



How To Start an Export/Import Business

**Published by the
Massachusetts Export Center**

A counseling center of the Massachusetts Small Business Development Center

**State Transportation Building
10 Park Plaza, Suite 4510
Boston, MA 02116
Phone: 617-973-8664
Fax: 617-973-8681
www.mass.gov/export**

MASSACHUSETTS EXPORT CENTER

"HOW TO START AN EXPORT/IMPORT BUSINESS"

TABLE OF CONTENTS

| | | |
|-----|---|----|
| I | Introduction About the Publishers | 3 |
| II | Getting Set Up Business Obligations Local Filing Filing Name and Purpose of Corporation Other Things to Consider | 4 |
| III | Determining What Type of Company to Establish Export Management Companies Trading Companies | 6 |
| IV | Exporting Sourcing Products or Identifying Clients Export Plan and Strategy Market Research Target Market Identification and Selection Finding Overseas Buyers or Partners Choosing a Method of Market Entry in Your Target Market Selecting/Identifying Overseas Partners or Buyers The Export Transaction International Banks/Payment Terms Freight Forwarders/Shipping Terms | 8 |
| V | Importing Sourcing Products from Overseas Import Plan and Strategy Market Research Finding Buyers or Partners in the U.S. Choosing a Method of Market Entry in the U.S. The Import Transaction International Banks/Payment Terms Freight Forwarders/Shipping Terms | 14 |

I INTRODUCTION

The purpose of this booklet, **How to Start an Export/Import Business**, is to help guide individuals through the steps of setting up an export/import company in Massachusetts.

Export/import companies can take many different forms, such as Export Management Companies (EMCs), Export Trading Companies (ETCs), and general trading companies which might export, import, or do both. This guide will explain the differences between these options, and go through the steps of both exporting and importing, specifically as these processes relate to export/import companies.

We hope you will find this guide informative and helpful, and wish you luck in establishing a successful export/import business.

ABOUT THE PUBLISHERS

Recognizing the need to make export services easily accessible to companies of all sizes, the Massachusetts Export Center serves as the state's one-stop resource for export assistance. The Massachusetts Export Center offers a range of targeted, customized services to Massachusetts businesses at any stage in the export process. Whether you are a small business just thinking about exporting or an experienced exporter, the Massachusetts Export Center stands ready to help with services suited to your needs. Our services include: export counseling and technical assistance; international market research and assessment; international business development and assistance; export training programs; and export publications. The Export Center is a specialty center of the Massachusetts Small Business Development Center Network and a key partner with the Massachusetts Office of International Trade and Investment.

II GETTING SET UP

Before we get into the specifics of how to set up an export/import business, it is necessary to go through some steps required to set up *any* company in Massachusetts.

Once you have chosen a name for your business, you need to determine (1) whether you must file organizational forms with the state, and (2) whether you must file a business certificate in your local community. Since laws, regulations, rulings and rates continually change, your lawyer and accountant should be contacted to help you through this process.

1. BUSINESS OBLIGATIONS

A. Local Filing

Under the General Laws, Chapter 110, Section 5, a person doing business under a name different than his/her own must file a business certificate, or "dba" (doing business as), at the city or town hall clerk's office where he/she maintains an office. If the company has more than one location, registration should take place in the city or town where the headquarters are located. Although the fee for this filing varies from town to town, the fee can average around \$25.00 for four years. The only case in which you do not have to file a "dba" is when you are doing business as a sole proprietor under your own complete name, such as "John Smith Company".

B. Filing Name and Purpose of Corporation

There can be as few as one person to establish a corporation. You must state the purpose of the corporation. Taxes and liability considerations should determine business forms. The filing fee is \$200.00, which enables corporations to issue stock. You do not have to file with the city or town hall if you file with the Secretary of State's Office.

Required Filings After Your Company Name Is Chosen

| Type of Business | Required State Forms | Filed With Secretary of State | *DBA at Local City/Town Hall |
|--|------------------------------------|-------------------------------|------------------------------|
| Corporation | Articles of Organization | * | |
| General Partnership | | | * |
| Limited Partnership | Certificate of Limited Partnership | * | |
| Business Trust | Declaration of Trust | * | |
| Sole Proprietorship (name different than owner) | | | * |
| Sole Proprietorship (doing business under owner's complete name) | | | |

*DBA - Business certificate known as "doing business as" (see above).

For further information, call the Corporations Division of the Secretary of State, (617) 727-9640.

C. Other Things to Consider

Although the main purpose of this guide is to help you with the mechanics of importing and exporting as it relates to the establishment of an export/import business, there are a number of other general issues that must be addressed to the establishment of your business, including:

- 👉 legal requirements of setting up and operating your business
- 👉 financial and tax requirements of setting up and operating your business
- 👉 register business with state and obtain any necessary local licenses
- 👉 obtain federal employer identification number
- 👉 apply for state worker's compensation and unemployment insurance

For further information on how to set up your business, please refer to the publication “Starting a Business in Massachusetts” published by the Massachusetts Office of Business Development (MOBD) and available by calling MOBD at 617-973-8600.

III DETERMINING WHAT TYPE OF COMPANY TO ESTABLISH

An export/import company can take a couple of different forms, depending upon your goals, contacts, expertise and experience. Below are descriptions of the two most common forms of export/import companies:

1. EXPORT MANAGEMENT COMPANIES

Export Management Companies (EMCs) are domestic firms that serve as the export department of several noncompetitive manufacturers. Thus, EMCs travel abroad to locate foreign buyers, exhibit products at international trade shows and provide financing to potential customers.

The management of the EMC solicits sales for a commission, salary, or retainer plus commission. In many cases, the EMC is invoiced by the manufacturer and in turn invoices the customer, assuming responsibility for shipping, export documentation

and receiving payment. In most cases, however, the EMC will not take actual title to the goods. EMCs often specialize by product category and sometimes by country or geographic region. Because of such specialization, the better EMCs know products and country markets very well. Thus, their in-place networks of foreign buyers give the manufacturers they represent immediate access to foreign markets.

Therefore, the establishment of an EMC generally requires an existing expertise in export development for specific products. This experience will be necessary to build a client base by convincing prospective clients that their export operations can be better handled by the EMC than on their own.

2. TRADING COMPANIES

Trading companies are similar to EMCs. The one major difference is that traditionally, EMCs do not take title to goods being traded, while trading companies do take title. Another difference is that while most EMCs generally specialize in exporting, trading companies can export, import or do both. Trading companies that specialize in exporting are commonly called Export Trading Companies (ETCs). Trading companies purchase the goods from the manufacturer or seller (based in the U.S. or abroad), finds a buyer, arranges the export or import transaction, and sells the goods to the buyer at a markup.

When establishing a trading company, international trade experience and contacts can be very helpful, but not as necessary as when establishing an EMC. The distinguishing factor in establishing a trading company, however, is the capital required to take possession to the goods being traded.

IV EXPORTING

When establishing an EMC or an ETC, it is necessary to establish relationships (both here and abroad), become familiar with the export process, and develop a well-planned export strategy. This guide is not intended to go through the export process nor is it intended to help develop an export plan or strategy. The purpose of this guide is simply to go through the steps necessary of establishing an EMC or trading company. For more information on exporting or developing an export strategy, it is advisable to call the Mass Export Center for one or more of the following:

- 👉 Receive export counseling
- 👉 Obtain and read a copy of the MSBDC's Start Thinking Export "how-to" export guide, available through the Mass Export Center or the MSBDC
- 👉 Obtain, read and complete a copy of the Mass Export Center's International Business Plan Workbook
- 👉 Receive export training by attending one of the state's "Partners for Trade" export seminars. A schedule can be obtained through the Mass Export Center

1. SOURCING PRODUCTS OR IDENTIFYING CLIENTS

Whether establishing an EMC or an ETC, it is necessary to source products for export or find clients to represent in overseas markets. By this stage in setting up the company, it is advisable to have already selected a product or industry around which export activities will be centered. If you do not know which product or industry to target, it is often advisable to stick with an industry in which you have experience or of which you have sufficient knowledge. A good place to start identifying products to export or companies to represent in overseas markets is your local library. The Kirstein Business Branch of the Boston Public Library, for example, has numerous directories that list manufacturers, along with the products they produce. Here are some directories that might be helpful in identifying products for export:

- 👉 Thomas' Register
- 👉 Massachusetts Directory of Manufacturers
- 👉 Journal of Commerce Directory of Exporters
- 👉 Directories of various chambers of commerce

For EMCs, a useful vehicle for publicizing services to prospective clients is the Massachusetts Export Center's Export Services Guide, which lists private sector export resources, including EMCs, and is distributed to Massachusetts companies interested in securing the services of private sector export service providers. EMCs can include a profile of their services in the Guide for free.

2. EXPORT PLAN AND STRATEGY

Once you have selected a product or products to export, it is necessary to develop an export plan and strategy to sell the product(s) overseas. This stage requires researching prospective overseas markets for your products and selecting markets to target. Again, this guide is not intended to lay out the steps necessary to develop an export plan and strategy, but rather to set up an export/import company.

The Massachusetts Export Center's International Business Plan Workbook should be thoughtfully completed to properly establish an export plan and strategy.

A. Market Research

A number of areas must be thoroughly researched to properly target overseas markets. Some of these areas are listed below. Note that within these categories are several items that should be researched:

- 👉 Export Controls / Licensing Requirements
- 👉 Demographic Factors
- 👉 Political Factors

- 👉 Economic Factors
- 👉 Social / Cultural Issues
- 👉 Market Access Issues
- 👉 Product Potential
- 👉 Local Distribution, Marketing and Production Practices

There are a number of different resources that can provide access to market research, including: The Massachusetts Export Center; the U.S. Export Assistance Center; trade associations; and trade journals.

B. Target Market Identification and Selection

When initially seeking to explore overseas markets, it can be overwhelming to determine which markets to target first. For this reason, it makes sense to narrow your initial search to five or fewer markets. Once it becomes evident which markets offer the most promise, the search can be narrowed further to the one or two markets that will be the focus of your marketing efforts. Keep in mind that market potential should be balanced with your comfort level of doing business in a particular country. Markets that offer a combination of potential and ease of access should be targeted first. Again, the Massachusetts Export Center's International Business Plan Workbook can help you narrow down target markets.

3. FINDING OVERSEAS BUYERS OR PARTNERS

Finding the best possible overseas customers or partners is essential to the success of your company. Although many trading companies work on a "one-shot" deal basis, often the best way of achieving long-term success is by finding partners who will provide you with a steady stream of business. Such partners often come in the form of overseas agents or distributors.

A. Choosing a Method of Market Entry in Your Primary Target Market(s)

Once you have selected your primary target market, the next step is to determine your method of market entry, or what kind of partner/customer you will seek. Generally, a good rule of thumb is to go with the option that is the standard practice for other similar products being sold in your target market. Here are some definitions of the most common types of market entry options for EMCs or trading companies (note that there are other options not listed here for manufacturers):

- 👉 *Agent: A foreign sales agent is the equivalent of a U.S. manufacturer's representative. The agent solicits sales orders in its country on a commissioned basis.*
- 👉 *Distributor: Overseas distributors purchase the product from the exporter (taking title to the goods) and resell it for a profit.*
- 👉 *Value-Added Reseller (VAR): A VAR purchases products from the exporter, adds some form of "value" (e.g., installing imported components into a finished product), and sells the finished product for a profit.*
- 👉 *Direct to Retailers or End-Users: In some cases where the customer base in a target market may be small, as in the case of some specialty consumer products, it might make sense to sell directly to retailers or end users.*

B. Selecting/Identifying Overseas Partners or Buyers

There are a number of ways to identify prospective overseas partners or customers. The Massachusetts Export Center can help guide you through this process. Listed below are some ways of identifying prospective partners. Call the Massachusetts Export Center for further explanation of any of these options:

- 👉 Listings compiled through U.S. embassy & Massachusetts office network overseas (Mass Export Center & U.S. Export Assistance Center)
- 👉 Agent/Distributor Service (U.S. Export Assistance Center)

- 👉 Tailored Itineraries During Visit to Market (U.S. Export Assistance Center, Mass Export Center)
- 👉 Trade Missions / Trade Shows (Mass Export Center, U.S. Export Assistance Center)
- 👉 Visiting International Business Delegations (Mass Export Center)
- 👉 Placing Classified Ads in Overseas Industry Trade Journals (journal listings available through Mass Export Center)
- 👉 U.S. and Overseas Industry Trade Associations

To select the best possible partner, a great deal of research and effort is required. Many trading company and EMC startups are fortunate in that they already have existing partners in place (e.g., someone might want to start a trading company specializing in doing business with China because he/she might have family, friends or existing contacts there). If you do not have partners in place, however, you will need to do some homework.

You will want to make certain that your partner already has experience in your industry. For example, if you are selling high-end women's skirts to the UK, you will want to make sure that your partner already has experience in selling high-end apparel and has well-established sales channels into high-end apparel retailers in the UK. Since you do not want to compete with your prospective partner's existing product line, you might want to make sure that the partner does not already carry high-end women's skirts, but perhaps other high-end apparel items, such as women's jackets and pants. In sum, you want to make sure that your partner will be a good "fit" with your needs, and toward this end, conduct careful research and investigation before making a final selection.

4. THE EXPORT TRANSACTION

At this stage in the process, it is crucial to have developed relationships with private sector export service providers, such as international banks and freight forwarders. It is also important to carefully calculate your export pricing strategy to ensure a healthy profit margin – unforeseen export costs can quickly turn your profit margin into a net loss.

A. International Banks / Payment Terms

Whether exporting or importing, it is important to establish a relationship with a bank that can offer full-service international trade support. These services include: international letters of credit and collections; trade financing; foreign exchange services; overseas credit investigations; and credit assistance for foreign buyers. When exporting, there are several ways in which payment may be made that vary the risk to you, the seller. The payment method you choose may depend on how familiar you are with the customer. For instance, if you know your foreign buyer has good credit, an open account may be satisfactory. Payment methods and risk are associated as shown below:

Low Risk

High Risk

| | | | | |
|---|-----------------|-----------------------------|------------------------|--------------|
| — | | | | |
| | Cash in Advance | Commercial Letter of Credit | Documentary Collection | Open Account |

The Massachusetts Export Center or your international bank can help explain the various international payment methods to you. The Export Center can also provide referrals to the international trade services departments of banks in Massachusetts.

B. Freight Forwarders / Shipping Terms

In most cases, freight forwarders are essential to the smooth operation of the export transaction. Freight forwarders arrange for transportation of your merchandise from a specified shipping point in the U.S. to a foreign port or to your customer's location overseas, depending upon which shipping terms are agreed to between you and your customer. Your freight forwarder or the Massachusetts Export Center can explain the meanings of the various shipping terms, which specify degrees of shipment responsibility between you and your customer. For example, "F.O.B. (free on board) Boston" would indicate that you are responsible for getting the goods onto the exporting vessel at the Port of Boston. Your customer is responsible for the goods thereafter. On the other hand, "C.I.F. (cost, insurance & freight) Rotterdam" would indicate that you are responsible for the safe shipment of the goods, including insurance, to the Port of Rotterdam.

Freight forwarders make their money on the transportation itself -- they buy high volume space (from airlines, ocean shipping lines, etc.) at a low cost and then resell that space to an exporting company. A freight forwarder can handle not only the shipment of your product, but also the following: export licensing; export documentation; letter of credit documentation; export packaging; customs clearance arrangements; inland freight; warehouse/storage requirements; and cargo insurance.

The Massachusetts Export Center can provide referrals to the many freight forwarders in Massachusetts.

V IMPORTING

Although the primary focus of this guide is on exporting, many trading companies will conduct both export and import transactions. When importing, you will come across many of the same issues and requirements as when exporting. It is advisable,

therefore, that you carefully review the "Exporting" section of this guide prior to reading this section, as redundant information will be omitted.

1. SOURCING PRODUCTS FROM OVERSEAS

Although many people setting up trading companies already know which products they will be importing and where to source these products, many trading company startups need to investigate sources of products overseas. As with exporting, it is advisable to have narrowed your focus down to a particular product or industry. Again, a good place to start your investigation is your local library (we highly recommend the Kirstein Business Branch of the Boston Public Library). Below are some resources for sourcing overseas products:

- 👉 U.S.-based trade promotion offices of overseas governments
(Many of these offices are located in New York City, but some are based out of embassies in Washington, D.C. Many of these offices will publish manufacturers directories for their respective countries)
- 👉 American Chambers of Commerce (AmChams) Abroad
(Again, many of these chambers will publish directories)
- 👉 Foreign Chambers of Commerce in the U.S.
- 👉 Kompass Directories

- 👉 World Wide Web
(Many directory sites have searchable databases of manufacturers. Use the Mass Export Center's links section at www.mass.gov/export.)

2. IMPORT PLAN AND STRATEGY

Just as a plan and strategy are needed when exporting, a plan and strategy are needed when importing.

The research involved when importing, however, can be considerably less, as target markets need not be identified and in many cases, the trading company already has the buyer in place. In addition, specific product research information can often be easier to obtain, simply because the research is being conducted in-country as opposed to abroad, as is the case with exporting.

A. Market Research

Nonetheless, just as in exporting, a number of areas must be thoroughly researched to properly

import and market products in the U.S. Some of these areas are listed below. Note that within these categories are several items that should be researched:

- 👉 Import Controls, Tariffs, Non-Tariff Barriers (Quotas, Regulations)
- 👉 Demographic Factors
- 👉 Market Access Issues
- 👉 Product Potential
- 👉 Distribution, Marketing and Production Practices

There are a number of different resources that can provide access to market information when importing, including: U.S. Customs (for tariff & regulatory information); U.S.-based trade promotion offices of overseas governments; U.S. trade associations and trade journals.

3. FINDING BUYERS OR PARTNERS IN THE U.S.

Many trading companies that import into the U.S. already have buyers or partners in place. As with exporting, it is often advisable to develop a long-term relationship with a partner rather than putting together "one-shot" deals.

A. Choosing a Method of Market Entry in the U.S.

The method of market entry you choose when importing into the U.S. depends in large part on the products you will be importing. During the market research stage, you should have researched what the U.S. standard distribution practices are for the product you will be importing. Keep in mind that if you will be selling to another "middleman," the price must still be competitive when it reaches the final customer. Often times, when products go through the hands of multiple "middlemen," the product's price can become prohibitively high. Below are some definitions of the most common types of market entry options for products being imported into the U.S. (note that there are other options not listed here for manufacturers):

- 👉 *Manufacturer's Representative: A manufacturer's rep is the equivalent of a foreign sales agent. The rep will carry a line consisting of different, but complementary, products. The rep solicits sales orders in the U.S. on a commissioned basis.*
- 👉 *Distributor or Wholesaler: A wholesaler/distributor purchases products from manufacturers and resells the products for a profit.*

- ☞ *Value-Added Reseller (VAR): A VAR purchases products, adds some form of "value" (e.g., installing imported components into a finished product), and sells the finished product for a profit.*
- ☞ *Direct to Retailers or End-Users: In some cases where the final distribution point for a product might be limited, it might make sense to sell directly to retailers through buyers or to end users.*

When importing, the same guidelines and selection criteria should be used when selecting a partner/buyer as when exporting.

4. THE IMPORT TRANSACTION

During the import transaction, the same principles apply as exporting, except the transaction is reversed.

A. International Banks / Payment Terms

Whether exporting or importing, it is important to establish a relationship with a bank that can offer full-service international support. These support services are listed in the "Exporting" section of this Guide.

When importing, however, the risk associated with various payment terms is the reciprocal to exporting:

| Low Risk | High Risk |
|----------------|-----------------------------|
| _ Open Account | Documentary Collection |
| | Commercial Letter of Credit |
| | Cash in Advance |

The Massachusetts Export Center or your international bank can help explain the various international payment methods to you. The Export Center can also provide referrals to the international trade services departments of banks in Massachusetts.

B. Freight Forwarders / Shipping Terms

Much of this section is covered in the "Exporting" section of this guide. Again, the Export Center can provide referrals to the many freight forwarders in Massachusetts.

One publication that can be particularly helpful vis a vis shipping into the U.S. is called Importing into the United States, published by U.S. Customs. The book is available through the U.S. Government Printing Office, and a copy can also be requested from the Massachusetts Export Center office. This book provides an excellent jump start on understanding importing and the associated procedures when bringing products into the U.S. Topics include: customs procedures; entry documents; invoicing; freight forwarders; customs brokers; duties; NAFTA and other agreements; classification markings; special requirements; restriction on special classes of merchandise and listing of federal agencies that can provide additional services.