MODULE - I

1

PRODUCT PLANNING AND PRICING DECISION FOR EXPORT MARKETING - I

Unit Structure

1.0 OBJECTIVES

The main purpose of this chapter is:

- To understand the planning for export marketing with respect to product,
- To discuss the planning for export marketing with respect to branding,
- To analyse the planning for export marketing with respect to packaging.

1.1 INTRODUCTION

Export marketing means exporting goods to other countries of the world. It involves lengthy procedure and formalities. In export marketing, goods are sent abroad as per the procedures framed by the exporting country as well as by the importing country. Export marketing is more complicated to domestic marketing due to international restrictions, global competition, lengthy procedures and formalities and so on. Moreover, when a business crossed the borders of a nation, it becomes infinitely more complex. Along with this, export marketing offers ample opportunities for earning huge profits and valuable foreign exchange.

Export marketing has wider economic significance as it offers various advantages to the national economy. It promotes economic / business / industrial development, to earn foreign exchange and ensures optimum utilization of available resources. Every country takes various policy initiatives for promoting exports and for meaningful participation in global marketing. Global business is a reality and every country has to participate in it for mutual benefits. Every country has to open up its markets to other countries and also try to enter in the markets of other countries in the best possible manner. This is a normal rule which every country has to follow under the present global marketing environment. In the absence of such participation in global marketing, the process of economic development of the country comes in danger

1.2 PLANNING FOR EXPORT MARKETING

Every successful marketing plan begins with thorough market research. Your first market research project is usually the toughest because it's all unfamiliar terrain. But once you have collected the data you need to predict how a specific type of product will sell in a specific geographic location, you can use the information over and over again as a guideline for exports of similar products. As you build your personal information database on global markets and learn to keep yourself up-to-date on developments in international trade, it will become less of a chore to determine where to take your product. You will find that market research is a powerful tool for exploring and taking control of your global territory.

A - Product:

Regarding the products that will be exported, a thorough plan needs to be created. To meet demand from outside, new products should be created on a larger scale. Export items must be continuously available. Only when there is an excess of supply over demand should goods with high domestic demand be exported. Export products should have competitive prices and superior quality.

The entire process of introducing a new good or service to a new market is referred to as "product planning" in the context of exporting. In the process of planning an export product, there are two parallel routes that must be followed: one involves concept creation, product design, and technical engineering; the other involves market research and marketing analysis.

Typically, businesses view the creation of new products as the initial step in the entire strategic process of product life cycle management, which is utilised to maintain or increase market share.

Choosing which products to introduce into which nations, what changes to make to the products, what new products to add, what brand names to use, what package designs to use, what guarantees and warranties to give, what after-sales services to offer, and finally, when to enter the market, are all part of the export product planning process. These are all important choices that call for various informational inputs.

Although the fundamental purposes of exporting and domestic selling are the same, there are significant differences between domestic and foreign markets due to some uncontrollable environmental circumstances. These include externally generated inflation, taxation, tariffs, and controls/risks related to currency exchange. Managers that are aware of global risks and opportunities are needed to handle these variations.

It is logical to presume that a company's product or service - which it already manufactures - is what will be exported. Before investing their resources in the foreign trade industry, businesses must first assess a product or service's exportability.

Product planning involves a number of product related decisions such as product design, product-mix, branding, pricing etc. Therefore, the exporter has to adopt various product planning strategies such as

(a) Product Design Strategies:

Exporters have the following options in respect of product design strategies.

(i) Product Innovation Strategy:

Under this strategy, the exporter develops a new product in response to the demand prevailing in overseas markets. Low cost items for developing countries and high cost items for developed countries may be developed for example readymade garments to take advantage of fashion in different countries

(ii) Product Adaptation Strategy:

Under this strategy, both the product and the message are changed to increase the adaptability of the product. This helps to meet the specific needs of the foreign buyers. Products like office machines, health goods, and electrical goods require this strategy. It is a costly strategy. It is generally used to serve large size markets.

(iii) Product Standardization Strategy:

Under this strategy, the exporter sells the same product all over the world with "One product, one message-worldwide". For example: Coca-cola, Sony etc. The exporters use this strategy when their product is too well known and enjoys global reputation. It is an economical strategy. This is because it does not require any modification. Moreover, it enjoys the economies of large-scale production and marketing.

Regarding the products that will be exported, a thorough plan needs to be created. To meet demand from outside, new products should be created on a larger scale. Export items must be continuously available. Only when there is an excess of supply over demand should goods with high domestic demand be exported. Export products should have competitive prices and superior quality.

Success in all areas of life, including the export business, depends on selectivity. An exporter might want to deal in all different kinds of goods and sell them all over the world. However, he is unable to do so because of the vastness and wide range of demand in many global markets. Therefore, in order to conduct business internationally, an exporter must choose the appropriate product(s) and market(s).

Selecting exportable goods:

When deciding which product(s) to choose for the international market, an exporter must take the following into account: Export Trends (a)

(a) Export Trends:

For proper product selection, an exporter should examine trends in the export of various goods to the international market(s). The following resources can be used to collect such information:

- India's monthly foreign trade data.
- Bulletins from the Export Promotion Council (EPC).
- Times of Export and Import
- However, one's aptitude and product expertise will ultimately determine which product they choose.

(a) Supply Base:

In addition to examining a product's demand on the global market, it is important to examine its supply base on the domestic market. The majority of agricultural products contradict this standard because they are dependent on a variety of natural causes for their supply. Seasonal goods like rice, wheat, sugar, onions, and even fruits have not shown to be successful for long-term export company. Due to things like strikes, power outages, lockouts, transportation issues, etc., even produced goods might not have a reliable supply base.

(b) Production Capacity and Product Availability:

Selling a product in foreign markets has no boundaries. Thus, before engaging into an export contract, a manufacturer exporter must take into account his production capacity, and a merchant exporter must take into account the availability of the goods chosen for sale. Exporters should concentrate on smaller markets if manufacturing capacity or supply is constrained. However, a persistent export drive is beneficial if the product can be made easily accessible.

(c) Product Adaptability:

The ability to modify the product to meet the demands of international markets is correlated with production capacity and availability. Buyer demands and desires vary from market to market and country to country. What sells well in one market may not sell at all in other markets. This necessitates product flexibility. Product adaptability is a difficult endeavour since it involves significant investment in changing the production process to meet the demands of various markets.

(d) Servicing Facilities:

If the product chosen for export needs servicing after sales, the exporter needs to make sure he can make such T facilities available to the buyers abroad. Opening servicing centres overseas is not always simple or affordable. Finding a distributor or agent with servicing facilities is also challenging. Exporters should not take the risk of exporting such products if they are unable to offer such servicing facilities.

B - Branding:

Branding involves developing and implementing a number of identifiable features to your business so your consumers can associate themselves with your business. Branding increases the recognisability of products and services amongst your consumers, giving you that competitive edge within the market.

Creating a bridge between your products and your ideal customer that helps to shorten the buyer's journey to choose your products without any kind of hesitation, branding is vital for marketing activities. It helps to define how customers recognize your brand. Typically comprising of a name, tagline, logo or symbol, design and brand voice, it also refers to the underlying values of the business and overall experience a customer undergoes when interacting with a business — as a customer, supplier, social media follower, or a mere bystander.

Brand Messaging important to focus on your brand messaging, as these messages communicate who you are and what your purpose is in order to speak to your ideal clients. Ensuring that you have a consistent brand message and voice so new and existing customers immediately relate to what your business values are, and how engaging with your business can benefit them, is the ultimate goal here. That recognisability and emotional connection assists in communicating to your customers and it is what separates you from your competitors.

Brand Identity In order to grow your brand's recognition, it is essential that you have a strong brand identity. Having a distinguishable and cohesive brand identity means that your customers can automatically identify your brand at first glance. This visual representation that your brand identity (Logo, Tagline, Font etc) illustrates is important as it is a way to effectively communicate your business' values and messaging to your customers.

Customers are your best allies when it comes to fortifying your brand. In today's world where perception determines your brand's value, creating a brand that has recognisable features and delivers upon their values inculcates brand loyalty amongst consumers. According to the Harvard Business Review, 64% of consumers say that sharing the same values with a brand is the primary reason they have a relationship in the first place.

No one discovers a pragmatic issue separate from this branding. Brand names were developed to give products identity and set them apart from one another. The ability to identify is crucial to competition since without it, the only option for decision-making is chance. Brand names encourage responsible behaviour in addition to facilitating choice.

The following details define its precise function:

1. Brand is a Powerful Asset:

Because brand name is so difficult to replicate, brand is regarded as a significant intangible asset. This is in contrast to all physical assets, such as plant, equipment, inventory, buildings, stocks, and bounds.

It has been demonstrated by the numerous instances where businesses have failed while still maintaining their well-known brands.

2. Brand is a Promotional Tool:

The concept of product identity or product differentiation forms the basis of sales promotion. A brand creates this distinction. Advertising is a key tool for popularising products. Additionally, promoting a product without a brand name is useless.

Without a brand identity, even salespeople's efforts would be ineffective. As a result, branding contributes greatly to the success or failure of a product.

3. Brand Is a Survival Drug for Middlemen:

If a product gains consumer trust, the producers have more control over how it is distributed. A successful brand is always preferred by the middleman class. In other words, these middlemen have trouble deciding what to buy and sell if there is no brand recognition.

In fact, brand names can be so potent and invasive that middlemen's ability to sell a product with a strong brand name is crucial to their existence.

4. Brand is a Customer Identification Tool:

A customer can most easily recognise a product or service by its brand. For him, a brand represents worth, excellence, character, prestige, and image.

In his opinion, a branded item is a unique item. Therefore, Philips bulbs are available wherever they are purchased.

Once more, branded goods frequently see quality improvements over time. It is inherently exempt from rivalry. As a result, Aspro tablets from 1960 and 1970 were very dissimilar.

C - Packaging:

Marketing research may be conducted to design better and appropriate packaging for the consumers. Different customers may prefer the package design differently. Through packaging design research, a company may identify the right design required by its target customers.

An attractively designed packaging can influence or induce the prospects to buy the product. A well designed packaging can communicate the type and quality of the product. Packaging often has attention attracting value. Several tools for product promotion can be used by the manufacturer these are: advertising, sales promotion, personal selling, public relation, direct mailing, publicity, packaging, sales promotion, trade fairs and exhibitions, internet etc.

Export packaging enables your goods arrive intact and undamaged with your overseas buyer. Export packaging is also often referred to as transport packaging.

Export packaging is actually one of three different layers of packaging that are likely to be needed when exporting your goods.

1. Sales packaging is the immediate layer of packaging around your goods. This is the packaging that remains when the goods reach their end-user, eg the bottles in which beverages are contained, or the boxes many electronics items are sold in. Sales packaging often also serves a marketing purpose by containing prominent branding images and information.

2. Outer packaging is a middle layer of packaging, usually containing multiple sales packages. It often also serves a retail or promotion purpose, eg a box containing sales units that doubles as a retail display fixture and can be placed directly on a shop shelf.

3. Transport or export packaging is the outermost layer of packaging and is designed to protect your goods during transit. Examples of export packaging include wooden crates or boxes, metal drums and plastic shrink-wrapping.

Functions and Purpose of Packaging:

Packaging plays a crucial part in today's dynamic and competitive marketing environment. It has evolved into a highly specialised business that boosts producers' fortunes, prolongs the stay of middlemen, and increases consumer convenience. The various tasks that packaging completes make clear what its purpose is.

The following is a list of the purposes of effective packaging:

It safeguards the contents, first:

Protection of the contents from damage, dust, dirt, leakage, theft, evaporation, moisture, contamination, and other hazards has been the primary purpose of packing for a long time. The inherent qualities, traits, or standards are preserved in their whole. As a result, the contents are kept fresh, spotless, undamaged, and undamaged.

It offers product density:

The density of the product is raised through packing. Product density entails choosing packaging materials, designs, and shapes that maximise the use of the available space. Product density enhances the beauty and poise of arrangement, permits better use of storage and consumption space, and improves relationships with common carriers.

It serves as a marketing tool:

As a promotional technique, effective packaging can increase sales more quickly and simply. This salesperson is "quiet." It serves as an advertising medium, self-promotional tool, and means of exhibition and publication.

An attractive package increases the chance of an impulse purchase. Its capacity to draw the valuable attention of clients or prospects depends on the package's size, design, colour schemes, and visuals.

It offers convenience to the user:

Another necessity is that the product be easy to handle, store, transport, and use. This is enhanced by good packaging. As a result, the marketing tasks of handling, storage, and transportation are carried out efficiently and without wastage.

As long as the product is in use, consumers are tremendously helped. In reality, elegant packaging has reduced expenses associated with space, time, packing, and inventory.

It makes product identification easier:

Today's environment of intense competition is characterised by product differentiation. Effective product identifiers, such as branding and packaging, support this process of product diversification.

No matter where you see it, how you see it, or when you see it, the product is identifiable by its packaging.

An item's personality and actuality are embodied in its packaging. With distinctive packaging, it is simple to identify the product because it enhances its personality or image. Because they rely on distinctive product packaging, consumers need not be confused by the wide variety or misled in their purchasing decisions.

It enables simple product mixing

The product lines and variety of sizes, colours, measurements, grades, and package kinds, among other things, that the selling firm offers are referred to as the product mix. The packaging can affect the weight, size, and dimensions of the products, which opens the door to changes in the product mix.

A carefully chosen mix of sales and products will make it easier to price products, transport them, store them, stock them, handle them, display them, and other activities in various market segments.

It increases product life-cycle:

A product's package may be utilised to increase product life-cycle. A more modern appearance for the pack might be achieved by updating the design.

It is becoming more and more challenging to create whole new products, but any type of packaging innovation that offers benefits that consumers desire and are ready to pay for can be offered as a sort of product innovation. This can be done by making packages easier to store, price, mark, display, and identify for both consumers and wholesalers and merchants as well as for customers.

1.3 SUMMARY

- Product planning involves a number of product related decisions such as product design, product-mix, branding, pricing etc.
- Branding involves developing and implementing a number of identifiable features to your business.
- An attractively designed packaging can influence or induce the prospects to buy the product.
- Export packaging enables your goods arrive intact and undamaged with your overseas buyer. Export packaging is also often referred to as transport packaging.

1.4 EXERCISE

A. Descriptive Questions:

Short Answers:

1. Write in short Export marketing.
2. Write a step of planning in export marketing
3. What are the Product Design strategies?
4. Explain the terms Brand Messaging.
5. Features of Export marketing

Long Answers:

1. Explain in brief Product
2. How the transport plays a role in export marketing?

3. How the brand creates awareness towards customer?

4. Write in detail planning for Export Marketing regard to Product, Branding and Packing?

5. How the exporter packing their product?

B. Multiple Choice Questions:

1. …….. has wider economic significance as it offers various advantages to the national economy.

   a. Export marketing

   b. Import Marketing

   c. Domestic marketing

   d. Online marketing

2. ……………. strategy, both the product and the message are changed to increase the adaptability of the product.

   a. Product Standardization

   b. Product design

   c. Product Adaptation

   d. Price adaption

3. …………. increases the recognisability of products and services amongst your consumers.

   a. Branding

   b. Product

   c. Transport

   d. Packing

4. Exporting in international market is very _________due to high competition.

   a. Easy

   b. Challenging

   c. Casual

   d. None of these

5. ………… strategy, the exporter develops a new product in response to the demand prevailing in overseas markets.

   a. Product Innovation

   b. Product Adaptation

   c. Product Standardization

   d. Product design

Answer: 1-a, 2-c, 3-a, 4-b, 5-a

C. Fill in the blanks:

1. Every successful marketing plan begins with thorough ……….
2. Marketing research may be conducted to design better and appropriate …………. for the consumer.
3. Product planning involves a number of ………. related decisions.
4. ……… communicate who you are and what your purpose is in order to speak to your ideal clients.
5. …………. helps to meet the specific needs of the foreign buyers.

Answer:

1. market research
2. packaging
3. product
4. Brand Messaging
5. Product Adaptation

D. State whether the following sentence are True / False:

1. Export marketing offers ample opportunities for earning huge profits and valuable foreign exchange
2. Export packaging is also often referred to as transport packaging
3. Product Adaptation is a cheap strategy
4. Output packaging is the immediate layer of packaging around your goods.
5. Export packaging is the outermost layer of packaging and is designed to protect your goods during transit

Answer:

True- 1, 2 and 5

False- 3 and 4

1.5 REFERENCES

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2

PRODUCT PLANNING AND PRICING DECISION FOR EXPORT MARKETING - II

Unit Structure

2.0 OBJECTIVES

After studying this unit, you will be able to:

- To discuss the need for Labelling and Marking in Exports
- To analyse the factors determining Export Price
- To understand the objectives of Export Pricing

2.1 INTRODUCTION

Pricing your product properly, giving complete and accurate quotations, choosing the terms of the sale, and selecting the payment method are four critical elements in making a profit on your export sales. Pricing can be the most challenging due to different market forces and pricing structures around the world.

The key elements include assessing your company's foreign market objectives, product-related costs, market demand, and competition. Other factors to consider are transportation, taxes and duties, sales commissions, insurance, and financing.

2.2 NEED FOR LABELLING AND MARKING IN EXPORTS

Since the distance between exporter and importer is very far, the cargo is moved thousands of miles away from its origin. If the cargo is less container load, (Lesser than a container), chances are there to transship your cargo from different locations. Many times goods are moved. For example, you need to move a cargo from New York to China. The cargo will be sent by truck to nearest CFS of your factory - unloading to warehouse - stuffing in to container - moving to New York - again unload at port - loading to container - moving to on board in to ship - unloading to transshipment point if any - again sorting - loading to container - unloading in CFS

https://howtoexportimport.com/UserFiles/WindowsLiveWriter/WhylabelingandmarkinginExportbusiness_F1A3/Why labeling and marking in Export business_2.jpg

after arrival in Singapore - moving for inspection procedures - loading to truck after customs clearance. Apart from the above mentioned movements, in each warehousing point, there are chances of further movement of your goods due to re-arranging the slots, movements for survey, inspection etc.

Marking and labeling is the only and best method of identifying your cargo during all the operations above till reaching your cargo to buyer's door step. All documentation is made in such a way to incorporate marks and numbers of each parcel, so as to enable all officials to identify and move accordingly.

So before generating commercial invoice and packing list, the packing department in factory has to properly mark and label the cargo. Once packing completed, the marks and numbers must be clearly mentioned in packing list and commercial invoice. This information is very crucial in all forthcoming documentation till arriving the cargo at the door step of buyer. Once moved cargo to nearest Container Freight Station (CFS) for customs clearance, the cargo will be unloaded in ware house. The survey will be conducted by the CFS authorities on the basis of packing list issued by you (exporter). Survey report is prepared on the basis of reconciliation of marks and numbers mentioned in packing list with the marks and numbers labeled on the parcel to be exported. This process matching will continue at many locations during transit of your goods till arriving destination. Marking and numbers are also reflected on Carrier's document (Bill of lading or airway bill) in order to verify and match during transit where ever applicable.

Labeling requirements for packaged food products as laid down in the Part VII of the Prevention of Food Adulteration (PFA) Rules, 1955, and the Standards of Weights and Measures (Packaged Commodities) Rules of 1977, require that the labels contain the following information:

- Name, trade name or description
- Name of ingredients used in the product in descending order of their composition by weight or volume
- Name and complete address of manufacturer/packer, importer, country of origin of the imported food (if the food article is manufactured outside India, but packed in India)
- Net weight, number or volume of contents
- Distinctive batch, lot or code number

- Month and year of manufacture and packaging
- Month and year by which the product is best consumed
- Maximum retail price
- Wherever applicable, the product label also must contain the following:
- The purpose of irradiation and license number in case of irradiated food
- Extraneous addition of coloring material
- Non-vegetarian food – any food which contains whole or part of any animal including birds, fresh water or marine animals, eggs or product of any animal origin as an ingredient, not including milk or milk products – must have a symbol of a brown color-filled circle inside a brown square outline prominently displayed on the package, contrasting against the background on the display label in close proximity to the name or brand name of the food
- Vegetarian food must have a similar symbol of green color-filled circle inside a square with a green outline prominently displayed
- All declarations may be:
- Printed in English or Hindi on a label securely affixed to the package, or
- Made on an additional wrapper containing the imported package, or
- Printed on the package itself

2.3 FACTORS DETERMINING EXPORT PRICE

Pricing of goods to be exported depends on several factors. The demand for exported goods in the international market, competitive environment and regulations of the government should also be evaluated by the exporters besides manufacturing costs.

There are still some other factors that an exporter should consider when fixing the export pricing for international market. The various factors that affect pricing decisions can be briefly summarized as follows:

1. Cost:

One of the most important factors in fixing export price for goods is the cost. It constitutes a large part of the price. The direct cost involved in export pricing such as raw materials should be taken into account. Indirect cost like distribution overheads should also be considered.

2. Demand:

Price of goods to a great extent depends upon the shape of the demand curve for the product. If there is a lot of demand for the goods it will result in profit maximization, even if there is no rise in costs and a rise in cost may justify an increase in price. However, in all cases, it may not be possible to do so because of the reaction of the market conditions.

3. Competition:

The competition in the foreign market is much more severe than in the domestic market, as the exporters have to compete with foreign producers who manufacture under different environment and conditions, as well as their country's regulations.

Competition from developed countries would be tough because of the certain established advantages; and developing countries may have to mark the price to compete in the foreign market.

4. Attitude towards Countries' Products:

Buyers in the International market normally develop prejudice against goods imported from the developing countries. Exporters should take this factor into account while fixing price, as goods from developed countries command higher prices as compared to the goods from the developing countries.

5. Product differentiation and Brand Image:

If products are well differentiated and if they have built a brand image for themselves, manufacturers would be in a comfortable position to charge competitively higher prices. Brand names like Dunlop, Bata, Colgate, etc., command higher prices due to their brand image.

6. Nature of Purchase

Price, at times, depends upon the frequency of purchase. In case of gift items, people will be willing to pay a high price, if the particular goods catch their fancy.

7. Quality and Price Relationship:

Consumers tend to rely on price as an indicator of product's quality, especially in the case of prestige products. The general consideration is that, when the price is low, it results in higher sales which may not be true is all cases.

It should also be noted that customers in developed countries may wish to pay higher price for the product when compared to those from developing ones.

8. Delivery Schedule:

If the goods are supplied punctually according to the delivery schedule, the seller can quote a higher price than otherwise.

9. Marketing Policies:

The price is also affected by channels of distribution, sales promotion policies, after-sale-service etc. For instance, longer the chain of distribution, higher could be the price.

10. Period of Export Strategy

The shorter the period, higher could be the price so as to skim the cream from the market and longer the period, lower be the price in the initial stages to penetrate the market.

11. Exchange and Inflation Rate:

Differential pricing strategy can be adopted while fixing price of goods to be exported. While doing so, the stability of exchange and inflation rates prevailing in the country should also be taken into account.

Higher prices can be charged on exports for a particular country which is subject to continuous fluctuations in exchange and inflation rates.

12. Objectives of the firm:

Internationally, pricing must consider costs, nature of markets and at the same time, it must be consistent with the firm's worldwide objectives such as profit maximization, market share, etc.

13. Government Factors:

The Government policies in respect of imports and exports must be taken into account while fixing prices. The importing as well as exporting countries' governments play an important role in export pricing.

The Government may influence the price by:

1. Controlling the prices directly on certain items by fixing minimum floor price or fixing maximum ceiling price, beyond which the exporter cannot quote the prices.

2. **Assistance and incentive:** Government of exporting country may provide a number of financial assistances such as Duty Drawback Scheme, Exemption of Sales tax, exemption of Excise Duty, Exemption of income-tax, marketing development Assistance (MDA.) etc.

3. **Custom duties and taxes:** The governments of the importing countries impose duties and taxes. The exporter should take such expenses while fixing the export price.

4. **International Agreements:** Export prices, at times are bound by international agreements which may be bilateral or multilateral. The exporter has to abide by this price fixed by agreement and he cannot fix more price.

2.4 OBJECTIVES OF EXPORT PRICING

Export pricing is a technique of fixing the prices of goods and services which are intended to be exported and sold in the overseas markets. Export pricing is much more difficult than domestic pricing, because the exporter has to take into account not only the cost of production but also the influence and impact of the conditions prevailing in the international markets.

Therefore, export pricing is not just an arithmetical calculation, but a practical proposition based on market situation. The success of an export firm largely depends on its effective pricing policy.

The principal objectives of export pricing are as follows:

1. Survival:

An exporter faces competition not only from his fellow-exporters, but also from other country exporters. In much competitive markets, one of the marketing tools which can make the exporter survive the competition is pricing.

Making price competitive, thereby earning less profit in order to survive, could be one of the objectives of pricing. Keeping prices competitive and maintaining low prices is a short-term objective, as every exporter aims at increasing profits at a later stage.

2. Maximum Sales Growth:

As an exporter survives the competition, the objective shifts to having maximum sales growth. Depending upon competition and sensitivity of market to price, the final pricing decision needs to be taken. There are two alternatives available for this purpose.

1. Setting lower prices to overseas buyers leads to higher sales volume, thereby earning more profits. For this purpose, market should be highly price sensitive. Such low prices discourage competition, thereby further increasing sales.

2. Setting higher prices to indicate the superior quality of the product. Such indications lead consumers to rate products higher compared to that of competitors. Due to this perception, sales volume of the product increases.

3. Maximum Current Profit:

An exporter may determine his object of securing maximum Profits. A price which would generate such a profit is to be established. For this purpose, it is necessary to have complete information of cost and demand. A price which can generate maximum cash flows or a higher rate of return is determined. But this objective is more of a short term nature and bases its performance on profits which may turn out to be dangerous in export markets.

4. Establishing Leadership:

Another objective behind pricing is to establish not only a superior quality image, but also emphasize on leadership or number one position in the export markets. By charging a higher price and making a noticeable difference in the price as compared to that of competitors, this objective can be fulfilled.

2.5 SUMMARY

- Marking and labelling is the only and best method of identifying your cargo.
- Price of goods to a great extent depends upon the shape of the demand curve for the product.
- Consumers tend to rely on price as an indicator of product's quality.
- Export pricing is a technique of fixing the prices of goods and services.
- An exporter may determine his object of securing maximum Profits.
- Making price competitive, thereby earning less profit in order to survive, could be one of the objectives of pricing.

2.6 EXERCISE

A. Descriptive Questions:

Short Answers:

1. Describe the term Labelling
2. Explain in short Pricing product.
3. Describe the term Prevention of Food Adulteration.
4. What are the different exporter and importer?
5. Explain what the word "export price" means.

Long Answers:

1. What is the significance of export pricing for the government?
2. Explain needs for Labelling and Marking in Exports.
3. What are the advantages of Export Price?

4. Explain the objective of Export pricing
5. Which are the factor determining Export price?

B. Multiple Choice Questions:

1. CFS stands for:

   a. Container Freight Station

   b. Consumer Freight Station

   c. Combined Freight Station

   d. Current Freight Station

2. PFA stands for:

   a. Promotional of Food Adulteration

   b. Productive of Food Adulteration

   c. Performance of Food Adulteration

   d. Prevention of Food Adulteration

3. The success of an export firm largely depends on its effective …………….

   a. functional policy

   b. fiscal policy

   c. pricing policy

   d. insurance policy

4. ……………. is the sole and most effective technique of identifying your cargo during all export processes?

   a. labelling

   b. production

   c. packaging

   d. forecasting

5. …………. pricing is a technique of fixing the prices of goods and services which are intended to be exported

   a. import

   b. Export

   c. domestic

   d. online

Answer: 1-a, 2-d, 3-c, 4-a, 5-b

C. Fill in the blanks:

1. Prevention of Food Adulteration (PFA) Rules, ………….
2. Price of goods to a great extent depends upon the shape of the ………...curve for the product
3. One of the marketing tools which can make the exporter survive the competition is ………….
4. The Government policies in respect of imports and exports must be taken into account while fixing …………….
5. …………. constitute a large part of the price

Answer:

1. 1955
2. demand
3. pricing
4. prices
5. Cost

D. State whether the following sentence are True / False:

1. The importing as well as exporting countries' governments play an important role in export pricing.
2. Direct cost like distribution overheads should also be considered
3. Vegetarian food must have a similar symbol of red color.
4. An exporter faces competition not only from his fellow-exporters, but also from other country exporters
5. Standards of Weights and Measures (Packaged Commodities) Rules of 1955

Answer:

True- 1 and 4

False- 2, 3 and 5

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3

PRODUCT PLANNING AND PRICING DECISION FOR EXPORT MARKETING - III

Unit Structure

3.0 OBJECTIVES

The main purpose of this chapter is:

- To understand the International Commercial (INCO) Terms
- To discuss the Export Pricing Quotations
- To learn about Cost Insurance and Freight (CIF) and Cost and Freight (C&F)
- To analyse the problems on FOB quotation

3.1 INTRODUCTION

Pricing your product properly, giving complete and accurate quotations, choosing the terms of the sale, and selecting the payment method are four critical elements in selling a product or service overseas. Of the four, pricing can be the most challenging, even for an experienced exporter.

Incoterms 2020 rules are the official commercial terms published by the International Chamber of Commerce (ICC). They are a voluntary, authoritative, globally-accepted and adhered-to text for determining the responsibilities of buyers and sellers for the delivery of goods under sales contracts for international trade. Incoterms closely correspond to the U.N. Convention on Contracts for the International Sales of Goods. Incoterms are known and implemented by all major trading nations.

It's no small task to be in charge of an international standard. These international trade terms are decided upon by 13 ICC commissions made up of private-sector experts from across the world. These individuals specialize in everything from fields of immediate concern to international business.

3.2 INTERNATIONAL COMMERCIAL (INCO) TERMS

International Commercial Terms, or Incoterms, are pre-defined commercial terms that are used to define the transport component and the share of costs and risks for international commercial transactions. They are part of the documentation that accompanies cargo, which used to be in a printed form and which is now increasingly in a digital form. They were initially set by the International Chamber of Commerce in 1936 and became a standard set through the United Nations Convention on Contracts for the Sale of Goods (CISG). It defines a consistent framework of the expected transport service to be provided, removing uncertainty and defining legally enforceable responsibilities across international jurisdictions. Incoterms set a named place where the responsibility switches from the supplier to the buyer. This location and the conditions are summarized in three-letter words. By 2020, there were 11 different Incoterms, with the most common being:

EXW (Ex Works):

The buyer virtually takes care of all the transport responsibilities. The seller's only obligation is to have the cargo available at an agreed-upon time and premise (factory, distribution center). It often refers to the factory price since it excludes all transportation costs, such as insurance and duties. EXW can be complex to enforce since it technically does not include the tasks related to the assembly of the cargo into load units at the seller's facility. The buyer becomes the cargo owner once the goods have been picked up.

FCA (Free Carrier):

The seller's responsibility is simply to provide the cargo that has been cleared for export (duties paid) at a specific delivery point. This is common for intermodal transport since the transport load, such as a container, has been assembled and is ready to be picked up.

FAS (Free Alongside Ship):

Usually used for maritime bulk cargo (resources and raw materials) for which the seller provides the cargo at the dock, which is ready to be loaded on a ship. For instance, a grain seller would make available bulk grain at a dockside grain elevator, and it would be the buyer's responsibility to charter a bulk cargo ship and load the cargo. This allows the buyer to use the point of export as a warehouse and organize sales and distribution according to its requirements in terms of quantity and destination market.

FOB (Free On Board):

The seller provides, transports, and loads the cargo on board a vessel, which is usually selected by the buyer. Once on board, the responsibility then shifts to the buyer. Common for bulk cargo as it allows the buyer to decide the routing and the destination market of the cargo, allowing for additional flexibility.

CFR (Cost and Freight):

The seller brings and unloads the cargo at a port of destination, but the buyer assumes the risk as soon as the cargo is loaded at the port of origin. The buyer has the responsibility of picking up the cargo at the port of destination.

CIF (Cost, Insurance and Freight):

Same as above, but the seller also provides insurance for the cargo up to the port of destination. It usually applies to bulk cargo.

CIP (Carriage and Insurance Paid):

Common in intermodal transport chains where the seller takes the complete responsibility of bringing the cargo to the point of destination (e.g. the door of a distribution center) as well as providing insurance. The buyer is responsible for unloading the cargo at the point of destination. This is convenient when the buyer has a known and stable demand that can be organized from known distribution points (e.g. an import warehouse or a series of distribution centers).

Although for many transactions, it is either the seller or the buyer's responsibility to carry the cargo, this task is often attributed to a shipper or a third-party logistics provider that will act on their behalf.

3.3 EXPORT PRICING QUOTATIONS

A quotation describes the product, states a price for it, sets the time of shipment, and specifies the terms of sale and terms of payment. Because the foreign buyer may not be familiar with the product, the description of the product in an overseas quotation usually must be more detailed than in a domestic quotation.

Many export transactions, particularly initial export transactions, begin with the receipt of an inquiry from abroad that is followed by a request for a quotation. A pro forma invoice is a quotation prepared in the format of an invoice; it is the preferred method in the exporting business.

The quote, which is often presented in the form of a Proforma invoice, serves as a formal statement of promise by your firm that you will provide certain goods or services at specified prices and within an identified period of time. Acceptance of the quote by the buyer constitutes an agreement binding on both parties.

A Checklist for Preparing a Quote:

Since a quote is so important, it will benefit you and your potential customer if you have a standard checklist that you use to identify the important details and items that are points of negotiation. The details also provide the buyer with the information needed to determine what they might owe in duties, fees (including banking fees), and taxes.

The following checklist includes some of the facts about your firm, the products, and the transaction that should be agreed upon by the buyer (export) and the seller (importer):

1. The seller's name, address, contact information, and possibly its tax identification number.
2. The time when and the place where the merchandise is sold.
3. The buyer's full name, address, contact information, and possibly its tax identification number.
4. The ship-to party's full name, address, contact information, and possibly its tax identification number.
5. A detailed description of the merchandise including:

- Harmonized System Number (first six digits of the Schedule B or HTSUS number);
- Name by which each item is known;
- Grade or quality;
- Marks, numbers and symbols under which the merchandise is sold;
- Currency;
- Country of origin;
- Quantity; and
- Price per unit.

6. The country of shipment.
7. The relevant trade term and the location associated with the term, such as Incoterms 2010, Free Carrier At Your Forwarder's Facility, Chicago, IL USA.
8. All goods and services provided by the buyer for the product of the merchandise (e.g. assists such as tools, dies, molds and engineering work).
9. Additional information such as:

- Import license requirements, if known;

- Additional certifications and statements required by the buyer's country;
- U.S. government issued certifications to be provided;
- U.S. export controls (e.g. EAR99, ECCN or USML);
- Where title will transfer from the seller to the buyer;
- Method of payment;
- Expiration date of the quote; and
- Relevant law.

The quotation sets the stage for the negotiation that will follow and the successful completion of a sales contract with your foreign customer!

Pro forma invoices are not used for payment purposes. In addition to the 15 items previously mentioned, a pro forma invoice should include two statements—one that certifies the pro forma invoice is true and correct, and another that indicates the country of origin of the goods. The invoice should also be clearly marked “pro forma invoice.” Pro forma invoices are models that the buyer uses when applying for an import license, opening a letter of credit, or arranging for funds. In fact, it is a good practice to include a pro forma invoice with any international quotation, regardless of whether it has been requested. When final commercial invoices are being prepared before shipment, it is advisable to check with your local Export Assistance Centre for any special invoicing provisions that may be required by the importing country. If a specific price is agreed on or guaranteed by your company, the precise period during which the offer remains valid should be specified.

3.4 COST INSURANCE AND FREIGHT (CIF) AND COST AND FREIGHT (C&F)

The term CIF is only used between parties who deal in goods that are transported by sea.

CIF agreements are nearly identical to CFR agreements. The seller is still responsible for all shipping arrangements and costs to the agreed-upon destination port. Once the ship arrives in port, the receiver assumes full financial responsibility.

The difference between the two agreements, however, is that the shipper (seller) is also required to provide a minimum amount of marine insurance on the goods being shipped.

This includes any additional paperwork required for customs or inspections, as well as any rerouting required during transport.

Once the goods arrive at the required port and are taken off the vessel, they become the responsibility of the buyer or receiver.

Prior to transport, the contract terms will outline the exact nature of the seller's responsibilities. Most CIF contracts will include the following provisions for the seller:

- Purchase of required export licences for the product
- Taking care of the costs and contracts for transporting the goods
- Insurance is required to protect the order.
- Performing the necessary product inspections
- Paying for any damage or destruction to the order, if necessary.

Cost and Freight (C&F):

In international trade, cost and freight is a legal agreement between a buyer and a seller. The rule is applicable to goods transported by sea.

It necessitates that the seller ship goods by sea to the buyer's (required) destination. As a result, the seller bears the cost. The seller is also required by CFR to provide the buyer with the documentation required to pick up the goods from the carrier.

CFR agreements place more responsibility on the shipping party to arrange and pay for transportation than minimal free on board (FOB) shipping, in which the shipper is only responsible for delivering goods to the port of origin for shipping.

The agreement, however, does not require the seller to purchase marine insurance against the loss, destruction, or damage of the goods while in transit. Once the goods reach the vessel, the risk of loss passes to the buyer, and the seller is no longer liable.

Once the ship docks in the destination port, the receiver—or buyer—takes over responsibility. The receiver or buyer then assumes all remaining costs, including those for unloading and any additional transportation costs.

3.5 PROBLEMS ON FOB QUOTATION

If you're buying goods from a supplier based abroad, you've probably come across Incoterms. These are International Commercial Terms, defined by the International Chamber of Commerce. Incoterms appear in contracts and quotations from suppliers, and should explain who is responsible for the tasks and costs involved in international shipping.

Free on Board:

which is more commonly called FOB – is most commonly used in sea freight. It's a popular way to arrange import of consumer goods from Asia to Europe, for example.

Under FOB terms, the seller is effectively responsible for costs up to the point that the goods are loaded onto a ship, at a named port in the country of origin, and ready for transportation.

FOB Value shall be calculated as follows: (a) FOB Value = Ex-Factory Price + Other Costs

There is some possible problem of using FOB terms you'll need to be aware of, too.

Higher unit prices:

You'll usually find that the unit prices of goods to be provided under FOB terms is higher than if you're looking at Ex Works (also called EXW) shipments. However, this doesn't necessarily mean the overall cost will be higher, as this price includes some transport costs.

Supplier might include a markup on the local transport costs:

Because you don't have control over the arrangements for getting your products to the port in the country of origin, you can't be sure you'll get the best available deal. You might find that the supplier adds a percentage to the actual costs, and keeps it as their own profit.

Risks:

If you buy products overseas using FOB terms, you take on the risk and costs associated with the shipment, from the point it's loaded onto a vessel for transportation. That means any loss, damage, or added costs from that stage onwards fall to the buyer.

For example:

FOB terms of delivery with a simple example. You are a Machinery seller situated near Mumbai, India. The buyer is situated in a place near New York. You are the seller of goods and you have contracted with the buyer and agreed to sell the goods on FOB, Mumbai price of USD 5300. Here the selling cost of goods is USD 5300 FOB Mumbai. So the seller meets all the expenses to carry the goods to Mumbai port and meet all expenses including customs clearance in Mumbai to get the goods on board to Airlines or On Board to Ship. As I have explained, all further cost to reach the goods to the buyer's place has to be met by the buyer. The buyer nominates the shipping company or airlines and seller ships goods as per buyer's advice. The buyer pays the cost of freight to the shipping company or airlines. Buyer arrange to insure the goods and pay the cost of insurance.

3.6 SUMMARY

- International Commercial Terms, or Incoterms, are pre-defined commercial terms that are used to define the transport component and the share of costs and risks for international commercial transactions.

- A quotation describes the product, states a price for it, sets the time of shipment, and specifies the terms of sale and terms of payment.
- Pro forma invoices are not used for payment purposes.
- The term CIF is only used between parties who deal in goods that are transported by sea.
- In international trade, cost and freight is a legal agreement between a buyer and a seller.
- FOB Value shall be calculated as follows: (a) FOB Value = Ex-Factory Price + Other Costs

3.7 EXERCISE

A. Descriptive Questions:

Short Answers:

1. Explain in short International Chamber of Commerce.
2. Explain the term C&F.
3. Explain the term FAS
4. Explain the word Quotations
5. Explain the term CIF.

Long Answers:

1. Write in brief INCO
2. Which are the Export Pricing Quotations?
3. Explain the problem of FOB quotation.
4. What are the different between CIF and C&F
5. Explain FOB and give example.

B. Multiple Choice Questions:

1. ………………… also called EXW

   a. Ex Works

   b. X Works

   c. XY Work

   d. Xe Works

2. …………… is only used between parties who deal in goods that are transported by sea

   a. C&F

   b. CIF

   c. Ex Work

   d. CFR

3. The transport component and the share of costs and risks for …………. commercial transactions

   a. direct

   b. national

   c. international

   d. indirect

4. CIF agreements are nearly identical to …………agreements

   a. FCA

   b. FOB

   c. C&F

   d. CFR

5. FOB stands for

   a. Freight on Board

   b. Free on Board

   c. Fiscal on Board

   d. Forma on Board

Answer: 1-a, 2-b, 3-c, 4-d, 5-b

C. Fill in the blanks:

1. …………. invoices are not used for payment purposes

2. ………………. the buyer has the responsibility of picking up the cargo at the port of destination.

3. …………… defines a consistent framework of the expected transport service to be provided

4. ……………. rrefers to the factory price since it excludes all transportation costs, such as insurance and duties

5. Incoterms set a named place where the responsibility switches from the ……….

Answer:

1. Pro forma
2. C&F
3. Incoterms
4. EXW
5. supplier to the buyer

D. State whether the following sentence are True / False:

1. EXW can be complex to enforce since it technically does not include the tasks related to the assembly of the cargo
2. CFR the rule is applicable to goods transported by sea.
3. CFR agreements place more responsibility on the shipping party to arrange and pay for transportation than minimal free on board
4. In international trade, cost and freight is a illegal agreement between a buyer and a seller
5. Incoterms appear in contracts and quotations from suppliers.

Answer:

True- 1, 3 and 5

False- 2 and 4

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MODULE - II

4

EXPORT DISTRIBUTION AND PROMOTION - I

Unit Structure

4.0 OBJECTIVES

The main purpose of this chapter is:

- To discuss the factors influencing Distribution Channels
- To understand the Direct and Indirect ExportingChannels
- To outline the distinction between Direct and Indirect Exporting Channels

4.1 INTRODUCTION

A distribution channel is a critical component of the downstream supply chain of any organization. Distribution channels are part of a company's overall marketing strategy for promoting, pricing and selling the product to the consumer. The supply chain also reflects the payments from the consumer through intermediaries to the company.

Distribution channels may be lengthy with more intermediaries or maybe short with fewer intermediaries. The length and breadth of the distribution may depend on the logistics and time required to reach to an end consumer.

A lengthy channel may take more time to reach the consumer, restrict margins and also take more time to realise the payments. An increase in the variety of intermediaries helps a consumer find the goods and also increases the market penetration for a company's products.

Distribution channels are broadly categorized of two different forms: (a) direct (b) indirect.

A consumer can make direct purchases from the manufacturer through a direct channel. In an indirect channel, a consumer obtains the goods from an intermediary such as a wholesaler or a retailer.

Goods sold under the traditional brick and mortar stores are part of the indirect channel. The price of goods tends to increase in a case where more intermediaries are involved.

The key distribution channels, singly or in a combination are manufacturer, wholesaler and retailer, reaching out to an end consumer. A channel that involves all intermediaries from the manufacturer to consumer is the longest.

4.2 FACTORS INFLUENCING DISTRIBUTION CHANNELS

Distribution channel refers to a network of intermediaries who enable distribution of a product from the manufacturer to the ultimate consumer. The various intermediaries include distributors, wholesalers, retailers and e-tailers/e-commerce intermediaries. The distribution channels are part of a downstream supply chain oriented towards reaching out to the ultimate consumer.

Product Characteristics:

Seasonal products are distributed through less layer of middlemen. Non standardized products that are made according to customer specifications may be delivered directly. But standardized products may be passed on through middlemen. Trucks which are heavily needed to be distributed with less layers of distribution. The life of perishable products is limited and should reach the consumer at the earliest. e.g., Flowers and milk. Technical products which require pre-sale and post-sale advice from technicians should be directly distributed by producer or with middlemen. e.g.: Air-conditioners, Washing machine.

Market Characteristics:

The size of the market for the goods is a major factor while selecting the route for distribution of products. Distribution in large geographical area requires more middlemen. Middlemen are not required to distribute products in a limited area.

Number of Consumers:

Large purchases made by few consumers require centralised distribution. Large number of consumers making purchases in small quantities requires more middlemen.

Middlemen factor:

Middlemen who are experienced and have produced more sales are wanted by all producers. Long channel naturally increases the cost and price of the product. The number of layers of middlemen should be kept to the minimum. The competitor who is efficient in reducing distribution cost will sell more as his price tends to be lower. More the middlemen are lesser will be the level of control and more problems on the part of the producers. Quality of distribution service can be ensured and loyal customer base can be created with less middlemen. In some areas there may be scarcity of right middlemen and in some other cases the policies of producers may be not acceptable to the middlemen.

Capacity of the Manufacturer:

A financially strong producer may select a high technology-oriented channel which will reduce cost in the long run. Manufacturers with large volume of production may open direct branches in cities and towns where there are more sales. They can also provide more services expected by consumers. Small and medium producers require the services of middlemen for selling their products. A producer offering wide range of products can have a long channel as he can defray the cost of distribution over a greater number of products

Cost and Time Involved in the Channel of Distribution:

The channel cost should go along with the quality of service provided by middlemen. Ordinary goods are routed through economical channel even though the time taken by the channel for delivery is more.

Services Required along with the Product:

Machinery or equipment which need to be installed and demonstrated should be sold with shorter channel. Technical services can be provided by manufacturers or by their trained technicians. Therefore, a shorter channel is preferred for sales.

Life Cycle of the Product:

An established product can select an ordinary channel. But a new product entering into the market should be carefully promoted by experienced middlemen.

4.3 DIRECT AND INDIRECT EXPORTINGCHANNELS

Direct exporting involves an organization selling goods directly to a customer in an international market. Organizations can sell to a wide range of customers, some of whom act as intermediaries in the target market. Even if an intermediary is involved, the export is still direct because the intermediary is a customer based in the target market. Some of the most important customers for direct-exporting organizations include importers, wholesalers, distributors, retailers, government procurement departments and consumers themselves. 2. Advantages and disadvantages of direct exporting

Advantages:

Direct exporting as a market entry strategy has its advantages. The organization: Controls all its manufacturing processes, which are based in its facilities, thus avoiding the risks associated with production overseas (e.g., poor production standards, use of child labour) and the risks associated with political instability in a foreign market. Can withdraw from the market relatively cheaply and easily, if needed. Can obtain in-depth information about trade in the target market, enabling it to make future decisions about whether to invest in facilities in the market However, direct exporting can be difficult, especially for organizations new to international trade.

Disadvantages:

The need to invest significantly in researching market information and preparing marketing strategies. A lack of exporting skills and experience leading to expensive errors. The difficulties breaking into target markets in trade blocs. The difficulties the exporting organization will have when the domestic currency is very strong against the target market's currency. The inability to rely on intermediaries, who will be representing other organizations and may not operate in the best interests of the exporting organization.

Direct exporting a suitable strategy:

Direct exporting is a simple entry strategy that might be suitable for organizations that want to expand their market share or maximize profits. An organization of any size can start direct exporting activities, but not all will have the necessary resources in terms of skills, knowledge and finances. Direct exporters must make the export sale, arrange for shipping and insurance, organize permits and licences, prepare all the paperwork and process the letter of credit that provides for payment. These tasks are time consuming and require skill to be performed correctly—mistakes can result in serious business losses. Considerable time must also be spent researching the market so goods and services can be promoted and priced appropriately. Direct exporting can be very successful if the selected market is readily accessible and has similar regulations and customs to the organization's country. If the target market has different regulations, legal systems, cultures or ways of conducting business, and the organization is inexperienced in international trade, direct exporting might be very difficult and risky. In these situations, organizations should consider another strategy. Depending on the market selected, the distance goods must be transported and the means of transportation, direct exporting can make goods too expensive for customers to purchase. These factors might also seriously impact profits made in the market. A direct exporter of products must assume responsibility for all losses during shipping and storage overseas. Substantial amounts must be invested in marketing and sales activities, and there is a risk that these expenses will not be recouped if the venture is not successful.

Indirect exporting:

Indirect exporting involves an organization sells to an intermediary in its own country. This intermediary then sells the goods to the international market and takes on the responsibility of organizing paperwork and permits, organizing shipping and arranging marketing. An indirect exporter can sell to the following intermediary customers: export houses (trading houses or export merchants, confirming houses, and foreign organizations based in the organization's country (buying offices).

Advantages and disadvantages of indirect exporting:

Indirect exporting is the cheapest entry strategy available to an organization. It is flexible, and exporting activities can cease immediately if required. Its greatest advantage is that the intermediary organizations handle all the exporting activities. No exporting experience or skills are required; and the intermediary organization takes on all the risks associated with shipping and organizing payment from the international market. The main disadvantage is that the control of activities overseas transfers to the intermediary organization. Organizations interested in expanding into a target market will not gain valuable knowledge about how that market functions. It is also impossible for organizations to establish after-sales service or value-added activities, and this can have an adverse effect on their reputation in a foreign country.

Indirect exporting a suitable strategy:

This market entry strategy should be considered by organizations that want to enhance cash flow or increase profits. However, it will not be useful for those that want to develop long-term market share. It is also not suitable for organizations with a service to sell rather than a product. This is because once the intermediary business has been identified, the organization does not have to worry about additional planning, marketing or expenses. It is also a very useful strategy for organizations that cannot deal with considerable risk. With indirect exporting, the buyer assumes all risk associated with exporting and selling the product. Organizations that choose an indirect exporting strategy must be able to make product adjustments as dictated by the businesses purchasing them. Buyers will also specify delivery times, levels of quality and packaging requirements. If an organization cannot meet these requirements, it can lose the deal with the buyer. Because the buyer takes responsibility for exporting and selling the goods, the organization has no control over the market its products are sold to, how they are sold, how they are marketed or the price obtained for them. This makes it an unsuitable market entry strategy for organizations that must control the export or marketing of their products to maintain their reputation. Organizations that are interested in modifying their products to meet demand in other markets will also find indirect exporting unsuitable, because they will be unable to develop direct contact with the end user.

4.4 DISTINCTION BETWEEN DIRECT AND INDIRECT EXPORTING CHANNELS

Direct exporting	Indirect exporting
Meaning: When the export activity is directly carried out by the manufacturer of the goods, it is called as direct exporting.	In indirect exporting the manufacturer hires the services of an export intermediary agency to export his goods through the intermediaries.
Control: Because all activities such as packing, promotion, shipment, and distribution are handled by the manufacturer, the company has complete control over the export process.	There is no control at the manufacturer because the services are outsourced to export middleman organisations. Export agencies handle every aspect of the process.
Customer interaction: The exporter contacts the customer directly in direct exporting. This allows the buyer to get to know the seller better, increasing his trust and confidence in the exporter. Direct engagement with customers allows the exporter to gain a better understanding of the market pulse.	The maker and the customer have no direct touch. Intermediaries hired by the manufacturer communicate with and contact the customer. As a result, the original exporter has little opportunity to engage with buyers in other countries.
Reputation overseas: The direct exporter deals directly with the foreign buyer. This will assist him in gaining the trust of the in the international market.	It is impossible for the original exporter to develop a name in the international market since he does not personally brand his products by outsourcing them to exporting organisations.
Risks involved: From production to distribution, the direct exporter is responsible for all risks.	After the products have been shipped, the export agency will be responsible for all risks.
Investment involved: To directly export goods, manufacturers must invest in expanding their foreign network and establishing the essential export infrastructure.	There is no need to spend money on developing export infrastructure. The exporting intermediary will already have a network and infrastructure in place.

Pricing decisions: Because the manufacturer is the one who does the exporting, he has the authority to set his own prices for his products in other countries.	Exporting intermediaries make pricing decisions. The original manufacturer will have no say over the price of his items.
Export incentives: Because all required documentation and invoices are in his name, a direct exporter can claim all possible export credits and duty drawbacks.	Unless the invoices and supporting documentation are in his name, the original manufacturer may not be able to claim the credits and incentives.
Suitability: Because it entails more expenses and resources, this strategy is best suited for large businesses.	This strategy is ideal for startups and small businesses, as they may not have the financial resources to invest in the essential export infrastructure.
Future oriented: Direct interaction with abroad clients will provide firsthand market intelligence that will aid future international expansion.	Export intermediates have access to first-hand market information that the original manufacturer does not. As a result, if one intends to develop directly into the overseas market in the future, it is not a future-oriented strategy.
Technical inputs: If you're new to exporting, you'll have to rely on external agencies for all of the information you'll need to complete your export operations successfully.	Because they are solely involved in exports and imports, exporting intermediaries have a wealth of expertise and specialised knowledge. As a result, you can seek their technical advice anytime you need it.
More transparent: Direct communication between the manufacturer and the foreign consumer ensures complete transparency in terms of product legitimacy, after-sale services, and patent and trademark usage.	Because client transactions are handled through export intermediaries, there is little room for such openness.

4.5 SUMMARY

- Distribution channel refers to a network of intermediaries who enable distribution of a product from the manufacturer to the ultimate consumer.
- Large number of consumers making purchases in small quantities requires more middlemen.

- Direct exporting involves an organization selling goods directly to a customer in an international market.
- Direct exporting is a simple entry strategy that might be suitable for organizations that want to expand their market share or maximize profits.
- Indirect exporting involves an organization sells to an intermediary in its own country.

4.6 EXERCISE

A. Descriptive Questions:

Short Answers:

1. Explain the term distribution channel
2. Describe the term Product Characteristics
3. What is known as Middlemen factor?
4. What are the advantages of Indirect Channels?
5. What are the disadvantages of direct channels?

Long Answers:

1. Explain the Indirect channels.
2. Which are the Factors influencing Distribution Channels?
3. What are the Indirect exporting a suitable strategy?
4. Explain the Direct Channels.
5. Different between Direct and Indirect Exporting Channels.

B. Multiple Choice Questions:

1. A .... channel is a critical component of the downstream supply chain of any organisation

    a. distribution

    b. physical

    c. traditional

    d. modern

2. ……………… market entry strategy should be considered by organizations that want to enhance cash flow or increase profits.

   a. Direct

   b. Indirect

   c. Import

   d. Export

3. Small and medium producers require the services of ……………for selling their products

   a. middleman

   b. agent

   c. wholesaler

   d. retailer

4. In …………. a consumer obtains the goods from an intermediary such as a wholesaler or a retailer.

   a. traditional channel

   b. online channel

   c. direct channel

d. indirect channel

5. A consumer can make direct purchases from the manufacturer through a …………

   a. online channel

   b. direct channel

   c. indirect channel

   d. traditional channel

Answer: 1-a, 2-b, 3-a, 4-d, 5-b

C. Fill in the blanks:

1. The supply chain reflects the payments from the consumer through intermediaries to the …………….

2. Distribution channels are broadly categorised of two different forms …………………

3. Seasonal products are distributed through less layer of …………….

4. …………………. services can be provided by manufacturers or by their trained technicians

5. Goods sold under the traditional brick and mortar stores are part of the ……………….

Answer:

1. company
2. direct and indirect
3. middlemen
4. Technical
5. indirect channel

D. State whether the following sentence are True / False:

1. In direct exporting, exporter directly contacts the customer
2. When the export activity is directly carried out by the manufacturer of the goods, it is called as indirect exporting.
3. Direct exporter engages with the foreign customer directly
4. No indirect contact exists between the manufacturer and the customer
5. Direct exporter himself has to bear all the risks involved from production to distribution.

Answer:

True- 1, 3 and 5

False- 2 and 4

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5

EXPORT DISTRIBUTION AND PROMOTION - II

Unit Structure

5.0 OBJECTIVES

The main purpose of this chapter is:

- To discuss the components of Logistics in Export marketing
- To analyse the selection criteria of Modes ofTransport
- To understand the need for Insurance in Export Marketing

5.1 INTRODUCTION

If your business is new to exporting or importing, it is important to assess and plan for the different risks you will invariably face. When you evaluate the risks of your potential customers, remember also to look into risks associated with the countries in which they operate.

As well as physical loss or damage to goods, you need to plan for problems of cash flow to allow for the time that goods are in transit or in bonded warehouses here or abroad and/or heightened risk of non-payment by your customers. In some cases, you also need to plan for risks associated with faulty goods or services.

This guide outlines the key risks you should consider and the available insurance and financing options. It also provides links to experts who can offer you advice or find you insurance.

Shipping raw materials or products overseas certainly brings payment risk along with it. And there can be many reasons why payments would not be made, though some are more common than others. For instance, if the goods you are shipping arrive damaged or destroyed, the importer may not be obliged to pay.

5.2 COMPONENTS OF LOGISTICS IN EXPORT MARKETING

In its most basic form, logistics refers to the planning and execution of a complex operation. This can include both long & short-term logistics operations. Logistics management is part of the supply chain. It involves planning, implementing, and overseeing the effective storage of goods and their transportation from the point of origin until the final destination (the point of consumption). In other words, logistics manages forward and reverse merchandise flows.

Logistics managers have to move products from their point of origin to their point of sale under optimum conditions. That means managing inventory, equipment, locations, distributors and costs. It has a knock-on effect at different levels of the economy. Good logistics has the power to minimize costs, increase profits and drive international imports and exports. Logistics is a precision process that relies on targeted planning and resource management for its success.

Logistics comprises five essential components. Logistics companies are responsible for executing each one of these components to the highest degree of accuracy. Here are the five key components of any logistician's job.

1. Demand planning:

To guarantee customer order fulfilment, demand planning is an essential logistics function. By ordering merchandise in the correct quantities and at the right price and mobilizing suitable transport, customer demand is met and profits protected.

2. Storage and materials:

Because demand is unpredictable, it's important to have surplus goods on standby until consumers demand them. Warehouses are responsible for the storage, care, retrieval, packaging, and unitization of merchandise. Warehouse management systems (WMS) optimize storage capacities, equipment (forklifts, for example), retrieval speeds, and warehousing processes.

3. Inventory management:

Inventory management controls the flow of goods in and out of a warehouse. It dictates how much stock to hold and where to locate it using targeted data to predict consumer demand.

4. Transportation management:

Logistics involves mobilising different modes of transport to move merchandise from one stage of the supply chain to the next. Merchandise might need to travel via road vehicles, freight trains, shipping, or even air travel for long-distance supply chains.

Consolidation is the process by which shipping companies or carriers combine multiple smaller shipments in one. These speeds up deliveries and keeps costs low.

5. Control:

Logistics is a complex operational procedure that requires a lot of precise information to be effective. Forecasting demand, transportation times, and inventory are crucial to keeping the operations **to a tight timescale.**

6. Packaging and Handling:

A large part of logistics is keeping track of materials, equipment, supplies, and packaging materials so that goods are preserved and stored correctly. This includes repair parts, computer resources, and mobile facilities. All of these components must be managed so that the logistics process runs smoothly.

5.3 SELECTION CRITERIA OF MODES OF TRANSPORT

There are many aspects to consider when choosing a mode of transport for your import or export shipment. Depending on the destination, goods consigned to a foreign market can be transported by road, rail, air, sea, inland, waterways or a combination of any of these.

Putting some thought into contracting transportation equipment and modes of transport reduces shipping and logistics costs. However, import and export planning is not always as simple as choosing the most cost-effective option. When choosing a mode of transport to use, the following factors should be taken into consideration:

1) Cost of Transport:

When choosing how to best transport products for import or export, your budget should be the most important factor when making decisions. Costs can vary based on the type and amount of goods that need to be transported. Bear in mind that the cost of transport will influence the cost of goods.

If you are transporting heavy or bulky products over a long distance inland, rail transport will be the most economical. Land transport, typically by trucks, is best suited for small amounts of goods being transported over short distances. It also saves packing and handling costs. Water transport is without a doubt the cheapest mode of transport, and very suitable for heavy or bulky goods that need to be transported over long distances where time is not an important factor. For the transportation of perishable, light or valuable goods, air transport will be the most efficient mode of transport to use, although it is expensive.

Importers and exporters should also consider the overall cost of transportation, keeping the "hidden costs" such as terminal charges, insurance premiums and finance charges in mind.

2) Reliability and Regularity of Service:

Transport modes differ in reliability and regularity. Your decision on which mode of transport to use will be influenced by the urgency and speed by which you would like your goods to be delivered. Land, ocean and air transport are usually affected by bad weather such as heavy rains, snow, fog and storms which may cause delays.

3) Safety:

Safety and security of goods in transit also influence which mode of transport to use. Land transport by truck may be preferred to railway transport because your losses are generally less. Water transport exposes the goods to the perils of the sea; hence from a safety point of view, sea transport is the riskiest. Also, to protect the goods in transit, certain types of packaging are recommended, which might influence costs. Goods may also require special facilities such as refrigeration or special security measures that need to be taken into consideration.

4) Characteristics of goods:

The size and weight of goods also play a role in deciding which mode of transport to use. Land and air transport cater mainly for light and small shipments while rail- and sea transport cater for heavy shipments. Choosing a mode of transport to use will also be dependent on how dangerous, fragile or of high value the products are. Air and land transport are usually the best option to use for breakable products of high value.

5) More considerations:

Other factors to keep in mind:

- The terms of the export sales contract, e.g. the buyer may stipulate that a particular mode of transport should be used.
- The location of the foreign market – naturally a destination on another continent will eliminate the road and rail option for the main transport leg.
- The location of the overseas buyer in relation to airports, sea ports and railway stations.
- The facilities at the port of destination, e.g., whether there is bulk handling or container handling equipment.

5.4 NEED FOR INSURANCE IN EXPORT MARKETING

Insurance is as vital to your product delivery plans as safe vehicles and sturdy cartons. When you ship important cargo over great distances, many variables are out of your control. You don't want to take any chances on your delivery floundering in a massive mid-ocean storm or your airline losing track of your cargo. Insurance is a plan to be compensated for your cargo's value in case of destruction or mishandling.

Insurance coverage for export shipments is traditionally provided either through your airline, logistics specialist, freight forwarder, or from an insurance company specializing in ocean and air cargo. There are three types of coverage commonly provided for export shipments: perils, broad-named perils, and all-risks. Let's discuss the most robust policy, all-risk.

An **all-risk policy** covers all physical loss or damage from any external circumstance, excluding loss or damage caused by war, riots, strikes, or civil disobedience. It generally costs about 1-2% of the declared value of your shipment. Coverage varies according to your product type and your destination point; you can get coverage for a portside-to-portside shipment or from the factory to your customer's door. Be sure to ask your policy provider which type best suits your needs.

Import and Export Insurance Considerations:

1. Get enough coverage:

Talk to your transportation company about what kind of coverage you expect should your cargo get lost or destroyed. Many people ask for coverage in the amount of 110% of their transaction value, including freight costs and the insurance. The extra 10% is to compensate your lost time, profits, and any legal or other expenses you might incur from the ordeal. You do not want to find out later (insurance claims typically take anywhere from one to six months to settle) that you're only covered for 20% of your transaction value.

2. Decide who will secure the insurance:

How much control do you want should something go wrong with your shipment? Your terms of sale usually determine this. Your liability ends at the point in which the title to the goods changes from seller to buyer. If you're guaranteed payment for your shipment regardless of its condition upon arrival, you might be easier going about letting your customer handle insurance. However, if you're shipping open account, we recommend that you not only secure the insurance yourself but secure it through a U.S. company to see that any claims will be settled expeditiously. Don't forget, your customer is usually the first to discover damage or loss of cargo. He or she must take all reasonable measures to minimize the loss or damage and to set aside merchandise to be kept as evidence for claim settlement.

3. Decide who pays:

Sometimes your customers will request the insurance and offer to pay, and sometimes they won't. How you and your customer assign financial responsibility for insurance depends on the cost of the coverage and how the expense will affect each party's bottom line. Negotiate the point to achieve a win-win situation.

4. Leave a paper trail:

No matter who arranges and pays for the insurance, there are specific documents you must be prepared to present in the event of a claim. When you file a claim, you must present the following:
A letter of claim along with a copy of the bill of lading covering the shipment.

5. A copy of an insurance certificate prepared by your transport company or, if you purchased insurance through an independent carrier, by you.

6. A survey report issued by a claim agent, plus an invoice showing the amount of damage or loss.

5.5 SUMMARY

- Good logistics has the power to minimise costs, increase profits and drive international imports and exports.
- Logistics is a precision process that relies on targeted planning and resource management for its success.
- Inventory management controls the flow of goods in and out of a warehouse.
- Logistics is a complex operational procedure.
- Forecasting demand, transportation times, and inventory are crucial to keeping the operations to a tight timescale.
- Transport modes differ in reliability and regularity.
- Insurance is as vital to your product delivery plans as safe vehicles and sturdy cartons.

5.6 EXERCISE

A. Descriptive Questions:

Short Answers:

1. Describe in short cost of transport.
2. Characteristics of goods during exporting.

3. Explain the term Export shipment.
4. How handle the product during exporting?
5. What you mean by Logistics?

Long Answers:

1. What are the issues encountered when exporting products?
2. Explain the Components of Logistics in Export marketing
3. Describe the selection criteria of Modes ofTransport
4. Which are the need for Insurance in Export Marketing?
5. How the exporter handles the product during exporting?

B. Multiple Choice Questions:

1. ……………… is the process by which shipping companies or carriers combine multiple smaller shipments in one

   a. Combined

   b. Consolidation

   c. Continued

   d. Control management

2. ……………. transport is without a doubt the cheapest mode of transport.

   a. Water

   b. Air

   c. Land

   d. Consolidation

3. Logistics management is part of the …………….

   a. handling

   b. supply chain

   c. packing

   d. logging

4. ………………. management controls the flow of goods in and out of a warehouse

   a. Control

b. Transportation

c. Inventory

d. Worker

5. ………………… optimise storage capacities, equipment retrieval speeds, and warehousing processes

a. WMS

b. WSE

c. WMW

d. MEX

Answer: 1-b, 2-a, 3-b, 4-c, 5-a

C. Fill in the blanks:

1. Logistics refers to the planning and execution ………………of an operation
2. ……………… speeds up deliveries and keeps costs low
3. ……………. has the power to minimize costs, increase profits and drive international imports and exports
4. …………… transport saves packing and handling costs for short distances.
5. ……………. are responsible for the storage, care, retrieval, packaging, and unitisation of merchandise.

Answer:

1. complex
2. Consolidation
3. Good logistics
4. Land
5. Warehouses

D. State whether the following sentence are True / False:

1. Logistics is a precision process that relies on targeted planning and resource management for its success
2. To guarantee customer order fulfilment, demand planning is not an essential logistics function
3. Safety and security of goods in transit also influence which mode of transport to use

4. Transporting heavy or bulky products over a long distance inland, water transport will be the most economical

5. The size and weight of goods also play a role in deciding which mode of transport to use.

Answer:

True- 1, 3 and 5

False-2 and 4

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6

EXPORT DISTRIBUTION AND PROMOTION - III

Unit Structure

6.0 OBJECTIVES

The main purpose of this chapter is:

- To understand the Sales Promotion Techniques used in Export Marketing
- To discuss the importance of TradeFairs and Exhibitions
- To outline the benefits of Personal Selling
- To understand the essentials of Advertising in Export Marketing

6.1 INTRODUCTION

Production and distribution are two closely related activities. Goods produced need to be distributed to consumer quickly and efficiently. The function of distribution involves the critical process of ensuring that products of the firm reach the proper location for sale at the proper time and in proper quantity. Distribution is the route that goods take between production and final consumer. Channels are the routes taken by goods on their journey from producer to consumers.

Advertising is the best way to communicate to the customers. Advertising helps informs the customers about the brands available in the market and the variety of products useful to them. Advertising is for everybody including kids, young and old. It is done using various media types, with different techniques and methods most suited.

A foreign marketing environment refers to marketing and advertising in another country beyond the one in which the company was founded. Sometimes companies try to enter only one particular foreign market and need a unique marketing strategy to do so. At other times, companies want to enter several different markets, or even attempt a global market plan. Foreign markets have a profound impact on company advertising with their individual cultures and trends.

6.2 SALES PROMOTION TECHNIQUES USED IN EXPORT MARKETING

Promotion is vital for export marketing. However, a good number of Indian exporters do not give much importance to promotion. Apart from advertising, and sales promotion, Indian exporters must participate in trade fairs and exhibitions. But in reality, a good number of Indian exporters are not professional in advertising and sales promotion. They also do not take part in trade fairs and exhibitions, and if they do so, they lack professional approach in handling the visitors at the trade fairs and exhibitions.

Sales promotion includes activities that seek to directly induce, or indirectly serve as incentives to motivate, a desired response on the part of target customers, and intermediaries. The various sales promotion techniques include free samples, consumer contests, money-refund offers, free gifts, quantity discount and instalment selling.

Sales promotion technique communicates with the audience through a variety of non-personal media to supplement advertising. Sales promotion technique is used extensively in domestic and overseas markets. In sales promotion, various vehicles like free samples, gifts, coupons and contests are used for the information of buyers.

There are many ways to promote sales and we briefly discuss these below (they have beed divided into business-orientated and consumer-orientated promotions):

A - Business-orientated promotions:

Promotional allowances:

With space on retailers' shelves at a premium, a promotional allowance is often paid by a manufacturer or exporter to a retailer to acquire shelf or display space where you can display your products.

Contests:

Encourage sales by initiating a competition that allows the top salespersons(s) in a country or region to win an attractive prize, such as a luxury holiday for example, for generating the most sales in a particular period. Be sure to obtain the permission of their management before introducing such a contest.

Cooperative advertising:

This occurs when you, as the manufacturer, are prepared to share the cost of any advertising with your foreign buyer. You may agree to pay an advertising allowance that is based on a percentage of the retailer's order.

Although this allowance is to be used for advertising by your intermediary, it remains a sales promotion tool, as you are essentially striving to promote sales through this means.

Sales training:

Be prepared to spend money to train the sales staff of your foreign representatives. Not only will this generate increased sales, but it strengthens the relationship between your two organizations.

Sales aids and brochures:

This is another area you should not fall short in. Make sure that you provide your foreign representatives with all the sales aids (such as CD/DVDs, PowerPoint presentations, posters, etc.) and product brochures. This will help them sell your products and should encourage buy-in from the foreign sales staff. If you give them nothing, be prepared for poor sales.

Demonstration models:

With some industrial goods, it is imperative that you provide the foreign sales staff with demonstration models. If it is a very expensive item, provide at least one model that they can keep at their head office and take prospective clients to show. If you can afford more, supply more. Demonstration models are a good way to encourage sales.

Slotting fees:

A slotting fee may need to be paid to get your product into the sales catalogues of wholesalers or large retail chains. By ensuring that your product is in the catalogue, you stand a good chance that down-the-line retailers or branches will buy your products.

Discounts and rebates:

Discounts and rebates offered to your representatives and their customers to stock your product(s), is another means of promoting sales.

Incentive programmes:

These are also often used to incentivize sales staff. You pay them an 'additional' commission for sales achieved. Bear in mind that you will need to obtain the permission of the management of your foreign representative; you cannot just introduce such incentives without their permission. Targets should be achievable, or the sales staff will lose interest and you may even loose sales this way.

B - Consumer-orientated promotions:

Competitions and sweepstakes:

You may want to run a competition or sweepstake or contest to encourage consumers to buy your products. Make sure of the legality of such activities, as they make be considered to be a form of gambling. These types of promotions, if well organised, are very popular and effective in growing sales.

Sampling:

Giving away small samples (also called ‘give-aways’) to encourage consumers to try your product and hopeful buy more of it, is a good sales promotion technique, if a little expensive. Not all products are suitable for sampling.

Loyalty programmes:

Loyalty programmes involve incentives that reward repeat purchases. For example, if you buy ten meals, the 11th meal is free.

Tie-in promotions:

These involve the selling of two different brands (either from the same company or from different companies) as a single item. For example, if you buy Colgate toothpaste at its normal (or slightly higher) price, you will receive an Oral-B toothbrush with the toothpaste. Usually, the toothbrush and toothpaste are packaged together as a single item.

Price incentives:

A price incentive is a short-term price reduction (such as a sale, introductory offer or special) to encourage customers to buy the product. This form of sales promotion is often used where brand loyalty is low and where price incentives are necessary to encourage repeat purchases.

Coupons:

These are a form of price incentive and are small cut-outs or tear-outs or inserts that are made available to customers in magazines, in stores and through other channels. The customer takes (tears out) the coupon and visits any retailer that stocks the product and can then redeem the coupon for the product usually at a discount (e.g. 10 cents off). Coupons are popular in certain parts of the world.

Premiums:

Another form of price incentive, premiums are a like a small gift you can get if you sign up for a subscription or buy a product. The premium ‘item’ may be bundled with the main item of purchase.

Bonus pack:

An example of this type of sales promotion method is is where you receive a 400ml can when you buy a standard 330ml can. The can usually is slightly bigger highlighting the fact that you are getting a free ‘bonus’ when you buy this product.

6.3 IMPORTANCE OF TRADE FAIRS AND EXHIBITIONS

Trade fairs and exhibitions are events where manufacturers and distributors place their goods or services on display for current and prospective customers, suppliers and other interested businesses.

They are a fairly traditional method of marketing goods and services, especially in Europe, and are a particularly valuable method of communicating with agents, distributors and consumers in your overseas markets.

They are also good opportunities for you as an exporter to view new products, and identify trends and competitors.

Usually, the trade fair is associated with businesses but consumer exhibitions do take place such as the annual motor and boat shows.

The following are the functions or activities of Indian trade promotion organization:

(a) Organising Trade Fairs and Exhibitions:

ITPO organizes trade fairs and exhibitions in India and abroad and to book stalls/space for Indian exporters to participate in overseas trade fair and exhibitions. ITPO acts as a publicity wing of government of India for organizing trade fair and exhibitions in India and abroad.

(b) Publicity:

It gives publicity in connection with the organisation of trade fairs and exhibitions in India, so that foreign parties may visit India to visit in such trade fairs and exhibitions.

(c) Collections of Information:

ITPO collects information of various trade fairs and exhibitions to be held abroad. The information is collected in respect of place or venue of exhibition, date and duration, products to be displayed, booking of space formalities, etc.

(d) Supply of Information:

ITPO provides information to Indian parties regarding overseas trade fairs and exhibitions. Such information may be useful to Indian parties or exporters to take proper decisions in respect of participation in overseas trade fairs, and exhibitions.

(e) Delegations:

Inviting trade delegations from abroad and sending Indian trade delegation abroad. ITPO book orders for Indian goods. In addition, to send Indian trade delegations abroad for market survey and for signing contracts for the supply for Indian goods.

(f) Booking of Space in Overseas Trade Fairs:

ITPO books necessary space/stalls for Indian exporters. This enables Indian exporters to participate in overseas trade fairs and exhibitions.

(g) Consultancy Services:

It provides consultancy services to Indian exporters to participate and display their product in trade fairs and exhibition in India and abroad.

(h) Seminars and Workshops:

ITPO organizes seminars/workshops for giving information/guidance to exporters about fairs and exhibitions arranged in India and abroad. ITPO has set up a trade information centre at its headquarters in New Delhi. It is considered as the best source of information on import and export trade.

6.4 BENEFITS OF PERSONAL SELLING

Personal Selling is face to face communication with one or more prospective buyers/users and influencing the buyer with the aim of motivating the prospect toward a purchase decision. It is one of the four tools of marketing communication. The other tools are public relations and publicity, sales promotion and advertising. Arrange of top executives' meetings with the top executives of a potential buying company. In foreign markets personal selling is possible in trade fairs and exhibitions and also at stores level.

Advantages of Personal Selling:

- It is two-way communication. So, the selling agent can get instant feedback from the prospective buyer. If it is not according to plan, he can even adjust his approach or sales presentation accordingly.
- Since it is an interactive form of selling, it helps build trust with the customer. When you are selling high-value products like cars, it is important that the customer trusts not only the product but the seller also. This is possible in personal selling.
- It also is a more persuasive form of marketing. Since the customer is face to face with the salesperson it is not easy to dismiss them. The customer at least makes an effort to listen.
- Finally, direct selling helps reach the audience that we cannot reach in any other form. There are sometimes customers that cannot be reached by any other method.

6.5 ESSENTIALS OF ADVERTISING IN EXPORT MARKETING

From launching a new product or service to simply trying to get your brand out into the world, ad campaigns can help you reach more of the right people.

Advertising is a type of paid promotion that brings attention to your key message, and it's the crucial next step for making your digital marketing strategies work. It increases your exposure to help you achieve your business goals, whether you're aiming to build your customer base or quickly grow your sales volume.

1. Build awareness:

One of the most direct results of advertising is increased awareness of your brand, product, or service. Potential customers will likely have to come across your business a handful of times before they start to remember you, and ad campaigns help you achieve this.

Marketers often use paid ads to not only get in front of more people, but to get in front of the same people several times over. Many digital platforms use trackers called "cookies" to determine who has previously seen your ad. Thanks to this data, businesses like yours are able to retarget the same viewers. With this continuous reach, you can become well-known within your target market.

2. Educate consumers:

Beyond simply building awareness, advertising helps you educate consumers about how your products or services help them and what your brand stands for. You can use ad campaigns to generate a deeper understanding about everything from your company mission to the value of what you sell.

As your target market understands more about your business, they'll feel a stronger connection to your brand, getting you one step closer to making a sale and helping you build customer trust and loyalty.

You can also use ad campaigns to educate consumers about topics relevant to your business. For example, a plumber marketing campaign may run a social media ad that includes an infographic about a simple hack to fix a toilet clog. By doing so, you can increase your visibility as an industry expert while also driving consumers to learn more about your brand.

3. Boost your reputation:

Advertising enables you to enhance your small business reputation. Both offline and online advertising can boost the prominence of your key messages—the takeaways you want your target audience to have—and highlight the good aspects of your company.

Ads that evoke a feeling of likeability have a proven impact on sales growth, so advertising can affect perceptions. For instance, if you've had any negative exposure, running an ad that highlights a positive part of your business can redirect potential consumers away from the unwanted attention.

4. Acquire new customers:

Acquiring new customers is a must for business growth. Advertising is important because it can help you reach more people within your target audience with messaging that appeals directly to them.

Online advertising—including social media ads, Yelp Ads, and others—is particularly crucial for customer acquisition these days. Through online ads, you don't have to appeal to a broad audience as you would with traditional advertising mediums like print ads or television. Digital advertising allows you to specifically reach the people who match your exact target demographics, key interests, and more.

As you reach highly specific segments of your target market—without wasting cash on those who won't be as interested—you can send highly targeted messages for a better return on investment (ROI). Because of this, advertising can be one of the most cost-effective ways to gain leads and convert new customers for your brand.

5. Retain current customers:

Customer retention is the foundation of business growth. You need loyal, returning clients—these are the people who love your brand, send you referrals via word of mouth, and likely spend more money on your product or service.

Effective advertising drives repeat business by turning your customers' attention back to you. You can use ad campaigns to retarget members of your target audience, including people who are already in your customer base. As you consistently remind your buyers of your brand—perhaps piquing their interest with new products or discount pricing for loyal members—they'll continue to feel connected to you and buy from you instead of turning to your competitors.

6. Stay ahead of the competition:

No matter what type of business you run, you have competitors. There will always be brands vying for the attention of the same consumers. Even if you don't know who those competitors are, there's a good chance they're among the many brands contributing to the billion-dollar advertising industry.

In this sense, advertising is important because everyone is doing it. If you're not using ads to put your brand at the forefront of people's minds, your competitors will gladly take the spotlight. And if you stay in the shadows too long, you'll lose relevance in consumers' minds.

Staying ahead of the competition—especially in saturated industries—is all about continuous exposure. Beyond the reach you gain organically or through word of mouth, ads can help you achieve that.

7. Make sales:

When answering the question "why is advertising important?" it would be remiss not to mention its effects on sales. Ads are powerful tools for helping small businesses earn the money they need to survive and thrive.

Ad campaigns can directly influence sales, driving more consumers straight to your physical store, website, and even specific product pages if you run an ecommerce brand. Digital search ads alone help businesses gain about $11 per dollar spent on average. Ads of any medium can even help you cross-sell products and services, increasing the value of each consumer's individual purchase.

Many digital ad options allow you to set your own budget and pay only when you receive clicks, such as pay-per-click (PPC) options. As such, advertising can play a big role in improving your company's overall bottom line, too. As advertising helps you achieve high ROI, you'll have extra revenue that you can reinvest in your business for a continuous cycle of advertising and growth.

6.6 SUMMARY

- Promotion is vital for export marketing.
- Sales promotion technique is used extensively in domestic and overseas markets.
- Personal Selling is face to face communication with one or more prospective buyers/users and influencing the buyer.
- Personal Selling is two-way communication.
- Advertising enables you to enhance your small business reputation.
- Customer retention is the foundation of business growth.

6.7 EXERCISE

A. Descriptive Questions:

Short Answers:

1. How to Educate consumers?
2. Is selling is importance for export marketing?
3. What is the ITPO?
4. Explain in short personal selling
5. How to Build awareness

Long Answers:

1. Discuss the primary purpose of a trade fair
2. Explain the Importance of TradeFairs
3. Explain the Benefits of Personal Selling
4. Which are the Essentials of Advertising in Export Marketing.
5. Do you think that trade fairs are really useful? Discuss.

B. Multiple Choice Questions:

1. ………………. provide at least one model that they can keep at their head office and take prospective clients to show

   a. Sales training

   b. Cooperative advertising

   c. Slotting fees

   d. Demonstration models

2. …………………. two-way communication

   a. group selling

   b. Personal Selling

   c. online selling

   d. manufacture selling

3. ……………... involve incentives that reward repeat purchases.

   a. Slotting fees

   b. Demonstration models

   c. Loyalty programmes

   d. Tie-in promotions

4. ……………is often paid by a manufacturer or exporter to a retailer to acquire shelf or display space where you can display products.

   a. Business-orientated promotion

   b. Promotional allowances

   c. Cooperative advertising

   d. Sales training

5. ……………exporters must participate in trade fairs and exhibitions

   a. Direct

   b. Foreign

   c. Indian

   d. Domestic

Answer: 1- d ,2- b, 3-b, 4- b, 5-c

C. Fill in the blanks:

1. ………… technique is used extensively in domestic and overseas markets
2. ……………… where manufacturers and distributors place their goods or services on display
3. ……………………is the best way to communicate to the customers
4. ………… is a short-term price reduction to encourage customers to buy the product
5. Promotion is vital for …………...marketing

Answer:

1. Sales promotion
2. Trade fairs and exhibitions
3. Advertising
4. Price incentives
5. export

D. State whether the following sentence are True / False:

1. A good number of Indian exporters do not give much importance to promotion
2. ITPO acts as a publicity wing of government of India for organizing trade fair and exhibitions in India and abroad
3. Delegations Inviting is considered as the best source of information on import and export trade.
4. Personal selling is according to plan he can even adjust his approach or sales presentation accordingly
5. All products are suitable for sampling

Answer:

True- 1 and 2

False-3, 4 and 5

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MODULE - III

7

EXPORT FINANCE - I

Unit Structure

7.0 OBJECTIVES

The main purpose of this chapter is:

- To discuss the methods of Payment in export marketing
- To understand the procedure to open Letter of Credit
- To discuss the Types and Benefits of Countertrade

7.1 INTRODUCTION

In the export trade, there are various payment methods. The parties to a foreign trade transaction decide on the mode and manner of payment. Banks are the most important players in this regard. The seller must ensure that the sales proceeds are credited to his account within 180 days of the goods being shipped.

Countertrade is an alternative method of structuring an international sale when traditional payment methods are complicated or non-existent. Bartering is the most common type of countertrade.

7.2 METHODS OF PAYMENT IN EXPORT MARKETING

There are several methods of securing payment of export proceeds, some of which are as follows

Create an account:

Trade credit is another term for open account. Under this method, the seller and buyer agree on the terms of credit and the rate of interest on the outstanding amount. The seller extends this facility to his overseas buyer only when he is confident in the buyer's integrity to honour his commitments.

One advantage of this method is that it relieves the seller of the burden of drawing and discounting bills of exchange. However, it can be used only when the parties are well acquainted with one another and have cross-dealings so that the accounts are at least partially squared up.

Advance Payment:

The buyer is expected to make the payment in advance under advance payment. If this payment term is offered, there is no risk of not receiving payment. This method may be effective when the buyer is completely dominated by the exporter and the buyer is eager to obtain the goods. It is customary for the exporter to demand a certain percentage of the value of goods in advance, especially when the goods manufactured are to the buyer's specifications.

Payment against Shipment on Consignment:

The exporter delivers the goods to the overseas consignee or agent without actually transferring ownership. Payment is made only when the goods are ultimately sold to third parties by the overseas consignee.

This method is expensive due to the commission to be paid to the consignee, as well as other charges, and it is also risky. If the goods remain unsold, the consignee may return them, and even the consignee may fail to pay the dues on time. The final price is also uncertain because it is determined by market conditions in the buyer's country.

However, this method benefits the buyer because the buyer can inspect the goods before purchasing, and the seller may receive a higher price if the buyer is satisfied with the quality. In India, prior approval from the RBI's exchange control department is required for consignment shipments.

Documentary Bills:

When relevant documents pertaining to the title of the goods are sent along with the foreign bill of exchange, it is referred to as a documentary bill. Documents Against Payments (D/P) and Documents Against Acceptance (D/A) are the two types.

Documents against Payment (D/A):

The documents are released to the importer in exchange for payment; this method denotes that payment is made by sight draught. If there is a payment delay, arrangements must be made to store the goods.

Documents Against Acceptance (D/A):

The documents are released in exchange for the acceptance of the time draught, i.e. credit is granted for a set period of time, say 90 days. However, the exporter does not have to wait for payment until the bill is paid on time because he can discount the bill with the negotiating bank and obtain funds immediately after shipment of goods.

Letter of Credit (L/C):

When the exporter draws a bill of exchange on the importer, he runs the risk of the importer breaching the contract. For the exporter, a superior method of debt settlement is that if he exports the goods in accordance with the contract and produces evidence to that effect, he will receive payment without default.A letter of credit is an authorization issued by the opening bank to the negotiating banks to make the payment if the exporter presents the relevant set of documents.

A letter of credit is defined as "an undertaking by the importer's bank stating that payment will be made to the exporter if the required documents are presented to the bank within the letter of credit's validity period.".

7.3 PROCEDURE TO OPEN LETTER OF CREDIT

In recent years, the letter of credit has become the most popular. Because it is more secure than other payment methods.

A letter of credit is an authorization issued by the opening bank to the negotiating bank to make the payment if the exporter presents the relevant set of documents. The following are the steps involved in opening a letter of credit.

Exporter ‘s Request:

The exporter requests that the importer issue a letter of credit in his favour. In foreign trade, L/C is the most secure form of payment.

Request to Importer's Bank:

The importer asks his bank to open a letter of credit. He can either pay the credit amount in advance or ask the bank to open credit in his current account.

Issue of L/C:

The issuing bank issues the letter of credit and forwards it to its correspondent bank with the request that the beneficiary be notified that the letter of credit has been opened. If the beneficiary requests it, the issuing bank may request that the advising bank include its confirmation in the L/C.

Receipt of L/C:

The exporter obtains possession of the L/C. He should make certain that the L/C is confirmed.

Shipment of Goods:

The exporter then supplies the goods and submits the complete set of documents, along with the draught, to the negotiating bank.

Scrutiny of Documents:

The negotiating bank then examines the documents and, if they are in order, pays the exporter.

1) Realisation of payment:

The issuing bank will reimburse the amount (which is paid tothe exporter) to the negotiating bank.

2) Documents to importer:

In turn, the issuing bank hands over the documents to the importer and debits his account for the corresponding amount.

7.4 TYPES AND BENEFITS OF COUNTER TRADE

Countertrade is estimated to account for 5 to 30% of total global trade. In the 1980s, countertrade became extremely common. Perhaps the single most important contributing factor is the decreasing ability of Least Developed Countries (LDCs) to finance their import needs through bank loans.

One of the oldest forms of trade, countertrade, is a government mandate to pay for goods and services with something other than cash. It is a practise that requires a seller to contractually commit to reciprocate and undertake certain business initiatives that compensate and benefit the buyer as a condition of sale. In a nutshell, a goods-for-goods transaction is a form of countertrade. Unlike monetary trade, suppliers are required to accept products from customers for their own use or resale. In most cases, there are multiple deals that are distinct but related, and a contract connects these distinct transactions. Countertrade may involve several products that move at different points in time while involving multiple countries. Monetary payments may or may not be included in the agreement.

There are several types of countertrades, including barter, counter purchase, compensation trade, switch trading, offsets and clearing agreements.

1. Barter:

The simplest of the many types of counter trade is barter, which is a one-time direct and simultaneous exchange of products of equal value (i.e., one product for another). By eliminating money as a medium of exchange, barter allows cash-strapped countries to buy and sell. Although price must be considered in any counter trade, in the case of barter, price is only implicit at best.

2. Counter purchase (Parallel Barter):

When there are two contracts or a set of parallel cash sales agreements, each paid in cash, a counter purchase occurs. Unlike barter, which is a single transaction with an implied exchange price. A counter purchase consists of two distinct transactions, each with its own cash value. A supplier sells a facility or product at a fixed price and orders unrelated or non-result products to offset the initial buyer's cost. As a result, the buyer pays in hard currency, while the supplier agrees to buy specific products within a specified time frame.

3. Compensation Trade (Buyback):

A compensation trade requires a company to provide machinery, factories, or technology and to purchase products made from this machinery over a set period of time. In contrast to a counter purchase, which involves two unrelated products, the two contracts in a compensation trade are very closely related. A supplier agrees to buy a portion of the plant's output for a number of years under a separate agreement to the sale of plant or equipment.

4. Switch Trading:

Switch trading necessitates a triangular trade agreement rather than a bilateral trade agreement. When goods from the buying country, in whole or in part, are not easily usable or salable, it may be necessary to bring in a third party to dispose of the merchandise. The third party pays a significant discount in hard currency for the unwanted merchandise.

5. Offset:

In exchange for the right to sell its products locally, a foreign supplier is required to manufacture/assemble the product locally and/or purchase local components. In effect, the supplier is forced to manufacture in a location that may not be economically advantageous. Offsets are frequently found in aircraft and military equipment purchases. According to one study, more than half of the companies counter trading with the Middle East were in the defence industry, with offset being the most common type of counter trade. These companies believed that counter trade was a necessary component for entry into these markets.

6. Clearing Agreement:

A clearing agreement is a clearing account barter agreement that does not require a currency transaction. The trade in this case is continuous, with a line of credit established in the central banks of the two countries, and the exchange of products between two governments is designed to achieve an agreed-upon value or volume of trade tabulated or calculated in nonconvertible "clearing account units."

Benefits of Countertrade:

- Regardless of its complexity, companies continue to use countertrade as a growth strategy because it:
- Allows for entry into difficult markets.
- Increases company sales in areas where you might not normally have business.
- Overcomes credit problems.
- Allows for the disposal of obsolete or surplus products.
- Obtains a competitive advantage over competitors.

7.5 SUMMARY

- The exporter delivers the goods to the overseas consignee or agent without actually transferring ownership.
- Documents Against Payments (D/P) and Documents Against Acceptance (D/A) are the two types.
- A letter of credit is an authorization issued by the opening bank to the negotiating banks to make the payment if the exporter presents the relevant set of documents.
- A compensation trade requires a company to provide machinery, factories, or technology and to purchase products made from this machinery over a set period of time.
- A counter purchase consists of two distinct transactions, each with its own cash value.
- The simplest of the many types of counter trade is barter.
- A clearing agreement is a clearing account barter agreement that does not require a currency transaction.

7.6 EXERCISE

A. Descriptive Questions:

Short Answers:

1. What is the Countertrade?
2. Explain the documentary bills

3. Explain the buyback.

4. Explain in short clearing Agreement

5. Explain the benefits of Countertrade

Long Answers:

1. Explain the methods of payment in export marketing.

2. What is the different between barter and parallel barter?

3. How to open Letter of Credit?

4. Explain the types of Countertrades.

5. What is the function of export trade?

B. Multiple Choice Questions:

1. ………………… clearing account barter agreement that does not require a currency transaction.

   a. Switch Trading

   b. Compensation Trade

   c. Offset

   d. Clearing Agreement

2. LDCs stands for:

   a. Least Developed Countries

   b. Level Developed Countries

   c. Low Developed Countries

   d. Language Developed Countries

3. ………. authorization issued by the opening bank to the negotiating bank to make the payment if the exporter presents the relevant set of documents.

   a. letter of credit

   b. Countertrade

   c. post-shipment

   d. Pre-shipment

4. …………is an alternative method of structuring an international sale when traditional payment methods are complicated

   a. Letter of credit

   b. Countertrade

   c. post-shipment

   d. Pre-shipment

5. ………….. payment term is offered, there is no risk of not receiving payment.

   a. Post payment

   b. Advance Payment

   c. current payment

   d. Realisation of payment

Answer: 1- a, 2- a, 3-a, 4-b, 5-b

C. Fill in the blanks:

1. …………. credit is term for open account.
2. …………… is the two contracts or a set of parallel cash sales agreements, each paid in cash, a counter purchase occurs.
3. …………is the most common type of countertrade
4. …………… is a government mandate to pay for goods and services with something other than cash
5. The buyer is expected to make the payment in advance under…………

Answer:

1. Trade
2. Counter purchase
3. Bartering
4. countertrade
5. advance payment

D. State whether the following sentence are True / False:

1. Switch trading necessitates a triangular trade agreement rather than a bilateral trade agreement

2. non-monetary payments may or may not be included in the agreement.

3. The simplest of the many types of counter trade is barter.

4. The exporter obtains possession of the L/C

5. Non-countertrade is estimated to account for 5 to 30% of total global trade

Answer:

True- 1, 3 and 4

False-2 and 5

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8

EXPORT FINANCE - II

Unit Structure

8.0 OBJECTIVES

The main purpose of this chapter is:

- To discuss the features of Pre-Shipment and Post-shipment finance
- To explain the procedure to obtain Export Finance
- To outline Distinction between Pre-Shipment Finance and Post Shipment Finance

8.1 INTRODUCTION

Export finance is the study of the financial need and institutional framework to provide finance for export trade, including export credit institutions, foreign exchange implications, and methods of securing payment of export proceeds.

Exporters are provided with short-term, medium-term, and long-term financing based on the type of goods to be exported and the terms of payment offered by finance institutions to overseas buyers.

In India, commercial banks such as SIDBI and EXIM bank are directly involved with export financing. The Reserve Bank of India is indirectly concerned with export financing because it establishes rules and regulations governing the terms and conditions of export finance that commercial banks and other financial institutions must follow. The ECGC is also involved in export finance. It safeguards exporters against the risk of non-payment by the importer.

Short, medium, and long-term financing may be required by the exporter. Short-term financing is required to meet "Working Capital" requirements. Working capital is used to meet a company's regular and recurring needs. A business's regular and recurring finance needs include the purchase of raw materials, payment of wages and salaries, and expenses such as rent and advertising.

8.2 FEATURES OF PRE-SHIPMENT AND POST-SHIPMENT FINANCE

Pre-shipment financing is also known as packing credit. It is a bank or financial institution advance credit facility held by an exporter. It is defined by the Reserve Bank of India as "any loan to an exporter for financing the purchase, processing, manufacturing, or packing of goods." It is, precisely, an interim advance provided by a bank to assist the exporter in purchasing, processing, packing, and shipping the goods. Packing credit is a type of working capital given to an exporter.

Features of Pre-Shipment Finance:

The salient features of packing credit are as follows:

Eligibility:

Exporters who have an export order or a letter of credit in their name from a foreign buyer are eligible for packing credit. An indirect exporter can also obtain packing credit if:

a) He produces a letter from the concerned export house or other concerned party stating that a portion of the export has been allotted in this favour.

b) Export houses or other interested parties should also state that they do not want packing credit for the same.

Purpose:

Packing credit is given to the exporter in order to meet working capital requirements prior to shipment of goods, such as payment of raw materials and wages.

Documentary Evidence:

Pre-shipment financing is provided in exchange for evidence of an irrevocable L/C confirmed order for export. The L/C confirmed order document must be deposited with the lending institution.

Form of Finance:

Packing credit can take the form of a funded or unfunded advance. L/Cs with a red clause and a green clause are examples of funded finance. Domestic L/Cs, back-to-back L/Cs, and various guarantees are examples of non-funded facilities.

Amount of Packing Credit:

The amount of packing credit is determined by the amount of export orders and the bank's credit rating of the exporters. The bank may also take into account receivable export incentives such as DBK, IPRS, and so on.

Period of Packing Credit:

Normally, it is granted for a period of 180 days. A further extension of 90 days is being considered with the RBI's prior approval.

Rate of Interest:

Packing credit is available at a low interest rate. The difference between the normal rate of interest and the export finance rate of interest is repaid to banks by the RBI.

Loan Agreement:

Banks require the exporter to sign a formal loan agreement before the loan is disbursed.

Maintenance of Accounts:

According to RBI guidelines, banks must keep separate accounts for each pre-shipment advance. Running accounts are permitted, however, for certain items manufactured in FTZs/EPZs and 100 percent EOUs.

Disbursement of loan:

Pre-shipment finance advances are typically not sanctioned in lump sums, but rather disbursed in stages.

Monitoring the Use of Advance:

The bank advancing packing credit should monitor the use of pre-shipment finance by the exporter, i.e. whether the amount is used for export purposes or not, and a penalty for misuse can be imposed.

Repayment:

When the export proceeds or incentives are realised, the exporter is expected to liquidate or repay the advance amount plus interest.

Post-Shipment of Finance:

When an Indian exporter requires an advance or a loan after completing the process of shipping goods, this is referred to as "Post-shipment Finance." This funding is required after the shipment has been completed but prior to the receipt of payment from overseas buyers.

Post-shipment financing is available to meet working capital requirements following the shipment of goods.

Features:

The main features of post-shipment finances are as follows:

1. Eligibility:

This facility is available to exporters who have shipped the goods or to an exporter in whose name the export documents have been transferred.

2. Purpose:

Post-shipment finance provides the exporter with working capital from the date of shipment to the date of realisation of export proceeds.

3. Documentary Evidence:

It is extended in the case of deemed and project exports against the evidence of shipping documents indicating the compliance of actual shipment of goods or other necessary evidence.

4. Forms of Post-Shipment Finance:

Banks offer post-shipment finance in a variety of forms, including discounting of export bills, advances against goods sent on a consignment basis, advances against retention money, and so on.

5. Amount of Post-Shipment Credit:

The amount of post-shipment finance is determined by the exporter's working capital requirements following the shipment of goods.

6. Period of Post-Shipment Finance:

Commercial banks typically provide 90-day short-term loans. EXIM bank offers medium-term financing for periods ranging from 90 days to 5 years, as well as long-term loans for capital goods and turnkey projects with terms ranging from 5 years to 12 years.

7. Rate of Interest:

The post-shipment finance facility is granted at a lower interest rate than that charged to domestic or local parties.

8. Loan Agreement:

Before the loan is disbursed, the exporter must execute a formal loan agreement with the bank.

9. Maintenance of Accounts:

According to RBI guidelines, banks must keep a separate account for each post-shipment advance. Running accounts are permitted in the case of SEZ/EPZ units and 100 percent EOUs.

10. Disbursement of Loan Accounts:

Post-shipment credit advances are typically not given in lump sums. It is paid out in instalments as needed by the exporter.

11. Monitoring the use of Advance:

The bank advancing post-shipment credit should monitor the exporter's use of post-shipment credit, i.e., whether the amount is used for export purposes or not. Misuse can result in a penalty.

8.3 PROCEDURE TO OBTAIN EXPORT FINANCE

Finance is required by the exporter both before and after the shipment. Per-shipment finance or packing credit refers to the financing required to cover various expenses prior to the shipment of goods. Post-shipment finance refers to the financing provided by banks after the shipment of goods.

The following are a list of them:

1. Having an Export Order:

Export order processing begins with the receipt of an export order. Simply put, an export order means that there should be an agreement in the form of a document between the exporter and the importer before the exporter begins producing or procuring goods for shipment. In most cases, an export order will take the form of a proforma invoice, purchase order, or letter of credit. These were already taught to you in the preceding section.

2. Examination and Confirmation of Order:

After receiving an export order, the exporter should review it in light of the contract's terms and conditions. In fact, this is the most important stage because all subsequent actions and reactions are determined by the terms and conditions of the export order.

3. Manufacturing or Procuring Goods:

Under the export credit (interest subsidy) scheme, the Reserve Bank of India (RBI) extends pre-shipment credit to exporters to finance working capital needs for the purchase of raw materials, processing them, and converting them into finished goods for export. The exporter approaches the bank in accordance with the pre-shipment credit procedures. After receiving credit, the exporter begins to manufacture / procure and pack the goods for export.

4. Clearance from Central Excise:

As soon as the goods are manufactured / purchased, the process of obtaining clearance from central excise duty begins. The Central Excise and Sale Act of India, as well as the accompanying rules, provide for the refund of excise duty paid. There are two alternative schemes under which export products receive a 100% duty rebate upon submission of proof of shipment.

5. Pre-Shipment Inspection:

According to the Government of India's notification, there are a number of goods whose export requires quality certification. As a result, before allowing the shipment of goods, the Indian customs authorities will require the submission of an inspection certificate issued by the competent and designated authority.

6. Appointment of Clearing and Forwarding Agents:

On completion of the process of obtaining the Inspection Certificate from the custom agencies, the exporter appoints clearing and forwarding agents who perform a number of functions on behalf of the exporter.

The main functions performed by these agents include packing, marking and labeling of consignment, arrangement for transport to the port arrangement for shipment overseas, customs clearance of cargo, procurement of transport and other documents.

7. Goods to Port of Shipment:

Following the completion of the excise clearance and pre-shipment inspection formalities, the goods to be exported are packed, marked, and labelled. Proper marking, labelling, and packing aid in the safe and timely transportation of goods. The export department takes steps to reserve space on the ship that will transport goods to the importer.

8. Port Formalities and Customs Clearance:

After receiving the documents from the export department, the clearing and forwarding agent collects the cargo from the railway station or road transport company and stores it in the warehouse. He also obtains customs clearance and port authority permission to bring the cargo into the shipment shed.

9. Dispatch of Documents by Forwarding Agent to the Exporter:

The clearing and forwarding agent send all documents to his or her exporter after receiving the Bill of Lading from the shipping company.

10. Certificate of Origin:

Upon receipt of the above documents from the forwarding agent, the exporter applies for and receives a Certificate of Origin from the Chamber of Commerce. If the goods are exported to countries that offer GSP concessions, the exporter must obtain a GSP Certificate of Origin from the relevant authority, such as the Export Inspection Agency.

11. Dispatch of Shipment Advice to the Importer:

Finally, the exporter sends a 'Shipment Advice' to the importer informing them of the date of shipment of the consignment by a named vessel and the expected time of arrival at the importer's destination port.

12. Submission of Documents to Bank:

At the end of the process, the exporter presents the following documents to his bank in order to receive payment from the importer:

(i) Commercial Invoice’

(ii) Certificate of Origin

(iii) Packing List

(iv) Letter of Credit

(v) Marine Insurance Policy

13. Claiming Export Incentives:

After completing the processing of an export order at all three levels of shipment, i.e., pre-shipment, shipment, and post-shipment, the exporter claims any export incentives that are available to him or her.

8.4 DISTINCTION BETWEEN PRE & POST SHIPMENT FINANCE

Basis For Comparison	Pre-Shipment Finance	Post-Shipment Finance
Meaning	Pre-shipment finance is a facility that extends working capital finance to the exporter of goods in order for them to be exported to another country.	Post shipment finance is a type of loan provided by a bank to an exporter in exchange for the already completed shipment of goods.
Objective	To assist exporters in obtaining raw materials, labour, and supplies needed to produce, package, store, and transport goods.	To finance export receivables from the date documents are submitted to the exporter's bank until the date proceeds from exported goods are realised.
Eligibility	Export company or company that exports goods via export houses.	The exporter or the person in whose name the export documents are transferred.
Source of Repayment	The contract's proceeds	Revenue from exports
Risk involved	Risks associated with payment and performance	Only the payment risk exists.

8.5 SUMMARY

- Pre-shipment financing is also known as packing credit. It is a bank or financial institution advance credit facility held by an exporter.
- The difference between the normal rate of interest and the export finance rate of interest is repaid to banks by the RBI.

- Post-shipment financing is available to meet working capital requirements following the shipment of goods.
- The amount of post-shipment finance is determined by the exporter's working capital requirements following the shipment of goods.

8.6 EXERCISE

A. Descriptive Questions:

Short Answers:

1. What is the pre-shipment finance?
2. What is the post shipment finance?
3. Who is Eligibility in pre-shipment finance?
4. Write feature of export finance?
5. Explain in short Export finance

Long Answers:

1. Explain the distinguish between Pre-Shipment Finance and Post Shipment Finance
2. Write a feature of Post shipment.
3. What is the Procedure to obtain Export Finance?
4. Write advantages of pre-shipment finance.
5. Explain in brief Export finance and advantage?

B. Multiple Choice Questions:

1. ……………… the contract's proceeds.

   a. Pre shipment finance

   b. Post shipment finance

   c. Export finance

   d. Import finance

2. Pre-shipment financing is provided in exchange for evidence of an irrevocable ……………...order for export

   a. L/C confirmed

   b. L/B confirmed

   c. L/D confirmed

   d. L/F confirmed

3. The exporter or the person in whose name the export documents are transferred in…………...

   a. Pre shipment finance

   b. Post shipment finance

   c. Export finance

   d. Import finance

4. Pre-shipment financing is also known as ……………...

   a. packing credits

   b. packing debit

   c. packing goods

   d. packing money

5. …………is a type of loan provided by a bank to an exporter

   a. Pre shipment finance

   b. Post shipment finance

   c. Export finance

   d. Import finance

Answer: 1- a, 2-a, 3-b, 4-a, 5-b

C. Fill in the blanks:

1. …………………. a bank or financial institution advance credit facility held by an exporter.
2. Banks offer post-shipment finance in a variety of forms, including ………………
3. The processing of an export order at all three levels of shipment, i.e …………………, ………………..and ………..
4. Export order processing begins with the ………… of an export order
5. Packing credit is a type of working capital given to an …………….

Answer:

1. Pre-shipment financing
2. discounting of export bills
3. pre-shipment, shipment, and post-shipment, the exporter claims
4. receipt
5. exporter

D. State whether the following sentence are True / False:

1. Long-term financing is required to meet "Working Capital" requirements
2. The bank advancing packing credit should monitor the use of pre-shipment finance by the exporter
3. Export houses or other interested parties should also state that they do not want packing credit
4. The amount of post-shipment finance is determined by the exporter's working capital requirements following the shipment of goods
5. In pre-shipment risks associated with payment.

Answer:

True- 2, 3 and 4

False-1 and 5

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9

EXPORT FINANCE - III

Unit Structure

9.0 OBJECTIVES

The main purpose of this chapter is:

- To understand the role of Commercial Banks
- To discuss EXIM Bank
- To explain about the SIDBI in financing exporters
- To discuss the role of ECGC

9.1 INTRODUCTION

Export finance is the study of the financial need and institutional framework to provide finance for export trade, including export credit institutions, foreign exchange implications, and methods of securing payment of export proceeds.

Exporters are provided with short-term, medium-term, and long-term financing based on the type of goods to be exported and the terms of payment offered by finance institutions to overseas buyers.

9.2 ROLE OF COMMERCIAL BANKS

The exporter is expected to repay the loan to the bank as soon as the export proceeds are received. In most cases, the lending bank receives the export proceeds from the importer's bank.

Commercial banks provide a significant portion of export financing. They provide financial assistance to exporters not only on a priority basis, but also on liberal terms, both before and after shipment.

The Reserve Bank of India's directives under the Exchange Control Regulation Act require export payments to be settled through the medium of an Indian bank authorised to deal in foreign exchange. Commercial banks' services are classified as follows:

- Fund Based Assistance (Financial Services)
- Non-Fund Based Assistance (Non-Financial Assistance)

(a) Fund Based Assistance:

Commercial banks provide fund-based activities both before and after the shipment.

(i) Pre-Shipment Stage:

Commercial banks provide financing on a short-term basis for a normal period of 180 days at a very low interest rate. Cash packing credit loan, advance against hypothecation, advance against pledge, and other types of advances are available. Post-Shipment Stage

Commercial banks typically provide finance at the post-shipment stage for a period of 90 days at a low interest rate. Post-shipment finance can take many forms, including bill negotiation under LC, bill purchase/discounting, overdraft against bills under connection, and so on.

(b) Non-Fund Based Assistance:

(I) Banks Guarantees:

Banks are authorized to provide guarantees and bid bonds in favour of foreign buyers. Bank guarantees include the following: -

1. Bid Bonds:

Bid bonds are issued by banks to enable exporters to participate in and quote prices in various global tenders.

2. Preference Guarantee:

This is required for capital goods exports, turnkey projects, and construction contracts.

3. Advance Payment Guarantee:

Banks also provide advance payment guarantees to overseas buyers, who typically make a specific advance payment to the Indian exporter in exchange for a bank guarantee.

4. Guarantee for Payment of Retention Money:

Banks issue a guarantee for the payment of retention money by the overseas party, who will only release the retention money to the Indian party after receiving the guarantee from the bank.

5. Guarantee for Foreign Currency Loans:

It is granted by a financial institution in another country to Indian exporters who raise funds to finance their projects in another country.

(ii) Credit Rating of Importers:

On the request of exporters, banks conduct credit ratings on importers. They gather vital information about their creditworthiness and provide it to exporters.

(iii) Information about Foreign Exchange:

Banks also provide information on various countries' exchange rates.

(iv) Dollar Account:

Commercial banks offer their clients services by opening a 25% dollar account. Under this account, an exporter is permitted to keep 25% of receipts in foreign currency accounts with an Indian bank; these accounts assist exporters in meeting payment in foreign currencies.

(v) Invoicing in a Foreign Currency:

A buyer may insist on invoicing in a foreign currency that is generally acceptable to him. If the contract is not for major currencies, banks provide the necessary information on this subject, such as whether the said currency is marketable or not.

(vi) Confirmation of Letter of Credit:

Banks are also responsible for advising and confirming L/Cs opened by importers.

(vii) Forward Trading:

Banks mitigate the risks associated with fluctuating foreign exchange rates by fixing the rate in advance for future transactions. Forward exchange rates are the name given to such rates.

(viii) Currency for Invoicing Services:

Because all currencies are not readily available and may require prior permission for release, banks provide foreign currencies for invoicing services.

9.3 EXIM BANK

The Export-Import Bank of India (EXIM) is a public sector financial institution that was founded on January 1, 1982. It began operations on March 1, 1982. It was established by an Act of Parliament to finance, facilitate, and promote foreign trade. It is also the primary financial institution in charge of coordinating the activities of institutions involved in financing India's foreign trade.

This bank was established primarily to finance medium and long-term loans to exporters in order to promote the country's foreign trade.

Objectives of Exim Bank:

The following are EXIM Bank's primary goals and objectives:

1. Financing of export and imports of goods and services not only of India but also of third world countries.
2. Financing of joint ventures in foreign countries.
3. Financing of Indian manufactured goods, consultancy and technological services of deferred payment terms.
4. Financing R&D and techno-economic study.
5. Co-financing global and regional development agencies.

9.4 SIDBI IN FINANCING EXPORTERS

The Small Industries Development Bank of India (SIDBI) was established in April 1990 as a wholly owned subsidiary of the Industrial Development Bank of India, the country's premier development bank, by an act of parliament, the Small Industries Development Bank of India Act, 1989.

Objectives:

SIDBI's main objectives are as follows:

(a) To serve as the primary financial institution for the promotion, financing, and development of the small-scale sector.

(b) Coordination of the functions of institutions involved in promoting and financing the development of the small-scale sector.

Functions:

The main functions of SIDBI are as follows:

SIDBI offers a variety of schemes for the promotion, financing, and development of units in the small scale and tiny sectors. The various schemes are divided into three categories.

Refinance Assistance:

1) Seed capital scheme:

SFCS/SIDCS provide seed capital to SSI unit promoters. SIDBI can then provide refinancing to the SFC/SIDC. This scheme enables entrepreneurs to meet the promoter's equity contribution.

2) Equipment Refinance Scheme:

FVS/SIDCS provide equipment refinancing to SSI units in order for them to purchase equipment for expansion and modernization. If necessary, the SFC/SIDC can seek refinancing from SIDBI.

3) Tourism Related Finance Scheme:

SFCS/SIDCS finance entrepreneurs who are developing tourism-related activities such as amusement parks, cultural centres, restaurants, and so on. SIDBI can then provide refinancing to the SFC/SIDC.

I) Direct Assistance:

1) Project Finance Scheme:

SIDBI provides direct financing to SSI units for the establishment of new projects. Preference is given to units with an export orientation, import substitution, hitech, and entrepreneurs with a proven track record.

The project cost should not be less than Rs. 75 lakh, and the debt-to-equity ratio should not be greater than 2:1.

2) ISO 9000 Scheme:

SIDBI offers direct financing for ISO 9000 certification. The goals are to promote quality systems in SSI units in order to improve their marketing and export capabilities.

3) Equipment finance Scheme:

SIDBI provides direct financing to SSI units for the purchase of equipment necessary for expansion and modernization.

9.5 ROLE OF ECGC

Meaning:

In July 1957, the Government of India established the Export Risk Insurance Corporation (ERIC) to provide export credit and insurance support to Indian exporters. The company is now known as ECGC of India Ltd.

The Government of India owns 100% of ECGC. It is administered by the Ministry of Commerce and is governed by a board of directors comprised of representatives from government, banking, insurance, trade, and industry.

Objectives:

The main objectives of ECGC are as follows:

1. The ECGC is intended to protect exporters from the consequences of both political and commercial payment risks.
2. It enables exporters to expand their overseas operations without fear of losing money.

3. It allows exporters to obtain timely and liberal/bank financing.

4. It provides financial guarantees to banks in order to protect their interests.

5. It allows exporters and importers to take calculated business risks.

Policies Issued By the ECGC:

The ECGC has several policies and guarantees, which are as follows:

1) Standard Policies:

Standard policies are issued to exporters to protect them from payment risks associated with short-term credit exports.

2) Specific Policies:

Specific policies designed to protect Indian firms from payment risk associated with

(a) deferred payment exports,

(b) services rendered to foreign parties, and

(c) construction works and turnkey projects undertaken abroad..

3) Financial Guarantees:

Financial guarantees are issued to Indian banks to protect them from the risks of loss associated with providing financial assistance to exporters at the pre-shipment and post-shipment stages.

4) Special Scheme:

Special schemes, such as transfer guarantee, are designed to protect banks by adding confirmation to letters of credit opened by foreign banks, as well as insurance coverage for buyer credit.

9.6 SUMMARY

- Commercial banks provide financial assistance to exporters not only on a priority basis, but also on liberal terms, both before and after shipment.

- Commercial banks provide financing on a short-term basis for a normal period of 180 days at a very low interest rate.

- Bid bonds are issued by banks to enable exporters to participate in and quote prices in various global tenders.

- Banks are also responsible for advising and confirming L/Cs opened by importers.

- The Export-Import Bank of India (EXIM) is a public sector financial institution that was founded on January 1, 1982.
- The Small Industries Development Bank of India (SIDBI) was established in April 1990.
- SFCS/SIDCS provide seed capital to SSI unit promoters.
- The Government of India owns 100% of ECGC.

9.7 EXERCISE

A. Descriptive Questions:

Short Answers:

1. Meaning of ECGC
2. Explain the Exim bank
3. Explain the SIDBI
4. Explain the pre-shipment stage
5. Explain the importance of SIDBI

Long Answers:

1. Explain the role of Commercial banks.
2. Which are the objectives are there Exim Bank.
3. Explain the Functions of SIDBI in financing exports
4. What are the Objectives of ECGC?
5. How many policies issued by the ECGC?

B. Multiple Choice Questions:

1. Commercial banks provide fund-based activities both before and after the shipment ………….

   a. Fund Based Assistance

   b. Refinance Assistance

   c. Repay loan Assistance

   d. Non-Fund Based Assistance

2. ………….. provide seed capital to SSI unit promoters

   a. Repay Loan Assistance

   b. SFCS/SIDCS

   c. Equipment Refinance Scheme

   d. Tourism Related Finance Scheme

3. Commercial banks provide financing on a short-term basis for a normal ………….. at a very low interest rate.

   a. period of 90 days

   b. period of 180 days

   c. period of 60 days

   d. period of 50 days

4. Commercial banks typically provide finance at the post-shipment stage for a ……….

   a. period of 90 days

   b. period of 60 days

   c. period of 50 days

   d. period of 14 days

5. Commercial banks offer their clients services by opening a ………………dollar account.

   a. 15%

   b. 30%

   c. 50%

   d. 25%

Answer: 1-a, 2-b, 3-b, 4-a, 5-d

C. Fill in the blanks:

1. …………. are issued by banks to enable exporters to participate in and quote prices in various global tenders

2. SIDBI can then provide refinancing to the ………….

3. ………….. required for capital goods exports, turnkey projects, and construction contracts

4. ……………… is a public sector financial institution that was founded on January 1, 1982.

5. ………. provide equipment refinancing to SSI units in order for them to purchase equipment for expansion and modernization

Answer:

1. Bid bonds
2. SFC/SIDC
3. Preference Guarantee
4. EXIM
5. SFVS/SIDCS

D. State whether the following sentence are True / False:

1. Exporters are provided with short-term, medium-term, and long-term financing based on the type of goods to be exported.
2. EXIM began operations on March 1, 1988.
3. EXIM bank was established primarily to finance medium and long-term loans to exporters in order to promote the country's foreign trade.
4. The Government of India owns 50% of ECGC.
5. Standard policies are issued to exporters to protect them from payment risks associated with long-term credit exports

Answer:

True- 1, 3 and 4

False- 2 and 5

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MODULE - IV

10

EXPORT PROCEDURE AND DOCUMENTATION - I

Unit Structure

10.0 OBJECTIVES

The main purpose of this chapter is:

- To understand the registration with different authorities
- To discuss Pre-Shipment Procedure involved inExports
- To analyse Procedure of Quality Control and Pre-Shipment Inspection

10.1 INTRODUCTION

The execution of an order received from an overseas buyer is referred to as the export procedure, and it includes everything that the exporter is required to do from the receipt of a confirmed order to the realisation, o/s final payment. Receiving an export order is not difficult, but successfully and satisfactorily carrying it out is extremely difficult. This is due to the fact that exporting goods overseas follows the same specific procedure and is subject to legal constraints.

Export trade is governed by legal controls, and as a result, every function of it is carried out in accordance with specific procedures. The various procedures that are followed in the export of goods facilitate systematic export execution.

The export market is more than just an extension of the domestic market. Aside from basic business principles in both the domestic and foreign markets, selling abroad necessitates specialised knowledge in areas such as detailed market surveys, shipping, marine insurance, customs and foreign exchange formalities, and so on.

10.2 REGISTRATION WITH DIFFERENT AUTHORITIES

An exporter is required to register his company with a number of institutions and authorities, which either directly or indirectly assist him in the smooth operation of his export business. Some of the authorities with which an exporter must register his company are:

(a) Registration of Organisation:

Exporters must register the types of organisations they have chosen to carry out their export operations under the appropriate Act of the country, namely, a joint stock company under the Companies Act of 1956.

Under the Indian Partnership Act of 1932, a partnership firm.

As needed, a sole proprietor should seek permission from the local authorities.

(b) Opening Bank Account:

Exporters must open a current account in the name of their firms or companies with a commercial bank that is authorised to deal in foreign currency transactions by the Reserve Bank of India (RBI). This account handles all of the exporter organization's financial transactions. Such a bank can also provide exporters with pre-shipment and post-shipment financing.

(c) Obtaining Importer-Exporter Code Number (IEC No.):

Prior to.1.199711, it was mandatory for all exporters to obtain an Exporter's Code Number (CNX) from the RBI. However, the CNX number has since been replaced by the Direct General for Foreign Trade's Importer Exporter Code (IEC) number (DGFT). The application form for obtaining an IEC number must be accompanied by a Rs. 1000 fee.

(d) Obtaining Permanent Account Number (PAN):

Export earnings are subject to a variety of exemptions and deductions under various sections of the Income Tax Act. Exporters must register with the Income Tax Authorities and obtain a Permanent Account Number in order to claim these exemptions and deductions (PAN). PAN is also required for obtaining an IEC number.

(e) Registration with GST:

Goods manufactured for export as well as those purchased in the local market for export are completely exempt from Value Added Tax and Central Sales Tax, provided the exporter or his firm is registered with the Value Added Tax authority of the state in question and obtains exemption in accordance with the procedures outlined in the relevant Acts. Every exporter is required to complete GST registration by the appointed date set by the government of India in 2017.

(f) Registration with Export Promotion Council (EPC):

Every exporter is required to register with the appropriate Export Promotion Council (EPC) and obtain the Registration-cum-Membership Certificate (RCMC). There are currently 21 EPCs dealing with various commodities. The benefits provided to exporters under the new Foreign Trade Policy 2009-2014 are only available to registered exporters with a valid RCMC.

(g) Registration with Export Credit and Guarantee Corporation of India (ECGC):

In the international market, exporters face both commercial and political risks. As a result, in order to protect themselves against such risks, exporters must register with the ECGC. The ECGC also assists exporters in obtaining financial aid from commercial banks and other financial institutions.

(h) Registration with other Authorities: Exporters must also register with a number of other authorities and institutions, including:

Federation of Indian Export Organizations (FIFO),

the Indian Trade Promotion Organization (ITPO),

Chambers of Commerce (COC),

Productivity Councils, etc.

10.3 PRE-SHIPMENT PROCEDURE INVOLVED IN EXPORTS

Exporters who have been approved under Self-Certification and IPQO must submit their applications to the Export Inspection Agency in the form of a 'Intimation for Inspection.' The Export Inspection Agency issues the Inspection Certificate based on the performance reports submitted by EIA officials. Units that are not approved under the Self-certification or IPQC systems must go through the following procedure:

(a) Application to EIA:

The exporter must apply to EIA in the prescribed 'intimation for Inspection' form (in duplicate) at least 7 days before the expected date of shipment, along with the following documents:

- Copy of export contract;
- Copy of letter of credit;
- Details of packing specifications;
- Commercial invoice demonstrating FOB value of export consignment;

- Crossed cheque/D.D. in favour of EIA for inspection fees;
- Technical specifications of the importer are declared.

(b) Deputation of Inspector:

After receiving the 'Intimation for Inspections,' the EIA dispatches an inspector to the exporter's factory or warehouse to conduct the pre-shipment inspection. The exporter must keep the goods ready for inspection on the day and time specified.

(c) Inspection and Testing:

The inspector conducts random inspections and prepares reports for submission to EIA. The exporter is responsible for arranging for the inspection facilities. In the absence of such facilities, inspection may be carried out at private independent laboratories.

(d) Packing and Sealing of Goods:

If the inspector is satisfied with the quality of the goods, he issues an order for goods packing in his presence. Following packing, the consignment is marked and sealed with the Export Inspection Service's official seal.

(e) Submission of the Report to EIA and Issue of Inspection Certificate:

The inspector's report is delivered to the Deputy Director of ElA. If the report is favourable, the Director of EIA issues a triplicate inspection certificate.

Customs requires the original copy to be submitted.

A duplicate copy is sent to the importer.

The exporter will keep a triplicate copy for his records.

(f) The Rejection Problem Note:

If the inspector's report is unfavorable, the Deputy Director of EIA issues a rejection note.

(g) Appeal against Rejection Note:

The exporter has 10 days from the date of receipt to file an appeal against the rejection note. When the EIA receives an appeal, it convenes a meeting of the Appellate Panel. The panel examines the inspection report and, if necessary, re-examines the consignment. The Appellate panel's decision is final and binding. Both the exporter and the Export Inspection Agency are to blame.

Thus, marine insurance is used to cover transportation by any of the modes of transportation listed below, either singly or jointly:

(a) Sea, Si Of land.

(b) Inland water voyages.

(c) Rail/road.

(d) Air

(e) Post.

It provides insurance or protection for goods in 'transit,' as well as storage of goods if such storage is incidental to transportation.

10.4 PROCEDURE OF QUALITY CONTROL AND PRE-SHIPMENT INSPECTION

1. Consignment-Wise inspection:

Each consignment in packed condition is subjected to detailed inspection by the Export Inspection Agencies under this system. They carry out the inspection using a statistical sampling plan. They issue the inspection certificate if the goods meet the specified quality. The certificate also specifies the time frame within which the export consignment must be shipped. Actual export consignment in packed condition is taken for inspection in the case of consignment-wise inspection.

No consignment of any notified commodity may be exported unless accompanied by a certificate issued by a recognised inspection agency. Except for commodities subject to in-process quality control, this system applies to all commodities. Small-scale manufacturers who cannot afford their own facilities and personnel typically use a consignment-by-consignment inspection certificate procedure.

2. In-process Quality Control:

Paints and related products, linoleum, ceramics, printing ink, sanitary wares, and other commodities fall under the purview of in-process quality control.

Continuous process industries have the option of becoming approved "export-worthy" units because they have the necessary infrastructure for manufacturing/processing standard quality products. This status allows them to conduct inspections, make declarations, and receive inspection certificates based on their declarations.

3. Self-Certification:

The experience gained in operating India's mandatory Quality Control and Pre-Shipment Inspection Scheme has resulted in a qualitative change in the inspection system. A self-certification system was recently introduced. This is based on the idea that the manufacturing unit, which is in charge of quality control, should be able to certify its own product for export.

10.5 SUMMARY

- Exporters must register with the Income Tax Authorities and obtain a Permanent Account Number in order to claim these exemptions and deductions (PAN).
- The ECGC assists exporters in obtaining financial aid from commercial banks and other financial institutions.
- The Export Inspection Agency issues the Inspection Certificate based on the performance reports submitted by EIA officials.
- Paints and related products, linoleum, ceramics, printing ink, sanitary wares, and other commodities fall under the purview of in-process quality control.

10.6 EXERCISE

A. Descriptive Questions:

Short Answer:

1. What is the Importer-Exporter Code Number?
2. Describe the term Quality control.
3. Explain in short EPC
4. What is the term known as Pre-shipment?
5. What are the different types of channels of distribution in export markets?

Long Answers:

1. Explain the Registration with GST with list of documents.
2. Explain in detail Consignment control
3. What is the Pre-shipment Inspection?
4. Explain in brief Pre-shipment Procedure involved inExports
5. Explain the registration with different authorities?

B. Multiple Choice Questions:

1. To protect themselves against such risks, exporters must register with the …….

   a. RBI

   b. ECGC

   c. RCMC

   d. MEDA

2. RCMC stands for ……………….

   a. Registration-cum-Membership Certificate

   b. Registration- Certificate -Membership Certificate

   c. Registration- cum -Membership cum

   d. Registration- Certificate -Membership cum

3. ………….. submit their applications to the Export Inspection Agency in the form of a 'Intimation for Inspection

   a. IPQO

   b. RCMC

   c. FIFO

   d. ECGC

4. Exporters must register the types of organisations they have chosen to carry out their export operations under the:

   a. joint stock company under the Companies Act of 1956

   b. joint stock company under the Companies Act of 1965

   c. joint stock company under the Companies Act of 1955

   d. joint stock company under the Companies Act of 1966

5. ……………….. it was mandatory for all exporters to obtain an Exporter's Code Number (CNX) from the RBI

   a. Prior to.3.199711

   b. Prior to.2.199711

   c. Prior to.1.199711

   d. Prior to.0.199711

Answer: 1- b, 2-a, 3-a, 4-a, 5-c

C. Fill in the blanks:

1. Export trade is governed by ………………controls.

2. ……………. who cannot afford their own facilities and personnel typically use a consignment-by-consignment inspection?

3. A sole proprietor should seek permission from the ……………. authorities

4. Exporters must open a current account in the name of their …………

5. The exporter must apply to ……………in the prescribed 'intimation for Inspection' form

Answer:

1. legal
2. Small-scale manufacturers
3. Local
4. Firms
5. EIA

D. State whether the following sentence are True / False:

1. The execution of an order received from an overseas buyer is referred to as the export procedure
2. The export market is less than just an extension of the domestic market
3. If the inspector's report is favorable, the Deputy Director of EIA issues a rejection note.
4. The application form for obtaining an IEC number must be accompanied by a Rs. 1000 fee.
5. The exporter has 1month from the date of receipt to file an appeal against the rejection note.

Answer:

True- 1 and 4

False- 2, 3 and 5

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11

EXPORT PROCEDURE AND DOCUMENTATION - II

Unit Structure

11.0 OBJECTIVES

The main purpose of this chapter is:

- To discuss about Shipping and Custom Stage Formalities
- To understand the Role of Clearing & Forwarding Agent
- To explain the Post-Shipment Procedure for Realisation of Export Proceeds
- To outline the Procedure of Export under Bond and Letter of Undertaking

11.1 INTRODUCTION

The execution of an order received from an overseas buyer is referred to as the export procedure, and it includes everything that the exporter is required to do from the receipt of a confirmed order to the realisation, o/s final payment. Receiving an export order is not difficult, but successfully and satisfactorily carrying it out is extremely difficult. This is due to the fact that exporting goods overseas follows the same specific procedure and is subject to legal constraints.

Export trade is governed by legal controls, and as a result, every function of it is carried out in accordance with specific procedures. The various procedures that are followed in the export of goods facilitate systematic export execution.

The export market is more than just an extension of the domestic market. Aside from basic business principles in both the domestic and foreign markets, selling abroad necessitates specialised knowledge in areas such as detailed market surveys, shipping, marine insurance, customs and foreign exchange formalities, and so on.

11.2 SHIPPING AND CUSTOM STAGE FORMALITIES

The shipment of export cargo must be done with the permission and supervision of the customs authorities. They cannot be loaded onto the ship unless formal permission from the customs authorities is obtained. The customs authorities grant this permission only if they are satisfied that the goods being exported are of the same type and value as those declared by the exporter or his C & F agent, and that the duty, if any, has been properly calculated and paid.

The custom procedure can be summarised as follows:

1) Submission of Documents:

For cargo customs clearance, the exporter or his agent must submit five copies of the shipping bill, as well as any necessary documents. as

Letter of credit or confirmed export order.

Commercial invoice., Packing list., Certificate of origin., G. R. Form ARE-1 Form.,

Original copy of certification inspection., (Wherever necessary)

Marine insurance policy.

2) Verification of documents:

The customs appraiser verifies the information contained in each document and ensures that the exporter has followed all formalities. It is satisfied; he issues "A Shipping Bill Number," which is critical from the exporter's perspective.

3) Carting order:

The exporter's custom house agent approaches the superintendent of the concerned port trust to obtain a carting order. The cargo is physically moved inside the docks after obtaining the carting order, which is essentially permission to move cargo inside the docks. An endorsement on a duplicate copy of the shipping bill is used to issue the carting order.

4) Storing the goods in the sheds:

The goods are moved inside the docks after the carting order has been secured. The goods are then stored in the dock sheds.

5) Examination of goods:

The customs examiner inspects the goods and seals the package in his presence. If satisfied, the examiner issues a "Let Export" order authorising the loading of the goods onto the ship. The same procedure is now carried out using an Electronic Data Interchange (EDI) system.

6) Obtaining ―Let ship order:

The Customs House Agent submits a duplicate copy of the shipping bill, along with other documents, to the customs preventive offices. If the customs preventive officer determines that everything is in order, he signs the duplicate copy of the shipping bill with "Let ship order.”.

7) Loading of goods:

Following receipt of the "Let ship" order, the goods are loaded onto the ship, for which the mate of the ship issues a "Mate's Receipt" to the port superintendent. That is how the mate's receipt reaches the port trust's office.

8) Payment of port dues:

The exporter's agent then pays the necessary port dues and collects the mate's receipt.

9) Obtaining Bill of lading:

As the final step, the exporter's agent submits the mate's receipt to the shipping company whose ship the goods are loaded on. A bill of lading is issued by the shipping company. The bill of lading is typically issued in two or three negotiable and non-negotiable copies, as they will be required on various occasions later on.

11.3 ROLE OF CLEARING & FORWARDING AGENT

Their basic function is to provide different range of services to exporters to ensure smooth and timely shipment of goods. Forwarding and Clearing Agents play a critical role in determining the mode and route of transportation. They are the experts who can advise you on the best shipping line/airline to use. Every exporter is concerned with distribution logistics to ensure that the goods reach the final buyer on time and at the lowest possible cost in the condition in which they were sent. The essence of distribution logistics is the choice of mode of transportation. The clearing agent advises the exporter on the availability of alternative modes of transport and guides the exporter in making the final decision on the mode of transport to achieve the lowest possible cost while still meeting the delivery deadline. They are the experts who can advise you on the best shipping line/airline to use. Every exporter is concerned with distribution logistics to ensure that the goods reach the final buyer on time and at the lowest possible cost in the condition in which they were sent. The choice of mode of transportation is the essence of distribution logistics. The clearing agent advises the exporter on the availability of alternative modes of transportation and guides the exporter in making the final decision on the mode of transport to achieve the lowest possible cost of transportation. In addition to these activities, he performs the majority of the functions associated with exports, such as marking, labelling, and packing of goods, advising on trade laws, arranging local transportation, and keeping up to date on transportation developments and claiming duty-drawback claims on behalf of the exporter. An efficient clearing and forwarding agent goes a long way toward making the exporter's journey easier, more comfortable, and possibly cheaper. Above all, the agents serve as troubleshooters for exports in the event of movement issues. A true clearing agent, it is said, can perform all functions except selling goods!

When goods are transported by rail, export consignments must be assigned either B or C priority on the Railway Priority Schedule developed by the Railway Board. The schedule has five priorities, ranging from highest A to lowest E. As a result, B and C are fairly high priorities.

Customs House Agents, Freight Forwarders, and Shipping Agents are other names for clearing and forwarding agents.

11.4 POST-SHIPMENT PROCEDURE FOR REALISATION OF EXPORT PROCEEDS

The procedure for realising export proceeds is as follows:

(a) Documents to be presented to the bank for negotiation:

Following the shipment of goods, the exporter must submit the shipping documents to an authorised dealer. Within 21 days of the date of shipment for negotiation, the submission of relevant documents to the bank and the process of receiving payment from the bank is referred to as "Negotiation of the Documents," and the documents are referred to as a "Negotiable Set of Documents." Normally, the set includes:

1. Sight Draft,
2. Bill of Exchange, or
3. Usance Draft.
4. Original Letter of Credit.
5. Customs Invoice.
6. Commercial Invoice with one copy duly certified by Customs.
7. Checklist for Packing
8. Forms for foreign exchange declarations, GR/SOFTEX/PP forms in duplicate.
9. Control copies of the Shipping Bill should be exchanged.
10. Origin Certificate, GSP or APR Certificate, and so on.
11. Duplicate Marine Insurance Policy.

(b) Dispatch of Documents:

The bank negotiates these documents with the importer's bank in accordance with the terms of the L/C. Before negotiating documents, the exporter's bank examines them to ensure that all formalities have been met and all documents are in order. The bank then sends the exporter the Bank Certificate as well as attested copies of commercial invoices.

(c) Acceptance of the bill of exchange:

The Documentary Bill of Exchange is a bill of exchange that is accompanied by the above documents. There are two kinds of it:

(d) Documents against Payment (Sight Drafts):

In the case of a sight draught, the drawer instructs the bank to only hand over the relevant documents to the importer in exchange for payment.

(e) Documents against Acceptance (Usance Draft):

In the case of a usance draught, the drawer instructs the bank to deliver the necessary documents to the importer in exchange for his 'acceptance' of the bill of exchange.

(f) Letter of Indemnity:

By signing a letter of indemnity, the exporter can receive immediate payment from his bathe upon submission of documents. By signing the letter of indemnity, the exporter agrees to indemnify the bank in the event of non-payment from the importer, including accrued interest.

(g) Realization of Export Proceeds:

When the documentary bill of exchange is received, the importer either releases payment in the case of a sight draught or accepts the usance draught with an undertaking to pay on the maturity of the bill of exchange. The payment is received by the exporter's bank via the importer's bank and credited to the exporter's account.

(h) Processing of GR Form:

When the exporter's bank receives the export proceeds, it notifies the RBI by recording the fact on the duplicate copy of the GR. The RBI compares the information in the duplicate copy of the GB to the information in the original copy of the GR received from Customs. If the details are found to be correct, the export transaction is considered complete.

11.5 PROCEDURE OF EXPORT UNDER BOND AND LETTER OF UNDERTAKING

Procedure for Export:

1) Under Section 16 of the IGST Act, exports are treated as zero-rated supplies.

2) Input Tax Credit is available for zero-rated export supplies.

3) An exporter may seek a refund under one of two circumstances:

I. Export without paying IGST under a bond or Letter of Undertaking and claim a refund of unutilized input tax credit; OR

II. Export after paying IGST and claiming a refund of such tax. (Authority: Section 16(3) of the IGST Act, Rules 96 and 96A of the CGST Rules.)

- After the export manifest or export report is delivered, an application for refund must be filed electronically on the common portal for option I.
- There is no need for a separate application for option II above. The shipping bill (SB) itself is considered a refund application. Only after an export manifest or an export report has been filed and the exporter has provided a valid return in Form GSTR-3 is a refund possible.

4) It is not permissible to claim a drawback at composite rates and a refund of ITC or IGST at the same time under either of the above two options.

5) However, a drawback of customs portions in conjunction with a refund of ITC or IGST under either of the preceding two options is permissible.

Bond/Letter of Undertaking:

1) The bond/LUT must be submitted in Form GST RFD – 11. (enclosed).

2) The bond must be presented on non-judicial stamp paper of the appropriate value for the state in which it is presented.

3) The bond pays the tax associated with the export.

4) Exporters can provide a running bond for the amount of tax liability estimated by the exporter. The value of the remaining bond can be increased later by providing additional bond.

5) The bank guarantee should normally not be more than 15% of the bond amount.

6) Depending on the exporter's track record, the Commissioner may waive the bank guarantee or reduce the amount of the BG.

7) The LUT can be submitted in lieu of a bond by: I. a status holder; OR II. a registered person who received remittances of at least 10% of export turnover (but not less than Rs.1 crore) in the previous fiscal year.

III. The registered person has not been prosecuted under the CGST Act or any other existing law for tax evasion in excess of Rs. 2.5 crore.

8) The LUT must be signed on the letterhead of the registered person by the working partner, the managing director, the company secretary, or

the proprietor, or by a person duly authorised by such working partner or the board of directors of such company or proprietor.

9) The bond/LUT must be accepted by the jurisdictional DC/AC with jurisdiction over the exporter's principal place of business.

10) For the time being, the exporter is free to file the bond/LUT with the central tax authority or the state tax authority.

11) The LUT must be valid for a period of 12 months.

12) Bond/LUT in Form RFD-11 may be submitted manually to the jurisdictional DC/AC until the module for submission is available on the common portal.

11.6 SUMMARY

- Forwarding and Clearing Agents play a critical role in determining the mode and route of transportation.
- The clearing agent advises the exporter on the availability of alternative modes of transportation and guides the exporter in making the final decision on the mode of transport.
- Customs House Agents, Freight Forwarders, and Shipping Agents are other names for clearing and forwarding agents.
- The LUT must be signed on the letterhead of the registered person by the working partner, the managing director, the company secretary, or the proprietor, or by a person duly authorised by such working partner or the board of directors of such company or proprietor.

11.7 EXERCISE

A. Descriptive Questions:

Short Answers:

1. Explain the bill of lading.
2. What is the Marine Insurance Policy?
3. Explain the word Export trade.
4. Explain the custom stage
5. What is the Letter of Undertaking?

Long Answers:

1. What is the Procedure of Export under Bond?

2. Explain the advantages of Export trade.

3. Explain the procedure of custom stage

4. What is a role of Clearing & Forwarding Agent?

5. What is the procedure for realising export proceeds?

B. Multiple Choice Questions:

1. The submission of relevant documents to the bank and the process of receiving payment from the bank is referred to as "

   a. Original Letter of Credit

   b. Commercial Invoice

   c. Bill of Exchange

   d. Negotiation of the Documents

2. …………. Tax Credit is available for zero-rated export supplies

   a. Output

   b. Input

   c. Indirect

   d. Direct

3. The LUT must be valid for a period of ………….

   a. 12 months

   b. 6 months

   c. 3 months

   d. 2 years

4. The export market is more than just an extension of the …………. market.

   a. domestic

   b. import

   c. online

   d. industry

5. EDI stands for:

   a. Electronic Document Interchange

   b. Electronic Docks Interchange

   c. Electronic Data Interchange

   d. Electronic Database Interchange

Answer: 1-d , 2-b, 3- a, 4-a, 5-c

C. Fill in the blanks:

1. Control copies of the Shipping Bill should be ………………

2. Under Section 16 of the IGST Act, exports are treated as ……………. supplies

3. The goods are moved inside the docks after the carting order has been…………….

4. The goods are loaded onto the ship, for which the mate of the ship issues a "………." to the port superintendent.

5. The bond pays the tax associated with the …………..

Answer:

1. exchanged 2. zero-rated 3. Secured 4. Mate's Receipt 5. export

D. State whether the following sentence are True / False:

1. Under Section 17 of the IGST Act, exports are treated as zero-rated supplies

2. The shipment of export cargo must be done with the permission and supervision of the customs authorities

3. The bond must be presented on non-judicial stamp paper of the appropriate value for the state in which it is presented

4. The cargo is technically moved inside the docks after obtaining the carting order

5. The customs examiner inspects the goods and seals the package in his presence

Answer:

True- 2, 3 and 5

False- 1and 4

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12

EXPORT PROCEDURE AND DOCUMENTATION - III

Unit Structure

12.0 OBJECTIVES

The main purpose of this chapter is:

- To discuss the Importance of - Commercial Invoice cum Packing list
- To explain Bill of Lading/ Airway Bill
- To understand Shipping Bill/Bill of Export
- To analyse Consular Invoice
- To understand Certificate of Origin

12.1 INTRODUCTION

Every export shipment must include a number of documents. They play a vital role in international trade. In the absence of shipping documents, a foreign buyer may have difficulty clearing the goods, or he may be required to pay a higher rate of import duty. As part of the sales contract, the buyer and seller must agree on their documentary requirements. In fact, the buyer specifies his documentary needs in the letter of credit. It is the seller's responsibility to carefully review the types of documents required by the overseas buyer and arrange them accordingly. He is also required to prepare the necessary documents as required by his country's foreign exchange and customs authorities.

An exporter must submit a complete set of shipping documents for negotiation to his bank. He is responsible for arranging shipping documents required by customs authorities in his country as well as documents required by the buyer's country. The buyer's documentary requirement is typically included in the letter of credit. The exporter must submit the necessary documents, known as a "full set of shipping documents," to his bank within 21 days of the date of shipment of goods.

12.2 IMPORTANCE OF COMMERCIAL INVOICE CUM PACKING LIST

A commercial invoice is a statement of account prepared on the seller's letterhead and sent by the seller to the buyer. It is a bill of lading for goods shipped by an exporter.

The basic document in an export transaction is the commercial invoice. All other documents are created using the information contained in the commercial invoice. It includes information such as the description of the goods, the price charged, the term of shipment, and the markings and numbers on the packages containing the merchandise. It is the seller's bill for goods that contains all of the details about the consignment.

The commercial invoice should include the following information:

a) The exporter's and importer's names and addresses.

b) The description of the goods, such as quality, quantity, weight, and so on.

c) The value of the goods, less any discounts.

d) The importer's net payable amount.

e) Sale terms and conditions

f) The exporter's signature.

Other shipment details to include are:

g) The ship's name

h) The letter of credit number.

i) The export's import-export license number.

j) Bill of Lading No.

k) Packaging specifications and marketing

l) Package identification marks

m) The number and date of the shipping bill.

n) Shipping and handling terms and conditions.

o) Freight charges and the cost of marine insurance.

p) Any additional information that may be required.

12.2.1 Importance of Commercial Invoice:

The commercial invoice is essential for both the exporter and the importer.

Importance to the Exporter:

1) **Payment collection:**

A commercial invoice is the exporter's bill that must be paid by the importer. It gives the exporter the ability to collect payment from the importer.

2) **Quality Control Inspection:**

A commercial invoice copy must be submitted to the Export Inspection Agency (EIA).

3) **Customs Clearance:**

A copy of the commercial invoice must be submitted to customs for clearance at the point of shipment.

4) **Documentary Proof:**

It can serve as documentary proof in the event of a dispute between the exporter and the importer over the amount payable by the importer or any other issue.

5) **Preparation of other documents:**

The commercial invoice assists the exporter and his agent in preparing other documents, such as the shipping bill, based on the commercial invoice.

6) **Claiming of Incentives:**

The exporter must provide a copy of the commercial invoice in order to claim incentives such as DBK, Excise Refund, and so on.

7) **Recording and Filing:**

The exporter must keep a copy of the commercial invoice for the purpose of recording and filing for future reference.

12.3 BILL OF LADING / AIRWAY BILL

A bill of lading is a document issued by the shipping company when the goods are shipped. It is an agreement between the shipper (exporter) and the shipping company for the carriage of goods to the destination port. It is a document of title to goods, and as such, the importer is required to clear the goods at the port of destination.

A bill of lading is a document that certifies ownership of the goods. It is issued by the shipping company and serves as a receipt from the shipping company, which has agreed to deliver the goods at the agreed-upon destination in exchange for freight payment.

A Bill of Lading contains are the following:

a) The shipping company's name.

b) The shipper's and exporter's name and address.

c) The importer's or agent's name and address.

d) The vessel's name.

e) Voyage number and departure date

f) The names of the ports of discharge and shipment.

g) Quantity, quality, marks, and other details.

h) The total number of packages.

i) Whether or not the freight is paid or payable.

j) The number of originals distributed.

k) The date the goods were loaded onto the ship.

l) The issuing authority's signature.

In a nutshell, a bill of lading is a contract between the shipper and the shipping company for the transportation of goods to the port of destination. It is an acknowledgment that the goods accepted for transportation are in good order and condition.

12.3.1 Importance of Bill of Lading:

I) The Exporter's Reliance on BL:

a) A bill of lading is a legally binding document. In the event of a dispute, it can be brought before a court of law.

b) It is a transportation contract.

c) It is a formal acknowledgement of the receipt of goods on board the ship.

d) It allows the exporter to send a shipment notification to the buyer.

e) It assists the exporter in filing a compensation claim if goods are damaged in transit.

f) It assists the exporter in calculating the precise amount of freight when submitting a CIF quotation.

II) Importance of BL to the Importer:

a) It is a document of title to goods, and as such, he can claim possession.

b) It is a semi-negotiable document, which means that its ownership can be transferred through endorsement and delivery.

c) It allows him to pay the correct freight amount under the FOB contract.

III) Importance of BL to the shipping company:

a) It makes it easier for the shipping company to collect the freight from the shipper or importer.

b) It protects the shipping company in the sense that goods damaged prior to loading on the ship are documented in the bill of lading.

12.4 SHIPPING BILL / BILL OF EXPORT

The Shipping Bill is the primary document upon which customs permission for export is granted. It is a multipurpose document that can be used as an application for export of goods, as a dock challan, and to claim duty drawback and other export incentives.

The shipping bill includes a description of the goods as well as other details such as.

a) The exporter's name, address, and IEC code

b) The ship's or vessel's name

c) Agent's name

d) Goods description

e) Package and marketing details

f) The item's monetary value.

g) The port of discharge.

h) Additional information, if any.

The main customs document is the shipping bill. It is required by customs authorities in order for them to grant permission for the shipment of goods.

In general, the shipping bill is prepared in five copies:

a) Customs copy,

b) Drawback copy,

c) Export Promotion copy,

d) Port Trust copy, and

e) Exports copy.

12.5 CONSULAR INVOICE

The importer may request that the invoice be certified by the consulate of his own country stationed in the exporter's country. The consular invoice is a certified copy of the commercial invoice.

The council of the importing country stationed in the exporting country issues a consular invoice. This is obtained by the exporter to ensure that the goods are cleared as soon as the ship arrives. It is necessary to persuade customs authorities that opening the packages and inspecting the goods is necessary for calculating customs duty. If this is done, there will be a significant delay and many hardships. To avoid this, a consular invoice is obtained by submitting an application on a prescribed form to the relevant consulate. It is usually prepared in triplicate, with one copy sent to the customs authorities of the importing country and the third copy given to the exporter to forward to the importer along with other documents.

A consular invoice is a certificate issued by the Trade Consulate of the importer's country stating that goods of a specific value are being imported from a specific country by a specific importer.

Importance of Consular Invoice to the Exporter

a) It makes it easier to clear goods through customs.

b) When the invoice is signed by the consulate of the importing country, the exporter is assured that his goods will enter the buyer's country without difficulty.

c) The exporter's interests are well protected. He can easily realise foreign exchange against shipment.

Importance of consular Invoice to the importer:

a) The importer receives goods quickly and without having to open the containers for verification.

b) Goods are delivered promptly following the calculation of duty in accordance with the consular invoice received.

c) The importer can be confident that no prohibited goods will be sent.

Importance of consular invoice to the customs office:

a) Customs officials' jobs have become simpler and faster. Goods are quickly cleared.

b) Duty calculation is possible based on the consular invoice received. This means that physical verification is no longer necessary.

c) There is no need to open the cargo to calculate the value of the goods.

Time is saved, and goods are not repackaged.

12.6 CERTIFICATE OF ORIGIN

Certain countries require importers to obtain a certificate of origin from the exporter, certifying the origin of goods, without which import clearance is denied. This certificate may be included as part of the commercial invoice. This certificate is issued by a chamber of commerce, a trade association, or another appropriate authority.

Some countries, such as those in the Middle East and the Gulf, require a certificate of origin attested by their consulate in India.

The certificate of origin (COO) certifies that the goods being exported were made in a specific country.

Certificate of Origin Contents

a) Goods description, quantity, and value. b) Number of packages and markings on them.

c) The shipper's declaration

d) The issuing authority's certificate

Types of Certificates of Origin:

The certificate of origin is of three types such as:

1) Certificates for clearance:

All countries require these certificates for importers to clear goods. Trade associations and chambers of commerce typically issue them. The exporter provides information in the prescribed form, submits a copy of the commercial invoice, and pays the applicable fees. The chamber of commerce issues a certificate of origin based on all of these documents.

2) Certificates for availing concessions under GSP:

These certificates are required to obtain concessions under the Generalized System of Preferences (GSP). These certificates must be obtained in three copies. Certain agencies in India, such as the Export Inspection Council, the Central Silk Board, the Jute Commissioner, and others, are authorised to issue GSP certificates.

3) Certificate for availing concessions under common wealth preference (CWP):

The above-mentioned organisations have the prescribed form of such a certificate of origin. The Government of India has authorised these organisations, through their regional offices, to issue certificates of origin required for exports to preferentially treated countries under the CWP.

12.7 SUMMARY

- A commercial invoice is a statement of account prepared on the seller's letterhead and sent by the seller to the buyer.
- A commercial invoice is the exporter's bill that must be paid by the importer.
- A bill of lading is a document issued by the shipping company when the goods are shipped.
- The Shipping Bill is a multipurpose document that can be used as an application for export of goods, as a dock challan, and to claim duty drawback and other export incentives.
- The consular invoice is a certified copy of the commercial invoice.
- A consular invoice is a certificate issued by the Trade Consulate of the importer's country stating that goods of a specific value are being imported from a specific country by a specific importer.

12.8 EXERCISE

A. Descriptive Questions:

Short Answers:

1. Clause Bill of lading
2. Explain in short Commercial Invoice
3. Explain the Certificate of Origin.
4. Container bill of lading
5. Consular invoice

Long Answers:

1. Explain the types of Certificate of origin.
2. Enlist the important types of Bill of Lading
3. Write Importance of Commercial Invoice.
4. Distinguish between Certificate of Origin and Consular Invoice
5. Explain the importance of shipping bill.

B. Multiple Choice Questions:

1. ……………… is a bill of lading for goods shipped by an exporter.

   a. Commercial invoice

   b. Shipping Bill

   c. Airway Bill

   d. Consular Invoice

2. ……………… certificate is issued by a chamber of commerce, a trade association, or another appropriate authority

   a. certificate of origin

   b. Consular Invoice

   c. Airway Bill

   d. Consular Invoice

3. ……………….is a document issued by the shipping company when the goods are shipped.

   a. certificate of origin

   b. consular invoice

   c. shipping bill

   d. bill of lading

4. ………… is a document of title to goods, and as such, which can claim possession?

   a. BL to the Importer

   b. BL to the Exporter

   c. BL to the shipping company

   d. BL to the industry company

5. EIA stands for:

   a. Export Industry Agency

   b. Export Insurance Agency

   c. Export Inspection Agency

   d. Export Import Agency

Answer: 1-a , 2-a, 3- d, 4-a, 5-c

C. Fill in the blanks:

1. Shipping bill is a multipurpose document that can be used as an application for ……………of goods
2. The ……………Bill is the primary document upon which customs permission for export is granted
3. The ……………….is essential for both the exporter and the importer
4. A ………………is a certificate issued by the Trade Consulate of the importer's country
5. The council of the importing country stationed in the exporting country issues a …………….

Answer:

1. Export 2. Shipping 3. Commercial invoice 4. Consular invoice 5. Consular invoice

D. State whether the following sentence are True / False:

1. Every export shipment must include a number of documents.
2. A bill of lading is a document that certifies customer of the goods
3. Time is saved, and goods are not repackaged in consular invoice to the customs office
4. The consular invoice is a certified copy of the Consular Invoice.
5. A bill of lading is a legally binding document

Answer:

True 1,3 and 5 False- 2 and 4

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