

## Chapter 17

# Selecting Import Products and Suppliers

### ***TYPES OF PRODUCTS FOR IMPORTATION***

One of the most important import decisions is the selection of the proper product that serves the market need. In the absence of the latter, one is left with a warehouse full of merchandise with no one interested in buying it. Nevertheless, importing can become a successful and profitable venture so long as sufficient effort and time is invested in selecting the right product for the target market.

How does one find the right product to import? The following are different types of products to consider.

#### ***Unique Products***

Products that are unique and different can be appealing to customers because they are a welcome change from the standardized and identical products sold in the domestic market. The fact that a product is imported and different is in itself sufficient for many people to purchase the item. However, some studies indicate product uniqueness in terms of cultural appeal to be a relatively less important variable in the purchasing decision of import managers (Ghymn, 1983).

#### ***Less Expensive Products***

It is quite common to find imports that perform identically to the competitor's product but can be sold at a much lower price. As customers quickly switch allegiance to buy the imported item, it is quite possible to capture a substantial share of the domestic market.

For firms selling in mature markets where there is little or no product differentiation, cost reduction provides a competitive advantage (Shippen, 1999). For consumer goods, the provision of quality products at lower prices is quite important in increasing a firm's market share. In the apparel sector, for example, imports presently accounted for over a half of total U.S. market share in 2006, mainly due to their cost advantage.

### *Availability*

Keeping abreast of market trends often helps identify products that are in great demand. For example, increases in the immigrant population from Asia and Latin America have encouraged growth in the import of more and greater variety of spices. The United States imported an annual average of 530 million pounds of spices in 1990 to 1994 compared with 362 million pounds in 1980 to 1984 (Buzzanell and Lipton, 1995). In such cases where there is a continuous increase in demand for the product, imports become a major source of domestic supply because the product is either not produced in the country or not produced in sufficient quantities to satisfy the growing demand. The major reason for global sourcing in the chemical industry, for example, is the unavailability of needed products in the U.S. market.

### *Products of Better Quality*

Many products manufactured abroad are of better quality than those produced domestically. German machine tools, Japanese cars, and French perfumes have proven market demand because of high quality. In some cases, certain designs could best be manufactured overseas. Identifying a quality product has the potential to increase profits.

Today's consumers tend to be quality/brand name conscious and are more willing to pay a higher price for good quality products. The provision of quality service is often as important as the quality of the goods imported. Importers have often managed to offset the disadvantage in the provision of quality service through efficient use of computer technologies such as quick response, just-in-time, and warehouse management systems.

Any one of these types of products can be carefully selected based on one's background and expertise. Someone who likes gardening can import gardening utensils, decorations, and so on, while the computer technician could find imports of items such as peripherals and software enjoyable and easy to handle (see International Perspective 17.1).

## **INTERNATIONAL PERSPECTIVE 17.1.**

### **Quality Control for Imports**

Ensuring quality is the best means of winning consumer confidence and sales. Many manufacturing firms find that they must meet new and different standards criteria (national, corporate, regional, or international) to compete in the global marketplace. Even though the majority of industrial standards are voluntary, there are mandatory government imposed standards in the fields of health and safety, food and drugs, and the environment. In many European countries, consumers often base their purchasing decision on proof of certification for the product or service. European community directives also mandate that companies meet certain product certification standards in order to sell in the European Union.

In the area of imports, quality standards provide a basis for assessing quality of products and services. Suppliers are provided a guide as to the quality of product to be manufactured, while buyers are provided with the confidence that the goods are safe and meet high quality standards. It is important to establish quality testing and inspection procedures, and in the case of large orders, the importer could appoint a quality inspector at the supplier's location to assess and advise the supplier on quality. Acceptance and payment on a letter of credit can be made conditional on receipt of a satisfactory inspection certificate.

An example of a quality control program for imports is the one jointly created by Chrysler, GM, and Ford (the QS-9000). The QS-9000 employs the ISO-9000 international quality assurance standard coupled with industry-specific criteria. The program mandates the use of QS-9000 quality standard by suppliers around the world. It requires organizations to implement continuous performance improvements with regard to quality (ISO-9000) and environmental management (ISO-14000). This is intended to ensure that products or services satisfy the customer's quality requirements and comply with any regulations applicable to those products or services.

## ***FINDING THE PRODUCT***

Any one or a combination of the following can be used in order to find, assess, and select the right product for importation.

### ***Domestic Market Research***

Primary market research can be conducted by a consulting firm to identify the best line of products for the domestic market. A variety of statistical sources provide data on projected total demand for certain products. Trade

flows can also be examined to gather information on domestic demand and growth trends for various products. Some secondary sources also provide important market information, such as domestic market overviews, market share data, and opinions of industry experts. Such secondary market research studies and surveys can be purchased for a fraction of the cost of primary research. Online data can also provide industry and product information.

### ***Trade Publications***

Trade publications such as *Trade Channel*, *Asian Sources*, and *General Merchandise* provide business and trade opportunities in various countries. They include various advertisements of products and services available for import from all parts of the world (Weiss, 1987; Nelson, 2000). Certain banks with international departments often publish newsletters with offers to buy and sell. The prospective importer can also use electronic bulletin boards of the world trade centers to find out what products are available for import.

### ***Foreign Travel***

Whenever one visits a foreign country, it is important to look for products that may have a market at home. If a good product is obtained, it would create a profitable business opportunity. One could find new and exciting products that are not currently imported in the public markets, bazaars, or gift stores. Once a good product is identified, a few samples can be purchased. The manufacturer's address can be obtained from the country's trade department or from local vendors, usually for a small referral fee. If one does not travel overseas, it is always possible to ask friends or agents abroad for product information.

### ***Trade Fairs and Shows***

One way of finding a product is to attend trade fairs and trade shows. Many exporters find such shows to be an effective means of promoting their products. It is estimated that almost 2,000 trade shows take place in over seventy countries every year. Trade shows represent an entry point into export markets worldwide. Importers will have an opportunity to consider a variety of potential products to buy, to establish personal contacts, identify new prospects, or gather competitive information. Many exporters introduce their products to the foreign market with the hope of writing orders at the show or of finding suitable distributors or manufacturers' agents who will handle their products in overseas markets. Major shows in the United States are published

in the *Exhibits Guide*. The Department of Commerce publishes information on upcoming trade fairs and trade shows in the United States and abroad. There are also online sources on various shows and exhibitions in certain product areas to be held in various parts of the world. A recent online announcement, for example, invites buyers and sellers of furniture to the international furniture fair in Copenhagen, Denmark, where major dealers from around the globe are expected to exhibit their furniture.

### ***Foreign Countries' Trade Offices***

Most countries have export promotion offices abroad. A trade promotion office provides important information on a country's major export products or services, suppliers, and other helpful contacts. In the absence of a trade promotion office for a nearby country, the embassy could be a good source of information on potential products to import.

Regardless of the method used to find the potential product to import, it is advisable to buy a sample or a small order to determine whether there are any prohibitions or restrictions to entry and whether the product can be sold at a competitive price. The sample can be inspected by a customs broker to establish whether the product can be freely entered and, if allowed entry, the applicable duty rate. The sample could also be shown to a freight forwarder to obtain an estimate of the shipping and insurance cost in order to calculate the price at which the merchandise will be sold. It is important to realistically evaluate the price in terms of competing products in the market. When calculating the total cost plus a decent profit margin, if the price is much higher than a competing product in the market, it may be necessary to go back to the drawing board and try another product.

Suppose the product is not subject to prohibitions or restrictions and can be sold at a competitive price; the next step is to presell the product to likely buyers. This will determine whether people will buy the product and how much they are willing to pay for it. This can be done by the potential importer or salespeople. The process of supplier selection and negotiation to purchase the first shipment should be done only after making an assessment of how much one can realistically sell.

## ***WHAT DETERMINES IMPORT VOLUME?***

Much of the literature on imports underlines the importance of high per capita incomes and population size in determining import levels. All other things being equal, countries with higher per capita incomes will be able to

import more per person than countries with lower levels (Lutz, 1994). Larger countries (in terms of population) import fewer manufactured goods on a per capita basis because they tend to have a diversified industrial base, as investment will be attracted to these countries to take advantage of their big markets. This view can be exemplified by the case of the United States and Japan, both of which have low import propensities compared to countries such as Belgium or the Netherlands. Economic theory also suggests that import levels are affected by other factors, such as the price of imports denominated in foreign currency, the exchange rate, as well as the price of domestic goods relative to imports (Warner and Kreinin, 1983; Deyak, Sawyer, and Sprinkle, 1993). While relative prices have a predictable and systematic impact on imports, price elasticities tend to be low, in most instances well below unity. This suggests that large relative price swings are required to have an appreciable impact on trade patterns (Reinhart, 1995). For developing countries, however, determinants of import demand include government restrictions on imports and availability of foreign exchange (Sarmad, 1989). The study by Sarmad (1989) examining the factors influencing import demand in Pakistan from 1959 to 1986 found that the policy of devaluation or raising tariffs was not significant in reducing imports except in the case of imports of machinery and transport equipment. In countries with successful import-substitution strategies, the impact of relative prices and tariffs tends to decline in terms of their influence on import demand. Import substitution is a policy that taxes and restricts imports to protect and subsidize domestic industries. This policy, which paradoxically led to more import dependence (e.g., for purchases of raw materials, components, etc.), was a popular economic strategy among some developing nations (Lindert and Pugel, 1996).

### ***SELECTING THE SUPPLIER***

The product selected for importation may be manufactured by several firms in different countries or within the same country. The next important step is to assess and select the right supplier based on a number of critical factors, such as quality, delivery time and supplier reliability, transportation cost, import duty implications, protection of intellectual property rights, and ability to meet standard requirements.

A study conducted in 1983 on the decision process of U.S. purchasing agents suggests timely delivery, product brand name, and style as important factors that determine purchasing decisions (Ghymn, 1983). A major concern in the minds of many U.S. importers is the quality of the imported product. In today's marketplace, where many firms are competing for the buyer's

attention, it is the customer who defines quality in terms of his or her needs. To be successful, an importer should select a supplier who can deliver a product that satisfies consumer needs, has minimum defects, and is priced competitively. Also adding to the importance of quality and the local market appeal of the product is the availability of core supplier benefits, such as warranties, timely delivery, favorable transportation terms, and after-sales service and reliability. Low-cost suppliers can also be identified based on their proximity to raw materials, labor costs, current exchange rates, or transportation costs.

Import duties could be eliminated or substantially reduced by selecting suppliers located in countries that participate in a preferential trade arrangement. In the United States, for example, most products imported from Canada, Mexico (NAFTA), Caribbean countries (CBI), Israel (FTA), and countries eligible for GSP benefits are subject to duty-free treatment. For example, ceramic tile imported from Italy is subject to a 13.5 percent duty, whereas an identical tile coming from Israel would cost the importer only 4.3 percent duty. To qualify for such favorable treatment, it is necessary to mark the country of origin of the import.

Selection of the supplier should also be based on the integrity of the product. Integrity of the product includes the assumption that the import does not violate any intellectual property rights registered in the country, such as patent, trademark, design, or copyright, and that it meets certain regulatory requirements, such as product compliance with the various import laws relating to marking, labeling, inspections, and safety. There has been a rise in the production and sale of counterfeit and pirated goods in many parts of the world. Industry experts, for example, estimate lost sales from unauthorized use of U.S. intellectual property rights at \$60 billion annually. It is also important to select suppliers that use certain product safety standards. For example, food service ceramics must be tested for lead, and toys must meet labeling and safety standards (see International Perspective 17.2).

A potential importer should be aware of any foreign laws that might affect purchase, such as export restrictions or quotas. The importer also needs to ascertain whether the supplier has already appointed other distributors or sales agents in the territory and whether the distribution channels available are acceptable in terms of overall profitability and risk. For example, an agent is likely to realize limited profits if the supplier has a distributor in the market (see International Perspective 17.3 for a typical import transaction).

Once a small number of potential suppliers are identified, a personal visit can be made to perform the necessary evaluation and selection of the right supplier. Final selection will be made based on factors such as (1) international knowledge and experience of supplier, (2) supplier's willingness to

## INTERNATIONAL PERSPECTIVE 17.2. Major Factors in International Supplier Selection

- *Quality assurance*: Certification of potential suppliers for strict quality assurance, technical capability to prevent quality failures, and overall commitment to quality assurance.
- *Financial conditions*: Low cost supplier (purchase price, transportation cost, documentation, etc.), provision of favorable payment terms (open account sales), freight terms such as FOB, CIF.
- *Service performance*: Supplier's commitment and capability for timely delivery of services and technical assistance.
- *Perceived risks*: Political and economic risks such as political instability, currency inconvertibility, and unstable exchange rates.
- *Buyer-supplier relationships*: Financial stability, negotiation flexibility of supplier.
- *Trade restrictions*: Tariff and non-tariff barriers, countertrade requirements by supplier or country.
- *Cultural and communication barriers*: Language, business customs, ethical standards, communication barriers, electronic data exchange capability.

devote sufficient time to develop the market, (3) supplier's willingness to provide necessary training, and (4) provision of certain market exclusivity and acceptable payment arrangement. It is also important to obtain a credit report of the supplier. Such evaluation is critical regardless of the marketing channels adopted by the importer.

### *INTERNATIONAL SOURCING*

The outsourcing of products and services to external suppliers continues to expand, as firms search for ways to lower costs while improving their products to remain competitive. By the end of 1998, it is estimated that U.S. companies have spent more than \$100 billion on outsourcing. Outsourcing is commonly used by firms in the areas of communications, computers, and semiconductors. Firms that outsource often realize cost savings and an increase in capacity and quality. In spite of its fast growth, outsourcing is frequently perceived to be poorly controlled, high in cost, and a drain on quality

### **INTERNATIONAL PERSPECTIVE 17.3. A Typical Import Transaction**

**Step 1:** Once a product is selected (see section on selecting products), the importer writes to overseas suppliers to send price lists and product catalogues.

**Step 2:** Upon receipt of the price lists and catalogues, the importer then shows the catalogues to potential customers without disclosing the supplier's name and address.

**Step 3:** If there is a favorable response from potential customers, the importer contacts the overseas supplier to request product samples and pays for shipment by air. In the meantime, importer checks with Customs for the applicable duty and other import requirements for the product.

**Step 4:** If the product sample received is found acceptable by the importer, the importer then orders a trial shipment by air and makes an advance payment to the supplier. The importer should communicate domestic marking, labeling, and other requirements to the overseas supplier. Supplier's credit references can be obtained from the supplier, banks, and the U.S. Department of Commerce. Potential customers are approached to place orders for the product.

**Step 5:** As the goods arrive at the airport, the importer arranges with a customs broker to clear customs. The importer sets the selling price.

**Step 6:** If the trial shipment sells easily, the importer orders large shipments by sea freight and prepares a formal price list and product catalogue.

and service performance (for advantages and disadvantages, see International Perspective 17.4).

A firm can undertake outsourcing under various arrangements.

#### ***Wholly Owned Subsidiary***

A firm may move production of parts or components to an affiliate established in a low cost location abroad. The firm will then import the output as it is needed. For example, Sony outsources production of parts to its manufacturing plants located in China and other low cost locations around the world.

#### ***Overseas Joint Ventures***

A firm can import supplies made under a joint venture arrangement. For example, Fujitsu imports parts for its DRAMs production from its joint

### **INTERNATIONAL PERSPECTIVE 17.4.** **Advantages and Disadvantages of Outsourcing**

#### **Advantages**

1. Lower price
2. Higher-quality products (qualified suppliers)
3. Supply of products not available domestically
4. Advanced technology available from foreign sources
5. Satisfy countertrade obligations
6. Improve international competitiveness

#### **Disadvantages**

1. Difficulty in evaluating and selecting qualified suppliers
2. Potential problems with quality and delivery time
3. Political and labor problems
4. Paperwork and extra documentation as well as added costs such as freight, insurance import duties, cost of letter of credit, travel, marking, etc.
5. Currency fluctuations and payment problems
6. Harder to quickly respond to market changes

venture partner in Taiwan. Mitsubishi Electric and Toshiba have also contracted DRAM manufacturing to Taiwanese partners.

#### ***In-Bond Plant Contractor***

A firm sends raw materials and components to be processed or assembled in a low cost location by an independent contractor. No customs duty is imposed by the country where the goods are assembled (temporarily imported under bond) and when the products are re-exported to the home country, import duties are imposed only on the value added abroad. The most popular is the maquiladora, which allows U.S. or other foreign companies to combine their technology with low cost labor in Mexico. The raw materials or components imported in bond and duty free are processed or assembled for eventual re-export. The maquiladora can also be established as a wholly owned operation of the foreign firm.

#### ***Contract Manufacturing***

A company enters into a contract with a foreign supplier to import a given quantity of products according to specifications. The supplier manages the

day-to-day operation of the production process and allows the importer to focus on other core activities. The contract will provide for assurance of quality and quality control. Nortel, a Canadian-based manufacturer of communications equipment, outsources nearly \$1 billion worth of components to contract manufacturers abroad. Cisco uses contract manufacturers to reduce production cost and focus on research and development. Its products are mostly made by global manufacturers such as Flextronics and Jabil.

### ***PRICING THE IMPORTED PRODUCT***

Knowledge of the price structure for imported goods makes it possible to determine the appropriate price to be charged for the merchandise. The following price structure in Table 17.1 could be used as a general guide.

### ***IMPORT MARKETING CHANNELS***

One of the fundamental decisions for foreign suppliers is whether to sell their products direct or through intermediaries. Relying on an intermediary relieves the producer of international marketing activities. However, the producer forgoes part of the export profit and does not obtain firsthand information on the market, and this, in turn, may reduce the firm's product adaptation capacity.

Two of the important developments in marketing channels have been the involvement of large retail groups in direct importation, and subcontracting of production abroad by major manufacturing companies. In this age of intense competition, firms that manufacture standardized products can no longer rely on firm-specific advantages arising solely from technology. They should focus on ways of minimizing costs by manufacturing certain components (or subcontracting such production) in low cost countries (see International Perspective 17.5).

#### ***Direct Channel of Distribution***

If a direct channel is adopted, the foreign producer exports through its subsidiary, joint venture representative serving as importer, distributor, and/or wholesaler. It also includes imports manufactured under a subcontracting arrangement.

TABLE 17.1. Landed-Cost Survey, DM Import Company, Davie, FL

<b>Supplier: V. Maundo, Nairobi, Kenya; Quantity: 150 Makonde carvings</b>	
<b>Gross sales price</b>	<b>3,500.00</b>
Less cash discount (15%)	525.00
Net sales price	2,975.00
<b>Landed cost</b>	
Purchase price	2,975.00
Packing	—
Inland freight	—
Duty (2975 – insurance (\$50) + freight (800)) = 7% (2,125.70)	148.75
Brokerage and banking charges	160.00
Custom bond fee	50.00
Merchandise processing fee	8.00
Harbor maintenance fee	2.00
<b>Total landed cost (CIF, Miami) Expenses</b>	<b>3,343.75</b>
Advertising	—
Repacking	15.00
Interest	10.00
ABI (Automatic broker interface fee)	10.00
<b>Total landed costs and expense</b>	<b>3,378.75</b>
Unit cost	\$22.52 per item
Suggested selling price	\$45.00
Net Profit	6,750 (\$45 3 150) – 3,378.75 (22.52 3 150) = \$3,371.25

*Note:* Markup is generally 60 to 100 percent for consumer items; 20 to 30 percent for industrial goods; 250 to 300 percent for mail order items.

### *Indirect Channel of Distribution*

This entails exporting the product to an intermediary, usually an import distributor, who serves as channel leader on behalf of the foreign manufacturer. It also includes a commission agent or an import merchant.

In short, a product can be imported by a firm wholly or partly owned by the foreign producer or by independent distributors or agents. Depending on the channel structure, imported merchandise is sold through various outlets: it may be sold to a wholesaler, retailer, or directly to the consumer. Whole-

### **INTERNATIONAL PERSPECTIVE 17.5.**

#### **The Ten Most Common Mistakes of Potential Importers**

1. Failure to develop sufficient knowledge of the import process before starting the business including import regulations.
2. Insufficient knowledge of the product to be imported.
3. Insufficient knowledge of the costs involved in obtaining, importing and marketing a product.
4. Neglecting to seek quality products at lowest possible price.
5. Failure to maintain a good working relationship with suppliers, banks, customs brokers and other intermediaries.
6. Inability to develop an appropriate price structure.
7. Insufficient knowledge of the market.
8. Insufficient working capital.
9. Unwillingness to modify products to meet regulations or consumer preferences.
10. Failure to invest sufficient time and effort to develop the business.

saling may bring in less money per item than retail, but it has the advantage of faster inventory turnover, less sales effort, and lower warehousing costs. However, since the wholesaler's sales effort is often spread among dozens of other products, a product may not be given individual attention. A product can be sold directly to retailers such as supermarkets, convenience stores, and specialty or discount stores. The importer could also set up his or her own store and sell the merchandise directly to the consumer. Several importers also sell at the various swap shops and flea markets around the country. Over the past few years, there has been an increase in the use of mail order or direct response television/radio. Even though this approach can be very expensive, it allows the importer to reach millions of consumers in a very short time and possibly make a substantial number of sales very quickly if the product is successful.

### ***FINANCING IMPORTS***

Imports can be financed by using methods such as documentary collection, letters of credit, transferable letter of credit, or back-to-back letter of credit. Read the section dealing with the various types of letters of credit.

## CHAPTER SUMMARY

### *Type of Products to Consider for Importation*

Products that are unique, are less expensive, have proven market demand, and are of better quality.

### *Means of Finding, Assessing, and Selecting the Product*

1. *Domestic market research:* using primary or secondary market research
2. *Trade publications:* Advertisements in various trade publications, international bank newspapers, and electronic bulletin boards
3. *Foreign travel:* Identifying promising import products during visits abroad
4. *Trade fairs and shows:* Import products found by attending various trade shows and trade fairs domestically and abroad
5. *Trade offices:* Seeking information from trade promotion offices and embassies of various countries on their major export products, as well as from other helpful contacts

### *Other Steps Before Selecting the Product and Supplier*

1. Purchase a sample of the promising item.
2. Request inspection by customs to determine if there are any restrictions to entry of the product and establish the applicable duty.
3. Check with a freight forwarder about shipping and insurance cost.
4. Estimate the price and determine whether the product can be sold at a competitive price.

### *Determinants of Import Volume*

1. High per capita income
2. Population size
3. Price of imports denominated in foreign currency
4. Exchange rates
5. Price of domestic goods relative to imports
6. Price elasticity
7. Government restrictions, availability of foreign exchange

### ***Selecting the Supplier: Important Considerations***

1. Product quality, brand name
2. Market appeal, minimum defects
3. Other supplier benefits: Timely delivery, warranties, after-sales service, reliability
4. Protection of intellectual property rights

### ***Import Marketing Channels***

1. Direct
2. Indirect

### ***Financing Imports***

1. Open account
2. Consignment
3. Documentary collection
4. Letter of credit

## ***REVIEW QUESTIONS***

1. What types of products should be seriously considered for importation?
2. What is contract manufacturing?
3. State some of the factors that determine import volume.
4. Explain the major steps involved in a typical import transaction.
5. What are some of the advantages of outsourcing?

### ***CASE 17.1. THE ATA CARNET: UNLOCKING CUSTOMS FOR TEMPORARY ENTRY OF GOODS***

The ATA Carnet is an international customs document used by travelers to temporarily import certain goods without paying tariffs or going through customs formalities. The term “ATA” stands for the French words “admission temporaire.” It is created by an international convention to promote world trade and can be used in more than ninety countries. Major trading nations such as EU member countries, Australia, Bulgaria, Canada, China, Czech Republic, Hong Kong, Hungary, India, Israel, Japan, Malaysia, New

Zealand, South Africa, Thailand, and the United States all accept ATA carnets. The United States acceded to the ATA Carnet convention in 1986.

In the United States, carnets are issued/ guaranteed by the U.S. Council for International Business (USCIB). The USCIB is liable for the payment of liquidated damages to customs in the event that the carnet holder fails to comply with customs regulations. The carnet is valid for one year from the date of issuance.

There are a number of benefits that can be derived by importers from using the ATA Carnet: (1) avoidance of complicated customs procedures. The ATA Carnet allows the importer to use a single document for clearing goods through customs in several countries. It also allows for unlimited exits from and entries into the U.S. and participating foreign countries during the one-year period of validity, (2) the importer will not be required to pay customs duty or post a temporary import bond.

ATA Carnets cover virtually all goods except food and agricultural products (consumables), disposable, and hazardous items. Merchandise intended for sale or resale must be entered as a regular customs entry. The ATA guaranteeing association (USCIB in the case of the U.S.) requires a security deposit (about 40 percent of the value of goods) to cover any customs claim that might arise from a misused carnet. The deposit is returned upon the cancellation of the carnet. Application for a carnet is made online at [www.merchandisepassport.org](http://www.merchandisepassport.org).

In the case of certain countries that do not accept ATA carnets, companies can apply for a temporary import bond (TIB), a document that can be purchased from a customs broker at the time of entry. The TIB deposits and payments are made in the importing country each time a product is imported.

*Example:* Harley-Davidson moved its classic bikes, motorcycle parts, and artifacts to ten cities around the world including Barcelona, Hamburg, Toronto, Sydney, and Tokyo, and back to its headquarters in Milwaukee, Wisconsin, in 2002-2003 using the ATA Carnet. The tour intended to celebrate the 100th anniversary of the company was made easier by the carnet which eliminated the need to pay duties and taxes, as well as reduced the delays and costs of physically crossing international borders.

## Questions

1. Identify a company in a specific sector and determine how it can take advantage of the ATA carnet system.
2. Are there any disadvantages in using the ATA Carnet?

**CASE 17.2. MAYTAG'S TRIAD STRATEGY**

Firm strategy plays an important part in determining the competitiveness of an industry in a global market. As governments embrace trade liberalization, local industries have become increasingly exposed to fierce competition from a growing array of international suppliers. Domestic producers of bulk appliances like dishwashers and refrigerators were largely insulated from foreign competition because of their size, which makes them expensive to ship across the ocean. However, low labor and production costs, added to declining transportation costs, has enabled many Asian appliance makers such as China's Haier Group and South Korea's LG Electronics to increase their U.S. market share. They are also opening plants in Mexico and neighboring countries to save on shipping.

Maytag had to adjust to the new competition through global sourcing and collaborative supply chain networks. In the case of dishwashers, its triad strategy entails sourcing the motors from suppliers in China, producing wire harnesses in Mexico, and assembling the parts in Jackson, Tennessee.

Dispensing certain activities across the transnational value chain to lower costs and gain competitive advantage is considered a successful global business strategy. This approach allows U.S. companies to share the risk with suppliers and to choose foreign companies with the best product lines or services.

Maytag selected certain suppliers (of motors for dishwashers) from China largely due to their low prices. However, it decided to make the wire harness in Mexico because they tend to be different in each model and because sudden shifts in demand requires proximity to the market.

***Questions***

1. Would you advise Maytag to produce motors for the dishwashers in Mexico in view of the latter's proximity to the U.S. market?
2. Would you advise Maytag to lobby the government for higher tariffs on imports of motors and/or wire harnesses in order to produce them in the United States for the domestic and export market?

