Import Planning Guide

An introductory guide for small businesses seeking to trade overseas

- Whether you're interested in export or import, it is recommended that you study both the *Export* and *Import Planning Guides*, as they are aspects of the same transaction.

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INTRODUCTION

This import planning guide is designed to make readers aware of the basic issues involved in importing goods into Australia. It is specifically designed for small businesses or individuals intending to establish a small business involved in importing goods from overseas.

While this planning guide is primarily aimed at traders who wish to import goods for resale, it will also be of use to manufacturers who wish to import raw materials, equipment or components for use in manufacturing processes.

Contents

Section	Page
Contents	2
1. The Market	3
2. Locating Suppliers	4
3. Import Regulations	5
4. Customs Brokers	5
5. Import Quotations	6
6. Terminology	6
Trading Terms (Incoterms)	6
Other Terms in Common Use in International Trade	9
7. Payment Terms	12
8. Foreign Exchange	13
9. Methods of Transport	13
10. Distribution Arrangements	14
11. Sole Distribution Agreements	15
12. International Freight Forwarders	17
13. Preparing a Preliminary Import Strategy	18
Background	18
SWOT Analysis	18
Potential Suppliers	19
Request a Quotation	19
Costing	19
Market	20
Competition	20
Distribution Arrangements	21
Preliminary Market Objectives	21
Resource Requirements	21
Support Services	21

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1. The Market

The first and most important step in deciding whether to import goods is to determine if a viable market for those goods exists in Australia. A market is a particular group of people and/or organisations that not only have the desire to buy goods but also have the means to pay for them. This section is primarily addressed to traders, that is those who import goods for resale, as opposed to manufacturers who usually constitute their own market for the goods they import. However, importing manufacturers will find a good deal of the information in this section useful, particularly in determining the cost of imported raw material and components.

It must be remembered that **the market for anything depends upon its desirability and its price**. While the product may be desirable for any number of reasons, the market potential cannot accurately be assessed until you know how much it will cost delivered in Australia with all charges paid. This delivered-into-store cost plus your overhead expenses and profit margin will determine the resale price of the imported goods. This in turn will determine the potential for sales and the ultimate profitability of the venture.

Some questions to ask about the market for your product:

- Is there a need for the product?
- If not can a need be created and at what cost?
- Who are potential buyers?
- Where are they located?
- What is their average income?
- What is their disposable income?
- What are their spending habits?
- What do they read/see?
- Where do they go?
- Are they members of any particular organisation?
- What kind of message will they respond to?
- How much will they be prepared to buy?
- What will they be prepared to pay?
- How often will they buy?
- Which products compete with those you intend to import?
- How are these products distributed to the market in Australia?
- What do they cost?
- How are they regarded in the market place?
- Do they have any competitive advantage e.g. warranties, after sales service, etc?
- What quantity is being sold?

It is important to remember that your main objective in business is to make a profit and you will only do this if you can identify a substantial, lucrative, long-term market for the product you intend to import.

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2. Locating Suppliers

It is always advisable to try to find a supplier in Australia before seeking to source goods overseas. This can be done by referring to trade directories, manufacturers indexes or industry journals. All of these resources can be accessed through the State Library of Victoria's information service *Express Info* ☎ (03) 8664 7003 or http://www.expressinfo.com.au

Alternatively, contact the Industry Capability Network or ICN (formerly Industrial Supplies Office) ☎ (03) 9866 6155. They can advise if a product is manufactured, or is capable of being manufactured, in Australia, and by whom.

If unable to source the product within Australia you should set about finding a source of supply overseas. There are many ways an importer can identify an overseas supplier of goods. First, identify a country or group of countries where the product may be available. This can be done by consulting any number of references ie where is coffee grown or which countries are the major suppliers of textile products. It may also be done by consulting the Australian Bureau of Statistics ☎ 1300 135 070 http://www.statistics.gov.au to ascertain if goods of the type you are seeking are already being imported into Australia and from which countries they are being sourced. Remember that a wealth of information is also available on the Internet.

Many organisations can help in the process of supplier identification. Some are located overseas but many are to be found in Australia. For example:

Overseas

- government departments of trade and/or industry
- Chambers of Commerce
- industry associations

In Australia

- foreign embassies
- foreign legations
- foreign consuls
- bilateral chambers of commerce

Other sources of information about overseas suppliers include:

- trade journals
- trade fairs, displays and exhibitions
- other importers
- ethnic community organisations
- banks
- freight forwarders
- confirming houses
- the Internet.

Having determined in which countries supplies may be obtained, you can then set about locating individual suppliers. This may be done by referring to trade journals, country yearbooks, buying guides or any of the organisations referred to earlier.

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3. Import Regulations

Having identified the market for the goods and located a supplier, the next step is to identify the regulations that may affect importation of the type of goods you wish to import.

You should be aware that the Australian Customs Service regulates all imports into the country and it is to this government agency that the following questions should be addressed:

- Is import of the product permitted?
- Are there any restrictions that might affect import? For example:
- special labelling requirements?
- special health requirements?
- quotas?
- fumigation?
- What rate of customs duty applies?
- What is the tariff classification number applicable to these goods?
- Are there any tariff concession orders/policy by-laws which may also be applicable?

The customs tariff is a complex document running into a number of volumes. It is further complicated by the application of tariff concession orders to the listed rates. These provide exemptions or reduced rates for specific items falling within a general tariff category. Rates for specific commodities can be obtained from the Australian Customs Service or from customs brokers.

If no tariff concession order exists it may be worth exploring, with a customs broker, the possibility of applying for a specific concession for the goods you intend to import.

However, you should consider the cost involved in both time and money in making such an application. To gain a concessional rate of duty you must prove that the imported product does not compete with an Australian-made product and also that no Australian manufacturer is prepared to make it.

Importers would be well advised to consult a customs broker in all matters relating to tariff classification and concession orders.

4. Customs Brokers

Customs brokers make their living primarily by ensuring quick and trouble free clearance of their client's goods through Customs and Australian Quarantine and Inspection Service. They are experienced in valuation, duty rates, transport of cargo from wharf to importers premises etc. and all maters pertaining to tariff concession orders.

Customs brokers are licensed by Australian Customs Service and are subject to stringent regulation to ensure that they conduct their business ethically and within the provisions of the *Customs Act*.

The professional body that represents most customs brokers is the Customs Brokers & Forwarders Council of Australia. ☎ (03) 9696 6606 http://www.cbfca.com.au/

Email: cbfcavic@cbfca.com.au

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5. Import Quotations

The next step is to contact your chosen supplier or suppliers to obtain a price for the goods you wish to buy from them. You should indicate in your letter, fax or email exactly what your requirements are as to price, quantity, trading terms, payment terms, packaging and delivery. You will also need to obtain from the exporter a packing specification to enable you to calculate freight and insurances charges if these are not included in the exporter's price.

It is important to remember that contracts come into being by a process of offer and acceptance. Contracts may be written, verbal or non-verbal. The quotation you receive from your overseas trading partner constitutes a formal offer for the sale of goods. Your acceptance of this offer, either verbally or in writing, will bring about a contract that is legally binding on both parties.

6. Terminology

Every field of endeavour has its own vocabulary and export is no exception. It is important to know the terms used in international trade, not only in order to understand exactly the offer which is being made or accepted, but also in order to present a fully professional approach to your potential trading partners.

The most important part of the export vocabulary is the set of terms universally known as *Incoterms*.

Trading Terms (Incoterms)

The most commonly used rules for the interpretation of trading terms in international trade are those defined by the International Chamber of Commerce (ICC). They are internationally recognised and are known as Incoterms. Incoterms signify to the buyer what is, and more importantly what is not, included in the selling price. They also indicate where the exporter's responsibility ends and the importer’s responsibility begins in respect of the goods exported.

Which term will apply to a particular export transaction is a matter for negotiation between buyer and seller. However, inclusion of the appropriate term in export quotations is crucial in order to determine the responsibilities of both parties in the contract of sale.

Following is a brief definition of Incoterms:

EXW - Ex Works (... named place)

This term signifies that the price quoted is for supply of goods, packed for export, at the exporter’s premises. The exporter’s contractual obligation is discharged when the goods are made available to the buyer. The exporter is not responsible for any element of transport or insurance cost or the cost of compliance with export formalities.

FCA - Free Carrier (... named place)

This term means that the exporter’s obligations are fulfilled when goods are delivered to a carrier nominated by the buyer. It is the exporter’s responsibility to clear the goods for export.

FAS - Free Alongside Ship (... named port of shipment)

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This term means that the exporter's obligations are fulfilled when the goods are placed alongside a ship. It is the exporter's responsibility to clear the goods for export.

FOB - Free On Board (... named port of shipment)

FOB is one of the most commonly used trading terms. The exporter is responsible for all costs up to the point where the goods actually cross the ship's rail. This term should only be used for non-containerised sea transport. For airfreight and containerised seafreight use FCA.

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CFR - Cost and Freight (... named port of destination)

"CFR" means that the exporter's price includes all charges up to the arrival of the goods at the point of discharge from the vessel. It does not, however, include the cost of insuring the goods against loss or damage while in transit to that point. This term should not be used for airfreight or containerised seafreight – see CPT

CIF - Cost, Insurance and Freight (... named port of destination)

Very widely used, this term indicates that the exporter's price includes all charges up to the arrival of the goods at the point of discharge from the vessel including the cost of insuring them against loss or damage whilst in transit. This term should not be used for airfreight or containerised seafreight – see CIP.

CPT - Carriage Paid To (... named place of destination)

Use of this term indicates that the exporter is responsible for the cost of freight up to the point where the goods are delivered to a specified destination but is not responsible for insuring the goods against the risk of loss or damage while in transit. It is the importer's responsibility to clear the goods for import.

CIP - Carriage and Insurance Paid To (... named place of destination)

"CIP" indicates that the exporter is responsible for the cost of freight up to the point where the goods are delivered to a specified destination including the cost of insurance against loss or damage during transit. It is the importer's responsibility to clear the goods for import.

DAF - Delivered At Frontier (... named place)

Use of this term indicates that the exporter's obligation is fulfilled when the goods are delivered to a specified point at the frontier. There is no responsibility on the part of the exporter to declare the goods to the customs in the importing country but it is the exporter's responsibility to clear the goods for export.

DES - Delivered Ex Ship (... named port of destination)

Use of this term indicates that the exporter accepts responsibility to make the goods available to the importer on board the ship at the port of discharge. Obviously this term cannot be used for airfreight consignments. It is the exporter's responsibility to clear the goods for export but not for import at the port of discharge.

DEQ - Delivered Ex Quay (duty paid) (... named port of destination)

This term indicates that the exporter is responsible for making the goods available to the importer on the wharf at the port of discharge. The exporter must bear all costs and risks involved in placing the goods at the disposal of the buyer at the port of destination. This term cannot be used for airfreight shipments.

DDU - Delivered Duty Unpaid (... named place of destination)

"DDU" means that the exporter's obligation is fulfilled when the goods have been made available at a specified point in the importer's country. The exporter bears all costs incurred in delivering them to that point. The importer is responsible for duties and taxes etc. payable when goods are cleared through customs.

DDP - Delivered Duty Paid (... named place of destination)

DDP means that the exporter's obligation is fulfilled when the goods have been made available at a specified point in the importer's country. In this case the exporter is also responsible for payment of duties, taxes and other customs clearance charges.

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The above is a very brief description of the most commonly used terms. A booklet, "INCOTERMS 2000" published by the International Chamber of Commerce (ICC) gives a full definition of all the various terms and an explanation of their application to export contracts.

ICC Publications website: http://www.iccbooks.com

A very useful chart entitled *Critical Points in International Trade* also gives a detailed explanation of these terms and is available from the Australian Institute of Export (Vic) Ltd.

http://www.aiex.com.au/

Other Terms in Common Use in International Trade

Ad valorem

“According to the value” or “on the value”. Rates of duty expressed as a percentage of the value of goods are known as ad valorem rates.

Affreightment

Contracts to carry goods by ship. A bill of lading is a contract of affreightment.

Airway Bill

A contract to carry goods by air. Note that unlike the *Bill of Lading*, an Airway Bill is not a fully negotiable instrument.

All Risks

Indicates that a marine insurance policy covers a comprehensive range of risks to the cargo insured.

Assessor

A person who assesses the value of cargo for the purposes of settling insurance claims.

BSR

The Basic Service Rate (BSR) charged for wharfage and other port charges at both port of loading and port of unloading.

Bill of Lading

The contract of *affreightment* and the document of title to the goods. Bills of Lading are fully negotiable instruments. Transfer of the Bill of Lading transfers ownership of the goods from one party to another.

Bill of Exchange

An order in writing given by one person to another requiring the receiver to pay a certain sum of money to another person at a fixed or determinable future date.

Bond Store

A store where goods are held under Customs control pending the payment of duty.

Claused Bill

A *Bill of Lading* claused to show that the goods received by the shipping company were not in good order and condition.

Charter Party

An agreement for the hiring of a vessel for a specific purpose.

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Conference

An agreement between ship owners, which rationalises sailing, schedules and stabilises freight rates.

Consignee

The person to whom cargo is consigned.

Consignor

The person consigning the cargo to the consignee.

Container Vessel

A vessel designed to carry ISO (International Standards Organisation) containers. These are generally 40ft (12m) or 20ft (6m) long and may be refrigerated depending upon the type of cargo to be carried.

Currency Adjustment Factor

A compensation factor for currency fluctuations, which might adversely affect freight rates.

C D V

The Current Domestic Value (CDV) of exported goods in the country in which they were produced.

Combined Transport or Multimodal Bill of Lading

A contract of carriage which covers transport of cargo from one point to another even though this may involve road, rail or other forms of transport as well as shipment by sea.

Countertrade

Where the seller of goods receives payment in other than monetary form.

Demurrage

A charge levied on a charter vessel or cargo for delay or detention.

Disbursement

A sum of money paid by an agent on behalf of a principal eg a freight forwarder pays freight to a shipping company on behalf of an exporter. Usually such disbursements will be requested from the exporter prior to payment being made to the shipping company.

Drawback

Customs duty paid on imported goods and reclaimed when those goods or goods into which they have been incorporated are subsequently exported.

Entrepot

A place where goods are transhipped.

Force Majeure

An event outside the control of the parties to the contract.

Freight Forwarder

An agent who arranges transport of export cargo.

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Freight Rate
The rate charged for transporting cargo.

Hazardous Cargo
Cargo, which is deemed to be hazardous by the carrier by reason of its flammable, corrosive, poisonous nature or other inherent vice.

FCL
Full Container Load (FCL). One shipment from one exporter which fully utilises one or more shipping container.

LCL
Less than Container Load (LCL). Small shipments from several exporters consolidated into one shipping container.

Letter of Credit (Documentary Credit)
An authority issued by a bank requiring the recipient to pay a sum of money to a specified person or company upon fulfilment of stipulated terms and conditions.

Manifest
A list of the cargo loaded on a carrying vessel.

On-consignment
Goods for which payment will be made to the exporter after they have been sold by the importer.

Open Cover
A blanket insurance policy, which covers all consignments, shipped by the insured within the terms of the open cover. Individual shipments are declared against the open cover as and when they are made.

Received Bill of Lading
A *Bill of Lading* which shows clearly only that the goods have been received for shipment, unlike a *Shipped on Board Bill*, which clearly shows that the goods are actually on board a named vessel.

Ro-Ro Vessel
A Ro-Ro (Roll on/Roll off) vessel is constructed so as to allow cargo to be driven directly on board from the dockside.

Transhipment
Usually means where goods are transferred from one vessel to another at a port other than the port of destination.

Value for Duty
The value which is declared to the customs at the port of discharge for the purpose of assessing customs duty.

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7. Payment Terms

The method used to pay for imported goods will always be the subject of negotiation between exporter and importer. It is advisable to consult your bank manager or accountant for assistance in determining the most appropriate method of payment for the goods you wish to import. The most commonly used methods of payment are:

Cash in Advance

Remittance of funds by the importer prior to shipment. This is the most unsatisfactory method of payment for importers, requiring payment to be made in advance of the goods being despatched by the exporter.

Letter of Credit

An undertaking given by a bank on behalf of an importer to pay an exporter, through the agency of a correspondent bank overseas, an amount of money provided that certain terms and conditions are fulfilled. Letters of Credit can be drawn at sight or at a determinable future date. Once it has been established, an irrevocable letter of credit cannot be cancelled or amended without the consent of the beneficiary, that is to say, the exporter who is selling the goods.

This is a favourable method of payment for importers because it ensures that funds will not be passed to the exporter until after the goods have been despatched. However, the cost of establishing Letters of Credit and the fact that funds must be deposited with the bank when the Letter of Credit is established, which is usually when the order is placed, can make this an expensive way to pay for imported goods.

Sight Draft (D/P)

The documents covering shipment of the goods, including the invoice and document of title in the case of shipments by sea, are delivered by the exporter to his or her bank under cover of a Bill of Exchange drawn at sight. The exporter's bank will then transfer them to the importer's bank. The importer's bank will surrender the documents to the importer upon payment of the face value of the Bill of Exchange, which should correspond to the value shown on the invoice. The funds received from the importer are then transferred to the exporter via the exporter's bank.

Sight drafts are a more favourable way of paying for imports because the cost of establishing a letter of credit is avoided and the importer does not need to lodge funds until the goods have been shipped and the relevant documents are received by the importer's bank.

Term Draft (D/A)

The shipping documents are transferred in a similar manner to the sight draft transaction described above. However, in this case the Bill of Exchange is drawn at a fixed or determinable future date eg. 30th November, 30 days/60 days/90 days after sight, 30 days from date of Bill of Lading etc. Documents are surrendered to the importer against an undertaking (usually in the form of an endorsement on the reverse of a Bill of Exchange) to pay when the bill matures.

In addition to the benefits applying in the case of a sight draft transaction the importer enjoys an extended period of credit before the draft matures and payment falls due. This may allow importers to receive payment from the resale of the goods

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before making payment to the exporter. When using this method of payment it is essential to determine whether the interest incurred over the credit period will be borne by the exporter or the importer.

Open Account

After the goods have been despatched, the exporter sends the documents directly to the importer who makes payment by means of a bank draft, telegraphic transfer etc.

Clearly this is the most beneficial method of payment from an importer's point of view as goods are usually received well in advance of payment being made.

Most of the major banks produce booklets that deal with importing in general, and import payment terms in particular. Ask your bank manager for the literature your bank provides and make yourself entirely familiar with its contents.

8. Foreign Exchange

To avoid adverse fluctuations in currency exchange rates, it is preferable to obtain import quotations and final invoices in Australian Dollars. If this is not possible, and the amount in question is substantial, it is advisable to discuss with your bank manager the possibility of covering the exchange risk by taking out a forward exchange contract.

A forward exchange contract will effectively fix the rate at which the bank will buy or sell a fixed amount of foreign currency at a determined future date. Having entered into such a contract with the bank, the importer will not suffer the effects of adverse fluctuations in exchange rates but will lose the advantage of any beneficial movement. It should be noted that a forward exchange contract rate cannot be used to determine the value of the goods for customs purposes.

9. Methods of Transport

When determining the mode of overseas transport, it is important to consider both air and sea freight. Whilst sea freight rates are always less expensive on a kilo-for-kilo basis than the equivalent air freight rates, most sea freight rates are subject to a much higher minimum charge than airfreight rates, from the same destination. For example, consider a sea freight rate of A$2,000.00 Per Tonne (A$2 per kilo) with a minimum charge of A$2,000.00. The equivalent air freight rate might be A$15.60 per kg. (A$15,600.00 per tonne) with a minimum of A$500.00. Therefore 10 kg by sea will cost A$2,000.00 whereas 10 kg by air will cost A$500.00.

It should also be remembered that shipment in full container loads (FCL) as opposed to less than full container loads (LCL); shipment on conference vessel as opposed to non-conference vessels; and transhipment through another port; can also affect the amount of freight payable. Quotes should be obtained not only from airline and shipping agencies but also from freight forwarders who may be able to offer a cheaper rate due to consolidation and deferred shipment. (See also the section on freight forwarders).

If goods are small in size and value then the most effective way to transport them from exporter to importer is by parcel post. This is particularly true of small sample lots. The cost of clearing the goods through customs can be considerably lower and clearance can be effected much more quickly for parcel post consignments.

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10. Distribution Arrangements

An important aspect of business management for importers is the establishment, maintenance and development of a distribution network for their products, which satisfies the following:

- Services the maximum possible number of potential customers
- Gets the product from the distributor to the customer with the least possible number of steps
- Presents the product to the customer in the best possible way
- Creates incentive to improve sales
- Provides security for the parties involved in the distribution network.

Some distribution arrangements are quite simple. A small firm with limited capacity could import a small range of products that are sold to the consumer through local retail outlets. Conversely, distribution arrangements can be quite complex and involve many steps and arrangements. A product made by a large overseas manufacturer may have a very wide range of potential customers throughout Australia. In these circumstances the overseas manufacturer will probably appoint a sole distributor who in turn may appoint one or more wholesalers in each state. The product would be purchased by the Australian distributor and in turn sold to the wholesaler and then to a network of retailers and ultimately be available for purchase by the public.

While many importers, distributors and wholesalers employ sales staff, it is common and, in some circumstances convenient, for the main parties in distribution networks to be represented by independent commission agents. Commission agents are engaged by manufacturers, distributors and wholesalers to solicit orders from customers and transmit these orders back to the principal overseas. Agents usually receive remuneration from their overseas principal on the basis of a percentage of the order value.

There can be a wide range of variations to the above basic steps depending on the type of product, the seller, the buyer and the ultimate users of the product.

For example:

- If the product is new to the marketplace and has to be introduced to the customer by demonstration and explanation, it may not be suitable for selling through retail outlets.
- New types of tools and equipment may, initially, have to be sold by direct marketing through commission agents. However, if this is impractical because the product has a very wide potential, market retail outlets may have to be used and an intensive marketing campaign planned.
- If the products are large and expensive, such as earth moving equipment or heavy vehicles, it is unlikely that there will be a large number of outlets and importers or distributors will probably sell direct to a small number of outlets. These outlets may be franchised operations of the manufacturer or importer. Also with this type of product, the outlets often hold stock on a consignment basis.
- If the customer base is small and readily accessible, for example printers, mining companies or engine rebuilders, it is quite likely that distributors will target customers for direct sales utilising commission agents as their sales representatives. Direct sales maximise profits and create good customer relations.
- If the products have a wide range of variations, eg. size or type, and have a wide customer base such as motor vehicles, furniture or curtains, it is likely that the retailer will only keep a small range of stock and purchase pre ordered goods as required by customers from the manufacturer or importer.

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While the development of a suitable distribution network is important for optimising sales and profit, it is also important that the arrangements between the various parties comprehensively cover all the relevant issues - and be set out in writing. Unfortunately, many people involved in the distribution of products have only very informal arrangements, sometimes an exchange of letters, or a contract drawn without any legal assistance. This can often lead to problems, disputes and ultimately to complete and irretrievable breakdown of the arrangements.

11. Sole Distribution Agreements

It is inadvisable to commit time and financial resources to the development of a market for imported products without obtaining some rights in the product itself. This is usually achieved by entering into a sole distribution agreement with the overseas supplier who, in such agreements, is usually referred to as the principal.

The standard clauses commonly found in such agreements are:

The Territory Covered by the Agreement

This covers the geographical area in which the distributor can operate for the development of sales. If the area is too big then the sales potential may not be fully exploited. On the other hand, if the area is too small, there may be insufficient income earning potential to make the arrangement attractive.

Exclusive Rights

Naturally, the distributor would like to have sole rights to the product and the territory involved. However, it would not be in the principal's best interest to provide exclusive rights to a distributor who is unable to fully exploit the market potential. Principals are usually willing to provide exclusive rights but make careful checks on the performance of the distributor and also make provision for termination of the contract in the event of non-performance.

Period of the Agreement

Many distribution agreements do not specify a period, in which case the arrangements are open-ended and can be terminated on the giving or receiving of reasonable notice. Some agreements in writing actually specify the period of notice required to be given by either party.

It is much better for the distributor to have an exclusive arrangement lasting for a considerable period, say five years with an option for a further term. In this case the distributor is more likely to invest time, effort and resources into developing the market if that investment will be repaid over a considerable period of time. On the other hand, the principal may prefer not to be bound for a long term to a non-performing distributor. Where a long-term agreement is envisaged, principals will normally want to write into the agreement a performance clause together with a review period; say after the first 12 months. If the distributor does not maintain the minimum standard of performance, then the principal has the option to terminate the agreement.

Option for Renewal

Agreements for a specific term may contain options for renewal of the agreement for a further fixed term. The option is normally exercisable by the distributor provided there is no default and the minimum performance requirements have been met.

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House Accounts

In negotiating agreements with distributors, it is not unlikely that a principal will exempt certain accounts from the agreement. These could be Government Departments and Agencies, certain specified corporate entities and organisations that operate within the distributor's territory. For example, it may be that these customers have their main purchasing office outside the territory defined by the agreement and already have an established line of trade with the principal.

Importers and/or Distributors Not to Misrepresent Supplies or Products

Generally this requires that sales and marketing strategies developed by importers and/or distributors do not make claims or raise expectations in relation to such matters as performance, supply and price which may mislead customers. Nor should they misrepresent the products or the principal or act in any way which is outside the terms offered by the principal.

Performance Levels

It is normal to require distributors to undertake to use their best endeavours to maximise sales and promotion of the principal's products. In some cases, it may even be required that they do not do business with competitors or deal in competitive products. In many agreements minimum performance levels are stipulated and the agreement may be reviewed and even revoked if these levels are not met.

Out of Pocket Expenses

Normally this condition requires that all parties to distribution agreements meet their own operating expenses such as transport, office overheads, stationery and some local territory marketing costs.

Provision of Samples and Promotional Literature

It may be expected with certain types of goods that a principal will provide to the distributor a reasonable range of samples and promotional literature. If the product is to be advertised in magazines or on radio or television, this clause may be expanded to include guidelines on the distributor's authority to incur promotional expenditure.

Restraint of Trade After Termination

It is obviously in the principal's interest that the knowledge and contacts developed by a distributor are not used against him or her in the event of the termination of the agreement. Therefore, it is usual in distribution agreements to require of distributors that after termination they will not, for a certain time and within a certain area, engage in business providing similar goods of a competitor. This restraint will not have any effect if termination is caused by the default of the principal or if it is unreasonably restrictive.

Resolution of Disputes

Distribution agreements will usually contain a provision specifying the method by which disputes will be resolved and which laws and jurisdiction apply to the agreement. It is not uncommon for agreements to specify that disputes are to be resolved by arbitration and to specify how the arbitrator is to be appointed.

Marketing

Promotion of the product is usually done at two levels. Firstly, at a national level by general advertising in the media, trade and consumer papers and journals. This is more often the responsibility of the principal. Secondly, promotion and other forms of

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advertising in the territory of the distributor or agent and these are commonly the responsibility of the party with the rights to that territory. However, there is usually consultation between all the parties on the various forms of marketing.

Warranty Repairs/After Sales Service

Consideration must be given as to who should take responsibility for warranty repairs and/or after sales service. It is often impractical to return goods or products to a manufacturer overseas and usually local distributors carry out repairs and servicing.

Liability for Defective Products

Where it is foreseeable that the products or materials (or any product in which they are later incorporated) may cause injury to an ultimate user, consideration must be given as to who must bear that liability. Where there is potential for an importer, distributor or wholesaler to be liable for an injury caused by defective products, the supplier, *whether the manufacturer or not*, should indemnify their customer for any such liability. This indemnity should be included in the supply agreement.

Product liability insurance should also be considered, but premiums are high and insurance may have to be effected jointly by both the overseas supplier and distributor.

Please note that if royalties or license fees are involved in such agreements, you should check with a Customs Broker as these fees may be subject to customs duty.

12. International Freight Forwarders

International Freight Forwarders are people who are in the business of organising the movement of other people's cargo from one location to another. They usually have a network of offices or agents in a number of international locations to facilitate this process.

They can assist small business exporters and importers in a number of ways:

BOOKING SPACE

Forwarding agents can make the necessary reservations of space with shipping companies or airlines to ensure that cargo is transported with a minimum of cost and delay.

FREIGHT SAVINGS

Most agents make regular block bookings of space on ships and aircraft. They are thus able to consolidate cargo from a number of individual exporters or importers and pass on the savings achieved to their clients in the form of reduced freight rates.

COSTING

They are able to assist importers and exporters in calculating the cost involved in transporting goods to a particular destination. They can also advise on the most economical means of transport ie air versus sea or a combination of both.

CARGO MONITORING

Freight forwarders are able to monitor the movement of particular cargo from the time it leaves the exporter's premises to the time it arrives at the importer's premises.

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DOCUMENTATION

It is essential to have the correct documents if international transactions are to be trouble free. Freight Forwarders are able to produce documents that comply with the regulatory requirements in the importer's country and/or the specific requirements in Letters of Credit, etc. Where speed is essential in the transmission of documents, forwarders are able to electronically transmit copies to importers or their agents thus ensuring faster completion of customs clearance procedures. This in turn reduces the risk of incurring storage charges at the port of discharge.

STORAGE

Most freight forwarders have the facility to store outgoing and incoming cargo and this facility usually extends to bond storage — that is to say — storage in premises that are under the control of the Australian Customs Service. They are also able to arrange inspection by customs or other agencies if this cannot be conveniently accomplished at the exporter's or importer's premises.

When seeking information about freight rates it is essential to provide accurate and adequate details with regard to the nature of the cargo, its destination and its weight and measurement. It is also important that you obtain written confirmation of the rates quoted and the range of services offered in order to avoid confusion and misunderstanding at a later date.

When utilising the services of a freight forwarder your instructions should be clear and concise. Most forwarders have their own forms on which clients may provide instructions.

13. Preparing a Preliminary Import Strategy

Every business is different and therefore every import strategy will be different. Your import strategy must be tailored to suit your particular operation, the product you intend to import, your available resources and capabilities. The following will provide a starting point and a step by step approach for the development of your own import strategy.

Background

Start your import planning by a thorough appraisal of your own and/or your business's background.

History and Qualifications / Experience

SWOT Analysis

Identify the strengths that exist in the business and the opportunities, which flow from these strengths. Also identify corresponding weaknesses in the business and the threats which arise from these weaknesses.

Strengths

Weaknesses

Opportunities

Threats

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Potential Suppliers

Using the information contained in the first part of this guide as a starting point, begin to focus on those countries where the product you wish to import can be found and identify potential suppliers.

Request a Quotation

Write to the potential suppliers you have identified requesting a detailed specification of the goods together with details of price, validity, trading terms, payment terms, delivery schedule, warranties, packing specifications etc.

Costing

When you have received the price and other details prepare a comprehensive costing which includes all the costs and charges that the goods will attract up to the point where they arrive in your warehouse.

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Assuming that the price you are quoted is Ex Works and quoted in US$ your costing should look something like this:

Ex Works Price =US$ _____ @conversion factor _______		= A$_________
Add inland carriage to point of loading*	A$__________	= A$_________
Add charges at port of loading*	A$__________	= A$_________**FOB**
Add freight charge*	A$__________	=A$_________**CFR**
Add insurance#	A$__________	=A$_________**CIF**
Add charges at port of discharge*	A$__________	=A$_________
Add customs duty (if applicable)	+ A$__________	=A$_________
Add GST (if applicable)	+ A$__________	=A$_________
Add Customs brokers fees	A$__________	=A$__________
Add inland carriage to your premises*	A$__________	=A$_________**DDP**
Add overhead costs	A$__________	=A$_________
Add bank charges and interest factor	A$__________	=A$_________
Add profit margin	A$__________	=A$_________ **Resale Price**

***** can be obtained from you freight forwarder

can be obtained from your insurance broker

Market

When you have completed your costing and know the price at which you will re-sell, you are in a position to survey the market. Develop a profile of your client base taking into consideration the size of the market and the factors discussed in Section 1, all of which will determine the likelihood of your product gaining acceptance in the market place. By a process of thorough research, assess the overall potential market for the product you intend to import and your possible market share over one year, three years, and five years.

Competition

Obtain reliable information on the entrenched competition you face, their reputation in the market place and their pricing policy.

Distribution Arrangements

How will the product be distributed to the widest possible market? See Section 10.

Preliminary Market Objectives

Set some preliminary objectives.

Example – "To establish a market for the imported product in Australia amounting to A$1 million in year one, rising to A$5 million in year three."

Now begin to assess what resources you already have and what you will need to obtain to achieve these objectives.

Resource Requirements

Skills

Market Knowledge

Supply Requirements

Finance

Time

Information

Support Services

Identify those areas of support and assistance both in the private and public sectors, which will assist you to achieve your objectives.

In order to ascertain what support may be available you should discuss your ideas with staff at a Victorian Business Centre. Call the Victorian Business Line ☎ **13 22 15** (local call) or visit the Business Access website http://www.businessaccess.vic.gov.au

This *Import Planning Guide* is produced with kind collaboration of the Customs Brokers and Forwarders Council of Australia Inc.
http://www.cbfca.com.au/

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