

EXPORT MARKETING AND FINANCE

WEEK 6 PACKAGING SHIPPING AND INSURANCE

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WEEK SIX

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6.1 Introduction

Welcome to week six lecture! We are now halfway through the course. Congratulations for making it so far! In the last two lectures we have been examining export procedures by reviewing how export orders are processed, and documents required to support the process. We can now appreciate that indeed exporting implies complying to procedures and the need to be aware of them. We continue exploring this procedure in this lesson by examining packaging, shipping, and insurance requirements.

6.2 Intended Learning Outcomes

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

- Describe packaging procedures
- Examine various shipping procedures
- Discuss cargo insurance.

6.3 Packaging

Packaging is a critical step in the process of exporting goods to foreign markets. It entails all activities related to determining the kind of packaging materials and ensuring that they would help in transporting goods to other countries (Dileep, 2006) . Packaging is the enclosing of a physical object, typically a product that will be offered for sale. It is the process of preparing items of equipment for transportation and storage and which embraces preservation, identification and packaging of products A package serves several basic functions-: It contains, protects and dispenses a product, provides points of purchase advertising, serves as an attention getting device, provides a reminder to current users, is source of information about direction, ingredient and potential cautions, provides a vehicle for announcing promotions and deals, promises physical and emotional end benefits and encourages purchase etc.

A standard package should be: simple, quickly communicates what the product is, and makes use of focal points (exploits key benefits of a product, stands out from competition, makes selection within product line easy carry the right quality impression, and reflects the image of the product.

In export marketing, packaging has become critical due to the increase in the amount of goods being exported and also due to increase in global trading. The world market is now more sophisticated and requiring continuous improvement in packaging due to the following (Branch, 2006):

- Improved standards to reduce the risk of damage and pilferage. Damaged cargo has very great negative implications on the side of the marketer and is also very costly to compensate.

- Better utilization of transport capacity to lower distribution cost: distribution cost is now more expensive than even manufacturing and the marketer must make great effort to lower it.
- Improved cargo handling: technology has really improved many aspects of business including cargo handling at various ports. This makes it necessary for marketers to also package their goods well to take advantage of this and lower their costs of doing business.
- Engaging specialists packaging company for competitive packaging costs: packaging firms are on the increase worldwide with various specializations. The marketer has many choices to choose from and this makes it easier to improve the quality of packaging.
- Innovative cost-effective distribution solutions required especially in areas of recycling and green movement. This has been legislated in many countries leading to need for better and more environmentally friendly packaging.

6.4 Factors influencing type of packaging:

The type of packaging employed by the marketer will depend on factors such as mode of transport to be used, nature of goods among others. These factors are summarized in table 6.1.

Table 6.1 Factors influencing type of packaging.

Factor	Explanation
Value of the goods	High value consignment usually attracts more extensive packaging
Nature of the transit	The more handling goods must endure, the stouter the packaging required.
Nature of the cargo	This concerns the characteristics of the goods concerned and their susceptibility to various loss/damage.
Compliance with customs or statutory requirements	This is particularly relevant to dangerous cargo where strict regulations apply both by air and sea.
Resale value	If any of packaging material is in the importer's country. It helps to offset packaging costs.
General fragility of cargo	The more fragile the cargo, the greater the degree of packaging required.
The international consignment delivery terms of sale	This requires taking account of who bears the cost which is normally contained therein.
Variation in temperature during transit	Temperature variation can be quite extensive during transit and packaging must take account of this concern.
Ease of handling and stowage	Cargos of awkward shape can attract additional handling charges and a freight surcharge as they could be more vulnerable to damage.

Insurance acceptance conditions	Cargo which is particularly fragile, or which has a bad record in terms of damage/pilferage may be subject to a prescribed packaging specification.
The size of the cargo and its weight	Three main considerations to be observed when determining the form of packaging include size, shape, and strength.
Marketing considerations	as an overing consideration for consumer goods and increasing for industrial products is that packaging should fit into the overall marketing concept.
Facilities at the terminal	Certain cargo can only be offloaded at certain ports due to their nature hence the need
Type and size of container	The configuration of the transport unit together with access thereto will influence the actual ultimate dimension of packaging, its maximum weight and shape.
Marking of cargo packaging	Each package must bear a marking code and use a symbol to ease handling.
Cost of packaging	In a world where overseas markets are becoming competitive the exporter is constantly exploring ways and means of reducing distribution cost and improving marketing techniques.

Source: adopted from, Branch A. (2006) Export practice and management, Thomson learning pg-182-224

6.5 Types of packaging

Various types of packaging exist. The marketer will do well to identify them and how they affect his work. Branch 2006 identifies the following types of packaging that are commonly used in international transport of cargo.

- Baling is a form of packaging consisting of canvas cover often cross looped by metal or rope which is cheap, aids handling and is most suitable for paper, wool, hay, peat, cotton, carpets, and rope.
- Bags made of jute, cotton, plastic, or paper: they are cheap form of container mainly used for a variety of products such as cement, fertilizer, flour, animal feed products, chemicals and many consumer products.
- Barrels, hogsheads, and drums are used for the conveyance of liquid or greasy cargo but require proper sealing due to likelihood of leakage.
- Boxes, cases, metal-lined cases are expensive packaging but with some resale value and are used extensively in break-bulk and LCL cargos.
- Carboys or glass containers enclosed in metal baskets have limited use mainly for carriages of acid and other dangerous liquids transport in same quantities.
- Cartoons are a very common form of packaging in all modes of international distribution, especially of consumer goods.

- Crates or skeleton cases are form of container halfway between a bale and a case. Light weight goods of large cubic capacity such as machinery, domestic appliances such as refrigerators, cycles and certain foodstuffs packaging use this kind of packaging.
- Aluminum transport and storage container are used globally due to their lightweight and are easily stacked and inters tacked.

Branch (2006) further examines new emerging packing techniques that we should be familiar. These include:

1. The bulk liquid bag or container which can store various kinds of liquid cargo in large volumes and when not in use can fold to 2% of its volume.
2. Shrink -wrapping which is very popular with air freight consignments and consolidated consignments whether conveyed by air or surface transport. It is a relatively cheap form of packaging in relation to timber and fiber board cartons and its costs is much less than the wooden cases and gives rigid protection to the cargo.
3. Flat wrapping allows wooden components units to be laid on top of one another to be assembled at the destination.
4. A European Packaging Waste Legislation 2001 driven development where range of innovative and cost-effective solutions relating to distribution problems arising from EU Regulations are emerging.

Dangerous cargo remains one of the biggest challenges in packaging. To address the challenge of dangerous cargo it is expected that all packaged good: should be classified and declared by the shipper to the master, packaged in a manner to withstand the ordinary risk of handling and transport by sea, having regard to their properties, marked with proper shipping name and indication of the danger, properly stowed and effectively segregated from others which may dangerously interact and be listed in manifest or stowage plan giving stowage details. This must be aboard the ship.

6.6 Shipping

This refers to the processes and procedures of moving goods from the manufacturer to the consumer. It is often referred to as distribution logistics. The major decision here is in respect to he mode of transport to be used as well as the optimal mode from the viewpoint of total distribution costs. The goal of export is to ensure timely and safe delivery of goods to the importer, at economical cost. Clearing and forwarding agents play a critical role in this process. Their roles cannot be emphasized. Table 6.2 is a summary of these roles

The nature of export cargo is a major determinant of the mode of transport to be used. Export cargo can generally be classified into four categories (Gopal, 2006):

The groups are:

- Rush Cargo: required to reach destination very first. Usually transported through air
- Bulk Cargo: be carried and stored in large quantities.

- General cargo: General Cargo comprises manufactured, semi-manufactured, processed, semi-processed goods and materials.

6.7 Modes of transport

The export marketer has several options on the side of modes of transport to choose from depending on the destination of his cargo. He must make to choose the most cost-effective and also most efficient. Mode of transport. The various modes of transport include sea transport, air transport multi-modal transport and road transport. In this section we shall focus on sea transport.

Sea transport

Sea transport involves carriage of goods by the ship from the point of shipment to the port of discharge. The contract of carriage of cargo by sea refers to the contract between the shipper and shipping company (carrier) for transportation of goods against payment of remuneration, known as freight, to the carrier. The shipper may be exporter or consignor. Consignor becomes the shipper when he is acting on behalf of the exporter (Gopal 2006). Coordination of sea transport is best done by clearing and forwarding agents. We will examine their role in table 6.2 below.

Table 6.2 Roles of Clearing and Forwarding agents.

Roles	Explanation
Warehousing before Transportation	Need to make available of warehousing facility for goods before they are transported to the docks/port.
Local Transportation	Transportation of goods to the docks and warehousing in the port after receiving clearance from Port,
Container Arrangement	Where necessary, movement through containers services which are gaining popularity is provided.
Reservation of Shipping Space	The shipment of goods is only guaranteed upon finalizing shipping space.
Selection of Mode of Transport	Mode of transport is a matter of negotiation between the exporter and importer depending on price terms, route, delivery dates, distribution costs, delivery of goods as agreed etc.
Packing, Marking, and labelling	To ease inspection and pre-shipment, it is vital that goods are packed, marked and labelled.
Customs and Port formalities	Agents prepare the shipping documents to the requirements of customs procedures to avoid delays in shipment of goods.
Cargo Insurance	Necessary marine/cargo insurance is made as per the terms of contract
Advising Exporters on Trade Laws	Exporters can get benefit from the advice of experts in the export field who are abreast of the changes in the regulations and trade practices of foreign countries
Educating Exporters	Clearing agents educate exporters in respect of developments in transport and changing options available to them to explore new markets that are earlier remote or inaccessible.
Coordination with other Agencies	In most cases clearing agents coordinate among different agencies to procure certificates or endorsements required for shipment of goods.
Procuring Documents	Clearing agent procures documents such as Bill of Lading avails them to the exporters for negotiation with the bank

Source: adopted from Gopal (2006) export import procedures

6.8 Shipping structure

The world of shipping is very close to what happens in on land transportation. There are ships that offer transport services on a regular basis while others have to be hired specifically for a certain assignment. Generally, there are three forms of shipping: liner shipping, tramp shipping and conference shipping (Gopal, 2006). Each of them is briefly discussed.

- **Liner shipping:** characterized by 1) regularity meaning the ship operates on a regular route between fixed ports 2) fixed tariff the charges are generally fixed and stable and are referred to as freight rates 3) designed to carry variety of cargo: general cargo carried under this form of shipping is in the form of bales, bundles, boxes, barrels, drums etc. and that there are sophisticated equipment for handling cargo
- **Tramp shipping:** this is on the other extreme and is characterized by Homogeneous transportation of huge quantity which is carried in bulk, no fixed route and tariff: and predetermined schedule of departure, less expensive and less operating costs terms and conditions negotiable and charter market and chartering practices apply:
- **Conference shipping:** A conference is an association of two or more liner shipping companies. the characteristics of conference shipping are: (i) restrict/eliminate competition and ii) operates in the same trade or geographical area.

6.9 Cargo insurance

Transporting goods from one geographical region to another may cause various losses or damage. To be on the safer side the exporter will have to cover his goods through insurance cover. The cover for goods carried through air is often called cargo insurance while that for goods carried through sea is marine insurance. The two, however, are used interchangeably and therefore we will not attempt to distinguish them in this lecture. Cargo insurance is an insurance cover for marine goods, air cargo and post parcels. The purpose of cargo insurance is to protect goods against physical loss or damage during transit. This is done for two purposes, commercial purposes, and legal purposes (Gopal, 2006). The parties to insurance include: The insurance company also known as underwriter who assumes the liability as and when loss occurs, and the insured is the one who procures the policy or becomes the beneficiary through the insurance contract.

Principles of insurance apply to all businesses or anywhere insurance cover is taken. These include 1) Principle of Utmost Good Faith: The insured must disclose all the facts known to him or ought to be known to him, in the ordinary course of business, (2) Principle of Insurable Interest: Any person who has 'insurable interest' in the cargo only can insure, (3) Principle of Indemnity: The underwriter indemnifies the loss arising from the risks covered under a policy and (4) Causa Proxima: The insurer indemnifies if the loss arises only from the nearest cause (Gopal, 2006).

6.10 Scope of sea insurance

Various kinds of risks are covered under sea insurance. Risks in this case are referred to as perils or causes of events. According to Gopal (2006) the various kinds of perils are:

1. Maritime Perils: These are the events which are created by natural catastrophes and may include

earthquake, collision, storm, lightning, and entry of sea water into the vessel, volcanic eruption. The policy also covers man-made events such as fire, smoke, water used to extinguish fire, piracy, sabotage, vandalism etc.

2. Extraneous Perils: perils caused due to faults in loading, carrying, and unloading. Examples are rough handling, leakage, breakage, pilferage, and non-delivery etc.

3. War Perils: These perils relate to losses due to war including civil war, revolution, rebellion, and detainment of the carrier etc.

4. Strike Perils: This means damage or loss due to lockouts, strikes, labor disturbances, riots, and civil commotion and by any terrorist acting from political motive.

Certain risk may not be covered by insurance for instance damage due to fragility, losses excluded in the insurance contract, delayed arrival, ordinary and unavoidable losses trade losses, violence, and dangerous drugs losses.

6.11 Effecting Cargo Insurance

Branch (2006) notes that in international transactions, the contract clearly state which party is responsible for arranging the insurance for the goods being supplied as reflected in the Incoterm applied to the contract. Insurance, cover for the goods should embrace the following:

- Transportation of merchandise to the seaport or airport of departure.
- Period during which the goods are stored awaiting shipment or loading.
- The time while on board the ship, aircraft or other conveyance such as the international road haulage operation.
- The 'offloading' and storage on arrival at destination airport, seaport or other specified place.
- Transport to the buyer's premises or address.

Insurance cover arranged by the supplier may end when the goods are landed at the port of arrival which can lead to problems such as follows: Cover needing to be arranged for the transit of goods from the port of arrival to the buyer's premises or those of the alternate purchaser. Goods arriving damaged or incomplete at the port of arrival may lead to dispute between the seller and buyer and that settlement of claims may be delayed if insurance is arranged by an overseas insurer (Branch, 2006).

These challenges can be addressed by extension of the seller's marine insurance cover to ultimate destination, separate insurance cover being arranged by the buyer covering the final stages of the transit though this may not solve demarcation disputes and the buyer taking responsibility for insurance from the suppliers' premises to the ultimate destination.

6.11 Cargo Insurance Claims

In the event of loss or damage the insured is expected to make claims to the insurer. The insured informs the nearest branch or agency of the damage. The company's agent proceeds to appoint a suitable surveyor to inspect the goods and to report on the nature of the damage. The presentation

of claims is by negotiation on documents supporting the assured's case. The following documents are required when making an insurance claim:

- The export invoice issued to the customer together with shipping specification and /or weight notes.
- The original bill of lading, charterparty, air waybill consignment note.
- The original policy or certificate of insurance.
- The survey report or other documentary evidence detailing the loss or damage occurred.
- Extended protest or extract from ship logs for salvage loss, particular average in good, or total loss or average on goods.
- Letters of subrogation for total loss of goods for maritime consignments
- Any exchange of correspondence with carriers and other parties regarding their liability for the loss or damage.
- Any landing account or weight notes at destination.
- Account sale(salvage) or invoice for reconditioning charges.

Review question

1. Critically analyze chartering practices as applied in tramp shipping.
2. Discuss documents required in making marine insurance claims.
3. Discuss the significance of packaging in export marketing.
4. Critically examine the roles of clearing and forwarding agents in packaging, shipping and insurance of cargo.

References

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