

# **IMPORT DIRECT FROM CHINA**

## **Your Guide to Finding Best Suppliers, Best Products and Best Prices and How to Easily Organise the Importing Procedure**

This guide is the product of my long personal experience. It is not a rehash of someone else's work, nor is it a result of a research report such as those churned out in their thousands by poorly paid freelance writers. Big numbers of internet marketers sell e-books on subjects that they really know very little about, some even pretending to be experts with experience.

I have been importing and exporting since 1987 and I have visited China and many, many other countries numerous times.

While my heart bypass surgery has slowed me down physically it has not affected my brain, and so you get the benefit of my wide experience in down to earth, practical advice, and towards the end of this book you will find an invaluable step-by-step check list that if you follow, will greatly reduce your risks and help increase your profits.

I could have doubled the size of this report with unnecessary words but I have kept it as brief as possible while ensuring that you have all the information you need to start your own profitable importing business.

If you have subscribed to my "Importing Answers" newsletter you can email me with your questions and you will have your answers in the next edition. If you have not yet subscribed but would like to, just send me your brief testimonial with a note permitting me to publish it. You will then be added to my mailing list.

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## **CONTENTS**

- 1. Is Importing Complicated?**
- 2. Before You start**
- 3. Rules and Regulations**
- 4. Freight**
- 5. The Difference Between Air Freight and Air Courier Services**
- 6. Understanding Agencies and Distributorships**
- 7. Standards**
- 8. Where To Locate Products To Import**
- 9. How To Get Suppliers To Come To You**
- 10. Choosing Suppliers**
- 11. Samples and Small Orders**
- 12. Calculating Actual Costs**
- 13. Payment Terms**
- 14. Tax Deductible Travel**
- 15. Order Procedure and Checklist**
- 16. Drop Shipping Explained**
- 17. Countries Other Than China?**
- 18. Sources of Free Information**
- 19. Glossary of Terms With Warnings**

**Appendix: US Customs and Border Protection Agency's "Helpful Guide".**

## 1. Is Importing Complicated?

The short answer is that it can be, but by following the methods I set out for you it will be easier than you can imagine. I simplify the process for you without any mumbo jumbo.

In preparing this article I looked at what is available online, and found that some of the information is misleading, some uses jargon that is not explained, some is unnecessarily complicated, and much of it is designed to try to get you to use someone's services as "facilitator" or "sourcing agent." They do this by trying to give the impression that if you try to do it yourself you are risking disaster.

To minimize competition, importers like to maintain secrecy about their methods. They try to give the impression that you need a degree in importing as well as knowledge of endless rules and regulations. The reason behind this is that many importers hope to act as wholesalers to sell products to you in bulk. They then expect you to sell those products to the end user for a profit. ***There may be times when you would go to such people, but I will tell you more about that later.***

This report is based on the idea that if you know what kind of products you want to import, and you know how or where you are able to sell them, ***why not have all the profit for yourself?*** Why pay those importers? Why not do the importing yourself?

***So you think it's too hard?*** Don't let the importers fool you. Don't be discouraged by looking at official customs and excise websites where you will find endless details telling you about the rules and regulations. Soon you will find out how easy it really is to do your own importing.

## 2. Before You Start

You should remember that the easiest part of your importing business will be finding goods to import and then actually importing them. The harder part is selling the products while making a good a profit. I have to assume that you know at least the basics of operating a business. If you have no previous business experience it would be advisable to seek advice from someone who can teach you.

I do not set out to give advice on how to operate a business nor do I offer legal advice. This report is intended to show how you can locate suppliers of goods to import, and how to do the actual importing. If you have not decided what product(s) to import and how you will sell them, then please do that homework before you start.

In my website I said that ***provided you have done your homework*** you will be ready to start as soon as you have carefully read my report. You need to know what your objectives are and how you will achieve them.

I am assuming that your objectives are to import goods and sell them for maximum possible profits, so what do you need to work out first?

### 2.1 What products or category of products do you want to import and sell?

Best results are usually obtained by working in an area where you have experience or knowledge. If you have a hobby or a trade, or experience in a particular industry, you should start thinking about what products you know are used in that field. Give first preference to those items that are consumables because that will usually mean repeat orders. Research and find out how much those items sell for, and then go looking for suppliers who will give you good products at prices that will allow you big margins.

It is best to get to know everything possible about those products so that you can be sure that you are buying the right ones. Later I will show you where you can look to locate a mind-boggling range of products to choose from.

## 2.2 How are you going to sell them?

There are many different ways such as eBay, Amazon, Craigslist, direct sales from your website, flea markets, home party plans, your own retail shopfront, etc. It is not for me to know which will suit you best. I hope you have already given a lot of thought to this vital subject because there is no point in importing the cheapest widgets in the world if you cannot sell them.

## 2.3 How much time and money can you put into this new venture?

For at least your first order the suppliers will require payment in advance. I will explain later how to do this as safely as possible and I will also show how you can avoid outlaying the very large amounts most suppliers require for minimum orders.

I am not dealing with matters relating to storage, distribution, delivery, payment methods etc., because these should already be part of your business plan. I cannot help you with selling your product. My specialty is importing.

## 3. Rules and Regulations

***This is where your first worries are over.*** Yes, it is true that there are huge books written covering the rules and regulations dealing with importing, but I am about to show you how little you really need to know.

Why not use the knowledge that other people have learned by reading those huge books and getting university degrees in importing? Some of the e-books I have seen about starting an importing business are loaded with well-researched information which is in my opinion more appropriate for a person wishing to become a customs broker rather than for a person starting up a small importing business. If you own two or three dogs and use them in your business as guard dogs, you do not study to be a veterinarian in order to keep them healthy. Instead you use the services of a specialist, and that is exactly what I am advocating. You have to pay for their services, but think of the time and effort it saves you.

***Customs Brokers*** can be one of your most valuable means of simplifying your start into the world of importing. By using the services of qualified customs brokers you can escape the red tape nightmare and avoid having to learn all the complexities. By using their expert knowledge of importing procedures you can have more time to devote to actually running your business and making money. You have to pay for their services, but your time and effort is worth money ***and*** ..... spending money on a broker can potentially save you many times the amount you pay them. If you try to learn it all yourself, but you do not pick up on some small technicality you could have your shipment seized. A broker will help you make sure that you obey all those small technicalities.

I have the experience and training that would allow me to handle my own Customs clearance work, but I chose to hand that work over to a broker. I did not want to spend the time needed to keep up to date with all the latest changes, and I preferred to spend my time importing and selling the products rather than save a few dollars with DIY customs work.

Later I will show how you can even do without customs brokers for some shipments.

Customs Brokers must be licensed in USA, Canada and Australia, and this gives you a degree of protection and some certainty about their ability, but there is no licensing requirement in the European Union. Therefore, if you are importing to the EU it is important that you satisfy yourself that the person you employ as a customs broker is experienced and knowledgeable. Well-established customs brokerage businesses in the EU would usually employ appropriate people. You can find customs brokers by searching the usual sources, whether online or in printed Yellow Pages.

They can handle such things as whether you need licenses or permits. As a general rule, in most Western countries anyone can set up in business as an importer. Other than for certain restricted goods, ***in most countries you do not need a license or permit to be an importer***, although you will usually have to obtain an importer's registration number which will appear on all of your Customs clearance documents. Your Customs broker knows about this and will obtain the number for you when your first shipment has to be cleared.

In many countries quotas apply that restrict the volume of imports of certain items. It may be the case that such goods may be imported in unrestricted quantities from certain favored countries. I suggest that you make inquiries with a broker or through your official Customs and Excise (in the USA, Customs and Border Protection) office at an early stage to ascertain whether you need licenses, quotas, or permits.

***Chances are that you will not have to worry about goods that might be banned, restricted or subject to quotas.*** Few consumer goods would be restricted so you have a huge scope to choose from. But just in case you think you have a market for goods a little out of the ordinary, I have included this section on restrictions.

Restricted goods will obviously include alcohol, tobacco, wildlife products, motor vehicles, firearms, explosives, and munitions, but other items where quotas or strict quarantine rules may apply can include food, agricultural goods, steel, clothing, textiles, and footwear. Instead of trying to sort out the volumes of regulations involved, it would be easier, and probably safer, to ask a customs broker's advice in relation to the product type you are considering. If in doubt about whether you need a license, permit, or quota, a customs broker can advise you or you could contact your nearest Customs and Excise office. In Canada and the USA, I have found the Customs office to be very helpful, but in other countries, including most EU countries you may get no help from them at all. That is when you ***must*** consult a customs broker.

While I am not giving advice on general business operation, you will almost certainly need to be registered as a business, and you need to ensure that you know what rules apply to sales taxes and other income taxes.

***When you do not need a customs broker:*** If you use international air courier services they normally carry out customs clearance work for you as a normal part of their service. It is ***very important that you know in advance*** whether or not the cost of clearance work is included in their door-to-door service. See very important information on this subject in Section 4 - Freight.

***Another way to avoid a lot of red tape*** is by limiting the value of each consignment and having it shipped via EMS (International Express Post). Provided you do not exceed a certain value per parcel, the postal service will do the calculations for you, lodge the customs forms, and deliver to your address. All this is free of charge. You pay any duty and taxes due when you collect the goods from your postal service.

Check with your Customs and Excise office to find out what is the maximum value per shipment under this scheme. For some items entering the USA it is \$2,000.00 at time

of printing, but for others it is only \$250.00. Some countries have more generous allowances and others do not allow any goods to be imported under such a scheme.

**Note:** If you use this scheme, avoid having more than one parcel dispatched on any one day. You should instruct suppliers to leave **at least** 3 days between shipments, otherwise they may be regarded as one shipment and Customs would then require you to lodge a Formal clearance. If that ever happens, the easiest course is to call upon the services of your customs broker rather than attempt the formal clearance yourself. Believe me; you do not want to try doing a formal clearance yourself. Your broker can do it electronically in minutes, but it could take you hours, even if you get it right on the second or third try. You will almost certainly get it wrong the first time.

When you look at the Appendix which shows the **contents list** of a “helpful” guide to importing provided by the US Customs and Border Protection Agency, you will appreciate what I have done to simplify the whole process for you. The full document runs to 211 pages. It provides very little practical help and would confuse many people, and I only include it to show you the value of using a broker rather than trying to do the clearance work yourself.

One very important part of customs regulations that applies in every country is that you the importer, **and not your customs broker**, will be ultimately responsible for any breaches of law in relation to the importation of the goods. For this reason you need to be sure that your broker is appropriately qualified and licensed. It would be wise to not only check their licence credentials, but also ask for references and then **check** them.

#### 4. Freight

***This section could save you thousands of dollars, so please read it carefully.***

**Always** make sure the cost of Customs clearance work is included in a freight company’s door-to-door service before placing orders overseas or you could be in for a very nasty and very expensive surprise. **Insist** that your supplier pre-pay, not only the door-to-door freight, but also the customs clearance charges. **Always get quotes in writing for everything that you are going to pay for – freight, customs clearance work, or any other service.**

Pre-payment of freight by your supplier can eliminate **a massive risk**. The risk involves deception by freight company sales representatives, and I have often seen this scam used on importers who have decided to pay for freight on arrival of the goods in the country. This is how it works:

- 4.1 You ask the freight company sales representative for a quote for the consignment you intend importing.
- 4.2 They quote you a very good price.
- 4.3 As a novice you trust them and do not get a **firm** quote **in writing**. They will usually procrastinate about providing written confirmation of the quote. Meanwhile you don’t want delay, so you set the order process in motion, and you have soon reached the point of no return.
- 4.4 When the goods arrive, you are informed that you have to pay a massive freight and clearing charge before your goods will be released.
- 4.5 You dispute the charge, but the Sales Representative claims you misunderstood. You may even have the notes you made at the time, but they will not be sufficient proof.

4.6 You either pay the exorbitant freight charge or they take possession of your entire shipment (which you have already paid for) and sell it at auction. They may add insult to injury by suing you for the difference between the amount realised at auction and the freight amount they charged. They will probably even add storage charges, known as “wharfage.”

4.7 Meanwhile, the Sales Representative enjoys his/her big commission.

A smaller scale scam involves failing to include surcharges and transshipment charges in the quote. Make sure your written quote includes any surcharges. To be safe you should insist that the quote states that all surcharges payable have been included.

***If goods are sent to you on a “freight collect” basis without any prior written quote from the carrier, you will usually pay crippling schedule rates.***

[See 19.15].

**Note:** Freight may be quoted in “Cubic Tons”. This means you will be charged according to a formula that calculates a cubic ton by multiplying length x width x height of a parcel. By this method, ½ ton weight of feathers would be charged as about 1000 cubic tons, and the freight would cost many times more than the value of the feathers. When you ask your supplier to quote a price for the items, always ask for details regarding packaging. If you are paying the freight yourself and not having the freight pre-paid by the supplier, you need to know the weight of the package and the dimensions. When requesting a quote for freight you must tell the freight company the weight and the dimensions, as well as the number of packages. Then read the quote carefully to see if you are being quoted in cubic tons. If you are, you need to have them tell you in writing how many cubic tons the shipment will be. That is the only way you will know the real freight cost before it lands at your sea port or airport.

**Product Size Is Important.** Feathers may be an extreme example, but lightweight items can cost you more to freight than heavy items. For example, if importing watches, you will fit 100 of them in a small parcel, weighing about 22 lbs. (10 kg). In the case of plastic toys you may only fit one or two in that same size parcel, so you will be charged on a cubic ton basis.

Result: Air freight for plastic toys is prohibitively expensive, so you must use sea freight with its long delays (6-8 weeks or even more.) Watches can be air freighted at a very low cost per item relative to their value.

## **5. The Difference Between Air Freight and Air Courier Services - *this is an important distinction that you must never slip up on.***

### **5.1 Airfreight**

This is usually reserved for small to medium size high value shipments and is almost invariably arranged on an airport to airport basis. If you use airfreight I would recommend arranging it through a freight forwarding company, but it may be worth asking your Customs Agent first. Either the broker or the freight forwarder can usually offer much lower rates than the airlines themselves because they buy bulk capacity at huge discounts and in effect they then retail that capacity to shippers like you.

There are risks involved unless you thoroughly discuss the matter with the forwarder or customs broker, so that you are certain that you know **ALL** costs that may be involved. I suggest being wary of using airfreight until you have gained some experience in importing.

There are a multitude of issues to deal with including “inland” charges by the supplier (local freight, tolls, Government export charges), and then charges at the receiving end, including: Customs clearance, unpacking containers (they use special air containers), inwards airport fees, storage, delivery from airport to depot, delivery from depot to you etc.

## 5.2 Air Courier Services

These services are provided by the likes of UPS, DHL, FedEx, TNT etc. They usually, **but not always**, provide a door-to-door service, and **most often** they provide customs clearance services as part of the deal.

## 6. Understanding Agencies and Distributorships

Some people see some glamour in being a distributor, and others think that being an agent is the best way to sell manufacturers’ products. The fact is that these terms are often misunderstood, and there are traps for the unwary.

### 6.1 Agencies

An agent sells products on a commission basis, and shipping costs are borne by the overseas supplier. This has the advantage for you of minimizing your cash outlay and risks, but commissions are invariably well below the rate of profits you could expect when handling the same volume working for yourself as an importer. Agencies are **rarely** granted by Chinese companies and if they do, the terms will always be heavily weighted in their favour.

You should never consider acting as an agent unless you and the supplier have signed a firm contract specifying the terms of the agreement. You should get advice from a lawyer before signing any contract but especially one with a Chinese company. You should understand that legally enforcing a contract with a Chinese company is almost impossible, even if the contract states that the applicable law is the law of your home country.

I know of many cases in which a supplier employs an agent to sell in a new area or new country, and if the agent succeeds, the supplier then establishes a branch office and takes over all the business. I have even known local manufacturers who have done this. This often leaves the agent out in the cold, with little or no redress. They own all of the customer details because the customers are theirs and they have all the names and contact details. This is why you should consult a lawyer before taking on an agency agreement.

### 6.2 Distributorships

This term is one of the most widely misunderstood and misused terms in business. Strictly speaking, a distributor is an importer or seller with exclusive rights allowing him/her to be the one with sole rights to import and sell a particular product in a certain country or region.

Sole distributorships are almost **never** granted by Chinese manufacturers. Some may tell you that you have exclusive rights, but unless a carefully constructed contract is signed, such a statement is worthless.

Exclusive rights agreements are difficult to enforce, and could result in a big financial commitment on your part, so it is essential to seek legal advice very early on in your discussions with a supplier. It is common for an unscrupulous supplier to offer exclusive distributor rights in order to persuade you to place a huge initial order.

If you want to become a distributor, you must beware of suppliers who may do the same as outlined above in the section on agents. **Never** disclose your customers' details, and do not give your suppliers any information relating to your market. If they do decide to scrap your agreement, at least they will have to repeat your hard work.

## 7. Standards

This subject is related to the rules and regulations section, but I have made it a separate matter because it is **very** important to be sure you remember to deal with standards when they apply to your chosen products.

You may think that a product is so straight forward that provided you pay the appropriate Customs Duty and Sales Tax that is all you need to think about, but that could lead you into trouble. For example, do you know what the labelling requirements are for your product? Most types of merchandise now must show country of origin at least, but some items must have labels of a minimum size, in a specific location on the item, and with printing of a certain minimum size.

Regulations of critical importance also apply regarding safety standards for children's toys and nightwear, electrical goods, foodstuffs, machinery and others. If you fail to meet these requirements, your goods may be seized at the port of entry, or if they are delivered to you, you may be subject to legal action for selling them without meeting the relevant regulations and you may be required to undertake a costly recall.

**There is a simple solution** - ask a customs broker before you place any orders. In fact I recommend asking before you have paid out your hard earned money to import any samples. The small cost of a broker's advice could save you thousands of dollars. In the Appendix I give an example of the complexity of the rules and regulations. The document I show is only the contents list for a 211 page document designed to be helpful to US importers. You could check all the regulations for yourself, but you could find that you are spending weeks or even months doing research and study.

Remember, customs brokers deal with these regulations on a daily basis and are constantly updating their knowledge. Rules and regulations change with alarming frequency, and brokers often know **in advance** when changes are about to come into effect.

## 8. Where To Locate Products To Import

Most novice importers take great risks in sourcing goods to import, but there are ways to reduce your risks. Some sites offering goods from a large number of manufacturers, agents, and wholesalers do not screen the businesses that offer goods for sale on their sites. There are quite a number of these, as well as sites offering goods for export. I have a list of about 3,000 that I would personally avoid. If you would like a copy I would be happy to email it to you, but just relying on that list would not ensure that you avoid every risky site, because new ones appear frequently. I am unwilling to name some of the big and apparently authentic sites because of the risk of litigation

Instead, I would suggest that you restrict your searches to the known safe ones I have listed below:

[www.hktdc.com](http://www.hktdc.com) **RECOMMENDED AS FIRST CHOICE**

[www.made-in-china.com](http://www.made-in-china.com) **NOT** to be confused with *madeinchina.com*

[www.globalsources.com](http://www.globalsources.com)



[www.alibaba.com](http://www.alibaba.com)

<http://www.thomasglobal.com> This is a site now known as solusource that is operated by Thomas Publishing LLC who have been publishing trade catalogs for over 100 years.

If you cannot find what you want on one of these sites you may need to contact trade consuls or commercial attaches at consulates or embassies with your specific request.

**IMPORTANT:** Just because a supplier is listed on one of these reputable sites does not mean they are a reputable supplier. If you only contact audited suppliers on made-in-china.com, verified suppliers on globalsources.com and verified suppliers on alibaba.com, you will have a reasonable degree of certainty, but it can be risky contacting suppliers who are not listed in those “approved” categories.

#### **a. My Top Recommendation**

In the case of **hktcdc.com**, the official website of the Hong Kong Trade Development Council, all suppliers have been checked out by the HKTDC. It would be rare for one of those suppliers to risk their good standing with the HKTDC by treating you unethically. Many of the suppliers have been checked by Dun & Bradstreet to verify their true business registration, location, names of contact persons, websites, and other significant information, but bear in mind that they do not report on their financial standing. Suppliers who have advertised with HKTDC for at least 2 years are generally likely to be safe to deal with.

They have recently established a special section at their trade fairs for suppliers willing to accept small orders. Due to the success of this new development, they have now incorporated what they call the “Small Order Zone” on their website. Suppliers listed in this area will handle small orders at genuine wholesale prices for business operators. They will not deal with individual buyers wanting to obtain a bargain on a single item.

I have personally checked out prices from various suppliers in the “Small Order Zone” for products that I am familiar with. I found that prices for small quantities are quite reasonable, but not as low as you can get **after** developing a good working relationship with a supplier. The “Small Order Zone” may well be the best place for you to start your importing business because you can do so for very little cost without buying a big inventory and it can help you test the market.

I know of a number of people who run their businesses on eBay, flea markets, websites and physical shops entirely sourcing products through the “Small Order Zone”.

#### **b. Trade Magazines Available**

HKTDC publish a number of trade magazines. They are available in print form for US\$60 or so per year or electronically free of charge. You will easily locate them on the HKTDC website.

Registering on a trade sourcing website means that you will receive numerous emails which may be of no interest. Over time the volume of these will increase and they take up a lot of your time, even just to check them before deleting.

There are plenty of sites that do not **require** registration, but if you want to regularly log on to one that does, you can use a free email address specifically for registering on sites that require it. If the mailbox becomes overloaded at that address you can simply abandon it and register again with a new address.

**WARNING - Never be tempted** to import big brand items at bargain prices. It is almost impossible to source the genuine article unless you have a few million dollars to spend, and importing copies, even in good faith will likely result in your shipment being confiscated and destroyed and you face a real danger of prosecution.

#### c. Regarding Prices

The lowest price may not be as important as ensuring that you are getting a quality product from a reliable and trustworthy supplier. I have been in a number of factories in China where there are in effect two production lines. One produces el-cheapo products to supply people who think of nothing but price. The other produces a much better quality version of the same product and surprisingly the price difference is often only small.

#### d. Possible Profits

I once had a call from a potential customer desperate to obtain a custom-made product, but every company they had contacted was not interested because the order was only for 1,000 items. I knew a company in China that made vaguely similar items and I asked them to quote. The landed cost worked out at approximately \$3.00. I quoted the customer \$21.00 each and got the order because they absolutely had to have the product and nobody else would even quote them. I pocketed a profit of \$18,000 for an outlay of \$3,000 and for very little work.

That does not happen every day, but the point I make is: Don't be afraid to charge what the market will bear, rather than a cost plus price. On a cost plus basis I would have charged  $\$3.00 \times 250\% = \$7.50$ . That is my usual profit margin; 60% of the selling price is profit. I can happily live with that, but I can really enjoy  $\$3.00 \times 700\% = \$21.00$  – a margin of over 85%.

Some importers regularly make much higher margins, but that is usually because they have found a niche that is not widely exploited.

#### e. Custom Made Products

Most of what I have written so far relates to standard goods that the manufacturer already produces in volume.

If you are aware of a locally made product, or even a high priced imported product of a type you are familiar with, that has a very lucrative market, you may want to consider having that type of product custom made for you in a low cost country. It is safer to first consult a lawyer specializing in international intellectual property rights, because you must beware of breaching intellectual property rights such as patents, copyrights, or trademarks. If you are satisfied that the product can be legally and ethically copied, you would then contact manufacturers who make the same kind of products.

You may not find manufacturers who produce exactly the same item, but if for example you want to copy leather aprons with tool pouches, you may not find suppliers who make that product exactly, but you could probably find some who produce other leather products.

If you want some made especially for you, there are a number of matters to take into account:

- i. Much longer lead time. Depending on what is being made, how complex it is, and what setting up work may be needed, it can take months to even obtain your first sample.
- ii. If casting, stamping, or injection molds are needed, these can be very costly. For example a simple stamping tool for a medal might cost \$40 - \$100

- for a single sided item, or double that for a double sided one. A plastic injection mold may cost \$20,000 to \$50,000.
- iii. Fabrics woven to your design can require jacquard costs up to \$500.
- iv. Items to be printed will have set up charges ranging from \$20 to \$500.
- v. Ensuring that the manufacturer interprets your drawings and written specifications the way you interpret them can be difficult.
- vi. A manufacturer will usually require a substantial order to compensate for the extra time and effort needed to develop the new product.
- vii. If you have your own original design that you want made, you will need to take steps to protect your own intellectual property, and for this you will need the help of a lawyer specializing in international intellectual property rights.

I suggest that you should not consider custom made products unless you have a good understanding of, or experience in, the manufacturing process yourself.

## **9. How To Get Suppliers To Come To You**

This is amazingly simple. All you need to do is lodge an inquiry on one of the websites above, specifying the product of interest to you. You will usually receive a flood of responses, and you know that these people are keenly looking for business.

Remember that they may not be “verified” or “audited” suppliers, so you will need to go back to the website and see if they are.

You will need a business name, because none will respond to an enquiry from an individual.

Don't forget that your email address will now be widely available, so I recommend using a disposable address.

## **10. Choosing Suppliers**

There are several criteria to consider when choosing a supplier.

### **a. Do they have a product that you can sell?**

This is probably the easiest question to answer, because you will have done your market research and are confident that you have a potentially profitable market for widget X, and you have found several suppliers.

### **b. Does their price allow you a good profit margin after allowing for all expenses?**

Our simple “trick of the trade” to ensure that you are getting the best price is that you must obtain more than the three quotes usually recommended. Standard business practice is to obtain three quotes, but what if those three companies are related without you being aware of the fact?

There are many Chinese companies that trade under more than three names, so you need to obtain quotes from as many as possible. The number depends on how patient you are and how much time you will put into checking prices. I once obtained eight very similar quotes for a particular product; then quotes 9 and 10 were very much lower. That can ring alarm bells because if a price is too low that can mean the supplier is not genuine or their product is second rate. In this case it was a good outcome because most of the first 8 were agents, not manufacturers, and as a general rule, manufacturers will offer lower prices than agents.

c. **Do they seem reliable?**

The best way to test that is to request a sample. You may have to pay for it – more on that later. If the sample arrives promptly, that is usually a sign of reliability. You should also request client references or testimonials. Chinese companies are reluctant to supply these because they think you may be trying to obtain a commercial advantage. You need to assure them that you only want to ask their customers about reliability, service, and whether quality met expectations. 80% of Chinese companies will still refuse to supply references so you need to make other inquiries.

d. **Are they a genuine business?**

Ask for business licensing information. Ask for the name and location of the factory. If they will not or cannot provide these answers, you should go elsewhere. Ask for their telephone number. Check to see if the area code corresponds with the address location they give for either their office or factory. If it does not, find another supplier. Does their website show a full address and telephone number? Do not even consider an anonymous company that has a website but may have nothing else.

e. **Are they helpful?**

Prompt replies to your emails are usually a good indication that they are helpful. This applies particularly if you ask for an explanation about some aspect of the product. *Note:* the English-speaking secretaries will invariably under instructions try hard to get new business so they will email you repeatedly. Do not mistake this for being pushy.

f. **Will they accept small orders at first?**

Most will not, but if you follow my methods in the next section, many will allow a small first order. If not, you turn to HKTDC's Small Order Zone referred to above.

g. **Are they manufacturers or agents?**

The first step is to check whether the factory address, even if it is with a different company name, is printed on the supplier's literature. If it is, the company is almost certainly a manufacturer. Agents often cut off the part of a leaflet showing the actual manufacturer's name, so if no business name appears in print on the leaflet, that is a sign that the supplier is an agent. In other cases they stick on a label with their name and address.

I usually avoid dealing with agents because they often lack influence with their supplier to ensure continued good quality and reliable service. One major exception is when an agent has exclusive rights to export a supplier's goods. Such exclusive export rights are often a result of the manufacturer not having a good knowledge of English.

h. **Never Keep All Your Eggs In One Basket**

If you have found a good product that sells very well at a good profit, I urge you to look for a back-up supplier. Your first supplier may suddenly go out of business, or they may receive a massive order from Disney or McDonalds and not have the capacity to handle your orders. You could be left stranded if you do not have an alternative supplier.

If a supplier begins to repeatedly increase prices you should start looking for another supplier if you do not already have an alternative, because it is very difficult to negotiate better prices with them.

In my experience, suppliers will usually work very hard to get your business, but they tend to take you for granted after a while. This can usually be remedied by lodging a

strong complaint but in some cases, with quality and reliability falling below acceptable standards you cannot continue to buy from them. In that case you will need other suppliers to turn to.

### i. Cultural and Language Differences

These differences can make or break a business relationship, so I will outline a few essentials.

Although I have stressed the need under certain circumstances for watertight contracts, Chinese culture places great stress on trust. Moral influence is more important than legal practice. Chinese business people tend to rely on a person or company's moral obligation, rather than on legal obligations. This does not mean you should ignore my advice about contracts, but if you can build a trusting relationship where both parties will feel morally obligated to perform, you will generally have as much security as if you had a signed contract.

In the section on Procedures, the check list includes reference to Pro Forma invoices. These are as near as you can usually get to a really binding contract.

When writing to Chinese speakers remember that they mostly have a limited vocabulary, and words that may seem straightforward to you might mean something different to them. Avoid using words that have more than one meaning, such as bow. Also try to simplify your meanings by using words that cannot confuse someone with a limited vocabulary. For example instead of using the word "lustre", use "shine" and instead of using the word "buff" use "polish".

If you can find a reliable interpreter, do make the effort to use Chinese characters on your emails, order forms and letters.

Cultural differences extend to ***the art of negotiating***. People who have visited retail stores and particularly street markets in Asian countries encounter sales people who haggle over price. In fact this is not the Chinese way of doing business. On the contrary, you will find that they will generally quote low initially to get your business, and then impose price increases over time. Chinese business people are generally very professional. While some are greedy, most are prepared to work on relatively low profit margins.

When they give you a price, they will be highly offended if you respond with an offer to pay less, in the way you might at a street market. Instead, see part b) above, regarding obtaining many quotes to obtain the best price.

If you find a company that you would prefer to deal with for some reason, but their price is too high, it is acceptable to politely thank them for their quote but say that you have received a quote from another company for \$x. If you choose to do so, it is also acceptable to scan a copy of the competitor's quote, ***with all company identification removed***. No names, addresses, telephone numbers, logos, company numbers, product numbers, etc should appear. If they can meet that price they will tell you, or they may offer you a price in between their price and their competitor's. It is up to you to decide whether the difference is worth choosing the less desirable supplier.

Always be very polite in such communication. Chinese people are extremely polite and they have a higher regard for Westerners who are also very polite. Just remember to treat them as you would like to be treated.

A good way to maintain good relations once you have established a good business relationship is to send greetings for both Western New Year and Chinese New Year.

## 11. Samples and Small Orders

When making your first approach to a potential supplier you need to make a good impression. You must avoid disclosing that you are new to the business or that you are a sole trader. Here is an example of an email making first contact:

Wonder Products (HK) Ltd  
Dear Mr Huang

We are established importers seeking reliable suppliers of xxxxxxxxxx.  
Please email a catalog and price list.

Regards  
John Doe  
Wizard Imports

### a. Samples

At some stage before placing an order you must obtain a sample, or if you are able to visit the supplier, see the actual product. This is because in these days of Photoshop images you cannot believe everything you see in print or online.

You will appreciate that many people contact Chinese companies in the hope of getting freebies or at the very least a cheap single item. This makes Chinese companies wary and many will charge for samples, usually with a proviso that if you order a commercial quantity they will deduct the cost of the sample.

If the unit value of an item is very low, maybe a dollar or two, they will ask you to pay courier charges. For them this serves two purposes. First it shows that your inquiry is a genuine commercial one, and secondly, because they expect you to quote your courier account number, it proves that you are in fact in business. Find out the package weight and dimensions, and if you have a courier account number, **check with your courier** exactly how much they will charge for a **freight collect** door to door delivery from the dispatch location (which city) in China to you, for the package. Their price must include Customs clearance and must be **in writing**. See Section 4 - Freight.

Once you pick your jaw up off the floor after seeing the quote, ask the supplier how much they would charge for a pre-paid package if you pay the supplier in advance. Bank fees will be expensive, and the supplier may want to charge you for their bank fees also, but in many cases the total cost will be much less than what you would pay your courier for a freight collect delivery. If the supplier accepts payment via PayPal, or credit card you will probably be in luck.

If you do not have a courier account you can still plead that freight collect charges are outrageous and see if they will accept pre-payment from you as above.

Often the best approach is to either choose a small range of their products and place a sample order, or even place a sample order for \$100 or \$200 worth of the particular item that interests you. They will then prepay freight, and you could well receive some saleable items for no more money than a single sample would have cost you. When doing this, you must make it very clear that this is a sample order to enable you to evaluate the product.

### b. Small Orders

I have just introduced the subject of small orders as a way to obtain samples without paying through the nose. You may also want to place small initial orders to test the

market and to test the supplier. I am not talking about sample orders for \$100 or \$200 but small commercial orders for possibly \$1000 or \$5000. I strongly recommend that your first one or two commercial orders should be as small as a supplier will allow, or as small as you feel is the maximum amount you are willing to spend as part of the learning process. By doing this you can get the feel for the process and learn first hand what it feels like to be an importer. This will also help you test the reliability, helpfulness, and quality control of the supplier.

Suppliers will want to know what quantities you intend buying. It is best to generalize about expected order quantities, or even evade the issue for the time being. Before giving much detail to them you should request catalogs and a price list as in the example above. These can usually come via email. Do not request samples at this stage. You should wait until you have received a catalog. Here is a typical email requesting samples:

Wonder Products (HK) Ltd  
Dear Mr Huang

Thank you for your prompt response. I have thoroughly reviewed the catalog received a few days ago and I am very confident that we have a good market for your products yyyyyyyy (Catalog No 123) and zzzzzzzzz (Catalog No 456).

As product quality is of great importance I need to see a sample of each product before placing an order. Would you kindly forward one sample of each, preferably red, but any color would be OK.

Regards  
John Doe  
Wizard Imports

Discussion on charges for samples and/or freight will then commence as in the samples section above.

If you want to place a small order of maybe 1,000 items, but the supplier has quoted you a minimum order quantity (MOQ) of 10,000 or 50,000 the best approach is to tell them you would like to place a trial order for 1,000 items. (**NOTE:** Chinese businesses universally use the term pieces [pcs] instead of items.) Most will agree, but if they will not, you move on to another supplier, or go to HKTDC's Small Order Zone, where you will find suppliers willing to accept small orders.

## 12. Calculating Actual Costs

When comparing quotes you need to be sure that you are comparing apples with apples. Do all of the quotes include freight? Most do not but occasionally one will quote you on a Cost & Freight (C&F) [See 19.5] basis. This means their price will initially look very much higher than the others who will usually quote on a Free on Board (FOB) [See 19.8] basis. FOB means loaded on board in almost every country except China. In China it means "ex factory". This can mean there will be extra "inland" charges, which can include freight to an airport or sea port, road tolls, Chinese Customs charges and maybe some other charges that they are busy dreaming up right now.

This is why you should ask for a price including freight (C & F). If the goods are to travel by sea, the price **must** be Cost + Insurance + Freight. (CIF or CI & F) [See 19.4]. This is an all-inclusive price as far as the port where the goods arrive in your country. There will then be other costs, such as Customs and Sales Tax, wharfage (a fee for

use of the port facilities), your customs agent's fee, transport to a container depot, and cost of unloading the container if your goods share a container with other goods. If your order fills a container that is called Full Container Load (FCL), if it is less it is called Less Than Container Load (LCL).

If shipping by air freight, (**NOT courier door to door service, but airport to airport**) you will have extra costs similar to those mentioned in the previous paragraph.

Unless you are using a door to door service it could be foolhardy to attempt to make all the arrangements and handle all the red tape yourself. For this reason I urge you to use a Customs Agent for such shipments. Talk to them **before** placing an order.

In order to do the calculations yourself, you will first need your C&F cost, or if paying insurance as you would in most cases, your CIF cost. Add 10% to that amount to arrive at a "deemed" [See 19.6] value for purposes of calculating duty and sales taxes. You will already have asked your customs agent the duty rate, and you should not be in business if you do not know the rate of sales tax applicable. Let us assume goods cost a total of \$10,000 including freight, and there is a duty rate of 3% plus a sales tax rate of 5%.

Calculate as follows:

CIF (or C&F) cost x 110% = deemed value (see glossary)	\$11,000.00
Deemed value x 103% = landed cost, including duty	\$11,330.00
Landed cost, including duty x 105% = landed cost including duty plus sales tax	\$11,896.50
Add customs broker's fee (assume \$250.00)	
<b>Total Landed Cost</b>	<b>\$12,146.50</b>

If you have imported 1,000 items in the example shipment, each has cost you \$12.15 at the point of entry. You need to add delivery to your home or warehouse, plus cost of shipping to your customers. This will give you some idea of what you need to charge in order to make the desired profit. Do not forget to allow for breakages, and for stock remaining after your sales effort has run its course.

### 13. Payment Terms

Suppliers will invariably require payment in advance at least for your first order. In some cases they may require only 30% or 50%, with the balance payable on shipment. International drafts issued by companies such as American Express, Wells Fargo, or Western Union, and sent to your supplier via airmail or courier will usually cost less than a Telegraphic Transfer (T/T) through your bank. Sometimes these drafts are available at post offices, otherwise at money transfer locations – often a simple shop front. Bear in mind that there will be delays due to airmail transit time. You may be surprised to find how slow and relatively unreliable that can be when the destination is China. International Money Transfers, (IMT) also known as wire transfers, may cost more, but they do avoid delay. You must ask your supplier will they accept payment by your preferred method. Do not just go ahead with the payment, as they may bill you for their expenses in clearing the payment through their bank.

Beware of suppliers who require payment by money transfer through agencies such as Western Union. Also never send payment to a destination other than the address you have been communicating with.



**NOTE:** Although the correct banking term is International Money Transfers, Chinese companies still mostly call them T/Ts. Some people call these Wire Transfers, but that is not a commonly used term in dealing with Chinese businesses. With bank fees being so high, paying in two hits can add considerably to the cost of your order. For this reason you may give preference to a supplier who accepts PayPal or credit cards, but although growing in number, there are still relatively few that will do that.

With this in mind I suggest that a small order paid for in full in advance may be worth the risk.

### 13.1 Possibility of Obtaining Monthly Terms

Whatever way you pay for your first order, there is a way to possibly get a supplier to agree to monthly terms after you have placed several orders. The most important part of this process is to show them that you are honest and ethical. This can be achieved with a simple note in an email when placing your first order, and repeated with each subsequent order. All you need to do is write as follows:

***Please provide invoices showing full value. We will not accept fake invoices.***

While they will protest that they **never** offer fake invoices, they will find your comment very refreshing because most importers **request** fake invoices in order to save on Customs duty and sales tax. They will accept that you are an honest person, and later when you ask for monthly terms they will be much more inclined to agree. Monthly terms are only viable if you are in the habit of placing more than one order each month. When requesting monthly terms you should suggest that they can save on bank fees if they will send you a statement at the end of every month and you will pay within seven days. This is known as an open account.

If you only place one order per month or two, a good alternative is to request that you be allowed to pay on delivery, or within 7 days of delivery.

If you do obtain favourable terms, always be sure to abide by the agreement.

### 13.2 Letter Of Credit

When large sums are involved it is common for a supplier to require payment by Letter of Credit (L/C) [See 19.10]. This is a kind of promissory note that you buy from your bank, in which your bank promises to pay the supplier once **all** of the conditions in the L/C have been met.

These conditions will include the following but may also have other provisions:

- 13.2.1 Supply of the ordered quantity.
- 13.2.2 Supply of goods matching the quality of the sample previously supplied.
- 13.2.3 Proper marine insurance cover [See 19.11] for 110% of the value of the shipment has been made and a certificate provided.
- 13.2.4 Goods are loaded on ship or aircraft **no later than** the date specified in your order. Never specify a dispatch date unless you and your supplier are absolutely certain it can be met. Changing an L/C can be very costly.

### 13.3 Escrow Services

Be careful when using escrow services. Use normal commercial due diligence to check the credentials and reputation of any service you might think of using. Escrow services can be an excellent way of ensuring that you do not finish up paying for faulty goods, but you need to be certain that they are reliable.

Escrow works in a similar way to L/C transactions through banks. You pay upfront but the money is held in trust until the order conditions have been met exactly, and to your satisfaction. The main differences are that escrow costs less than a Letter of Credit, and unlike dealing with a bank with an L/C, you can allow an escrow service to release payment even if a minor point has not been exactly complied with. Banks insist quite literally on every “i” being dotted and every “t” being crossed.

## 14. Travelling To Source Supplies

### 14.1 Tax Deductible Travel

Check first with your taxation adviser, but I suggest that if you enjoy overseas travel, your holidays can become, at least in part, tax deductible expenditure provided you spend time looking for products to import. ***I AM NOT GIVING ANY TAXATION ADVICE***, but I suggest that when doing your market surveys overseas, you should make extensive notes, preferably in diary form. It is probably worth noting dates and times, taxi fares, meals, or other expenses, as well as any names of people you meet.

Detailed records are more likely to keep you out of trouble with tax authorities. I never rely on memory for such things, and I never write up my diary when I return home. Here is a little hint to keep the tax people happy: I always show at least a part of my travel expenses as “personal” in my accounts. After all, I do spend money that has nothing to do with business, so I do not claim it as an expense. ***I repeat: Check first with your taxation adviser.***

### 14.2 Visiting Retail Sites Overseas

While overseas there are many ways of searching for products to import. Some importers visit local markets where the locals shop. Even visiting large stores can help you locate products that could be worth importing. Keep your eyes open for products that are appealing but are not available in your own country.

***Caution!*** You may have not seen such products on the market at home but that does not mean someone is not already importing them. Also remember that although they appeal to you, it does not mean there is a market for them back home. One of the greatest mistakes I have witnessed among newcomers to importing is to get carried away with the novelty or attractiveness of a product that appeals to them. ***It must appeal to your local market.*** You may love it but when you try to sell it, your wonderful new product could go down like a lead balloon.

When looking for products by visiting retail outlets, you must remember that it is pointless choosing a product if you cannot locate the manufacturer. The retailers where you see these products are unlikely to tell you who they are, so you must do some detective work. They might give you that information if you buy one of the items. If the cost is low, it could be worth buying one that you can photograph, measure and weigh in order to locate a supplier by advertising as in 8 above. If you cannot locate the supplier, at least you have a tax deductible souvenir.

A big advantage of having a sample is that it enables you do an informal market survey at home. Show it to your friends. Do they like it? Would they buy one? etc. Friends may think they have to say yes in order to avoid offending you, but tell them that it is very important that you get honest answers. Check for country of origin on the package or on the goods, because while the goods may look local, they may have been imported into the country where you saw them.

When planning your trip you should check on dates of public holidays in the country or countries you plan to visit. You can hardly justify a sourcing trip to Rio during Carnivale. In some countries attitudes to keeping appointment times can be very casual. In the Philippines for example, you may have to wait an hour or more past the time you arranged to meet the person you are visiting. Other countries can be similarly relaxed so do your homework. Siesta times can apply in some Asian locations as well as in Europe and Latin America, and this can affect office hours, so check this as well.

Generally you should avoid peak tourist times because of congestion, cost, and difficulty in arranging accommodation. In North East Asia the typhoon season can cause flooding in cities, and also disruption to air travel. During Trade Shows you will need to make reservations well in advance. With these things in mind, no doubt you will do some thorough research before making your travel arrangements.

Always allow plenty of time because appointments that you expect to occupy ½ hour could well last 1 ½ to 2 hours, and if the supplier thinks you are a very good prospect they may take you to lunch. In my experience such a lunch can last as long as 3 hours.

### **14.3 Visiting World Trade Centers**

This means of locating suppliers is usually only known by the “big boys” in importing. If there is a WTC in the city you are visiting, then a visit can be well worthwhile. Many reputable suppliers have offices and/or showrooms in the Centers, and those showroom displays can give you some great ideas about products to import. Check on the WTC site [www.wtca.org](http://www.wtca.org). Click on Member Services, then in the drop-down menu select Locate - Contact a WTC. This will then allow you to search by city or country.

Many of the companies with offices or showrooms at World Trade Centers are very big businesses and are accustomed to dealing only with importers who are also in the big league, but you will still find many businesses in those centers that will deal with any importers provided they can place orders that meet their minimum order requirements. Concentrate on finding suitable products, and then ask about their MOQ. Remember also what I wrote in Section 10 about how to get them to accept small orders.

### **14.4 Visiting Trade Shows**

By visiting sites such as [www.tssn.com](http://www.tssn.com) you can find hundreds of shows listed, not only in China, Hong Kong, etc., but also USA, UK, Europe, and many other countries. It may take you some time to sort through them, but you are sure to find shows where products of interest to you will be exhibited. Even in your home country, there are likely to be a number of shows of interest, with exhibitors from various countries, and this could be a good starting point for you if you do not want to outlay the considerable (tax deductible) cost of travelling overseas while starting your importing business. But if you want to see as many manufacturing exhibitors as possible it is usually best to visit shows in the manufacturing countries.

First look for shows being held in Taipei, Beijing, Shanghai and Hong Kong. As a general rule, most of the exhibitors in these cities will be manufacturers, but use the suggestions I made in Section 9 g) to work out which exhibitors are manufacturers. Many of the exhibitors at shows outside Taipei, Beijing, Shanghai and Hong Kong are only agents and this particularly applies to similar shows in Europe, USA, and Singapore.

## 14.5 Visiting Potential Suppliers

Part of, or even the sole purpose of your travel could be to visit possible suppliers, and you should try to time your trip to coincide with a Trade show. Before arranging your trip you should locate possible suppliers. You can do this by various means described in sections 6 and 10. Ask if they are planning to exhibit, and if so tell them you will visit them at the show. If they are not exhibiting, arrange to see them during your stay in their city. Allow plenty of time between appointments, because travel times in Chinese cities and in Taipei can be very much more than you would expect if you estimate time based on distance.

You should ask to visit the factory, but if your request is granted you may only have a very limited tour of the manufacturing area. If the factory is in the same location as the office, you may be confident that you are dealing with a manufacturer. If you are taken elsewhere, here is how you can tell whether or not the people you are dealing with own the factory:

If you cannot read Chinese, just compare Chinese characters on signs outside the premises with those on the business card supplied by your hosts. Factories are often in multi-story buildings, sometimes with several businesses in the same building, so there may not be a noticeable sign. If you do not see a sign ask the person (usually a young lady) from the office “Do you own this factory?” You will only know the answer is truthful if she says no. If she says “yes” you cannot be sure. This is not necessarily due to dishonesty, as she may misunderstand your question, or she may interpret it to mean, “Is this the factory that produces all of your products?”

During your visit you will usually be served Jasmine tea in tiny cups. It is impolite to refuse to drink it, but as soon as you empty your cup it will be refilled.

NOTE: If your host hands you a business card it is good manners to respond by giving him/her your own card.

## 14.6 Business Cards

If you are planning a serious sourcing trip, it would be necessary to take a supply of business cards. They should be printed in English on one side and in Chinese on the other. Having a business card printed in Chinese will impress suppliers and they will take you more seriously. If you really want to impress, you could have one set printed in Mandarin and another in Cantonese, but to use these effectively you would need to research and ascertain which dialect is used in the various Chinese cities you plan on visiting.

This benefit can also apply to emails. You could have your signature section translated into Chinese and using that will also impress.

## 15. Order Procedure and Checklist

If you are not confident that you have general business knowledge and are aware of your responsibilities in relation to record keeping, taxation, insurance and government regulations, you should **seek advice** before starting your new venture. I cannot provide such advice for you.

Here is a checklist to help you through the procedures if you wish to import:

- ☐ **First do your research** - as far as possible make sure that there really is a profitable market for the product/s you are thinking of importing. If you choose to ignore this point I suggest that you may be heading for financial disaster. I cannot overemphasize the importance of this point.

- ☐ Locate a suitable supplier and obtain a quote for the items that interest you, ensuring that the quote includes price, delivery and availability. Even if they have provided you with a price list, you must ask for a quote before deciding to place an order.
- ☐ Make sure that the product/s comply with any regulations, quota restrictions etc. **At least** for your first few transactions you should seek specialist advice, usually from your customs broker.
- ☐ Email or fax the supplier saying that you wish to place an order. Be sure to provide full details of the product you intend ordering, and refer to their quote that you are accepting. Also request a Pro Forma invoice [See 19.14].
- ☐ Once you receive the Pro Forma invoice, make sure that all the details such as price, dispatch date, and freight method, as well as payment terms are as agreed in previous discussions or correspondence.
- ☐ **Carefully** confirm the order in writing using fax or email. It is **essential** that your order should give exact details regarding quantity, quality, price, freight method, freight terms, dispatch date, as well as any specific requirements such as packaging, weight, colors, size, etc. Your order should include a request for confirmation. It is also important to specify that the supplier must notify you upon dispatch. If using email, set your email program to require a read receipt.
- ☐ Once you receive from the supplier written confirmation of the order, **check it thoroughly**, and then arrange payment as required. This could involve obtaining an L/C, or possibly advance payment in full, or payment of 50% deposit, with the balance payable prior to dispatch or upon receipt of goods, depending upon how successfully you have negotiated the terms. If you delay organizing payment **you will inevitably delay shipment**.
- ☐ At the time of making payment you should remind the supplier that you must have a commercial invoice to accompany the goods. You should also ask for a copy via email or fax. Air couriers or freight forwarders will not accept any goods without such an invoice. If using EMS, you should specify that one copy of the commercial invoice should be attached to the outside of the parcel and one copy should be packed inside the parcel.
- ☐ As you will most likely be using the services of a customs broker, immediately you receive notification of dispatch you must advise them of the details of the shipment including AWB [See 19.1] number, tracking number [See 19.16], or EMS [See 19.7] number and be sure to provide them with a copy of the commercial invoice.
- ☐ If you are importing without the help of a customs broker, you just await notification by the airline or Postal authorities and then proceed to clear the goods through Customs. **Do-it-yourself Customs clearance is not recommended**. If the shipment is by EMS and the value is below the threshold set by your Customs authorities (see the subsection “**Another way to avoid a lot of red tape**” in Section 3 - Rules and Regulations) the postal service will usually do the customs clearance work for you.
- ☐ Immediately you receive the goods, check them for compliance with your specifications. If you find errors in any way, such as quality failings or shortages in quantity, notify the supplier immediately. In most case reputable suppliers will usually do their best to remedy the problem.

## 16. Drop Shipping Explained

The popularity of drop shipping is due largely to new entrepreneurs not knowing how easy it is to import small quantities of items at prices that will allow them to sell at good profit margins. People using drop shippers often do so because they lack the funds to purchase stock for sale and they lack the confidence to purchase stock that they have not yet received an order for.

Drop shippers are mostly importers and wholesalers who are willing and able to risk their money on buying relatively large quantities of items that they believe they can sell. They depend on small business operators to make the sales, and the small business operators in turn depend on them to deliver the goods direct to their customers. Drop shippers promise quick, ex-stock delivery, often overnight.

A new breed of overseas drop shippers has now emerged in Hong Kong, mainland China, and some other places. They ship direct to the small business operator's customers in countries all over the world.

It sounds so easy doesn't it? But do the benefits outweigh the costs? To answer these questions you need to consider:

- a) Whether you are buying from local wholesalers or from Chinese wholesalers you will not get anywhere near the lowest prices possible.
- b) The wholesalers get to know exactly who and where your customers are. Some may act ethically with that information, but can you be sure? Do you want your customers to be flooded with advertising that may be for items that compete with you?
- c) Wholesalers may run out of stock and meanwhile you have made sales but cannot deliver. Your customers will not be happy and your reputation will suffer. You will also very likely have costly cancellation or refund fees to pay your merchant provider.
- d) Delivery times from Chinese wholesalers can be much longer than your customers want to wait, and can cost you much more than local delivery. Depending on shipment value, your customers may find that they are hit with duty and tax charges that they did not expect.
- e) With all the information you have learnt from this book, you now know that you can buy small quantities and make high profits in the process. Provided you have done your research and can sell the items you import wouldn't you rather keep all the profits for yourself rather than share them with a wholesaler?

There may be times when you may want to go to a local wholesaler for supplies. The only time I have ever done so was when I had an existing customer wanting a small quantity of an item that it was simply not worth my time importing. I obtained supplies from a wholesaler and made a very small profit in the process but I kept a good customer happy.

## 17. Countries Other Than China?

Although it is not my intention to provide detailed information on importing from countries other than China, I do not want you to think that China is the only place to consider when looking for suppliers.

Currencies fluctuate and industries come and go. Japan was once the low cost supplier to the world until South Korea assumed that role. Then Taiwan took over from

South Korea. When I was exporting to Taiwan, I recall hearing complaints from my agents there about price competition from mainland China. I now hear similar complaints from some of my contacts in China, who struggle to compete with Indian companies in certain product categories. Also, many Taiwanese companies have set up factories in Vietnam and Cambodia, and now mainland Chinese companies are doing the same.

I suggest that you might also consider suppliers in Italy, Czech Republic, Turkey, Brazil, Mexico, and ***even the United States!***

India is a special case. I do know one successful importer who has imported from India for quite a few years and has obtained excellent results. His secret is that he never places an order unless he is in India and can see the goods for himself. He then personally supervises the packing of the goods and sits in his supplier's office while freight is booked. This is an expensive and time consuming process, but he has found it works well for him when he buys container loads of giftware which he retails through his own chain of small giftware stores.

I personally would never try importing from India. I hope this does not cause offence to my Indian readers, but my personal experience and that of business associates, other than the one mentioned above, in dealing with Indian suppliers has not been happy. Dealing with large organizations in those countries may be satisfactory, but small to medium enterprises have caused problems for myself and for others whose personal experiences I know. To be fair, I am aware that although it is not the only reason, erratic electric power supply is often the cause of poor performance by small Indian suppliers.

Many countries with active export industries have ***trade associations*** whose objective is to assist their members find export markets. They will happily provide you with contact details for companies within the industry sectors that you nominate. I have listed here just a few:

APEX-BRASIL (Brazil) see (Inquire through their contact form)	<a href="http://www.apexbrasil.com.br">http://www.apexbrasil.com.br</a>
CETRA (Taiwan) see	<a href="http://www.cetra.org.tw/">http://www.cetra.org.tw/</a>
CZECHTRADE (Czech Republic) see	<a href="http://www.czechtradeoffices.com/">http://www.czechtradeoffices.com/</a>
HKTDC (Hong Kong) see	<a href="http://www.tdctrade.com/">http://www.tdctrade.com/</a>
KOTRA (South Korea) see	<a href="http://www.kotra.co.kr/">http://www.kotra.co.kr/</a>
MATRADE (Malaysia) see	<a href="http://www.matrade.gov.my">http://www.matrade.gov.my</a>
TURKISH TRADE PROMOTION OFFICE (Turkey) see	<a href="http://www.turkishbusinessguide.com">www.turkishbusinessguide.com</a>

To locate the nearest office of one of the above associations, or to ascertain whether another country of interest to you has an association, contact the relevant country's commercial attaché or consul. If they have no export trade association, the consul will possibly be able to provide a list of companies supplying goods that interest you.

### **17.1 USA Non-Trade Association Sites Worth Looking At**

<http://www.thomasnet.com>

This site lists a vast range of US companies, not all of whom would be interested in exporting, but many of them would. Some would be willing to wholesale products to you.

<http://www.thinkglobal.us>

This site publishes a magazine: "Commercial News USA" in conjunction with the US Government's Commercial Service. The magazine can be viewed online or you can obtain a free subscription to the paper copy. All of the advertisers are there because they are keen to export. Some offer products or services at very good prices due to the low value of the US\$, but I have found some that quote wholesale prices higher than I can buy at retail. I have also found some offering products that they have imported.

## 18. Sources of Free Information

Customs websites can provide a great deal of helpful information, and it is free of charge. The following are examples of useful sites:

- **USA** <http://www.cbp.gov>

In the home page search box type in: "Tips for new importers". The first document to appear will have that name. It is worth reading, but do not be alarmed by some of the complexities revealed. Use of a licensed customs broker can save you having to understand much of the technical information.

- **CANADA** <http://www.cbsa-asfc.gc.ca/import/menu-eng.html>

There is so much information on this site that you can spend hours learning a lot about importing, but we suggest, if you have a dog, why bark yourself? Save time and use a customs broker. Another very helpful site is <http://www.international.gc.ca/controls> but again, do you really want to cope with all of the technicalities yourself?

- **GREAT BRITAIN** <http://www.hmce.gov.uk>

I show the link to the customs and excise site, but don't bother going to it because they will only refer you to <http://www.businesslink.gov.uk>. While there is a mass of information on that site it is not as user friendly as the USA and Canada ones. A very helpful private site is <http://www.business.hsbc.co.uk>. In the search box type "importing", and then click on the link [Importing and Exporting - Business Support: International Business: HSBC UK](#).

- **AUSTRALIA:** <http://www.customs.gov.au>

This is one of the least helpful sites and this is a reflection of the general attitude encountered in dealing with this bureaucracy.

Wherever you are operating your business you will usually find that your Customs and Excise office will assist you in handling the clearance requirements in relation to your first shipment, but from then on they will not be willing to help at all.

## 19. Glossary of Terms

In this glossary I have provided more detailed explanations than you will usually find, but it is not exhaustive. Most terms explained are those "technical" terms and abbreviations used in this report. For a more complete glossary we suggest you inquire through the reference section of your local library. If using a customs broker, don't hesitate to ask them to explain any term you do not understand.

### 19.1 AWB - Air Waybill

Every shipment by air must be accurately documented to ensure that the correct



goods are delivered to the consignee. The Air Waybill is provided by the airline,

airfreight forwarder, or air courier and is the supplier's receipt for the goods, proving that the supplier has shipped them. In a similar way to a check, it is a negotiable document. As a result, the person in possession of it has a legal entitlement to ownership of the goods. Once you sign it, the AWB also becomes proof that the goods have been delivered. The carrier keeps track of the shipment by means of the number printed on the form. You always quote this number when you need to ask about the whereabouts of the goods. This is known as "Tracking".

## 19.2 BILL OF LADING

This document is similar to an AWB, but is for sea freight. This negotiable document signifies that the goods described have been loaded on board the nominated vessel. When payment is being made by L/C the supplier must present his copy of the Bill of Lading, together with other specified documents such as a copy of the insurance policy, to his bank. The bank will carefully examine these documents to ensure that all conditions have been met, and they will then make payment to the supplier. This could be several weeks before you receive the goods.

It is customary for an L/C to specify that the Bill of Lading must be "Clean On Board". This means that you (through your bank) will not accept the shipment if there is any qualification or notation on the Bill of Lading regarding damage, inadequate packaging or any other real or perceived deficiency in the consignment.

## 19.3 CARRIER

The business that is providing the service of transporting goods is the carrier. This includes postal services.

## 19.4 CIF (Sometimes referred to as **CI & F**) - Cost, Insurance and Freight

This means that in addition to the FOB price, insurance and freight to a designated port (airport or seaport) is included in the quoted price. When an order is being paid for by L/C, it is customary to require insurance to be included. When using sea freight insurance is **absolutely vital**. See Marine Cover below for reason.

## 19.5 C&F – Cost and Freight

Same as CIF except that **insurance is not included**. The supplier's liability ends once the goods are delivered to the carrier, whether by sea or air.

## 19.6 DEEMED VALUE

This is an amount calculated by Customs authorities to determine the value of the goods for Customs duty and sales tax purposes. To arrive at this figure they add 10% to your actual costs. I have heard many different explanations for this impost, but the most likely would seem to be that it compensates for the common practice of using fake invoices. The % rate may be varied or even removed, so ask your Customs agent how the calculation for duty and sales tax is done.

## 19.7 EMS - International Express Mail Service

Previously known as Speedpost, but only a few older people would still use this term. The document accompanying the parcel is the Postal Service's equivalent of an AWB and it also carries a tracking number. By using this number you can

usually track the goods via the Postal Service's website. It is important to note that consignments sent via EMS [See 19.7] are not insured unless you have an open insurance policy [See 19.13] that covers all of your shipments.

#### **19.8 FOB - Free on board.** Also known as Freight on board.

This means all freight charges to the point of loading have been included in the quoted price. If the supplier quotes FOB factory, that means loaded on transport at the place of manufacture. If you receive such a quote ***make sure that you ask*** what freight and other charges will be involved in transporting the goods to the airport or seaport, because ***there will be extra charges***.

***Also beware*** that some Asian suppliers use the term FOB loosely, allowing you to think it is a normal FOB quote, but in effect it is FOB factory. This is probably because they make money on inland charges. For example if they have a factory in mainland China, but their export office is in Hong Kong, they will incur costs in shipping the goods to Hong Kong and they may want to pass these costs on to you at a profit. If they quote FOB, be sure to ask if there are any additional inland charges. The supplier's liability ends once the goods are delivered to the carrier. If quoted FOB factory, that means effectively that their liability ends at their loading dock and you take any risks for loss or damage from that point.

#### **19.9 FORMAL ENTRY**

The process of lodging documentation required for clearance through Customs of shipments above a certain value. For novices stuck with puzzling paper documents to complete ***with absolute accuracy in every tiny detail being essential***, this is a difficult and complex task. Customs brokers do it electronically in a matter of minutes. The shipment value for which a formal clearance becomes necessary varies from country to country and from time to time, but at the time of publication is usually in the \$1,000 to \$2,000 range, although in the case of certain goods such as clothing it may be as low as \$250. If the shipment value is below the rate set by your Customs office, an ***informal entry*** will be allowed. This is not very complicated and once you have seen it done once or twice you could probably handle it yourself.

In the case of such low value shipments arriving by mail, postal authorities in some countries such as USA, New Zealand and Britain effect the informal entry for you. In Australia you must still lodge the informal entry yourself, and this can cause delays because you must either personally attend the customs office, or lodge via fax or email. In the case of low value shipments by mail the Postal Service in many countries usually do the informal clearance for you at no charge. (See Section 3 - Rules and Regulations under the heading: "***Another way to avoid a lot of red tape***").

#### **19.10 L/C** (Sometimes referred to as LOC) - Letter of Credit.

This is a negotiable document provided by a bank. It is usual for the importer to pay the bank in advance for an L/C, but banks will under some circumstances issue an L/C on a credit basis. The L/C specifies ***precisely*** what is being ordered and all terms and conditions of the sale must be included. Anything not included cannot be enforced. After providing proof that the conditions have all been met, the supplier can then negotiate the document through his bank. This usually happens very soon after shipment leaves port, and that can be long before you receive the goods.

### 19.11 MARINE COVER - Also referred to as a Marine Policy.

This generally refers to an insurance policy for shipment by sea. For shipments by sea freight it is customary to require cover for at least 110% of the invoice value of the goods. Marine insurance is **essential** when using sea freight, otherwise if the vessel sinks you would likely be bankrupted due to international conventions requiring owners of goods being shipped to share the entire cost of the loss of **vessel and cargo** under what is known as “averaging”. Without an adequate marine policy you can be **personally liable** for a share of the loss.

### 19.12 OPEN ACCOUNT

This refers to an arrangement made that you may make payment on or after delivery.

### 19.13 OPEN INSURANCE POLICY

An open insurance policy is taken out if you want to provide cover for all air and road shipments throughout the year with the exception of shipments covered by a Marine Policy. (Strangely, it may sometimes be referred to as a Marine Policy; even though the goods travel by air or road.) Insurance companies will usually require an estimate of the total annual value of your shipments and will base their premium on that figure. At the end of the year the actual total must be declared and the premium will be adjusted accordingly.

### 19.14 PROFORMA INVOICE

This is an invoice that amounts to a confirmation of quoted prices, sizes, weights, dispatch dates etc. It is not the same as a commercial invoice although it may look identical except for the word Proforma. It cannot be used to clear goods through Customs. A **commercial invoice** must accompany the goods so that you or your customs broker can effect clearance through Customs.

### 19.15 SCHEDULE RATES

This refers to a rate chart published by the carrier. In the case of postal services it is not subject to negotiation and you will always pay that rate. In the case of commercial carriers it is the absolute maximum rate, which is only paid by people who are ignorant of the process. Schedule rates are rarely charged in normal business with freight companies, but anyone who has not negotiated a lower rate **in writing, in advance**, will pay that maximum rate. Discounts of at least 50% are usual when negotiating rates in advance, but often it will be even more.

### 19.16 TRACKING NUMBER

See AWB and EMS

### **CONTENTS**

#### **CHAPTER**

#### **U.S. Customs and Border Protection: Mission and Organization**

1. Organization: CBP Attachés Abroad  
Suggestions to the Exporter

#### **Entry of Goods**

2. Entry Process
3. Right to Make Entry
4. Examination of Goods and Entry Documents
5. Packing of Goods — Commingling

#### **Informed Compliance**

6. Definition
7. Reasonable Care Checklists
8. Compliance Assessment/Compliance Measurement
9. Notice to Small-Business Importers

#### **Invoices**

10. Commercial Invoices
11. Other Invoices
12. Frequent Errors in Invoicing

#### **Assessment of Duty**

13. Dutiable Status of Goods
14. Containers or Holders
15. Temporary Free Importations
16. North American Free Trade Agreement (NAFTA)
17. Generalized System of Preferences (GSP)
18. Caribbean Basin Initiative (CBI) and the Caribbean Basin Economic Recovery Act (CBERA)
19. Andean Trade Preference Act (ATPA)/Andean Trade Promotion and Drug Eradication Act (ATPDEA)
20. U.S.- Israel Free Trade Area Agreement
21. U.S.- Jordan Free Trade Area Agreement
22. Compact of Free Association (FAS)
23. African Growth and Opportunity Act (AGOA)
24. U.S.- Caribbean Basin Trade Partnership Act (CBPTA)
25. U.S.- Chile Free Trade Agreement (US-CFTA)
26. U.S.- Singapore Free Trade Agreement
27. Antidumping and Countervailing Duties
28. Drawback—Refunds of Duties

#### **Classification and Value**

29. Classification - Liquidation
30. Conversion of Currency
31. Transaction Value
32. Transaction Value - Identical or Similar Merchandise
33. Other Bases: Deductive and Computed Value
34. Rules of Origin

**Marking**

- 35. Country of Origin Marking
- 36. Special Marking Requirements
- 37. Marking - False Impression
- 38. User Fees

**Special Requirements**

- 39. Prohibitions, Restrictions, and Other Agency Requirements
- 40. Alcoholic Beverages
- 41. Motor Vehicles and Boats
- 42. Import Quotas
- 43. Fraud

**Foreign Trade Zones**

- 44. Foreign Trade Zones

**Appendix**

Invoices; Additional Information; Customs Valuation;  
Other Forms; Other Agencies