

Full Ocean Container Loads are shipments that are loaded at the shippers' door and delivered by truck or rail to the port for loading on a vessel.

Less than Container loads are shipments that are sent to freight consolidators who load several shippers' cargo into an ocean container and deliver the container to the port for loading on a vessel.

The steamship line's per ocean container is $500.00. Therefore, it is important that the shipper obtain Ocean Cargo Insurance to insure his shipments properly.

Ocean Freight Rates can be negotiated with the shipper or if the shipper chooses, the freight forwarder on behalf of the shipper.

EXPRESS MAIL CARRIERS/COURIERS:
U.S. Post Office Express Mail
Federal Express
United Parcel Service (documents only)
DHL

Air Freight Lines — The air freight company's liability per shipment is to be determined. Most often, air shipments are handled by an air freight forwarder who is also a freight consolidator. The forwarder sets are freight rates, screens all documents and arranges for the shipment to be placed on a certain flight.

Locating Foreign Representatives and Buyers

A company that chooses to use foreign representatives may meet them during overseas business trips or at domestic and international trade shows. There are other methods that are effective and can be employed without leaving the home. The availability of good secondary sources of information does not imply that travel is not necessary; however, a company can save time by first doing homework. These methods include use of banks, service organizations, and publications.

Contacting and Evaluating Foreign Representatives

Once the company has identified a number of potential agents or distributors in the selected market, it should write directly to each. Just as the firm is seeking information on the foreign representative, the representative is interested in corporate and product information on the firm. Therefore, the firm should provide full information on its history, resources, personnel, the product line, previous export activity, and all other pertinent matters. The prospective representative may want more information than the company normally provides to a casual buyer. The firm may wish to include a photograph or two or plant facilities and products.

A firm should investigate potential representatives carefully before entering into an agreement. To evaluate the qualifications of potential overseas agents and distributors, the U.S. firm needs to know the following information:

- Current status and history of the firm, including the background on the group's principal officers.
- Personnel and other resources (salespeople, warehouse and service facilities, etc.).
- Sales territory that the representative covers.
- Methods of introducing new products into their sales territory.
- Names and addresses of firms that the agent or distributor currently represents.
- Data on whether the representative can meet special requirements of the company.

A company may obtain much of this information from business associates who currently work with foreign representatives. In addition, the company may wish to obtain at least two supporting business and credit reports to insure that the distributor or agent is reputable. By using a second credit report from another source, the firm may gain new or more complete information. Reports are available from commercial firms and from the U.S. Department of Commerce's World Traders Data Reports (WTDR) program.

A WTDR is a background report prepared on a specific foreign firm by the US&FCS commercial officers overseas. WTDR's give such information as the type of organization, year established, relative size, number of employees, general reputation, territory covered, language preferred, product lines handled, principal owners, financial references, and trade references. Each also contains a general narrative report by the U.S. Commercial Officer conducting the investigation concerning the reliability of the foreign firm. Reports are not available for all countries. A fee is charged per report. Request forms and further information on this service are available from any US&FCS District Office. There is an office in Warszawa.

Commercial firms and banks are also sources of credit information on overseas representatives. They can provide information directly or from their correspondent banks or branches overseas. Directories of international businesses may also provide credit information on foreign firms.

If the company has the information necessary, it may wish to contact a few of the foreign firm's clients to obtain an evaluation of the representative's character, reliability, efficiency, and past performance. It is important for the U.S. firm to learn about other product lines that the foreign firm represents to protect itself against possible conflicts of interest.

Once the company has established correspondence with foreign representatives, it may wish to travel to the foreign country to observe the size, condition and location of offices and warehouses. In addition, the company should meet the sales force and try to assess their strength in the marketplace. If travel to each distributor or agent is difficult, the company may decide to meet with them at trade shows.

Negotiating an Agreement with a Foreign Representative

When the U.S. company has found a prospective representative that meets its requirements, the next step is to negotiate a foreign sales agreement.

The potential representative is interested in the company's pricing structure and profit potential. Representatives are also concerned with the terms of payment, product regulation, competitors and their market shares, the amount of support provided by the firm (sales aids, promotional material, advertising, etc.), training for sales and service staff, and the company's ability to delivery on schedule.

The agreement may contain provisions that the foreign representative:

1. Not have business dealings with competitive firms (this provision may cause problems in some European countries.
2. Not reveal any confidential information in a way that would prove injurious, detrimental, or competitive to the firm.
3. Not enter into agreements binding to the firm.
4. Refer all inquiries received from outside the designated sales territory to the firm for appropriate action.

To ensure a conscientious sales effort from the foreign representative, the agreement should include a requirement that the foreign representative apply the utmost skill and ability to the sale of the product for the compensation named in the contract. It may be appropriate to include performance requirements regarding a minimum sales volume and an expected rate of increase. In addition, the firm should obtain legal advice when preparing and entering into any foreign agreement. The exporter should be aware of domestic and foreign laws that govern such contracts. In some countries national laws give extraordinary protection to the representative at the expense of the exporter and may make termination of the contract difficult or costly.

HO 6-9
(TP 6-10)

DATA SOURCES FOR LOCATING FOREIGN INTERMEDIARIES

Distributor inquiries

U.S. Department of Commerce
- New Product Information Service
- Trade Opportunities Program
- Foreign Traders Index
- Agent/Distributor Service
- World Traders Data Report

Trade sources
- Magazines, journals
- Directories
- Associations
- Banks, advertising agencies, carriers

Field sales organizations

Customers

Direct mail solicitation/contact of previous applicants

Independent consultants

Source: Czinkota Michael, R. Rivoli Pietra, Ikka A. Ronkainen. International Marketing, Second Edition. Copyright ©1990, Dryden Press.

HO 6-10
(TP 6-11)

SELECTION CRITERIA FOR CHOOSING AN INTERNATIONAL DISTRIBUTOR

Characteristics	Weight (0-10)	Rating (1-10)
Goals and Strategies		
Size of Firm		
Financial Strength		
Reputation		
Trading Areas Covered		
Compatibility		
Experience		
Sales Organization		
Physical Facilities		
Willingness to Carry Inventories		
After-sales Services Capability		
Use of Promotion		
Sales Performance		
Relations with Local Government		
Communications		
Overall Attitude		

Source: Franklin R. Root, Foreign Market Entry Strategies (New York: American Management Association, 1983),74-75. Printed in International Marketing, Second Edition, Dryden Press 1990.

Elements of a Distributor Agreement

A. *BASIC COMPONENTS*

1. Parties to the agreement
2. Statement that the contract supersedes all previous agreements
3. Duration of the agreement (perhaps a three- or six-month trial period)
4. Territory:
   a. Exclusive, nonexclusive, sole
   b. Manufacturer's right to sell direct at reduced or no commission to local government and old customers
5. Products covered
6. Expression of intent to comply with government regulations
7. Clauses limiting sales forbidden by U.S. Export Controls or practices forbidden by the Foreign Corrupt Practices Act

B. *MANUFACTURER'S RIGHTS*

1. Arbitration
   a. If possible, in the manufacturer's country
   b. If not, before International Chambers of Commerce or American Arbitration Association, or using the london Court of Arbitration rules
   c. Definition of rules to be applied (e.g., in selecting the arbitration panel)
   d. Assurance that award will be binding in the distributor's country
2. Jurisdiction that of the manufacturer's country (the signing completed at home); if not possible, a neutral site such as Sweden or Switzerland
3. Termination conditions (e.g., no indemnification if due notice given)
4. Clarification of tax liabilities
5. Payment and discount terms
6. Conditions for delivery of goods
7. Nonliability for late delivery beyond manufacturer's reasonable control
8. Limitation on manufacturer's responsibility to provide information
9. Waiver of manufacturer's responsibility to keep lines manufactured outside the United States (e.g., licensees) outside of covered territory
10. Right to change prices, terms, and conditions at any time
11. Right of manufacturer or agent to visit territory and inspect books
12. Right to repurchase stock
13. Option to refuse or alter distributor's orders
14. Training of distributor personnel in the United States subject to:
    a. Practicality
    b. Costs to be paid by the distributor
    c. Waiver of manufacturer's responsibility for U.S. immigration approval

(continued)

C. DISTRIBUTOR'S LIMITATIONS AND DUTIES

1. No disclosure of confidential information
2. Limitation of distributor's right to assign contract
3. Limitation of distributor's position as legal agent of manufacturer
4. Penalty clause for late payment
5. Limitation of right to handle competing lines
6. Placement of responsibility for obtaining customs clearance
7. Distributor to publicize designation as authorized representative in defined area
8. Requirement to move all signs or evidence identifying distributor with manufacturer if relationship ends
9. Acknowledgment by distributor of manufacturer's ownership of trademark, trade names, patents
10. Information to be supplied by the distributor:
    a. Sales reports
    b. Names of active prospects
    c. Government regulations dealing with imports
    d. Competitive products and competitor's activities
    e. Price at which goods are sold
    f. Complete data on other lines carried (on request)
11. Information to be supplied by distributor on purchasers
12. Accounting methods to be used by distributor
13. Requirement to display products appropriately
14. Duties concerning promotional efforts
15. Limitation of distributor's right to grant unapproved warranties, make excessive claims
16. Clarification of responsibility arising from claims and warranties
17. Responsibility of distributor to provide repair and other services
18. Responsibility to maintain suitable place of business
19. Responsibility to supply all prospective customers
20. Understanding that certain sales approaches and sales literature must be approved by manufacturer
21. Prohibition of manufacture or alteration of products
22. Requirement to maintain adequate stock, spare parts
23. Requirement that inventory be surrendered in event of a dispute that is pending in court
24. Prohibition of transshipments

Source: *"Elements of a Distributor Agreement," Business International,* March 29, 1963, 23-24. Reprinted with permission from Business International. Some of the sections have been changed to reflect the present situation.

Rediplant*

Early in 1981 John Bryant, owner of a British timber products firm, was asked by his close friend Martin Nievelt whether he would consider becoming a commissar[1] of Rediplant NV—a company being formed to exploit the new Rediplant method for packaging bulbs. Martin also wanted John's opinion on the number of sealing machines that should be purchased in advance of the first full season of rediplant sales. This was a particularly difficult decision for him, as there was little guide as to how much they would sell and most of the packaging would have to be carried out during the month of August.

Martin Nievelt and Walter Praag were owners and joint Managing Directors of Hans Praag & Co., an old established Dutch bulb exporter based in Hillegom, Holland. Before the Rediplant development, Praag had concentrated on bulb sales to France, the United Kingdom, Switzerland and Germany. They sold to nurserymen, wholesales, and large retailers as well as directly to the public through mail order catalogues. There were two seasons each year. The larger was for spring bulbs which were lifted from the bulb fields and distributed in the autumn for planting up to mid-winter. This season represented 70 percent of the bulb market and covered tulips, crocuses, narcissi and hyacinths.

Recent performance of firms in the bulb business had been poor and there had been numerous failures over the previous two years. The 600 exporting houses all belonged to an industry association and argued the need to hold price levels, but competition among them resulted in continual margin cutting. Praag had recorded losses both years, mainly because of low response to their mail order catalogues, attributed by Martin Nievelt to cold, wet weekends that discouraged customers from thinking about gardening. While substantial profits could still be made in a good mail order season, the response rates had been dropping at an average rate of 8 percent per year. The development of the Rediplant system therefore came at a particularly opportune time and gave Praag an opportunity to differentiate its product and increase its margins. Praag decided to withdraw from the direct mail order side of the business and concentrate on building the broadest possible sales of Rediplant packed bulbs. Sales of the mail order list, moreover, would provide finance for the new effort and avoid surrender of ownership interest which was usually required in order to obtain long-term bank lending for small private companies.

The French, German, and Swiss mailing lists were sold to Beinum & Co. late in 1980. Beinum was the largest Dutch bulb merchant with a turnover around 100 million guilders (Fl. 100m) and a mailing list of 5 million catalogues.[2] Praag's United Kingdom mail order list and the U.K.

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*Copyright 1984 by Kenneth Simmonds (revised).

[1] Commissars of Dutch corporations are outside directors appointed by the shareholders to oversee the employee directors. They have a number of specific powers and their consent must be obtained for all borrowing by the company.

[2] The standard abbreviation for a Dutcher guilder or florin is "Fl." Exchange rates were £1.00 (U.K.) = Fl. 4.30, $1.00 (U.S.) = Fl. 3.00.

Sutcliffe were moving into the bulb market as an extension of their traditional seed activities and the agreement provided for Praag to supply all Sutcliffe's requirements for Dutch bulbs, while retaining the right to go directly to a selected list of retail chains and large stores in the United Kingdom.

Development of the Rediplant System

The idea for Rediplant was first conceived in november 1979 by Walter Praag, who concentrated on the engineering and production side of the business, leaving the commercial side to Martin Nievelt. (See the appendix at the end of the case for a chronology of Rediplant development.) Rediplant was basically a transparent plastic strip molded to hold bulbs in equally-spaced blisters open at the top and bottom. It was designed as a usage container that could be planted directly in the soil without removing the bulbs, giving them protection from frost, birds, rodents and slugs, and enabling the bulbs to be easily retrieved for planting in subsequent seasons.

Walter Praag explained the development in this way:

I got the idea at the end of 1979 and aimed only to make our competitive position easier and to solve planting problems for the buyer. We ran trials and found that it made not only for easier planting but also gave protection and a better flower, though it was not invented for that purpose. We tested a great quantity with a sensitive control test and the packaged bulbs showed up better than bulbs planted by hand. We limited out tests to hyacinths, tulips, narcissi, crocuses and gladioli, because the other have extra difficulties for packaging and these are the main selling items. With gladioli we had some trouble and I had to redesign the pack as the sprouts came out o the side of the bulb rather than at the top. When we told people the names of our new pack was Rediplant many remarked that it was not a very good name—but minutes later they would all use the name without any prompting. We decided it must be a very good name.

The bulbs were packed automatically into previously formed plastic strips formed plastic strips which were then sealed and fitted into a cardboard sleeve printed with details of the bulbs and planting instructions. After considerable experimentation the new pack was ready for launching and in May 1980 a vacuum forming machine was purchased to make quantities of the strips. At this stage the pack was comparatively crude, with a single colored cardboard sleeve which totally enclosed the plastic strip which was in turn stapled together to hold the bulbs.

Mr. Nievelt did his own market research by asking friends, acquaintances and the general public what they thought of the packs and if they would buy them. On his frequent sales trips to England, for example, he asked customers in garden centers and large stores he visited whether they would buy the packs and they all said they would. The packs contained six tulips with a suggested retail price of £1.30 as against a price of £1.00 for similar loose bulbs. Nievelt also asked retailers in Britain what they thought of the packaging. He recalled:

Large retail chains, Woolworths, Boots, Debenhams and John Lewis liked it and after a while the larger centers would say that they would buy it. Small centers and garden stores, however, generally said they did not like Rediplant. They gave few reasons but they seemed worried that it would mean other types of stores would find it easier to sell bulbs.

Martin also persuaded three different outlets to test market the strips—a store on a U.S. air force base at Woodbridge, a seedshop in Ipswich and a garden center at Ramsey, Essex. Each received one hundred strips, without charge, and each quickly sold the entire assignment at £1.30 each.

Rediplant packaging was next featured in Praag mail order catalogues for spring bulbs sent out in autumn 1980. These were mailed to some 300,000 customers in Britain, France and Germany at a cost including postage of £0.20 (or equivalent) each. Prices for a Rediplant package of six bulbs were set about 30 percent below the catalogue prices for a standard quantity of 10 loose bulbs, making the price for a Rediplant bulb 15 percent higher than an equivalent loose bulb. Rediplant packaging appeared on the cover, and the catalogue started with a two-page spread outlining the Rediplant system and offering a 200 percent guarantee to replace every non-flowering Rediplant bulb with two new bulbs. The spread also showed how Rediplant strips could be planted in evenly spaced rows or in cartwheel or zigzag patterns. Walter Praag commented that this sort of thing seemed to appeal particularly to the German market, which was also much more concerned with rodent and insect damage than other nationalities. He thought the British tended to be keener gardeners and more knowledgeable about bulbs, while many more potential customers in France and Germany would avoid buying loose bulbs that they did not understand, or else buy some and plant them upside down. With Rediplant packages these customers would find planting much easier. Praag's experience had been, too, that the British tended to be much more price conscious than the others, while the French tended to identify value with the price charged.

As orders began to come in during the early winter months, Praag was very encouraged by the high proportion of Rediplant sales are shown in the table below.

Examination of 160 U.K. orders at random showed the average order for Rediplant to be £8.00, representing on average 50 percent of the customer's total order.

Country	Catalogues Posted	No. of Orders Received	Average Order Size
U.K.	150,000	8,056	£14.00
France	101,000	5,581	£20.80
W. Germany	50,000	2,091	£21.80

% of Total Bulbs Ordered in Rediplant Packs

	Tulips	Hyacinths	Narcissi
U.K.	18	20	10
France	27	32	13
W. Germany	44	39	39

Walter Praag continued work on the Rediplant design. The cardboard sleeve was redesigned with full color pictures of the blooms and better instructions, and the strips were made narrower

and extended to include seven bulbs rather than six in a new pack measuring 40 centimeters. Martin Nievelt thought this might discourage price comparison with loose bulbs sold in dozens. *Exhibit 1* shows these new strips on the display stand.

Exhibit 1
Rediplant Display Stand

Assortment 180s

An exclusive new pre-assembled Assortment for You!

112	packs of tulips in 14 varieties 7 bulbs per pack
24	packs of hyacinths in 4 varieties 5 bulbs per pack
12	packs of narcissi in 2 varieties 5 bulbs per pack
32	packs of crocus in 4 varieties 14 bulbs per pack
180	packs in 24 well-chosen varieties

Floor space:	15" X 33"
Height display:	63"
Size display poster:	31 1/2" X 18 1/2"
Weight case:	59 lbs.

This display offers an easy and fast set-up with a minimum of floor space

Advantages:

REDIPLANT is unique (patent pending)
Honest presentation in see-through packs
Optimal ventilation preserves the quality of the bulbs
Packs are delivered on pegs, saving labour in setting up display (except assortment 180 and 90)
REDIPLANT has been successfully tested
Over a century of successful bulb-growing experience guarantees a high quality product
Your Department as well as the Dutch Department of Agriculture inspects all bulbs before they are exported

For sales through retail outlets, special units were designed containing 180 strips with sire pegs for each six strips. These pegs could be fitted onto pegboards or specially designed Rediplant display stands for floor or counter displays. The mix of varieties for the units was based on a statistical analysis of the historical proportions of bulb sales and would not be varied for individual orders. The unit contained 112 strips of tulips in 14 varieties, 24 strips of hyacinths in 4 varieties, 12 strips of narcissi in 2 varieties and 32 strips of crocuses in 4 varieties. Large display posters illustrating the planting of Rediplant strips were designed to accompany each unit, which would be boxed with or without a display stand as required.

Patents for the Rediplant system of packaging were applied for and obtained in the Benelux countries, the United Kingdom, France, Germany, Canada, and the U.S.A. This patent was granted for a 'usage' package and competitors would find it difficult to break through simply by altering the design. Moreover, anyone wishing to compete would find it essential on a cost basis to package in Holland, rather than to ship, pack, and then redirect the bulbs—and Praag was sure that they would be advised by the Dutch Customs if their patent was infringed.

Partnership with Van Diemen Bros.

In late 1980 Praag was approached by Van Diemen Bros., who had seen the packages and wanted to explore ways by which they, too, could use the new packaging method. Discussions led to the idea of a partnership for developing the system. Van Diemen had the largest sales force in the Dutch bulb industry, owned their own bulb fields and research laboratories, and were suppliers by appointment to the Netherlands Royal Family. "The idea went against the mentality of the industry that it is not right to work together," and Martin nievelt. "We had the idea but the other firm had forty sales people against Praag's two, as well as contacts with wholesalers all around the world. A partnership would provide resources and backing at the same time as it removed one of the major sources of potential competition."

Nievelt believed that the fragmented nature of the industry and the lack of product differentiation were the prime causes of low prices and small or non-existent profits. He hoped that the combined strength of the two firms would enable them to make a much larger impact on the bulb market and eventually claim a significant proportion of Dutch bulb sales at higher margins.

The arrangement worked out on a friendly basis with Van Diemen was that Rediplant NV would be formed as a limited company, with Hans Praag & Co. and Van diemen Bros. each owning 50 percent of the equity. Rediplant would lease Praag's storage and packing facilities in Hillegom and manufacture for the two sales companies, invoicing them at cost after payment of a royalty to Praag of FL. 0.04 per strip. Praag would retain the right to all sales anywhere in the world destined for customers via mail order and also to wholesale sales in the United Kingdom, Holland, and Switzerland. Van Diemen would cover wholesale sales in all remaining countries. This arrangement meant that there would be little change from past concentration because Praag had had very little wholesale revenue from France or Germany. The direct mail market, moreover, accounted for some 20 percent of Dutch bulb exports for dry sales. Martin Nievelt and the senior Van Diemen agreed to act as commissars for the new firm and to ask John Bryant to act as a third neutral commissar. Solicitors were asked to draw up formal agreements. As of the end of February 1981 the drafts had not yet been received.

Meanwhile, Walter Praag and Dik Van Diemen, son of the Van Diemen president, had agreed to become joint managing directors of Rediplant and had become immersed in detailed planning of the production requirements for the 1981 spring bulb season. The elder Van Diemen had also applied to the Dutch government for a grant to develop the invention and Rediplant had received a non-returnable grant of FL. 130,000.

Meeting the Demand

The period for selling spring bulbs to intermediate outlets ran from January through August, but delivery requirements would be very tight. Excluding mail order business, 55 percent of all sales had to be packed by mid-August, the next 30 percent by the end of August, and the last 15 percent by the end of September. All United States sales were included in the initial 55 percent because of the need to meet shipping dates, but another week could be saved by air freight although it would increase the freight cost for a standard shipment from FL. 43.00 per '180' unit to FL. 129.00. After September, mail order business could then be supplied fairly evenly until early December. Delivery commitments were regarded as very important by all the Rediplant executives. The retail buying season was concentrated and a suppler who failed to meet his commitments would ruin his chance of repeat business. Martin Nievelt considered it would be better to take a limited amount of Rediplant orders in the first season rather than run the risk of not being able to meet order on time and ruining the Rediplant name.

The supply of bulbs themselves presented few problems. Most bulbs were bought from the growers on a contract basis in the spring while still in the ground. A buyer would contract to buy all the production of a given acreage at a fixed price per bulb. As he sold to his customers before he knew how many bulbs he would receive from this acreage, he had to buy any additional requirements or sell any excess on the free market where the price could fluctuate widely depending on whether there was a glut or a poor season. Although the average price of bulbs could usually be predicted within 10 percent, a given tulip had fluctuated in price between Fl. 28.00 and Fl. 44.00 per hundred over the previous few years. By industry agreement, payment to growers was required promptly on 1st November. For a merchant to retain a good name among suppliers payment could not be delayed.

The real problems in supply stemmed from the short packaging season after the bulbs were taken from the fields. Crocuses might not be ready to be packed until 25th July, narcissi and hyacinths a week later, and tulips between the 25th July and 10th August depending on the variety. Packaging, therefore, had to be very carefully planned.

When the bulbs arrived for packaging they would be inspected and sorted before being placed in the PVC strips by semi-automatic filling machines. The strips would then pass along conveyors to an automatic radio frequency sealing machine and from there to a station where they would be fitted with the cardboard sleeve and packed into cartons. While the vacuum-forming machine making the PVC strips could produce only 9 10 strips per hour, stocks could be built up before packaging began. The sorting machines worked rapidly and could take large quantities of bulbs so they did not limit the output in any way. The speed of the filling machines could also be increased if needed. Four filling machines, moreover, had been built and these could keep at least four sealing machines busy. The limiting factor, then, seemed to be the number of sealing machines. These operated with an output of 900 strips per hour and at Fl. 33,000 were the most expensive items. One machine has been specially designed for Rediplant. Orders for further units would have to be placed immediately as there was a three month delivery time and orders placed after the beginning of March might not be received in time for the packaging season. The machines were believed to be reliable, but if an electronic component should break down an engineer from the manufacturer would be required.

Praag and Van Diemen were annoyed that the manufacturer of the sealing machine was insisting on payment before delivery, had raised the price to FL. 33,000 from a verbally agreed figure of Fl. 25,000, and would not make any effort to schedule shorter delivery. They had, therefore, investigated other methods of sealing that did not require extensive equipment. All had major disadvantages. Adhesives and stapling were much slower and stapling spoilt the look of th package, while adhesives attracted the dust from the bulbs and were not 100 percent effective.

Martin Nievelt argued that only one further sealing machine should be ordered. He pointed out that there was no guarantee that huge volumes of Rediplant could be sold in the first season when the buyers knew it to be experimental; moreover, financial difficulties could limit the opportunity to expand in later years. Hans Praag & Co. had little finance available and this had been a further reason for the partnership with Van Diemen. The total requirement for subscribed capital had to be kept to Fl. 400,000 (see *Exhibit 2*) if Praag's share in the partnership was not to fall below 50 percent. There was no chance of credit from the machinery supplier and the bank had said previously that it would advance funds only in exchange for some of the ownership equity.

During the busy season it was usual to work two shifts, seven days a week, using mainly student labor. For the peak period from 27th July until 17th August, Nievelt calculated that two sealing machines would enable a production of 605,000 strips (21 days X 16 hours X 900 strips X 2 machines). As this period would represent 55 percent of the back with some good orders for Rediplant, some of which would be test orders from the major chains.

Praag's United Kingdom bulb turnover in 1980 had been £360,000, of which £160,000 was direct mail. At this level of activity Praag was 6th or 7th in the ranking of about 300 Dutch bulb exporters to the United Kingdom. It was this entire turnover that Praag had sold to Sutcliffe Seeds Ltd. at the end of 1980. As part of the agreement Sutcliffe undertook to purchase all their Dutch bulbs from Praag at an agreed formula, whether sold by direct mail or through outlets. Prices were to be set to cover packaging and shipping costs and give Praag a 20 percent mark-up on the packaged cost. The suggested retail price would then be set at 100 percent mark-up on the price to Sutcliffe (50 percent on sales). Sutcliffe would give its outlets a discount of 33.3 percent off this suggested retail price plus an additional 5 percent for payment within 30 days.

Sutcliffe had been actively looking for ways of expanding their sales of bulbs. They had recently taken over the garden seed division of Charles Gibb & Sons and now held over 30 percent of the retail seed market in the United Kingdom. With a total U.K. seed market of only £24 million, however, further growth would be difficult. Against this, the U.K. bulb market of around £40 million offered more opportunity and Paul Duke, managing director of Sutcliffe, had set his sights on 10 percent o this market by 1985. Although Sutcliffe had bulb sales of only £160,000 at this time and there were a great number of competitors, Duke planned to develop into the quality end of the market using Sutcliffe's name and selling only the best Dutch bulbs. Local bulb growing had expanded considerably in recent years and Dutch mail order firms had been undercut by local suppliers, but there were still many bulb varieties better provided from Holland and direct container shipment in bulk could offset almost all the location advantage.

Paul Duke had also asked if Sutcliffe could have an exclusive distributorship for Rediplant in the United Kingdom. Martin Nievelt knew that Praag would not have the resources to set up a significant sales force and had agreed to Duke's proposal, subject to Praag retaining the right to visit a number of their existing outlets and 20 of the largest chain stores and department stores in the United Kingdom. Nievelt undertook not to sell to these outlets at a price lower than Sutcliffe's net price to its outlets less 2 percent cash discount, on the understanding that Sutcliffe would use the same mark-ups as for loose bulbs.

Nievelt was very pleased with the agreement made with Sutcliffe. He thought that in the first year Sutcliffe's sales force of 60, which called on all the garden centers and hardware and garden stores in the U.K., would take orders for somewhere in the vicinity of 600 units. The top salesmen sold between £200,000 and £240,000 of merchandise each year. Sutcliffe planned, moreover, to spend £80,000 on advertising their bulbs in the ensuing year and was planning to hold a cocktail and dinner party to announce their venture, which would be widely covered in the trade papers.

With the major demands of the Rediplant development, Nievelt had been unable to manage a selling visit to the major outlets he had retained for Praag, and had sent Jan Straten in his place. Jan Straten had started with Praag eight years ago at the age of eighteen and with the exception of a two-year spell in the Dutch army had worked with them ever since. He was paid a fixed salary of Fl. 35,000 and received £30 a day to cover his expenses while in the U.K. He retained his home in Hillegom, seldom being away from home for more than a month at a time, and had sold £100,000 last year, which Martin Nievelt thought was fairly good for a younger man.

The price at which Jan was seeking Rediplant sales in the United Kingdom was £0.88 per strip delivered to the customer, less 2 percent discount for payment within 10 days. This price was based on a suggested retail selling price of £1.32 per strip, which Nievelt had decided would be necessary to give Sutcliffe the same mark-up as for loose bulbs and still leave a reasonable profit for Praag. Costs of packing, freight, insurance, duty (10 percent), delivery, etc. would amount to about 20 percent of the packaged cost although this percentage might be reduced for full container deliveries. Nievelt would have preferred the retail price to be £1.16, which would have about equalled the price for similar loose bulbs in garden stores, but was convinced that at £1.32 Straten should be able to persuade several of the chains to place orders.

Appendix

Chronology of Case Events

Late 1979	Idea for Rediplant conceived by Walter Praag.
May 1980	Lab testing of Rediplant complete. Relatively crude pack of six bulbs ready for market launch. Vacuum forming machine for strip manufacture purchased.
Summer 1980	Test sale in three U.K. outlets. All sell 100 strips quickly at £1.30.

Autumn 1980	Rediplant in "6-pack" featured on cover and 2-page spread of Praag mail order catalogue.
	Continued improvements to Rediplant—redesigned sleeve and instructions, switch to 7 bulbs instead of 6.
	Patent applied for.
	Hans Praag & Co. goes out of mail order business.
	Praag enters marketing agreement with Sutcliffe for U.K. market covering all Praag products.
Late 1980	Praag approached by Van Diemen Bros. regarding partnership in Rediplant. Friendly agreement reached, but not yet formally signed.
February 1981	Preliminary production and marketing plans for Spring 1981 season.
	Preliminary selling efforts for Rediplant by Van Diemen salesmen in Germany and U.S., negotiations for mail order with Beinum.
	Jan Straten of Praag in U.K. selling to U.K. customers not covered by Sutcliffe.

HO 6-13

TRANSPORTATION

Transportation can be compared to the body's circulation system; it provides the system by which we support our daily lives and activities.

It is a service that takes a product (nutrient) and carries it to another place (cells) where needed most.

In theoretical terms, transportation gives a product a time and place utility. In a more practical way, transportation allows us to deal with and even perhaps improve how we live and react to the environment around us.

To make all this work requires the involvement of many closely related activities and functions. Today, and perhaps more so in the future, transportation companies, their customers, and suppliers look for closer working relationships and in some cases partnerships to provide the kind of services that customers demand.

Transportation, and its closely related cousin logistics management, does this based on many factors. They include the kind of product or service to be produced, where that product needs to be sent, where it will be produced, how the individual parts of the product are gathered and assembled and later distributed to the final customer.

Along the way, the transportation service must also recognize how much we can pack into one place the different parts from source to final customer, what the different handling characteristics are, and consequences if something goes wrong.

Transportation is big business. In the U.S., it represents about 17 percent (slightly less than one trillion dollars) of all of the goods and services produced by Americans. Internationally, it is several times that amount.

There are several modes by which these products and services can be transported: rail, highway, marine, air, and pipeline. In most cases, these modes interconnect when it makes economic and practical sense to do so. This is called intermodalism.

To make the transportation function happen, requires the support of many other services. Depending on the circumstances, these ancillary services can deal with one of more activities more efficiently than the shipper. Such services include cargo and carrier brokers, export management companies, freight forwarders, insurance companies, export packers, etc.

Source: Passport to Export, St. Clair Community College.

HO 6-14

PLACE/DISTRIBUTION CHECKLIST

Which channels of distribution should the firm use to market its products abroad (to the U.S.)?

Which channels of distribution are used by the firm's competitors and how effective are these channels?

Where should the firm produce its products and how should it distribute them in the foreign market?

What types of agents, brokers, wholesalers, dealers, distributors, retailers, etc., should the firm use?

What are the characteristics and capabilities of the available intermediaries?

What type of incentives and assistance should the firm provide its intermediaries to achieve its foreign distribution objectives?

Should the assistance of EMCs (export management companies) be acquired?

What forms of transportation should the firm use?

5. Given the tremendous increase in international business, where will companies in a relatively early stage of the internationalization process find the personnel to handle the new challenges?

The internationalization of personnel can occur in two ways: (1) by training existing personnel, or (2) bringing in outside personnel. A company can make its existing staff aware of cultural differences by educating them through literature and statistical research, and also by sending them abroad to experience the differences. Experience alone is not enough, because there are many underlying factors to a culture that are not readily apparent. Knowledge of the language is required if one is to learn from living in another culture. Managers must also learn about the religious values of a given culture, as religious holidays and religious regulation of foods affect marketing strategies. The role of religion can also determine the effectiveness of using sexual connotations in advertising. Product usage is determined by lifestyles, so lifestyles must be both observed and researched. Research is required to determine, for example, how people perceive a certain product or, if it is new, how readily they are likely to accept it. If it has not been introduced before, there may be cultural reasons for that, and perhaps the product should be altered in order to fit the cultural values present.

The Business Council for International Understanding estimates that international personnel who go abroad without cross-cultural preparation have a failure rate ranging from 33—66% in contrast to less than 2% for those who had the benefit of such training. In today's environment, however, each and every employee will be involved, one way or another, with the international market. Although very few, if any, companies report training them in any way, it is an issue worth our concern.

Recruiting from the outside often is the only way to operate for small and medium-sized businesses that are starting internationalization efforts. Appropriate persons can be found in, for example, international graduate programs, in more advanced companies, or by attracting people who have acquired their international "spurs" working in the Foreign Commercial Service or the Peace Corps.

Source: Czinkota, Michael, R., Rivoli Pietra, Ikka A. Ronkainen. International BusinessManual. Second Edition. Copyright ©1992, The Dryden Press.

10. What makes an export agent different from any other channel member?

An export agent, unlike other channel members, does not receive the revenue generated by export sales. It does not take title to goods and market them, but rather charges a commission on its sales volume. An export agent is responsible for developing foreign business strategies and providing foreign contacts. Export agents attempt to represent as many clients and products as possible in order to obtain high sales volumes and commissions. A common challenge they face, therefore, is to avoid taking on more clients than they have the resources to serve.

11. Is there a need for export trading companies?

Export trading companies (ETCs) are needed because of the high competition in the international marketplace. The ETC economies of scale and extensive market information systems permit them to operate more efficiently than is possible for individual exporting firms. Their size also enables them to carry out countertrade arrangements which individual firms would not have the resources to do. Their large volumes make it possible for them to conduct large transactions, often at discounts, that would be infeasible for smaller companies.

The U.S. needs ETCs because countries such as Japan and Korea have strong trading companies with which individual U.S. firms cannot compete. with many ETCs, U.S. exports would rise because export firms would share costs such as distribution, market development, customer service, financing, and information systems development.

Source: Czinkota, Michael, R., Rivoli Pietra, Ikka A. Ronkainen. International BusinessManual. Second Edition. Copyright ©1992, The Dryden Press.

Instructor Notes 6-3 (for HO 6-12)

REDIPLANT *

Synopsis

Hans Praag & Company, an established Dutch tulip bulb exporter, has developed a new way of packaging bulbs (named Rediplant) and needs to determine an international distribution and marketing strategy for this product. Rediplant, a plastic sleeve containing a set of 7 bulbs, is both a usage container—as the sleeve can be planted directly in the ground—and a means of entering supermarkets and other non-gardening outlets which have difficulty in selling loose bulbs. In test markets the previous year, Rediplant sold extremely well.

The three main markets to consider are Germany, United Kingdom, and the United States. Praag has to decide on which markets to concentrate and what distribution channels and retail outlets to use. The distribution system can vary by country and ranges from both wholesale sales to a U.S. supermarket chain to direct sales by a Praag sales person to stores in the U.K. In addition, Praag has entered into a verbal agreement with Van Diemen Bros. to help produce and market the Rediplant system in various countries. However, a market analysis shows that the current agreement is such as to cause Praag and Van Diemen to have divergent interests on such issues as market and channel selection.

Teaching Objectives

This case can be used to bring out the following teaching points:

1) An assessment of the motivations of customers and intermediate outlets is needed in determining the whole marketing mix—in this case particularly outlets and channel arrangements.

2) That the distribution system and marketing mix may need to differ significantly from market to market.

3) That the attractiveness of markets differs and a good international distribution strategy will go where the greatest advantage lies.

4) That the organization adopted for a multinational marketing venture is frequently not reversible and the subsequent profits may be limited by early decisions. As distribution frequently involves long term arrangements, foresight is needed to avoid such limitations.

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*Adapted from a teaching note prepared by Kenneth Simmonds. Copyright © 1984.

Source: Instructor's Manual to accompany Marketing Challenges: Cases and Exercises. Lovelock, Christopher and Weinberg, Charles B. Second Edition, 1989. McGraw-Hill.

Study Questions

1) Who are the customers for Rediplant and what motivates them to buy and use the product?

2) What are the motivations of retailers and intermediate outlets?

3) In what countries should Rediplant be distributed? On what basis is this decision to be reached?

4) What should Praag do?

Analysis

1. Who are the customers for Rediplant and what motivates them to buy and use the product?

Although Rediplant as a usage container can add to the product performance, it is an open question how many customers will buy for just these reasons and continue to do so. Only the serious gardener would record the difference in success rate and bother to retrieve and subsequently replant the bulbs. And it is possible that the serious gardener buying large quantities would tend over time to be more price-conscious. There may be marked cultural differences, though. There is some inkling in the case that German view bulb planting quite differently from the British.

The most significant advance by Rediplant may prove to be that it enables the bulbs to be sold in a wide range of different outlets, in an eye-catching display that shows the bulbs and pictures the eventual blooms, takes little room and offers no particular packaging or shipping problems. The costs of materials, strip forming, and packaging, after all, are very small. With savings in the labor cost of unpacking and reduced transit damage, it should be possible to compete on a level with loose bulbs. On the other hand, there should be no need to do so. Rediplant can catch a consumer's eye where loose bulbs cannot.

Extension of the outlets in which bulbs are sold will also open up a large market of those who seldom venture into garden stores. In supermarkets and department stores a large majority of the traffic will be made up of women customers. This raises questions as to the present composition of those buying bulbs and their motivations and purchasing behavior. It may be that there is a large population who infrequently buy bulbs if they happen to pass by stores that traditionally carry them <u>during the bulb-planting season</u>. On the other hand, it may be that the bulb market through retail outlets is confined to relatively large users who buy to meet specific requirements and contains a higher percentage of men. If the first case holds, introduction of Rediplant into supermarkets and department stores should immediately increase the market by increasing frequency of purchase. If the second case holds, then the

new outlets would have to develop men "impulse" customers to build their turnover. But this is not an impossibility. A unit of 180 strips would require only a few percent of customers of a reasonably sized supermarket to purchase the bulbs, and some might purchase several strips. Rediplant display might also encourage bulb planting by city dwellers with very small front gardens who would never visit a garden store.

Whichever case proves to be true, the most price-conscious purchaser will not be the "impulse" purchaser but rather the more serious gardener now buying through garden stores or by mail order. It seems a good idea, therefore, to keep the price high enough to give standard markups to garden stores and retain access to this large market. This will mean large profits from direct sale to the chains. It runs the risk, though, that competitive "non-usage" packaging may undercut the Rediplant system.

Point-of-sale display, as shown on the merchandising leaflet, currently emphasizes the "usage" characteristics of the Rediplant package. For impulse purchasers this could be self-defeating should they feel diffident or guilty about breaking open the package to plant their bulbs in the normal way. Planting a strip is not, in fact, particularly easy, limits the spacing arrangement, and the plastic strip remains in the ground without decomposing. Moreover, current concern for ecology may make many purchasers reject the concept, and those who try it once may not repeat the attempt once they have uncovered plastic "remains" in the garden.

A safer strategy for both point-of-sale display and the sleeve packaging might be to play down the "usage" concept and to build the promise of s springtime full of color. Spring, after all, is what most customers are really buying—not a better method of planting. Exhibit TN-A summarizes the advantages of Rediplant to customers and channels.

2. What are the motivations of retailers and intermediate outlets?

The motivations of the intermediate customers will be varied. Supermarket buyers will probably be attracted by the novelty of the usage container, and the attractiveness of the stands, but a major question will be the number of the s trips that will fail to sell in any unit or require sale reduction. Even so, the markups are high and the stand requires no shelf space and takes little room. Moreover, the packaging is well suited to the labor patterns of this sort of outlet.

For garden outlets the space requirements of the stands will be a concern as well as Rediplant performance alongside loose bulbs or other types of package. The relative price is a greater consideration. Those stocking bulbs in large quantities will be likely to order Rediplant to avoid missing the new development but may not present the strips at all forcefully.

The motivation of wholesales is also likely to differ according to their existing coverage. Garden supply wholesalers may already be making larger percentages on loose bulbs and may hesitate to really push a new product that would simply switch volume from one line to another. They will probably aim for the larger orders and confine sales activity to their existing classes of customers.

3. In what countries should Rediplant be distributed?

Germany, United States, and the United Kingdom are the three central markets and sales to major retailers or through wholesalers in these three countries are going to produce the bulk of the profits. With restricted supply in the first year there seems no argument for any policy other than major sales emphasis on direct sales to large retail outlets. Exhibit TN-B presents a contribution analysis by country and by channel. On direct sales to the United Kingdom, Praag's contribution is about 250 Florins per unit, approximately a 70% mark up on variable packaged cost. The figure for the United States is almost as high when Van Diemen's share is included and it might be possible to make even more by going direct to retailers in Germany. As direct-mail sales is small, probably no more than 10.3 florins per strip.

(A) Germany

This is the largest market; Van Diemen knows it well and has four permanent salesmen there. On the first mail-order test, Germans purchased by far the greatest proportion of bulbs in Rediplant packages, and a German wholesaler has so far placed the largest order. The indications are that the German market is not particularly price-conscious, tends to purchase through retail outlets and takes readily to the Rediplant package. Freight and shipping costs to Germany will, moreover, be considerably lower than to the United Kingdom and delivery can be made later, thus extending the market. But to sell exclusively through the single wholesaler seems the wrong strategy. This wholesaler sells to existing bulb outlets and is unlikely to break into new outlets--particularly when he has not ordered stands. A mixture of customers would seems the best strategy to show Rediplant which ones react best, including direct orders from the larger retailers. Direct sales will save the high wholesaler percentage which does not represent a great deal of service, because replacement inventory will not be kept for such a short selling season. The wholesaler who has asked for an exclusive arrangement will be likely still to place a large order if the exclusive arrangement is denied him.

(B) United States

The U.S. market is almost as large as Germany for dry sales and is well arranged for direct selling to supermarkets and major garden outlets. There are indications that the market is not markedly price elastic and that Van Diemen is underpricing through the outlets it is concentrating on and failing to promote Rediplant through the outlets most appropriate

for volume sales. The firm appears to be giving garden outlets the possibility for over 50% markup on sales. Even at the additional freight cost it is worthwhile extending the packaging season to obtain the additional sales.

(C) United Kingdom

The U.K. market appears to be more price-conscious than the U.S. or German ones. More seem to buy through mail order, with lower average orders and less tendency to adopt the more expensive Rediplant. Local bulb supply, moreover, has been building up on the basis of its lower costs. The outlets may hesitate to purchase large quantities of Rediplant at a suggested retail price that is ↑0.16 above prices for equivalent high-price Dutch bulbs in garden stores. If it became necessary to lower prices in order to get large orders, sales through Sutcliffe outlets would become unprofitable. There is only ↑0.10 contribution from sales to Sutcliffe at ↑1.32 unless transport savings yield another ↑0.02 or so.

4. What should Praag do?

As the verbal agreement with Van Diemen now stands it would pay Praag to place major emphasis on the United Kingdom market by selling through the major outlets retained under the agreement with Sutcliffe. If the agreement with Van Diemen is retained, then Martin Nievelt should immediately schedule a personal sales trip to the U.K. and, if necessary, add a British agent to help Straten and himself cover all the outlets.

The U.K. market, on the other hand, is the market out of the leading three most likely to be slow in switching to new outlets and most likely to be price elastic; hence there are strong arguments for pushing Germany and the United States while their outlets are interested in taking the innovation. To wait would seem to be a balanced attack on these three main markets, going direct to major outlets and with every effort to expand beyond 4,750 units. Conversely, there should be no emphasis on sales of Rediplant through direct-mail distributors and very limited supplies through wholesalers.

The proposed agreement, however, forces Praag away from such objectives toward sales to direct-mail distributors, and Sutcliffe, Van Diemen and Praag are forced into an almost direct polarization of interests. The simple conclusion is that Praag should not go ahead with the agreement. They certainly need Van Diemen as partners and are morally committed to continue the partnership, but a different arrangement can be in the best interests of both. If the agreement is written for Rediplant to receive all the revenues with profits to be distributed equally to Praag and Van Diemen, then the clash of interests would be avoided. It should not be difficult to obtain Van Diemen agreement. It will mean better performance earlier, with a better worldwide marketing strategy. Praag, moreover, holds the stronger hand—they can hardly be expected to follow through with an arrangement that penalizes them, when it was they who developed Rediplant.

Although the combined sales strength of Van Diemen and Praag make a formidable unit, it is quite evident from the case that some top-level help in facing up to marketing issues is needed. It may not be necessary to hire full-timed marketing assistance, but if not, either John Bryant or an outside consultant will need to spend time alongside Martin Nievelt discussing the selection of outlets, pricing policies, merchandising appeal, and the collection of information about what is really happening out in the market. This could be crucial in planning capacity for the succeeding year.

An immediate assessment of the sales strategy for the current year is called for. Nievelt and the Van Diemen sales director should sit down with John Bryant and build a new plan for sales emphasis, drawing on whatever further facts they can gather about the current results in Germany, the United States and the United Kingdom in particular. One or the other should then visit each country to reorient the effort along the lines agreed.

Production economics are also an issue. The question of how many sealing machines (at a cost of 33000 florins each) to order can be quickly dispensed with. With a sealing capacity of 5 units of 180 strips per hour, a machine would recover its added cost in added contribution from further sales in the U.S. market in some 44 hours based on the figures in Exhibit TN-B, i.e., approximately 220 units @F1.150 contribution per unit. Further sales from the U.K. might recover the cost even faster.

As the machines will last several years, almost any extra sales they enable should justify their purchase. Furthermore, the cost of failing to meet orders is so high that a spare machine should be kept available. It is doubtful whether any failure during the packaging period could be repaired on the spot without delay. Depending on the sales targets picked for the different markets, probably totaling more than 4,750 units, then the required capacity plus one spare machine should be ordered.

Although not immediately obvious in the case, the vacuum-forming plant for making the plastic strips could become a bottleneck unless carefully watched. All the strips would have to be ready by 1st August to avoid adding to difficulties during the packaging period. This leaves 5 months—say 20 weeks. Working the machine solidly for 35 hours a week at maximum throughout of 5 units (900 strips) per hour gives only 3,500 units.

An urgent decision is needed to go to two-shift operations for vacuum forming. It could always be modified later if the sales are not maintained.

The question of risk of loss for Praag which has all its eggs in the Rediplant basket may be worth discussing. It might also be pointed ut that the more determined the sales effort the greater the chance of success and it is very unlikely that sales would vanish in subsequent years.

Suggested Teaching Approach

This is a rich case with many issues. As distribution analysis should begin with a sound understanding of consumer needs, this is the place to begin. It's useful to start with the first question, it quickly becomes apparent that there are at least two main market segments: 1) the gardener or hobbyist market and 2) the non-gardener, homeowner market, who might try on impulse but is not experienced in the planting of bulbs. It is useful to divide the board into 2 columns, labelled Gardener and Non-Gardener and sort the case information on that basis. This is illustrated in Exhibit TN-A.

A useful summary following class discussion of the points in that exhibit could be the following:

- The product sells (e.g., chaining in U.S.)
- Opens new outlets (e.g., supermarkets)
- Little planting advantage, at least for some segments
- New product, repeat purchase data not available.

The instructor should not allow students to escape the issues by calling for market research. Praag cannot afford to wait and the sales in some markets can be used as a test or experiment. Praag's apparent conservatism, however, may be explained because so much is at risk for the company.

After discussing the issues in questions 1 and 2, the class should be ready to examine the choice of markets questions. Both market and channel selection critically depend on the economic analysis, so the instructor must insist that a close equivalent to Exhibit TN-A be produced in class. One approach is to ask a student to generate the data for 1 or 2 options, and then use Exhibit B as an overhead. The instructor can postpone discussion of the nature of the profit sharing to later in the discussion. Other aspects of each country's market and distribution system can then be discussed.

Discussion can then turn to decision making, with students being pushed to make quite specific decisions. As the suggested answer to question 4 indicates, implementation issues can play a prominent role in the concluding part of the class.

Commentary

Unlike advertising, promotion, and some other marketing mix elements, distribution decisions tend to involve long term commitments. Consequently special care must be taken when setting distribution arrangements, especially for a new product. Once Rediplant commits to a set of channels, changes will be difficult. It's far better to get the system right from the start.

Design of a distribution system must start with a customer analysis and also consider the intermediaries, who is many senses are "customers" of the company. Only with an understanding of customers, whose needs and purchasing practices differ by segments and countries, can an effective distribution system be designed.

While the marketing mix must be coordinated, it can differ from country to country. Rediplant faces some difficult distribution choices including what countries to market in and what channels to use. The criteria to use include the costs and profits from each country and the nature of the services provided by the channels. If Praag markets to gardening outlets, it has a greater need for Van Diemen's sales force than if it emphasizes the non-gardening segment and concentrates on supermarket sales, for example.

Implementation of marketing decisions is always an important issue and this case provides several examples. Praag is very short of cash and so cannot afford to wait overly long for a return on its investment. The high stakes for Praag may be the motivation behind his rather conservative approach and was apparently a key force propelling Praag into the agreement with Van Diemen. The impact of this agreement is yet another implementation issue in this case. A crucial issue for management is production capacity. The case suggests that there are serious problems here. This situation confirms the maxim that it makes no sense to market a product that you cannot produce.

EXHIBIT TN-A

ADVANTAGES OF REDIPLANT TO CUSTOMERS & CHANNELS

	Gardener (Hobbyist)	Non-gardener (Homeowner)
Advantage of Package		
Availability in Non-Gardening Outlets (Impact on Price)	+	++
Instructions on How to Plant		++
Convenient to Carry and Store	+	+
Picture to Show What You Have (for channels, sell spring time)		+
Convenience to Display (for channels,) (Eye Catching, Easy to Handle)		++
Convenience to Plant	?	?
Dig a Trench	-	-
Plant 7 in a Row (1 1/2 ft.)	--	--
Protection of Bulb	+?	
Doesn't Touch Dirty Bulb		+?
Why Does It Sell?		
Curiosity	+	++
Expands Market		++
Impulse		++
Protection of Bulb in Some Cases	+	

EXHIBIT TN-B

COSTS AND CONTRIBUTION PER STRIP FOR CURRENT REDIPLANT PRICING

COSTS AND CONTRIBUTION PER STRIP FOR CURRENT REDIPLANT PRICING

	Guilders				Foreign Currency		
	United Kingdom (Wholesaler) Fl	United Kingdom (Direct) Fl	U.S.A. ? Fl	Germany (Wholesaler) Fl (or DM)	United Kingdom (Wholesaler) (Pounds Sterling)	United Kingdom (Direct) (Pounds Sterling)	U.S.A. ? $
Retail Price	5.68	5.68	8.07	5.90	1.32	1.32	2.69
Retailer Margin	1.89 (33.3%)	1.89		2.07 (35%)	.44	.44	
Wholesaler Margin	.95 (16.7%)	-		1.18 (20%)	.22	-	
Less Outsider Margin	2.84	1.89	4.77(59%)	3.25	.66	.44	1.59
Rediplant Selling Price	2.84	3.79	3.30	2.66	.66	.88	1.10
Variable Packaged Costs*	1.98	1.98	1.98	1.98	.46	.46	.66
Frieght, Insurance, Delivery, etc.	.20	.20	.22	-	.05	.05	.07
Duty	.20	.20	.24	-	.05	.05	.08
Rediplant Variable Cost	2.38	2.38	2.44	1.98	.56	.56	.81
Van Diemen Contribution	-	-	.66(20%)	.47	-	-	.22
Praag Contribution**	.26	1.21	-	-	.06	.28	-
Rediplant N.V. Contribution***	.20	.20	.20	.20	.04	.04	.07
Total Contribution	.46	1.41	.86	.67	.10	.32	.29
	====	====	====	====	====	====	====
Total Contribution per 180 Unit	82.80	253.80	120.60				

* Based on Exhibit 2 of the case. Assumes rent, depreciation, interest and (say) half of overheads are fixed.

** In addition, Praag receives a royalty of Fl .04 per strip (included as a variable cost).

*** The Fl .20 is the difference between the allocated packaged cost of Fl 2.18 and the variable cost of Fl 1.98. (Note: Small variations in student calculations may occur due to rounding)

7. What courses of action are open to an international marketer who finds all attractive intermediaries already under contract to competitors?

An international marketer who finds all attractive intermediaries already under contract to competitors may take the following courses of action:

a) develop alternative channel structures
b) use the same distributor that competitors use
c) use a totally different distribution approach from the competitors and thus develop a competitive advantage
d) offer distributors more attractive contracts, with better financial agreements and more sales support
e) engage in direct marketing
f) set up its own sales force abroad

Source: Czinkota, Michael, R., Rivoli Pietra, Ikka A. Ronkainen. International BusinessManual. Second Edition. Copyright ©1992, The Dryden Press.

PN ABC 052

EXPORT/IMPORT FOR SMALL BUSINESS INSTITUTES IN POLAND

Part Three

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Developed by

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Gdańsk, Poland

Polish American Enterprise Institute
Rzeszów, Poland

Center on Education and Training for Employment
The Ohio State University
Columbus, Ohio

PN-ABQ-054

EXPORT/IMPORT FOR

SMALL BUSINESS INSTITUTES IN POLAND

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FOREWORD

The United States Agency for International Development (U.S.AID) sponsored this project as part of the U.S. Congress initiative entitled Secure Eastern European Democracy (SEED Act). This project is one of a number of university-based initiatives to provide education for university faculty in emerging countries about business management and economics in support of the newly established market economy.

Since June of 1991, the International Enterprise Academy at The Ohio State University has worked cooperatively with the Solidarity Economic Foundation in Gdańsk, Poland, to facilitate the creation of three Polish-American Enterprise Institutes in connection with the universities in Białystok, Poznań and Rzeszów. In each site two coordinators and fifteen or more faculty members have established courses for business owners in Entrepreneurship, Marketing, Management, Finance, Strategic Planning, and Export-Import. In addition, we developed skills among the faculty for business advising in these areas and developed case studies of Polish entrepreneurs.

The development of the six curriculum products took place over a two-year period and were the cooperative efforts of the coordinators from the Polish Institutes and the faculty from various American Universities. We are indebted to the following people for their dedication, patience and understanding in addition to their outstanding expertise in the area.

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BUSINESS ADVISING Rodney Terminello, The Ohio State University
Krzysztof Kaszuba, Rzeszów Polytechnic

CASE STUDIES OF POLISH ENTREPRENEURS

Lisa Mazzei, The Ohio State University
Alicja Zajączkowska and Alicja Unterschuetz of the Solidarity Economic Foundation

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The editors of these six curriculum products deserve special thanks for two years of attention to detail and schedules that everyone thought was impossible. Both Piotr Koryński and Elżbieta Jacowicz have masters degrees in economics from the University of Gdańsk in Poland. Since the beginning of this project, they have worked at The Ohio State University in an effort to make these curriculum products appropriate for use in their country.

We also thank the secretaries in both countries and others who worked hard on these six very ambitious curriculum projects. At The Ohio State University we especially want to thank Barbara Rahe, Jeanne Thomas, Janet Ray, and Kathy Summerfield. In Poland, we want to thank Dagmara Topolewicz, Ewa Dratwa, Małgorzata Tyburczy, Edyta Rusin and Dorota Małaszkiewicz.

Because these curriculum products include many copyrighted materials that we have obtained limited permission to use for this project, this product may not be published or used for other purposes without express permission from The Center on Education and Training for Employment at The Ohio State University.

We believe that these materials will provide long-term benefits to the faculty for whom they were designed and the business owners who will participate in their courses. We hope that these American models of business training will make a difference in the communities where they are used and impact on their success in a market economy.

M. Catherine Ashmore
Director, International Enterprise Academy

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EXPORT/IMPORT MODULE

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International Entrepreneurship Course

Overview

Business managers are increasingly involved in international trade by either importing or exporting products or materials for manufacturing. This course is intended to help business managers to assess and plan for basic differences between sourcing and marketing in the home country and in other countries around the world, including culture, common business practices, taboos.

Participants will analyze potential markets for size, penetrability, potential competition, profitability, in short an environmental analysis on the viability of exporting to specific markets. They will then develop an exporting strategy involving selection of specific markets to enter, product configuration, pricing, promotion, and distribution network. An important part of any international trade strategy is determining the methods of goods movement. Participants will assess the advantages and disadvantages of different distribution alternatives and constraints.

The course will draw on business skills from the other business courses with emphasis on differences between domestic and international trade.

Strategic Planning

Differentiate among the methods of international trade, such as direct foreign investment, exporting, licensing

Marketing

Use the marketing strategy framework for developing an international marketing strategy.

Management

Assess the legal, personnel differences needed for international trade.

Accounting/finance.

Define international banking terminology. Assess potential affects of international finance on the exporter. Execute the basics of obtaining proof of payment, e.g., letter of credit.

International Entrepreneurship Course

Competencies

Business managers attending this course should be able to:

1. Introduce and describe potential effects of macro issues on the viability of importing and exporting.

2. Evaluate the potential advantages/disadvantages of exporting to a specific market.

3. Assess any needed adaptations of a specific product for selected markets.

4. Indicate potential options for promoting in different cultural markets.

5. Define the considerations for setting prices in a foreign market. Assess potential affects of international finance on importing or exporting.

6. Evaluate the different goods movement and storage options.

7. Assess the advantages of and disadvantages of different distribution alternatives and constraints.

8. Determine methods of establishing good business relationships, including partnerships and joint ventures.

9. Know where and how to obtain assistance in the home country and other countries.

INTERNATIONAL GOODS MOVEMENT

UNIT 7

Title: **INTERNATIONAL GOODS MOVEMENT**

Purpose: This unit is designed to provide a basis for evaluating the different goods movement and storage options.

Objectives: To evaluate the different goods movement and storage options.

Materials:

Transparency 7-1	Overview of Unit
Transparency 7-2	The Logistics Function
Transparency 7-3	What is Customer Service?
Transparency 7-4	The Five Rights
Transparency 7-5	Customer Service Elements
Transparency 7-6	Customer Service Elements
Transparency 7-7	Trends in Customer Service Expectations
Transparency 7-7a	ABC Analysis (same as HO 7-6)
Transparency 7-8	A Constant Demand Order Quantity Example
Transparency 7-9	A Variable Demand Order Quantity Example
Transparency 7-10	Cost/Service Tradeoff
Transparency 7-11	Overview of Holland Video
Transparency 7-12	Merchandise Valuation
Transparency 7-13	Foreign Trade Zones and Bonded Warehouses
Transparency 7-14	Documentation for an International Shipment
Transparency 7-14a	Three Most Common Mistakes when Importing into the U.S.A.
Transparency 7-15	Export Documentation - Commercial and Consular Invoices
Transparency 7-16	Export Documentation - Packing List
Transparency 7-17	Export Documentation - Bill of Lading
Transparency 7-18	Export Documentation - Certificate of Origin, Dock Receipts
Transparency 7-19	Insurance
Transparency 7-20	Insurance Responsibility
Transparency 7-21	Packing
Transparency 7-22	How Charges Differ by Weight and Measure

Handout 7-1 The Logistics Function
Handout 7-2 Key Elements of Customer Service
Handout 7-3 Customer Service Questionnaire
Handout 7-4 Executive Summary
Handout 7-5 Inventory
Handout 7-6 ABC Analysis
Handout 7-7 Cost/Service Tradeoff Curve
Handout 7-8 Centralization/Decentralization Exercise
Handout 7-9 Summary of Customs Regulations (U.S.)
Handout 7-10 Summary of Customs Regulations (Poland)
Handout 7-11 Documentation for International Shipment
Handout 7-12 Inquiries/Quota/Proformas/Pricing/Order Entry Shipping
Handout 7-13 International Transportation
Handout 7-14 Documentation: Mueller Brass and an example from Poland
Handout 7-15 Insurance Responsibility Under the Principal Foreign Trade Terms (TP 7-20)
Handout 7-16 Glossary of International Insurance Terms
Handout 7-17 Checklist: The Movement of Goods

Activities:

Customer Service Questionnaire
ABC Analysis
Video: Holland Video and Centralization/Decentralization Exercise
Other short exercises are in the T-outline.

References for Instructors:

More readings for instructors *only* in Book 2 (R6-4).

Questions for Discussion in Instructor Notes 7-1.
Instructor Notes 7-2 for Central Distribution Exercise (HO7-8).

Guest Speakers:

It is strongly advised that a guest speaker be brought in for the second half of this segment. The changes in customs regulations and the detail that can occur for documentation, packing, and insurance can be overwhelming. A good freight forwarder can discuss the pitfalls and how to avoid them without scaring the entrepreneur from even trying international trade.

Estimated Time: 5 hours

Suggested Allocation of Time

Customer service and inventory management	1 hour
Cost/service tradeoffs and Holland video	1 1/2 hours
Customs and Documentation	1 hour
Insurance and packing	1/2 hour
Guest speaker	1 hour

(*Note*: If the speaker is really good, may allocate more time and reduce the time on the subjects which will be covered by the speaker.)

Unit outline

I. Overview

II. The XYZ or ABC Company

III. Customer Service

IV. Inventory Management

V. Cost/Service Tradeoffs

VI. Customs and Importing Regulations
   A. Customs Taxes: Importing to United States
   B. Customs Taxes: Importing to Poland (Poland)
   C. Foreign Trade Zones, Bonded Warehouses

VII. Documentation

VIII. Insurance

IX. Packing

X. Checklist: The Movement of Goods

FOR THE INSTRUCTOR
International Entrepreneurship
Unit 7: International Goods Movement

CONTENT	PROCESS
I. Overview	
The areas we have been studying in the last unit and those in this unit fall under the discipline of **logistics** which deals with the movement and storage of goods from producer to consumer to meet customer service levels for the lowest total cost. Sometimes the lowest cost for one area of logistics causes other areas to increase or service to be reduced. The tradeoff between cost and customer service is discussed later in this session. Other areas of logistics include order processing, transportation, storage, inventory management, and customer service.	Put up TP 7-1: Overview of the Unit
In this unit we will examine customer service, inventory management, and the tradeoff between them. Then we will discuss some customs regulations for both the U.S. and Poland. Actually moving the goods involves the necessary documentation, insurance and packing for international goods movement. (If there will be a guest speaker, now is a good time to announce it.)	Discuss TP 7-2: The Logistics Function and distribute HO 7-1.
II. The XYZ Company	Refer to HO 1-2 in Unit 1. Documentation examples are in Instructor Notes 7-1.
Think about what documents are needed for shipping from Poland to the U.S. and any inventory management and customer service aspects that may be of concern to XYZ.	Example concerns for XYZ could include 1) large inventories for shipping to many locations which is expensive for a new company, 2) fluctuations in orders which affect delivery time and availability.

CONTENT	PROCESS
III. Customer Service	TP 7-3: What is Customer Service?
In the competitive world market, customer service can be the differentiating factor in an initial sale and repeat sales. There are many aspects to customer service. Sometimes customer service is viewed as stopping complaints but that is shortsighted. If the reasons for the complaints are not addressed then business may be lost. We can measure some parts of customer service, such as 95% delivery on time.	
But to really be oriented to the customer requires a corporate-wide philosophy that the customer is the key to business survival. In fact, customer service is a process of providing significant value-added benefits to the supply chain in a cost-effective way. This means determining customer needs that we can provide and satisfying those needs. Cost effective does not mean the lowest cost necessarily but the cost that provides the service the customer wants at a price the customer will pay. A supply chain refers to all companies involved in making and delivering the product to the user. The term supply chain implies a closer relationship of the members of the channel than is normally the case.	Discussion Question: Was there customer service under a centrally planned economy? (There was a certain level of customer service.) How much service should customers expect? Is there a limit? (The limit is the capability of the firm and the purse of the customer. For a price, someone could board a plane to take a product to a customer quickly.)
The output of a logistics system is some measure of customer service. The five rights (expectations) of customers from a logistics system are that the firm will deliver the right product or service: • at the right time. • in the right place. • at the right price. • in the right condition (not damaged).	Discuss TP 7-4: The Five Rights of Logistics.

CONTENT	PROCESS
There are many elements of customer service depending on the product category and customer. These may be summarized in to: • Product Availability • Order Cycle Time • Distribution System Flexibility • Distribution System Information • Distribution System Malfunction • Post Sale Product Support	Put up TP 7-5: Key Elements of Customer Service. TP 7-6: Customer Service Elements (HO 7-2). Discuss these transparencies in some detail. Give examples or ask the participants to think of examples of each. Reference in Readings for Instructors 6-4. Could use discussion questions 3 and 6 from Instructor Notes 7-1.
The expectations of managers is that customer service performance will be higher.	How would your customers rate you? Fill out HO 7-3 a sample customer service survey for a specific customer and product or for one of your suppliers. Discuss some of the charts in TP 7-7: Trends in Customer Service Expectations. Hand out a reading containing results of a study of customer service in the U.S. Discuss those of interest (HO 7-4).
IV. Inventory (Stock) Management Inventory can be managed at the raw material or component level, the work-in-process level, and the finished goods level. This discussion focuses on the latter.	Refer to Readings for Instructor 6-4 (pp. 393-394; 396-399).
Unless the manufacturer only produces when an order is received, there will probably be an amount of finished goods inventory. Some industries have half of their assets tied up in some form of inventory. Wholesalers and retailers basically stock inventory for other businesses or consumers.	A detailed discussion of inventory management, including forecasting, economic order quantities, and distribution resource planning is beyond the scope of this discussion. The interested reader should consult HO 7-5.
This inventory costs money that could be used other places in the business so it should	Discuss HO 7-6 on ABC Analysis. Ask participants to fill out for five of their own

CONTENT	PROCESS
be managed carefully. Certain key products should be managed more carefully than others. For example, those products more sensitive to delivery time or the largest selling items, or the most expensive items require more attention. These could be classified as "A" products according to ABC inventory analysis. C items would require the least attention unless there is a change in their status, such as becoming a faster selling item. The just-in-time movement is an effort to reduce inventory. Supply chain management began as a way to decrease inventory throughout the channel of distribution, regardless of how many companies are involved. If inventory is to be kept in anticipation of consumer demand, then the decision of how much and where to keep it is critical because of the cost implications and the service implications. Especially in international trade, there may be multiple levels at which inventory is kept. For example, if there is inventory at the plant and at a foreign location, then the manager must decide how much inventory to keep where. Adding more levels or stocking locations at a level additionally increases management's attention to inventory. One approach to handling this is distribution resource planning which can be done by hand or on a computer. This system follows the effects of customer orders through the inventory levels to help avoid being out of stock.	products now and then do the others on their own time. Were the most important products determined by annual volume times value the ones that they would have assumed to be most important?

CONTENT	PROCESS
V. Cost/Service Tradeoffs	
Holding extra inventory to avoid being without product to sell can be very costly. If there is variability in the amount of product ordered during a period, then much extra inventory must be kept to avoid being out of stock. This is illustrated in the transparency.	Follow a progression from TP 7-8 a constant demand situation to TP 7-9 a variable demand situation to TP 7-10 and HO 7-7 Cost/Service Tradeoff Take some examples on the curve and show how much change there might be. Point out that this line would be flat if demand were constant as in TP 7-8. (If there is no uncertainty, there is no reason to add safety stock. The more uncertainty the more safety stock.)
The high cost results from uncertainty in the marketplace and from trying to have enough inventory on hand to fill any order that might arrive. The extra stock kept above normal sales levels is known as safety stock. At some point it is not feasible to carry so much safety stock so the possibility of being out of stock occurs. Since this is the most important customer service characteristic, there must be some tradeoff between customer service levels and inventory amounts kept in stock.	
With this brief introduction, we will now examine the impact of where we keep inventory on the cost of a system.	Show first segment of the Holland video on ocean transportation. Stop at air example. Refer to HO 7-8: Math Examples from Holland Video - Centralization/ decentralization Exercise.
Another issue is where to stock the inventory. Should it be held centrally or closer to the customers? Holding centrally avoids extra safety stock (the cost service curve) but will have longer delivery times. Decentralizing inventory results in shorter delivery times but perhaps more investment.	TP 7-11: Overview of Holland Video. Instructor Notes 7-2.
Let's examine the cost and inventory implications of some different alternatives. We	

CONTENT	PROCESS
will use a video and the Handout HO 7-5 to discuss these issues.	
VI. Customs and Importing Regulations	
A. Customs Taxes: Importing to United States	
The U.S. Customs Service is part of the Treasury Department. It enforces the laws of other government agencies, such food and drug regulations.	
A buyer must file a bill of lading and an entry blank (must be in U.S. dollars).	
Merchandise Valuation	
If there are different values in the carton, all are assessed at highest value.	
1. Ad valorem duties. There are several different ways of determining value because there are many different kinds of goods:	Put up TP 7-12: Merchandise Valuation in the U.S.
• Transaction value - price actually paid (most common) • Deductive- resale price in the U.S. • Computed - cost of production and distribution to U.S. plus profit	
2. Import quotas	
A quantity quota is the absolute quantity importable during a particular time period. Once that	

CONTENT	PROCESS
total quantity is reached, no more of that good can be imported until the next time period. A tariff quota assesses higher duties above a certain quantity of goods brought in during a period. Above the threshold, the duty to bring a good in is higher. What to do if can't or don't want to bring goods into the country? Put in a bonded warehouse or a foreign trade zone (discussed below).	Indicate HO 7-9 synopsis of the U.S. regulations.
B. Customs Taxes: Importing to Poland	Indicate HO 7-10 synopsis of Polish regulations.
C. Free Ports or Foreign Trade Zones. There are over 300 free ports, free trade zones, and similar customs - privileged facilities in at least 75 countries. These are usually at or near sea ports or airports. The regulations of these ports vary among countries. In the U.S., foreign trade zones are considered outside U.S. Customs territory. Activities usually performed overseas to avoid customs charges or laws of federal agencies administered by the U.S. Customs Service can be done in the foreign trade zone. No duties are charged on imported goods unless the goods are brought into customs territory. Materials can be brought from other countries, assembled, and shipped on to other countries without paying U.S. duties. Foreign trade zones were designed to	TP 7-13: Foreign Trade Zones and Bonded Warehouses.

CONTENT	PROCESS
overcome the expense, delay and inconvenience of drawbacks for exporting manufactured goods. Drawbacks are refunds for import duties if the goods are subsequently sent back out of the country. There is no resident population. Permissible uses: manufacture goods, exhibitions, transport, examine goods prior to entry. <u>Free ports</u> in other countries also facilitate re-export trade. Examples include: Bremerhaven, Copenhagen, Hamburg, and Stockholm. <u>Free trade ports</u> are not the same as free ports. Hong Kong or Singapore where goods are brought into the country duty free for redistribution to other countries. <u>Bonded Warehouses</u> Goods can be warehoused without paying U.S. duties. Once goods are released from the warehouse they are subject to duties. Thus, goods can be shipped to the U.S. in anticipation of sales and kept in a bonded warehouse. Duties are only paid when and order is received and the goods to removed from the warehouse for delivery. The following can be done without incurring import duties: 1. Handle and repack. 2. Some types permit limited manufacturing and reexport. 3. Goods can be withdrawn for	

CONTENT	PROCESS
entry, export, or transport to another port.	
VII. Documentation	Hand out a reading on documentation for international shipment (HO 7-11).
Government documents:	Put up TP 7-14: Documentation for an International Shipment.
Shippers export declaration (U.S.) tells who, to where, who's handling the shipment, a description of the goods.	Put up TP 7-14a: Three Most Common Mistakes.
	Discuss TP 7-15: Export Documentation - Commercial and Consular Invoices
Import entry (U.S.) for assessing import duties.	Hand out a reading on bill of lading, invoice, letter of instruction(7-12)
Foreign governments require consular invoices or certificates of origin	More on bills of lading in HO 7-13.
	TP 7-16: Export Documentation - Packing List.
Commercial documents:	TP 7-17: Export Documentation - Bill of Lading.
Ocean bill of lading - Often the title to the shipment is also the receipt for the shipment. The contract for the shipment should be clean - no qualifying clauses.	TP 7-18: Export Documentation - Certificate of Origin, Dock Receipts.
	HO 7-14: Mueller Brass case study if time.
VIII. Insurance	Ask participants "Why have insurance when someone else is liable?"
Everybody needs it.	One possible answer: to get your money and let the insurance company worry about ligation.
The loss record of the shipper is most important in determining rates. Insurance companies reward good packing methods.	TP 7-19: Insurance
The exporter needs coverage until bill of lading transfers ownership if it is a credit sale.	Discuss TP 7-20 and HO 7-15: Insurance Responsibility.
	Indicate HO 7-16: Insurance Glossary for their information. Would not go over it in class.
	May not want to cover all of the intricacies

CONTENT	PROCESS
Types of risks Can choose coverage with marine insurance 1. Free of damage - covers only total loss. 2. Fire and sea perils - ship damage caused by fire or sea. 3. Fire or sea perils in average - same as (2) but don't have to show storm damage, sunk, or burned. on fire, or in collision. 4. Named perils - all from 3. plus others, such as fresh water damage, fuel oil damage, pilferage, non delivery, breakage. 5. All risk - all losses due to external cause except war, strike, riots. Can also insure for import duties or profit with Marine insurance (usually insure for all known costs plus 10 %) Losses covered under marine policies Particular average is damage to the goods themselves. The limit of liability is the amount of the policy. Can cover: • Total loss. • Reparable loss - can repair if damaged. • Replaceable loss - must replace if damaged. • Depreciation loss in value of shipment General average is loss or damage common to the entire venture. For example, some	of insurance listed here. Need to judge the interest level of the audience.

CONTENT	PROCESS
goods may be sacrificed to save the voyage. Then everyone with cargo contributes to lost party (including the party at loss).	
IX. Packing	Put up TP 7-21: Packing.
Now consider the actual, physical movement of the goods.	Go through example from HO 7-12, TP7-22 on how charges differ by weight and measure.
Packing is more important in international trade because it is harder to return and takes longer.	
Packing is the responsibility of the exporter. The exporter may receive special packing instructions from the buyer.	
Safety in transportation and port handling:	
The more times a shipment is handled, the more possible damage and loss, such as vibration or load shifts in railroad cars or trucks.	
Other packing considerations:	May want to review some of the XYZ or ABC documents for example of weight and measure.
(a) Freight rates based on "weight or measure," whichever is larger. Additional packing material can add bulk and/or weight.	
(b) Weight - gross weight including all packaging.	
(c) Measure - disassemble to reduce overall size of product. (It may ship better disassembled anyway.)	
Customs often charges on weight (gross or net). Sometimes charge less if knocked down (disassembled) rather than set up.	

CONTENT	PROCESS
Reconciling conflicting packing factors: (a) safety - increase weight, (b) economy - more packing costs. Marking export shipments - need to be clearly marked (may want to stencil so it doesn't smear): (a) consignee's name (b) destination (c) routing instructions (d) data such as weight, measure dimensions) (e) *made in Poland* rather than the shipper's name to reduce pilferage.	
X. Checklist: The Movement of Goods	Have the participants work on HO 7-17.

TP 7-1

International Entrepreneurship Course

Unit 7: International Goods Movement

Customer Service

Inventory Management

Cost/Service Tradeoffs

Customs and Importing Regulations

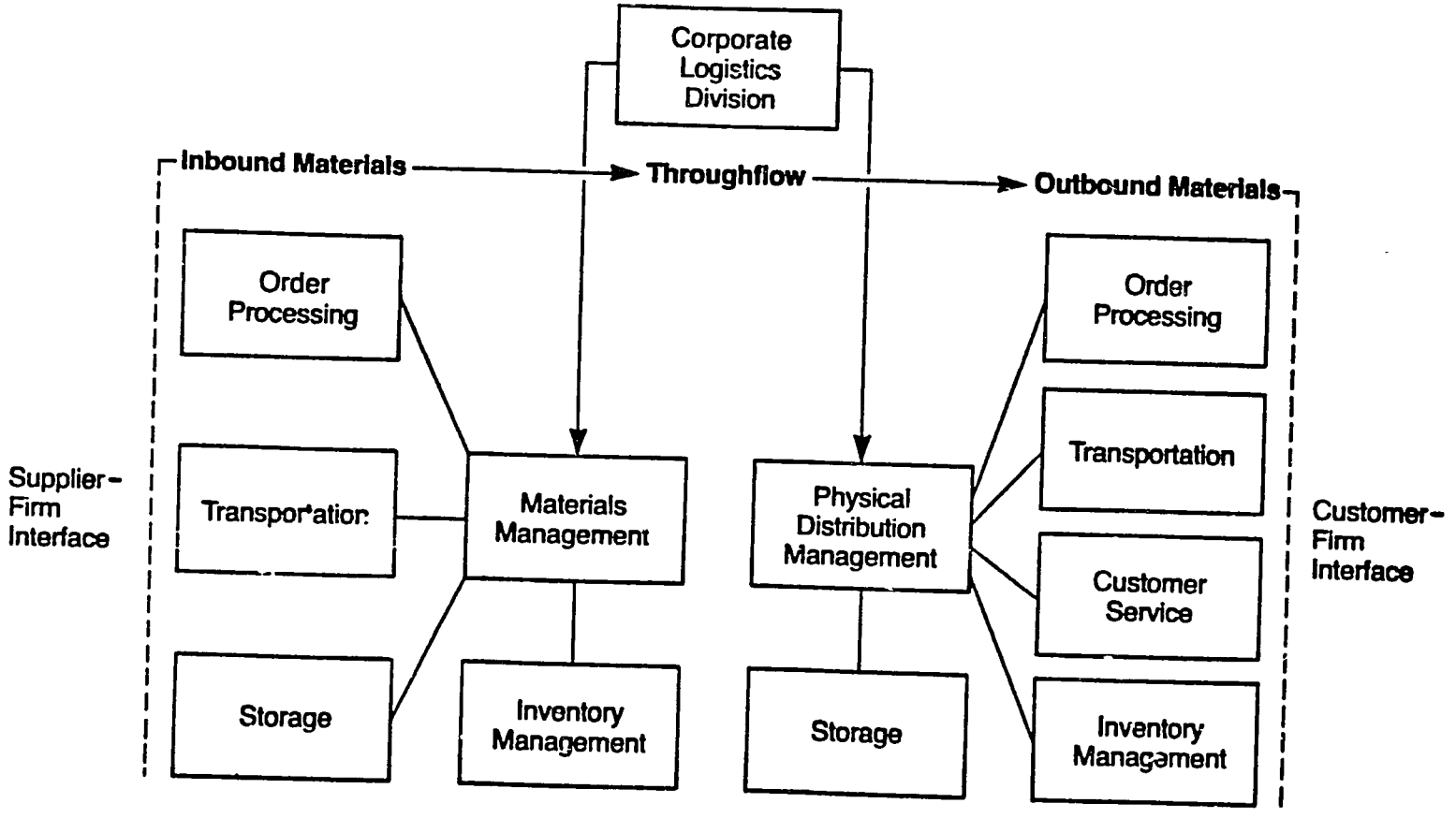
- Customs Taxes: Importing to United States
- Customs Taxes: Importing to Poland

Documentation

Insurance

Packing

The Logistics Function



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TP 7-2

TP 7-3

WHAT IS CUSTOMER SERVICE?

- A complaint department
- A performance expectation
- A corporate philosophy

Customer service is a *PROCESS* for providing significant *VALUE-ADDED* benefits to the supply chain in a *COST-EFFECTIVE* way.

THE FIVE RIGHTS OF LOGISTICS:

- Deliver the right product or service
- at the right TIME
- in the right PLACE
- at the right PRICE
- in the right CONDITION

KEY ELEMENTS OF CUSTOMER SERVICE

Element	Brief Description	Typical measurement unit(s)
Product availability	The most common measure of customer service. Usually defined as percent in stock (target performance level) in some base unit (i.e., order, product, dollars.	% availability in base units
Order cycle time	Elapsed time from order placement to order receipt. Usually measured in time units and variation from standard or target order cycle. Note: frequently, product availability and order cycle time combined into one standard. For example, "95% of orders delivered within 10 days."	Speed and consistency measurement base
Distribution system flexibility	Ability of system to respond to special and/or unexpected needs of customer. Includes expedite and substitute capability.	Response time to special requests

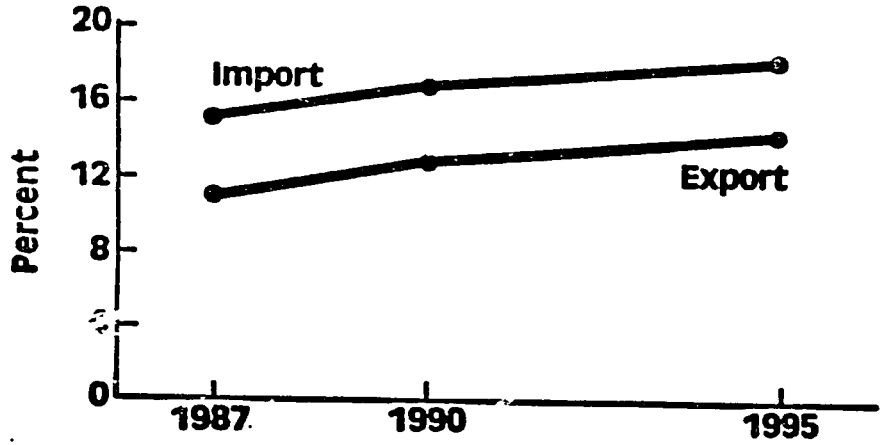
Source: La Londe, B.J. and P. Zinszer, *Customer Service*, Oak Brook, IL: National Council of Physical Distribution Management, 1976.

KEY ELEMENTS OF CUSTOMER SERVICE

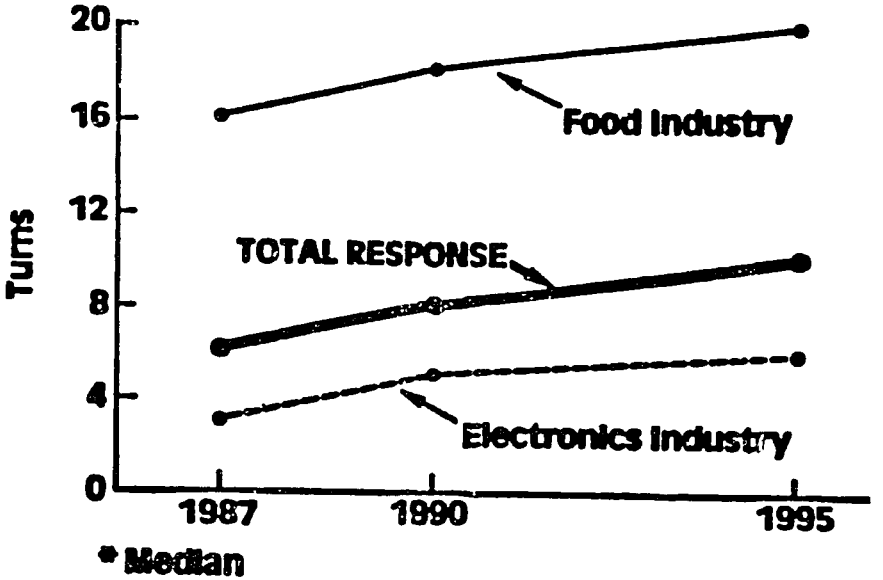
Element	Brief Description	Typical measurement unit(s)
Distribution system information	Ability of information system of firm to respond in timely and accurate manner to customers' request for information.	Speed, accuracy, and message detail of response
Distribution system malfunction	Efficiency of procedures and time required to recover from distribution system malfunction (i.e., errors in billing, shipping, damage, claims).	Response and recovery time requirements
Post sale product support	Efficiency in providing product support after delivery including technical information, spare parts, equipment modification, etc., as appropriate.	Response time quality of response

Source: La Londe, B.J. and P. Zinszer, *Customer Service*, Oak Brook, IL: National Council of Physical Distribution Management, 1976.

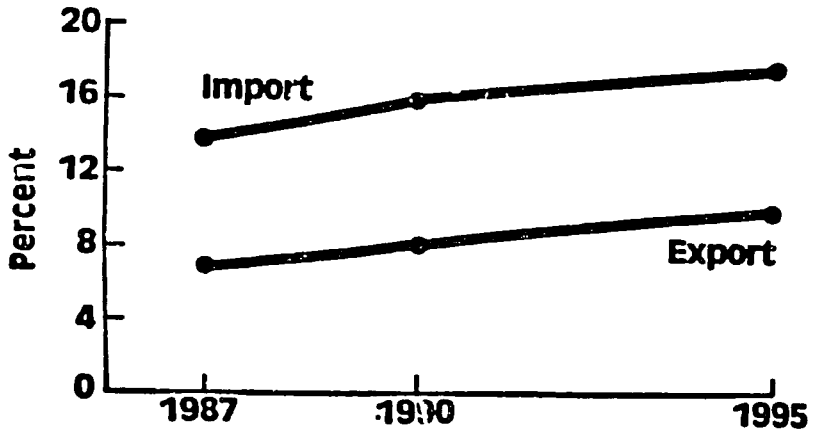
IMPORT/EXPORT PATTERNS FOR FINISHED GOODS



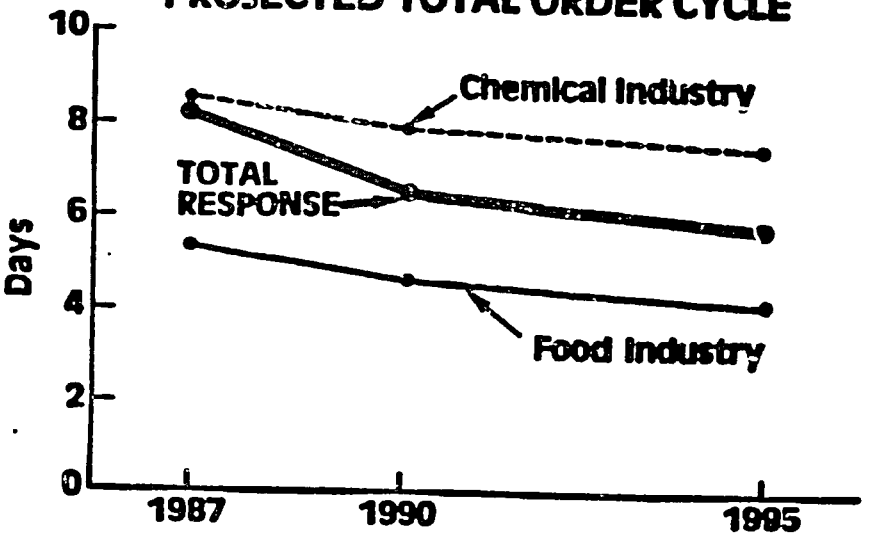
PROJECTED INVENTORY TURNOVER*— AT PLANT WAREHOUSE



IMPORT/EXPORT PATTERNS FOR RAW MATERIALS, SEMI-FINISHED GOODS



PROJECTED TOTAL ORDER CYCLE



Source: LaLonde, Cooper, Noortewier, Customer Service: A Management Perspective, Oak Borok, Il.: Council of Logistics Management, 1988.

TP 7-7a

ABC ANALYSIS

C = Item Cost

D = Annual Demand

In Price Order

Item	C	D	C * D
1	$10	$ 900	$ 9000
2	5	2400	12000
3	5	12000	60000
4	3	600	1800
5	1	18000	18000

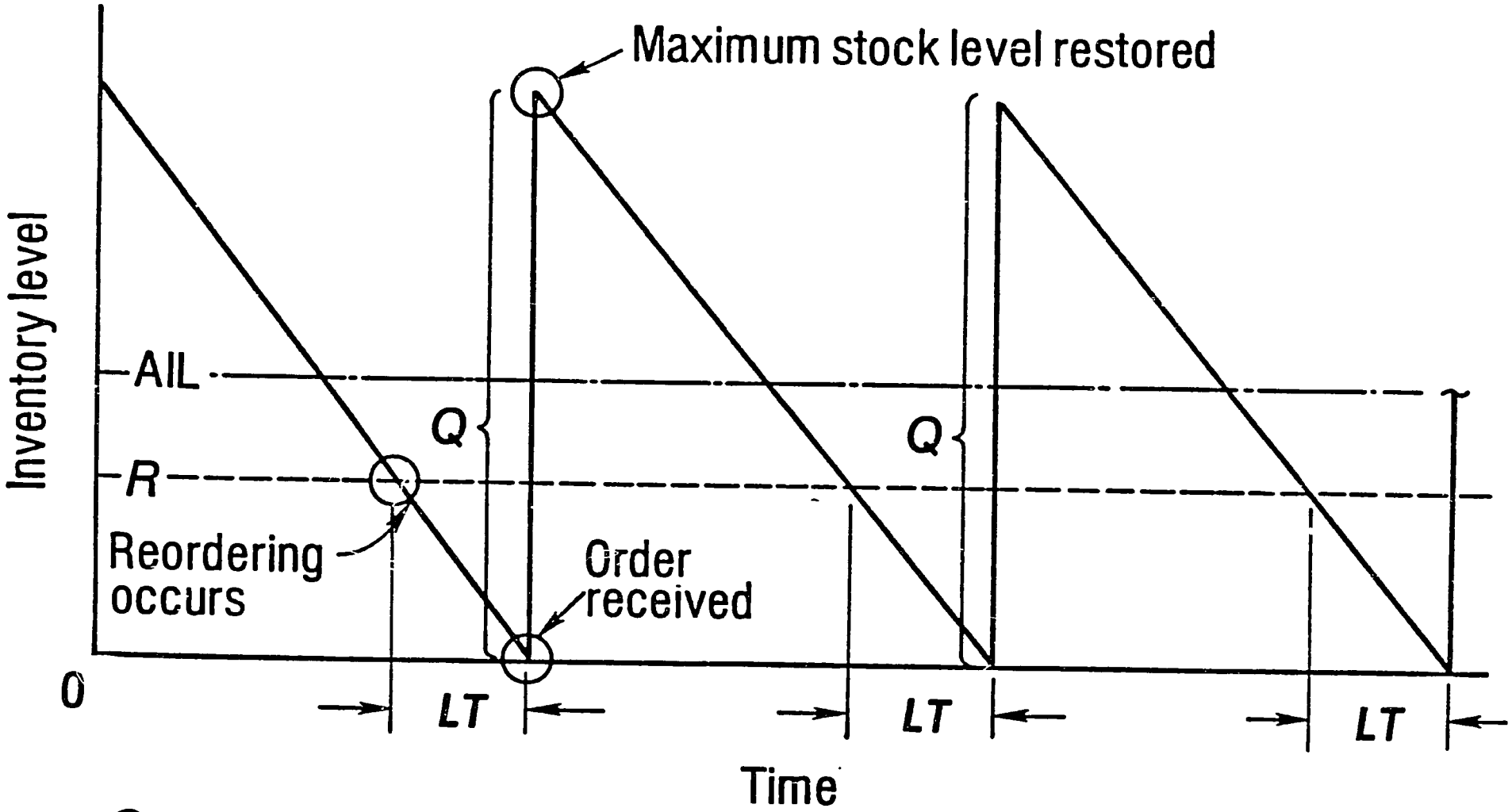
In Demand Order

Item	C	D	C * D
5	$ 1	18000	$18000
3	5	12000	60000
2	5	2400	12000
1	10	900	9000
4	3	600	1800

In Value Order

Item	C	D	C * D
3	$ 5	12000	$60000
5	1	18000	18000
2	5	2400	12000
1	10	900	9000
4	3	600	1800

Control of an inventory item under certainty conditions



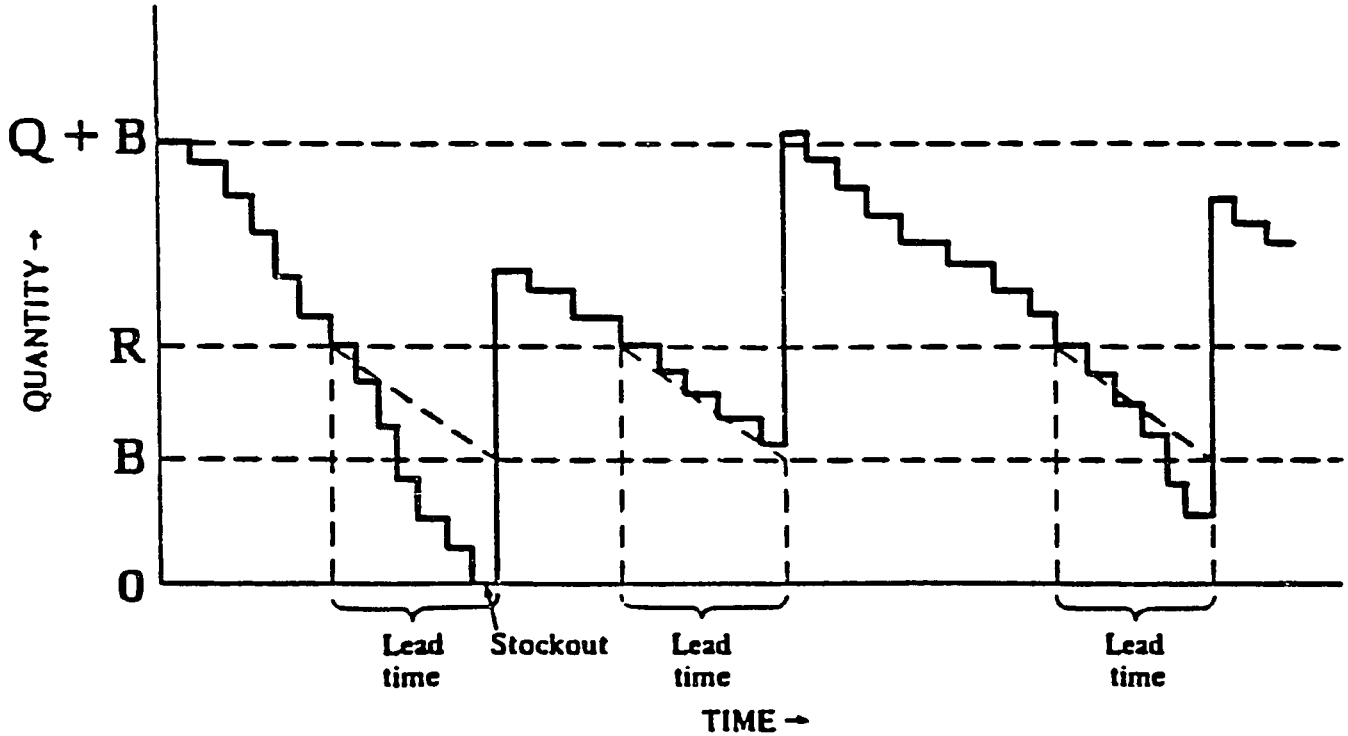
Q = quantity ordered
LT = lead time
AIL = average inventory level
R = reorder point quantity

Source: Ballow, R. Business Logistics Management.

Stochastic (Variable) Inventory Models

Relax the assumption that demand is constant.

Source: Ballow, R. Business Logistics Management.

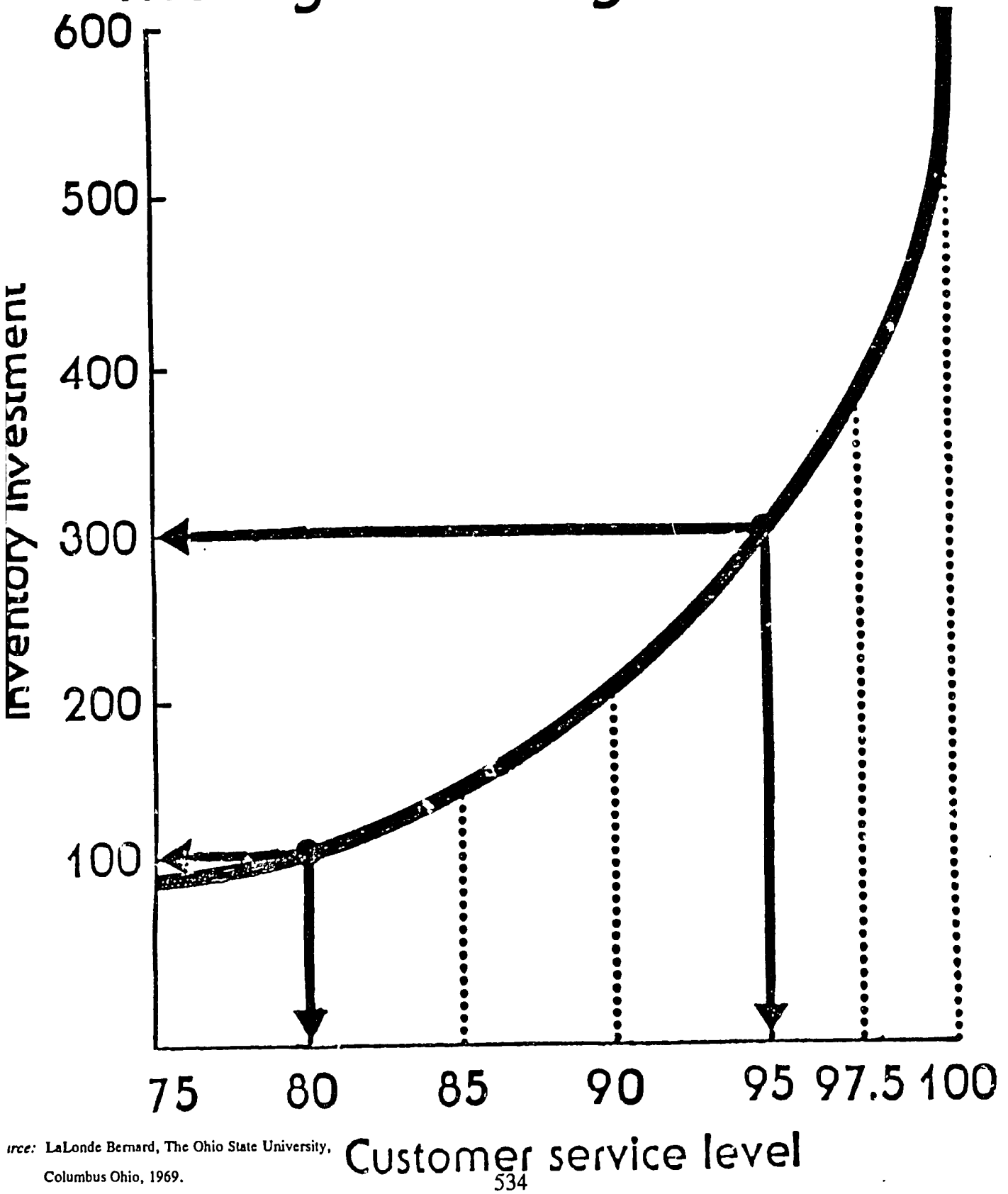


B = safety stock

R = reorder point, which includes safety stock (not the same as R for deterministic models).

Customer service and inventory investment

The high cost of good service



rce: LaLonde Bernard, The Ohio State University, Columbus Ohio, 1969.

TP 7-11

CENTRAL DISTRIBUTION EXERCISE

Modules:

sea-truck

air-truck

warehousing

Objective:

To evaluate different international distribution strategies, specifically centralized versus decentralized distribution.

TP 7-12

MERCHANDISE VALUATION IN THE U.S.

The highest value in the carton.

Duties based on:

Transaction value -price actually paid (most common)

Transaction value of identical goods

Transaction value of similar goods

Deductive - resale price in the U.S.

Computed - cost of production and distribution to U.S. plus profit

Import quotas

Quantity - limit to quantity importable during a time period

Tariff - assesses higher duty above certain quantity

TP 7-13

AVOIDING OR POSTPONING IMPORT DUTIES

U.S. Foreign Trade Zone - Outside U.S. Customs Territory

Permissible uses:
- Manufacture goods
- Exhibitions
- Transport
- Examine goods prior to entry

Free ports in other countries

Facilitate re-export trade

Free trade ports

Not the same as free ports

Goods are brought into the country duty free for redistribution to other countries.

Bonded Warehouses

Goods warehoused without paying U.S. duties

Until removed from the warehouse for delivery

TP 7-14

DOCUMENTATION FOR AN INTERNATIONAL SHIPMENT

A. Documents required by the U.S government

1. Shipper's export declaration
2. Export license

B. Commercial documents

1. Commercial invoice
2. Packing list
3. Inland bill of lading
4. Dock receipt
5. Bill of lading on airway bill
6. Insurance policies or certificates
7. Shipper's declaration for dangerous goods

C. Import documents

1. Import license
2. Foreign exchange license
3. Certificate of origin
4. Consular invoice
5. Customs invoice

Source: M. Czinkota, I. Ronkainen International Marketing. Second Edition. Copyright © 1990, The Dryden Press. Tab. 12.8. p.377.

TP 7-14a

THREE MOST COMMON MISTAKES WHEN IMPORTING INTO THE USA

- Complete Commercial Invoice in English
  - Good Description of Commodity (picture item in your mind from description)
- Follow country of origin markings required
  - Some exceptions can be ignored
- Packing List information required by U.S. Customs
  - Packing list itself isn't included

TP 7-15

EXPORT DOCUMENTATION
* EXPORT COLLECTION DOCUMENTS *

- COMMERCIAL INVOICE
  - general header and line item information
  - origin of goods
  - export markings
  - destination control statement
  - letter of credit number (if applicable)
  - legalization, countersigning may be required

- CONSULAR INVOICE
  - special form of invoice
  - typical in Latin America
  - language of destination country
  - certified by resident consul

Source: R. Smith IMPEX, Columbus, Ohio 1992.

TP 7-16

EXPORT DOCUMENTATION
* EXPORT SHIPMENT DOCUMENTS *

- <u>EXPORT PACKING LIST</u>

  - USES:
    - forwarder - booking requests
    - port of export - cargo loading check off
    - customs - checks/inspections
    - buyer - inventory list

  - DETAILED:
    - itemized list for each package
    - type of package
    - net, tare and gross weights
    - measurements of each package
    - package markings indicated

Source: R. Smith, IMPEX, Columbus OHIO, 1992.

TP 7-17

EXPORT DOCUMENTATION

* COLLECTION DOCUMENTS *

(Continued)

- INSURANCE CERTIFICATES
  - for seller provided marine insurance
  - certifies type and amount of coverage

- BILLS OF LADING
  - CARRIERS
    - ocean bill of lading
    - truck/rail bill of lading
    - air waybill

  - FORWARDERS
    - house

  * "CLEAN ON BOARD" BILL OF LADING REQUIRED FOR DRAFTS AND LETTER OF CREDITS

Source: R. Smith, IMPEX, Columbus Ohio, 1992.

EXPORT DOCUMENTATION

* COLLECTION DOCUMENTS *

(Continued)

- CERTIFICATE OF ORIGIN
  - separate certificate
  - legalization, countersigning may be required
  - generally special form required

- INSPECTION CERTIFICATES
  - certificate of quality, quantity, conformity
  - affidavit by shipper or INDPT Inspector

- DOCK RECEIPTS, WAREHOUSE RECEIPTS
  - used for FOB and FAS port or export shipments
  - receipt confirmation at pier or warehouse

- CERTIFICATE OF MANUFACTURE
  - used when payment prior to shipment but after manufacture

Source: R. Smith, IMPEX, Columbus Ohio, 1992

TP 7-19

INSURANCE

Everybody needs it

Types of risks

- Free of damage
- Fire and sea perils
- Named perils
- All risk

Losses covered under marine policies

- Particular average is damage to the goods themselves
  - Total loss
  - Reparable loss - can repair if damaged
  - Replaceable loss - must replace if damaged
  - Depreciation loss in value of shipment
- General average is shared loss

INSURANCE RESPONSIBILITY UNDER THE PRINCIPAL FOREIGN TRADE TERMS

WHO MUST BE RESPONSIBLE FOR ANY LOSS OR DAMAGE

TERMS OF SALE	Seller:	Buyer:	WHO MUST INSURE:
FAS VESSEL — Port of Export Seller's invoice includes delivery of goods along side overseas vessel within reach of loading tackle.	Until the goods have been delivered along side the vessel or on the dock at the designated port of export.	From the time the goods are delivered along side the vessel or on the dock and thereafter until final delivery at ultimate destination.	Buyer must provide and pay for Marine Insurance.
FOB VESSEL — Port of Export Seller's invoice includes all expenses up to and including delivery of the goods on board overseas vessel at named port.	Until the goods have been placed on board the overseas vessel (Bill of Lading issued).	After goods have been loaded on board the vessel and thereafter until final delivery at ultimate destination.	Note: Seller should insure his risk of loss to the goods until they have been delivered FOB or FAS vessel.
C&F — Point of Destination Seller's invoice includes the cost of transportation to the named point of destination.	Until the goods have been delivered into the custody of the ocean carrier (where received-for-shipment Bill of Lading may be issued) or until the goods are placed on board the overseas vessel (where On Board Bill of Lading is issued).	From the time goods are delivered into the custody of the ocean carrier or on board the vessel.	Buyer must provide and pay for Marine Insurance. Note: Seller should insure his risk of loss until the goods have been delivered into the custody of the overseas carrier.
CIF — Point of Destination Seller's invoice includes the costs of Marine Insurance and transportation to the named point of destination.	Same as under C&F terms except that seller is also obligated to provide and pay for Marine Insurance to the named point of destination.	Same as under C&F terms except that the buyer is given the benefit of the insurance placed by the seller and is responsible effecting settlement of any claims at point of destination.	Seller must provide and pay for Marine Insurance.

Source: Kramer R.oland L., International Marketing 1970, Text Book. Copyright © South-Western Publishing Co.,

PACKING

The responsibility of the exporter.
May receive special packing instructions from the buyer

The more times a shipment is handled, the more possible damage and loss.

Freight rates based on "weight or measure," whichever is larger. Additional packing material can add bulk and/or weight.

(a) Weight - gross weight including all packaging
(b) Measure - disassemble to reduce overall size of product

May ship better and lower import duties.

Reconciling conflicting packing factors

(a) safety - increased weight
(b) economy - additional packing costs more.

The ocean freight rate is based on commodity classification and weight or cube, whichever is the greater revenue.

Example:

Minimum bill of lading rate to the Middle East is $500.00

Ocean freight rate is $250.00 per ton

If the shipment only weighs 2,204# (metric ton) and is only 35.3 cubic feet, the S/S line would charge the minimum bill of lading rate in order to receive the higher revenue.

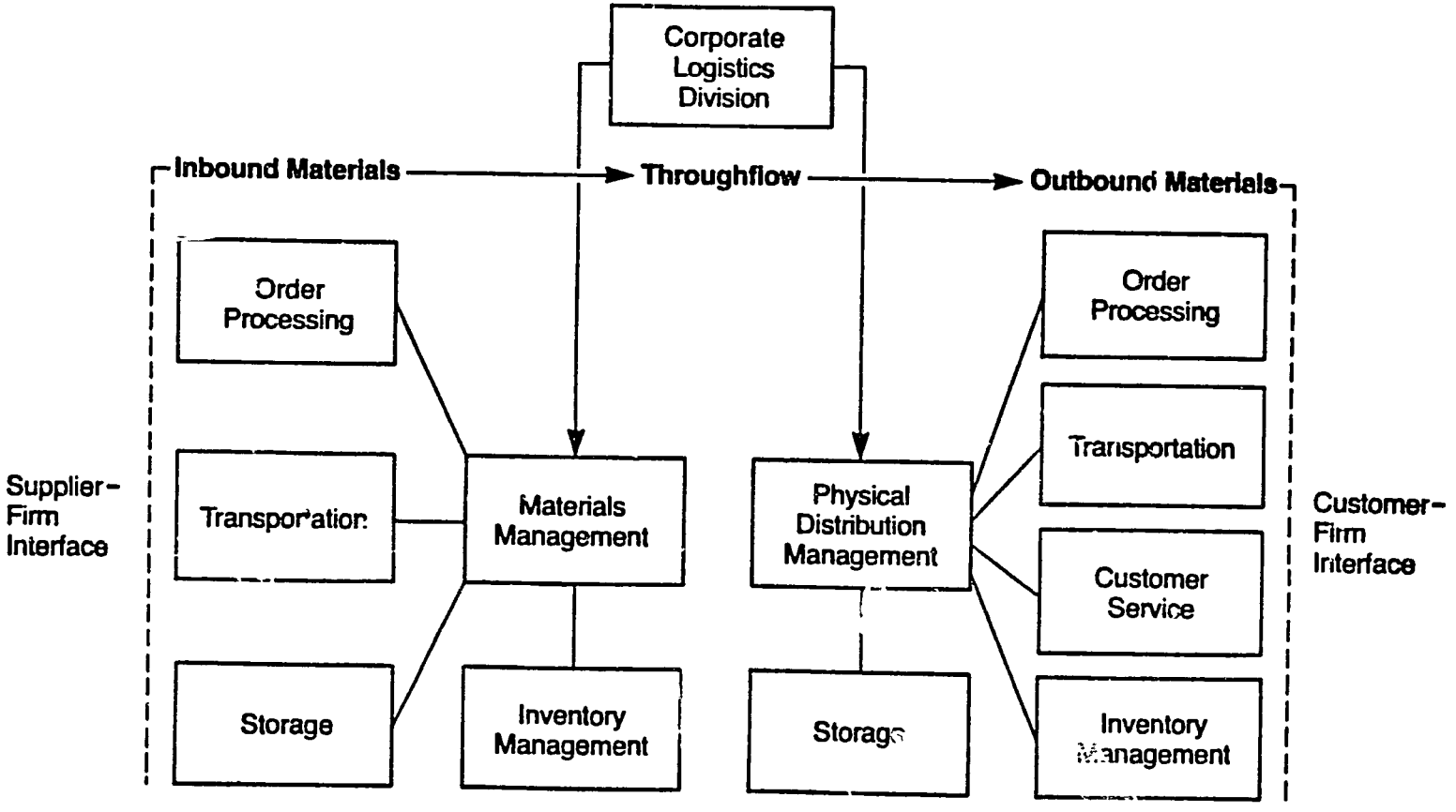
In contrast, if the shipment weighs 35,000# and is 650 cubic feet, it would be based on the cube.

35,000# divided by 2204 = 15.8 ton
650 cubic feet divided by 35.3 = 18.4 ton

$250.00 o/f	$250.00 o/f
x15.8 ton	x 18.4 ton
$3,950.00	$4,600.00

Source: Documentation of Inquiries, Quotations, Preforms, Pricing, Order Entry and Shipping. Michigan Community College.

The Logistics Function



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KEY ELEMENTS OF CUSTOMER SERVICE

Element	Brief Description	TYPICAL MEASUREMENT UNIT(S)
Product availability	The most common measure of customer service. Usually defined as percent in stock (target performance level) in some base unit (i.e., order, product, dollars.)	% availability in base unit
Order cycle	Elapsed time from order placement to order receipt. Usually measured in time units and variation from standard or target order cycle. *Note* frequently, product availability and order cycle time combined into one standard. For example, "95% of orders delivered within 10 days".	Speed and consistency measurement base
Distribution system flexibility	Ability of system to respond to special and/or unexpected needs of customer. Includes expedite and substitute capability.	Response time to special requests
Distribution system information	Ability of information system of firm to respond in timely and accurate manner to customers' request for information.	Speed, accuracy, and message detail of response
Distribution system malfunction	Efficiency of procedures and time required to recover from distribution system malfunction (i.e., errors in billing, shipping, damage, claims)	Response and recovery time requirements
Post sale product support	Efficiency in providing product support after delivery including technical information, spare parts equipment modification, etc., as appropriate.	Response time quality of response

Source: La Londe, B.J. and Zinszer P., Customer Service, Oak Brook, Il.: National Council of Physical Distribution Management, 1976.

Customer Service Questionnaire*

Listed below are a number of service elements which companies may provide to customers. In Column "2" list your most important supplier and in Column "3" list your second most import supplier. Within each column there are letters E, G, F, P, and N.O. Please evaluate each of your suppliers based on: E = Excellent, G = Good, F = Fair, P = Poor, and N.O. Opinion.

Service Element	(1)	(2) Specify (_____) (Most important supplier other than)	(3) Specify (_____) (Second most important supplier other than)
A. PRODUCT AVAILABILITY			
1. Product availability	E G F P N.O.	E G F P N.O.	E G F P N.O.
2. % of orders shipped complete	E G F P N.O.	E G F P N.O.	E G F P N.O.
B. ORDER CYCLE TIME			
1. Speed of delivery	E G F P N.O.	E G F P N.O.	E G F P N.O.
2. Consistent on-time delivery	E G F P N.O.	E G F P N.O.	E G F P N.O.
C. ORDER HANDLING/SHIPPING			
1. Adherence to customers' special shipping instructions	E G F P N.O.	E G F P N.O.	E G F P N.O.
2. Ability to expedite orders to customers	E G F P N.O.	E G F P N.O.	E G F P N.O.
3. Order entry procedures	E G F P N.O.	E G F P N.O.	E G F P N.O.
4. Order entry personnel	E G F P N.O.	E G F P N.O.	E G F P N.O.
5. Transportation policy	E G F P N.O.	E G F P N.O.	E G F P N.O.
6. Speed & accuracy in billing	E G F P N.O.	E G F P N.O.	E G F P N.O.
7. Expedient handling of billing errors & Credits	E G F P N.O.	E G F P N.O.	E G F P N.O.
8. Handling of adjustment claims	E G F P N.O.	E G F P N.O.	E G F P N.O.
9. Availability of technical information	E G F P N.O.	E G F P N.O.	E G F P N.O.
D. FINANCIAL TERMS			
1. Cash discount	E G F P N.O.	E G F P N.O.	E G F P N.O.
2. Payment period	E G F P N.O.	E G F P N.O.	E G F P N.O.
3. Pricing policy	E G F P N.O.	E G F P N.O.	E G F P N.O.

Service Element	(1)	(2) Specify (_____) (Most important supplier other than)	(3) Specify (_____) (Second most important supplier other than)
E. GENERAL MARKETING SUPPORT			
1. Knowledgeable sales representatives	E G F P N.O.	E G F P N.O.	E G F P N.O.
2. Availability of product information to you	E G F P N.O.	E G F P N.O.	E G F P N.O.
3. Availability of promotion and pricing materials to customers	E G F P N.O.	E G F P N.O.	E G F P N.O.
4. Knowledgeable Technical Service	E G F P N.O.	E G F P N.O.	E G F P N.O.
F. INFORMATION AVAILABILITY			
1. Order status information	E G F P N.O.	E G F P N.O.	E G F P N.O.
2. Advance information on price changes	E G F P N.O.	E G F P N.O.	E G F P N.O.
3. Advance information on new products	E G F P N.O.	E G F P N.O.	E G F P N.O.
4. Availability of inventory status	E G F P N.O.	E G F P N.O.	E G F P N.O.
5. Advance information on shipping delays	E G F P N.O.	E G F P N.O.	E G F P N.O.
6. Advance information on order deletions and substitutions	E G F P N.O.	E G F P N.O.	E G F P N.O.
7. Back Order status	E G F P N.O.	E G F P N.O.	E G F P N.O.
G. PHYSICAL DISTRIBUTION			
1. Product identification	E G F P N.O.	E G F P N.O.	E G F P N.O.
2. Order filling accuracy	E G F P N.O.	E G F P N.O.	E G F P N.O.
3. Procedure for returned goods	E G F P N.O.	E G F P N.O.	E G F P N.O.

Please use space below to note any additional ideas or comments you may have relative to our service.

CLASSIFICATION INFORMATION (FOR TABULATION PURPOSE ONLY)

1. Type of Business_____

2. Primary End Use of Product_____

3. Job Title of Person Responding to This Questionnaire_____

**Source:* La Londe, Bernard J. Ohio State University.

Executive Summary*

Introduction

In 1976, the Council of Logistics Management sponsored what was the first systematic and comprehensive industry-wide study of customer service. The publication of the study, entitled *Customer Service: Meaning and Measurement* (La Londe and Zinszer, 1976) provided an important source of information for focusing management attention on this important area.

The original study was prompted by a number of external and internal factors on the business scene. The oil boycott in the early 1970's was causing continuing problems with managing corporate resources. Transportation costs were increasing; the cost of money had escalated to new highs; and inflation was a wild card which created a huge measure of uncertainty. Traditional ways of meeting customer needs through accumulation of inventory and field warehousing were called into question by corporate management. Companies reached the point where they had to re-evaluate target service levels. The concept of different levels of service for different customers began to make the rounds in management thinking.

A decade late the Council of Logistics Management decided that the topic of customer service should be re-examined. The reasons prompting the new study were different from those which prompted the original study. Logistics executives in 1987 face a different set of forces in the internal and external environment than their counterparts faced a decade ago. Global supply lines extending thousands of miles are common. Global competition for domestic markets is also a fact of like in the 1980's. Rapid changes in personal computer applications, electronic data interchange, barcoding, and order processing have expanded the technology menu for contemporary logistics managers. Decision support systems such as Distribution Resource Planning (DRP), Materials Requirement Planning (MRP), Direct Product Profitability (DPP), and others have changed the information requirements and decision criteria in many firms. Artificial intelligence and expert systems have enhanced the range and accuracy of decision making for the firm.

Through all of these changes the focus has remained on customers. Successful firms tend to be market or customer driven in their planning processes and in the execution of their plans. Many of the internal and external influences change the process by which companies achieve their objectives, but not the goal of customer satisfaction.

Objectives of the Research

The objectives of the 1987 CLM customer service study are expressed in the following set of questions.

---

* La Londe, B. J.; Cooper, M. C.; & Noordewier, T. G. *Customer Service: A Management Perspective*. Oak Brook, IL: Council of Logistics Management, 1988.

1. What have been the primary themes during the past 10 years in the customer service literature?
2. What are the primary factors that have affected the customer service area in the past decade, and how have they affected the area?
3. How has the customer service baseline changed over the past 10 years?
4. What are the most effective ways to integrate customer service practice into the strategic plan/planning of the firm?
5. What are the most likely future scenarios for the role of customer service in the firm?

The objectives are broadly based by design, and the general objective of the study is to provide a basis for a state-of-the-art profile of customer service practice and policy.

Approach to the Research

The research was designed around three distinct phases. Phase I entailed a comprehensive review of the customer service literature. Research and writings primarily from the period 1976-1986 were reviewed and analyzed by the study team. This analysis resulted in the bibliographies in Appendix H. This analysis also served as input into the design of the questionnaires used in Phase II of the research.

The first part of Phase II included the design of three questionnaires. A detailed 28-page questionnaire was developed for shippers; and focused six-page questionnaires were developed for public/contract warehouse and for transportation companies. These questionnaires were structured around the key study questions. Selected sections of the questionnaires were designed so that shipper responses could be directly compared with carrier and warehouse responses. For example, factor ratings for the shipper and the third party providers could be compared on the same customer service dimensions.

The shipper, carrier, and public warehouse questionnaires were mailed to a net of 1108, 222, and 301 potential respondents, respectively. The return rate for the shippers was 30 percent, for the carriers 40 percent, and for the public/contract warehouse firms the response rate was 41 percent. It should be noted that the target respondents received a letter from the CLM President urging their cooperation approximately one week in advance of the questionnaire. A majority of the respondents were telephoned by a member of the research team after the questionnaire arrived requesting their cooperation in the study.

The questionnaires were coded and verified to create the data base for the research. Based on patterns of response, the study team was able to categorize the responses into eight industry groupings: Food and Related, Chemical and Plastics, Pharmaceutical and Health Care, Automotive, Paper, Electronic, Clothing/Textiles, and Merchandise. All of the detailed survey findings are presented utilizing these eight categories (see the Technical Note, Appendix D, for more details on these categories). Those industries for which there was not sufficient response for a separate category were grouped into "Other Manufacturing." Frequency distributions of the data by each of the 403 study variables were verified by members of the study team. The final results of the survey phase of the research are presented in Appendices A-C. Appendix D of the report is a "Technical Note" which amplifies the classification procedures and other methodological decisions made by the study team.

Phase III of the research consisted of five case studies. The target companies were selected to illustrate key areas of customer service applications. One or two members of the study team visited each company on site to develop the cases. The case write ups are contained in Chapter 7. The companies studied are Caterpillar Inc., Digital Equipment Corporation, Federal Express Corporation, L. L. Bean, and North American Philips Corporation. The case studies were selected to illustrate specific "best practice" areas in customer service. The case study experiences were also used to calibrate and validate the survey findings of the research.

Assumptions

In any study of this magnitude the researchers must make certain decisions regarding data collection, analysis, and presentation. The 1987 CLM Customer Service Study was no exception, and the study team had to make a number of important assumptions regarding study design, data evaluation, and data presentation. The purpose of this section is to share with the reader these important assumptions and how they might impact the interpretation of the results. Some more technically related issues are discussed in Appendix D of this report.

This first important assumption was the design of the target sample for the mail survey. It was decided to target "expert" opinion at the policy/strategy level of the firm. Following this decision a list of carefully chosen senior logistics or distribution executives for the shipper survey and senior transportation or warehousing executives for the third party survey was prepared as the sample base. A significant share of the target sample consisted of members of the Council of Logistics Management. The findings from this survey then are not "average" finding nor are they typical of U.S. industry findings. The results reflect a carefully selected segment of firms that are sensitive to issues of customer service, technology, and integrated logistics management. The findings are designed to represent cutting edge firms who are often leading business practice in customer service and in other areas. The study team chose this approach rather than a random survey of operating practice so that the findings from the survey would point out future direction, not simple describe "average" practice.

A second assumption dealt with the question of definition of terms. It is necessary in questionnaire design to use certain terms (e.g., JIT) for business practices that might be interpreted differently by different respondents. To avoid this circumstance, it would have been necessary to provide a multi-page listing of definitions to accompany the 28-page questionnaire. The study team decided to use the terms themselves and allow respondents to self define them in answering the questions. This, of course, means that in some cases different respondents might define a word or a practice in various ways. The study team felt that on balance there was less to be lost form variable definitions than to be gained from additional questionnaire specification. However, variable respondent definitions for words like JIT, EDI, Contract, etc. could influence the survey results in some areas.

Finally, in preparing this report, the study team has opted for an approach which full discloses the data to the reader. A detailed appendix was prepared after a careful inspection of each of approximately 400 study variables. If the data contained individual responses that were significantly larger or smaller than average, then medians rather than averages were used to describe a finding. If less than 50 percent of a sample cell responded to a specific question it was noted in the findings. Consistent with the design specifications, if less that six (6)

respondents answered a question, the result was not listed due to the non-disclosure policy. Those readers wishing a more technical description of data editing and evaluation should refer to Appendix D.

Definition of Customer Service

It is possible to define customer service in a number of different ways. First, customer service can be defined in an organizational context. That is, customer service can be defined as a set of functions resident in a specific organizational setting. This type o definition would usually state that the "Customer service department is responsible for . . ." A second common definition of customer service is one which reflects a performance expectation. In this type, customer service would be defined as: "Deliver 95% of orders within 7 days."

A third definition of customer service, and one that reflects the underlying design and philosophy of this study, is a "process" view of customer service. In this context, customer service is viewed as a process which takes place between buyer, seller, and third party. The process results in value added to the product or service exchanged. This value added in the exchange process might be short term as in a single transaction or longer term as in a contractual relationship. The value added is also shared, in that each of the parties to the transaction or contract are better off at the completion of the transaction than they were before the transaction took place. Thus, in a process view: *Customer service is a process for providing significant value-added benefits to the supply chain in a cost effective way.*

The respondents to both the 1976 and the 1987 surveys were asked to define customer service in their firms. There are some interesting qualitative differences between the 1976 definitions and the 1987 definitions. The majority of the 1976 respondents defined customer service either as a relatively narrow function (i.e., order entry) or as a performance standard. In 1987, the majority of the definitions were much more process oriented. Where specific functions or service levels were included in the definitions, they were typically imbedded in a broader definition and not stand-alone definition elements. The results of this part of the survey indicate that there has been some broadening of viewpoint on the concept of customer service over the past decade. The contemporary logistics executive views customer service as an important process which spans the functional relationships inside the firm and integrates the relationship with the suppliers and customers outside the firm.

Major Findings

#1 Customer service has moved from a descriptive/reactive activity of the 1970's to a proactive/management activity of the 1980's.

- Customer service awareness is approximately at the same level in 1987 as it was in 1976. What is different is that management now measures it and differentiates the level of service.
- Technology (EDI) is being used to bring customer service on-line and make it proactive.

- Customer service is becoming an important way of strategically differentiating the product (or service) for many firms.
- The evidence suggests that the customer service component of the marketing mix will become more important in the intermediate term future (1987-1990) compared with product, price, and promotion.

#2 Customer service performance expectations are evolving into a window of acceptable performance rather than a specific point or hurdle.

- The findings suggest a range of acceptable customer service performance rather than a specific point. fill rate is a 6 point window (i.e., 89% to 95%); backorder time is approximately 11 days to 17 days.
- Performance below minimum standards may result in punitive actions by the buyer, and performance above expected level may not result in increased market share.
- Acceptable levels of service quality seem to vary by industry; yet they seem to vary within some acceptable range rather than at a point.
- With a good customer, performance failure first results in discussion and then loss of market share.

#3 Information has moved center stage in providing efficient and effective customer service.

- Accurate and timely information has probably become the single most important ingredient of an effective customer service relationship.
- Almost 1 out of 10 orders require some order status information before the product is delivered. Almost a third of respondents can provide this information within 10 minutes; the rest average almost 14 hours.
- Almost 1 out of 10 orders require some type of technical service information from the buyer. The need for technical information is highest in the chemical industry and lowest in the food industry.
- Logistics support agencies understand the importance of information to the shipper and the consignee. "Accuracy of Response to Inquiry" is ranked as most important among all of the customer service factors by both shippers and public warehouses.
- Approximately 7 out of 10 public warehouse respondents report they are in the operational stage of EDI with their customers.

#4 A significant amount of change in logistics systems is buyer-driven rather than sell-driven.

- Pressure for customer service performance is driven by the customer. New technology (i.e., EDI, barcoding, etc.) allows customers to track product and service performance in a real-time information environment.
- Many firms are being forced into EDI applications by their customers' reporting and routine transaction requirements.
- There are a number of cooperative industry action groups which are providing focus and momentum to buyer-seller-logistics support agency efforts to automate or streamline the electronic communications interface.

- Although there is high variance within industry groups, all industry groups feel that there are a number of competitive vendors that can offer a range of substitute products.
- Most firms feel that they are in a strongly competitive market: 2.27 on a scale of 1 to 7, with 1 being "very competitive."

#5 Contractual-driven systems rather than transactional-driven systems are becoming the dominant mode in many logistics systems.

- There is substantial movement toward contractual relationships in both transforation and public warehousing. This movement continues the trend that has been building since the early 1980's.
- The strong growth in JIT and EDI suggests an equally strong movement toward the dominance of contractual relationships over transactional relationships between buyers and sellers.
- The research findings suggest a gap between the "actual" relationship and the "ideal" relationship between shipper and carrier and between shipper and public warehouse.
- It appears that the question of customer service performance is becoming a focus of negotiation between buyer and seller. This negotiation could result in "tailored" customer service for an individual customer rather than an offer of "average" service.

#6 There are significant differences in customer service practices and performance expectations by industry.

- Product flow patterns, product profiles, and customer service practices and policies vary substantially by industry.
- This variance includes different methods for measuring stock availability and other baseline measurements of customer service performance.

#7 The scope of customer service activity in many firms has extended from the domestic to the international sphere of operations.

- As the likelihood of international partners in a global supply chain increases, the customer service performance expectations of both buyer and seller become more complex in scope and execution.
- Respondents report that they anticipate strong gains in both export and import shipments over the intermediate to long term horizon. This trend suggests expanded logistical involvement with vendors, customers, and third party logistics support agencies.

#8 The pressure on customer service performance will continue to increase over the visible horizon.

- All of the survey findings suggest strong pressure from customers, competitors, and new technology to maintain higher standards of customer service. The expectation of the customer is higher and the capability of the customer to monitor performance on a real-time basis is steadily increasing.

- Overall research results indicate that:
  - Inventory turnover at plant warehouses is expected to increase almost two-thirds by 1995.
  - Total order cycle will decrease from 8.5 days in 1987 to 6.4 days in 1990.
  - The proportion of orders transmitted via EDI will increase from 22% in 1987, to 39% in 1990, to 55% in 1995.
  - Outbound barcoded shipments will increase from 19% in 1987, to 49% in 1990, to 67% in 1995.
  - The total number of carriers used by the shipper will decline from 80 carriers in 1987, to 60 carriers in 1990, to 51 carriers in 1995.
  - Volume shipped JIT will increase from 19% of shipments in 1987, to 27% of shipments in 1990, to 32% of shipments in 1995.

Guidelines for Implementation

Based on the survey findings and case analyses, guidelines are suggested below for implementing customer service strategies. The findings indicate that there must be a strategy for customer service to position the firm competitively and that this strategy must be consistently viewed and applied inside and outside the firm.

#1 Recognize Customer Service as a "Boundary Spanning" Process—Both in Function and Geography.

The objectives of a customer service program cannot be achieved within the logistics function alone, regardless of how broadly the function is defined. Other major functions of the firm such as marketing and sales, manufacturing, MIS, etc. must buy into and actively support the objectives of the program. In this sense, an effective customer service program acts as an integrating force within the firm by bringing together diverse functions which play an important role in satisfying the customer. Similarly, effective customer service spans geographic boundaries and allows a global integration of customer-driven marketing strategy.

#2 Customer Service Performance Metrics Should Be Buyer-Focused, Not Seller-Focused.

Customer service metrics, or set of standards, that reflect a customer or buyer orientation rather than a seller orientation are more effective in driving a customer service program. Seller-focused standards can obscure genuine customer needs and delay response time to shifts in new customer requirements. Seller-centered standards insulate management from customer needs and often encourage insensitivity to pressing customer needs.

#3 Search for an Acceptable Range of Service Rather Than a Required Point in the Design of Customer Service Systems.

Most customers view service as a continuum rather than a specific point on a scale of service. This establishes a "window" of acceptable customer service opportunity. Performance within the window is generally acceptable to the customer. Acceptance of this window allows the seller to design a more flexible logistics system, usually with lower costs, and with no penalty in terms of market share or customer goodwill.

#4 Design Information Support Systems Which are Preemptive and Visible to Internal and External Partners.

Information system technology should be designed to answer questions regarding customer service before they are asked. EDI advances allow a flexible and visible technology for buyer-seller communication. Information support systems should provide visible and timely information to not only the customer, but to all of the internal functions which require customer information for successful completion of their objectives.

#5 Learn How to Negotiate in a "Win-Win" Environment.

The evidence suggests a strong shift from the traditional transactional based relationship among buyer and seller and third party to a contractual relationship. This relationship requires basic skills in negotiation, and further, skills in structuring new relationships in a "win-win" context.

#6 Develop and Market a Corporate-Wide Metric Which Provides Accurate and Timely Monitoring of Key Result Areas in Customer Service.

As noted in Guideline #1, customer service standards are not resident exclusively in the logistics function. Boundary spanning standards must be created which are acceptable to all internal and external components that monitor key result areas in customer service. It is important that this metric be broadly based and that the marketing function, the sales organization, manufacturing, and senior management accept and utilize the same set of customer-driven performance expectations.

#7 Develop an Ongoing Process for Scanning Customer Service Input From the External Environment.

Customer service does not exist in a corporate vacuum, but is affected by the competitive environment and other external inputs. In order to insure the relevance of the customer service program to the target customer mix, a method for continuously monitoring the elements of the external environment must be developed, tested, and set in place as a standard management practice.

#8 Link the Corporate Planning Process to Customer Service Performance Expectations.

In a period of rapidly changing technology, the customer service program must be especially sensitive to the overall goals of the corporation. Strategic deployment of corporate resources and decisions on inventory deployment, modal choice, EDI technology, etc. are necessarily linked. The evidence suggests that this linkage will be even more critical in the future as the pace of customer-influenced technology and the range of logistics system options for the typical firm increase.

Organization of the Report

The report is organized into nine chapters and a set of appendices. Chapter 1 is an executive summary of the study and contains the principal findings from the research. Chapter 2 examines the literature and research on customer service for the past decade with a managerial perspective. Chapter 3 provides a contemporary managerial overview of customer service and outlines the corporate role of customer service. Chapter 4 presents the key findings from Part I of the shipper questionnaire. Chapter 5 presents the survey findings from an individual industry perspective. Chapter 6 views customer service from the perspective of the shipper and the third party supplier of logistics services. Chapter 7 presents the findings of a series of five case studies on selected customer service issues. Chapter 8 integrates the study findings and provides a focus for implementation of customer service objectives. Chapter 9 provides a perspective on future issues, technology, and challenges in managing the customer service mission of the firm.

The Appendix to the report is composed of eight separate parts. Appendix A is a statistical report of the results of the shipper questionnaire presented by nine industry groups and totals. The statistical appendices (A, B, C) are arranged sequentially by question in the questionnaires. The table numbers are keyed to the questionnaires and the actual questions used in the survey form are repeated on the tables if appropriate. Appendix B contains a statistical presentation of the responses to the public/contract warehouse questionnaire, and Appendix C contains the same information for the transportation respondents. Appendix D is a technical note that explores some technical issues in the survey methodology, data analysis, and presentation. Appendices E, F, and G are copies of the Shipper, Public/Contract Warehouse, and Transportation questionnaires which were used in the mail survey portion of the research. Appendix H is subdivided into two sections. Appendix H.1 is an annotated bibliography of the customer service literature which focuses on the period from 1976 to 1986 and is in chronological order by year. Appendix H.2 is an alphabetical listing by author for the annotated sources listed in Appendix H.1.

A. Background

1. Inventory notation (Callou)

D: annual demand in units

S: procurement (ordering, setup) cost; $/order

C: value (purchase cost) of unit in inventory, $/unit

I: carrying cost as percentage of C; % or decimal

Q (Q*): reorder quantity (EOQ)

TC: total annual cost

R: reorder point, units

LT: lead time

N: number of orders placed per year

T: order interval

n: number of time units per year (days, weeks, etc.)

D/n: average demand per unit of time

S' (σDDLT): standard deviation of demand, units

r: safety stock, units

N (z): unit normal less integral

K: backorder cost per unit

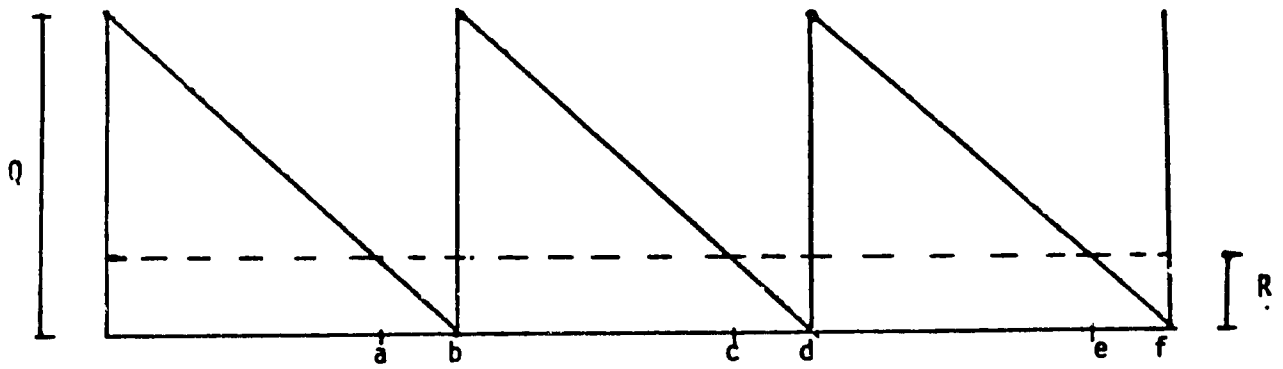
2. Assumptions:

a. Demand is known, continuous, uniform, constant
b. Lead time is known, constant
c. Ordering cost is known, constant
d. Holding cost is known, constant, linear
e. Supplied from one source with supply available
f. (1) No stockouts; (2) all demand satisfied
g. Item never obsolete
h. Perpetual inventory system
i. Cost of analysis is negligible
j. Item demand is independent of other item demands

3. Reasons for carrying inventory

4. Reasons to avoid carrying inventory

5. Basic EOQ Model



ab = cd = ef

TC = purchase + ordering + holding

$$= CD + \frac{D}{Q} S + IC\frac{Q}{2}$$

minimize TC by $\frac{TC}{Q} = -\frac{DS}{Q^2} + \frac{IC}{2} = 0$

$$Q^* = \sqrt{\frac{2DS}{IC}}$$

$N = \frac{D}{Q^*}$ # orders per year

$T = \frac{1}{N} = \frac{Q^*}{D}$ time interval between orders

$R = \frac{D}{n} LT$ reorder point in units

Example:

LT = 2 weeks; D = 8000; C = \$10; S = \$30; I = 30%

$$Q^* = \sqrt{\frac{2DS}{CI}} = \sqrt{\frac{2(30)(8000)}{.3(10)}} = 400 \text{ units}$$

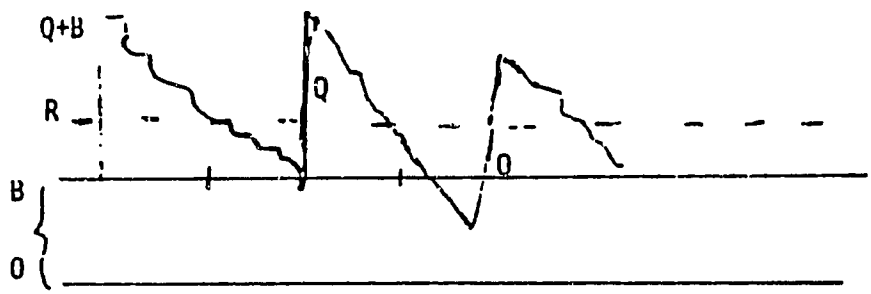
$$TC = 8000\ (\$10) + \frac{8000\ (\$30)}{400} + \frac{\$3(400)}{2} = \$81200$$

$$N = \frac{D}{Q^*} = \frac{8000}{400} = 20 \qquad R = \frac{D \cdot LT}{n} = \frac{8000(2)}{52} = 307.7 \text{ units}$$

D. Stochastic (Variable) Inventory Models

Now let's relax the assumption that demand is constant. We will let it vary as it does in most real world instances.

1. Background



B = safety stock

R = Reorder point, which includes safety stock (not the same as R for deterministic models).

TC_{System} = holding + order + TC_B + purchases

P(in stock | in lead time period) ≠ P(in stock during cycle)

TC_B = holding extra inventory + stockout

Service level = 1 - stockout probability during LT
= 1 - P(DDLT > R)
= ?%

2. Variable demand - basic model

We will calculate the EOQ the same for the moment. However, we need a new reorder point that includes safety stock. There are two ways to obtain R depending on whether demand varies according to known probability distributions or not.

a. Case 1:

DDLT is a random variable with known (calculated mean and standard deviation

$E(DDLT) = \overline{DDLT} = \mu$

Assume: constant LT

variable demand

$D \sim Normal\ (\mu, \sigma^2)$

$D \sim N(\bar{D}, \sigma_D^2)$

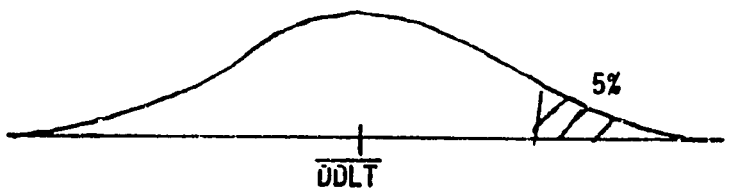
$DDLT \sim (\overline{DDLT}, \sigma_{\overline{DDLT}})$

2. cont.

where: $\overline{DDLT} = \overline{D} \times LT$

$\sigma_{\overline{DDLT}} = \sigma_{\overline{D}} \times \sqrt{LT}$

Demand during LT (DDLT) follows known probability distribution (e.g., normal)



$B = Z\sigma_{\overline{DDLT}}$

$R = \overline{DDLT} + B$

$R = \overline{DDLT} + Z\sigma_{\overline{DDLT}}$

We decide what service level (SL) is needed; e.g., 95% in stock during <u>lead</u> time.

$R(SL) = \overline{DDLT} + Z_{(1-SL)}\ \sigma_{DDLT}$

$SL = .95;\ \overline{DDLT} = 10;\ \sigma^2_{DDLT} = 25$

$R_{(.95)} = 10 + Z_{(.05)} \cdot 5$

$= 10 + 1.65 \cdot 5$

$\approx 18.25 \Rightarrow \underline{19}$ units

p. 416 Ballou - Table 12a gives the following values for the service levels listed. R was calculated with the above formula. Note the rise in R with higher service levels.

HO 7-6

ABC ANALYSIS

C = Item Cost
D = Annual Demand

In Price Order

Item	C	D	C * D
1	$10	900	$9000
2	5	2400	12000
3	5	12000	60000
4	3	600	1800
5	1	18000	18000

In Demand Order

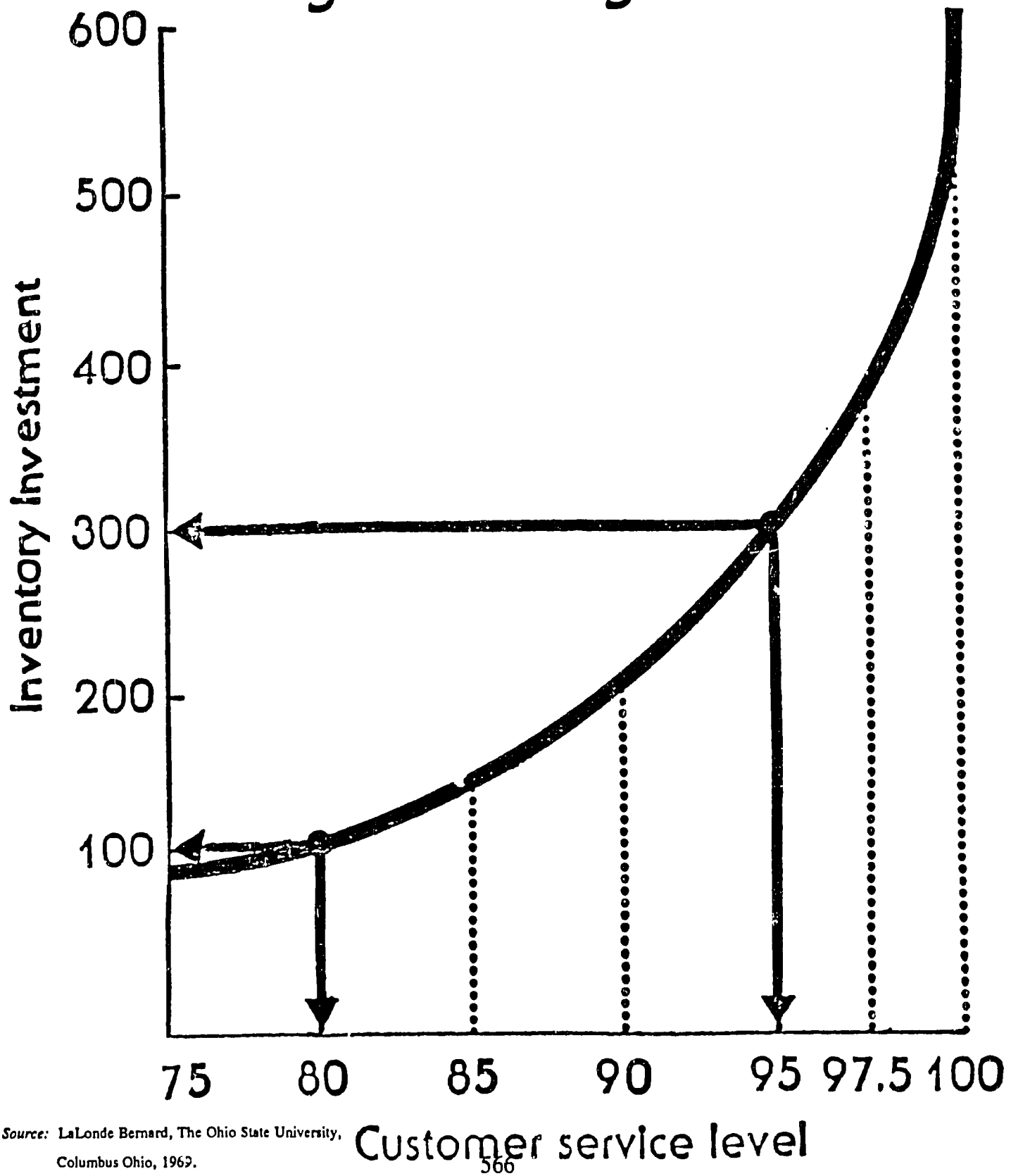
Item	C	D	C * D
5	$1	18000	$18000
3	5	12000	60000
2	5	2400	12000
1	10	900	9000
4	3	600	1800

In Value Order

Item	C	D	C * D
3	$ 5	12000	$60000
5	1	18000	18000
2	5	2400	12000
1	10	900	9000
4	3	600	1800

Customer service and inventory investment

The high cost of good service



Source: LaLonde Bernard, The Ohio State University, Columbus Ohio, 1969.

HO 7-8

CENTRALIZATION/DECENTRALIZATION EXERCISE

Goods are shipped from the Unites States to nine points in western Europe. There are two choices examined by the video:

Ship directly to each location through its nearest port.

Ship to Rotterdam and distribute by truck to each location.

Examine the attached cost and shipment information. Fill in any blank calculations. Be prepared to answer the following questions:

a. What should be considered when deciding between a centralized or a decentralized distribution system?

b. In these examples, which distribution system is better?

c. What other factors should be considered besides just those in the examples before a final decision is made?

GENERAL DATA CASE-STUDY SEAFREIGHT CONSOLIDATION

SHIPPER FROM BALTIMORE SHIPS 7 LCL (LESS THAN CONTAINER LOAD) SHIPMENTS TO EUROPE.

THE DESTINATIONS ARE :	THE VOLUMES ARE :
FRANKFURT	425 ft^3
DUSSELDORF	250 ft^3
PARIS	350 ft^3
AMSTERDAM	105 ft^3
MILAN	285 ft^3
LISBON	350 ft^3
MADRID	350 ft^3
TOTAL	2115 ft^3

A. SHIPPING ON THE TRADITIONAL METHOD, WHICH MEANS THAT ALL SHIPMENTS ARE SEND SEPARATELY TO THE MAINPORTS OF EACH COUNTRY OF DESTINATION, WILL RESULT IN THE FOLLOWING COSTS:

- SEAFREIGHT-CHARGES TO:

PORT:	FINAL DESTINATION:		
HAMBURG	FRANKFURT	425 ft^3 = US$ 1.500,-	
BREMERHAFEN	DUSSELDORF	250 ft^3 = US$ 875,-	
LE HAVRE	PARIS	350 ft^3 = US$ 1.250,-	
ROTTERDAM	AMSTERDAM	105 ft^3 = US$ 375,-	
GENOVA	MILAN	285 ft^3 = US$ 800,-	
LISBON	LISBON	350 ft^3 = US$ 1.500,-	
BARCELONA	MADRID	350 ft^3 = US$ 1.250,-	
TOTAL SEAFREIGHT-CHARGES			US$ 7.550,-
- STUFFING-COSTS			US$ 720,-

- TRUCKING EX-LOCAL EUROPEAN PORTS TO FINAL DESTINATION:

PORT:	FINAL DESTINATION:		
HAMBURG	FRANKFURT	425 ft^3 = US$ 377,-	
BREMERHAFEN	DUSSELDORF	250 ft^3 = US$ 413,-	
LE HAVRE	PARIS	350 ft^3 = US$ 395,-	
ROTTERDAM	AMSTERDAM	105 ft^3 = US$ 84,-	
GENOVA	MILAN	285 ft^3 = US$ 502,-	
LISBON	LISBON	350 ft^3 = US$ 159,-	
BARCELONA	MADRID	350 ft^3 = US$ 480,-	
TOTAL TRUCKING CHARGES			US$ 2.410,-
GRAND TOTAL			US$ 10.680,-

B. SHIPPING ON THE ALTERNATIVE METHOD, WHICH MEANS TO CONSOLIDATE ALL SHIPMENTS IN ONE CONTAINER AND SEND IT TO ROTTERDAM.

- SEAFREIGHT-CHARGES TO ROTTERDAM
  ONE 40' CONTAINER — US$ 4.340,-

- ONFORWARDING AND DELIVERY TO FINAL DESTINATION
  EX-ROTTERDAM TO

FRANKFURT	425 ft^3 = US$ 223,-	
DUSSELDORF	250 ft^3 = US$ 163,-	
PARIS	350 ft^3 = US$ 300,-	
AMSTERDAM	105 ft^3 = US$ 84,-	
MILAN	285 ft^3 = US$ 451,-	
LISBON	350 ft^3 = US$ 556,-	
MADRID	350 ft^3 = US$ 480,-	
TOTAL TRUCKING CHARGES		US$ 2.257,-
GRAND TOTAL		US$ 6.597,-

SAVINGS:

A. TRADITIONAL SHIPPING METHOD: SEPARATE SHIPPING TO THE EUROPEAN PORTS	US$ 10.680,-
B. ALTERNATIVE SHIPPING METHOD: CONSOLIDATED SHIPPING TO ROTTERDAM	US$ 6.597,-
TOTAL SAVINGS :	US$ 4.083,-

= 38 %

HO 7-9

U.S. CUSTOMS REGULATIONS

Entry Process

Evidence of Right to Make Entry - goods may be entered only by the owner, purchaser, or a licensed customhouse broker.

Entry is a two-part process: (1) file the documents to determine whether merchandise may be released from Customs, (2) file the documents to determine duty to be paid.

A surety bond must be posted with Customs to cover any duties, taxes, and penalties which may accrue.

Assessment of Duty:

All goods entering the United States are subject to duty or duty-free entry. Dutiable goods are charged based on ad valorem, specific, or compound rates. Ad valorem (most frequent) is a percentage of the value of the merchandise. A specific rate applies per unit of weight or quantity. Compound is a combination of valorem and specific rates.

Classification and Valuation of Goods

All goods must state their classification, based on the Harmonized Tariff Schedule. The value for duty purposes is usually the transaction value, which must include the price of the merchandise, packing costs, selling commission, value of assist (any items provided free to assist in production), any royalty or license fee, and the proceeds of any subsequent resale of the merchandise.

If the transaction value cannot be determined, then four other methods may be used: the transaction value of identical goods, the transaction value of similar goods, the resale price in the U.S. (deductive), or a value computed by adding the production costs plus profit, assist, and packing costs.

Marking

Most items must be marked to indicated the country of origin in which the merchandise was manufactured. Several items do not have to have country of origin markings, such as works of art, buttons, livestock, newsprint, and nails. It is advisable to mark merchandise if at all possible. Certain articles are subject to special marking requirements, such as iron and steel pipe and pipe fittings.

U.S. CUSTOMS REGULATIONS

Special Requirements: Prohibitions, Restrictions, other Requirements

Some products have restrictions or prohibitions for entry. Certain agricultural products require inspection, such as fruits, vegetables, and livestock. Other products are essentially prohibited from entry, such as firearms and ammunition, unless a special license is obtained. All products are subject to the same federal regulations as domestic products, such as health and safety regulations.

Source: Importing into the Unites States, Department of the Treasury, United States Customs Service, Washington, D.C. 20229, September, 1991.

HO 7-10

POLISH CUSTOMS REGULATIONS

(To be Completed in Poland)

HO 7-11

DOCUMENTATION FOR INTERNATIONAL SHIPMENT*

THE INTERNATIONAL SHIPMENT

With a channel system in place, the next concern of the international marketer is getting the product to the distributor. In domestic operations this typically involves only (1) the shipper, a carrier, and the receiver and (2) relatively simple paperwork. International shipments are more complicated on both dimensions.

International shipments usually involve not just one carrier but multiple types of carriers. The shipment must be routed to the port of export, where it is transferred to another mode of transportation—for example, from truck or rail to vessel. Documentation for international shipments is universally perceived as so complicated, especially by smaller firms, that it becomes a trade barrier. A Canadian study found that 46 person-hours were needed for the processing of one export shipment:[42] the U.S. Department of Transportation pegged it at 36 hours.[43] As the result of recent efforts toward standardization, most of the documents needed are now aligned through a system called the U.S. Standard Master for International Trade. Certain standard entries, such as export carrier and document number, are in the same position in all of the forms. As part of the 1992 program, the EC is simplifying its required documentation for shipments. Whereas drivers earlier needed two pounds of documents on a route, for example, from Amsterdam to Lisbon, they now only need a single piece of paper. The savings on the elimination of this red tape is significant.[44] Increasingly, electronic data transfer will be replacing paperwork.

Few international marketers, especially small or medium-sized firms and those new to exporting, are familiar with the many and varied details involved in transportation. These may include arranging for shipment from the factory, transfer from train to vessel, securing of rates and space on vessels, clearing U.S. Customs, stowing, delivery at the port of destination to docks, clearance through local customs, and finally delivery to the buyer. Larger exporters have a separate department or staff to secure transportation services and proper documentation, whereas smaller firms rely on support agencies for this work.

Documentation

In the most simple form of exporting, the only document needed are a bill of lading and an export declaration. Most exports fit under a general license, which is a generalized authorization consisting simply of a number

[42] Wayne D. Mays, "Documentary Problems of International Transportation," *Journal of World Trade Law* 12 (November–December 1978): 506–518.

[43] Ray J. Sampson, Martin Farris, and David L. Shrock, *Domestic Transportation: Practice, Theory, and Policy* (Boston: Houghton Mifflin, 1985), 106.

[44] Business Week, "Reshaping Europe: 1992 and Beyond," December 12, 1988, 48–51.

TABLE 12.8 • Documentation for an International Shipment

A. Documents required by the U.S. government
   1. Shipper's export declaration
   2. Export license
B. Commercial documents
   1. Commercial invoice
   2. Packing list
   3. Inland bill of lading
   4. Dock receipt
   5. Bill of lading or airway bill
   6. Insurance policies or certificates
   7. Shipper's declaration for dangerous goods
C. Import documents
   1. Import license
   2. Foreign exchange license
   3. Certificate of origin
   4. Consular invoice
   5. Customs invoice

Source: Dun & Bradstreet, *Exporter's Encyclopedia* (New York: Dun & Bradstreet, 1985), and Maria Ortiz-Buonafina, *Profitable Export Marketing* (Englewood Cliffs, N.J.: Prentice-Hall, 1984), 218–246.

to be shown on the documents. Certain goods and data require a special validated license for export, as discussed in Chapter 4. For importation the basic documents are a bill of lading and an invoice. Table 12.8 provides a summary of the main documents used in international shipments.

The bill of lading (see Figure 12.8) is the most important document to the shipper, the carrier, and the buyer. It acknowledges receipt of the goods, represents the basic contract between the shipper and the carrier, and serves as evidence of title to the goods for collection by the purchaser. Various types of bills of lading exist. The inland bill of lading is a contract between the inland carrier and the shipper. Bills of lading may be negotiable instruments in that they may be endorsed to other parties (order bill) or may be non-negotiable (straight). The shipper's export declaration (see Figure 12.9) states proper authorization for export and serves as a means for governmental data collection efforts.

The packing list, if used, lists in some detail the contents, the gross and net weights, and dimensions of each package. Some shipments, such as corrosives, flammables, and poisons, require a shipper's declaration for dangerous goods. When the international marketer is responsible for moving the goods to the U.S. port of export, a dock receipt (for ocean freight) or a warehouse receipt (if the goods are stored) is issued prior to the issuance of the bill of lading. Collection documents must be also produced, which always include a commercial invoice (a detailed description of the transaction), often a consular invoice (required by certain countries for data-

FIGURE 12.8 • Bill of Lading

ACL

BILL OF LADING

ACL

SHIPPER/EXPORTER

DOCUMENT NO

BOOKING NO

EXPORT REFERENCES

FORWARDER REF NO

SHIPPER'S REF NO

CONSIGNEE

FORWARDING AGENT, F M C NO

POINT AND COUNTRY OF ORIGIN

PLACE OF RECEIPT*

NOTIFY PARTY

DOMESTIC ROUTING/EXPORT INSTRUCTIONS

PIER

EXPORTING CARRIER

PORT OF LOADING

PLACE OF DELIVERY*

PORT OF DISCHARGE

FOR TRANSHIPMENT TO

PARTICULARS FURNISHED BY SHIPPER

MARKS AND NUMBERS	NO OF PKGS	DESCRIPTION OF PACKAGES AND GOODS	GROSS WEIGHT	MEASUREMENT

*APPLICABLE ONLY WHEN USED AS THROUGH BILL OF LADING AS PER CLAUSE 3 (iii) ON REVERSE HEREOF

PREPAID | COLLECT | FREIGHT AND CHARGES PAYABLE AT _____ ALL CHARGES EX SHIPS TACKLE FOR ACCOUNT OF CARGO

ACL
an affiliate of:
Cie Generale Maritime
The Cunard Steam Ship Company Ltd.
Intercontinental Transport (ICT) BV
Swedish American Line
Swedish Transatlantic Line
Wallenius Line

RECEIVED by ACL for shipment by ocean vessel between port of loading and port of discharge, and for arrangement or procurement of precarriage from place of receipt and oncarriage to place of delivery where stated above, the goods as specified above in apparent good order and condition unless otherwise stated. The goods to be delivered at the above mentioned port of discharge or place of delivery, whichever applicable. Subject always to the exceptions, limitations, conditions and liberties set out on the reverse side hereof, to which the Merchant agrees by accepting this B/L.

In witness whereof three (3) original Bs/L have been signed, if not otherwise stated above, one of which being accomplished the other(s) to be void.

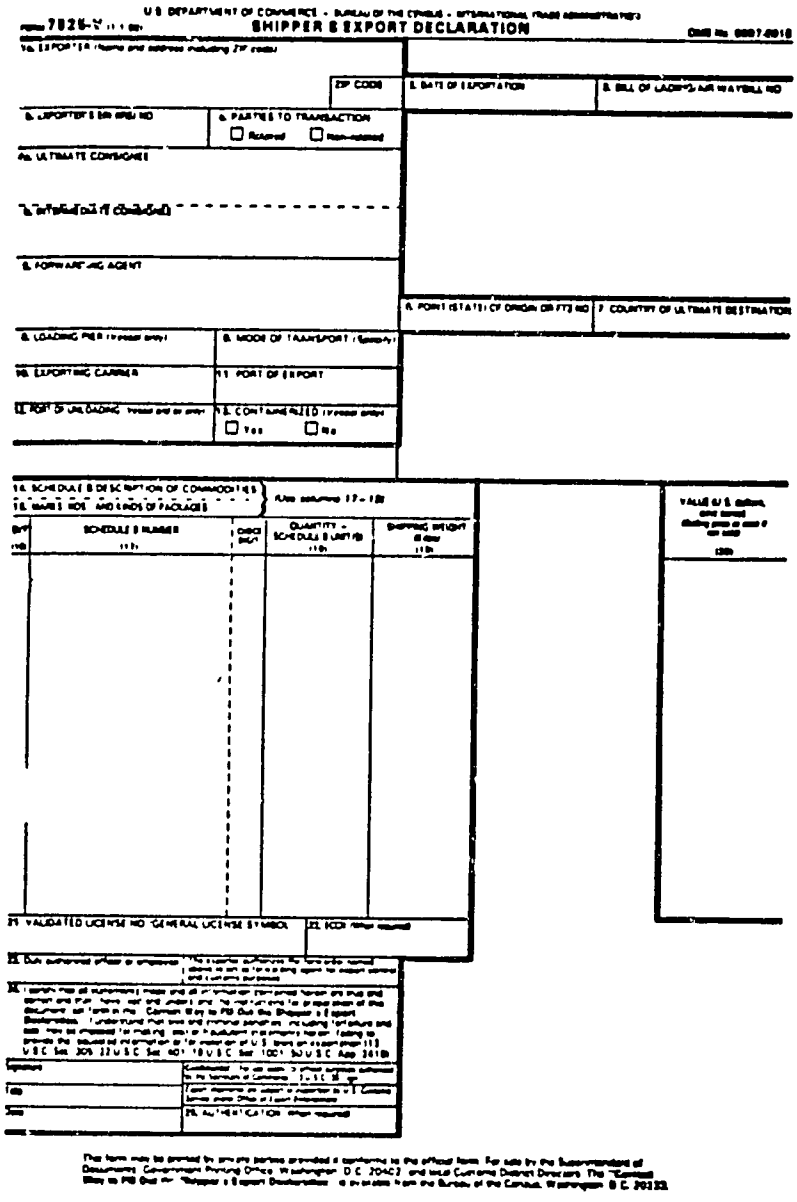
For ACL

B/L NUMBER

DATE

Source: Seaschott.

FIGURE 12.9 • Shipper's Export Declaration


U.S. DEPARTMENT OF COMMERCE • BUREAU OF THE CENSUS • INTERNATIONAL TRADE ADMINISTRATION

SHIPPER'S EXPORT DECLARATION

ZIP CODE | DATE OF EXPORTATION | BILL OF LADING/AIR WAYBILL NO

PARTIES TO TRANSACTION

ULTIMATE CONSIGNEE

FORWARDING AGENT

PORT (STATE) OF ORIGIN OR FTZ NO | COUNTRY OF ULTIMATE DESTINATION

LOADING PIER | MODE OF TRANSPORT

EXPORTING CARRIER | PORT OF EXPORT

PORT OF UNLOADING | CONTAINERIZED

SCHEDULE B DESCRIPTION OF COMMODITIES | MARKS NOS. AND KINDS OF PACKAGES | SCHEDULE B NUMBER | CHECK DIGIT | QUANTITY - SCHEDULE B UNIT(S) | SHIPPING WEIGHT | VALUE

VALIDATED LICENSE NO. | GENERAL LICENSE SYMBOL

Source: Seaschott.

collection purposes), and a **certificate of origin** (required by certain countries to ensure correct tariffs). Insurance documents are produced when stipulated by the transaction. In certain countries, especially in Latin America, two additional documents are needed. An **import license** may be required for certain types or amounts of particular goods, while a **foreign exchange license** allows the importer to secure the needed hard currency to pay for the shipment. The exporter has to provide the importer with the data needed to obtain these licenses from governmental authorities and should make sure, before the actual shipment, that the importer has indeed secured the documents. All commercial shipments to West Germany, irrespective of value or mode of transport, require a commercial invoice, bill of lading (or airway bill), certificate of origin, and any special documents required due to the type of goods being forwarded.

Whatever the required documents, their proper preparation is of utmost importance. Improper or missing documents can easily lead to difficulties that will delay payment or even prevent it. Furthermore, improper documentation may cause problems with customs, as shown in The International Marketplace 12.3. If a customs service seizes the merchandise, delays can be measured in weeks and may end up in total financial loss for the particular shipment. However, with adherence to release procedures, a seizure case can usually be guided through without major loss to the international marketer.[4]

Support Agencies for International Shipments

Several types of support agencies provide services in the physical movement of the goods. An **international freight forwarder** acts as an agent for the international marketer in moving cargo to the overseas destination. Independent freight forwarders are regulated and should be certified by the Federal Maritime Commission. The forwarder advises the marketer on shipping documentation and packing costs and will prepare and review the documents to ensure that they are in order. Forwarders will also book the necessary space aboard a carrier. They will make necessary arrangements to clear outbound goods with customs, and after clearance forward the documents to either the customer or to the paying bank. A **customs broker** serves as an agent for an importer with authority to clear inbound goods through customs and ship them on to their destination. These functions are performed for a fee. Customs brokers are regulated by the U.S. Customs Service. Nonvessel-operating common carriers consolidate freight into containers and thus provide attractive rates to international marketers whose shipments are less than full containerloads.

[4]David Serko and Barry Kaplan, "What to Do When Customs Seizes Your Merchandise," *Global Trade* 3 (October 1988): 15–16.

THE INTERNATIONAL MARKETPLACE

Dealing with Customs The United States Customs Service is responsible for enforcing the rules and regulations of more than 40 government agencies. In its effort to fulfill its expanding tasks in an era of tightening budgets, the agency has centralized inspections, reassessed personnel needs, and deployed the Automated Commercial Service, a computer network for the management and processing of trade information.

The extent of its task and the volume of trade make the agency a target of criticism. It processes over seven million merchandise entries a year, and for the majority of importers the main complaint is the delay in clearing their shipments. "You can get a shipment from the Orient in a matter of hours—and have it sit for 12 days in some cases," said Gordon Freund, chairman of the Textile and Apparel Group of the American Association of Exporters and Importers. Some shipments may be tied up longer if improprieties are alleged.

Customs officials reject the majority of such criticism. A rising percentage of goods—about 80 percent in large ports like New York—is cleared without requiring any inspection beyond simple document checks. The most expensive checks for importers, such as those involving the emptying of entire shipping containers, rarely occur unless customs agents find discrepancies in documents or discover violations during cursory dockside inspections.

Customs violations run the gamut from innocent mistakes and simple negligence, such as improper labeling, to outright fraud by importers seeking to bring in counterfeit goods, dodge quotas, or avoid duties. Penalties for criminal fraud can be as severe as two years' imprisonment and a $5,000 fine for each violation. False labeling that results in underpayment of duty can lead to a penalty of eight times the amount of underpayment in the case of fraud, or two times the value in the case of simple negligence.

Customs has the authority to seize goods, order them returned to their country of origin, damage them if necessary in its investigation, and order their return for further inspection if examination of samples raises questions. Disputes may last years if appealed to the federal courts.

Source: "Importers' 'Horror Stories,'" The New York Times, April 21, 1987, D1.

Source: M. Czinkota and I. Ronkainen. International Marketing. Second Edition. Copyright ©1990. Chapter 12, pp. 376-381.

HO 7-12

INQUIRIES/QUOTATIONS/PROFORMAS/ /PRICING/ORDER ENTRY SHIPPING*

An inquiry is received from an international customer by mail, telex, facsimile, telephone or some other means of express mail service.

The most popular and time-saving system today is the facsimile machine. However, if the inquiry is received over the telephone it should be followed up by a mail or fax confirmation. This is to ensure there were no errors or misunderstanding in the translation of the handwritten inquiry.

Errors in international sales can become very costly for both the buyer and the exporter. Accuracy is a MUST to obtain higher profits and keep expenses to a minimum.

The customer, in most cases, will tell you exactly what his requirements are relative to material requested, quantities, and how he wishes to have it quoted (whether FAS port, FOB factory, C&F or CIF foreign port).

If at this point you find that there are any particulars you cannot conform to, you advise your customer and give him the options available. You can also advise him of the only possible way to do business and quote him on this basis.

Example of how to respond to your customer's particular needs:

A. If the customer requests different specifications, your company may re-design this product.

B. The customer may request open account terms and the exporter only wishes to sell on letter of credit.
C. The inquiry may be too small and the freight charges would be too exorbitant. You don't want to discourage a sale, so you may request that the customer contact a local wholesaler or increase their inquiry.
D. Buyer may request extended shipping dates which would not be acceptable unless prices were adjusted at time of shipment.

These are only a few examples. There could be many situations that may not be acceptable to the exporter.

Quotation

In preparing the quotation, make sure you understand and can read the inquiry!
CORRECT any discrepancies at this time.

**Source:* Passport to Export, St. Clair Community College.

The quotation should contain the following information:

A. Quotation number, which can be programmed in the computer to be assigned automatically.
B. Seller's company name, address, telex, telephone and facsimile numbers.
C. Customer's full address.
C. The date of quotation being issued.
E. Customer's reference number.
F. Description of the product being quoted.
G. Item number, either the computer assigned item number, or if the customer has special numbers, use those.
H. Size, part number, weight per item, total weight, net price and total value.
I. Grand total price (quoted in U.S. dollars). This eliminates any confusion as to what currency it is to be remitted against.
J. Quotation validity.
K. Payment terms — CIA, O/A, L/C, etc.
L. Shipping terms — whether it is FOB factory, C&F foreign port, etc.
M. If the quote is issued on an FOB or FAS U.S. port basis, the estimated gross weight and cubic displacement is calculated and shown on the quotation.

Any other pertinent information (that you feel is important or necessary) can be included at the bottom of the quotation. The more information you can supply to the customer, the better understanding he/she/they will have.

Proforma Invoice:

Occasionally, a PROFORMA INVOICE has to be prepared. This is a preliminary, provisional, temporary invoice covering a contemplated (not actual) shipment, which may or may not be made in the future.

Its purpose is to enable the overseas buyer to take care of certain requirements before his order can be placed.

A. Customer may need a proforma invoice to apply for an Import License.
B. Customer may need it to establish his letter of credit.

Preparing Final Documents:

After you have completed your customer's order (or partial shipment if that is the case), final documentation must be prepared and instructions given to the forwarder.

At this state, the material is all packed, boxed, marked and ready to be shipped from the factory. The shipping Department would order in the trucking or container firm to move the material to

the port.

The forwarder can be advised of the vital information covering this shipment, so they can contact the steamship lines for a vessel booking.

A. Begin preparing final documents by having a commercial invoice issued which lists all necessary information. (Examples can be provided for class use).
B. A letter of instruction for the forwarder is issued, giving all banking and shipping information needed to complete the forwarder's phase of paperwork.
C. Include any other document that is either required by the customer or is a government regulation.
D. Copy of the letter of credit and all amendments if those were the sales terms used.
E. Packing List — must indicate exactly what is being exported. Information includes the following:

1. Ship to address. (can also show specified shipping line)
2. Sold to address.
3. Box markings
4. Shipper's order number.
5. Individual box numbers and dimension.
6. Quantity per box.
7. Part number.
8. Description of the product packed in each box.
9. Weight per box in both pounds and kilos.
10. A bottom summary showing a grand total of number of pieces, boxes or pallets and cubic feet.

The ocean freight rate is based on commodity classification and weight or cube, whichever is the greater revenue.

<u>Example</u>: Minimum bill of lading rate to the Middle East is $500.00
Ocean freight rate is $250.00 per ton.

If the shipment only weights 2,204# (metric ton) and is only 35.3 cubic feet, the S/S line would charge the minimum bill of lading rate in order to receive the higher revenue.

In contrast, if the shipment weighs 35,000# and is 650 cubic feet, it would be based on the cube.

35,000# divided by 2204 = 15.8 ton
650 cubic feet divided by 35.3 = 18.4 ton

$250.00 o/f	$250.00 o/f
x 15.8 ton	x 18.4 ton
$3,950.00	$4,600.00

The forwarder receives the paperwork from the exporter, and he/she begins to prepare the balance of the documents required.

Your forwarder will prepare a so-called duplicate bill of lading and fax it to the S/S line. There is a five day minimum to accomplish this.

The forwarder will prepare all the balance of the documents required in the L/C, they will check the exporter's documents for any discrepancies, prepare any documents that require legalization, and forward them to the proper consulates.

After the forwarder receives the documents from the consul and the S/S lines, the forwarder would consolidate all the paperwork, make out the draft and forward the complete set to the U.S. bank with copies to the exporter with a bill of charges for shipment costs.

The U.S. bank will examine all the documents, and if they have the authority to pay, they will remit the funds and forward the documents to the foreign bank, so the material can be cleared upon arrival.

If the U.S. bank is not authorized to pay, they will examine the documents for any discrepancies and then forward them on to the foreign bank.

PRICING

Payment terms and pricing policies are critical factors to be examined before selling in the international market. In many cases acceptable terms may vary from country to country, or customer to customer.

To be successful, the potential exporter must determine:

- At what price the product will be competitive in the foreign market;
- The market demand and local competition; and
- The cost of exporting (vs. domestic sales).

Choosing payment terms agreeable to both parties:

- Determine risk of receiving (or not receiving) payment
- Determine creditworthiness of buyer through credit check
- Cost of payment methods—fees from bank
- Payment terms chosen will depend on amount of trust in buyer's ability to pay

METHODS OF PAYMENT

1. Cash in Advance:
   - Payment is made before goods are shipped.
   - Most desirable to seller — not always acceptable to buyer.
   - Seller has immediate access to cash.
   - Increased risk to buyer — money tied up before receipt of goods.

2. Open Account:
   - Difficult to collect money if buyer defaults on payment.
   - Longer terms are necessary for international payment than for domestic buyer won't usually pay until 60/90/120 days after receipt of goods.
   - Exporter's capital is tied for long period of time.
   - Only able to take buyer at his word — little recourse if payment is not made.
   - Some countries require government permission to purchase, so banking terms are sometimes required.

3. Consignment Sale:
   - Material is shipped to foreign distributor to be sold on behalf of exporter.
   - Capital may be tied up for a long (indefinite) time period.
   - Exporter retains title to goods until they are sold; payment is sent to exporter after sale is made.
   - Exporter has little control once goods are shipped to foreign distributor.
   - Not usually recommended method in international arena.

4. Sight Draft:
   - Bank acts as third party in this type of transaction.
   - Documents are presented to foreign bank for payment.
   - Payments must be made before goods can be received.
   - Documents are forwarded, with shipment, to freight forwarder. The freight forwarder then finalizes documents and prepares draft to be sent to bank for payment.
   - After receiving documents, bank contacts buyer.
   - Seller retains title until goods arrive and are paid for.
   - Title is transferred upon receipt of payment.
   - Risk lies in the fact that buyer can refuse to pay between time of shipment and presentation of documents; if the buyer refuses to pay, it becomes the seller's responsibility to have goods returned.
   - Buyer can delay paying for goods.

5. Cash Against Documents:
   - Title to goods is transferred upon receipt of payment to bank.

6. Time/Date Draft:
   - Payment is required sometime after goods are received.
   - Documents are forwarded to foreign bank who, in turn, contacts buyer.
   - Buyer signs acceptance at bank and is given documents to retrieve goods. The acceptance is a promise to pay at some later date.
   - Time draft obligates buyer to pay within stated "time period".
   - Date Draft gives a specific date on which payment is due.
   - With a time draft, buyer can stall on acceptance, so payment will be due at a later date.
   - The date draft eliminates this possibility. The date will not change.

7. Letter of Credit:
   - Irrevocable — The foreign bank will pay seller even if the buyer defaults.
   - Revocable — L/C can be revoked without exporter's permission.
   - Confirmed (by U.S. bank) — U.S. bank will pay seller even if foreign bank defaults.
   - Unconfirmed — U.S. bank can wait to receive payment from foreign bank before paying exporter. U.S. bank may pay exporter upon receipt of documents. If foreign bank later defaults on payment, U.S. bank has recourse to collect from exporter:
     a. Seller/buyer agree on terms of payment — according to earlier quotation.
     b. Buyer contacts his local bank to open L/C.
        - Letter of credit includes complete instructions to seller for payment.
     c. Foreign bank issues irrevocable L/C and forwards to U.S. (advising) bank.
     d. U.S. bank forwards L/C to seller with (or without) confirmation.
     e. Exporter reviews all conditions to determine if all terms and shipping schedule can be met.
        - If all can't be met seller must immediately contact customer for amendments.
     f. When goods are ready for shipment, seller forward goods and documents to freight forwarder.
     g. Freight forwarder completes documents and presents to U.S. bank according to letter credit terms.
     h. Bank reviews documents — if all in order the bank then issues check to seller if letter of credit was **CONFIRMED**.
     i. Documents are then sent to foreign bank to be reviewed and passed to buyer enabling buyer to claim goods.

8. Barter

Please Note:

Fees vary according to banks for handling letters of credit and drafts.

Original quotation should state "all fees for the account of buyer."

To avoid added risk, ask for payment in US $ on quotation.

ORDER ENTRY — SHIPPING

Prepare the customer's order in the following manner:

Following customer inquiry & proforma invoice, exporter receives P.O.

Customer purchase order (contract) & letter of credit if necessary

- Review P.O. for discrepancies from Proforma Invoice
  If terms are acceptable, enter P.O. for production.
  If changes are necessary, contact customer before entering order.

Prepare documents when the order is ready for shipment from factory.

- Necessary documents include standard forms plus any additional documents requested by customer
- Contact trucking company to pick the goods up from factory
- Notify freight forwarder of forthcoming shipment

BOOKING THE SHIPMENT

An export clerk should consider the following documents when booking an export shipment.

Standard Documents

a. Inland Bill of Lading
   - "Ship To" and "Ship From" address and name
   - Inland terms — prepaid or collect
   - Value of shipment
   - Gross weight & number of cartons
   - Export mark — identical to that on invoice, packing list and cartons
     Company name and country of ultimate destination
     Purchase order number
     Number of cartons
     Letter of credit number (if applicable)
   - Used to link separate cartons in a shipment
   - Description of contents of shipment
   - Class of shipment

b. Invoice
   - "Sold To" and "Ship To"

- Gross and net weight of shipment
- Quantity and measurements of cartons
- Purchase order number and invoice number
- Shipping date and invoice date
- Description (complete) of contents of shipment — this may be required to be written in native language of buyer
- Export mark — same as above
- Total value carried out to FOB point

c. Packing List
- Includes same information as invoice except no VALUE is shown

d. Shipper's Letter of Instruction (SLI)
- Pre-printed form or letter on company letterhead
- Instructions to freight forwarder or airline handling shipment
- Method of shipment — prepaid or collect
- Payment terms — special instructions for freight forwarder if banking is involved, i.e. consign material to foreign bank, not customer

- Schedule B classification information
- Value of shipment
- Insurance information
- List of documents included and needed for bank
- Instructions for contacting bank or buyer upon shipment
- Export license information
- EIN number — Employer Identification Number

APPENDIX

IMPORT AND EXPORT GUIDES AND DOCUMENTS

IMPORT GUIDE

STEAMSHIP COMPANY

1. Notifies consignees two days prior to ship's arrival.
2. Provides freight release to terminal operator.

BROKER

3. Obtains customs release, freight release, Department of Agriculture clearances, etc., before contacting motor carrier.
4. Forwards to motor carrier an original of the Domestic Bill of Lading and an Original Delivery Order, which authorizes pick-up of import cargo.
5. Checks Bill of Lading for completeness:
   - ✓ forwarder's name
   - ✓ shipper's name
   - ✓ ultimate consignee's name
   - ✓ motor carrier making pickup
   - ✓ vessel
   - ✓ arrival date
   - ✓ voyage number
   - ✓ ocean bill of lading number
   - ✓ pier number and location
   - ✓ marks and numbers
   - ✓ number of packages
   - ✓ description of goods
   - ✓ gross weights
   - ✓ legible signatures
7. Guarantees with terminal operator loading charges and demurrage.

MOTOR CARRIER

8. Secures interchange agreement with steamship company on containers.
9. Ascertains expiration of free time and availability of cargo for pickup before dispatching driver to pier.
10. Provides driver with original and copy of Delivery Order before departure to pier.
11. Contacts terminal operator to make appointment, if required, at least 24 hours before pickup.
12. Checks Bill of Lading and Delivery Order for completeness, as above.
13. Dispatches truckman to the pier.

TERMINAL OPERATOR

14. Issues pass to driver at gatehouse.
15. Checks Delivery Order for completeness and legibility, as above.
16. Verifies motor carrier's credit rating for loading charges.
17. Makes arrangements for payment of demurrage, if any has accrued.
18. Directs driver to pier customs office.

CUSTOMS

19. Verifies driver's papers against pre-lodged Customs permits.
20. Stamps Delivery Order or tally sheet.

TERMINAL OPERATOR

21. Calls driver for loading.
22. Assigns checker and loading spot.

CUSTOMS

23. Performs all necessary functions prior to the release of cargo.

TERMINAL OPERATOR

24. Loads cargo onto vehicle with pier personnel. Checker notes exceptions and shortages.
25. Retains original Delivery Order.

DRIVER

26. Assists in and/or supervises loading of vehicle.
27. Signs tally and loading ticket. Exceptions and shortages noted.
28. Reports back to delivery office, if required.
29. Retains copy of Delivery Order.
30. Surrenders gate pass at gatehouse.

MOTOR CARRIER

31. Advises broker of completion of cargo pickup.

Source: The Port Authority of New York and New Jersey.

EXPORT GUIDE

SHIPPER

1. Prepares Domestic Bill of Lading for movement of cargo to pier, and sends copy to his forwarder at the port of loading, along with packing list.

2. Checks Bills of Lading:
   ✓ number of packages
   ✓ marks and numbers
   ✓ description of cargo
   ✓ foreign destination
   ✓ gross weights of each package shipped
   ✓ local party to be notified

3. Marks cargo plainly, to show:
   - gross and net weights
   - cubic measurement
   - foreign destination
   - identification marks
   - country of origin

MOTOR CARRIER

4. Secures interchange agreement with steamship company on containers.

5. Accepts cargo for transit to the port of loading.

6. Advises freight forwarder or shipper's local representative of cargo's arrival in the port.

7. Obtains the following information from forwarder or representative:
   - name of vessel
   - sailing date
   - pier number and location
   - location of any special permits needed to clear hazardous or oversize cargo for acceptance by ocean terminal.

8. Obtains Dock Receipt from forwarder or other representative to accompany cargo.

9. Contacts terminal operator to make appointment for special handling or equipment, if required, at least 24 hours before delivery.

FORWARDER

10. Provides Dock Receipt and special permits, if any, to delivering motor carrier.

11. Checks Dock Receipt for completeness.
    ✓ name of shipper
    ✓ name of vessel
    ✓ ports of loading and discharge
    ✓ number and type of packages
    ✓ description of cargo
    ✓ gross weight, dimensions, and cubic measurement of each package
    ✓ marks and numbers
    ✓ shipper's export declaration number, if required.

DRIVER

12. Moves his truck on line upon arrival at pier.

TERMINAL OPERATOR

13. Issues pass to driver at gatehouse.

14. Checks driver's papers:
    ✓ Dock Receipt
    ✓ Permits

15. Calls driver for unloading

16. Assigns driver a checker and an unloading spot.

DRIVER

17. Unloads his vehicle (using extra pier labor is optional, at rates specified in the Terminal Conference tariff.)

18. Obtains signed copy of Dock Receipt, and receipt for extra labor, if used.

TERMINAL OPERATOR

19. Retains original of Dock Receipt.

DRIVER

20. Surrenders gate pass at gatehouse.

TERMINAL OPERATOR

21. Forwards Dock Receipt to steamship company.

STEAMSHIP COMPANY

22. Issues Ocean Bill of Lading to shipper or his agent.

Source: The Port Authority of New York and New Jersey.

IMPORT DOCUMENTS

1. Arrival Notice
Sent by the carrier, it informs the "notify party" of the estimated arrival date of the vessel, identifies the shipment with some details, such as number of packages, weight, etc., and indicates when free time expires. Often is also a freight bill.

2. Customs Entries
A form required by U.S. Customs for entering goods into the United States. The form contains information as to the origin of the cargo, a description of the merchandise and estimated duties applicable to the particular commodity. Estimated duties must be paid when the entry is filed.

a) Entry (formerly known as I.D. Entry)—A set of documents and forms which—when presented to U.S Customs in proper form—will release the cargo. Within ten days after release of the cargo a set of documents and forms known as the "Entry Summary," which contains the tariff schedule numbers and duty calculation, must be filed, accompanied by the duty check.

b) Entry, Entry Summary (a combination of the Entry and the Entry Summary)—A set of documents and forms required by U.S. Customs for certain "trade sensitive" imports, such as textiles and any other quota merchandise. Payment of duties must accompany submission of documents.

c) Delivery Authorized Document (DAD)—A form prepared by the Customs Broker and authorized by U.S. Customs, after presentation and approval of Entry or Entry Summary, and lodged with the carrier as evidence of Custom release.

d) Immediate Transportation Entry—Allows the cargo to be moved from the pier to an inland destination via a bonded carrier without the payment of duties or finalization of the entry at the port of arrival. Known as an I.T. Entry.

e) Transportation and Exportation Entry and Immediate Export Entry—Allows goods to enter the U.S. for the purpose of trans-shipments to a third country (known as T.&E. or I.E. Entry).

(There are other types of entries such as Temporary Importation Entries, Foreign Trade Zone Entries, and Drawback Entries. Consult with a licensed Customhouse Broker for further information.)

3. Carriers Certificate and Release Order
Used to advise Customs of the details of the shipment, its ownership, port of lading, etc. By means of this document, the carrier certifies that the firm or individual named in the certificate is the owner or consignee of the cargo. Commonly known as the Carrier Certificate.

4. Delivery Order
Issued by the consignee or his Customs broker to the ocean carrier as authority to release the cargo to the inland carrier Includes all data necessary for the pier delivery clerk to determine that the cargo can be released to the domestic carrier.

5. Freight Release
Evidence that the freight charges for the cargo have been paid. If in writing, it may be presented at the pier to obtain release of the cargo. (Normally, once the freight is paid, releases are usually arranged without additional documentation.) Also known as Freight Bill Receipt.

Source: The Port Authority of New York and New Jersey.

EXPORT DOCUMENTS

1. Ocean Bill-of-Lading
A receipt for the cargo and a contract for transportation between a shipper and the ocean carrier. It may also be used as an instrument of ownership which can be bought, sold or traded while the goods are in transit. To be used in this manner, it must be a negotiable "Order" Bill-of-Lading. Abbreviations. Blading, B/L.

A clean *Bill-of-Lading* is issued when the shipment is received in good order. If damage or a shortage is noted, a clean bill-of-lading will not be issued. An *On Board Bill-of-Lading* certifies that the cargo has been placed aboard the named vessel and is signed by the master of the vessel or his representative. On letter of credit transactions, an On Board Bill-of-Lading is usually necessary for the shipper to obtain payment from the bank. When all Bills-of-Lading are processed a *ship's manifest* is prepared by the steamship line. This summarizes all cargo aboard the vessel by port of loading and discharge.

Inland Bill-of-Lading—Also known as a waybill on rail or the "pro forma" bill-of-lading in trucking. It is used to document the transportation of the goods between the port and the point of origin or destination. It should contain information such as marks, numbers, steamship line, etc., to match with a dock receipt. Abbreviate "pro" or "pro ticket," waybill.

Inspection Certificate—Some countries nominate a firm to inspect for quality, quantity and pricing. After verifying correctness, they issue what is generally called a "Clean Report of Findings" (CRF).

2. Dock Receipt
Used to transfer accountability for the cargo between domestic and international carriers at the ocean terminal. This is the document, prepared by the shipper or forwarder, which the ocean carrier signs and returns to the delivering inland carrier, acknowledging receipt of the cargo.

3. Delivery Instructions
Provides specific information to the inland carrier concerning the arrangement made by the forwarder to deliver the merchandise to the particular pier or steamship line. Not to be confused with *Delivery Order* which is used for import cargo.

4. Export Declaration
Required by the U.S. Department of Commerce to control exports and act as a source document for export statistics. It includes complete particulars on the shipment. Common abbreviation is Export Dec.

5. Letter of Credit
A financial document issued by a bank at the request of the consignee guaranteeing payment to the shipper for cargo if certain terms and conditions are fulfilled. Normally it contains a brief description of the goods, documents required, a shipping date, and an expiration date after which payment will no longer be made.

6. Consular Invoice
Required by some countries, this document is used to control and identify goods shipped to them. It usually must be prepared on special forms and may require legalization by their Consul.

7. Commercial Invoice
A bill for the goods from the seller to the buyer. It is often used by governments to determine the true value of goods for the assessment of customs duties. It is also used in the preparation of consular documentation. Governments using the commercial invoice to control imports often specify its form, content, number of copies, language to be used, etc.

8. Certificate of Origin
A document which is used to assure the buying country precisely in which country the goods were produced. The certification of the origin of the merchandise is usually performed by a recognized Chamber of Commerce.

9. Insurance Certificate
Assures the consignee that insurance is provided to cover loss or damage to the cargo while in transit.

10. Transmittal Letter
A list of the particulars of the shipment and a record of the documents being transmitted together with instructions for disposition of documents. Any special instructions are also included.

Source: The Port Authority of New York and New Jersey.

HO 7-13

INTERNATIONAL TRANSPORTATION*

Title, or ownership, of an export shipment is passed from the seller to the buyer according to the agreed international trade terms of sale. For example:

Trade Terms — F.O.B. — Ex Works
- Title transfers from seller to buyer as soon as the shipment is picked up at the sellers door

Trade Terms — F.O.B. — Vessel
- Title transfers from seller to buyer as soon as the shipment is loaded on board the vessel.

Trade Terms — C.I.F — Foreign Port
- Title transfers from seller to buyer as soon as the shipment is unloaded at the foreign port.

Transporting a shipment from the seller's door to the buyer's door involves the passing of liability for the shipment from one transporting carrier to the other. The three documents involved are: The Inland Bill of Lading, the Ocean Bill of Lading, and the Air Waybill.

INLAND BILLS OF LADING FOR INTERNATIONAL SHIPMENTS

The preparation and implication of an inland bill of lading covering transactions within the United States is easily defined by the Uniform Commercial Code. The Uniform Commercial Code of the United States even allows for a relatively effortless passing of title right at your dock by means of an inland bill of lading, if you sell your product FOB plant. When you are transporting goods for eventual international shipment, the inland bill of lading will remain an important document throughout the successive movements of your freight. This paper is no longer a mere expression of shipper, consignee, carrier and description of goods shipped. It becomes a communication document of far-reaching consequence. The following individuals or organizations, each according and take appropriate action:

1. The carrier who picks the goods up from your dock.
2. The carrier's terminal at the port of export.
3. The cartage agent who will deliver the goods from the carrier's terminal at the port of export to the pier if by ocean freight.
4. The pier workers, in the process of receiving the goods and placing them in the warehouse for loading onto an ocean vessel.
5. The freight forwarder.
6. The party who will pay the inland carrier, be it the seller or the freight forwarder.

**Source:* Passport to Export, St. Clair Community College.

You can see by this list that the inland bill of lading must be complete and accurate, meticulously describing the purpose, intent and responsibility of all the above parties
Inland bills of lading are of two types:

1. Those bills of lading which are consigned to a freight forwarder, warehouse, packaging company or party other than the international carrier.

2. Those inland bills of lading which are consigned directly to the international carrier.

If the inland bill of lading is consigned to someone other than the international carrier at the port of export, the bill will need to be reconsigned when the carrier is chosen. When it is reconsigned to the international carrier, the inland freight carrier will charge a reconsignment fee. This sum should be taken into consideration when costs are determined. The most efficient and least costly means of consignment would be to contact your freight forwarder when you are prepared with all of the particulars of weights, dimensions, and ports of loading and unloading. Your forwarder will then obtain a booking number from the ocean carrier, which reserves space on a given vessel, and relay to you that particular carrier's consignment address and the scheduled vessel. Should the seller effect transport to the carrier, the following information still must appear ont he inland bill of lading:

1. The name of the ocean carrier.
2. The name of the vessel.
3. The booking number for that vessel, if that carrier assigns numbers.
4. The consignment address for that vessel (for example, "Dundock Marine Terminal, Baltimore, Maryland").
5. The number of pieces, description, dimensions and weights of the shipment.
6. The marks that appear on the outside of the packages.
7. The date of latest delivery to the vessel and the sailing date.
8. Whether the dock receipts are attached, filed at the trucker's terminal at the port of export, or at the pier.
9. The port of discharge or the port of unloading if the port is not a part of the marks.
10. Party to whom the transportation charges are to be billed. When you are shipping to a carrier, you cannot ship freight collect. If you wish someone other than yourself to pay transportation charges, indicate this in the description column of the inland bill of lading by naming the company or forwarder who will be accepting that responsibility.

If all of the above information is included on your inland bill of lading, you can enlist anyone familiar with dock receipts to prepare one in your behalf, if the dock receipt is lost or for some reason cannot be matched up with your shipment.

Bear in mind that when you ship goods from your plant on an inland bill of lading you do not consign the goods to a buyer in a foreign country. You are consigning the goods to a carrier or freight forwarder or other agent of your choosing. As a result, you do not place the goods

in custody of the buyer or, as yet, pass title. It would be very difficult for you to prove in a court of law that it was your intent to pass title to a buyer before the goods were placed physically at his disposal. It is your obligation to deliver those goods to the vessel, taking any action necessary to accomplish this. By the same line of reason, it is your implied responsibility to file any claims for lost or damaged merchandise.

THE INTERNATIONAL OCEAN BILL OF LADING

International ocean bills of lading can be consigned so as to accommodate varying arrangements between buyer and seller. An ocean bill of lading may or may not be a negotiable instrument. This document may reserve possession and/or title, or it can be written to assign immediate possession to the consignee.

The one important rule to remember when shipping by ocean freight is that when you write "consigned to the order of" in the consignee block of the bill of lading, you have charged the carrier with ex-changing those goods for the original ocean bill of lading. When ever the ocean bill of lading consigns directly to the buyer, he may take possession at the port of import without commercial invoices or copy of the original ocean bill of lading. You have contracted with the ocean carrier in this instance to transport the goods from port of loading to the designated port of unloading and to make those goods immediately available to the ultimate consignee. The only way a seller controls title is by specification on the ocean bill of lading—the "consigned to the order or" portion, which makes the bill of lading a negotiable instrument. The choice of consignee on the international bill of lading then becomes a credit decision.
Provided that the buyer is on open account basis, the bill of lading can be consigned directly to that buyer, and the merchandise is immediately available on arrival at port. On the other hand, should the seller want to exchange title and/or possession of the goods for payment, he must state on the bill of lading: "consigned to the order of."

There are other means of making shipments immediately available to the buyer under open account terms. The seller can request a "non-negotiable" or a "received for shipment" bill of lading to be issued, eliminating the necessity for the buyer to prove shipment. A non-negotiable "received for shipment" bill of lading is issued as soon as the goods have been received by the carrier, showing that the goods have been received at the pier for shipment, but of course not indicating that the goods have in fact been loaded on board.

When you have a letter of credit that requires a full set of bills of lading, "full set" means all of the originals, plus two non-negotiable copies. If three original bills of lading were issued, a full set would be three original and two non-negotiable copies. Had only one original bill of lading been issued, a full set would be just the one original and two non-negotiable copies. You can determine how many originals have been issued by looking at the following statement, which will appear in the lower right-hand corner: "In witness whereof, the carrier, master or agent of said vessel has signed and the shipper has received this (1 or 3) original bill(s) of lading."

An original bill of lading is not officially so, simply by virtue of bearing the word "original." A true original is the bill of lading that has been signed by the carrier or its agent, the signature of which must be on file at the prot of importation. When the bill is marked "on board," the initials of the individuals whose signature is on file at the port of importation must appear under the "on board" stamp.

A "clean bill of lading" is one that has been issued without any exception taken by the carrier. When the carrier takes an exception, he will alter the bill of lading in some manner and initial the alteration. When a bill of lading is altered, it is no longer clean. The words, "clean bill of lading" need not be stamped on the ocean bill of lading, because it is clean by the absence of exceptions.

The intent of the letter of credit is to ask for a bill of lading that is evidence of shipment. When an international ocean bill of lading is issued that is not evidence of shipment, the clause "transshipment permitted" must appear in the letter of credit. An example of an ocean bill of lading that does not prove shipment is an ocean consolidator's bill of lading. An ocean consolidator in the normal course of business will receive shipments of various sellers, and he will issue his own bills of lading to cover transportation from a U.S. port to the required port of entry. The ocean freight consolidator will then load these shipments into one ocean container, and a single ocean bill of lading for the combined shipments is given to the ocean carrier. The ocean freight consolidator is called a "non-vessel-operation common carrier." He does not own vessels, but profits by buying transportation at one price and selling it at a higher price. His bill of lading is not evidence of shipment, as he is an intermediate agent.

To clarify the term "transshipment," we will offer two examples that are not considered to be trans-shipments:

1. Suppose a carrier offers an ocean bill of lading, showing the port of loading as Baltimore, Maryland, and the port of unloading is shown as Dammam, Saudi Arabia. The ocean carrier may use on vessel to transport the goods from Baltimore to Norfolk, another to take them from Norfolk to Rotterdam, and yet a third to compete the journey to Dammam. This is not a transshipment. Only one vessel will be shown on the ocean bill of lading, because the carrier has accepted the "on-board responsibility," meaning that the carrier has agreed to transport goods from the original to the final port, and therefore, accepts all responsibility and liability for that cargo during its course. As long as a bill of lading gives sold responsibility to a carrier who has the ability to move the cargo, controlling its possession and destiny, a transshipment has not existed.

2. A second example is when an intermodal bill of lading has been issued, meaning just as the name implies—more than one mode of transportation is to be used in transporting the goods from the port of loading to the port of unloading. Suppose we had a shipment from Indianapolis to Singapore. We could deliver those goods to an ocean carrier in Baltimore, Maryland and the ocean carrier would issue an on-board intermodal bill of lading, showing that the vessel sailed from Baltimore probably within two days after receipt of the cargo at the Baltimore receiving

facilities. However, the carrier in this instance does not call Baltimore, but in fact places the goods in a container and transports them from Baltimore to Los Angeles by rail, then subsequently reloads them aboard a vessel in Los Angeles headed for Singapore. Here, more than one mode of transportation was utilized, i.e. rail and ocean; however, the carrier, again assumed on-board responsibility throughout.

When dealing with intermodal shipments as an exporter from the United States you will hear the terms Landbridge, Mini-Landbridge and Micro-Landbridge. Your understanding of these terms may save you costs in transportation by knowing the alternatives available to you.

Landbridge is the term used to identify cargo that would, for example, originate in Japan, be transported by ocean vessel to the West Coast of the United States and then transported across the United States by rail or truck to be shipped by ocean vessel from the East Coast of the United States to a European destination.

Mini-Landbridge is used to define cargo that would originate in, for example, an East Coast port where an "on board" ocean bill of lading would be issued and the goods would be placed on an ocean vessel for Japan. In this instance, the ocean bill of lading would show ocean transportation directly from the East Coast port but in reality truck or rail was used to get the cargo to the West coast before the goods were actually placed on board the vessel.

Micro-Landbridge is very similar to Mini-Landbridge except that under the provisions of Micro-Landbridge the origin of the cargo can be at an inland city and into a port of export.

To summarize, the Landbridge concept means cargo enters a U.S. port on one coast is transported across the United States and placed back on a vessel for further transportation to another country. Mini-Landbridge means cargo can be received by a carrier at one port but actually placed on board a vessel in another port. Micro-Landbridge then means cargo can originate at an inland city other than a port and be transported to any port by the ocean carrier. In each instance the port of origin will be shown as the point where cargo is actually delivered to the carrier and not the port where cargo was placed on board a vessel.

Comments:

Less than container load shipments can be sent to a freight consolidator who will load several shipper's cargo into an ocean container and deliver the container to the U.S. port for loading on a vessel. Or, the shipment can be delivered directly to the port of export and then loaded into an ocean container. This method can be more expensive due to the high costs of stuffing charges and the exposure to pilferage at the piers.

The steamship line's liability per ocean container is $500.00. Therefore, it is important that the exporter obtain ocean cargo marine insurance to insure his shipments properly.

The two standard ocean container sizes are 20 foot and 40 food containers. The over the road weight limits are judged by the weight over each axle of the chassis. Generally speaking, the gross weight limit on both of the containers is 40,000 pounds.

THE INTERNATIONAL AIR BILL OF LADING

International air bills of lading differ from ocean bills of lading in one major respect: the air bill of lading is a non-negotiable document. When shipping by air freight, the seller engages an air carrier to transport his wares from the airport of origin to the terminal where they can be immediately available to the consignee stated on the air waybill. Any attempt to consign an air waybill so as to retain or control title of the freight—that is, to use the air waybill as a negotiable instrument—will render the air waybill void. Sellers are often uninformed about conditions and terms peculiar to the air waybill and therefore marvel at the fact that a consignee can receive the goods from the air carrier without having first paid, for instance, a submitted draft. Under the international air bill of lading, you may hold the original air waybill and all the commercial invoices, but this in no way prevents the consignee from receiving the goods.

An internationally acceptable means has, however, been developed for controlling possession of air shipment at the point of destination. Control and responsibility can be delegated to the buyer's bank via consignment on the air waybill. This may be a desirable option open to you for the buyer who does not qualify for open account terms with your credit department. Consider the buyer's banker as a comparatively trustworthy mutual representative: when you have consigned the freight to this party, your draft that is written, "payable at sight" is presented to this bank concurrently with the waybill assigning custody of your goods. It is now within the professional discretion of the buyer's banker to either pay the draft immediately on behalf of the buyer, relinquishing control to him without delay, or to hold custody until the buyer appears in person to honor the draft. By this method, actual responsibility has been passed into other hands, yet you have not placed your merchandise at the disposal of the buyer until you are assured of payment.

Remember that the consignment address can and should be chosen to your advantage. If doubt exists as to credit reliability of your buyer, consignment and title need not be directly to him.

The problems of transshipment apply to air freight as well as ocean freight. An air freight consolidator, commonly referred to as air freight forwarder, cannot supply an air waybill that constitutes evidence of shipment. This is because air freight forwarders are not permitted to own airplanes. They may only charter airplanes or reserve space for your goods on regularly scheduled commercial airlines. Legal evidence of shipment must come from the party actually and physically responsible for shipment. The forwarder only assigns this responsibility for you to a carrier, and thus his air waybill documents a transshipment, not the accomplished fact of shipment.

HO 7-14

CASE STUDY/MUELLER BRASS AND EXAMPLE FROM POLAND*

A. Request for quotation faxed to manufacturer (exporter) from buyer in United Arab Emirates (U.A.E.).

   1. Subject is copper pipes and fittings. (pipes is also referred to as "copper tubing")
   2. Buyer requires prices C&F Dubai. (Dubai being port in U.A.E.) C&F meaning cost of goods and freight charges to Dubai are inclusive in the net value.
   3. Delivery is also requested.

B. Exporter responds with a proforma invoice.

   1. Original quotation was issued on March 14.
   2. Note that proforma has a revised date of March 15, which indicates some changes had been made and the quotation was revised.
   3. Proforma covers 360 coils soft copper tubing in 50' coils, 20,000 feet hard copper tubing in 20' straight lengths and 9500 pieces of copper pipe fittings.
   4. Prices are based on C&F Dubai.
   5. Terms — letter of credit payable at sight and confirmed by a U.S. bank is requested.
   6. Delivery not mentioned on the proforma, but standard procedure is delivered within 30 days or upon receipt of buyer's letter of credit (also referred to as L/C). If any substantial delays are foreseen, the customer would be advised.

C. Confirming order from buyer faxed to exporter.

   1. Customer's order is examined for discrepancies.
   2. Prices, quantities, sizes, value and all information verified as being exactly as shown on the proforma invoice.

D. Order entry cover sheet prepared for computer input.

   1. Cover sheet contains all pertinent information:

      a. Customer's full address.
      b. Ship to address (indicates forwarder to be used).
      c. Salesman #75 indicates no sales representative for that area so no commission is payable.
      d. Shipping date.
      e. Marks (refer to L/C).
      f. Credit terms.
      g. FOB point.

*Source: Passport to Export, St. Clair Community College for Mueller Brass Case. Polish example and documents provided by Adam Goral.

E. Order has been approved for entry into production by the Credit Manager.

   1. Letter of credit payable at sight. (approved)

F. Computer copy of order entry committed into the distribution center computer system is received for verification.

G. Pre-advice copy of L/C received and reviewed.

   1. This gives the exporter a chance to review its contents for discrepancies.
   2. Note that the description of the merchandise shown on the pre-advice is incorrect.
   3. Customer notified of this in time to have it amended before the original L/C was received.
   4. Details to be airmailed.

H. Original copy of L/C received and all information reviewed for accuracy, such as:

   1. Beneficiary name and address spelling.
   2. Letter of credit number.
   3. Value.
   4. Letter of credit was not confirmed as requested, but still accepted.
   5. Letter of credit must contain the Uniform Customs and Practice for Documentary Credits ICC Publication 400 notation.
   6. Must be irrevocable.
   7. Applicant's name and address checked for correctness.
   8. Expiration date and validity.
   9. Partial shipment and transhipment checked.
   10. Port of discharge.
   11. Letter of credit at sight (make sure this is the way it reads).
   12. Box markings.
   13. Description.
   14. <u>ALL</u> special instructions in the body of the L/C are reviewed in regards to being able to fulfill every detail.

I. Order is now being boxed, marked and ready to expedite.

J. Forwarder is notified of all the specifics so they can contact the S/S lines for booking the shipment.

K. At this time, a trucking company is contacted for pick up of the material and delivered to the pier. (in this particular case, the exporter used their own truck)

L. A straight bill of lading (B/L) (trucker's bill) is issued by the exporter's shipping department showing necessary delivery instructions, number of pieces, gross weights, etc. This B/L is faxed to the Export Sales Division for their information, and advice

that this shipment has exited the factory.

M. Documents are now prepared for the forwarder showing exact shipping information and instructions for them to follow in completing the documents for the exporter. These documents consist of:

1. Export shipping instructions covering shipping and banking information.
2. Packing list in detail showing, ship to and sold to address, marks, customer and exporters order numbers, B/L number, number and kind of packages, quantity, description, page numbers of merchandise, weight in pounds and kilos in gross, legal and net, grand summary.
3. Commercial invoice showing basically the same information as shown on the packing list except it shows a dollar value in U.S. currency. Prices are shown in C&F Dubai value as requested by the customer and L/C. All freight costs and forwarding fees are inclusive.
4. All copies of L/C.

N. Forwarder now receives the exporter's set of documents and they begin to prepare the balance.

1. They prepare a copy of their own invoice showing all certifications as required in the L/C.
2. Copy of ocean B/L (after received from the S/S lines) showing B/L number, date exported and all other information as required in the L/C.
3. P/L certified true and correct on behalf of exporter.
4. Legalization stamps (required in L/C.)
5. Notice of shipment to customer's insurance agency (required in L/C) since the customer is insuring their own shipment, they need to be notified of all the shipping information.
6. Certificate of origin.
7. Beneficiary's certificate (required in the L/C) stating one complete set of non-negotiable documents were sent to the L/C applicant.
8. DHL receipt showing documents were mailed as required in the L/C.
9. Certification from the shipping company stating that the vessel utilized is a conference and regular line vessel. (required in the L/C)
10. Copy or draft made out by the forwarder on behalf of the exporter, indicating all banking instructions for forwarding payment.
11. All copies of L/C's and amendments.

O. Forwarder now mails these documents to the advising bank in New York for their review and payment. They will then be mailed to the issuing bank of Dubai so the customer can clear the merchandise.

P. Forwarder mails <u>copies</u> of all documents to the exporter with a bill for all charges incurred.

Q. Exporter will issue check to forwarder for these charges.

R. As soon as the payment is received from the L/C, the exporter is reimbursed for these charges. Since the quotation was issued on a C&F Dubai basis, the majority of these charges were all inclusive in the invoice value.

Summary:

The United Arab Emirates requires a separate consular fee based on the dollar value of the invoice.

This is an additional charge that must be added to the value of all U.A.E. orders.

United Arab Emirates is located in the Middle East and lies on the Persian Gulf.

UAE is about the size of Maine.

Metric is the official unit of measurement, currency is the dirham.

Shipper

Consignee

Notify address

Pre-carriage by *

Place of receipt by pre-carrier *

Vessel

Port of lading

Port of discharge

Place of delivery by on-carrier*

LINER BILL OF LADING

Reference No.

Marks and Nos	Number and kind of packages, description of goods	Gross weight	Measurement

Value of goods ....

(declared by Shipper)

Above particulars furnished by the Shipper

Freight details, charges etc

SHIPPED on board in apparent good order and condition, weight, measure, marks, numbers quality, contents and value unknown, for carriage to the Port of Discharge or so near thereunto as the Vessel may safely get and be always afloat, to be delivered in the like good order and condition at the aforesaid Port unto Consignees or their Assigns, they paying freight as indicated to the left plus other charges incurred in accordance with the provisions contained in this Bill of Lading In accepting this Bill of Lading the Merchant expressly accepts and agrees to all its stipulations on both pages, whether written, printed, stamped or otherwise incorporated, as fully as if they were all signed by the Merchant

One original Bill of Lading must be surrendered duly endorsed in exchange for the goods or delivery order

IN WITNESS whereof the Master of the said Vessel has signed the number of original Bills of lading stated below all this tenor and date, one of which being accomplished, the others to stand void

Daily demurrage rate (additional Clause A)

* Applicable only when document used as a Through Bill of Lading

Freight payable at

Place and date of issue

Number of original Bs/L

Signature

* Based on the terms of CONLINEBILL approved by the Baltic and International Maritime Council (BIMCO) January 1st, 1978.

1. Products consigned from (Exporter's business name, address, country)	Reference No GENERALISED SYSTEM OF PREFERENCES CERTIFICATE OF ORIGIN (Combined Declaration and Certificate) FORM A Issued in ..... (Country) see notes overleaf
2. Products consigned to (Consignee's name, address, country)	
3. Means of transport and route (as far as known)	4. For Official use

5. Item number	6. Marks and numbers of packages	7. Number and kind of packages; description of products	8. Origin criterion (see Notes overleaf)	9. Gross weight or other quantity	10. Number and date of invoices

11. Certification It is hereby certified, on the basis of control carried out, that the declaration by the exporter is correct.	12. Declaration by the exporter The undersigned hereby declares that the above details and statements are correct; that all the products were produced in ..... (country) and that they comply with the origin requirments specified for those products in the Generalised Sytem of Preferences for products exported to ..... (iporting country)
..... Place and date, signature and stamp of certifying authority	..... Place and date, signature of authorised signatory

Bank .....

Kraj beneficjenta:

..... dnia .....

☐ ZLECENIE POLECENIA WYPŁATY ZA GRANICĘ

☐ ZLECENIE POKRYCIA INKASA

: 20 : Nr sprawy

: 21 : Nr sprawy banku - podawcy inkasa:

PROSIMY PŁACIĆ ☐ listownie ☐ telekomunikacyjnie ☐ zgodnie z instrukcją podawcy inkasa:	*: 52 : BANK ZLECAJĄCY
32A : WALUTA KWOTA W WALUCIE *DATA WALUTY	*: 33 : KWOTA PRZEKAZYWANA
Kwota słownie:	*: 71 : SPECYFIKACJA KOSZTÓW: A: : B :
50 ZLECENIODAWCA. nazwa, adres: kontrakt/licencja nr ..... inf udziela . .. . tel.	*: R : / : 53 : BANK KORESPONDENT
: 59 BENEFICJENT nazwa, adres, numer rachunku	*: 54 : BANK KORESPONDENT OTRZYMUJĄCEGO / : 56 : BANK POŚREDNICZĄCY
R / 57 WYPŁATA W BANKU/ : 58 : ODDZIALE * numer rachunku	*: 72 : INFORMACJE MIĘDZYBANKOWE
. 70 . SZCZEGÓŁY PŁATNOŚCI	* UWZGLĘDNIONO W EWIDENCJI/LIMICIE
ŹRÓDŁA FINANSOWANIA:	
koszty i prowizje pokrywa koszty i prowizje banku zagranicznego pokrywa	☐ beneficjent ☐ zleceniodawca ☐ beneficjent ☐ zleceniodawca

Równowartością w złotych zlecenia ** naliczonych przez bank kosztów** prosimy obciążyć nasz rachunek nr .... w ....

Przyjmujemy do wiadomości zasady wymienione na odwrotnej stronie formularza i oświadczamy, że niniejsze zlecenie mieści się w ramach ważnego pozwolenia przywozu lub zezwolenia dewizowego nr . ... z dnia ....
grupa towarowa .. .. grupa i pozycja planu usług ....

STEMPEL I PODPISY	PODPISY SPRAWDZONO (wypełnia bank)

* wypełnia bank tylko w przypadku płatności terminowej datę waluty w polu 32A wypełnia zleceniodawca ** niepotrzebne skreślić

Bank .... dnia .....

kontrakt nr ..... *licencja nr*	ZLECENIE OTWARCIA AKREDYTYWY numer *termin i miejsce ważności:*
AKREDYTYWA ☐ *niepotwierdzona* ☐ *potwierdzona na koszt* ☐ *nasz* ☐ *beneficjenta*	
AKREDYTYWA ☐ *nieodwołalna* ☐ *przenośna*	SPOSÓB WYSTAWIENIA ☐ *listownie* ☐ *z preawizem* ☐ *telekomunikacyjnie*
ZLECENIODAWCA *(nazwa i adres)*	BENEFICJENT *(nazwa i adres)*
Informacji udziela *telefon*	KWOTA
BANK AWIZUJĄCY	słownie
PRZEŁADUNEK ☐ *dozwolony* ☐ *niedozwolony* CZĘŚCIOWE DOSTAWY ☐ *dozwolone* ☐ *niedozwolone*	AKREDYTYWA DOSTĘPNA W .... PRZEZ ☐ *płatność a vista* ☐ *negocjację* ☐ *akceptację* ☐ *płatność odroczoną*
ZAŁADUNEK W TERMIN ZAŁADUNKU *MIEJSCE PRZEZNACZENIA*	
OPIS TOWARU *(podać w jęz. kontraktu i w jęz. polskim)*	
BAZA DOSTAWY ☐ CIF ☐ C&F ☐ FOB ☐ DAF ☐	MIEJSCE
PŁATNOŚĆ ZA ZŁOŻENIEM NASTĘPUJĄCYCH DOKUMENTÓW (podać w jęz. kontraktu)	
UBEZPIECZENIE POKRYWA *(podać kto i na jakiej trasie)*	
KOSZTY I PROWIZJE BANKOWE	
dokumenty mają być prezentowane w ciągu ..... dni od daty wystawienia dokumentu przewozowego ale w ramach ważności akredytywy	
równowartością zlecenia w złotych i z tyt kosztów prosimy obciążyć n/r-k nr ..... w	
Przyjmujemy do wiadomości zasady wymienione na odwrotnej stronie formularza i oświadczamy, że niniejsze zlecenie mieści się w ramach ważnego pozwolenia przywozu nr ..... z dnia .... i jest zgodne z jego warunkami Zezwolenie dewizowe nr ..... z dnia .... grupa towarowa	
STEMPEL I PODPISY	PODPISY SPPAWDZONO (wypełnia bank)

. . . . . .
nazwa zleceniodawcy

DYSPOZYCJA BLOKADY ŚRODKÓW

Prosimy o dokonanie – na naszym rachunku bankowym nr . . . . . .
blokady kwoty w złotych stanowiącej równowartość kwoty w walucie według aktualnego kursu sprzedaży powiększonej o 10%
tolerancji z tytułu różnic kursowych powstałych w momencie płatności na rzecz . . . . . .
dotyczącej importu . . . . . .
w kwocie . . . . . .
Zobowiązujemy się do niezwłocznego pokrycia w pełnej wartości importu w przypadku gdy przekroczy ona kwotę dokonanej blokady według kursu z dnia wykonania zlecenia.
Jednocześnie prosimy o realizację załączonego zlecenia płatniczego.
przesłanie do realizacji niniejszej dyspozycji do . . . . . .
. . . . . .

stempel firmowy
podpisy osób upoważnionych

. . . . . .

stempel nagłówkowy

Potwierdzamy dokonanie blokady w kwocie . . . . . .
na rachunku nr . . . . . .
Blokada jest ważna przez okres 3 miesięcy od daty jej dokonania.

. . . . . .
miejsce i data dokonania blokady

. . . . . .
stempel firmowy banku
podpisy osób upoważnionych

WEKSEL TRASOWANY

W transakcjach handlu międzynarodowego często występującym dokumentem jest trata. Trata to weksel ciągniony, zwany też wekslem trasowanym, wystawiony zgodnie z prawem wekslowym. Wystawcą traty jest wierzyciel, a więc w stosunkach handlowych — sprzedający (eksporter). W treści takiego weksla znajduje się polecenie dla dłużnika (kupującego — importera) dokonania zapłaty wymienionej sumy w określonym czasie i miejscu. Zapłata ma nastąpić na rzecz wystawcy (wierzyciela) lub innej, wskazanej osoby.

Traty najczęściej spotyka się w transakcjach terminowych, tzn. w transakcjach z odroczonym terminem płatności (traty terminowe), rzadziej w transakcjach gotówkowych (traty płatne za okazaniem, inaczej a vista).

Z treści traty musi wynikać jej powiązanie z odpowiednią formą rozliczeń. W przypadku inkasa będzie to powołanie się na fakturę składaną razem z innymi dokumentami na inkaso do banku przez eksportera, a w przypadku akredytywy — powołanie się na tę akredytywę.

ZLECENIE SPEDYCYJNE - IMPORT

Eksporter Adr.tlgr/tlx Załadowca	dla PSM C. Hartwig w Kontrakt nr Pozwol. przyw. z dnia ważne do dnia Zamów.odb.nr z dnia
Odbiorca Adr.tlgr/tlx	Importer Prow. kontr. tel.
Rodzaj przewozu wg kontr.: termin dostawy wg potw.zamów. Port, stacja przeznaczenia, bocznica	W-ki ceny i dostawy Forma zapłaty i waluta płatności Termin dost. wg kontr. Częściowa dost.nie*)/dozw. Przeład.nie*)/dozw.

Oznakowanie	Liczba i rodzaj opakowań Nazwa towaru w języku polskim i jego właściwości:	Ilość	Ciężar brutto netto	Objętość m^3 Wymiary

Właściwości towaru:				Ogółem wartość w walucie kontr.			
Taryfowa nazwa towaru		Poz.taryfy cel.	Stawka celna w %	Wartość celna		Należności celne	
Zakres kontroli Polcargo/CIS* i inne						Miejsce kontroli	
				Poradn. nr z C.H w			
Atest w jęz. egz.				Stawka fracht.wkalkul. wg wagi/miary			
Odprawa celna		w		na podstawie		zgłaszający	
Awizacja		- adresat	- sposób	Wysyłka dokumentów (poza awizami)			
Dostawca zagraniczny Adr.tlgr/tlx Port załadunku/ Stacja nadania			Termin(y) gotowości				
Zał.		Kopie otrzymują:			Miejsce i data wystawienia		
					Pieczęć podpisy		

TOWARZYSTWO UBEZPIECZEŃ I REASEKURACJI „WARTA" SPÓŁKA AKCYJNA

Rok założenia 1920

WNIOSEK UBEZPIECZENIOWY Nr

Klucz statystyczny (wypełnia „Warta")		
Zgłaszamy do ubezpieczenia niżej opisane towary na warunkach:		Ubezpieczony:
		Nr kontraktu
Rodzaj transportu	Data wysyłki	Nr podróży
Towary załadowano na	Ubezpieczono od	Nr statystyczny towaru wg SWW
	Miejsce przeładunku	
Ubezpieczono do		
Oznakowanie:	Liczba i rodzaj opakowań Opis towaru	Ciężar netto brutto

Suma ubezpieczenia
Słownie

..... , dnia .....

Shipper

Ref. No.

MATE'S RECEIPT

Forwarding Agents

Contr. No.

Cargo L. No.

Vessel

Port of loading

Port of transhipment

Port of discharge

Final destination

Marks and Nos.	Gross weight kos	Measurement	Number and kind of packages; description of goods	Net weight kos

The above goods received on board

Place and date of issue

Signed for by the Master

CIM

List przewozowy / Lettre de voiture / Frachtbrief

35 | 36 | 37 | 38 | 39 | 40 | 41 | 42

43 Zgoda na załadowanie - Autorisation de chargement - Verladebewilligung Nr

10 Nadawca (nazwa adres) Expéditeur (nom, adresse) Absender (Name Anschrift)

11

12 Oświadczenia Déclarations Erklärungen (CIM Art 13 19 28 etc)

13 Powołanie się nadawcy Référence expéditeur - Absender - Referenz Nr

Przyb ładunkowe Kontenery Agrès Conteneurs - Lademittel Container

14 Odbiorca (nazwa adres kraj) - Destinataire (nom adresse pays) Empfänger (Name, Anschrift, Land)

15

16 Rodzaj | 17 Cecha wlas Nr | 18 Categorie Art. | 17 Marque Mainmal Nr

18 Palety wymienne / Palettes échangeables / Tauschpaletten — Ilość / Nombre / Anzahl — EUR — EUR

19 Wagony Wagons - Wagen Nr

20 Tara Tare Eigenmasse kg

44 Gr obciąż Lim do Lastgrenze

45 Op Essieux Achsen

21 Informacje dla odbiorcy / Informations pour le destinataire / Vermerke für den Empfänger (CIM Art 13 § 5)

22 Oświadcz. o opłaconej należn przewoz / Mention d'affranchissement - Frankatur vorschrift (zob wzór siehe Art 15 §2) włącznie - y compris - einschliesslich

☐ 1. Franco przewoźne / Franco do port / Franco Fracht -du justqu'à - bis

23 Żądane taryfy i drogi przewozowe Tarifs et itinéraires demandés Verlangte Tarife und Wege

☐ 2. Franko wszystkie koszty / Franco de tous frais / Franco aller Kosten

☐ 3. Franko / Franco pour / Franko (określona kwotę) (somme déterminée) (bestimmte Betrag)

46

47 Do odprawy celnej w A dédouaner à - Zu Verzollen in

24 Stacja przeznaczenia i miejsce dostawy Gare destinataire et lieu de livraison Bestimmungsbahnhof und Ablieferungsstelle

45

45 Droga przewozu Itinéraires - Leitungswege

27 Przez wagon całe Wagon complet Wagenladung 1 ☐ Przez drobna Détail Stückgut 2 ☐

28 Zał przez Chargé par Verladen durch Nadawcy Expéditeur Absender 1 ☐ Kolej Chemin de fer Eisenbahn 2 ☐

29 Wartość dostawy Valeur de la livraison Interesse der Lieferung Waluta Monnaie Währung

29 Cechy w części przypadku / Nosić / Rodzaj opakowania / Oznaczenie towaru Marques (le cas échéant) Nombre Nature de l'emballage / Désignation de la marchandise Zeichen (gegebenenfalls) / Anzahl / Art der Verpackung / Bezeichnung des Gutes

33 RID tak - oui - ja ☐

26 Waga Masse kg

50 Towary Marchandises Waren

Dla uwag celnych Réservé à la douane - Für zollamtliche Vermerke

32 Dokumenty załączone do listu przewoz Annexes à la lettre de voiture Beilagen zum Frachtbrief

30 Zaliczka Débours Barvorschuss Waluta Monnaie Währung

31 Zaliczenie Remboursement Nachnahme Waluta Monnaie Währung

69 Kurs | 74 | 69 Cours | 74

1 Przewoźnik do nadania à l'expéditeur de la gare expédition Frachtführer Versandbahnhof do pour bis

55 Zastos taryfa | 56 | 57 | 58 | 59 Stawka | 60 Waga taryf kg | 61 | 62 Przek Durchlauf

63 Kod Code | 64 Km | Waluta Monnaie Währung | 65 Opłaty Frais Gebühren | 66 Kurs | 67 | 68 | 69 Kurs | 71 | 72 | 73 | 74

2 Przewoźnik Porteur Frachtführer do pour bis

55 Tarif appliqué | 56 | 57 | 58 | 59 Prix par unité | 60 Masse taxe kg | 61 | 62

63 Kod Code | 64 Km | Waluta Monnaie Währung | 65 Opłaty Frais Gebühren | 66 | 67 | 68 | 69 Cours | 71 | 72 | 73 | 74

3 Przewoźnik Porteur Frachtführer do pour bis

55 Angew Tarif | 56 | 57 | 58 | 59 Frachtsatz | 60 Frachtpfl Masse kg | 61 | 62

63 Kod Code | 64 Km | Waluta Monnaie Währung | 65 Opłaty Frais Gebühren | 66 Kurs | 67 | 68 | 69 Kurs | 71 | 72 | 73 | 74

75 Przekaz za przedpłatą Avis d'encaissement Nachnahmepapier Nr

76 Rachunek przedpłaty Bulletin d'affranchissement Frankaturrechnung tak - oui - ja

77

Suma ogólna lub do przeniesienia Montant général à reporter Gesamtbetrag oder zu übertragen

78

79 Datownik stacji nadania Timbre à date de la gare expédition Tagesstempel des Versandbahnhofes

80 Datownik stacji przeznaczenia Timbre à date de la gare destinataire Tagesstempel des Bestimmungsbahnhofes

81 Stempel wagi Timbre de passage Wiegestempel

Waga stwierdzona masse constatée Festgestellte Masse

82 Kraj Pays Land Stacja Gare Bahnhof Nr

Naleplka kontrolna Etiquette de contrôle Kontroll Etikette

Przez Exp Vers Nr

83 Data nadania (dzień miesiąc) Date d'expédition (jour mois) Verlands um (Tag Monat)

84 Przybycie Arrivée Empfang Nr

JEDNOLITY DOKUMENT ADMINISTRACYJNY SAD BIS

KARTA DLA URZĘDU CELNEGO KRAJU WYWOZU 1
KARTA DLA URZĘDU CELNEGO KRAJU PRZYWOZU 6

2 Eksporter/Nadawca 6 Importer/Odbiorca Nr

1 DEKLARACJA C BIS

3 Formularz 1 6 Data

31 Opakow. i opis towaru | Znaki i numery – numery kontenera/ów | 32 Pozycja Nr | 33 Kod towaru

34 Symbol kr. pach. a) b) | 35 Masa brutto (kg) | 36 Preferenc.

37 PROCEDURA | 38 Masa netto (kg) | 39 Kontyngent

40 Deklaracja skrócona

41 Jedn. uzupełn. | 42 Wartość pozycji | 43 MW

44 Dodatkowe informacje (załączone dokumenty) | 45 Urzędowna/opust

46 Wartość statystyczna

31 Opakow. i opis towaru | Znaki i numery – numery kontenera/ów | 32 Pozycja Nr | 33 Kod towaru

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37 PROCEDURA | 38 Masa netto (kg) | 39 Kontyngent

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41 Jedn. uzupełn. | 42 Wartość pozycji | 43 MW

44 Dodatkowe informacje (załączone dokumenty) | 45 Urzędowna/opust

46 Wartość statystyczna

47 Obliczenie opłat

Typ	Podstawa opłaty	Stawka		MP	Typ	Podstawa opłaty	Stawka		MP
Razem pierwsze pozycje					Razem drugie pozycje				

Typ	Podstawa opłaty	Stawka		MP	Typ	Kwota (Wn/Zn)	MP
Razem trzecie pozycje					RAZEM		

SUMA POZYCJI

1 KARTA DLA URZĘDU CELNEGO KRAJU WYWOZU

6 KARTA DLA URZĘDU CELNEGO KRAJU PRZYWOZU

C URZĄD CELNY PRZYJMUJĄCY ZGŁOSZENIE/WNIOSEK O PRZEKAZANIE

DRUK CESCHEP GESCHÄFTSDRUCKE
DYSTRYBUCJA P.H. LOTUS UL. PODLESIA 27 97-300 PIOTRKÓW TRYB. TEL./FAX 47 11 25

KARTA STATYSTYCZNA - KRAJ WYWOZU 2 | KARTA STATYSTYCZNA - KRAJ PRZYWOZU 7

JEDNOLITY DOKUMENT ADMINISTRACYJNY SAD BIS

A URZĄD CELNY UDPRAWY

2 Eksporter/ 6 Importer
Nadawca/ Odbiorca
Nr

1 DEKLARACJA
C BIS

3 Formularz 2 7

Data

31 Opakow i opis towaru | Znaki i numery - numery kontenera/ów

32 Pozycja Nr

33 Kod towaru

34 Symbol kr poch a b

35 Masa brutto (kg)

36 Preferenc

37 PROCEDURA

38 Masa netto (kg)

39 Kontyngent

40 Deklaracja skrócona

41 Jedn. uzupełn

42 Wartość pozycji

43 MW

44 Dodatkowe informacje (załączone dokumenty)

45 Uzgodnienia/opust

46 Wartość statystyczna

31 Opakow i opis towaru | Znaki i numery - numery kontenera/ów

32 Pozycja Nr

33 Kod towaru

34 Symbol kr. poch a b

35 Masa brutto (kg)

36 Preferenc

37 PROCEDURA

38 Masa netto (kg)

39 Kontyngent

40 Deklaracja skrócona

41 Jedn. uzupełn

42 Wartość pozycji

43 MW

44 Dodatkowe informacje (załączone dokumenty)

45 Uzgodnienia/opust

46 Wartość statystyczna

31 Opakow. i opis towaru | Znaki i numery - numery kontenera/ów

32 Pozycja Nr

33 Kod towaru

34 Symbol kr poch a b

35 Masa brutto (kg)

36 Preferenc

37 PROCEDURA

38 Masa netto (kg)

39 Kontyngent

40 Deklaracja skrócona

41 Jedn uzupełn

42 Wartość pozycji

43 MW

44 Dodatkowe informacje (załączone dokumenty)

45 Uzgodnienia/opust

46 Wartość statystyczna

2 KARTA STATYSTYCZNA - KRAJ WYWOZU

7 KARTA STATYSTYCZNA - KRAJ PRZYWOZU

C URZĄD CELNY PRZYJMUJĄCY ZGŁOSZENIE/ WNIOSEK O PRZEKAZANIE

DRUK DRESCHER GESCHÄFTSDRUCKE
DYSTRYBUCJA P.H. LOTUS UL. PODLESNA 27, 87 300 PIOTRKÓW TRYB. TEL./FAX 47 11 25

JEDNOLITY DOKUMENT ADMINISTRACYJNY SAD

1 6

KARTA DLA URZĘDU CELNEGO KRAJU WYWOZU

KARTA DLA URZĘDU CELNEGO KRAJU PRZYWOZU

1 DEKLARACJA

2 Eksporter/Nadawca Nr

3 Formularz 4 Wyk. załącz. Data

5 Pozycje 6 Liczba opak. 7 Numer akt zgłaszającego

8 Importer/Odbiorca Nr

9 Osoba odpowiedzialna za sprawy finansowe

10 Kraj I-go przeza. 11 Kraj zak./sp. 12 Szczegóły dotyczące wartości 13 W.P.R.

14 Zgłaszający Nr

15 Kraj wysyłki 15 Symbol kr wysyłki a b 17 Symbol kraju przezn a b

16 Kraj pochodzenia towaru 17 Kraj przeznaczenia towaru

18 Środek transportu 19 Kont. 20 Warunki dostawy

21 Środek transportu na granicy 22 Waluta i ogólna wartość faktury 23 Kurs waluty 24 Rodz. transakcji

25 Rodz. transp. na granicy 26 Rodzaj transp. wewn 27 Miejsce zał./wyl. 28 Bank i nr konta

29 Urząd celny graniczny 30 Miejsce odprawy celnej

6

31 Opakow. i opis towaru

Znaki i numery - numery kontenera/ów

32 Pozycja Nr 33 Kod towaru

34 Symbol kr poch a b 35 Masa brutto (kg) 36 Preferenc

37 PROCEDURA 38 Masa netto (kg) 39 Kontyngent

40 Deklaracja skrócona

41 Jedn. uzupełn. 42 Wartość pozycji 43 MW

44 Dodatkowe informacje (załączone dokumenty)

45 Uzgodnienia/opust

46 Wartość statystyczna

47 Obliczanie opłat

Typ	Podstawa opłaty	Stawka	Kwota (tys. zł)	MP
Razem				

48 Płatność odroczona 49 Skład celny/WDC

B ELEMENTY KALKULACYJNE (Opłaty manipulacyjne)

50 Gwarant Nr

C URZĄD CELNY PRZYJMUJĄCY ZGŁOSZENIE/ WNIOSEK O PRZEKAZANIE

Data

51 Przewid. urzędy tranzytu (i kraj)

52 Gwarancje tranzytowe nie ważne na

53 Urząd odbiorczy/i kraj

D/J ADNOTACJE URZĘDOWE

54 Miejsce i data

Imię, nazwisko, nr DD, podpis

1 6

JEDNOLITY DOKUMENT ADMINISTRACYJNY SAD

2 7

KARTA STATYSTYCZNA - KRAJ WYWOZU

KARTA STATYSTYCZNA - KRAJ PRZYWOZU

1 DEKLARACJA

2 Eksporter/Nadawca Nr

3 Formularz

4 Wyk. załad

Data

5 Pozycje

6 Liczba opak.

7 Numer akt zgłaszającego

8 Importer/Odbiorca Nr

9 Osoba odpowiedzialna za sprawy finansowe

10 Kraj 1-go przezn.

11 Kraj zak./sp

12 Szczegóły dotyczące wartości

13 WPR

14 Zgłaszający Nr

15 Kraj wysyłki

15 Symbol kr. wysyłki a) b)

17 Symbol kraju przezn. a) b)

16 Kraj pochodzenia towaru

17 Kraj przeznaczenia towaru

18 Środek transportu

19 Kont.

20 Warunki dostawy

21 Środek transportu na granicy

22 Waluta i ogólna wartość faktury

23 Kurs waluty

24 Rodz. transakcji

25 Rodz. transp. na granicy

26 Rodzaj transp. wewn.

27 Miejsce zał./wyl.

28 Bank i nr konta

2 7

29 Urząd celny graniczny

30 Miejsce odprawy celnej

31 Opakow. i opis towaru

Znaki i numery - numery kontenera/ów

32 Pozycja Nr

33 Kod towaru

34 Symbol kr. poch a) b)

35 Masa brutto (kg)

36 Preferenc.

37 PROCEDURA

38 Masa netto (kg)

39 Kontyngent

40 Deklaracja skrócona

41 Jedn. uzupełn.

42 Wartość pozycji

43 MW

44 Dodatkowe informacje (załączone dokumenty)

45 Uzgodnienia/opust

46 Wartość statystyczna

48 Płatność odroczona

49 Skład celny/WOC

B ELEMENTY KALKULACYJNE (Opłaty manipulacyjne)

50 Gwarant Nr

C URZĄD CELNY PRZYJMUJĄCY ZGŁOSZENIE/ WNIOSEK O PRZEKAZANIE

Data

51 Przewid. urzędy tranzyt (i kraj)

52 Gwarancje tranzytowe nie ważne na

53 Urząd odbiorczy/i kraj

D/J ADNOTACJE URZĘDOWE

54 Miejsce i data

Imię, nazwisko, nr DO, podpis

2 7

DRUK DRESCHER GESCHÄFTSDRUCKE
DYSTRYBUCJA P.H. LOTUS, UL. PCZELSKA 27, 87 300 PIOTRKÓW TRYB. TEL./FAX 47 11 25

JEDNOLITY DOKUMENT ADMINISTRACYJNY SAD

3 8

KARTA DLA ODBIORCY

KARTA DLA NADAWCY

1 DEKLARACJA

2 Eksporter/Nadawca Nr

3 Formularz

4 Wyk. zakład

Data

5 Pozycje

6 Liczba opak.

7 Numer akt zgłaszającego

8 Importer/Odbiorca Nr

9 Osoba odpowiedzialna za sprawy finansowe

10 Kraj 1-go przezn.

11 Kraj zak./zp

12 Szczegóły dotyczące wartości

13 W.P.R.

14 Zgłaszający

15 Kraj wysyłki

15 Symbol kr. wysyłki a b

17 Symbol kraju przezn. a b

16 Kraj pochodzenia towaru

17 Kraj przeznaczenia towaru

18 Środek transportu

19 Kont

20 Warunki dostawy

21 Środek transportu na granicy

22 Waluta i ogólna wartość faktury

23 Kurs waluty

24 Rodz. transakcji

25 Rodz. transp. na granicy

26 Rodzaj transp. wewn.

27 Miejsce zał./wył.

28 Bank i nr konta

3 8

29 Urząd celny graniczny

30 Miejsce odprawy celnej

31 Opakow. i opis towaru

Znaki i numery – numery kontenerów

32 Pozycja Nr

33 Kod towaru

34 Symbol kr. poch. a b

35 Masa brutto (kg)

36 Preferenc.

37 PROCEDURA

38 Masa netto (kg)

39 Kontyngent

40 Deklaracja skrócona

41 Jedn. uzupełn.

42 Wartość pozycji

43 MW

44 Dodatkowe informacje (załączone dokumenty)

45 Uzgodnienia/opust

46 Wartość statystyczna

47 Obliczanie opłat

Typ	Podstawa opłaty	Stawka	Kwota (tys. zł)	MP
Razem:				

48 Płatność odroczona

49 Skład celny/WOC

B ELEMENTY KALKULACYJNE (Opłaty manipulacyjne)

50 Gwarant Nr

C URZĄD CELNY PRZYJMUJĄCY ZGŁOSZENIE/ WNIOSEK O PRZEKAZANIE

51 Przewid. urzędy tranzyt (i kraj)

Data

52 Gwarancje tranzytowe nie ważne na

53 Urząd odbiorczy/i kraj

D/J ADNOTACJE URZĘDOWE

54 Miejsce i data

Imię, nazwisko, nr DD, podpis

3 8

DRUK DRUCKEREI GESCHÄFTSDRUCKE
DYSTRYBUCJA P.H. LOTUS UL. PODLESKA 27 97 300 PIOTRKÓW TRYB. TEL./FAX 47 71 96

2 Egzemplarz dla odbiorcy
Exemplar für den Empfänger
Copy for consignee

1 Nadawca (nazwisko lub nazwa, adres, kraj)
Absender (Name, Anschrift, Land)
Sender (name, address, country)

MIĘDZYNARODOWY SAMOCHODOWY LIST PRZEWOZOWY NR
INTERNATIONALER FRACHTBRIEF No
INTERNATIONAL CONSIGNEMENT NOTE

CMR

Niniejszy przewóz podlega postanowieniom konwencji o umowie międzynarodowej przewozu drogowego towarów (CMR) bez względu na jakąkolwiek przeciwną klauzulę

Diese Beförderung unterliegt trotz einer gegenteiligen Abmachung den Bestimmungen des Übereinkommens über den Beförderungsvertrag im internationalen Strassengüterverkehr (CMR)

This carriage is subject notwithstanding any clause to the contrary, to the Convention on the Contract for the International Carriage of goods by road (CMR)

2 Odbiorca (nazwisko lub nazwa, adres, kraj)
Empfänger (Name, Anschrift, Land)
Consignee (name, address, country)

16 Przewoźnik (nazwisko lub nazwa, adres, kraj)
Frachtführer (Name, Anschrift, Land)
Carrier (name, address, country)

3 Miejsce przeznaczenia (miejscowość, kraj)
Auslieferungsort des Gutes (Ort, Land)
Place of delivery of the goods (place, country)

17 Kolejni przewoźnicy (nazwisko lub nazwa, adres, kraj)
Nachfolgende Frachtführer (Name, Anschrift, Land)
Successive carriers (name, address, country)

4 Miejsce i data załadowania (miejscowość, kraj, data)
Ort und Tag der Übernahme des Gutes (Ort, Land, Datum)
Place and date of taking over the goods (place, country, date)

18 Zastrzeżenia i uwagi przewoźnika
Vorbehalte und Bemerkungen der Frachtführer
Carrier's reservations and observations

5 Załączone dokumenty
Beigefügte Dokumente
Documents attached

Rubryki obwiedzione tłustymi liniami wypełnia przewoźnik
Die mit fett gedruckten Linien umrahmten Rubriken müssen von Frachtführer ausgefüllt werden
The spaces framed with heavy lines must filled in by the carrier

19 + 20 + 22

6 Cechy i numery
Kennzeichen und Nummern
Marks and Nos

7 Ilość sztuk
Anzahl der Packstücke
Number of packages

8 Sposób opakowania
Art der Verpackung
Method of packing

9 Rodzaj towaru
Bezeichnung des Gutes
Nature of the goods

10 Nr statystyczny
Statistiknummer
Statistical number

11 Waga brutto w kg
Bruttogewicht in kg
Gross weight in kg

12 Objętość w m³
Umfang m³
Volume in m³

Klasa / Klasse / Class — Liczba / Ziffer / Number — Litera / Buchstabe / Letter — (ADR*)

1 – 15 wyłącznie nad zaznaczonych
ausschliesslich nachfolgend
including and following only

Do wypełnienia pod odpowiedzialnością nadawcy
Ausfüllen unter der Verantwortung des Absenders
To be completed on the sender's responsibility

13 Instrukcje nadawcy
Anweisungen des Absenders
Sender's instructions

19 Postanowienia specjalne
Besondere Vereinbarungen
Special agreements

14 Postanowienia ochrony przewoźnego
Frachtzahlungsanweisungen
Instructions as to payment for carriage

☐ Przewoźne zapłacone Frei Carriage paid
☐ Przewoźne niezapłacone Unfrei Carriage forward

20

Do zapłacenie / Zu zahlen vom / To be paid by	Nadawca / Absender / Sender	Waluta / Währung / Currency		Odbiorca / Empfänger / Consignee
Przewoźne / Fracht / Carriage charges				
Bonifikaty / Ermässigungen / Deductions				
Saldo / Zuschläge / Balance				
Dopłaty / Nebengebühren / Supplem. charges				
Różne drobne / Sonstiges / Miscellaneous				
Razem / Gesamtsumme / To be paid				

21 Wystawiono w / Ausgefertigt in / Established in — dnia / am / on — 19 19 19

15 Zapłata / Rückerstattung / Cash on delivery

22
Podpis i pieczęć nadawcy
Unterschrift und Stempel des Absenders
Signature and stamp of the sender

23
Podpis i pieczęć przewoźnika
Unterschrift und Stempel des Frachtführers
Signature and stamp of the carrier

24 Przesyłkę otrzymano / Gut empfangen / Goods received
Miejscowość / Ort / Place — dnia / am / on — 19 19 19
Podpis i pieczęć odbiorcy
Unterschrift und Stempel des Empfängers
Signature and stamp of the consignee

* W przypadku przewozu towarów niebezpiecznych, oprócz ewentualnego pouczenia zaznaczyć krzyżykiem w czerwonym polu, należy podać w ostatnim wierszu, kolumny podać w ostatnim przypadku klasę
* Bei gefährlichen Gütern ist, außer der eventuellen Beschreibung, auf der letzten Linie der Rubrik anzugeben: die Klasse, die Ziffer, ggfs. ungefähr der Buchstabe
* In case of dangerous goods mention, besides the possible certification, on the last line of the column the particulars of the class, the number and the letter, if any

Datum Marzec 1970

Chłodnia - Kühlhaus
Cold store

dnia
..... den, the .....

SPECYFIKACJA WAGI
GEWICHTSPEZIFIKATION
WEIGHT NOTE

Eksporter
Exporteur
Exporter ..... Ktr. nr:
Vertr. Nr
Ctr. No: .....

Odbiorca:
Käufer:
Bayer: .....

Wagon chłodnia nr:
Kuhlwagen, Frigo-truck No: ..... załadowano dnia
verladen am, loaded on .....

Towar:
Ware, Goods: ..... zbiór:
Ernte, crop: .....

Cechy i numery Zeichen und Nr Marks and Nos	Opakowanie Verpackung Packing		Waga stwierdzona w Chłodni Im Kühlaus festgestellies Verladegewicht Weight stated in cold store		
	Rodzaj Art Kind	Ilość sztuk Anzahl Stuck quantity pieces	kg/kos brutto gross	kg/kos netto net	kg/kos tara tare
Razem Zuswammen Total					

Temperatura składowania towaru:
Lagerungstemperatur der Ware:
Temperature af storage: ..... °C.

Temperatura przy załadunku:
Verladetemperatur:
Temperature at loading: ..... °C.

m^3 .....
Waga kartonu/worka
Karton/Sackgewicht
Weight of carton/bag
brutto/gross ..... kg/kos
tara/tare ..... kg/kos
netto/net ..... kg/kos

HUK PROIMPEX

)0-511 WARSZAWA
Nowogrodzka 31/315

tel.: 21 83 79
29 93 04
tlx 815095
fax 6288059

BANK P.K O B.P
IX Oddz.
w Warszowie
Nowogrodzka 25/41
nto nr 1599-315377-136

Nasz znak

Wasz znak

Warszawa, dn 21.07.92

PŁATNIK:
KARGREK Co Ltd.
ISLE OF MAN, ENGLAND

I N V O I C E - PROFORMA

KONCENTRATY NAPOJU

SUNRISE a 450g

..... but. a 0,38 USD ..... USD

słownie:

ODBIORCA: ALBATROS - Donieck, Pr. Teatralny 10

•HUK-PROIMP. S. P. H
UL. NOWOGRODZKA 31
00-511 WARSZAWA
☎ 29 93 04 TLX 813911

FAKTURA IMPORTOWA „FI"

1. Kontrahent zagraniczny

Auschem Cesalpinia/Włochy

2. Faktura FI nr 59-211/20045/001

3. z dnia 13.04.92

4. Data importu

5. Nr rejestru

7. Odbiorca

JAZCOOP Sp. z o.o.
ul. Ks.J.Jałowego 6a
35-010 Rzeszów

8. Importer

CHIMEX Sp. z o.o.
Al.Krakowska 264
02-210 Warszawa

9. Płatnik

jw

baza dostawy: EX WORKS

FRIMULSION 057 E 200 kg netto/217 kg brutto DM 8,80/kg ~~DMxx8x80xkg~~

wartość: DM 1.760,00

- 2% skonto na przedpłatę DM 35,20

DM 1.724,80

wartość towaru
w cenach sprzedaży: zł 20.440.300,-
wartość przedpłaty: zł 15.000.000,-
do dopłaty : zł 5.440.300,- Kwotę tę prosimy wpłacić na nasze konto
25 c 51-3079-13100-1 Bank Handlowy w Warszawie S.A. w ciągu 5 dni od otrzymania FI

10. Importer	11. Data	12. Data	13. Data	14. Rodzaj płatności	15. Nr	16. Kurs	17. Wartość	18. Data
59	11		13	795	59/92	8.262,00	DM 1.724,80	31

19. Kraj zakupu	20. Kraj pochodz.	21. Umowa z K.S	22. Umowa kooperacyjna	23. Pozycja planu	24. Wyr. cen	25. Char. płatności celn.	26. Wyr. celn.	27. Stawka celna	28. Zadanie inwestycyjne	29. Rejon	30. Ins.
223	223							20%			3

31. Nr statystyczny towaru	32. Jednostka miary	33. Ilość	34. Jednostka ciężaru	35. Ciężar netto	36. Ciężar brutto
-			033	200,00	217,00

37. Wartość w cenach zakupu	38. Frachty	39. Ubezpieczenie	40.
14.250.300,-	1.500.000,-	50.000,-	

41. Pozostałe koszty zagraniczne transakcyjne	42. Razem koszty zagraniczne	43. Koszty kredytu kupieckiego	44. Wartość w cenach trans. CIF
	1.550.000,-		15.800.300,-

45. Marża	46. Podatek akcyzowy	47. Cło	48. Wartość w cenach sprzedaży
1.500.000,-		3.140.000,-	20.440.300,-

49.	50.	51.	52. Rabat gwarancyjny

53. Wartość FOB	54. Wartość w cenach detalicznych	55. Dopłaty	56. Obciążenia

57. „CHIMEX" Spółka z o.o.
FIRMA HANDLOWO - USŁUGOWA
Al. Krakowska 264
02-210 WARSZAWA

Sporządził: Powrzelako

Sprawdził: mgr [illegible] Anielak

МИНИСТЕРСТВО ВНЕШНЕЭКОНОМИЧЕСКОГО СОТРУДНИЧЕСТВА

ЦЕНТРАЛЬНЫЙ ИНСПЕКТОРАТ ПО СТАНДАРТИЗАЦИИ

Ministerstwo Współpracy Gospodarczej z Zagranicą
Centralny Inspektorat Standaryzacji

КАЧЕСТВЕННЫЙ СЕРТИФИКАТ № 872 / 282 / 0aj Ważne do dn. 5.08 92 19 r.
Świadectwo standaryzacji Nr

Наименование товара / Nazwa towaru: Koncentraty napojów orzeźwiających

Контракт № / Kontrakt PHZ: 010503124/92/R-047 Страна / Kraj: Ukraina

Экспортер: ПВТ / Eksporter: PHZ: BUK-Proiapex W-wa ul.Nowogrodzka 31 reg. 010503124

Отправитель / Załadowca: "JIM" 36-042 Lubenia woj rzeszowskie reg. 690502626

Вагон (грузовик) № / Wagon (samochód) Nr: sam nr 8092 XAO 5024 XE

Упаковка / Opakowanie: pakiety foliowe a 20 szt. butelek 450 g

— навалом
— luzem

Количество упаковки / Ilość opakowań: 1465 pakietów / 29 300 butelek — вес груза нетто / Waga towaru netto: 13 185 kg

Определение качества: товар отвечает условиям контракта
Stwierdzenie jakości: towar odpowiada warunkom kontraktu

заключение экспертиза: так / до экспорта допускается / ТАК — 13 185 кг / kg

Orzeczenie: dopuszczono do eksportu

Na podstawie kontroli standaryzacyjnej przeprowadzonej w oparciu o postanowienia § 2. Uchwały Prezydium Rządu z dnia 3.II 1951 r. (Monitor Polski nr A-19, p. 149) zgodny z kontraktem.

Egzem. dla:	Rozdzielnik
Таможня	1) Urząd Celny
Поставитель	2) Dostawca
Экспортер	3) Eksporter
Покупатель	4) Odbiorca
ЦИС	5) CIS 2 egz.

INSPEKTORAT STANDARYZACJI

Печать, подпись экспорта
pieczątka i podpis kontrolującego

1 Egzemplarz dla nadawcy
Exemplar für den Absender
Copy for sender

1 Nadawca (nazwisko lub nazwa, adres, kraj)
Absender (Name, Anschrift, Land)
Sender (name, address, country)

JLM Sp. z o.o.
36-042 Lubenia
woj. rzeszowskie Polska

MIĘDZYNARODOWY SAMOCHODOWY LIST PRZEWOZOWY NR
INTERNATIONALER FRACHTBRIEF No
INTERNATIONAL CONSIGNEMENT NOTE

CMR

Niniejszy przewóz podlega postanowieniom konwencji o umowie międzynarodowej przewozu drogowego towarów (CMR) bez względu na jakąkolwiek przeciwną klauzulę

Diese Beförderung unterliegt trotz einer gegenteiligen Abmachung den Bestimmungen des Übereinkommens über den Beförderungsvertrag im internationalen Strassengüterverkehr (CMR)

This carriage is subject notwithstanding any clause to the contrary, to the Convention on the Contract for the International Carriage of goods by road (CMR)

2 Odbiorca (nazwisko lub nazwa, adres, kraj)
Empfänger (Name, Anschrift, Land)
Consignee (name, address, country)

Ukraina

ALBATROS -
Donieck Pr. Teatralny IO

16 Przewoźnik (nazwisko lub nazwa, adres, kraj)
Frachtführer (Name, Anschrift, Land)
Carrier (name, address, country)

3 Miejsce przeznaczenia (miejscowość, kraj)
Auslieferungsort des Gutes (Ort, Land)
Place of delivery of the goods (place, country)

Donieck Ukraina

17 Kolejni przewoźnicy (nazwisko lub nazwa, adres, kraj)
Nachfolgende Frachtführer (Name, Anschrift, Land)
Successive carriers (name, address, country)

4 Miejsce i data załadowania (miejscowość, kraj, data)
Ort und Tag der Übernahme des Gutes (Ort, Land, Datum)
Place and date of taking over the goods (place, country, date)

Lubenia Polska 1992.07.23

18 Zastrzeżenia i uwagi przewoźnika
Vorbehalte und Bemerkungen der Frachtführer
Carrier's reservations and observations

5 Załączone dokumenty
Beigefügte Dokumente
Documents attached

1. Specyfikacja 3. Atest
2. Faktura proforma

6 Znaki i numery
Kennzeichen und Nummern
Marks and numbers

7 Liczba opakowań
Anzahl der Verpackungen
Number of packages

8 Sposób opakowania
Art der Verpackung
Method of packing

9 Rodzaj towaru
Bezeichnung der Ware
Nature of the goods

10 Statystyka

11 Waga brutto w kg
Bruttogewicht in kg
Gross weight in kg

12 Opłaty

Koncentraty napojów orzeźwiających
butelki 450 g 29 300 szt.
1465 pakietów

20 600

Stężenie
Letter

PL/UC/2278/1

13 Instrukcje nadawcy
Besondere Vereinbarungen
Special agreements

19 Postanowienia specjalne
Besondere Vereinbarungen
Special agreements

100400/001158
Odprawa celna dokonana
URZĄD CELNY W PRZEMYŚLU
Oddział w Rzeszowie
92.07.23

20 Do uiszczenia przez nadawcę / Zapłacono / Do zapłacenia przez odbiorcę
To be paid by / Paid / To be paid by

		Waluta / Currency		
Przewoźne / Fracht / Carriage charges				
Bonifikaty / Ermässigungen / Deductions				
Saldo / Zwischensumme / Balance				
Dopłaty / Nebengebühren / Supplementary charges				
Przyczynkowe / Sonstige / Miscellaneous				
Razem / Gesamtsumme / Total				

14 Postanowienia dotyczące przewozu
Frachtzahlungsvermerke
Carriage paid

Przewoźne opłacone do miejsca przeznaczenia
Carriage paid to destination

Przewoźne opłacone do miejsca przeładunku
Carriage paid to forwarding

21 Sporządzono w / Ausgefertigt in / Made out at: Lubenia 1992.07.23

15 Zapłata Rückerstattung / Cash on delivery

22 JLM
36-042 Lubenia
Podpis i stempel przewoźnika
Unterschrift und Stempel des Frachtführers
Signature and stamp of the carrier
3632517

23 sam. 8092 XAO
5024 XE
622
Podpis i stempel przewoźnika
Unterschrift und Stempel des Frachtführers
Signature and stamp of the carrier

24 Przesyłkę otrzymano / Gut empfangen / Goods received
Miejscowość / Ort / Place — dnia / am / on — 19
Podpis i stempel odbiorcy
Unterschrift und Stempel des Empfängers
Signature and stamp of the consignee

Do wypełnienia przez odpowiedzialnego przewoźnika
Zu ausfüllen durch den verantwortlichen Frachtführer
To be completed by the responsible carrier

19 20 22 1 15

W przypadku przewozu towarów niebezpiecznych wymienić w rubryce 9 szczególne zobowiązania wynikające z obowiązujących przepisów
Bei gefährlichen Gütern ist ausser den vorschriftsmässigen Bezeichnungen und der Kennzeichnung der Rubrik 9 die Art der Gefahr gemäss den geltenden Vorschriften anzugeben
In case of dangerous goods mention besides the prescribed indications, on the first line of the column the particulars specifying the nature of the danger according to the regulations in force

J L M
Spółka z o.o.
36-042 Lubenia woj. rzeszowskie
tel. 017-00 350-13, NIP 8632512

JLM Sp. z o.o.
36-042 Lubenia
woj. rzeszowskie

P R O T O K Ó Ł Z A Ł A D U N K U

Towar ...Koncentraty napojów orzeźwiających 450 g...

Samochód .....

Jednostki opakowań ...butelki 450 g pakiety foliowe a 20 szt.

Ilość sztuk ...29 300 szt.

Waga brutto ...20 600 kg

Towar został załadowany i zabezpieczony na czas transportu przy udziale.

Podpis kierowcy

Podpis i pieczątka punktu załadowczego

J L M
Spółka z o.o.
36-042 Lubenia
tel. 017-00 350-13, NIP 8632512

S P E C Y F I K A C J A

EKSPORTER : PPH "HUK-Proimpex" Warszawa; ul.Nowogrodzka 31

IMPORTER : KARGREK Co Ltd., ISLE OF MAN, ENGLAND

ODBIORCA : "ALBATROS" - 340 050 DONIECK-Ukraina,Pr.Teatralny 10

TOWAR : Koncentraty napoju orzeźwiającego a 450 g

Ilość : 29 300 kartonów 1465 szt.

WAGA BRUTTO : 20 600 kg

WAGA NETTO : 13 185 kg

DATA ZAŁADUNKU : 1992.07.23

NUMER SAMOCHODU : 8092 XAO 5024 XE

V SCHIOT KONTRAKTA 010503124/92/R-047

JEDNOLITY DOKUMENT ADMINISTRACYJNY SAD

100400/001158

URZĄD CELNY W PRZEMYŚLU
Oddział w Rzeszowie
Data 1992-07-23

3 | 8

KARTA DLA ODBIORCY / KARTA DLA NADAWCY

2 Eksporter/Nadawca Nr 010503124
HUK-Proimpex FPH
ul.Nowogrodzka 3I
00-5II Warszawa

1 DEKLARACJA: EX | 10
3 Egzemplarz: I
4 Wyk. zakład
5 Pozycje: I
6 Liczba opak.: 0
7 Numer akt zgłaszającego
Data 1992-07-23

8 Importer/Odbiorca Nr
KARGREK Co Ltd.
ISLE OF MAN
ENGLAND

9 Osoba odpowiedzialna za sprawy finansowe
HUK-Proimpex
ul.Nowogrodzka 3I
00-5II Warszawa
Marinin Jurij
Karta stałego pobytu DS 0I46987
z dnia 30.06.92

10 Kraj 1-go przeza.
11 Kraj zak./sp: GB
12 Szczegóły dotyczące wartości
13 W.P.R.

14 Zgłaszający Nr 008I84005
JAZCOOP Sp. z o.o.
ul. Ks. J.Jałowego 6a Rzeszów 35-010
Małgorzata Piątek

15 Kraj wysyłki
15 Symbol kr. wysyłki a b
17 Symbol kraju przezn. a: UA b

16 Kraj pochodzenia towaru: Polska
17 Kraj przeznaczenia towaru: Ukraina

18 Środek transportu: Cięż.8092 XAO/5024 XE | UA
19 Kont.: 0
20 Warunki dostawy: EXW

21 Środek transportu na granicy
22 Wartość i ogólna wartość faktury: USD III34
23 Kurs waluty: 13492
24 Rodz. transakcji: II

25 Rodz. transp. na granicy: 30
26 Rodzaj transp. wewn.
27 Miejsce zał./wyl. Łabenia JLM 36-042
28 Bank i nr konta: Bank PKO BP IX O Warszawa I599-3I5377-I36

8
29 Urząd celny graniczny: 100300
30 Miejsce odprawy celnej: I00400

31 Opakow. i opis towaru
Znaki i numery - numery kontenera/ów

Koncentraty napojów orzeźwiajacych
butelki a 450 g ,29300 szt.
I465 pakietów

32 Pozycja: I Nr
33 Kod towaru: 21069099
34 Symbol kr. poch. a: PL b
35 Masa brutto (kg): 20600
36 Preferenc.
37 PROCEDURA: 4000 00
38 Masa netto (kg): 13185
39 Kontyngent
40 Deklaracja skrócona
41 Jedn. uzupełn.: –
42 Wartość pozycji: 11134
43 MW
45 Urzędnicza/upust
46 Wartość statystyczna: 150220

44 Dodatkowe informacje (załączone dokumenty)
Faktura
Specyfikacja
CMR
Swiadectwo CIS
PL/UC/2278/1
1992-07-26

47 Obliczanie opłat

Typ	Podstawa opłaty	Stawka	Kwota (tys. zł)	MP
115			100	A
		Razem.	100	A

48 Płatność odroczona
49 Skład celny/WOC
B ELEMENTY KALKULACYJNE (Opłaty manipulacyjne)

50 Gwarant Nr

C URZĄD CELNY PRZYJMUJĄCY ZGŁOSZENIE/WNIOSEK O PRZEKAZANIE
100400/001158
URZĄD CELNY W PRZEMYŚLU
Oddział w Rzeszowie
Data 1992-07-23

51 Przewid. urzędy tranzytowe (i kraj)

52 Gwarancja tranzytowa nie ważna na: OC Rzeszów 100400/001158

53 Urząd odbiorczy/i kraj: OC Medyka

D/J ADNOTACJE URZĘDOWE
Dopuszczono do wywozu za granicę.Pobrano opł.manip.za rewizję 50000zł.,bad.dokum. 50000zł.na podst.§19/pkt1 lit.a,b rozp.MWGzZ z dnia 1990-08-22/Dz.U.Nr 61,poz.357 z późn.zm./wg K-103 Nr 020231.
1992-07-23
19920723
Główny kontroler celny
mgr Czesław Masz
625

54 Miejsce i data
Rzeszów 1992-07-23
Imię, nazwisko, nr DO, podpis
Małgorzata Piątek
AE 5322145

3 | 8

REFLEX INFO
HANDELSONDERNEMING
AUßENHANDELSREPRÄSENTANZ
Erdbergstraße 69/5
A-1030 Wien, AUSTRIA
Tel.0222/7130552,Fax:7130553
Telex:112940 TDA

.IMPORT.
EXPORT
WERELDWIJD

SPEZIFIKATION

Tomatenmark -27,3 Brix

Verpackung:

Ein Karton a Vier 3,15 kg Gläse Tomatenmark

Brutto 1200 Karton a 20 kg = 24000 kg

Netto 1200 Karton a 12,6 kg = 15120 kg.

LKW:Nr. CHH 844C/CHH 781P

REFLEX INFO
Außenhandelsrepräsentanz
1030 Wien, Erdbergstraße 69/5
AUSTRIA
Tel.: 0222 - 7130552
Fax: 0222 - 7130553
Telex: 112940TDA

24.03.1992

ZENTRALSPARKASSE UND KOMMERZIALBANK AG-WIEN
ZWEIGSTELLE GERSTHOF 1180 WIEN
Konto Nr. 573344496-USD

REFLEX INFO

HANDELSONDERNEMING
AUßENHANDELSREPRÄSENTANZ

IMPORT
EXPORT
WERELDWIJD

Erdbergstraße 69/5
A-1030 Wien, AUSTRIA
Tel.0222/7130552,Fax:7130553
Telex:112940 TDA

Importer:
Weiss Sp. z.o.o
00-930 Warszawa
ul. Wspólna 30.
Nr. Konto
Bank PKO S. A. II. oddz w W-wie
Nr. 501031-21011131-136-1-1110
Nr. Regon P-0021811320-94901009
59-2-641-01009

ORGINAL
RECHNUNG Nr.36/92

Wien,am
Liefertag: ~~25.03.1992~~ 24.03.1992

		USD
1.	Tomatenmark für weitere verarbeitung (Pasta pomidorowa do ponownego przerobu. Taryfa cet. 0711.90.70.) Netto1200 Karton 12,6 kg = 15120 kg 15,120 Tonnen a USD 230 = 3477 USD	230 pro 1 Tonne
	Loco Magazin in Polen Total /Dreitausend vierhundertsiebenundsiebzig/	3477.–
	Fracht kosten Loco Magazin - Polen grenze	570.–
	Total franco grenze Polen/Zweitausendneunhundertsieben/ Zachlung nach liferung	2907.–
	LKW Nr. CHM 844C/CHM 781P	
	Lager: Frei Zollfreilager Budapest/Ungarn - Mahart/Csepel, Kikötö Freihaten U'5-7 Budapest 21. Ungarn	

REFLEX INFO
Außenhandelsrepräsentanz
1030 Wien, Erdbergstraße 69/5
AUSTRIA
Tel.: 0222 - 7130552
Fax: 0222 - 7130553
Telex: 112940TDA
24.03.1992

ZENTRALSPARKASSE UND KOMMERZIALBANK AG-WIEN
ZWEIGSTELLE GERSTHOF 1180 WIEN
Konto Nr. 573344496-USD

Etmajer Jan

REFLEX INFO
Außenhandelsrepräsentanz
1030 Wien, Erdbergstraße 69/5
AUSTRIA
Tel.: 0222 - 7130552
Fax: 0222 - 7130553
Telex: 112940TDA
24.03.1992

NEMZETKÖZI FUVARLEVÉL
INTERNATIONAL CONSIGNEMENT
INTERNATIONALER FRACHTBRIEF

A fuvarozásra alkalmazandó megállapodás esetén is a Nemzetközi Árufuvarozási Egyezmény (CMR) rendelkezései az irányadók.
This carriage is subject, notwithstanding any clause to the contrary to the Convention on the Contract for the International Carriage of Goods by Road (CMR)
Diese Beförderung unterliegt trotz einer gegenteiligen Abmachung den Bestimmungen des Übereinkommens über den Beförderungsvertrag im internationalen Strassengüterverkehr (CMR)

1 Feladó (Név, cím, ország) Sender (Name, address, country) Absender (Name, Anschrift, Land)

Kuller WFO
Kraków Kolejowa
Rp. 12 H Kolejowa 1-2

2 Átvevő (Név, cím, ország) Consignee (Name, address, country) Empfänger (Name, Anschrift, Land)

Weiss p.z.a.
00-950 Warszawa
ul. Wybrzeże 70.

3 Az áru kiszolgáltatási helye (helység, ország) Place of delivery of the goods (Place, country) Auslieferungsort des Gutes (Ort, Land)

helység / place / Ort: Warszawa
ország / country / Land: Polska

4 Az áru átvételének helye és időpontja (helység, ország, időpont) Place and date of taking over of the goods (Place, country) Ort und Tag der Übernahme des Gutes (Ort, Land, Datum)

helység / place / Ort: Wilczyce
ország / country / Land: Węgry
időpont / date / Datum:

Átvételi id. dokumentumok
Bejegyzése Dokumente

5 Mellékelt okmányok

VAM P1
Duchamp
Inwoit Vilson

6 Jel és szám Marks and Nos Kennzeichen und Nummern | 7 Darabszám Number of packages Anzahl der Packstücke | 8 Csomagolási mód Method of packing Art der Verpackung | 9 Áru megnevezése Nature of the goods Bezeichnung des Gutes | 10 Statisztikai szám Statistical number Statistiknummer | 11 Bruttó súly (kg) Gross weight in kg Bruttogewicht in Kg | 12 Térfogat m³ Volume in m³ Umfang in m³

AUTO [illegible]
[illegible]
[illegible]

21000

Osztály Class | Szám Number | Betű Letter | Klasse Ziffer, Buchstabe ADR

13 A feladó rendelkezése (Vám- és egyéb hivatalos kezelés) Sender's instructions (Customs and other formalities) Anweisungen des Absenders (Zoll- und sonstige amtliche Behandlung)

Eurocourier SA.
PL-310 Rzeszów
ul. 41.4 [illegible] p. 6.4.

19 Fizetendő To be paid by Zu zahlen vom | Feladó Sender Absender | Pénznem Currency Währung | Árfolyam Rate of exchange

VÁMHIVATAL
HC * 1992 -01- 25 * 010
021 05207

14 Visszatérítés Remboursement Rückerstattung

15 Fuvardíj fizetésére vonatkozó rendelkezések Directions as to freight payment Frachtzahlungsanweisungen

Bérmentve freight paid frei

Bérmentesítés nélkül freight to be paid unfrei

20 Különleges megállapodások Special agreements Besondere Vereinbarungen

21 Kiállítás helye időpontja Established in on 19 Ausgefertigt in am 19

22 A feladó aláírása és bélyegzője Signature and stamp of the sender Unterschrift und Stempel des Absenders

Rzeszów ul. 5-7.

23 A fuvarozó aláírása és bélyegzője Signature and stamp of the carrier Unterschrift und Stempel des Frachtführers

24 Az áru átvétele Goods received Gut empfangen

Kelt Date on Datum am 19

Az átvevő aláírása és bélyegzője Signature and stamp of the consignee Unterschrift und Stempel des Empfängers

25 Jármű Vehicle Fahrzeug	Rendszám Registration number Kennzeichen	Rakomány Useful load Nutzlast
	1.05 5761	
	1.05 8345	

VÁMHIVATAL
XB * 1992 -01- 24
021 01

To be completed on the senders own responsibility 1–15 including 21 + 22

1–15 and 21 + 22 successfully under the responsibility of the Absenders

1–15 lovon és 21 + 22 rovatokat a felelős 1–15 ig saját felelősségére

V. Sz. 3-1747. r. sz. – Pátria-Nyomdi. ÉLFÉNY 9

HUK PROIMPEX

00-511 WARSZAWA
ul. Nowogrodzka 31/315

tel.: 21 83 79
29 93 04
tlx. 815095
fax. 6288059

BANK P.K.O. B.P.
IX Oddz.
w Warszawie
ul. Nowogrodzka 35/41
Konto nr 1599-315377-136

Nasz znak _____ Warszawa, dn. 21.07.92

Wasz znak _____

PŁATNIK:
KARGREK Co Ltd.
ISLE OF MAN, ENGLAND

19920723

INVOICE - PROFORMA

KONCENTRATY NAPOJU

SUNRISE a' 450g

29 300 ... but. a' 0,38 USD ... II 134 ..... USD

słownie:
jedenaście tysięcy ± sto trzydzieści cztery dolary

ODBIORCA: ALBATROS - Donieck, Pr. Teatralny 10

•HUK-PROIMPEX P.P.H.
UL. NOWOGRODZKA.31
00-511 WARSZAWA
☎ 29 93 04 TLX 813811

		Towar	Towar	Towar[*]
A. Podstawa wyliczeń	11. (a) Cena netto w walucie rachunku bez kosztów transportu i ubezpieczenia (cena zapłacona lub mająca być zapłaconą — wartość transakcyjna) 2907 USD	20029030 2907 USD		
	(b) Płatności pośrednie, o których mowa w poz. 8 (b) (kurs sprzedaży dewiz wynikający z tabeli Narodowego Banku Polskiego) nr tabeli NBP nr 60/92 zastosowany kurs 1USD=13599zł	nie dotyczy		
	12. Suma pkt A wyrażona w złotych polskich	39.532.293 zł		
B. Koszty doliczone do ceny transakcyjnej, lecz w niej nie ujęte (koszty w złotych polskich nie zawarte w pkt A)	13. Koszty ponoszone przez kupującego: (a) prowizja zapłacona w związku ze sprzedażą	nie dotyczy		
	(b) opakowanie towaru (koszty materiałów i robocizny), jeżeli występuje łącznie z towarem	nie dotyczy		
	14. Koszty związane z dostarczeniem przez kupującego, bezpłatnie lub po cenie niższej od rynkowej, rzeczy lub usług wykorzystanych w związku z wytworzeniem lub sprzedażą towaru: (a) materiały, komponenty, części i podobne rzeczy, które stanowią część składową lub przynależność towaru	nie dotyczy		
	(b) narzędzia, odlewy, formy i podobne rzeczy, wykorzystane przy wytworzeniu towaru	nie dotyczy		
	(c) materiały, surowce, barwniki i inne rzeczy zużyte w procesie produkcji	nie dotyczy		
	(d) prace inżynieryjne, badawczo-rozwojowe, projektowe, artystyczne oraz szkice i plany niezbędne do wytworzenia towaru	nie dotyczy		
	15. Należności i opłaty licencyjne [poz. 9 (a)]	nie dotyczy		
	16. Przychody lub inne korzyści z odsprzedaży [poz. 9 (b)]	nie dotyczy		
	17. Koszty dostawy na warunkach franco granica polska lub cif port polski: (a) koszty transportu towaru, w tym: rozładunku, opłat pocztowych i innych opłat związanych z transportem	nie dotyczy		
	(b) koszty ubezpieczenia towaru	nie dotyczy		
	B			
	WARTOŚĆ DEKLAROWANA (A + B)	39.532.293 zł		
	18. Deklarowana wartość w wypadku braku wartości transakcyjnej (na warunkach franco granica polska lub cif port polski)	nie dotyczy		
	19. Wartość ustalona przez organ celny metodami określonymi w art. 27—30 Prawa celnego w sytuacjach określonych w art. 26 Prawa celnego	nie dotyczy		
	20. Wartość celna przy przywozie towarów uprzednio wywiezionych czasowo, określona zgodnie z § 10 rozporządzenia Rady Ministrów z dnia 23 lipca 1991 r. w sprawie ceł na towary przywożone z zagranicy (Dz. U. Nr 67, poz. 288 oraz Nr 74, poz. 325 i 327)	nie dotyczy		

[*] W przypadku większej ilości towarów wypełnia się dodatkowo stronę 2 deklaracji wartości celnej.

DEKLARACJA WARTOŚCI CELNEJ (DWC) Nr.....

Kopia dla .....

1. Importer/odbiorca — kupujący
Weiss Sp. z o.o. ul. Wspólna 30
Warszawa

2. Eksporter/nadawca — sprzedający REFLEX INFO
Erdbergstrasse 69/6 Wiedeń
~~Austria~~

3. Numer i data rachunku
36/92 1992.03.24

4. Numer kontraktu
002181320/51-0008

Do celów służbowych

5. Warunki dostawy według kodów stanowiących załącznik do formularza zgłoszenia celnego, np. fob, cif

6. Numer i data wcześniejszych decyzji celnych co do poz. 7 do 9

odpowiednie pole zakreślić krzyżykiem

7. (a) Czy kupujący i sprzedający są ze sobą powiązani[a] zgodnie z art. 26 ust. 2 Prawa celnego? Jeśli „nie", przejść do poz. 8. — tak [ ] nie [X]

(b) Czy powiązanie wpłynęło na cenę sprowadzonego towaru? — tak [ ] nie [X]

8. (a) Czy istnieją dla kupującego ograniczenia w dysponowaniu lub używaniu towaru, chyba że:
— ograniczenia te są wymagane przez prawo,
— dotyczą określenia obszaru, na którym towar może być odsprzedany,
— nie powodują istotnego zmniejszenia wartości towaru. — tak [ ] nie [X]

(b) Czy sprzedaż lub cena towaru zostały uzależnione od warunku lub spełnienia świadczenia, których wartości nie można ustalić? — tak [ ] nie [X]

Należy podać rodzaj ograniczeń, warunków lub świadczeń. Jeżeli można ustalić wartość wycenionego towaru według poz. 8 (b), należy podać ją w poz. 11 (b)..

9. (a) Czy kupujący uiszcza bezpośrednio lub pośrednio opłaty licencyjne za sprowadzony towar zgodnie z warunkami kontraktu? — tak [ ] nie [X]

(b) Czy z transakcji wynikają przychody lub inne korzyści z odsprzedaży, wykorzystania lub innych dyspozycji w stosunku do towaru, które bezpośrednio lub pośrednio przypadły sprzedawcy? — tak [ ] nie [X]

Jeżeli odpowiedź brzmi „tak" na jedno z 2 pytań, należy podać wartość (jeżeli to możliwe) w poz. 15 i 16.

[a] Osoby uważa się za powiązane ze sobą, jeżeli:
(a) jedna z osób jest dyrektorem lub członkiem organu zarządzającego lub kontrolnego drugiej;
(b) dyrektor lub członek organu zarządzającego lub kontrolnego jednej osoby jest jednocześnie dyrektorem lub członkiem organu zarządzającego lub kontrolnego drugiej osoby;
(c) są wspólnikami;
(d) jedna z osób jest pracodawcą drugiej;
(e) jedna z osób posiada lub dysponuje, bezpośrednio lub pośrednio, prawami głosu lub udziałem w kapitale zakładowym, wynoszącym co najmniej 5% wszystkich praw głosu lub 5% kapitału zakładowego drugiej osoby;
(f) dwie osoby znajdują się pod bezpośrednią lub pośrednią kontrolą trzeciej osoby;
(g) dwie osoby wspólnie kontrolują, bezpośrednio lub pośrednio, trzecią osobę;
(h) są spokrewnione lub spowinowacone do drugiego stopnia.

10. Oświadczam, że dane zawarte w deklaracji wartości celnej są prawdziwe:

Miejscowość: Rzeszów Data: 1992.03.25

Podpis:

Osoba deklarująca wartość celną:
Małgorzata Piątek
DO AB 5322145

HO 7-15
INSURANCE RESPONSIBILITY UNDER THE PRINCIPAL FOREIGN TRADE TERMS

WHO MUST BE RESPONSIBLE FOR ANY LOSS OR DAMAGE

TERMS OF SALE	Seller:	Buyer:	WHO MUST INSURE:
FAS VESSEL — Port of Export Seller's invoice includes delivery of goods along side overseas vessel within reach of loading tackle.	Until the goods have been delivered along side the vessel or on the dock at the designated port of export.	From the time the goods are delivered along side the vessel or on the dock and thereafter until final delivery at ultimate destination.	Buyer must provide and pay for Marine Insurance. Note: Seller should insure his risk of loss to the goods until they have been delivered FOB or FAS vessel.
FOB VESSEL — Port of Export Seller's invoice includes all expenses up to and including delivery of the goods on board overseas vessel at named port.	Until the goods have been placed on board the overseas vessel (Bill of Lading issued).	After goods have been loaded on board the vessel and thereafter until final delivery at ultimate destination.	
C&F — Point of Destination Seller's invoice includes the cost of transportation to the named point of destination.	Until the goods have been delivered into the custody of the ocean carrier (where received-for-shipment Bill of Lading may be issued) or until the goods are placed on board the overseas vessel (where On Board Bill of Lading is issued).	From the time goods are delivered into the custody of the ocean carrier or on board the vessel.	Buyer must provide and pay for Marine Insurance. Note: Seller should insure his risk of loss until the goods have been delivered into the custody of the overseas carrier.
CIF — Point of Destination Seller's invoice includes the costs of Marine Insurance and transportation to the named point of destination.	Same as under C&F terms except that seller is also obligated to provide and pay for Marine Insurance to the named point of destination.	Same as under C&F terms except that the buyer is given the benefit of the insurance placed by the seller and is responsible effecting settlement of any claims at point of destination.	Seller must provide and pay for Marine Insurance.

Source: Kramer Roland L., International Marketing 1970, Text Book.

GLOSSARY OF INTERNATIONAL INSURANCE TERMS

Limit of Liability	A stipulated amount which is a direct reflection of the indemnity percentage. The maximum amount reimbursable by the policy to the insured.
Cover	The actual financial protection being afforded by the policy against specified risks.
Indemnity	The extent to which generally in percentage terms an insurance will cover a specific transaction.
Premium	Cost of the policy.
Wording	The actual policy language agreed upon by the insured and insurer.
Waiting Period	The length of time which must elapse after a losss but before a claim may be filed. This period is intended to allow the insured the opportunity to resolve the situation which is causing the potential loss.
Binding	An agreement which obligates the insurer to pay if the loss insured against occurs before the policy is written.
Insurance	The contractual relationship which exists when one party, for a consideration, agrees to reimburse another for loss caused by designated contingencies.

GLOSSARY OF INTERNATIONAL INSURANCE TERMS

Policy	A written contract of insurance.
Policy Period	Length of time during which a policy is in effect.
Non-binding Indication	An NBA is a preliminary quotation from an insurer to obtain a close approximation of the premium applicable to a particular risk together with pertinent conditions. As the name implies, it does not obligate either party until an order to beind is given.
Political Risk	Events which occur as a result of govenment (U.S. and/or foreign) action that affect international business contracts and/or undertakings and which are beyond the control of the parties involved, i.e. import/export license cacellation; exchange embar-goes; confiscation; expropriation; nationalization of investments, goods or equipment.
Force Majeure	Circumstances beyond the control of the contracting parties which interrupt or prevent performance of the contract, e.g., war, riots, insurrection, natural disaster.

PLACE/DISTRIBUTION CHECKLIST

(continued from HO 6-14)

Where should the product be stored and in what quantities?

What are the customer service requirements for the product?

What are the costs of physical distribution?

What are the specific packing, shipping, documentation, and insurance considerations for the product?

Term projects which require students to determine freight rates, assess inventory trade-offs, and make choices among modes of transportation have also proven to provide much insight.

Questions for Discussion

1. Why do international firms pay so little attention to international logistics issues?

Most international firms are not familiar with the concept of international logistics, as it is a relatively new development. As a result, they pay little attention to this very effective business tool. In the past, companies have attempted to optimize each individual aspect of their businesses rather than optimizing the performance of the company as a whole. However, as the benefits of system synergism are becoming more apparent, international logistics is rapidly being recognized as an important competitive tool.

2. Contract the use of ocean shipping and airfreight.

The main differences between the use of ocean shipping and airfreight are the transit time involved (how sensitive one's goods are to transit time), the level of reliability desired (how precise one's anticipated delivery time must be), and of course, cost. Transit times for airfreight are clearly shorter than those for ocean freight as it is a faster mode of transportation. Because of the shorter transit time, airfreight is also more reliable. Shorter delays occur in airfreight because it is less affected by the weather, it is a faster mode, and there is less chance of pilferage and breakage. However, airfreight is almost always the more expensive option. Consequently, the type of product being shipped, in addition to the above mentioned factors, is taken into consideration when deciding which mode to use. For example, if the product is heavy, chances are it will be transported via ocean shipping; if the product is light and the port facilities in the country of destination are poor, it might be shipped by air, as that is more convenient. If the price of the item is high, it is more likely to be shipped by air, as higher-priced goods will absorb the higher cost of transportation more readily.

3. Explain the meaning and impact of transit time in international logistics.

Transit time is the time it takes to transport goods from the manufacturer to its ultimate destination (warehouse, retailer, etc.). Transit time plays a very important role in international logistic operations as it can dramatically affect the total cost of the operation. The shorter the transit time, the easier it will be for a company to reduce (if not eliminate) the need for an overseas warehouse, as the inventory level can be replenished upon shorter notice. The lower inventory level will reduce inventory carrying costs, thereby freeing up capital for other investments. Transit time is also critical when shipping perishable products or when responding to emergencies. Delays may cause the goods to spoil or

cause the firm to fall behind promised delivery dates (which in turn may cause the firm to lose a valued customer). If delays should occur, it is at the expense of the shipper—any unexpected delays can add unforeseen costs, which can make a profitable venture an unprofitable one. Therefore, the reliability of transit time is also of importance to the international firm.

4. How and why do governments interfere in "rational" freight carrier selection?

Governments often own or heavily subsidize freight carriers, so it is to their benefit to "strongly encourage" shippers to use these carriers as opposed to other more "rational" (and often less expensive) alternatives. Governments may impose such policies for a number of different reasons such as income, prestige, or national security preparedness.

5. What is your view of the 40/40/20 freight allocation rule of the United Nations Commission on International Trade and Development?

There is no right answer as the student is expressing his or her opinion.

The 40/40/20 freight allocation rule of UNCTAD was developed for balance of payments reasons. In this system, both the importer and exporter country vessels are each allocated 40% of the traffic between the two countries, while 20% is allocated to third country vessels.

6. How can an international firm reduce its cycle time?

Order cycle time is the total time elapsed between the time an order is placed and the time the order is received. To reduce its cycle time, the order cycle operation must be as efficient and as consistent as possible. Some ways to achieve this are by receiving the orders as quickly as possible (perhaps by telephone, telex or direct order entry systems), anticipating orders for goods in high demand, keeping alternate modes of transportation in mind, etc.

7. Why should customer service levels differ internationally? Is it, for example, ethical to offer a lower customer service level in developing countries than in industrialized countries?

Customer service levels may differ internationally because the level of service expected and needed in the respective countries may differ. If one's competitors are offering a lower customer service level than you are (but one within the range expected by the customer), your costs will be higher and you will be less competitive. Although one may argue that one's customers will be more satisfied with the higher service level, they may be just as satisfied with the lower service level (as long as it is within the range they are accustomed to). It is irrelevant whether or not varying customer service levels are ethical or unethical, as there is a cost attached to the higher service. If the customers in

developing countries value the increased service level, they will pay the extra cost associated with that.

8. Given all the uncertainties in the international environment, is it really worthwhile to attempt to model international logistics?

Yes. The international logistic model provides a framework within which a company can monitor many of the uncertainties in the international environment, as they affect the flow of goods. With such a model in place, an international firm should be able to better understand the impact of a changing environment on its operations and to respond more quickly to the changes in a manner better suited to their operations than if they did not have such a framework.

Source: Czinkota, M. R., Rivoli P., Ronkainen I. A. International Maarketing Manual. Second Edition. Copyright ©1992 The Dryden Press

Instructor Notes 7-2
for Central Distribution Exercise
(HO 7-8)

Modules:

sea-truck
air-truck
warehousing

Objective:

Participants should be able to evaluate different international distribution strategies, specifically centralized versus decentralized distribution.

Materials:

video from Holland Distribution Council
(HO 7-9)

Procedure:

Show video portion of module up to calculations.

Have students complete HO 7-9 by hand or with calculator. The sea (first module) calculations are included.

NOTE: All answers are given on the material attached to HO 7-9. Cover up the totals **before copying** if desired. Otherwise, the participants will have the answers.

The exercise could be extended to include Polish examples. Costs can be obtained by contacting a freight forwarder. This example does not specify a product so the costs for the other destinations should be provided to the freight forwarder so that additional Polish examples are comparable.

Student output:

1. Complete HO 7-9.
2. Be able to answer, for the specific examples

   a. What should be considered when deciding between a centralized or a decentralized distribution system?
   b. In these examples, which distribution system is better?
   c. What other factors should be considered besides just those considered in the examples before a final decision is made?

Note that 2.a. and 2.c. ask about the same question. 2.a. should include any items that can be thought of by the participants, such as volumes, variation in volume over the year, transportation rates of different modes, customer service delivery constraints.

In 2.c., the video examples look at specific volumes and transportation rates. Smaller volumes may not justify the centralization, larger volumes may justify decentralization because the economies of scale would apply to each location. With the changes in Europe, different distribution patterns may work better. Changes in transportation rates could change the best solution. The example ignores short delivery requirements. There may not be time to get the goods from Rotterdam in the centralized warehouse example. More than just cost should be considered.

Instructor Notes 7-2 *(alternate)*
for Central Distribution Exercise
(use if spreadsheets are available)

Modules:

sea-truck (focus of this exercise)
air-truck
warehousing

Objective:

Participants should be able to evaluate different international distribution strategies, specifically centralized versus decentralized distribution.

Materials:

HO 7-9
video from Holland Distribution Council
LOTUS spreadsheets

case - 1 for the sea module
(use only if student computers are available)

Procedure:

Show video portion of module up to calculations.

The LOTUS 123 spreadsheet is for the sea (first) segment only but can be adapted for the other modules after the instructor views the video. The spreadsheet provided performs some elementary analysis, such as cost per cubic foot and cost per kilometer. Some graphs are included.

If there is only the portable computer and the computer projection system available:

a. Use the spreadsheet already created. (Sea.wk1) Then have students get the answers by hand and from the video. Follow by sensitivity analysis on the spreadsheet. Change the costs from Rotterdam to be comparable to the cost per cubic foot for the local ports. Show that the results depend on the costs and volumes involved.

   Can show the graphs if desired. May also sort the data however, this will be time-consuming.

Instructor Notes (7-2) *(alternate)*

If there are computers available for the students:

b. Teach the rudiments of spreadsheets and have them construct the spreadsheets themselves. The case is designed to assume little or no knowledge of spreadsheets. Then they would do the sensitivity analysis on their spreadsheets.

Student output:

1. Spreadsheet printout

2. Be able to answer, for the specific examples

   a. What should be considered when deciding between a centralized or a decentralized distribution system?

   b. In these examples, which distribution system is better?

   c. What other factors should be considered besides just those in the examples before a final decision is made?

ESTABLISHING GOOD INTERNATIONAL BUSINESS RELATIONSHIPS

UNIT 8

Title: **ESTABLISHING GOOD INTERNATIONAL BUSINESS RELATIONSHIPS**

Purpose: This unit is designed to examine ways to build successful business relationships.

Objectives: To determine methods of establishing good business relationships, including partnerships and joint ventures.

Materials:

Transparency 8-1	Overview of unit
Transparency 8-2	Overview of unit
Transparency 8-3	Characteristics of Planning Options
Transparency 8-4	Legal Aspects of International Marketing
Transparency 8-5	Legal Aspects of International Marketing
Transparency 8-6	Range of Relationships
Transparency 8-7	Company Partnership Advertisement
Transparency 8-8	Bank Partnership Advertisement
Transparency 8-9	Benefits of Relationships
Transparency 8-10	Risks of Relationships
Transparency 8-11-17	Developing Relationships
Transparency 8-18	Key Elements of Building Effective Relationships
Transparency 8-19	Changes in Organization
Transparency 8-20	Performance Problems and Remedies

Handout 8-1	Risks and Rewards
Handout 8-2	Checklist: Building Relationships
Handout 8-3	Transcending Business Boundaries
Handout 8-4	Supply Chain Management

Activities: Student exercises are listed in the T-outline.

References for Instructors: more readings for instructors *only* in Book 2:

R8-1: Politics and Laws (Chap. 8 *IB)*
R8-2: Countertrade (Chap. 17 *IB)*
R8-3: Countertrade (Chap. 22 *IM)*

Discussion Questions in Instructor Notes 8-1 and 8-2.

Estimated Time: 3 hours

Unit Outline

I. Overview

II. Legal Aspects of International Marketing

III. Business Relationships
   A. Kinds of Relationships
      1. Arm's Length
      2. Partnership
      3. Joint Venture
   B. Mutual Benefits and Risks

IV. Controlling International Programs
   A. Developing Relationships
   B. Monitoring Performance
   C. Maintaining Relationships

V. Checklist: Building the Relationship

VI. Conclusions for International Entrepreneurs

FOR THE INSTRUCTOR
International Entrepreneurship
Unit 8: Good Business Relationships

CONTENT	PROCESS
I. Overview	
As we begin our last unit of this course, it may be helpful to review where we have been.	Put up TP 8-1 and TP 8-2 Overview of this Unit.
(Summarize all of the unit topics to show progression through what the entrepreneur has learned. Indicate what each check list added to formulating an international strategy.	
In this last unit we will examine the inter-relationships of our organization with the other organizations in the distribution channel. The topics include the kinds of relationships we can have, establishing the relationships, and maintaining the relationships over time.	
Finally, we will share our export or import plans that we have been developing over the course.	
We begin this unit by talking about how to implement our strategic plan that we have developed.	
Once the strategic plan is determined, then the actual operation of the plan is necessary. Strategic plans are long term and indicate the general direction of the firm.	Put up TP 8-3: Characteristic of Planning Options. Refer to Strategic Planning course for definitions of strategic planning, tactical planning, and operational planning.
Some of us have decided to export to the United States. Now we are faced with a	

CONTENT	PROCESS
number of tactical decisions, such as identifying which organizations will help us reach our chosen target market, how to get the product to the U.S. and in what quantities, and prepare and purchase the advertising to occur when the product is introduced. In addition, we must understand that there are two different legal systems involved and what our rights and responsibilities are.	
II. Legal Aspects of International Marketing	Put up TP 8-4: Legal Aspects of International Marketing.
Which law governs depends on: 1. The Agreement - Best to settle beforehand by agreement in the contract 2. Where the contract entered into (who accepts the contract, usually the seller) 3. Where the contract was performed 4. Courts decide which law to use if necessary 5. Commercial usage - what is customary in business transactions	Refer to Reading for Instructors 8-1.
<u>Legal systems</u> 1. Common law Based on precedent rather than statute; It is flexible; Found in English-speaking countries	Discuss TP 8-5: Legal Aspects of International Marketing.
2. Code law Laws are grouped according to subject matter;	Discuss the advantage and disadvantages of common vs. code law. Instructor Notes 8-1.

CONTENT	PROCESS
Rigid; Napoleonic code, German code	
3. Commercial law - UCC (uniform commercial code)	
Patents and Trademarks -	
Depends on the country.	
For international agreements, the trend is that registry in one country constitutes priority right in treaty countries.	
Merchants and Their Obligations	
Traders (versus non-traders) are habitually engaged in commerce. They register wherever they are doing business in code law countries unless a local organization is conducting the business for them.	
They are required to keep certain account books.	
Power of Attorney	
Often necessary for business transactions in most countries even if it is the owner himself.	
Bankruptcy	May want to discuss bankruptcy laws in Poland and how they affect international trade.
May require full payment to creditors. Therefore the firm is liable into the future until the full debt is repaid.	
Taxes in Foreign Countries	
May not be taxed if local agent handles in its own name.	

CONTENT	PROCESS
Otherwise taxable - some countries tax worldwide sales of the firm. This results in: double taxation where two countries tax the same income. Negotiations reduce this problem by having 1 country tax some parts of business (e.g., property tax) and the other tax other parts (e.g., personal tax on dividends)	
Settlement of Commercial Disputes	
Conciliation and Mediation - not binding	
Commercial Arbitration	
1. Advantages of and reasons for using:	
(a) less costly than litigation	
(b) Judges and juries less experienced in business matters than businessmen	
(c) disputes are usually problems of facts rather than law	Discuss how participants have settled differences in Poland or abroad (if anyone has had such experiences). This discussion could be very useful to other participants but it can get too lengthily and heated. Should cut off discussion or take a break after 15 minutes of one-half hour.
(e) faster	
Should have an arbitration clause in the contract so each party knows what to expect.	
III. Business Relationships	
A. Kinds of Business Relationships	Present TP 8-6: Range of Relationships.
We can view the kinds of relationships that we have with other business organizations along a continuum from arm's length arrangements to being owned by another organization, called vertical integration.	

CONTENT	PROCESS
1. Arm's length is viewing the relationship as very temporary, perhaps for only one transaction.	
2. Partnerships can be legal contracts or just agreements that two or more organizations will work together for some time into the future, perhaps indefinitely.	Put up TP 8-7: Company Partnership Advertisement.
3. Joint ventures are for specific reasons and may have specific termination times. There is often financial investment by one or more organizations in the joint venture.	Put up TP 8-8: Bank Partnership Advertisement.
B. Mutual Benefits and Risks	
There are several benefits to more enduring relationships than the arm's length approach.	Discuss TP 8-9: What are the Benefits of Strategic Partnering?
There are also risks for both parties in such arrangements. Everyone should understand them before forming partnerships or joint ventures. Sometimes it is better to remain at arm's length.	Discuss TP 8-10: Risks of Closer Relationships.
IV. Managing International Relationships	Work through TP 8-11 - TP 8-17.
Now let's look at how to develop, monitor, and maintain these relationships.	
A. Developing Relationships	
(As time and interest permit, you can go through the transparencies on buil-	

CONTENT	PROCESS
ding partnerships.)	
B. Monitoring Performance The progress of the relationship needs to be evaluated periodically for any needed readjustments. Closer relationships are characterized by many meetings or correspondence to plan future events. In addition, there should be reports, at least on a monthly or quarterly basis passed among the partners.	Exercise: Think of a relationship with another organization (can be in Poland) that works well and another relationship that didn't. What were the important factors to each? What were the differences?
C. Maintaining Relationships Relationships must be flexible enough to adjust to changing market conditions but not abandon one of the partners at the other's convenience. Planning means of exiting from the relationship at the beginning is better for all concerned.	Put up TP 8-18 and 8-19: Changes in Organization. Discuss TP 8-20: Performance Problems and Remedies When Using Overseas Distributors (HO 8-1).)
V. Checklist: Building the Relationship	Have the participants work on HO 8-2.
VI. Conclusions for International Entrepreneurs Have those participants that are willing to share their proposed international strategies give a brief summary. The summary should answer the first five questions from the International Marketing Questions handout from Unit 1. Some questioning from the other participants may make the presentations more lively but it should be positive.	More readings for participants in HO 8-3 and HO 8-4. Presentations should be about 5-10 minutes. Try to get at least 3 strategies shared. Ask participants if there are any questions after each presentation.

CONTENT	PROCESS
Finally, have a ceremony to open the envelope containing the forecasts of the mark - zloty exchange value for today.	Read the various forecasts or write them on the board or on a transparency. Do not read the associated names.
Ask what the exchange rate for the mark - zloty is today.	Give out the award for the closest estimate. Ask the recipient what the forecast was based on.
	The prizes should be rather small and you may need more than one if there are several who gave the winning forecast.
Thank the participants and wish them well. Remind them of the places to find help with their international efforts.	

TP 8-1

International Entrepreneurship Course

Unit 8: Establishing Good International Business Relationships

Legal Aspects of International Marketing

Business Relationships

Kinds of Relationships

Arm's Length
Partnership
Joint Venture

Mutual Benefits and Risks

TP 8-2

Controlling International Programs

Developing Relationships

Monitoring Performance

Maintaining Relationships

Checklist: Building the Relationship

Conclusions for International Entrepreneurs

TP 8-3

CHARACTERISTICS OF PLANNING OPTIONS				
TYPE	TIME FRAME	FOCUS	LEVEL OF DETAIL	LEVEL OF INTEGRATION
Operational	day-to-day ≤ 1 year	Efficiency	Heavy Financial Orientation	Functional
Tactical	≥ 1 year	Event	Somewhat Financially Oriented	Integrated-Functional
Strategic	1-5 years or more	Competition Resources Stakeholders	Few Financials, More Goal Oriented	Integrated-Corporate

Adapted from Bernard J. La Londe, circa 1989

Source: Strategic Planning For Logistics, 1992, p. 26

TP 8-4

LEGAL ASPECTS OF INTERNATIONAL MARKETING

Which law governs?

Legal systems

1. **Common law**

2. **Code law**

3. **Commercial law - UCC (uniform commercial code)**

TP 8-5

LEGAL ASPECTS OF INTERNATIONAL MARKETING

<u>Patents and Trademarks</u>

<u>Merchants and Their Obligations</u>

<u>Power of Attorney</u>

<u>Bankruptcy</u>

<u>Taxes in Foreign Countries</u>

<u>Settlement of Commercial Disputes</u>

- Conciliation and Mediation
- Commercial Arbitration

Types of Relationships

- Acquisition
- Tapered acquisition
- Joint venture
- Long-term contract
- Short-term contract
- Transaction

TP 8-7

High Fashion or Ready-to-wear for New Markets East and West!

We are looking for PARTNERS / INVESTORS,

— to establish a joint venture in apparel manufacturing

— for paid work (commissions) for western countries

— to sell ready-made apparel lines in western countries.

We are an experienced tailoring outfit with a seasoned staff of 120-strong. We want to fully utilize our production capacities. Our main line of specialization includes:

- tailored ladies wear,
- skirts,
- blouses,
- leisure-time apparel.

We are also interested in barter transactions.

Please contact:

DÉLTEX Trade Company
Szeged, Kossuth Lajos sgt. 17.
H—6722 Hungary
Telephone: (36) 62-22-244
Telex: 83-2353

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NEW AREAS ARE RISKY
NEW AREAS ARE PROFITABLE
RISKS ARE MANAGEABLE

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- ☐ with a well-earned professional reputation for investment, security and lending operations;
- ☐ with in-depth knowledge of the investment market through a wideranging clientele who make up the country's most dynamic companies;
- ☐ with experience in international banking and trade and thus the perfect communication bridge between you and the Hungarian business community.

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a banking corporation specialized in new techniques to finance economic progress in Hungary

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Credit Corporation for the Development of Foreign Trade Ltd.
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TP 8-9

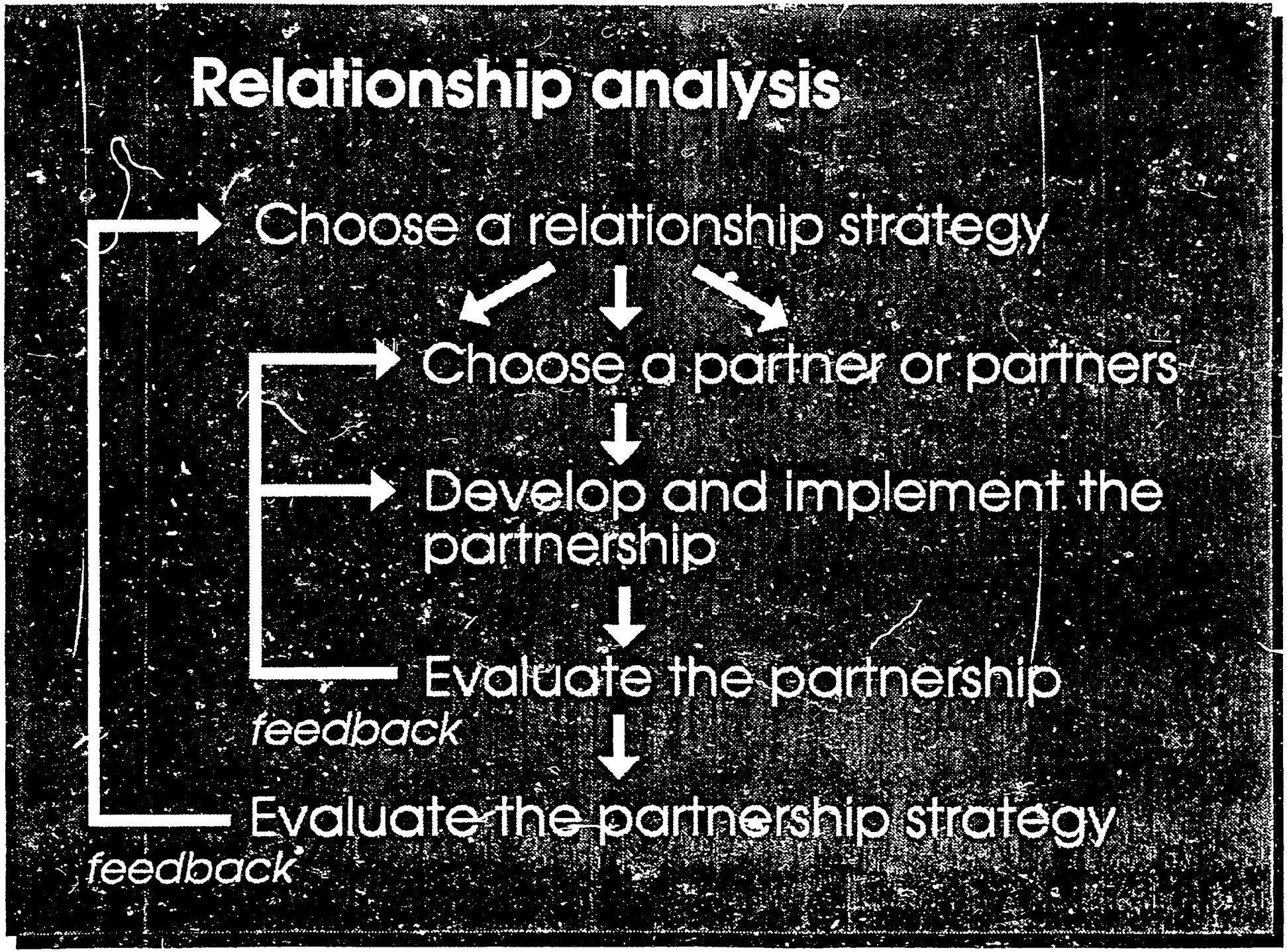
WHAT ARE THE BENEFITS OF STRATEGIC PARTNERING?

Competitive Posture	Relational	Internal
• Market access • Access to resources • I improved responsiveness to competitive pressures • Risk reduction and diversification	• Reduction in exchange-specific uncertainties • Shared technology • Joint information system • Joint problem solving	• Asset flexibility • Increased profitability • Improved resource utilization

TP 8-10

WHAT ARE THE COSTS OF STRATEGIC PARTNERING?

Competitive Posture	Relational	Internal
• Alliance opportunity cost • Costs of long-term relationship • Other exit barriers	• Loss of autonomy • Cost of coordination • Product/service integrity	• Training of boundary personnel • Opportunity costs • Responsiveness


Relationship analysis
Choose a relationship strategy
Choose a partner or partners
Develop and implement the partnership
Evaluate the partnership
feedback
Evaluate the partnership strategy
feedback

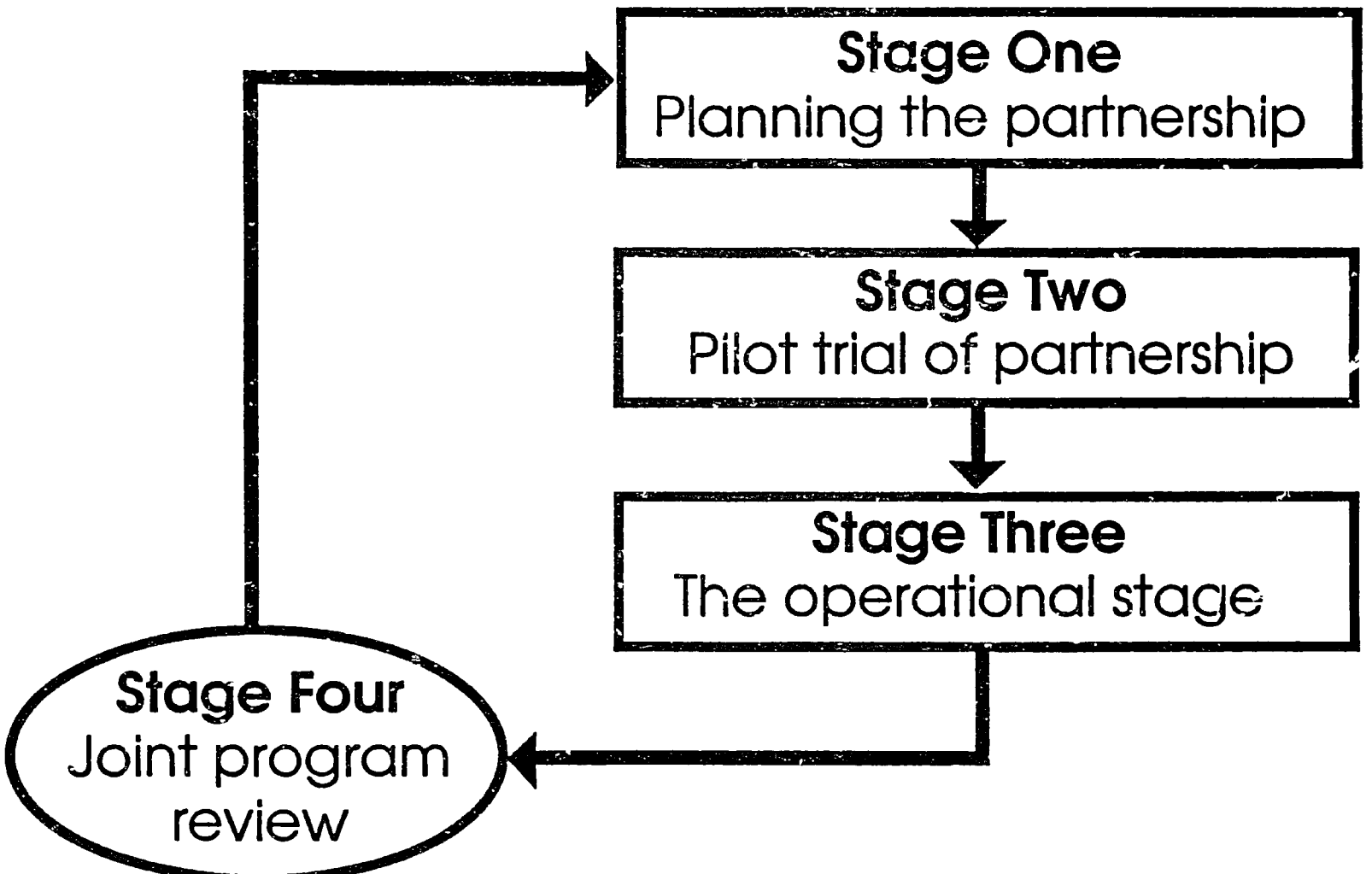
Choose a relationship strategy

- Strategic alliances
- Partnerships
- Discrete relationships
- Other

Choose a partner or partners

- Special skills
- Geography
- Value-added services
- Information interface abilities
- Firm sizes
- Past experience with firm

The partnership development process



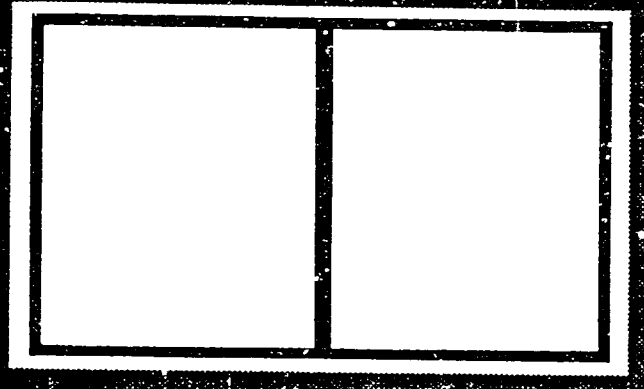
Stage I — plan the partnership

- Levels/frequency of interaction
- Detail/accuracy of information transfer
- Investment requirements (amount and payback period)
- How to handle "crises"
- Volume of business
- Range of services
- Means of implementation
- Performance expectations

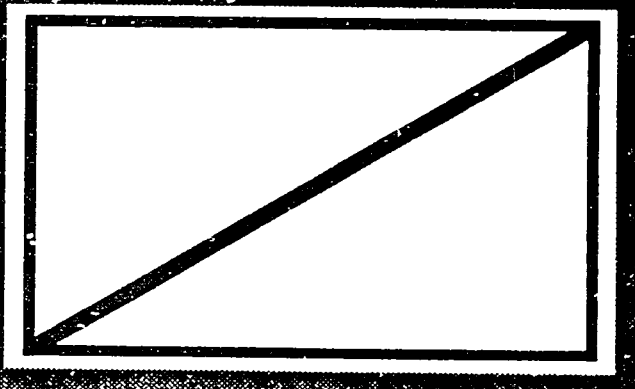
Patterns of Development

Managing the change process

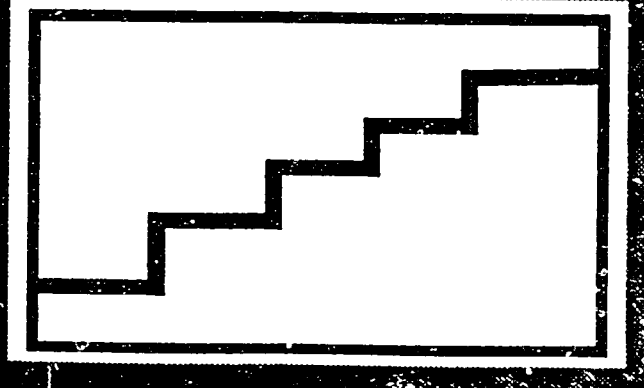
Sequential



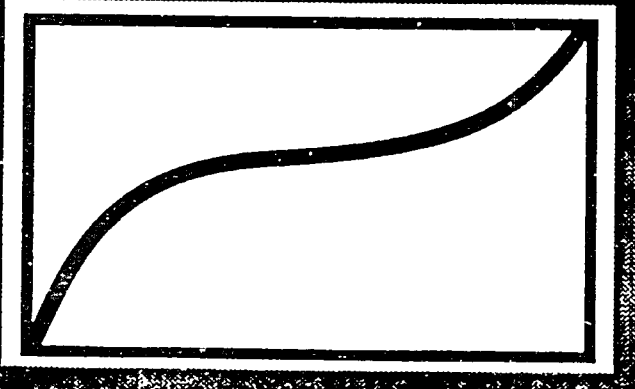
Linear



Incremental



Exponential



Stage II — Pilot trial of partnership

- Length of trial
- Scope of trial
- Objectives to be met

What are the key elements for building effective relationships?

- Sharing benefits and burdens
- Planning/future orientation
- Level/scope of contract
- Open information exchange
- Compatible corporate cultures

TP 8-19

CHANGES IN ORGANIZATION

Which of the following changes has your organization experienced in the past two years?	Hungary	Germany	United States
Major Restructuring	36%	60%	59%
Merger, divestiture, acquisition	24%	21%	35%
Reduction in employment	41%	14%	31%
International expansion	6%	48%	26%

Source: Kanter, 1991, p. 154

TP 8-20
PERFORMANCE PROBLEMS AND REMEDIES WHEN USING OVERSEAS DISTRIBUTORS

High Export Performance Inhibitors →	*Bring* →	*Remedy Lies In*
Separate Ownership	• Divided Loyalties • Seller-Buyer Atmosphere • Unclear Future Intentions	Offering good incentives, helpful support schemes, discussing plans frankly, and interacting in a mutually beneficial way
Geographic and Cultural Separation	• Communication Blocks • Negative Attitudes toward Foreigners • Physical Distribution Strains	Making judicious use of two-way visits establishing a well-managed communication program
Different Rules of Law	• Vertical Trading Restriction	Full compliance with the law, drafting a strong distributor agreement

Source: M. R. Czinkota and I. A. Ronkainen International Marketing. Second Edition. Copyright ©1990 The Dryden Press. Fig. 12.6, pp. 370

HO 8-1: RISKS AND REWARDS

PARTNERSHIPS IN PROVIDING CUSTOMER SERVICE: A Third Party Perspective

Martha C. Cooper
Bernard J. LaLonde
The Ohio State University

- When should a third party partnership be developed?
- What are the key elements for building effective partnerships?
- What concerns should each party consider?
- How should each party proceed in building the relationship?
- What are the trends in the level and type of third party relationships?
- What are some scenarios for future success relationships?

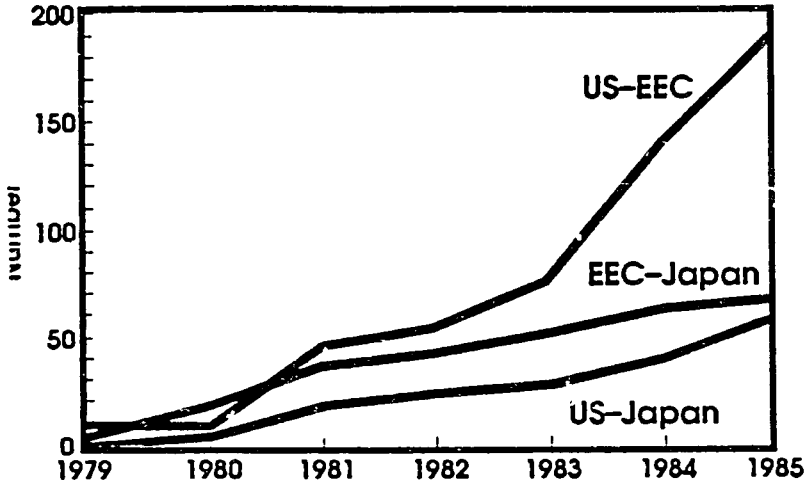
What is a strategic partnership?

...a long term agreement between two independent entities in the logistics channel where the relationship strengthens the strategic position of both parties in the partnership.

Types of Relationships

- Acquisition
- Tapered acquisition
- Joint venture
- Long-term contract
- Short-term contract
- Transaction

Cooperative agreements



Why should a third party partnership be developed?

- Economic reasons
- Management reasons
- Strategic reasons

When should a third party partnership be developed?

Economic Reasons
(Make or Buy)

- ❑ Achieve scale economies
- ❑ Take advantage of specialization
- ❑ Transfer risk
- ❑ Free capital
- ❑ Lower transaction costs

Vertical disintegration

When should a third party partnership be developed?

Management Reasons

- Concentrate on core business
- Manage fewer relationships
- Free management for other endeavors
- Have predictable level of capacity
- Have longer investment horizon
- Leverage expertise

HO 8-1: RISKS AND REWARDS *(Continued)*

When should a third party partnership be developed?

Strategic Reasons

Competitively position supply chain

Access partner's resources/markets

Achieve global flexibility in sourcing and marketing

Meet customer service objectives

Meet just-in-time requirements

What are the key elements for building effective relationships?

Sharing benefits and burdens

Planning/future orientation

Level/scope of contract

Open information exchange

Compatible corporate cultures

What concerns should each party consider?

For the shipper:

Lack of control

Loss of contact with the customer

Information system investment

Maintaining service performance (quality service)

Customer base erosion

Relative importance of shipper's account

Switching costs

What concerns should each party consider?

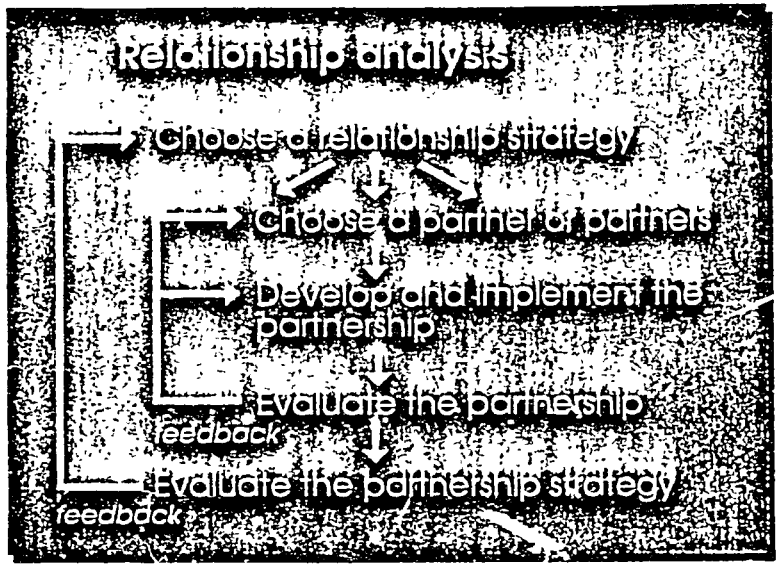
For the third party:

Large front end investment

Specific value added service investments not easily transferred to other accounts

Difficulty in replacing substantial portion of business

Big fish – little fish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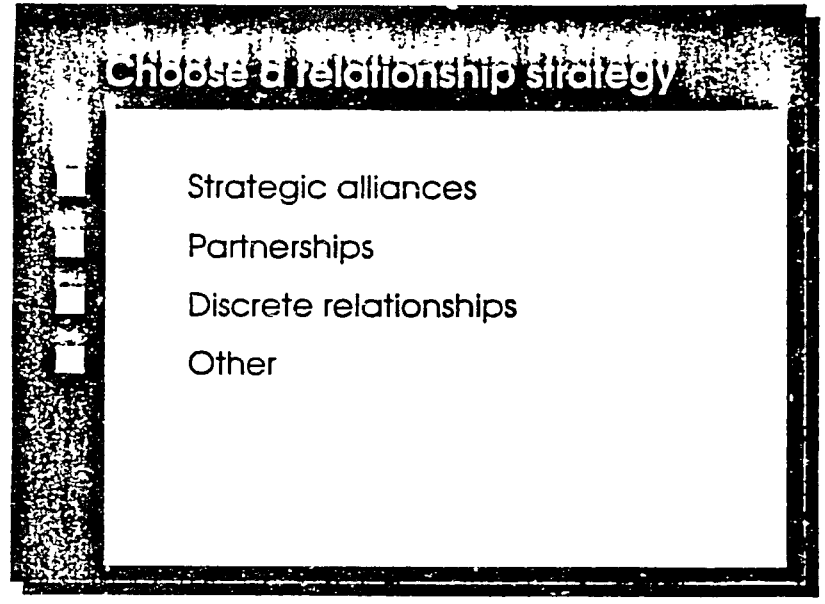
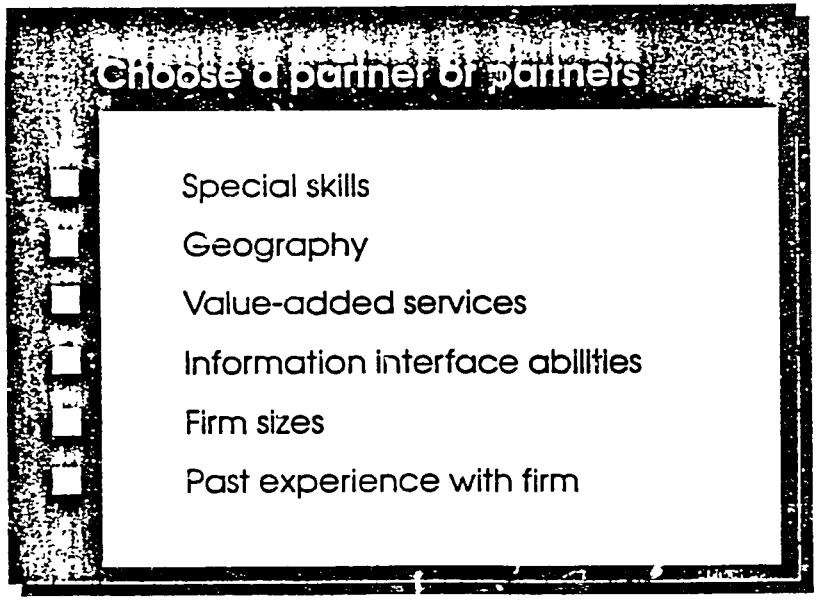
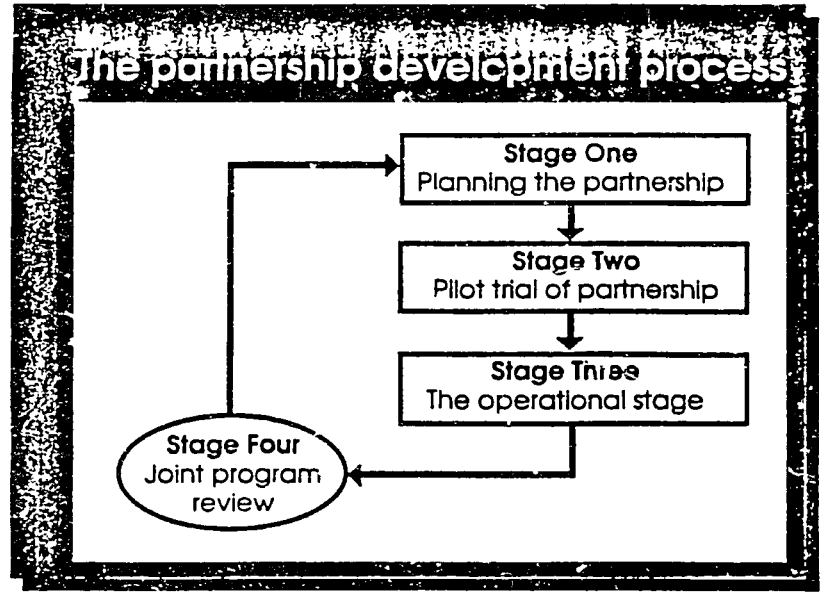
feedback


Choose a relationship strategy
Strategic alliances
Partnerships
Discrete relationships
Other


Choose a partner or partners
Special skills
Geography
Value-added services
Information interface abilities
Firm sizes
Past experience with firm


The partnership development process
Stage One
Planning the partnership
Stage Two
Pilot trial of partnership
Stage Three
The operational stage
Stage Four
Joint program review

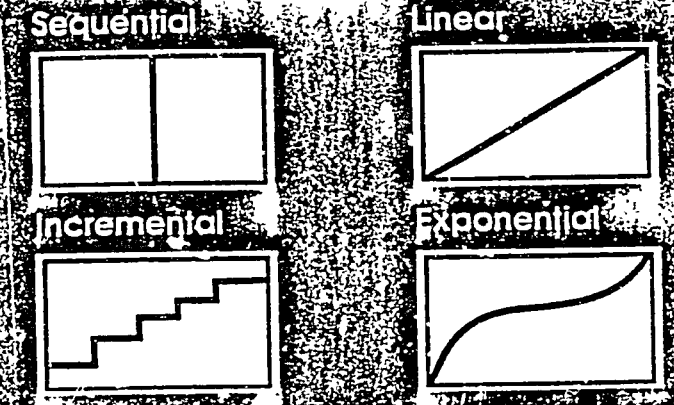
HO 8-1: RISKS AND REWARDS *(Continued)*

Stage I — plan the partnership

- Levels/frequency of interaction
- Detail/accuracy of information transfer
- Investment requirements (amount and payback period)
- How to handle "crises"
- Volume of business
- Range of services
- Means of implementation
- Performance expectations

Patterns of Development

Managing the change process



Stage II — Pilot trial of partnership

- Length of trial
- Scope of trial
- Objectives to be met

Stage III — The operational stage

Revise planned
- interactions
- information transfers
- investment

Set bench marks
- levels
- time horizons

Implement revised plan

Stage IV — Joint program review

- More frequently at beginning
- Performance vs. objectives
- Adjustments as necessary
- Planning for next time period

Evaluate the partnership strategy

Evaluate long term outcomes in terms of corporate objectives

- Economic
- Management
- Strategic

Partnership scenarios

Scenarios for change: Partnerships in the 1990's

- Impact of technology
- Impact of globalization
- The economics of restucturing, LBO, M/A, etc.

Partnership scenarios

New scenarios for the 1990's

- Limited functional partnering
- Integrated functional partnering
- Limited contract logistics
- Integrated contract logistics

HO 8-1: RISKS AND REWARDS *(Continued)*

PARTNERING: SCENARIOS FOR THE 1990'S

Classification	Definition	Example	Relational Requirements (cumulative)
I LIMITED FUNCTIONAL*	Outsourcing of single function	Warehousing function	• Sharing benefits/burdens • Information exchange • Project planning
II INTEGRATED FUNCTIONAL*	Outsourcing of two or more related functions	Transportation and warehousing function	• Multiple contacts • Defined planning horizon • Value added customer service
III LIMITED CONTRACT	Outsourcing of all logistics functions but limited in scope	Total 3rd party logistics responsibility for Europe	• "Seamless" information system • Single point accountability • Integrated planning
IV INTEGRATED CONTRACT	Outsourcing of all logistics functions	Total 3rd party logistics responsibility	• Financial strength/stability • "On-line" information exchange • Financial integration

*May also be limited in scope as in "limited contract"

HO 8-2

INTERNATIONAL MARKETING QUESTIONS

Broad Strategic Issues

Exporting

1. What objectives should be pursued in the foreign market (exporting)? the home market (importing)?

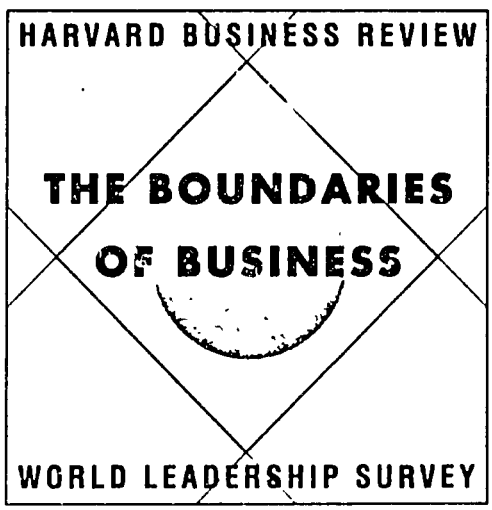
2. Which market segments (foreign or domestic) should the firm strive to satisfy?

3. Which are the best product, place/distribution, pricing, and promotion strategies for the foreign market?

4. What should be the product-market-company mix to take advantage of the available foreign opportunities?

Transcending Business Boundaries: 12,000 World Managers View Change

By Rosabeth Moss Kanter



For much of the twentieth century, business managers around the world confronted a series of walls. Walls between nations that establish the boundaries of national markets, national practices, or national social, economic, and political systems. Walls between the company and the society in which it exists, drawing sharp distinctions between corporate interests and social interests. Walls between work and home, separating those activities that involve earning a living from those that constitute just plain living. Walls within the workplace itself, dividing managers from workers, function from function, line from staff. And walls between the company and its stakeholders, including suppliers, customers, and venture partners.

Now, we are told, the walls are crumbling.

Globalizing markets, instantaneous communications, travel at the speed of sound, political realignments, changing demographics, technological transformations in both products and production, corporate alliances, flattening organizations – all these and more are changing the structure of the corporation. The once very rigid and unbreachable boundaries of business are fading in the face of change.

Or so many experts say. But what is the experience of real managers around the world?

To find out, in November 1990 Harvard Business Review conducted a World Leadership Survey exploring the boundaries of business. After constructing and testing the survey questionnaire, HBR itself crossed boundaries to share the survey with 25 publications in 25 countries on 6 continents, with each publication reproducing the survey in its own language.

By January 1991, 11,678 responses to the 91 survey questions were received for analysis at Harvard University (see Editor's note at the end of the article). Details of each nation's findings were returned to the appropriate magazine editor for further analysis and comment. In addition, a group of experts on each of the survey's major themes received a detailed

Rosabeth Moss Kanter is the Class of 1960 Professor at the Harvard Business School and Editor of HBR.

set of the global returns; their commentaries will appear in the July-August issue of HBR.

If there is a single message from the survey results, it is this: change is indeed everywhere – regardless of country, culture, or corporation. But the idea of a corporate global village where a common culture of management unifies the practice of business around the world is more dream than reality.

The survey themes fall into five major areas:

☐ Internationalists vs economic patriots; how corporate and country interests conflict and coincide in the face of global markets.

☐ Businesses as citizens; which social responsibilities are embraced – or rejected – by business leaders.

☐ Productivity and parenting; the ways in which work and family interests can support each other, and the emerging sources of conflict.

☐ Fissures inside the workplace; issues of loyalty and hierarchy that create a still-divided organization.

☐ Anxious alliances, cautious coalitions; what companies say about the importance of their ever-closer relationships with customers and suppliers, and how this compares with what they are actually doing.

Great Britain

"The incredible pace of organizational change in Britain over the last decade stems directly from Margaret Thatcher's desire to develop the enterprise culture. Wholesale privatization of state monopolies, the liberalization of capital markets, buy-outs, buy-ins, and startups have helped create thousands of new businesses that could form the foundation of a multilayered corporate culture in Great Britain. Whole areas of the country that once depended on one or two industries (coal in Wales, for instance) are now crowded with a wide range of smaller businesses.

"The British, however, still have difficulties to overcome. Their insularity, their neglect of education at both the personal and state level, and their paucity of language skills are all major failings. Mistrust of foreigners is still a powerful factor operating against the country's longer term interests."

Christopher Parkes
Editor
Business

Since the respondents were not selected at random, it is impossible to know how representative their views are. In addition, language barriers, cultural assumptions, and other national differences can lead to distortions or limitations on comparability. Nevertheless, the survey is a worldwide dialogue with managers whose voices are not always heard beyond their own country's borders. Because the survey appeared in the language of each country, in a domestically published magazine, participants did not have to belong to a select set of managers who speak English, read international publications, work in global corporations, or travel internationally. In that respect, despite the survey's limitations, it also overcame many of the hurdles that inhibit open communication about the heart of business practice inside many countries.

This business mainstream is reflected in the profile of the average respondent. Across countries, the typical survey respondent turned out to be:

☐ A male senior manager in his early 40s, married and bilingual.

☐ Employed in an established, privately held, midsize organization with several thousand employees and a two to four year planning horizon; the company has a small number of foreign facilities but derives the largest proportion of its revenues domestically, faces mainly domestic competition, and is competitive in its industry but not dominant, having increased profits and market share last year.

☐ Cautiously optimistic about the future and assuming that the next generation will live a more comfortable, secure life.

☐ More concerned about customer service, product quality, work force skills, and technology than about macroeconomic and political issues, and sure that trade rules, government policies, currency risks, and even capital availability are neither significant success factors for his business nor significant worries.

☐ Strongly in favor of work-site child care and very concerned about the quality of education, believing that business should play a major role in improving it.

In addition to profiling the views of this average manager, the survey detected the deep and powerful national differences that overwhelm age, sex, or

The Global Reach of the World Leadership Survey

Country	Magazine	Number of Responses
Argentina	Mercado	59
Australia	Business Review Weekly	265
Austria	Austrian Management Club	114
Belgium	Trends	217
Brazil	Exame	605
Canada	Harvard Business Review	180
Estonia	Teataja	4
Finland	Talouselama	495
France	Harvard L'Expansion	446
Germany	HARVARDmanager	134
Great Britain	Business	560
Hungary	Figyelo	117
India	Business India	224
Italy	Harvard Espansione	483
Japan	Diamond Harvard Business	639
Mexico	Expansion	1,322
The Netherlands	Financieel Economisch	583
New Zealand	National Business Review	251
Nigeria	Management in Nigeria	24
Singapore	Singapore Business	340
South Korea	Harvard Sogang Business	569
Spain	Harvard Deusto Business	871
Sweden	Ledarskap	363
United States	Harvard Business Review	2,737
Venezuela	Asociacion Venezolana de Ejecutivos	76

Cultural Affinity More Than Geographic Proximity Is a Major Determinant of Managers' Views

Cultural Allies

Group 1: Australia, Canada, Great Britain, New Zealand, Singapore, United States.
Common traits: A preference for family over work, and the least "cosmopolitan." (Cosmopolitan is defined as being multilingual and having international experience.)

Group 2: Argentina, Brazil, Italy, Mexico, Spain, Venezuela.
Common traits: More privately held companies, fewer joint ventures, and a higher reliance on trade policy for industry protection.

Group 3: Austria, Belgium, Finland, France, Germany, the Netherlands, Sweden.
Common traits: Most cosmopolitan, more close partnerships, and more pessimistic about the future.

Cultural Islands

Japan: The strongest work ethic, the greatest concern about the work ethic of the rest of the work force, and strongly in favor of "free trade."

South Korea: Strongly favors protectionism, puts country ahead of company, a strong sense of corporate responsibility toward employees, and more optimistic about the future.

India: More optimistic about the future and strongly favors protectionism.

Hungary: Organizationally different from companies in other countries and very focused on economic regeneration.

The above allies and islands were determined by statistical analysis. This clustering technique compares the responses by country for each survey question and evaluates the degree of overall country difference.

industry distinctions among respondents. For example, Germans appear the most cosmopolitan. South Koreans most clearly favor country over company. Japanese report the strongest work ethic among top managers and the greatest worries about the work ethic of the rest of their work force.

Interestingly, managers' views tend to correspond more to their country's cultural heritage and less to its geographic location or its regional economic affiliations. Cultural alliances appear to unite the views of Italians and Spaniards with those of Mexicans, Brazilians, and Venezuelans, superseding the bonds of the new Europe. English-speaking countries tend to have deep similarities, regardless of continent. Japan and South Korea each stand alone.

While the survey results indicate that the emergence of a global culture of management is more dream than reality, they also uncover the leaders of the dream. For the most part, traditional industrial enterprises – larger, older, publicly held manufacturing companies with long planning horizons – are leading the drive toward globalization. These organizations are more "cosmopolitan" in their outlook and are reshaping their boundaries faster. They are the most international in scope, least protectionist, and most closely involved in cross-boundary relationships with suppliers, customers, and venture partners. They also have undergone the most pervasive changes in the last two years: more downsizings, reorganizations, CEO changes, mergers or divestitures. Respondents from this sector report less satisfaction with their own jobs and a decline in loyalty and commitment to their companies.

Such companies and such managers are in the vanguard of changes that could confront business with new political and social struggles.

Internationalists vs Economic Patriots. Economics has not yet triumphed over politics. While most survey respondents present themselves as "internationalists" – free trade advocates who reject government favoritism or assistance for domestic companies – country differences and contradictions in response patterns suggest continuing local political battles over the rights and responsibilities of businesses. Those in more domestically focused companies and those in countries whose national competitiveness is eroding join newly industrialized countries in sounding notes of ambivalence about internationalism.

Most of the survey respondents naturally want businesses to have the freedom to make decisions in their own interests, without having to take "patriotic" considerations into account. As expected, the most internationalist views on the survey are expressed by German, Swedish, Finnish, Dutch, and Belgian respondents. It is no surprise to find the capital of the European community (Belgium) and the European community's unofficial leader (Germany) among a group of nations whose size or situation makes trade a necessary component of a healthy economy.

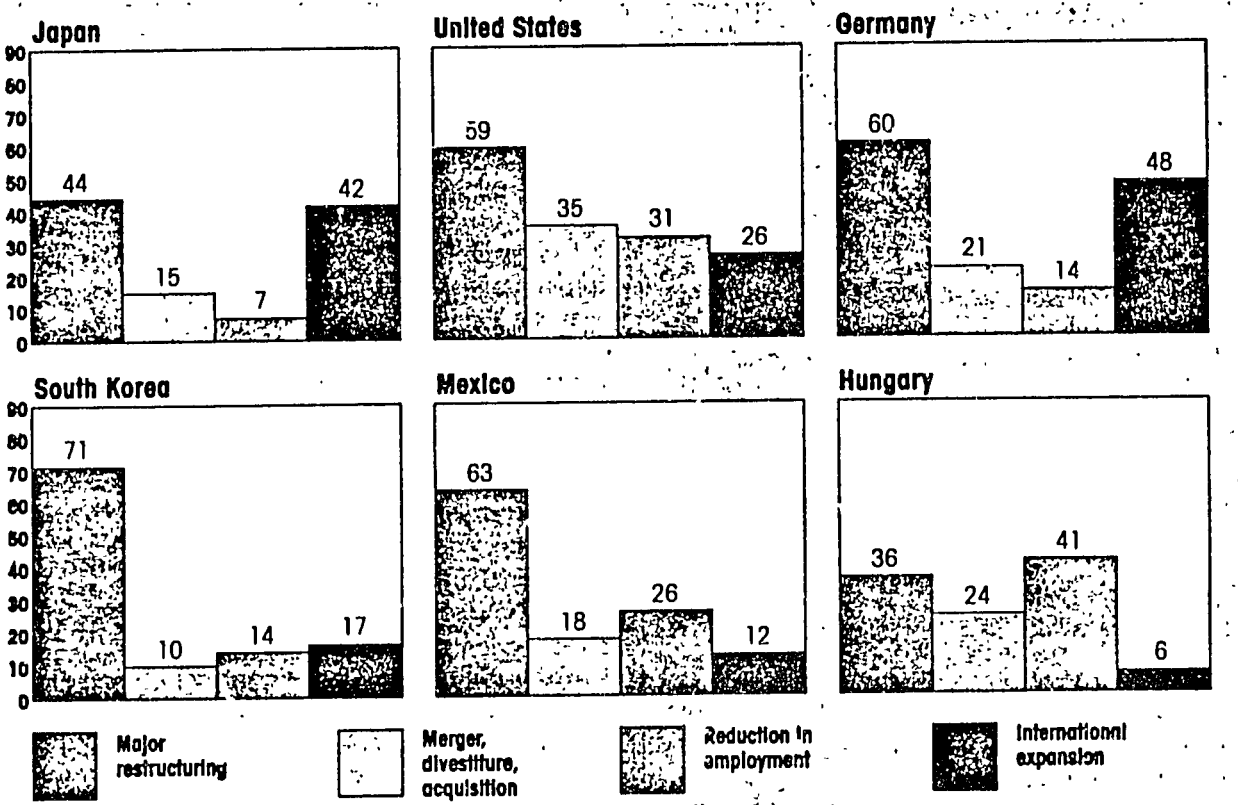
The Netherlands

"Growing international business competition has caused a great deal of restructuring in Holland. As Europe prepares for unification in 1992, the issue of corporate control is becoming very important. New European legislation will probably change the anti-takeover positions of major Dutch corporations. Companies are streamlining their operations and strengthening ties with trading partners in Europe – Germany, Belgium, and France, in particular – in preparation for an even more international business environment. Yet despite the heightened activity, the mood in the Netherlands is one of apprehension."

Sander Wieringa
Deputy Editor in Chief
Financieel Economisch Magazine

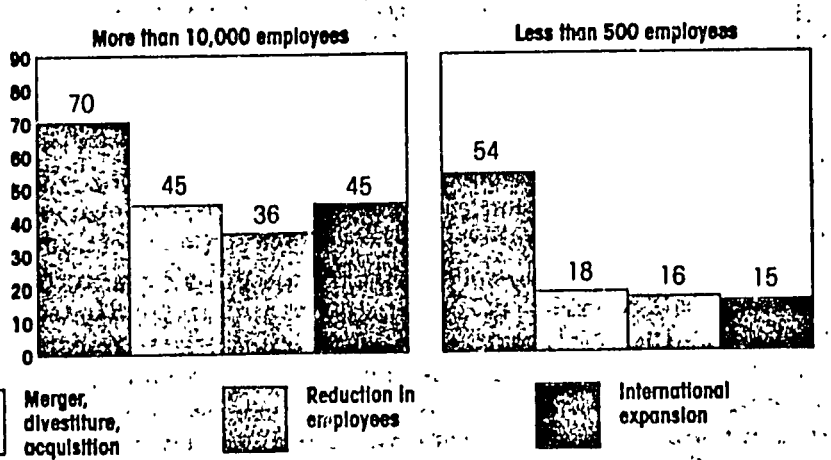
Change Is Part of Corporate Life Everywhere...

Q: Which of the following changes has your organization experienced in the past two years?
(percent of respondents by country)



...Especially in Large Companies

Q: Which of the following changes has your organization experienced in the past two years?
(percent of respondents in each group)



Key Success Factors Differ Among the Three Industrial Leaders

Q: What are the three most important factors for your organization's success?
(percent of respondents checking each item)

Japan		Germany		United States	
① Product development	54	① Work force skills	63	① Customer service	52
② Management	41	② Problem solving	47	② Product quality	40
③ Product quality	36	③ Management	44	③ Technology	36

This internationalist tendency on the part of northern European countries is mildly associated with the greater cosmopolitanism of their managerial populations, especially in Germany. "Cosmopolitan" respondents (those who speak more than one language and were born or hold citizenship in countries other than the ones in which they currently work) are somewhat more likely to hold internationalist views – the only area in which their attitudes toward business practices differ significantly from those of their "local" counterparts. These cosmopolitan respondents often work for cosmopolitan companies – those doing business in many countries – and therefore reflect the interests of their companies in eliminating barriers to operating anywhere in the world.

Japanese antiprotectionist responses are most surprising in light of Western "conventional wisdom" that says Japanese companies benefit from government protection and assistance. Assuming the honesty and accuracy of the responses, three interpretations seem most plausible. First, this group of Japanese managers, drawn primarily from older companies competing domestically, having heard recent exhortations in the Japanese media about the inevitability of internationalism, is now playing that message back. Or, second, the responses could simply reflect a growing confidence within Japan over the quality and performance of Japanese products. Or, third, it is possible that Western conventional wisdom is simply wrong.

Underneath the world majority's endorsement of globalism are some potentially difficult contradictions. Look at the third of the survey respondents who say that businesses should be willing to pay a premium to support domestic suppliers, or the quarter who want business owners to care more about their country's success than their company's. These managers are indicating their willingness to put patriotism before profits. They represent a sizable business group available for political mobilization in the name of protectionism.

Even in the unlikely event that trade barriers disappear, other contentious issues remain around the rights and responsibilities of global companies. Respondents appear to draw a clear line between economic freedom and political rights. While foreign ownership of local assets is acceptable around the world, foreign voice in local affairs is not.

Will local politicians simultaneously court foreign investors and exploit xenophobia in trying to keep their country free of foreign influence? If a freer flow of capital across country borders is not accompanied by the ability to protect that capital through the political system, will global companies exit, or will they enter into the political fray?

If the internationalists do challenge the economic patriots over political rights and economic freedom, they will be up against groups likely to have a great deal of local clout. Economic patriots could have a larger voice in domestic politics than even their numbers suggest. The survey shows a correlation between patriotic responses, a more local business orientation, and a slightly greater willingness for business to help solve social problems.

Thus, if managers act on their espoused values, domestically oriented companies with a protectionist agenda could play a disproportionate role in shaping political policy because of the credibility they gain from local philanthropy. This pattern is already apparent in many regions of the United States.

Even if the scope of economic activity is increasingly global, many social problems remain firmly local. More internationally oriented companies could find their local political voice reduced by their managers' greater reluctance to get involved in the social arena. It is understandable that

Japan

"It is a common criticism that Japanese companies owe their success to government assistance and the restriction of foreign business in Japan. But business leaders here think the real source of their success is fierce domestic competition.

"Japanese workers' loyalty and commitment to their companies has declined dramatically over the past ten years. The reason is that the opportunity for promotion has diminished as the population has aged. Also, hard work has become less important as economic prosperity has increased. Some people say the rising sense of individualism and decrease in loyalty will deprive Japanese companies of competitiveness, but others say this change is necessary for Japan to become a more mature society."

Nobuyoshi Miki
Editor in Chief
Diamond Harvard Business

cosmopolitan managers might not identify with a community's problem if they can easily pull up stakes and move elsewhere. But if cosmopolitan managers in global companies show reduced commitment to the places in which they operate, then political voice could be ceded to more protectionist and patriotic localists.

Businesses as Citizens: Which Social Responsibilities? Respondents everywhere single out the quality of education as the most significant social issue affecting their organizations, and they feel business should take the lead in improving it. A scant 5% feel business should not be involved at all. While 18% say that businesses should limit their contribution to financial support, another 77% approve of a very active role. And a great many respondents feel business can make a very useful contribution to basic literacy skills.

Environmental issues such as waste disposal and pollution are the second highest social priority, though falling well behind education in degree of importance to the respondent's own business. But solving environmental problems is the responsibility of those that create them. Most respondents are willing to shoulder *all* the burdens; only 3% – one of the lowest responses on any item on the survey – think business should not be involved at all.

Consensus breaks down, however, around somewhat messier human problems that are country-specific: alcoholism and drug addiction, crime-ridden cities, and poverty. Argentinians, for example, worry more about the impact of poverty and unemployment on business, while Americans see unsafe cities and substance abuse as more pressing problems.

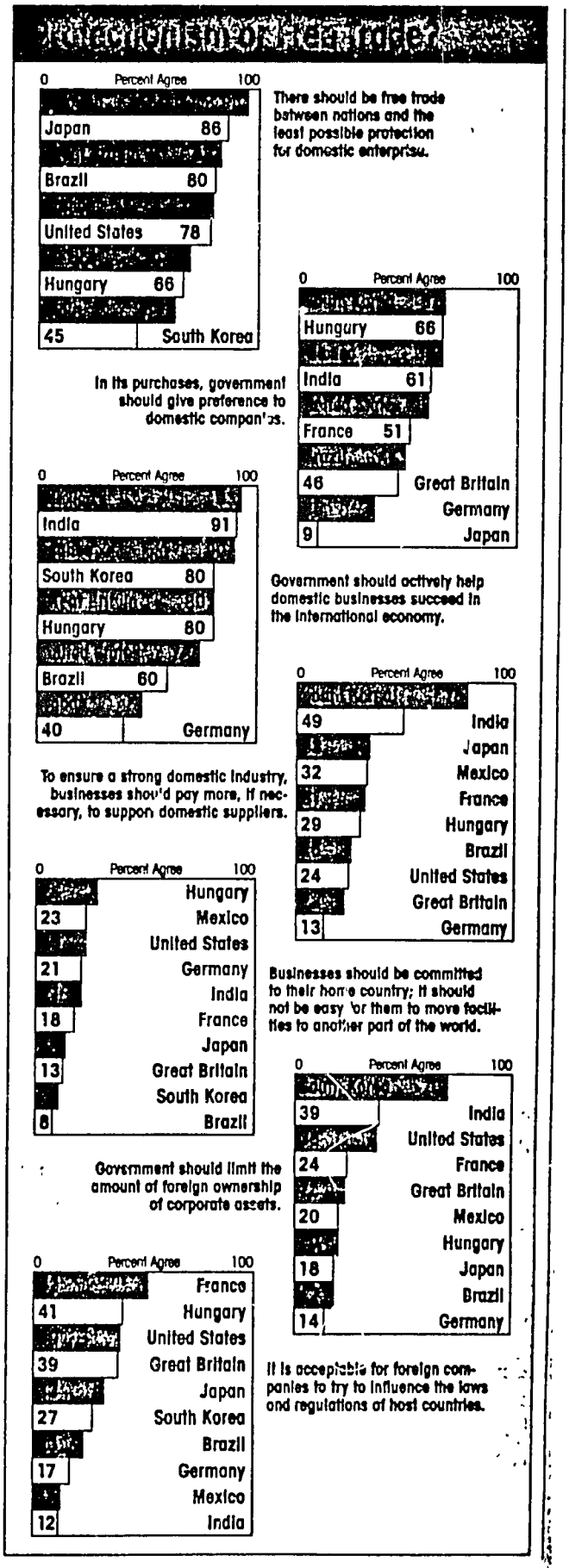
Regardless of the strength of concerns, there tends to be little interest in business involvement in solving the problems of urban life. In some countries, of course, business leaders can count on a strong welfare-oriented government to prevent problems or address them if they arise. There are low crime rates, stiff antidrug laws, and social safety nets. Singaporeans, for example, are much less likely than the average respondent to feel that unsafe cities are a critical problem for their businesses or that business has to improve literacy. Government simply ensures that such problems do not occur.

Mexico

"Many sectors of the economy – specifically, small and midsize companies with serious problems in international competitiveness – are nostalgic for the pre-IMF good old days of government protection and assistance. Though public opinion is in favor of the trilateral Free Trade Agreement between Mexico, Canada, and the United States, many Mexican businesspeople fear that free trade and unrestricted foreign investment in Mexico will promote an invasion of products and services that they will be unable to compete against.

"Investment in infrastructure, the elimination of government red tape and corruption, and a more favorable fiscal policy are just a few of the many structural changes that have to be made in Mexico before businesspeople here will feel comfortable with free trade."

Charles H. Oppenheim
Editor
Expansion Magazine



But consider the situation in countries like the United States whose respondents identify urban problems as urgent. Responses hint that business leaders are turning their backs on decaying cities, either because they can move facilities internationally or because they do not know what to do. This may cause downward spirals: as businesses abandon deteriorating cities, poverty and crime grow, literacy drops, and such places become even less attractive to business. If businesses do not accept citizenship responsibilities in areas they say affect them, will there be a backlash against business? Or will social activists push businesses to take more responsibility in exchange for economic concessions?

Managers often appear more politically conservative than the general population, and their responses to the HBR survey are no exception. They are willing to shoulder those welfare burdens involving wealth creation that have already been established as part of the standard benefit package in industrialized nations. But they draw the line at taking on new responsibilities, such as helping employees care for elderly dependents.

Productivity and Parenting. Respondents voice strong support for practices that help working parents. While world averages are skewed slightly because Americans take the lead in this area, Japanese, Brazilian, Mexican, and Canadian respondents are also strong supporters. Only South Korean managers are dissenters.

Finding world consensus in a direction some consider "women's" issues – and from a survey response that is 90% male – is noteworthy. Attitudes toward work and family are fraught with cultural overlays, colored by deeply held personal values. Yet respondents agree on three win-win practices that are good for both families and organizations.

First, child care at the work site is overwhelmingly supported by respondents. Indeed, there is more agreement in this area than in any other on the survey.

A second practice considered good for both families and organizations is for both husbands and wives to hold important paid jobs. There is strong support for dual-career families even among those who believe that it is good for the family to have one parent at home to take care of children. Still, the line between work and family should not be erased too much, respondents believe; a sizable group feel a husband and wife should not work for the same organization. Clearly, respondents' views reflect a deep ambiguity and continuing conflicts for women, who are expected to work at demanding paid jobs while "someone" stays home with the children.

Flexible work hours is the third practice considered good for both families and organizations. Support for flextime appears connected to a desire for family members to be able to provide care for one another, instead of relying on child care centers – though fewer support stay-at-home family members than support work-site child care. But flexible work hours are seen as good for the family just as often as a family member at home.

The strongest endorsement of a working parent's agenda comes from Japanese and U.S. respondents. The reasoning, however, appears to be quite different in these two groups. Japanese respondents seem to support any practice that makes it easier for people to dedicate themselves single-mindedly to work. Japanese scores on a "precedence for work over family" scale are off the charts – higher and statistically more distant from the scores of other countries than any other measure. Japanese respondents are nearly alone in finding it *good* for the family to have vacations, weekends, or evenings interrupted for work. What parents do "for the family" seems viewed in financial terms – to keep working and earning. Support for working parents may be seen by the Japanese as tilting the work-family balance in favor of work; by U.S. respondents, as tilting it toward family.

Organizations want productivity; families want time. The greatest work-family tensions center around conflicting time demands – the trade-offs involved in working weekends, interrupting vacations, or staying late at the office. Child care facilities make it easier for people to work and not spend time with their families. The tensions are clear when both parents work and both parents value their families – the combination is true for many survey respondents.

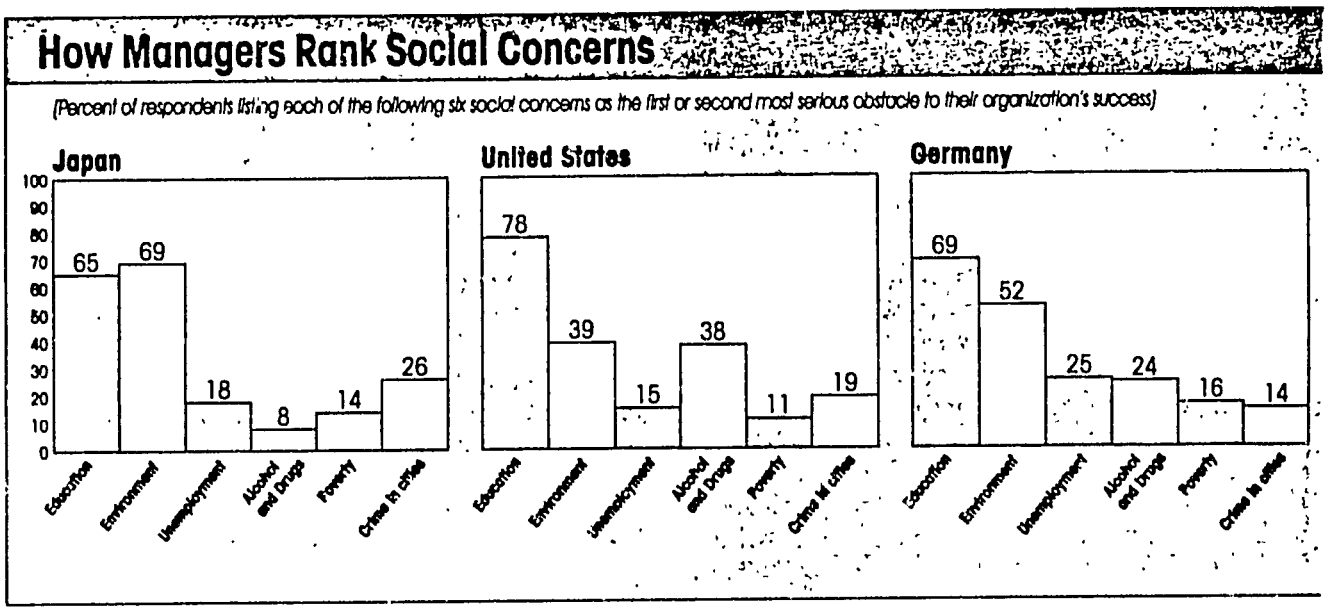
By supporting child care and flextime, managers are endorsing the work side of the work-family equation; the family side remains unaddressed. This area is ripe for new solutions that go beyond parenting leaves and sabbaticals. Will we see flex-year – the opportunity to work intensively for periods of time, then ease up, perhaps around school vacations? Or will solutions lie in technology – making work flexible and portable, or adding labor-saving innovations to increase productivity while freeing up time? A new work force, composed of more working parents, requires a new look at the workplace itself.

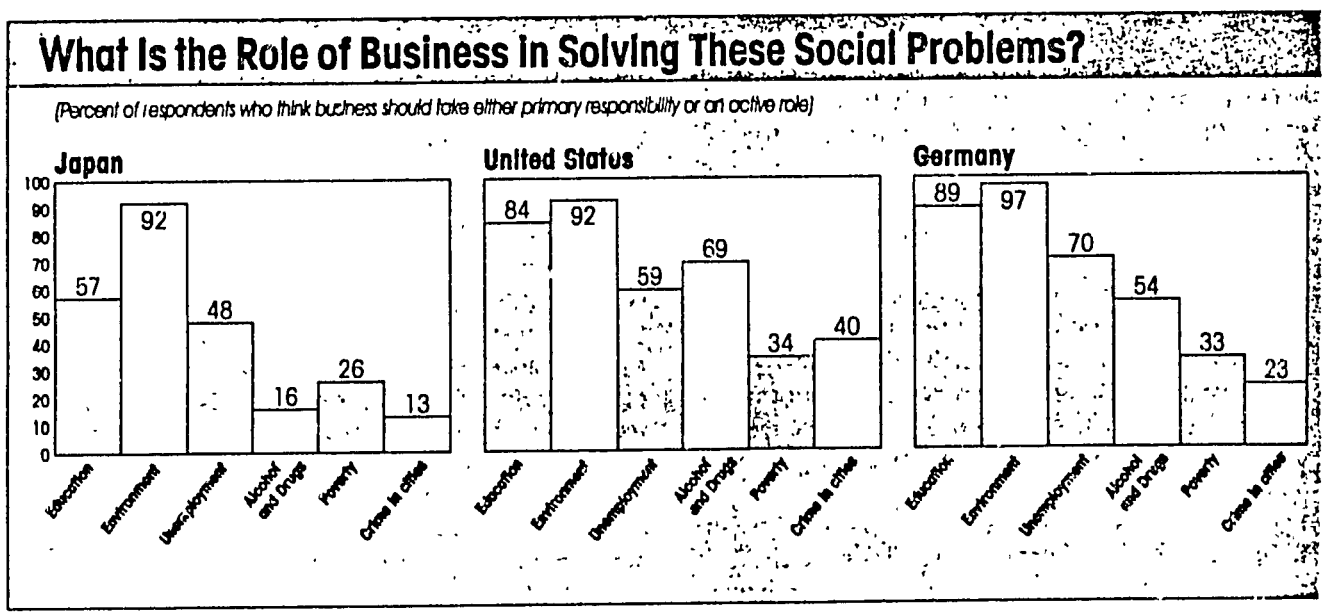
Germany

"Free trade and the power of international competitiveness have made Germany a leading exporting country, so it is not surprising that the survey found German managers opposed to any kind of protectionist trade barriers or government assistance. Germany has learned how harmful any kind of 'protectionist' barriers can be, and German business leaders will not allow the construction of any walls around free trade.

"The concern in Germany with work force skills reflects the widespread belief that there are problems with the integration of former East German workers into the new unified economy. It is up to the government, not business, to manage the reunification. And one of the biggest challenges will be halting the skyrocketing unemployment in the former GDR."

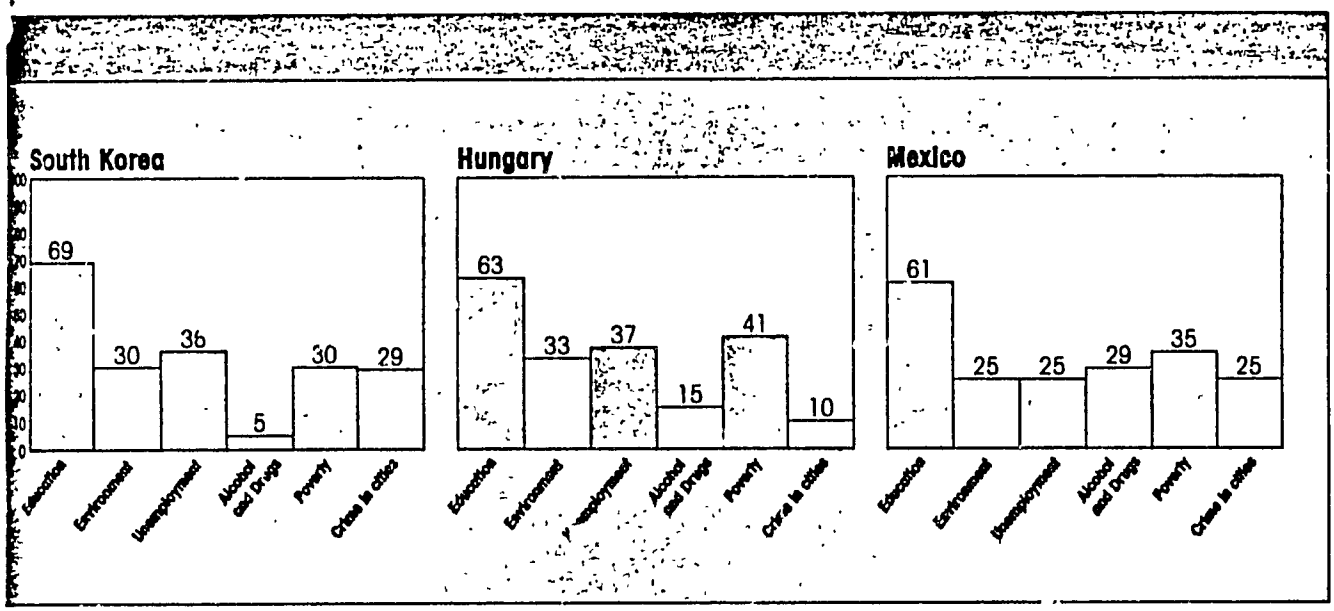
Horst Georg Koblitz
Senior Editor
HARVARDmanager Magazine

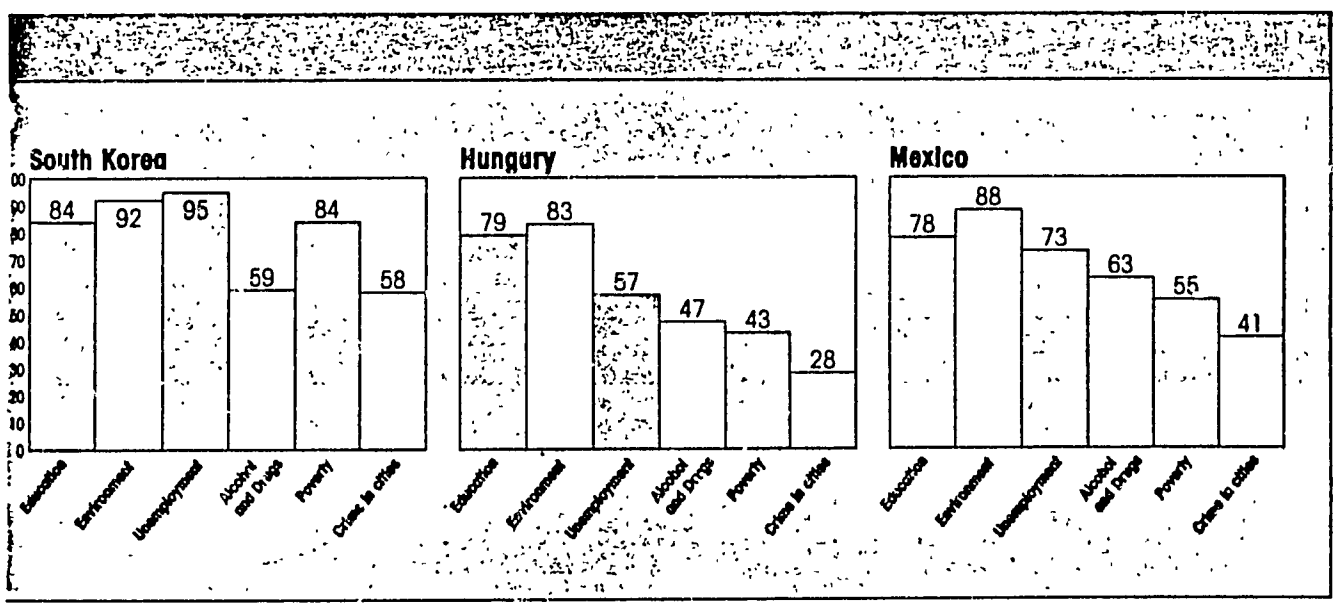




Fissures Inside the Workplace. Today's work force is generally viewed everywhere as more skilled and motivated than it was ten years ago. This positive aura is even stronger for successful, growing companies. Managers from growing companies think more highly of their own jobs, their employers, and their people than do those from stagnant companies–one of the few differences between the groups on the survey.

Many respondents count work force skills among the most important business success factors, but successful companies have a higher percentage of managers who believe their people actually have better skills. Are the people in such companies really better, or does a "halo effect" surround anyone who works in a successful organization? Research suggests that positive views of people's abilities can cause high performance as well as result from it. A "culture of pride," based on success, increases confidence and motivation. It's a virtuous cycle: performance stimulating pride stimulating performance.

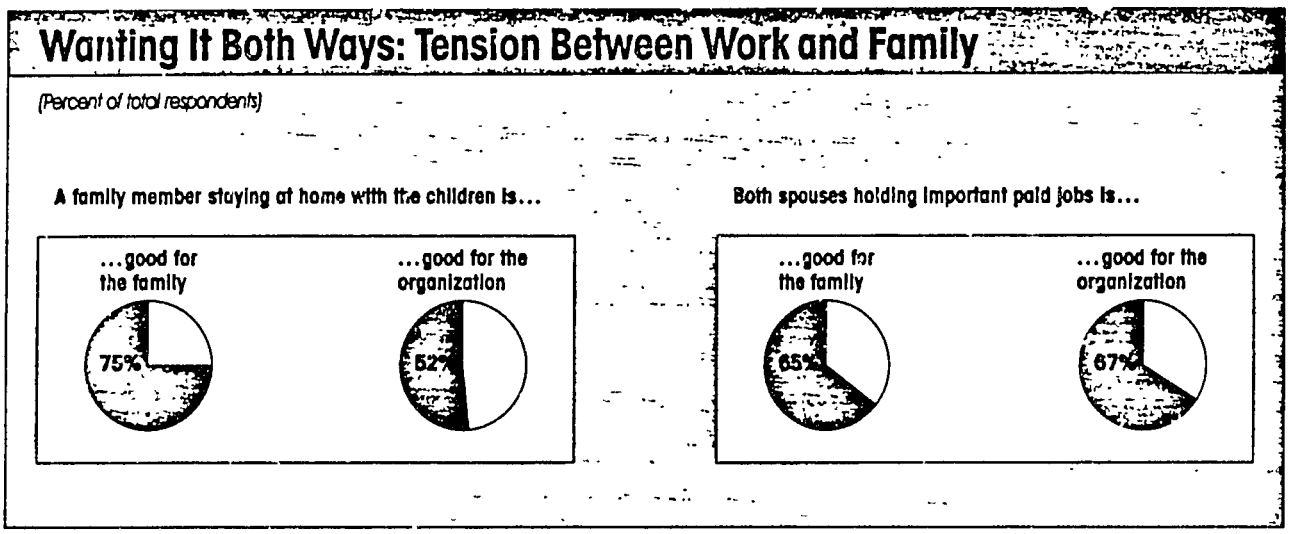


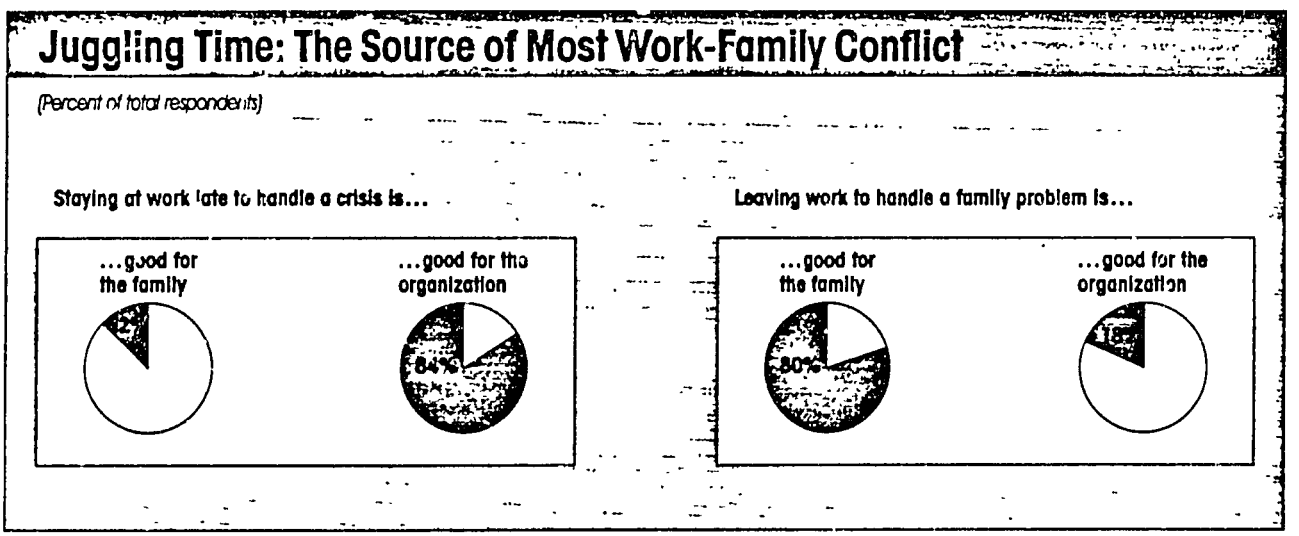


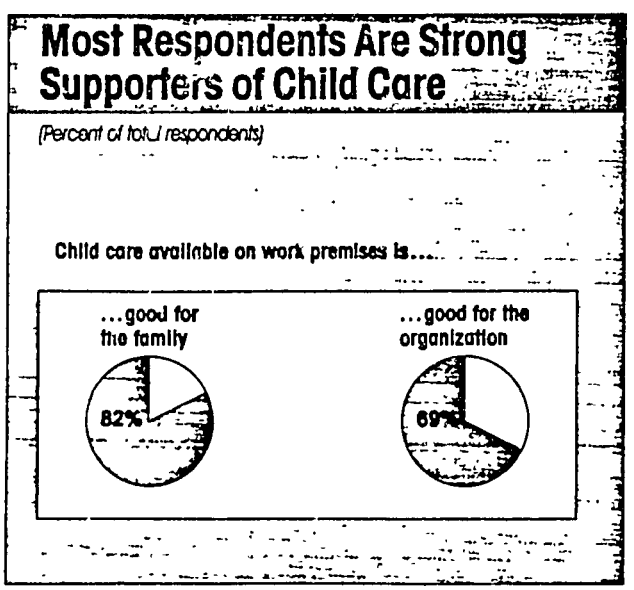
But the widely noted decline in employee loyalty and commitment is also confirmed by survey respondents fr m many countries. And the respondents express a higher level of satisfaction with their jobs than with their employers – a pattern indicative of the s ift in managerial loyalty from company to profession.

That gaps remain between managers and nonmanagers is not surprising, but the nature of the gaps is suggestive. Workers are seen as having a widening edge over managers in their abil.ty to work well in teams; managers are seen as increasing their cross-functional knowledge more than nonmanagers. Managers also tend to reserve strategic information and project initiation for themselves.

Such gaps could limit the ability of either group to contribute fully to the organization's success. If employees' teamwork is not associated with better knowledge about the whole business and where its work fits in, how can the team help solve problems

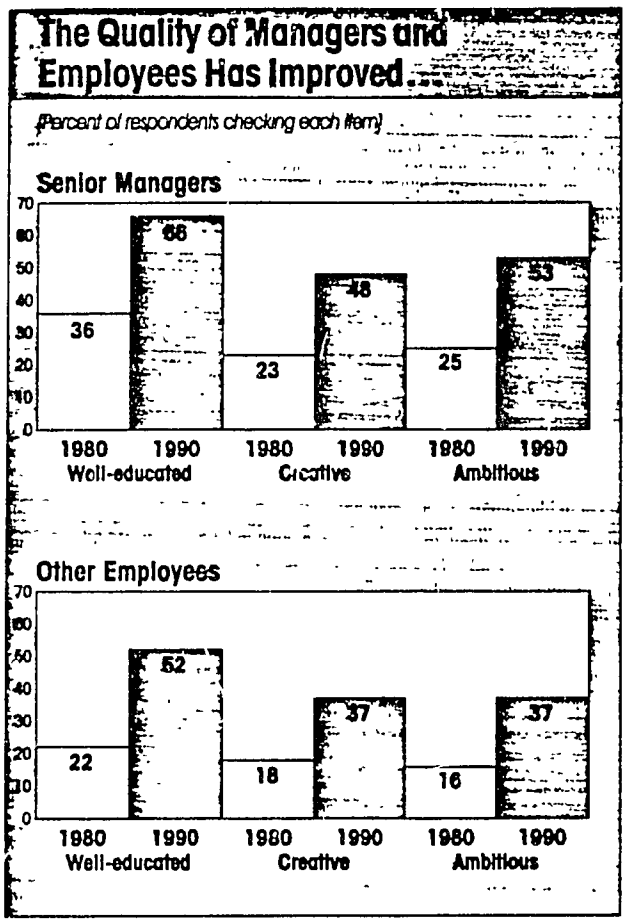






or improve performance, especially with limited power to initiate projects? And if managers' strategic knowledge is not associated with cooperation, then how well can the organization develop cross-functional integration or other forms of synergy? This suggests a dual corporate education agenda for the future, one in which companies both upgrade the team skills of managers and increase the strategic knowledge of employees.

Respondents from Japanese companies report some of the greatest differences between the organizational "top" and "bottom" and are least optimistic about work force improvement. They see a widening gap between the better discipline and motivation of managers today and the declining work ethic of other employees. But these respondents are also unusual in counting on product development and the quality of management more than



work force skills to make their companies successful. Perhaps Japanese society is beginning to move away from its traditional work ethic, as some Japan-watchers suggest; but a continued emphasis on innovation still provides productivity advantages. This is a reminder that great products, well-designed processes, and effective strategic planning can sometimes play a bigger role in business outcomes than worker attitudes.

Hierarchy Still Rules Corporate Life

Q: How do your organization's "top" and "bottom" groups compare in each category?
(percent of total respondents who say each category is "somewhat different" or "very different")

	Japan	United States	Germany	South Korea	Mexico	Hungary
Access to information about the company	86	81	86	90	76	83
Level of pay	92	96	97	93	81	87
Ability to initiate new projects	87	81	84	82	76	81
Contact with customers	83	73	69	86	74	74

While Companies Claim They Are Getting Closer to Their Customers and Suppliers...

Q: Does your organization have long-term relationships with suppliers?
(percent of total respondents)

	Always	Often	Sometimes	Never
Total	24	52	20	4
Greater than 10,000	20	57	20	3
Less than 500	27	40	19	5

Q: Does your organization share strategic information with customers?

	Always	Often	Sometimes	Never
Total	7	26	44	23
Greater than 10,000	6	26	47	21
Less than 500	8	28	42	22

Is hierarchy still inevitable in all but the smallest companies? Maybe so, but respondents in Finland, Austria, and New Zealand report much more egalitarianism in their companies. Clearly some countries are beginning to blur the distinction between managers and others. Social distance – differences of appearance and lifestyle – fades fastest; organizational power distinctions linger longer.

Anxious Alliances, Cautious Coalitions. While boundaries within the organization are shifting slowly, the blurring of external boundaries is apparently happening faster. Larger, older manufacturing companies are in the vanguard, but they are proceeding cautiously.

Customer service is saluted as the top success factor in nearly every country. Product quality, often involving close relationships with suppliers, is also highly ranked. Many companies represented in the survey claim to have long-term relationships both with their customers and suppliers. But according to survey results, "long-term" does not necessarily translate into "close." In practice, customers are kept at arm's length and suppliers only a little closer. Only a small minority of companies claiming long-term supplier relationships train suppliers or work closely on product development with those suppliers.

South Korea

"Korean companies are expected to play a major role in educating their employees and caring for their families. This guarantees a qualified and loyal work force for Korean industries. Koreans will continue to be very optimistic about future industrialization as long as corporate control of retirement funding, health care, housing, and child and elderly care continues to thrive."

Yong Hee Chee
Chief Editor
Harvard Sogang Business

Is ambivalence about breaching company boundaries a function of the difficulties involved in making this change? Most respondents' companies are engaged in at least a few joint ventures or alliances, though more often in countries like Sweden or Belgium than in Argentina or Brazil. The more joint venture experience respondents have, the more they identify *managerial* issues as worrisome. For instance, Belgians are more concerned about loss of control and information in collaborative ventures. In contrast, Austrians, who report less joint venture activity, consider the biggest risks to involve political and macroeconomic factors such as exchange rates.

It is one thing for less experienced managers to be unaware of the corporate culture clashes and ongoing managerial dilemmas of cross-company coalitions. But if so many experienced managers recognize that ongoing management issues are the biggest risks in alliances and partnerships, why do companies devote considerably more resources and top management time to negotiating the deal than they do to managing the subsequent relationship?

According to respondents' reports, companies in some countries do more than give lip service to the importance of their external allies. Germans, for example, are higher than the average on scales measuring closeness to *both* customers and suppliers.

Other country differences are provocative. Americans score somewhat higher than average on *customer* closeness and lower than average on *supplier* closeness. The Japanese pattern on the survey is the

Most of These Relationships, Especially with Suppliers, Are Still Infrequent

Q: Does your organization work with suppliers to design a product?
(percent of total respondents)

	Always	Often	Sometimes	Never
Total	8	29	46	17
Greater than 10,000	8	36	45	11
Less than 500	9	27	44	20

Q: Does your organization offer seminars or training programs for suppliers?

	Always	Often	Sometimes	Never
Total	4	14	33	49
Greater than 10,000	5	22	44	29
Less than 500	3	10	26	61

Q: Does your organization include customers on a product-planning team?

	Always	Often	Sometimes	Never
Total	9	23	41	27
Greater than 10,000	9	24	44	23
Less than 500	11	24	38	27

Q: Does your organization offer seminars or training programs for customers?

	Always	Often	Sometimes	Never
Total	13	27	35	25
Greater than 10,000	17	35	33	15
Less than 500	12	24	33	31

opposite. Though appearing cautious and protective in all relationships, the Japanese are more likely to open their boundaries to suppliers than to customers. This is consistent with other findings. Japanese respondents place a much higher emphasis on product innovation than do U.S. respondents, who prefer to count on customer service for their success.

Does this tell us anything about systematic managerial biases that can subtly influence strategies, resource allocation, and patterns of attention? Imagine that the survey findings are an early indicator of where companies are placing their bets for the future, and consider the plausibility of this possible division of global labor between the triad powers: will the U.S. role be to distribute and service products developed in Japan – while Germany competes effectively with both?

Agenda for the Next Conversation. Comparing and contrasting opinions from managers in many countries provides an opportunity for leaders to hold a mirror to themselves, their companies, and the countries in which they do business. Like an image in a mirror, the images they see could be distorted by

any number of cultural factors, or the self-selection of respondents. Still, taken as a whole, the survey results suggest some topics for the next conversation:

☐ *Look to Germany for role models of companies "fit" for global competition.* German cosmopolitanism is associated with less reliance on government and more cooperation with suppliers and customers. Working effectively across boundaries could come more easily to German companies, giving them an edge in the global economy. In contrast, companies in English-speaking countries, including the United States, are still comparatively inward-focused.

☐ *Worry about the Japanese emphasis on product innovation and the Japanese work ethic.* In fact, worry about Japanese worries. A tendency to be dissatisfied, for example, with the work force, coupled with a productivity emphasis could spur Japanese companies on to more achievements, especially in labor-saving technology.

☐ *Expect less from one's country and give more.* Conflicts and contradictions around political rules for the economic game still have to be sorted out. International companies are not expecting much direct government economic assistance. At the same time, companies that are excellent local citizens contributing to the improvement of society can have a stronger voice in political affairs.

☐ *Get on the child care and education bandwagons.* The overwhelming worldwide consensus about the importance of these issues suggests that companies that do not contribute could lag behind their competitors. While cleaning up the environment is also an important arena for action, business leaders already see this as their responsibility. A greater challenge for business is to develop a social agenda that identifies ways to contribute to today's families and tomorrow's work force.

☐ *Close the gap between values and practices.* Do too many managers lack faith in the capabilities of nonmanagers? General agreement about the importance of people to a company's success should be translated into opportunities for those at the bottom to get more information, initiate projects, and mingle with management. Similarly, endorsement of the importance of customer service and product quality should be reflected in new ways of including customer and supplier perspectives in decision making.

A smaller world creates a bigger agenda for business. There are more cultures to understand, more social responsibilities to master, more time pressures to juggle, and more relationships to rethink.

Hungary

"Hungary is in a period of transition from a planned economy to a market economy. While the majority of workers is still employed by the government, the growing number of private companies is having a dramatic positive effect on how Hungarians look at business. Managers here have very limited knowledge and skills in marketing, public relations, communications, and dealing with personnel, but privatization is forcing them to think creatively.

"The appeal of joint ventures – especially with the West – among these private companies is growing rapidly. The participation of foreign capital is attractive to Hungarian managers because of the promise of new managing techniques, access to new markets, and higher salaries. While no mass exodus from the public sector is expected in the near future, the thinning of the ranks of government employees is sure to continue."

György Varga
Editor in Chief
Figyelö

What Companies Worry About the Most in Their Supplier-Customer Relationships

(percent of total checking each item)

Different corporate cultures	59
Coordinating plans	43
Quality standards	32
Other company's personnel	27
Stealing secrets	24
Personality clashes	24
Different size companies	18
Customer confusion	17
Incompatible accounting	17
Political risk	9
Currency risk	8

Editor's note. Data were examined item by item (raw frequencies, means, and standard deviations) as well as organized into 40 scales based on statistical tests, such as cluster analysis and factor analysis. Translations were double-checked for accuracy and for universality of meaning, and questionable items were excluded from certain analyses. Patterns were analyzed by the country in which respondents currently work, respondent sex and age, and company type (by industry, size, ownership, degree of recent growth and profitability, and international orientation). Tests of statistical significance, effect size (measuring the degree of difference in a particular group's responses from the mean), and intercorrelations between scales were also conducted, and tests run to ensure that uneven response numbers from different countries did not distort the results.

HBR would like to thank William Simpson at Harvard University for his considerable contribution to this project.

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Supply Chain Management, Partnerships, and the Shipper -Third Party Relationship

Lisa M. Ellram, *Arizona State University,* and Martha C. Cooper, *The Ohio State University.*

The paper begins with an overview of some of the forces that have shaped supply chain management and partnership relationships. Next the potential benefits and risks of involvement in supply chain management/partnership relationships are discussed from the perspectives of both the shipper and the service provider (warehousers and transportation firms). Results from a major survey of shippers, warehousers and transportation providers are used to illustrate the risks and benefits. Means of minimizing the potential risks are also suggested. The paper concludes with a discussion of issues in supply chain management that would benefit from further analysis and research. These issues include determination of whether a firm should use a supply chain management approach, the management structure to use in supply chain management, and modelling supply chain management systems.

The concepts of supply chain management and partnerships are receiving increasing attention today as a means of simultaneously meeting the firm's customer service objectives while minimizing inventory throughout the supply chain [1]. Similarly, an important goal of the logistics function is to support the firm's customer service objectives, while minimizing inventory and associated costs. Thus, it appears that supply chain management and partnership concepts could be useful in meeting the goals of the logistics function.

During the late 1970s and the 1980s, the notion of integrating functional areas within a firm became popular among major US corporations. The driving force behind this trend was the recognition that sub-optimization occurs if each individual function attempts to optimize its own results rather than integrate its goals and activities with other functions to optimize the results of the firm. Supply chain management extends this concept of functional integration beyond the firm to all the firms in the supply chain, bringing the concept of integration into the 1990s Suppliers, customers, and third-party providers share the information and plans necessary to make the channel more efficient and competitive. This sharing is more accurate and detailed than in traditional, more adversarial buyer-seller relationships The supply chain management approach is valuable today due to the changing competitive environment, and the need for new operating and competitive strategies which focus on better leveraging a firm's assets to achieve customer service goals.

Based on the potential importance and contribution of supply chain management and partnership concepts to the logistics function, the objectives of this article are:

1. To develop an understanding of the forces that have created an interest in the supply chain management concept.

2. To discuss the relationship between supply chain management and partnership ventures.

3. To develop a framework for classifying and understanding the risks and rewards of partnerships in logistics, from the perspective of both shippers and third parties.

Shippers are defined as users of contract/public warehouses and for-hire transportation carriers. The term third party refers to outside parties who provide functions not performed by the firm. These can include transportation carriers, warehousers, bankers, brokers, and suppliers to these functions, such as stevedores As used here, third party refers to both transportation and warehouse operations, unless specifically noted as referring to

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Volume 1. Number 2 1990.

carriers or to warehousers individually.

The paper combines the results of a survey of shippers and third parties (warehousers and transportation providers) with a literature review to facilitate an understanding of the risks and rewards associated with logistics partnerships

Methodology

The shipper sample was US firms representing a wide variety of industries and firm sizes Carriers and warehousers surveyed were also US firms Pretested questionnaires were mailed to 1108 shippers, 222 carriers and 301 public/contract warehousers The questionnaire was preceded by a mailing which requested cooperation, and in most cases, was followed by a telephone call from a member of the research team This resulted in response rates of 30 per cent for shippers, 40 per cent for carriers, and 41 per cent for public/contract warehousers [5] Mean responses on the variables are reported in the tables.

Carriers and warehousers were asked to select a core customer/shipper which was important to their business, but not the most important shipper, and to base their responses on that shipper Questions were designed to examine the nature of the relationships between shippers and carriers and shippers and warehousers Information on the relationship itself, such as longevity, and the perceptions of the relationship were sought The long duration of the relationship and the high proportion of revenue accounted for by the shipper, as shown in Table 1, indicate that the chosen shipper was important to the third party The examination of relations with important customers with whom those surveyed conducted an on-going, significant part of their business gave the research a partnership focus. Partnerships are defined more fully below.

CORE CUSTOMER CHARACTERISTICS	Carriers	Warehousers
How long has this customer been doing business With your firm?	16.5	10.5 years
What percent of your total revenue comes from this firm?	[illegible]	22.5%

Table 1.

Overview of the Supply Chain Management Concept

The concepts of international supply chain management, domestic supply chain management and partnerships have received increasing attention in recent years [2,3,4]. Partnerships have been defined as '...a relationship between two entities in the logistical channel that entails a sharing of benefits and burdens over some agreed upon time horizon' [5]. Supply chain management has been defined more broadly as an integrative philosophy to manage the total flow of a distribution channel from supplier to the ultimate user [1,2,3,4].

Like vertical marketing systems [6], supply chain management is a systems approach to viewing the channel as a whole rather than as a set of fragmented parts. Supply chain management differs from more traditional approaches to inventory control, which focus on inventory either within the firm (see Figure 1), or downstream in the channel of distribution, between the manufacturing firm and the distributor. The broader supply chain management view of inventory and inventory control, from a total systems perspective, is shown in Figure 2. Supply chain management focuses on the control and management of inventory throughout the entire supply chain, from the supplier to the ultimate customer. The concept of supply chain integration is illustrated in Figure 3.

The Inventory versus Information Trade-off

Wherever uncertainty exists along a supply chain, whether it be in terms of product quality, delivery timing, final demand, or the actual amount of product which will ultimately be received, this uncertainty has traditionally been buffered with inventory. Each player in the supply chain optimizes its own position by:

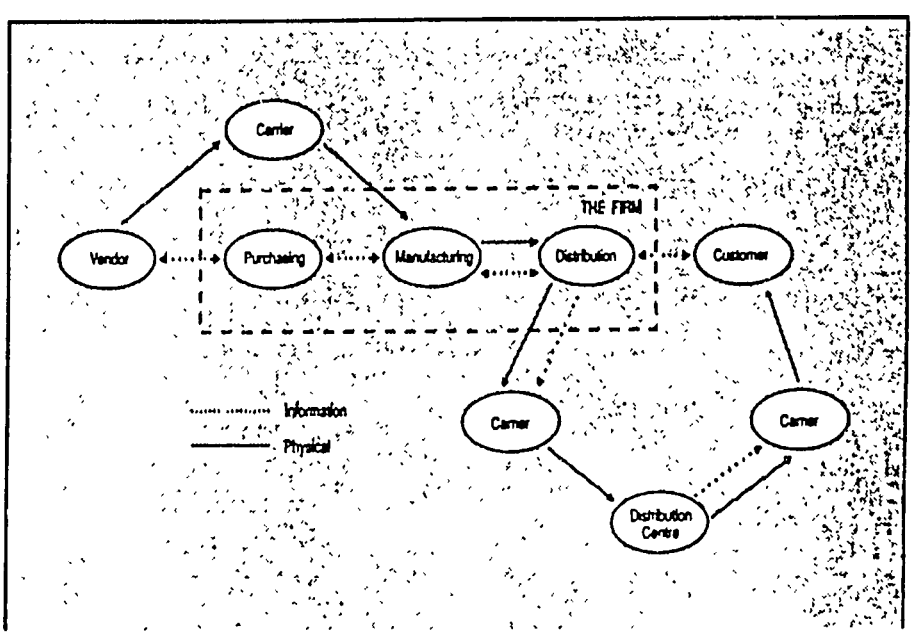
1. Holding all of the inventory that it needs, or
2. Requiring other supply chain members to hold additional inventory.

As a result, the inventory level throughout the supply chain is often much higher than it would otherwise be, as uncertainty is magnified at each step in the channel from the vendor to the ultimate consumer.

During the 1980s, the idea of reducing uncertainty by sharing information, exchanging information for inventory [7], received widespread recognition as a means of reducing costs and increasing effectiveness among trading partners.

Figure 1.

Traditional Approach to Production and Information Flows.



This concept is particularly important in just-in-time and kan-ban systems, which emphasize production efficiency with minimal buffer inventory If a supply problem occurs, whether it be poor quality, insufficient quantity, or a late delivery, the system breaks down Thus, all the attention in the system becomes directed toward solution of the supply problem, so that the system stoppage is prevented in the future [8]

The supply chain management concept focuses attention on holding inventory in the location and quantity that is optimal for the entire supply chain. Clearly, exchanging information for inventory is central to the supply chain management concept In order for supply chain management to have any hope of succeeding timely, accurate information is needed from key players throughout the supply chain regarding the quantity, quality, and timing of inventory needs Given that channel members have often been accustomed to dealing with each other in an arm's-length, adversarial manner [9], this level of information accuracy and timeliness can be difficult to achieve.

There are two ways to accomplish the objective of using information to better manage inventory throughout the supply chain. One method involves the use of coercive power to gain information and control. However, research indicates that this type of relationship may have limited long term success, as power shifts, and unsatisfied parties seek new trading relationships [10].

In contrast to traditional, adversarial relationships, another alternative is to recognize that supply chain partners are mutually dependent A key element of the difference between adversarial and partnership relationships is that the latter involves trust and information sharing [9,11,12,13] Successful supply chain management relies on forming strategic partnerships with trading partners along the supply chain, with one partner playing a key role in coordinating and overseeing the whole supply chain, similar to what is called a channel captain in the marketing literature [6].

Supply Chain Management as a Synthesis

Supply chain management is an extension and culmination of many important trends and trading practices today. Supply chain management borrows from and extends organizational effectiveness concepts in

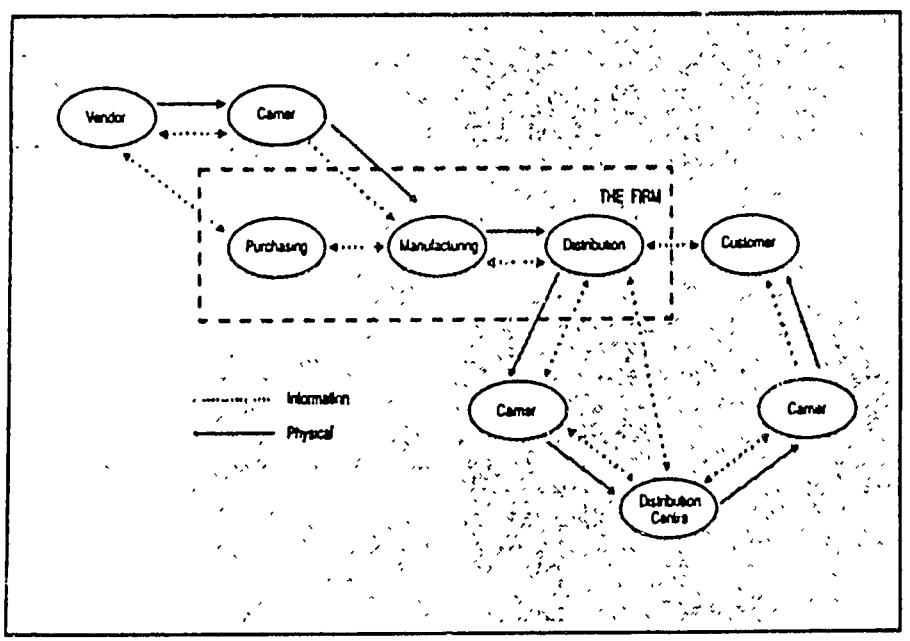


Figure 2.
Supply Chain Management Approach to Product and Information Flows.

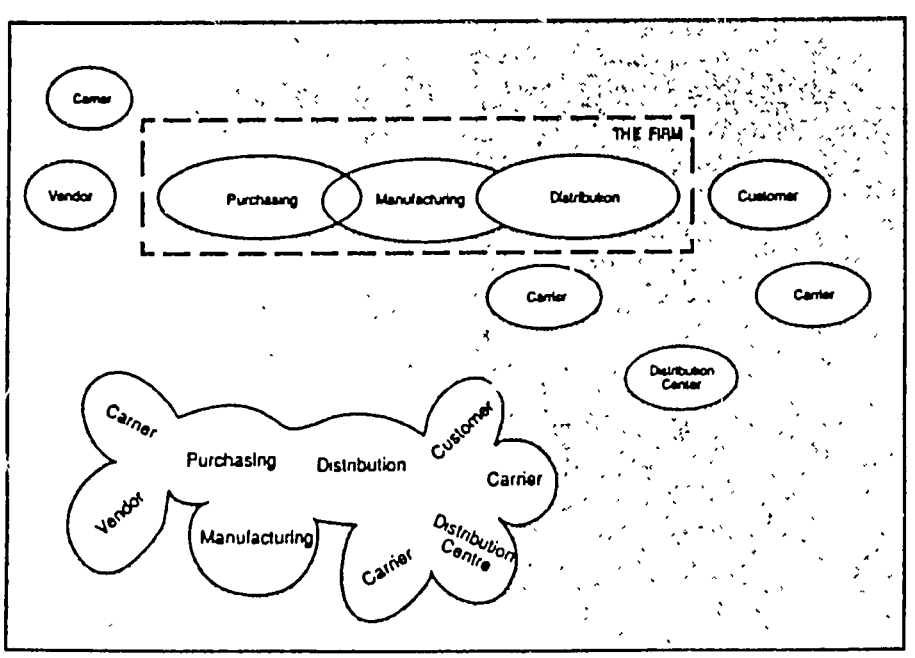


Figure 3.
Supply Chain Management Approach to integration.

terms of integrating activities between firms, rather than just within firms It borrows from the operations management literature in recognizing the role which inventory may play in balancing a system [8] The supply chain management concept also recognizes the role of communication and information in reducing uncertainty, and improving total system performance Finally, supply chain management requires the recognition of modern competitive theory that in many firms, relationships with trading partners are changing from adversarial to cooperative, in order to meet the demands of the global competitive arena

The Role of Partnerships

A strategic partnership relationship represents one dyad, or one link in the supply chain A strategic partnership is defined here as a type of 'channel relationship where the intent of the relationship is to yield differentiated and intermediate or long term benefit to the parties involved in the relationship,' [5] This relationship is forward looking, takes place over an extended time period, and involves trust and the associated sharing of information, risks and rewards [11,14]. Thus, an effective supply chain management system is made up of a series of partnerships among firms, working together and mutually sharing information and channel risks and rewards. These partnerships may not include all channel members. Results from the survey discussed above suggest that logistics partnerships between shippers and third parties embody similar underlying concepts as supply chain management. As shown in Table 1, the relationships examined in this study were long-term relationships that accounted for a relatively high percentage of the shipper's business. There was an expectation that the relationship was long-term, with a high degree of loyalty, and a future focus (see Table 2).

THIRD PARTY PREFERENCES FOR LONG TERM RELATIONSHIP

	Warehousers	Carriers
High Expectation of a Long Term Relationship (vs Low Expectation)	1.22	1.15
Very Loyal to the Customer (vs. Not that Loyal)	1.27	1.31
Focus on Future Transactions (vs Focus on Current Transactions)	2.93	2.01

Means of seven point scale where 1 = first polar alternative and 7 = second polar alternative (in parentheses).

Table 2.

These core relationships were very information intensive (Table 3) Accuracy of response to inquiry, speed of response to inquiry, and adequate detail in response to inquiry were all viewed as very important in the mutual relationship between shippers and third parties.

ACCURACY, SPEED AND DETAIL OF RESPONSES TO INQUIRIES

	Shipper Evaluation of Warehousers	Warehousers	Shipper Evaluation of Carriers	Carriers
Accuracy of response to inquiry	1.54	1.58	1.69	1.61
Speed of response to inquiry	1.84	1.72	1.91	1.83
Adequate detail in response to inquiry	1.96	1.66	2.14	2.10

Means of scale values where 1 = very important and 7 = very unimportant Lower scores indicate greater importance.

Table 3.

Strategic partnering is not a completely new idea. Many firms have been using it as a competitive strategy for years, such as Sears Roebuck's transportation system using Terminal Freight Handling Co. Building strategic partnerships throughout the supply chain is not yet common in practice.

Firms who become involved in supply chain management systems today do so because they feel that these systems will allow them to better compete in the market place. Specific reasons for adoption of supply chain management will be discussed more fully in the next section of the paper, which discusses the benefits of supply chain management

Benefits of Partnership Relationships to Supply Chain Management

Several benefits exist for successfully-implemented supply chains. These benefits will be viewed from the partnership level, a dyadic relationship between shippers and third parties.

The benefits themselves can be categorized as economic, managerial, or strategic Economic benefits relate to the financial aspects of the partnership. These include financial risk and cost/quality issues. Managerial benefits reflect the efficiencies of managing one or a few outsourced relationships for a particular function, such as warehousing, compared with many such relationships. Strategic benefits are explored in terms of positioning the supply chain for competitive advantage.

The benefits are explored on several dimensions. A key dimension is whether the benefit is from the perspective of the buyer or the seller. Shipper benefits may be different from third party benefits because the shipper is a buyer and the third party is a seller. For example, the seller in a partnership gains the security of a long term source of business, while the buyer benefits from having fewer relationships to manage Another dimension addressed is where the function has been performed. The benefits of partnerships versus vertical integration may differ from the benefits of partnerships versus an arm's length approach Further, the benefits may have either short term or long term implications.

The shipper's perspective is discussed first followed by the third party provider's perspective The potential benefits are summarized in Table 4. This table also indicates whether the benefits derived are short term or long term in nature and whether the benefit is in comparison with vertical integration or arms' length relationships.

POTENTIAL BENEFITS OF SUPPLY CHAIN MANAGEMENT PARTNERSHIPS TO SHIPPERS AND THIRD PARTIES

	Benefit of SCM vs. Vertical Integration (VI) or Arm's Length (AL)	Long term (LT) Short term (ST)
TO THE SHIPPER		
ECONOMIC:		
Transfer Financial Risks		
Transfer assets to third party to free capital	VI	ST, LT
Shift functions to third parties	VI	ST, LT
Lower Cost/Increase Quality		
Routinize Transactions	AL	ST, LT
Utilize Third Party Expertise	AL, VI	ST,LT
Share Development Costs	AL, VI	LT
MANAGERIAL:		
Concentrate on Core Business	VI	LT
Manage Fewer Relationships	AL	ST, LT
STRATEGIC:		
Competitively Position the Supply Chain	VI, AL	ST, LT
Global Flexibility	VI	ST, LT
Deploy inventory as an asset	AL	ST, LT
Meet Customer Service Objectives	AL	ST, LT
FOR THE THIRD PARTY		
ECONOMIC:		
Economies of Scale	AL	LT
Reduce Capacity Utilization Risk	AL	LT
MANAGERIAL:		
Concentrate Business Expertise on a fewer shippers	AL	LT
Manage Fewer Relationships	AL	ST, LT
STRATEGIC:		
Longer Planning Horizon Longer Investment horizon	AL	LT
Leverage Expertise	VI, AL	ST, LT

Table 4.

Shipper Benefits

The following sections discuss the potential benefits to shippers which may result from involvement in supply chain management relationships Economic, managerial and strategic benefits are each discussed below

Economic (Make or Buy)

Supply chain management can be positioned on a continuum between the outright ownership of the channel through vertical integration and the arm's length transactions of an open market. As such, supply chain management attempts to capitalize on many of the advantages, while minimizing the disadvantages, of both extremes. Economic theory suggests that functions should be housed where they can be performed most efficiently. For example, firms may vertically integrate to enjoy economies of scale, when there are no suitable outside alternatives or when insufficient business exists for outside suppliers to be economically viable [15,16] Arm's length transactions occur in open markets, where the buyer may utilize several suppliers, trading one off against another for the best service/price mix.

The concept of vertical disintegration suggests that there are several reasons why firms do not chose to perform certain functions in-house [16,17,18]. Other factors may override the economies of scale justification of vertical integration, such as the preference to transfer risk and the desire to lower costs.

Transfer Financial Risk

Financial risk can be reduced versus vertical integration by transferring assets to a third party As the third party assumes responsibility for various functions, the assets required to perform these functions, such as transportation or warehousing, are usually supplied by the third party. Even if the shipper assists with the financing of these assets or uses a joint venture approach, the shipper has shifted some of the financial commitment and responsibility to the third party Thus, there are immediate short term improvements in liquidity and long term lowered investment requirements.

The capital freed by shifting functions to third parties can be reinvested into other areas of the organization which may use capital more productively Outsourcing is using third parties rather than in-house functions to perform activities. Various production, logistics, and operating tasks are being examined very closely for outsourcing due to financial and other efficiency reasons. Some firms are creating subsidiaries to perform the logistics functions. Other firms have even used outsourcing to help recover from mergers or takeover attempts. Gillette outsourced its international logistics function to help reduce the debt incurred in successfully fighting a hostile takeover attempt, shifting the function to a third party, Intral.

The risks associated with shifts in the market and in technology can be mitigated to some extent by shifting functions outside the firm [16,17,18,19]. Market entry risks can be reduced by utilizing third parties focusing on shorter time horizons and smaller investments than required for vertical integration. Thus, the breakeven point for a project or product is lowered to increase the probability of success.

Lower Costs/Increase Quality.

Every business transaction has an associated cost whether that function is performed internal or external to the firm. Once a function is institutionalized within a firm the real costs associated with performing that function are often hidden among several operating budgets, and considered 'overhead'. Outsourcing functions to third parties makes the costs more visible. Further, potential savings include routinizing transactions, utilizing the third party's expertise, and sharing development costs of large information systems as discussed below.

Routinizing transactions is an advantage vs. dealing with several suppliers in the open market. Renegotiating contracts and setting up operating systems is required less frequently, which saves time and money [20]. Table 5 indicates that shippers and third parties study each other's operations regularly and favor joint planning. This bidirectional relationship can improve the operations of both firms by reducing redundancy and better integrating the operating systems of the firms.

THIRD PARTY PREFERENCES FOR INTERACTION TO IMPROVE OPERATIONS

	Warehousers	Carriers
Customer Regularly Studies Our Operations for Planning (vs. Never Study)	3.02	2 41
We Regularly Study Customer's Operations for Planning (vs. Never Study)	2.61	1.88
Many Joint Planning Committees, Task Forces (vs. No Joint Planning)	3 25	2 51

Means of seven point scale where 1 = first polar alternative and 7 = second polar alternative (in parentheses).

Table 5.

The third party may have greater expertise than the shipper in performing certain functions[17], such as managing a part time labour force. Forming a partnership with a specific third party which has specialized skills takes immediate and long term advantage of those skills.

Sharing development costs for systems interfaces between the two firms can be another advantage over arm's length relationships where such systems may be developed independently and over vertical integration where the responsibility is solely that of the shipper. The current business operating environment is characterized by a significant, rapid transfer of information. This speed can translate into competitive advantage The information systems of the shipper and third party must be coordinated and integrated to be efficient. However, integrated information systems are costly and time-consuming to develop. If these costs can be shared by partners in a long-term relationship, the economic risk is reduced.

Managerial

The trend toward conglomerates and synergy of the 1960s and 1970s is being replaced by a thinning of levels of management and selling off of peripheral business units [19] One example is Kinder Kare divesting its oil drilling and exploration division [21]. General Mills has reduced the number of business units from twelve in 1983 to two in 1988, packaged food and restaurants, while increasing its return on investment. This specialization can be taken even further to reducing the number of functions performed in house. For example, McDonald's has outsourced its entire logistics function This allows McDonald's to concentrate on its area of expertise, the retail store management aspect of the fast food business, while a third party concentrates on its logistics.

A second trend is the reduction in the number of third parties a shipper uses for a particular function, such as transportation. Managers can better coordinate relationships with a few providers [12], rather than many as in an open market situation. This allows management to devote more attention to strategic matters such as planning [19], and to form closer working relationships with supply chain partners. Thus, there is greater opportunity to become familiar with each other's business and to increase commitment to helping each other in difficult situations, as illustrated in Table 6

THIRD PARTY PREFERENCES FOR MUTUAL ASSISTANCE

	Warehousers	Carriers
High Customer Willingness to Help Us in Difficult Situation (vs. Low Willingness)	1.48	1.51
High Willingness for Us to Help Customer in Difficult Situation (vs. Low Willingness)	1.24	1.25

Means of seven point scale where 1 = first polar alternative and 7 = second polar alternative (in parentheses).

Table 6.

Strategic

For the shipper, the strategic reasons for entering supply chain management relationships include leveraging the positioning of the supply chain, and meeting customer service objectives. Each of these reasons is discussed below

Competitively Position the Supply Chain

In the globally-competitive markets in which firms operate, achieving strategic advantage is difficult A well-coordinated supply chain held together by strategic partnerships can provide such an advantage since it is difficult to duplicate in the short run When not locked in to owning assets through vertical integration, the shipper can be more flexible in sourcing components and marketing products [13,19] Partnerships with distributors, wholesalers, and retailers provide access to markets perhaps not otherwise readily available to the shipper [14]. Leveraging the expertise of third party providers of transportation, ware-housing, import/export capabilities and knowledge can also enhance access to markets.

Different sourcing/ marketing strategies can be developed for different parts of the globe The Limited retail chains provide an excellent example Their global supply chain includes owned subsidiaries and partners who source and assemble anywhere in the world, and deliver the apparel to more than three thousand stores

Inventory can also be deployed in a strategic manner among the members of a coordinated supply chain compared with arm's length transactions where each firm manages its own inventory independently When members of the channel operate independently with little information transfer, inventory can be expected to accumulate as a buffer to uncertainty, increasing costs throughout the supply chain

Meet Customer Service Objectives

Due to regional volume requirements, it may not be economically feasible for a shipper to operate the number of warehouses necessary to achieve the service levels expected by the customer Shipper respondents often cited improved customer service as a reason for increasing the number of warehouses. Service response has always been a rationale for traditional public warehouses operating in an arm's length environment Increasing pressures by customers and competitors to provide more services suggest greater coordination with third party providers. An example is firms operating in minimum inventory environments, such as just-in-time [22]. Greater coordination with the third party is required to ensure proper delivery schedules. This coordination is more easily accomplished by using fewer carriers A case in point is the Ford Wixom plant, which selected only three carriers for its just-in-time operation where often one hundred carriers might be utilized for a similarly sized plant [23] This suggests a longer-term relationship with a third party may be necessary to develop the systems to deliver these services and to allow the third party to recover its investment [2,3,4,24].

Third Party Benefits

Third party benefits accrue from potentially more stable environments and longer term relationships with fewer shippers, thereby reducing the risks of open market uncertainty.

Economic

Contract warehousers and carriers may achieve greater utilization of their facilities and equipment by concentrating on several, on-going customers. Through partnerships, even greater operating efficiencies may be possible as a reduced number of operating procedures are required to serve a smaller customer base. Longer-term relationships also provide some base level of expected transactions, which permits management to plan investments and manpower commitments with greater confidence. This is important in markets that require increased service levels and more value-added services.

Managerial

As the shipper has fewer relationships, it is likely that the third party will also have fewer relationships since the shipper's level of business accounts for a larger portion of the third party's total sales The managements of both the shipper and the third party can spend time fine-tuning the relationship and planning for future improvements as opposed to spending significant amounts of time coordinating and executing multiple relationships. Several levels of management in both firms may be involved. (See Table 7.)

THIRD PARTY PREFERENCES FOR COMMUNICATION

	Warehousers	Carriers
Many Corporate Levels of Communications (vs. Single Level)	4.51	3.31
Many Direct Computer-to-Computer Links (i.e. EDI, WINS)	1.27	1.19
High Exchange of Technical Information, e.g. new equipment (vs. Low Exchange)	2.63	2.21

Means of seven point scale where 1 = first polar alternative and 7 = second polar alternative (in parentheses).

Table 7.

Focusing on fewer relationships permits more integrated operating systems, and technical information exchange about the product and its handling. In an arm's-length environment, the third party must anticipate the needs of many shipper's and try to invest in the proper combination of equipment and personnel to serve those needs. With supply chain partnerships, the third party can focus on a few shippers, working together to jointly determine their needs. Increased reliance on focused information systems can reduce costs and improve system accuracy.

Strategic

Strategic advantages include longer planning horizons and leveraging the third party's expertise into greater market share. With the more predictable levels of capacity and longer-term approach, the third party can use longer investment recovery horizons. This long term perspective is a key aspect of supply chain management and partnerships in general [25,26]. In the study results reported earlier, third parties indicate a high degree of loyalty and the expectation of a long term commitment with the core shipper and prefer to adopt a future orientation in this relationship rather than concentrating on current operating issues. (See Table 2). Long term expectations and planning horizons permit the development of more efficient supply chains since the parties are committed to working together with a 'joint destiny'.

By concentrating on its core services, the third party can develop and refine its areas of expertise Value-added services, such as those listed in Table 8, can be tailored to the shipper's needs to further tie a shipper to the third party. Third

parties can leverage their expertise and the value-added services they provide into larger shares of the shipper's business [9,14] Further, this expertise may be transferable to other accounts

VALUE-ADDED SERVICES

Assembly
Repair
Testing
Packaging
Labeling and Coding

Freezing/Refrigeration
Special Storage Conditions
Local Delivery
Interstate and Interstate Delivery
Recooperage
Import/Export Assistance
Electronic Data Interchange

Source. La Londe and Cooper, 1989, P.87,

Table 8.

Managing the Risks of Supply Chain Management Partnerships

The potential advantages listed above must be tempered by the potential risks associated with long-term relationships with a limited number of partners. These are discussed from the perspectives of the shipper and the third party. Table 9 summarizes these risks and indicates the nature of these risks in terms of time frame, long versus short-term, and compared with arm's length and vertical integration approaches Means of mitigating these risks are also addressed.

Shipper Risks

Shipper risks are classified into the categories economic, managerial and strategic, as discussed below.

Economic

As firms become more intertwined, the ability to switch to other partners becomes more costly and possibly more risky as important operating practices and possibly proprietary information have been transferred The integration of information and operating systems creates a relatively unified system that is difficult and costly to separate or replicate should the partnership dissolve La Londe and Cooper [5] suggest that partnership relationships evolve, and may eventually end in a dissolution of the relationship. Both parties need to monitor the partnership or at least anticipate its decline

POTENTIAL RISKS FOR THE SHIPPER AND THIRD PARTY

	Risk vs. Vertical Integration (VI) or Arm's Length (AL)	Long term (LT) Short term (ST)
FOR THE SHIPPER		
ECONOMIC:		
Switching Costs	AL	LT
MANAGERIAL:		
Lack of Control		
Information transfer risk	AL, VI	ST, LT
Customer service performance/quality	VI	ST, LT
Third Party Opportunism	AL, VI	ST
STRATEGIC:		
Limiting the Options	AL	LT
Affect on Customer Service Image of Shipper		
Loss of contact with customer	VI	ST, LT
Customer base erosion	VI, AL	LT
FOR THE THIRD PARTY		
ECONOMIC:		
Large Front End Investment	AL	ST, LT
Non-transferable Assets	AL	ST, LT
MANAGERIAL:		
Difficulty in Replacing Large Portion of Business	AL	ST
Opportunism of Shipper	VI, AL	ST
STRATEGIC:		
Absorbtion into shipper	AL	LT
Shipper pulls function in-house	AL	LT

Table 9.

Managerial

Management may be concerned about the performance of outsourced functions formerly provided in-house, especially early in the relationship. Table 10 includes concerns of shippers regarding outsourced service. On-line reporting systems that are equally accessible to the shipper and the third party may help address the quality of service and control concerns Shippers can monitor performance levels and detect inconsistent service delivery. Access to each other's sensitive information must be guarded throughout the life of the relationship. The key is to share only that information needed to make the relationship effective. The long term view of a partnership relationship suggests that the shipper will be provided the level of service it deems necessary or the relationship will cease The continuous contact between shipper and third party permits ongoing evaluation of the service and corrections as needed

SHIPPERS CONCERNS REGARDING OUTSOURCING

Control over products/inventory

Control over shipping and transportation

Increased costs

Management of inventory

Quality of service versus cost of service

Inability [of third party] to provide needed information

Table 10.

The concept of opportunism (self-interest with guile) can apply to third party providers as well as to shippers. Third party providers may be opportunistic in terms of which shippers receive the most attention and best service. If a function is performed in-house, then presumably the shipper is the most important customer of that service When a function is outsourced, the shipper may not necessarily be the most important customer of the service provider. Lack of attention to the shipper's account may be a concern, Shippers may seek larger, customer oriented third parties or seek smaller providers who can offer more personalized attention to insure the desired level of service to their customers.

Strategic

Strategic concerns include limited flexibility and potential affects on customer image and customer service Supply chain management, while more flexible than vertical integration, may lock the shipper out of opportunities in an open marketplace if the shipper is tied into a long term agreement with a specific partner Geographic shifts in markets or advantageous sources may be restricted by partnership agreements Maintaining options for a portion of the business while the bulk of the business is in partnerships may minimize some of the risk of limiting the options The shipper's corporate image is tied to both the product and the customer service provided As similar products enter the market and the product's uniqueness is lost, service assumes an even greater importance. The ability to provide good customer service, such as timely, reliable delivery, is thus critical to the shipper's long run competitive advantage in creating customer loyalty Supply chain management is designed to strategically position

the chain to deliver a superior product/service mix, which increases market share

Those functions which are not provided directly by the shipper may create a gap in the shipper-customer interface. Using a manufacturer's representative or outsourcing order processing and warehousing can interrupt this interface. Surveying customers regularly regarding their service perceptions and their needs can help the shipper stay in contact with the customer Maintaining the shipper's sales force, even if a missionary sales force, can also help retain the customer interface The 'seamless' corporation and transparent distribution systems, indicative of supply chain management, suggest that the customer not perceive a difference in service

Third Party Risks

As with third party benefits, the risks to the third party resulting from supply chain management involvement may be classified as economic, managerial or strategic in nature

Economic

The third party generally bears the risk of asset ownership in the shipper-third party relationship Various additional investments, such as more involved information systems may be important to managing the supply chain or specialized equipment may be necessary for light assembly or special packaging Further, these facilities or equipment may not be readily transferable to other shippers A strategy of positioning to respond to specific shippers' needs carries significant short term and long term financial risks The less universal the facilities or equipment and the larger the front-end investment, the greater the need to have prior arrangements for sharing amortization of these investments with the shipper. Long term agreements and shared responsibility for investments can help mitigate these risks.

Managerial

As shippers reduce the number of third party providers, it is increasingly important to be one of the chosen few. In arm's length relationships, the third party's market share may be lower but less vulnerable to individual shipper accounts

A long term perspective suggests less frequent switching by shippers and concentration of business with fewer third party suppliers Once a third party is dropped by a shipper, the third party has a reduced chance to serve the shipper in the future The loss of that business is even more catastrophic since survival while searching for replacement business is difficult due to the significant loss of revenue. Thus, it is important for the third party to have long term commitments to cover investments. In addition, value-added services specialized for the shipper and performed to high service levels will make switching third parties less attractive and more difficult for the shipper

Shipper opportunism is another, related concern One firm is usually considerably larger than the other, creating differential power in the relationship The smaller or less powerful partner may feel captive and forced into certain actions not in the best interest of the firm [16,18] After the initial agreement is made, the more powerful party may push for additional concessions or simply terminate the relationship In deregulated, customer driven markets, the shipper is usually in the position of power. There must be mutual trust and consideration of the other partner to avoid short term opportunism.

Strategic

The shipper may at some point decide to perform the previously outsourced function internally. This may be accomplished either by buying the third party providing the service or by starting the shipper's own operations without using the third party at all Longer term agreements may postpone this decision for the shipper. Providing value added services more efficiently than can the shipper may also help the third party remain viable and independent

Issues for the Future

The potential for involvement in supply chain management has implications for practitioners and academics alike The key challenge for business is to evaluate whether involvement in a strategic partnership and the associated supply chain management system makes sense. This is a multi-dimensional issue, which involves evaluation of economic, managerial and strategic issues. The second unresolved issue presented by supply chain management is determination of the management structure of the system The third issue deals with future research in supply chain management It is critical to development a good understanding, and a working model of supply chain management type systems. This model must go beyond the traditional research with its single level viewpoint, to incorporate the synergistic effects of supply chain dynamics Additionally, more can be learned by examining specific characteristics of supply chains, perhaps by industry or relative size of the firms involved

Determining Whether a Firm should Use the Supply Chain Management Approach

Supply chain management systems are complex, interrelated networks made up of multiple relationships at multiple levels throughout the channel from supplier to the ultimate user. Any firm considering adoption of a supply chain management philosophy must ask the critical question Will a supply chain management approach allow the firm to better meet customer needs than will other potential approaches? To help evaluate that question, a matrix of the potential risks and rewards of supply chain management relationships is presented in Tables 4 and 9. These risks and rewards are classified as economic, managerial and strategic Since the relative importance of the costs and benefits of supply chain management will vary from firm to firm, no ranking of importance has been provided

Supply chain management relationships should not be entered lightly. Firms considering supply chain management should use Tables 4 and 9 to focus attention on understanding what each party to the relationship has to gain and lose in the relationship. As important as the understanding of the benefits of involvement is an understanding of the risks of entering a supply chain management relationship Major risks, such as lower quality service, or erosion of the firm's customer base, if felt to be pervasive, may more than offset the potential rewards. A firm should only enter into such a relationship after thorough evaluation of the potential risks and rewards, and after provision for the potential decline of the relationship.

Management Structure

Where supply chain management exists today, the supply chain is usually managed by the firm or individual with the most complete channel wide inventory information. This is true in the examples used here; firms such as McDonald's and The Limited Thus, information availability appears to be a key factor in determining the governance of a supply chain management system. This appears to be consistent with the concept of exchanging information for inventory, which is a basic tenet of supply chain management. The challenge here is to develop a management structure which allows information access, and brings the required information together so as to optimize system inventory and meet customer service goals.

Future Research

Additional research is needed in terms of

both developing a broad model of supply chain management relationships, and in terms of understanding the issues that may relate to the specific characteristics of supply chain management relationships

Limited empirical work has been done in modelling and studying supply chain management relationships. Most research done in this area has focused on one relationship or a single level of the supply chain, such as buyer/seller, shipper/carrier, and so on Research in this area has been limited because

1. Actual supply chain management systems are not common in practice

2. Study of supply chain management systems requires the cooperation of many people in the same supply chain management system to accurately gauge the nature and efficacy of the relationship Achieving such an integrated level of cooperation is extremely difficult in practice

3. Supply chain management relationships do not have any standard form. These relationships differ in the number of parties involved, duties performed, nature of the duties, and so on Thus, formulating research is very complex

Despite these difficulties, research into supply chain management relationships is very important One argument that has been put forth for adopting a supply chain management approach is that it provides synergistic benefits However, these synergies can best be evaluated by examining the total system, not the individual parts Thus, studying supply chains as systems is an important issue. One suggested starting point for exploring the systems approach in supply chain management may be to understand the nature and frequency of communications among supply chain partners Information exchange appears to be critical to the supply chain management concept A technique that could be used is to select several firms who are involved together in a supply chain management approach, and track their information flows using a snowballing technique [27] This could help provide an understanding of the importance and frequency of supply chain communications across more than one firm, rather than the traditional dyadic approach

Future research could contribute to a better understanding of supply chain management relationships by examining at more specific characteristics of the firms involved, such as the industry or country in which the firms are based This paper categorizes the risks and rewards of supply chain management from the perspective of the shipper and the third party Perhaps there are some issues unique to suppliers, public warehousers, truck load carriers versus railroads, and so on, that could provide insight to those specific groups.

In addition, the size of the firms involved, in terms of their annual sales value or asset base may have an impact on the benefits sought in a partnership /supply chain management relationship. Further, as mentioned in the paper, the relative size differences among partners in supply chain management relationships may affect the risks and rewards of the relationship Thus, as more is understood about supply chain management relationships and partnership activity in general, research should focus on the specific characteristics of players in supply chain management relationships. A more specific focus could help provide further insight to firms considering supply chain management relationships

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5. Discuss the advantages and disadvantages of common vs. code law.

Common law, the system used in the U.S., is based on tradition and depends more on precedent and custom than on written statues and codes. Code law, used by most nations, is based on written codes that attempt to cover every possible legal circumstance. Common law is more flexible than code law, and tends to be more subjective. If there is no precedent for a certain case, then the firm is at the mercy of the judge's interpretation of what is right and what is wrong. Code law, on the other hand, attempts to spell everything out. Although it is a more rigid system, all cases are tried on the same basis. Commerce in the U.S., is regulated by a well-defined set of standards, making that area of the law similar to code law.

Source: Czinkota, M. R., Rivoli P., Ronkainen I. A. International Marketing Manual. Second Edition. Copyright ©1992, The Dryden Press.

6. The rate of expropriation has been ten times greater for a joint venture with the host government than for a 100% U.S.-owned subsidiary, according to a study on expropriation since 1960. Is this not contrary to logic?

The data in this study are from the Harvard Business School's ongoing Multinational Enterprise study and from the Department of State figures. The study analyzes 16,000 foreign subsidiaries of U.S. multinationals, including 114 that were seized by host governments.

The study also concludes that the probability is eightfold for joint ventures with foreign multinationals. In both instances, however, the likelihood of receiving compensation is higher. The only conclusion is the possible tendency of U.S. corporations to seek partners when investing in high-risk industries or regions. A reasonable inference is that the joint venture is no panacea for the risks of foreign direct investment.

There is considerable evidence, however, that joint ventures with local private parties substantially reduces the likelihood of nationalization. This ownership alternative eliminates the stigma of 100% foreign ownership and establishes a local voice with a vested interest in speaking out against government action. Historically, corporate joint ventures with local private partners have suffered only a 0.2% rate of seizure.

7. Comment on the observation that "a joint venture may be a combination of Leonardo da Vinci's brain and Carl Lewis's legs; one wants to fly, the other insists on running."

The main reasons for collaborative ventures are complementary strengths, shared resources, joining a winning team, and sharing risk. As can be seen from these rationales, the success of a joint venture requires cooperation, understanding and respect of mutual goals, and communication to ensure that things progress smoothly. Two separate reports, one from McKinsey & Co., the other from Coopers & Lybrand, have found that seven out of ten joint ventures do not meet expected goals. The main reason is lack of communication between the partners, especially after the joint venture is on-line.

Source: Czinkota, M. R., Rivoli P., Ronkainen I. A. International Marketing Manual. Second Edition. Copyright ©1992, The Dryden Press.

A joint venture poses a difficult trade-off to corporate managements:

(1) On the one hand, they hold out promise of renewed corporate growth through a more cost-effective allocation of corporate resources; i.e., efforts can be put where they are most likely to produce high returns of return.

(2) But they also mean giving up management autonomy. As a venture partner, a corporation no longer has final say on all matters related to its products and services, employees, and management style.

8. In the early 1970s, the Sheraton Corporation agreed to build, own, and operate the Damascus Sheraton, which after ten years was turned over to the Syrian Tourist Authority. Why would Sheraton enter into such an agreement?

"A piece of the pie is better than no pie" is a pragmatic approach followed by a number of companies. The approach is known as planned divestment, and it may be a necessary condition of entry. The main argument for planned divestment is that the benefits of foreign direct investment come in the early years. These benefits include an infusion of capital, entrepreneurship, technology, and new technology. In later years, however, it may be that successful firms replace potential local firms, which have been made possible because of the benefits from the original investment.

It should be noted that the hotel is still the Damascus Sheraton, for which the Sheraton Corporation has a management contract. Sheraton's entry mode has merely changed to providing the service in which it has an overwhelming competitive advantage in the world marketplace.

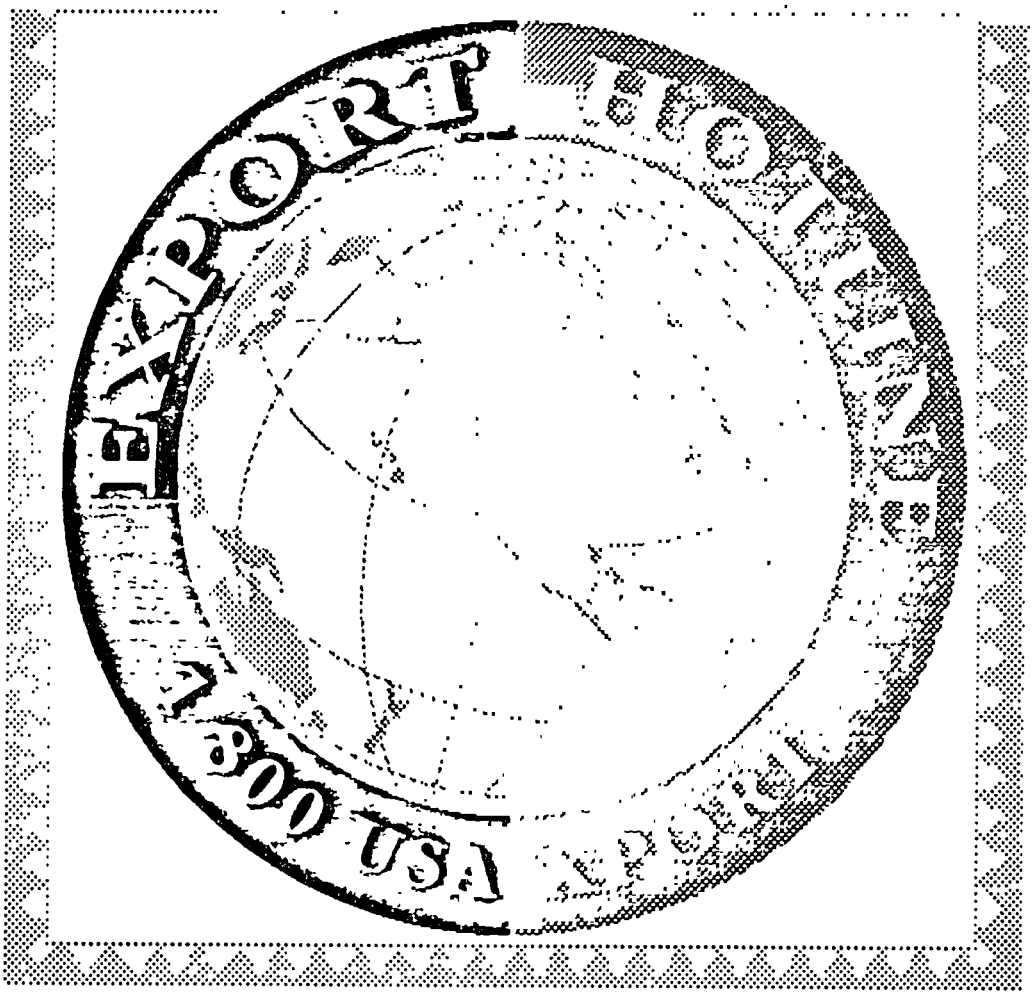
APPENDICES AND BIBLIOGRAPHY

A. Export Hotline

B. Sources for Speakers/Materials

C. Bibliography

Appendix A



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The Journal of Commerce

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This new service is designed to cut through the information barrier facing any company as you begin to explore new markets by providing you with customized, practical information from a database of more than 60 countries covering over 50 industries. Whether you are a small company thinking about entering international markets or a seasoned exporter, you can benefit from the information now available through The Export Hotline - all you need to get started is a phone and a fax.

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- You will receive the document you requested back on your fax instantly.

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01 Argentina
02 Australia
03 Austria
04 Belgium
05 Bolivia
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07 Bulgaria
08 Canada
09 Chile
10 China
11 Colombia
12 Costa Rica
13 Czechoslovakia
14 Denmark
15 Dominican Republic
16 Ecuador
17 Egypt
18 El Salvador
19 Estonia
20 Finland
21 France
22 Germany
23 Greece
24 Guatemala
25 Honduras
26 Hong Kong
27 Hungary
28 India
29 Indonesia
30 Ireland
31 Israel
32 Italy
33 Japan
34 Jordan
35 Kenya
36 Korea
37 Kuwait
38 Latvia
39 Lebanon
40 Lithuania
41 Malaysia
42 Mexico
43 Netherlands
44 Nicaragua
45 Nigeria
46 Norway
47 Panama
48 Peru
49 Philippines
50 Poland
51 Portugal
52 Romania
53 Saudi Arabia
54 Singapore
55 Spain
56 Sudan
57 Sweden
58 Switzerland
59 Syria
60 Taiwan
61 Thailand
62 Turkey
63 United Arab Emirates
64 United Kingdom
65 (U.S.S.R.) Ukraine/Russia
66 Venezuela
67 Yugoslavia
68 Zimbabwe
70 Trade Shows (7040)
71 Int'l. Opportunities

INDUSTRY CODES

10. Agricultural Products
11 Agricultural Machinery & Equipment
12. Architecture/Engineering
13. Automation and Robotics
14 Automobiles, Vans, etc.
15. Automotive Machinery, Parts & Equipment
16 Aviation, Avionics & Related Equipment
17. Biotechnology
18. Broadcasting Systems & Equipment
19. Ceramics/Non-Ferrous Metals
20. Chemicals & Allied Products
21. Computer Software and Services
22. Computers & Peripherals
23 Construction Materials & Equipment
24. Cosmetics and Toiletries
25. Electronic Industry Product/Test Equipment
26. Electronic Components
27. Energy Equipment
28 Environment
29. Food and Seafood
30. Food Processing & Packaging Machinery
31. Franchising
32. Furniture & Fixtures
33. Graphics and Printing Equipment
34. Heating Ventilating Air Conditioning (HVAC)
35. Hotel and Restaurant Equipment
36 Household Consumer Goods
37. Industrial Process Controls
38. Jewelry
39. Laboratory and Scientific Instruments
40. Machine Tools and Metal Working Machinery
41. Medical Equipment
42. Mining Equipment
43. Office Supplies
44. Paper & Allied Products
45. Petroleum & Coal Products
46. Pharmaceutical
47. Plastic Production Equipment
48. Plastics and Resins
49. Pulp & Paper Machinery
50 Pumps, Valves, and Compressors
51. Safety and Security Equipment
52. Sporting Goods and Recreational Equipment
53. Telecommunications Equipment
54. Textile Products & Apparel
55. Textile Machinery & Equipment
56. Tourism
57. Toys
58. Woodworking Machinery

GENERAL DOCUMENT CODES

01 COUNTRY OVERVIEW
02. TRADE ISSUES
Finance, Barriers
Negotiations, Prospects
Intellectual Property Rights
03. INVESTMENT ISSUES
Incentives, Barriers
Treaties
04. KEY CONTACTS
U.S. Government
Foreign Government
Business Associations
05. SHIPPING REQUIREMENTS
06. NEWS/RISKS/ADVISORIES
07. CORPORATE SPONSORS

REPORT CODES

9999

8000 European Community
8100 ASEAN
8200 GATT
8300 Government Programs
8400 Glossary

THE EXPORT HOTLINE
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USING THE CODES

We recommend you begin with "00" + Industry Code for a Table of Contents.

Enter "00" + "Industry Code" = Table of Contents

The "00" option allows you to receive an overview of all reports available in your industry by entering "00" + an "Industry Code". There is a Table of Contents for each industry covered in the database. Table of Contents are never more than 2 pages and provide you with a list of all industry reports, including country, title, the number of pages in the

report and the 4 digit code for that report. At the bottom of each industry Table of Contents we list the document length and code for a listing of trade shows in that industry.

For example, to see a list of available reports for Construction Materials & Equipment, you would press "0023". To determine what information is available in the "Office Supplies" industry, you would enter "0043". There may be more than one document in a country-industry pairing, and those 4 digit codes can only be found in the Table of Contents. You now know what markets in the database have information on your industry and are ready to select a specific country.

Enter "Country Code" + "Industry Code" = Industry Sector Market Reports

Country codes are paired with either Industry Codes or General Document Codes. You always start by entering the Country Code first. For example, if you want information on the cosmetics market in Canada, you would enter "0824" - "08" for Canada and "24" for an Industry Sector Market Report on cosmetics and toiletries. **If you select a country/industry pair where current information is not available, the database will automatically fax you a Table of Contents.**

Enter "70" + "Industry Code" = Trade Show Listings

Trade Shows "70" is treated like a Country Code, always entered before the Industry Code or "00" Option. For example, to receive a list of trade shows featuring Computers & Peripherals "22", enter "7022". You will receive back a listing of trade shows in that industry including country, date, location and organizer. If you want to know the number of pages to expect before retrieving it, enter "70" followed by "00" option to receive a Table of Contents of all trade shows by industry, number of pages and code.

Enter "71" + "Industry Code" = International Projects

"71" is treated like a Country Code and will contain international project information from U S Government and multi-lateral funding institutions. As this information becomes available, we will let you know in the Export Hotline Update File code "9999".

Enter "Country Code" + "General Document Code" = Country Information

General Document Codes are treated as Industry Codes. The code is entered after you have entered the country of choice. All General Documents are country specific.

For example, if you wanted information on Investment Issues in India, you would enter the 4 digit code "2803" with "28" for India and "03" for Investment Issues. General Document Codes are explained below:

The Export Hotline

Country Overview "01"
Introduction to the political/economic environment.
Trade Issues "02"
Issues affecting trade including finance, negotiations, best export prospects, and trade barriers.
Investment Issues "03"
Issues affecting investment, including incentives, barriers and treaties.
Key Contacts "04"
Listing of public sector agencies and trade associations in the United States and within each country that can assist you, usually at no cost, to assess the market and includes, contact name, address, phone and fax numbers.
Shipping Requirements "05"
Information in this category will be added to the Export Hotline database in the next few months. As this information becomes available, we will let you know in the Export Hotline Update File coded "9999".
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Corporate Sponsors "07"
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Enter "Report Codes" - "8000" - "8400"

Report Codes have their own 4 digit codes - no other codes are required. These are reports written specifically for the Export Hotline. They are typically 5-10 pages and provide you with a subject overview. For example, to see a report on the European Community, you would enter "8000".

Enter "Export Hotline Update File Code" - "9999"

To learn what's new in the database, enter "9999". This file contains monthly updates of information added to the database.

International Strategies, Inc. developed and manages the Export Hotline and owns *Exportel*™. Fax us at (617) 523-0768 with any suggestions or questions you may have concerning the use of the Export Hotline. The service is for you, the user. We will continue to search for new and better information to add value to the service.

International Strategies Inc has used its best efforts in assuring the accuracy of the information provided but does not warrant that the information provided is complete or accurate and does not assume and hereby disclaims any liability to any person for any loss or damage caused by errors or omissions whether resulting from negligence accident, or any other cause

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BUILDING YOUR EXPORT FILE

Whether you are a new-to-export or new-to-market, the key to the service is using the codes to build a complete file. You can build a file on for any country and industry covered in the database by using the codes and you can call as often as you like.

The Basic File

Start by entering "00" + your "Industry Code" to receive a Table of Contents. For example, for Industrial Process Controls, enter "0037". According to the Table of Contents for "0037", 15 countries have market information reports and there are 2 pages of trade show listings.
To receive the trade show listings, you would enter "7037".

Next, select a country from among the 15 listed. Using Canada "08" as an example, enter "0837" to receive the Canadian report on Industrial Process Controls. Industry reports contain the following information, including, but not limited to: Market Overview, Market Assessment, Market Access, Competitive Analysis, Distribution and Business Practices, Key Contacts (trade associations, distributors, government agencies) and Trade promotion opportunities (trade publications, trade shows).

Building Information

Enter "0804" for Key Contacts in Canada to receive a complete listing of government agencies, trade associations and trade publications.

Enter "0802" and "0803" to receive information on trade or investment issues.

Enter "7037" to receive a listing of all trade shows in Industrial Process Controls.

Enter "8400" to receive an Export Glossary of trade terms.

Enter "0007" to receive information on the products and services offered by the Corporate Sponsors of the Export Hotline.

Enter "8300" to receive information on what government programs exist to help you finance, promote or research the market.

For Further Assistance

We are working cooperatively with the U.S. Department of Commerce on the Export Hotline service. If you would like to speak to a trade counsellor at the U.S. Department of Commerce who can direct you to additional U.S. Government resources, we encourage you to call **1-800-USA-TRADE**, the U.S. Department of Commerce's toll-free number.

THE EXPORT HOTLINE

MONTHLY UPDATE - JUNE, 1992

Each month we will provide you with a listing of all new information added to the database during the previous month. Please check Code 9999 each month to view new information now available and for a preview of upcoming topics and reports.

COUNTRY INDUSTRY REPORTS

The following country industry reports have been added to the database:

Country	Industry	Date	Pages	Code
Argentina	Cotton Harvesting Eq.	12-91	6	0111
Argentina	Environ. Consulting Market	12-91	2	0128
Argentina	Packaging Mach & Eq.	10-91	9	0130
Argentina	Oil & Gas Drilling Equip.	12-91	9	0142
Argentina	Compact Discs	12-91	6	0152
Argentina	Textiles Market	12-91	3	0154
Argentina	Meat & Fish Processing Eq.	1-92	6	0184
Argentina	Grain & Oilseed Storage	8-91	7	0199
Australia	Robotics Industry Profile	2-92	3	0213
Australia	Computer Hardware/Peripherals	5-91	18	0293
Australia	Agricultural Pesticides	1-92	25	0220
Australia	CAD/CAM Soft. in Manufact.	9-91	16	0221
Australia	Oil & Gas Field Equip.	4-91	11	0227
Australia	Solid Waste Management Eq.	9-91	11	0262
Australia	Hotel & Restaurant Cooking Eq.	7-91	18	0235
Australia	Power Hand Tools	3-91	12	0279
Australia	Mining & Extraction Equip.	2-91	6	0242
Australia	Books: Wholesale/Retail	5-91	12	0252
Australia	Furnishing Fabrics	8-91	10	0270
Australia	Food Packaging Machinery	8-91	23	0284
Austria	Industrial Robots	9-91	2	0313
Austria	PC Application Software	7-91	5	0321
Austria	Active Electronic Comp.	5-91	4	0326
Austria	Elec. Analytic Sci. Instruments	2-91	6	0339
Austria	Electro-Medical Apparatus	12-91	6	0377
Austria	Photographic Goods	6-91	5	0352
Austria	Mobile Telephone Equip.	7-91	7	0373
Austria	Industrial Lasers	8-91	7	0361
Austria	Electro-Med/Diag/Therapy Eq.	2-91	6	0378
Belgium	Auto Repair & Maintenance Eq.	1-92	6	0415

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Belgium	Belgian Airports	1-92	2	0416
Belgium	Biotech Applications	11-91	7	0417
Belgium	Sci/Anal Inst.-Pollution Control	10-91	12	0428
Belgium	Personal Computers	10-91	10	0493
Belgium	CAD/CAM/CIM Software	10-91	7	0494
Belgium	Office Scanning Equipment	11-91	8	0443
Belgium	Hand Power Tools	11-91	8	0440
Belgium	Paper & Paperboard	11-91	9	0444
Belgium	Apparel	3-91	8	0454
Belgium	Household Textiles	3-91	7	0470
Belgium	Household Linen/Tableware	3-91	5	0471
Belgium	Medical Software	5-91	6	0495
Brazil	Arch/Engineering Services	3-92	4	0612
Brazil	Auto Industry Woes	4-92	9	0614
Brazil	Market for Helicopters	2-92	2	0697
Brazil	Local Area Networks	5-91	14	0693
Brazil	Offset Printing Machinery	8-91	9	0664
Brazil	Consumer Electronics	6-91	7	0682
Brazil	Heat Treating & Surface Fin Eq.	9-91	8	0679
Brazil	Drill Bits	11-91	9	0640
Brazil	Textiles Industry Profile	1-92	9	0671
Brazil	Computer Software Market	3-92	9	0694
Brazil	CASE Software	7-91	15	0695
Canada	Crustaceans	11-91	18	0829
Canada	Plastics Processing Mach Mkt.	3-92	5	0847
Canada	Pleasure Craft	10-91	10	0874
Canada	Hand Held Elec Power Tools	11-91	10	0879
Colombia	Tractors & Combines	1-90	9	1199
Colombia	Personal Computers	1-91	8	1193
Colombia	Computer Software	2-91	9	1121
Colombia	Typemaking & Setting Eq.	9-91	8	1133
Colombia	Books & Periodicals	7-91	10	1152
Colombia	Synthetic Fibers & Yarns	10-91	9	1154
Colombia	Recreational Tourism	10-91	11	1156
Colombia	Tractors & Combines	12-91	8	1199
Costa Rica	Printing & Graphic Arts Eq.	6-91	9	1233
Denmark	Airport Instrumentation	3-91	5	1497
Denmark	Personal Computers	6-91	9	1491
Denmark	Indus. Refrigeration & Parts	9-91	10	1434
Denmark	Coal	11-91	5	1445
France	Robotics	9-91	13	2113
France	Small Scale Computers	7-91	15	2192
France	Elec. Test Equipment	1-92	13	2125
France	Lawn & Garden Equipment	10-91	17	2136

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France	Hand & Power Tools	7-91	11	2140
France	Lifting Apparatus	7-91	7	2180
France	Industrial Lasers	7-91	16	2179
France	Fishing Industry Profile	3-92	6	2185
Germany	Bldg. Permits in E. Germany	12-91	2	2212
Germany	Assembly Robots	6-91	18	2213
Germany	Passenger Vehicles	6-91	14	2214
Germany	Precious Metal Scrap	6-91	9	2219
Germany	Building Materials	10-91	10	2223
Germany	Money Counting & Sorting Mach	6-91	12	2243
Germany	Plastics	8-91	8	2248
Germany	Mountain Bikes	10-91	2	2274
Germany	Heavy Construction Equip.	6-91	10	2290
Hong Kong	Hair Care Products	6-91	7	2624
India	Automation & Process Control Eq. Steel Industry	1-92	11	2813
India	Agro Chemicals-Fertilizer	5-91	4	2810
India	Biotech for Food Processing	6-91	12	2817
India	Lap Top Computers	6-91	9	2822
India	Air Quality Monitoring Systems	8-91	9	2862
India	Sci. & Indus. Fiber Optics	7-91	14	2839
India	Cancer Diagnostic & Treat. Eq.	10-91	16	2863
India	Engineering Plastics	3-91	11	2848
India	Digital Comm. Interface Eq.	8-91	14	2872
India	Textile Machinery	11-91	13	2855
India	Mach. & Eq. for Synthetic Fibers	8-91	10	2868
India	Medical Elec. Healthcare Eq.	4-91	5	2877
India	Medical Diagnostic Equipment	3-91	12	2878
India	Pollution Control Eq. in Chemical & Power Generation Mkt.	7-91	8	2886
India	Petrochemical Plant & Equip.	8-91	11	2887
India	Peripherals/Add Ons: PC/XTs	3-91	13	2892
India	CAD/CAM/CAE	3-91	11	2893
Indonesia	Industrial Organic Chemicals	5-91	11	2996
Indonesia	Mini & Micro Computers	10-91	13	2922
Indonesia	Elec. Power & Distribution Eq.	8-91	12	2927
Indonesia	Bottling/Container/Stretch Wrap	9-91	10	2984
Indonesia	Industrial Pumps & Parts	1-92	11	2950
Indonesia	General Telecom Market	2-92	5	2973
Ireland	Hand & Power Tools	1-92	9	3040
Israel	Paper & Paperboard	2-92	8	3144
Israel	Drugs & Pharmaceuticals	5-91	10	3146
Israel	Welding Equipment	4-91	5	3180
Italy	PrePress Equipment	11-91	8	3233

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Italy	Woodworking Mach -- Furniture	12-91	6	3258
Japan	Broadcasting Procurement	3-92	2	3318
Japan	Workstations	12-91	7	3392
Japan	Liquid Crystal Display Driver Integrated Circuits	1-92	7	3388
Japan	Contract Furniture for Hotels	3-92	16	3332
Japan	Jewelry	12-90	9	3338
Japan	Medical Diagnostic Imaging Eq.	2-92	11	3377
Japan	Advanced Access Control Sys.	1-92	8	3351
Malaysia	Cosmetics	1-92	5	4124
Mexico	Chemicals for Food Industry	6-91	8	4296
Mexico	CAD/CAM Software	9-91	10	4295
Mexico	Machinery: Beverage Industry	11-91	10	4284
Mexico	Kitchen Appliances & Utensils	6-91	11	4282
Mexico	Health Care Products	1-92	10	4278
Mexico	Personal Fitness Equip.	11-91	6	4274
Mexico	Plastic Production Equip.	12-91	7	4247
Mexico	Apparel/Footwear/Accessories	9-91	17	4254
Mexico	Yarn Preparing Machinery	9-91	7	4255
Mexico	Wood Working Machine Tools	9-91	12	4258
Netherlands	Cosmetics	9-91	8	4324
Netherlands	Integrated Circuits	8-91	13	4326
Panama	Passenger Cars	11-91	8	4714
Romania	Road Construction Equipment	8-91	10	5223
Romania	Basic Medical Supplies	3-91	11	5241
Russia	Dairy Industry Equipment	8-91	21	6530
Singapore	Cooking Apparel/Domestic Food	10-91	6	5436
Sweden	Biotechnology	5-91	4	5717
Sweden	Crayfish	11-91	5	5729
Sweden	Process Controls/Pulp & Paper	2-91	5	5749
Taiwan	CAD/CAM	1-92	6	6093
Thailand	Arch/Cons/Engineering Services	1-92	10	6112
Thailand	Textile Fibers/Yarns/Fabric/App.	1-92	9	6154
Ukraine	Meat & Poultry Processing Eq.	5-91	21	6584
United Kingdom	Airport Ground Services Eq.	9-91	6	6416
United Kingdom	Audio-Visual Equip.	9-91	11	6418
United Kingdom	Elec. Production/Test Equip.	9-91	7	6425
United Kingdom	Advanced Printing/Graphic Art	9-91	12	6433
United Kingdom	Costume Jewelry	8-91	6	6438
United Kingdom	Instruments/Apparatus for Physical Chemical Analysis	8-91	7	6481
United Kingdom	Medical Supplies Market	3-92	6	6477
United Kingdom	Educational Toys	9-91	9	6457
Venezuela	Business Equipment	12-91	7	6643

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Yugoslavia	Personal Computers	5-91	8	6793
Yugoslavia	Elec. Power Generation/Dist Eq.	4-91	7	6787
Yugoslavia	Telephone Communications Eq.	1-91	5	6773

We have deleted all 1988 reports from the database and have added 162 new 1991/1992 reports this month. Further, as you see, we have included the dates of each report in this file as well as the Table of Contents for each industry. [The Table of Contents can be retrieved by entering a **00** country code followed by the two digit industry code.]

POLITICAL RISK--The March Edition of Political Risk has been added to the **06** files.

The April Update has been recoded to 9997 and the May Update has been recoded to 9998 for any users interested in previous updates.

###

Appendix B

POSSIBLE SOURCES OF SPEAKERS AND MATERIALS

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Appendix C

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