

# **EXPORT MARKETING AND FINANCE**

## **WEEK 4 PROCESSING EXPORT ORDER AND INCOTERMS**

**DR KAMAU JOHN NJAU**

**FALL 2023**

## **WEEK FOUR**

### **PROCESSING EXPORT ORDER AND INCOTERMS**

#### **4.1 Introduction**

Welcome to week four lecture! We have now covered the foundation export marketing by defining what is export marketing, researching export marketing and basic requirements and on how to develop an export strategy. We are now ready to start discussing export procedures and the practice of exporting. In this lecture we want to examine how an exporter secures an export contract and implement it. We will discuss the process of getting export orders, pre-shipment shipment and post-shipment.

#### **4.2 Intended Learning Outcomes**

At the end of this lecture, you will be able to:

1. Describe an export order.
2. Discuss process of securing an export order
3. Evaluate the requirement for pre-shipment.
4. Examine shipment requirement.
5. Discuss post-shipment requirements.
6. Evaluate Incoterms

The processing of exporting goods begins when the marketer gets an exporter order. An export order implies an agreement in the form of a document, between the exporter and importer. It is the contract between exporter and importer where the importer specifies the type of goods required and how much he is willing to pay for the same and how (Gopal, 2006). Branch (2006) notes that six areas are critical in receiving an export order. These include cashflow, administration, payment, insurance, risk areas and total cost. There are generally four stages in processing an export order. These include:

1. Getting an export order
2. Pre-shipment
3. Shipment
4. Post-shipment

Each of these stages will be described below:

#### **4.3 Getting an export order.**

This stage involves several steps: export licensing, inquiry and offer, examination of terms of export, export contract and confirmation of acceptance (Gopal, 2006). The process of getting an export order will involve several steps. First the marketer will have to determine the kind of license required for him to export goods. Though many goods can be exported without any license, there are those that fall under banned list and special license may be required. Gopal (2006) classifies banned items into three categories:

- a) Prohibited Items: These items can not be exported or imported. In Kenya for instance exporting or importing of items such as counterfeit or fake money and currency, cosmetic product that contains mercury matches made with white phosphorous controlled narcotics pornographic and obscene materials and used tires for commercial vehicles are prohibited. The marketer has to ensure his goods do not fall under such category.
- b) Restricted Items: These are the goods that can be exported /imported only with a license, in accordance with regulations governing in this behalf. In Kenya the following items can only be imported with license: unworked ivory of all descriptions, worked or shaped ivory of all descriptions, genetically modified goods, historical artefacts, firearm parts or ammunition and bows, arrows, and fencing foils among others.
- c) Canalized Items: Goods which are canalized can be imported or exported through the canalizing agency. In Kenya these are items imported by state agency and may include petroleum products and fertilizers among others

Once the marketer ascertains the state of his products, the next step is to make or receive an inquiry to make an offer. An inquiry is a request from the prospective buyer to keep him informed of the terms and conditions of sale (Gopal,2006). The inquiry must be treated with promptness and meticulous care and if the person making an inquiry is new, to the exporter, trade reference might be required. The exporter is expected to react to the inquiry by sending an offer a proposal, which may be in the form of a letter or proforma invoice detailing product specifications, quality, packing, price, mode of transport and period required for supply of goods, after receipt of confirmed order.

The third step in getting an order is to examine terms and conditions of import. Gopal (2006) and Brach (2006) agree that the exporter must do this carefully because of costs implications and the need to avoid losses in form of finances and time. They agree that the following issues should be checked thoroughly.

- a) Product description: specifications, style, color, packing conditions etc.
- b) Marking and Labelling requirements.
- c) Price, terms of payment (FOB, CIF etc.)
- d) Terms of shipment: choice of the carrier, mode of carriage, place of delivery,
- e) Inspection requirement: type of inspection, place of inspection and inspection agency.
- f) Insurance requirements: nature of risks to be covered and insurable value.
- g) Documents for realizing payment include nature and number of invoices, certificate of origin, certificate of inspection, insurance policy, document of title etc.
- h) Last date for negotiation of documents with bank.
- i) Frustration clause indicating circumstances under which both the parties would be discharged from liability.
- j) Customs documentation and country of origin.

Branch further notes that the following check points should be processed in details before accepting export order:

- Terms of payment: a full audit of the buyers needs to be undertaken to establish creditworthiness.
- Credit insurance: arrange credit insurance to safeguard the transaction.
- Orders: retain the customers official order in writing
- Contract: advise your customers in writing of the agreed contract terms
- Delivery: ideally ensure that Incoterms 2000 are used
- Currency: decide in good time whether there is any exchange rate risk if the exporter should forward sell.
- Dispatch: ensure the seller has proof of dispatch as such documentation is likely to be required for any subsequent claim.
- Monitor progress: continuously monitor progress of goods throughout the transit duration.
- Product liability: check any product liability implication as for example, obtain in the USA.

The final step in getting an export order is signing of export Contract and Confirmation of Acceptance: Gopal (2006) notes that this may take three different formats

- a) Proforma invoice: Exporter sends proforma invoice, in triplicate, to the importer. Importer accepts and sends two copies of proforma invoice, duly signed. exporter sends one copy of the proforma invoice, duly signed, again, to the importer as a token of confirmation of acceptance.
- b) Purchase order: importer place a purchase order, duly signed, on the exporter, which is accepted by the exporter. Then, a confirmation follows from the exporter to the importer.
- c) Contract: both parties sign a contract that incorporate all the terms and conditions such as description of goods, quantity, price, total amount payable, delivery schedule, mode of payment, payment of freight etc.

#### **4.4 Pre-shipment**

This is the second stage in processing an exporter order. It is the stage in which the exporter prepare the goods for export. The stage will constitute pre-shipment finance, production and procurement of goods, booking of shipping space, packing and marking, quality control and pre-shipment inspection, customs clearance, appointment of C & F Agent and obtaining insurance cover (Gopal, 2006). Each of these requirement is briefly discussed

- a) Pre-shipment Finance: the export is expected to seek credit facilities from banks and other financial institutions to help in preparing goods for export. He must negotiate terms of payment and interest rates to be charged given the fact that the import may delay in making payments. The pre-shipment credit will be useful in procuring raw material, processing, and packing of goods for export. The bank will obtain the necessary document to facilitate the exporter to receive payment from the importer.
- b) Production and Procurement of Goods: once the finances are made available, the exporter will go ahead and prepare goods for export. Priority is given to goods for export as the export would not want to fail to honor his side of contract. Sticking to production schedule

is important to ensure that no delays are witnessed in the process. Planning for marking and labelling should be done in advance.

- c) Shipping space reservation: the marketer must then go ahead and reserve shipping space depending on the mode of transport to be used. The exporter has to get details of shipping goods from various carriers to ensure goods arrive as per the terms of contact. Shipping agents can help the exports in booking the space. Shipping order or shipping advice documents are used in the process.
- d) Packing and Marking: once goods are ready for shipment, they should be properly be packed and marked according to importers' specific instructions. Packaging rules should be followed if there are no special instructions. If the goods are hazardous special care must be taken to ensure total compliance with requirements. Marking should include markings of the consignee, port of shipment, port of destination, measurements, the country of origin, gross and net weight and any other instructions of the importer or in accordance to International Trade Forum.
- e) Quality Control and Pre-Shipment Inspection: export products must meet the set quality standards to avoid rejection and damaging the reputation of the importer. Failure to meet quality standards affects even reputation of the country. Governments in various countries have set up regulatory bodies to ensure only quality goods are imported into their countries. These bodies ensure that goods are inspected before they are shipped. Inspection of goods may be conducted under, consignment-wise inspection, in-process quality control and self-certification. Once goods are inspected and found to be good, certificate of inspection is issued to facilitate shipment process.
- f) Customs clearance: the export must then proceed to pay any export taxes required in his country to get customs clearance. The exporter needs to familiarize himself with customs and taxes to be paid as well as exemptions made and incentives given to exporter so that he can make full use of them. Several export levies are paid in Kenya.
- g) Appointment of C & F Agent: this is due to the fact exporting requires lot of documentation and compliance of procedures. Clearing and forwarding agents arrange shipment of goods, provide specialized services in movement of goods, secure customs clearance, procure relevant shipping documents and also give advice on the selection of shipping agent, route for shipment and economical mode of dispatch of goods.
- h) Obtain insurance cover: The exporter must take appropriate insurance cover for full risk coverage. The cover will cover commercial and credit risk. Marine insurance will cover sea perils. Insurance will ensure that the exporter does not suffer total loss if any damages occurs to the cargo.

#### **4.5 Shipment**

This is the third step in processing an export order. Once all preparations have been done the marketer is now ready to send his goods to the importer. This stage will involve documents examination at clearance house, Obtaining 'Carting Order' and Customs Physical Examination,

loading cargo to the vessel and exchange control formalities (Gopal 2006). Each of the steps is briefly discussed below.

- a) Document examination at customs clearance house: the export marketer must obtain clearance before sending good to the exporter, this is usually done by the appointed clearing and forwarding agent as they are more aware of the requirements. The main document required is shipping bill. Othe documents submitted include Commercial Invoice (one for each of the shipping bill, Packing List or Packing Note, Certificate of Origin, Export Licence (wherever required), Letter of Credit, Original contract where available or correspondence leading to contract, Certificate of Inspection (original copy, where required), Marine insurance policy among others. Documentation will be discussed more in the next lesson. The second thing that happens at the clearing house is that the officer in charge determines the amount of physical examination of goods and assigns an official for the conduct of examination.
- b) The second step in the process is obtaining authority to move goods to the vessel (carting order) usually given by the Port Trust Authorities. In Kenya this order would be given by Kenya Ports Authority officers. The port officers examine the goods and issues physical inspection report and pass the cargo for shipment by issuing the formal order “Let Export Order. Sometime this activity is done at the factory where the exporter invites port officers to do inspections at their premises.
- c) Loading cargo at the vessel: in this stage the port officers have discretion to determine whether to inspect goods again or just load them. Once the officer is satisfied endorses the order “Let Ship Order”, which is an authorization from the customs to the shipping company to accept the goods for loading. Once this is done the goods are loaded ready for the journey to begin.
- d) Exchange Control Formalities: proceeds from export are expected to be sent back to the country. The exporter is expected by exchange control officers to
  - Make a declaration to the customs authorities representing the full value of goods,
  - Negotiate all the shipping documents, including those relating to sales on consignment basis, through the authorized dealer; Receive payment through the authorized dealer and surrender the foreign exchange through the exchange control authorities to authorized dealers (Gopal, 2006). Compliance of exchange control formalities is made through customs.

#### **4.6 post-shipment**

This is the final step in export order processing. The exporter is expected to present Documents for Negotiation to the bank and realize any export incentives from the government. The process of obtaining payment is called “Negotiation of Documents”. And the negotiable set of documents include Bill of Exchange, Sight Draft or Usance Draft. Full set of Bill of Lading or Airway Bill. Customs Invoice. Commercial invoice including one copy duly certified by customs. Packing List. Original Letter of Credit and Certificate of Origin among others

## 4.7 Incoterms

Export marketing involves the exchange of goods between importers and exporters from different countries who operate under different laws and regulations. The process involves contracts which are guided by different laws and in case of dispute, it becomes difficult to know which laws to apply. To this end, the international chamber of Commerce has created International Commercial Terms. (Incoterms) to try and help interpret clauses in export contract. Incoterms are the selling terms that the buyer and seller of goods both agree to during international transactions. The terms are accepted by governments and legal authorities around the world. They provide internationally accepted definitions and rules of interpretation for most common commercial terms used in contracts for the sale of goods' Incoterms states when the seller's costs and risks are transferred onto the buyer. All exporters and importers need to be aware of these terms and how they affect the contracts they sign.

The attached is a list of incoterms retrieved from (Incoterms® 2020 Explained - the Complete Guide | IncoDocs, 2023)

1. EXW – Ex-Works or Ex-Warehouse: Ex works is when the seller places the goods at the disposal of the buyer at the seller's premises or at another named place (i.e., works, factory, warehouse, etc.). The seller does not need to load the goods on any collecting vehicle. Nor does it need to clear them for export, where such clearance is applicable.
2. FCA – Free Carrier: The seller delivers the goods to the carrier or another person nominated by the buyer at the seller's premises or another named place. The parties are well advised to specify as explicitly as possible the point within the named place of delivery, as the risk passes to the buyer at that point.
3. FAS – Free Alongside Ship: The seller delivers when the goods are placed alongside the vessel (e.g., on a quay or a barge) nominated by the buyer at the named port of shipment. The risk of loss of or damage to the goods passes when the products are alongside the ship. The buyer bears all costs from that moment onwards.
4. FOB – Free On Board: The seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the products are on board the vessel. The buyer bears all costs from that moment onwards.
5. CFR – Cost and Freight: The seller delivers the goods on board the vessel or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the products are on board the vessel. The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination.
6. CIF – Cost, Insurance and Freight: The seller delivers the goods on board the vessel or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the products are on the ship. The seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination. The seller also contracts for insurance cover against the buyer's risk of loss of or damage to the goods during the

carriage. The buyer should note that under CIF the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements

7. CPT – Carriage Paid To: The seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such site is agreed between parties). The seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination.
8. CIP – Carriage And Insurance Paid To: The seller has the same responsibilities as CPT, but they also contract for insurance cover against the buyer's risk of loss of or damage to the goods during the carriage. The buyer should note that under CIP the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have more insurance protection, it will need either to agree as much expressly with the seller or to make its own extra insurance arrangements.
9. DAP – Delivered At Place: The seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. The seller bears all risks involved in bringing the goods to the named place.
10. DPU – Delivered At Place Unloaded (replaces Incoterm® 2010 DAT) DPU replaces the former Incoterm® DAT (Delivered At Terminal). The seller delivers when the goods, once unloaded, are placed at the disposal of the buyer at a named place of destination. The seller bears all risks involved in bringing the goods to and unloading them at the named place of destination.
11. DDP – Delivered Duty Paid: The seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on the arriving means of transport ready for unloading at the named place of destination. The seller bears all the costs and risks involved in bringing the goods to the place of destination. They must clear the products not only for export but also for import, to pay any duty for both export and import and to carry out all customs formalities.

### **Review questions**

1. What is an export order?
2. What makes processing an export order such a critical issue to an exporter?
3. Discuss the main checkpoint necessary to be looked at by the exporter during pre-shipment stage of export marketing.
4. Critically evaluate considerations the marketer makes in the shipment stage of processing an export order.
5. Examine the significance of incoterms in export marketing.

## References

1. Branch A (2006) Export practice and management, Thomson learning (2006) pg-395-445
2. Gopal C.R (2006) Import, Export Procedures, Documentation and Logistics, New international publishers pg. 163-174
3. *Incoterms® 2020 Explained - The Complete Guide* | IncoDocs. (2023, August 17). IncoDocs. <https://incodocs.com/blog/incoterms-2020-explained-the-complete-guide>