Chapter 13

How to Become "Import Ready"

Whether to become an importer is one of the most consequential decisions a company can make. This chapter lays out critical characteristics and capabilities of most successful grain traders and makes recommendations that will help make your company "import ready."

The following is intended to also assist you in a strategic manner, and to take a company's business activities to the next level of success. A key step will be to create a written strategic plan addressing issues such as growth, expertise, growth, and performance.

While undertaking these efforts does not guarantee import success, experience has shown that their absence greatly increases the chance of failure.

CHARATERISTICS OF A SUCCESSFUL IMPORTER

Companies that regularly procure, purchase or import agricultural commodities from international markets possess certain qualities. An important part of this are the drafting of strategic plans and policies that coordinate and govern their business activities.

The following is a short list of some of the qualities of an "Import-Ready" company:

- A written strategic plan for your company. States why direct importing is the best way to achieve your goals

- Identify the new knowledge, skills, and abilities needed for importing, the cost of acquiring and maintaining those skills, and commitment from ownership/senior management to make those investments.

- Understand the added demands international business activities can place on key resources, including; procurement and purchasing, contracting, accounting, banking, finance, risk management, and strategic decision making across all levels of business activities.

- Realistic expectations regarding return on investment from international and importing activities.

- Flexibility to adjust procurement inputs and service requirements and prices and markets change.

- A willingness to work with not only internationally based commercial companies and suppliers, but with government export promotion agencies.

ASSESSING YOUR COMPANY'S IMPORTING READINESS

Answering the following questions about importing and international procurement will help to clarify the firm's commercial objectives and assist in determining the company's export readiness:

- ***What does your company want to achieve or gain from importing agricultural products?***

- ***Is importing consistent with the company's strategic goals and objective?***

- ***At what point in the supply chain is it most advantageous for the company to engage the market in its procurement and purchasing activities; i.e. FOB, C&F, CIF, etc…?***

- ***What demands will procuring and purchasing agricultural inputs from international markets place on your company's key resources, management and personnel, production capacity, and financing; and, how will these demands be met?***

- ***Are the expected additional benefits worth the additional costs, or would company resources be better deployed elsewhere; i.e., what are the opportunity costs of becoming import ready?***

Establishing Long-Term Objectives: Engaging in international trade requires a company to set long term goals and develop broader market awareness. Building an informed, robust import strategy will focus attention where it should be- on expanding your business over the long term and not to just on one-off short-term returns.

Increased Competitiveness: By expanding the company's procurement and purchasing activities into international markets, the company will can gain insights into market dynamics and differing ways of doing business.

The additional exposure to diverse business expertise and unique technology is likely improve the efficiency of the current business activities, as well as the quality of the final product being produced.

This process may also reveal a company's constraints and weaknesses that may also be addressed at this time.

- Opportunity to improve the return on investment. Your company should seek multiple benefits from importing, such as expanded customer networks, the ability to leverage seasonal and quality opportunities offered through multiple suppliers, as well as exposure to new ideas and technology.

- Increased capabilities with the opportunity to develop better products and services, acquire better leadership abilities, and collaborate better with suppliers and customers.

Organizational factors include:

- **Management Commitment –** Total backing from management is the number one determining factor of export success.

- **Incorporation into Company Structure –** It is import to understand that an Importing Plan is a subordinate component of a company's procurement and purchasing plan and strategy.

  Similarly, both importing activities, as well and procurement and purchasing activities will be governed by an overarching company Risk Management Policy. A Risk Management Policy establishes:

  - Operational Structure – The division of responsibilities between Front Office, Logistics, Back Office, Middle Office and Management.

  - Activity Authorization – which delegates the scope of activities and authorizations individuals and delegated positions retain.

    - Risk Management Policy considerations – Establishes Position and Risk Limits, within which a company's business activities must be maintained.

- **Funding and Financial Support** – Management must be willing to allocate sufficient time, enough resources, and an adequate budget for export activities.

- **Human Resources** – Broadening staff expertise and commitment, as well as securing human resources with international experience or having staff learn about your target market's language and culture will help you better engage the procurement of agricultural inputs from the international marketplace.

- **Goals and Objectives** – Clearly defining the company's goals and objectives will help in consider whether the expected benefits of importing outweigh the costs.

DEVLOPING AN IMPORTING PLAN

The purpose of an Importing Plan is to:

- Accumulate facts, assess constraints, and review company goals and objectives.

- Determine how importing activities will be an integral component of procurement and purchasing.

- Create an action list that takes all noted elements into account.

A key benefit of this planning process will be to develop a broad consensus among company owners and key management of the company's strategic goals, objectives, capabilities, and constraints.

In addition, because they will ultimately be responsible for its successful implementation and execution, the personnel involved in the procurement, purchasing, and importing logistical process should come to a consensus on all aspects of the plan. However, in the early stages of planning it may be just a few select people within the organization.

The plan should include specific objectives, sets forth timeline and schedule for implementation, and note key milestones along the way so that a degree of success can be measured.

Through this initial planning stage these 12 questions should be asked:

1. Which products or material input will be selected to be part of the Import, Procurement and Purchasing Plan?

2. Is an import or export license or other statutory requirements needed?

3. Which countries of origin should be targeted for sourcing?

4. What are supplier profiles, both locally and internationally in each country or origin; along with the marketing and supply chain channels that will be utilized by each supplier?

5. What special challenges or limitations that may arise for each supplier and/or country of origin: (for example, available volumes, product quality differences, competitive environment, cultural differences, domicile risks, and import and/or export controls).

6. What strategic business practices will be used to address these issues; i.e. domicile risk, terms of trade, point of transaction - FOB, C&F, CIF, etc…?

7. At what point in the supply chain is the company going to engage the market: (for example, FOB, C&F, CIF, etc…)?

8. How will the price of your product requirements be determined?

9. What specific operational steps must be taken to implement the plan and when will they be taken by…?

10. What will be the time frame for implementing each element or step of the plan?

11. What personnel and company resources will be required and dedicated to importing, procurement and purchasing: (for example, Front Office, Logistics, Back Office, Accounting and Administration, Management…)?

12. What will be the additional cost in time and money for each element?

13. What will be the additional expected revenue generated for each element?

14. What will be the expected net benefit to the company and how will results be evaluated and used to modify the business activities and plan going forward?

Objectives in the plan should be measurable and comparable with the actual results achieved on a periodic basis in order to measure progress along the established timeline and the success of differing strategies.

Keep in mind the plan is there to serve the company. Management should not hesitate to modify the plan and make it more specific as new information and experience are gained.

It is strongly suggested the initial effort in developing an importing, plan should be kept simple. It need be only a few pages to start. The process of creating a simple plan will generate additional questions or define areas of additional information that may be needed. In addition, important market data and planning elements may not yet be readily available.

As the initial planning effort gradually generates more information and insight, the exercise itself, and the experience gained through the process, will provide strategic insight into the company's competitive position in the market. Over time the plan will evolve and become more and detailed as you gain experience. The importing plan and the strategic procurement and purchasing plan will become increasingly integrated.

BENEFITS OF AN IMPORTING PLAN

From the beginning, the import, procurement and purchasing plan should be drafted and viewed as a flexible management tool. Importing should be a component of your Procurement and Purchasing Strategy, and also comply with the company's Risk Management Policy.

The plan should not be a static document, but dynamic, evolving with the growth in the company's activities and the dynamics of the underlying market. Without a coordinated plan, the business may overlook significant opportunities that can add to the bottom line and improve the internal rate of return.

A detailed more plan is recommended for companies that intend to import directly, meaning to purchase directly from a supplier domiciled in another country. If the company chooses to procure and purchase imported products indirectly, a much simpler plan is likely to be required.

In addition, reactive importing and procurement may too quickly see purchasing opportunities from international suppliers abandoned too soon, concluding that it's not worth the extra effort.

Doing the hard initial work and strategically deciding how to develop and grow the business increases the likelihood of using resources wisely, selecting the best alternative to remain competitive and to continue to grow the business.

There are a number of benefits that can be achieved from the development of a coordinated importing plan.

- A written plan will assist in identifying strengths and weaknesses more clearly, and that will need to be addresses to achieve success.

- A written plan communicates the company's agreed strategic goals and objectives, as well as the steps that are to be taken, throughout the company's key personnel. It also helps to assure that key details are less likely to be overlooked or forgotten.

- A written importing plan will communicate how these activities will complement the company's procurement and purchasing strategies.

- A written plan is likely to be required when seeking additional financing or investment needed to facilitate an active procurement and merchandising program.

- A written plan assigns operational responsibilities to key members of the management team and keep everyone on track, providing ways that results and success will be measured.

- A written plan allows for the articulation of initial assumptions about the business and the existing market environment. This will inevitably lead to additional new insights and better future planning and results.

- A written plan will provide a clear understanding of specific steps to be taken and help assure management's long-term commitment to the new strategic direction

- A written plan will assist in keeping the focus of business activities in line with the strategic priorities of the business leadership.

SENIOR MANAGEMENT ISSUES TO BE CONSIDERED

The following is a list of suggested issues that need to be considered by senior management when addressing importing, procurement and purchasing activities of a company. Each point and its impact on the business should be considered in depth.

It is imperative to note here that changes to a company's business activities from importing activities are likely to have a significant on the business's risk profile. As such, it is strongly suggested that a thorough review of the company's Risk Management Policy, along with established risk limits and credit limits reviewed.

Management Goals and Objectives

When initially considering or reviewing a plan it is important to clearly define what the overriding company's goals and objects are that will be driving these related business activities.

- What are the business reasons for pursuing supplies imported from international markets?

  Are these solid business objectives, such as: reducing costs and/or securing supplies of required inputs, increasing production capacity, developing a broader and more stable customer base; or, are they and excuse for frivolous activities, (for example, the owner wants an excuse to travel)?

- How committed is top management to a coordinated effort in importing, procurement and purchasing activities?

  Is importing view as a "quick fix" to rising input costs, or is it to be a long-term change in core business activities?

- What are management's expectations?

  How quickly does management expect importing activities to become self-sustaining, or generate a reasonable rate of return?

  Are these activities to be set up as an integrated business activity or separate business unit? And, if so, what is management's expectation on the level of return on investment?

Experience

Within a company's most valued assets of human resource there will exist a reservoir of experience and organizational memory. This will be an important resource to call upon when developing any plan. This process also helps to develop ownership of the strategic decisions the company is making by key management and staff.

If internal resources appear to be insufficient to meet the task, do not hesitate to engage external parties or consultants to who have greater depth of understanding of the issues the company are about to address.

- Is the trend for the business's sale and inquiries for finished product up or down?

  Is there an opportunity to grow the company's total volume of business?

- Who are my competitors and what are they doing?

  Are any of my competitors currently procuring inputs, commodities or products internationally?

  If so, what inputs, commodities or products?

- Which inputs, commodities or products are most likely to be imported, or be part of the business's comprehensive procurement and purchasing strategy?

- With what countries of origin has product been received from or has business already been conducted?

  From what countries have inquiries already been made or received?

- What general and specific lessons have been learned from past attempts or experiences of importing, as well as with procurement and purchasing?

Management and Personnel

When strategically considering the implementation of the plan it will be important to match human resources and their capabilities to the expected future needs that will be required.

- What in-house international expertise does the company have (for example, international procurement and trade experience, as well as language capabilities)?

- What organizational structure is required to ensure that importing, procurement and purchasing activities adequately supported?

- Who will be responsible for the company's importing, procurement and purchasing activities and staff?
  How much senior of management's time should be allocated to this activity?

- What measures and key performance indicators are to be used to measure the outcomes and performance of importing, procurement and purchasing activities?

Production Capacity

When strategically considering the implementation of the plan it will be important to match the company's current and expected future capacities to assets and resources that are to be put into place.

- Which inputs, commodities or products are most likely to be imported, or be part of the business's comprehensive procurement and purchasing plan?

- How are the company's current operating capacity likely to be impacted by these changes?

- How will the change in approach impact the costs, available supply and quality of commodities and inputs?

- How will the change in approach impact the company's sales volumes and revenues?

- What are the likely impacts on the fluctuations in the annual workload and labor requirements?

- What minimum quantity order required for each commodity or input product?

- How are these changes likely to impact the company's broader supply chain concerns?

Financial Capacity

When considering the implementation of the plan and its related activities it will be all important consider the additional cash flow and financial requirements that will be required. Frequently it will be limits to financial capacity that will limit importing and related business activities that will be required.

- What amount of additional operating capital, both short term and long term, will be required to successfully engage in the volume of envisioned activities?

- Are there any anticipated start-up cost; and, how are these initial costs and expenses of export efforts to be allocated?

- What level of existing operating costs can be supported by these additional business activities?

- Does the company or any of its anticipated business activities qualify for export financing from government or commercial sources?

- Are there any other new development plans in the works might are likely to compete with funding for these activities?

SAMPLE ELEMANTS AND OUTLINE: IMPORTING PLAN

The following is a suggested outline for drafting Importing, Procurement and Purchasing Plan. Changes should be made as required to best suit the company's situation and business environment.

1 Introduction: Why this company should directly engage in coordinated importing, procurement and purchasing activities

2 Commitment Statement

3 Situation or Background Analysis

- Commodities and Input Products to be Included
  - Product License (if needed)
  - Product Export / Import Control Compliance
  - Product Classification(s)
  - Products That Qualify Under FTAs
- Operational Requirements
- Personnel and Expertise Requirements
- Current resources Inside the company
- Resources Outside the Company
- Industry Structure, Competition, and Demand

4 Marketing Component

- Identifying, Evaluating, and Selecting Markets
- Product Selection and Pricing
- Supply Chain and Distribution Methods
- Transactional Terms and Conditions
- Sales Goals (Profit and Loss Forecasts)
- Pricing Including Consideration of Duties, Taxes, Freight Costs, and Logistics

5 Tactics and Actions

- Primary Target Commodities, Products and Countries
- Secondary Target Commodities, Products and Countries
- Indirect Marketing Efforts
- Monthly / Quarterly Benchmarks, Measures and Accomplishments

6 Internal Organization and Procedures

- Management

- Front Office
- Logistics and Operations
- Back Office
- Accounting and Finance
- Risk Management Policies

7 Projected Budget

- Additional Human Resources
- Other Anticipated Expenses
  - Marketing Materials
  - Travel and Trade Visits
  - IT and Website Enhancements
  - Other Costs
- Pro-forma Financial Statements
  - Projected Cash Flow
  - Projected Income State
  - Projected Balance Sheet Impacts

8 Implementation Schedule

- Initial Implementation Timeline
- Action Dates and Follow-up Dates
- Periodic Operational and Management Review
  (Measuring Results against the Plan)

9 Addendum: Supporting Background Information

- Basic Market Statistics
  (Historical and Projected)
- Background Facts
- Competitive Environment

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