Preparing Your Business for Global E-Commerce

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A Guide for Online Retailers to Manage Operations, Inventory, and Payment Issues
Preparing Your Business for Global E-Commerce

A Guide for Online Retailers to Manage Operations, Inventory, and Payment Issues

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About the U.S. Commercial Service
The U.S. Commercial Service—the trade-promotion arm of the U.S. Department of Commerce's International Trade Administration—helps U.S. companies succeed in markets around the world. Whether you want to make your first export sale or expand into additional international markets, we offer the trade counseling, market intelligence, business matchmaking, advocacy, and commercial diplomacy you need to connect with lucrative business opportunities. Located across the United States and in U.S. embassies and consulates in nearly 80 countries, our global network of trade professionals helps thousands of U.S. companies enter international markets in the most efficient, targeted way and export goods and services worth billions of dollars every year. Learn more at trade.gov/cs.
Table of Contents

Introduction ................................................................. 1

Chapter 1: Collecting Product Information ............. 3
   Collecting Product Information: Introduction .......... 4
   HS Codes: Overview ...................................................... 5
   Harmonized Commodity Description and Coding System (HS) and Schedule B Numbers ............. 6
   The Schedule B Book .................................................... 7
   Why You Need to Know Your Product’s Schedule B Code .... 7
   General Rules of Interpretation .................................... 8
   How to Identify Your Product’s Schedule B Code .... 9
   Multiple Items Shipped as a Set ................................. 10
   Special Circumstances:
      Textiles/Apparel Shipped as a Set ...................... 11
   Tips for Your Business Strategy: HS Codes .............. 12

Chapter 2: Country of Origin .................................. 17
   Country of Origin: Introduction ............................... 18
   Why Do You Need to Specify Country of Origin? ........ 19
   Strategies for Determining Your Product’s Country of Origin .................................................. 20
   Free-Trade Agreements .............................................. 22
   Country-of-Origin Documentation ............................ 23

Case Study: Bass Pro, Inc. .................................... 24

Chapter 3: Export Controls ....................................... 27
   Export Controls: Introduction .................................... 28
   Export Administration Regulations (EAR) and the Bureau of Industry and Security (BIS) ....... 29
   International Traffic in Arms Regulations (ITAR) ......... 31
   Denied Persons or Entities ............................................. 32

Case Study: Dultmeier Sales LLC .............................. 33

Chapter 4: Ordering and Payment ............................. 35
   Ordering and Payment: Introduction ......................... 36
   Collecting Order Information ...................................... 37
   Payment Options for Your International Customers .... 38
   The Culture of Online Fraud ........................................ 39
   Chargebacks ............................................................... 40
   Ways to Minimize the Risk of Fraud ......................... 41
   Terms to Offer Customers ............................................. 43
   Introduction to Tariffs and Taxes ............................... 45
   Managing Customer Expectations on Tariffs and Taxes ............................................................... 45
   Delivery Methods: Advantages and Disadvantages .... 46
   How to Calculate Tariffs ............................................. 47
   Real Time Calculation for Clients ............................ 48
   Your Customs Broker .................................................. 50
   Technology Costs/Ongoing Review ......................... 50
   Third Party Assistance ............................................... 51

Case Study: Red Rocket Hobbies ......................... 52

Chapter 5: Shipping and Returns .............................. 55
   Shipping Methods: Introduction ............................... 56
   Setting Rates ............................................................... 57
   Choosing a Provider .................................................... 58
   Tracking ................................................................. 58
   Communicating With Buyers: Returns .................. 59
   Insurance ................................................................. 60
   Extra Fees ................................................................. 60
   Terms and Conditions .............................................. 61
   Automated Export System (AES) ............................ 62

Case Study: Bakers Shoes .................................. 63

Chapter 6: Ready to Sell .......................................... 65
   Final Thoughts .......................................................... 66

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Introduction

You’ve decided to start selling your products globally. Now you have an opportunity to market and sell them to the 95 percent of the world’s population that lives outside the United States. But new opportunities bring new responsibilities—in this case complying with regulations, collecting additional information about your product, and managing new risks. Don’t be discouraged. Thousands of small and medium-sized companies are thriving in the global marketplace.

This manual explains the information you’ll need to complete international sales and how to integrate that information into your business operations from the very beginning of the sales-and-fulfillment process. This manual draws on the experiences of businesses that are now exporting throughout the world; we’ve included their stories as case studies to help you export successfully.

Retailers that sell online or via other consumer-direct platforms, such as phone or mail, to international customers will find this manual helpful, as will retailers that plan to fulfill several international orders daily or weekly.

We’ll explore the steps you’ll need to take to prepare your business for going global, both in terms of operations and sales fulfillment. Before beginning these tasks, however, your business should conduct the proper steps for developing a new market or territory, such as creating a market-development plan, allocating proper resources, and ensuring senior-management buy-in. The U.S. Commercial Service offers one-on-one business consulting to help walk you through the process of developing an export plan; visit buyusa.gov to find your local branch.
Chapter 1
Collecting Product Information
Collecting Product Information: Introduction

When exporting products, you almost always have to provide more information to government agencies and shipping companies than you would when selling domestically. This information is transmitted in certificates of origin, commercial invoices, packing slips, and special export-reporting systems. Later, we’ll discuss those documents and systems. In this section, we’ll take a look at the information you need to complete those documents, and suggest strategies for collecting and storing it.

The first topic is product classification. The information is complex, but don’t be put off—it will help answer specific questions you may have as you classify your products, and classifying them will become much easier as you get the hang of it. For now, you need to understand only the basic concept behind product classification and review the strategies to help you classify your products. If you have specific questions later, you can always refer back to this manual.
HS Codes: Overview

Every imported or exported item is assigned a classification code that corresponds to its product type. These numerical codes are used for statistic-gathering purposes by countries worldwide; they also determine which tariffs, if any, will be applied to the product. In addition, exporters are legally required, under the Foreign Trade Regulations, to include the correct classification code on export documentation.

All import and export codes used by the United States are based on the Harmonized Commodity Description and Coding System (HS). Virtually all countries base their tariff schedules on this system, making it easier to conduct international trade.

The HS assigns a specific six-digit code to classify all products or commodities. Countries that use the HS are allowed to create longer codes in addition to the first six digits so they can classify their products in more detail.

For example, the United States uses 10-digit codes to classify products. The first six digits are the HS number. This HS number will be the start of that product’s classification code regardless of which country is classifying it or how many digits that country adds when creating its own product-classification codes.

The last four digits are unique to the U.S. and more specifically classify the product. This entire 10-digit code is known as a Schedule B code. Schedule B codes are administered by the U.S. Census Bureau, and are important to know when exporting. Each country may append its own country-specific digit to the end of the HS number.

Duties, Tariffs, and Taxes

The terms duty and tariff can be used interchangeably—both refer to taxes levied by governments on items imported into their countries. In this book, we will simply use the word tariff wherever possible.

Countries, states, provinces, and other localities levy many types of taxes, including sales taxes, value added taxes, etc. These taxes usually apply to all commercial transactions, not just imports. We’ll refer to these as “taxes” throughout the book.
Harmonized Commodity Description and Coding System (HS) and Schedule B Numbers

Harmonized Commodity Description and Coding System (HS) codes are used to classify products for customs purposes. As noted above, every product is assigned a multidigit classification number, the first six digits of which are uniform among countries that use the HS (most countries add a few more digits to classify the product with greater specificity, but the first six can’t be changed). To determine a tariff rate, the exporter needs to know the complete product classification code used by the importing country—that is, the HS code plus whatever country-specific digits are added. Those extra digits are not required on export documentation. The U.S. exporter can either write the six-digit HS code on the commercial invoice and allow the foreign customs broker to fill in the additional digits when the product arrives in the destination country, or study that country’s tariff schedule and classify the product with the country’s expanded number. (Calculating these tariffs is discussed in the “Tariffs and Taxes” section of Chapter 4.)

As mentioned above, the United States uses Schedule B numbers that are used to classify products for export and are based on the international HS system. The first six digits of a product’s HS number, Schedule B number, and country-of-import classification code will be identical; the remaining digits (usually three or four) will vary according to each country’s tariff schedule.

To better understand these similarities and differences, let’s consider how the United States and Japan classify a given product, in this case a man’s overcoat, made of wool and with a fur-lined hood. In the U.S., the Schedule B number is 6201.11.0000; in Japan, where overcoats with fur are distinguished from those without, the number is 6201.11.100. Both numbers start with the same six “harmonized” digits, but Japan adds only three, not the additional four seen in the Schedule B number. These differences in classification can make a big difference: Overcoats with fur are taxed at 12.8 percent, whereas overcoats without are taxed at 9.1 percent.
The Schedule B Book

All Schedule B codes are contained in the book The Schedule B: Statistical Classification of Domestic and Foreign Commodities Exported from the United States, which can be ordered from the Government Printing Office; call (202) 512-1800 (its stock number is 903-009-00000-4). The CD-ROM version can also be purchased from the Census Bureau; call (301) 457-1086.

The book is also available on the Census Bureau website, www.census.gov/foreign-trade/schedules/b. The book contains several introductory sections followed by 98 chapters. Each chapter groups products logically based on materials or use; for example, Chapter 22 classifies “Beverages, Spirits and Vinegar” and Chapter 69 classifies “Ceramic Products.” Each chapter contains Chapter Notes and Statistical Notes—which must be read to ensure proper classification—followed by all the Schedule B codes for that particular category.

Schedule B codes are composed of 10 digits. The first 2 digits indicate the “chapter,” the first 4 digits taken together are the “heading,” the first 5 digits are the “subheading,” and the full 10 digits are the “product code.”

The Introduction section of the book provides an excellent overview of the book’s structure and should be read in its entirety.

Why You Need to Know Your Product’s Schedule B and HS Codes

Exporters need to know their product’s Schedule B and HS codes so they can:

• Determine applicable import tariff rates and determine whether a product qualifies for a preferential, or lower, tariff under a free-trade agreement;

• Complete the many required shipping documents, including commercial invoices, certificates of origin, and other documents; and

• Comply with U.S. law, where applicable.
General Rules of Interpretation

Now that you know what HS and Schedule B codes are, we’ll discuss them in more detail.

Sometimes determining a Schedule B code is easy; other times, classifying a product requires a very detailed look at the rules that govern the Schedule B classification system. The introduction to the book containing all Schedule B numbers lists these rules, as well as general guidelines for finding Schedule B codes.

The steps for determining your product’s code follow the principles detailed in the General Rules of Interpretation (GRI), which are found in the Introduction to the Schedule B book. Before attempting to classify your products, you should read the entire Introduction to the Schedule B book; it describes how the GRI is used in conjunction with Chapter Notes to determine the correct code, plus it defines key terms. For more specific instructions, review the video resources noted in this chapter.
How to Identify Your Product’s Schedule B Code

You need to determine the Schedule B code for each item you plan to export. Modifying your inventory system—adding a field for each product’s Schedule B code—will simplify your export process because you’ll have ready access to the relevant Schedule B codes when completing requisite export documentation (we discuss this in subsequent chapters). The Census Bureau offers a free, and widely used, online Schedule B search tool (www.census.gov/foreign-trade/schedules/b) that can help you classify your products. The Schedule B search tool is the most commonly used method for classifying products. Simply follow the easy on-screen instructions to find the appropriate code for your product. To learn more about the Schedule B search engine, visit the Census Bureau’s Frequently Asked Questions Web page (www.census.gov/foreign-trade/faq).

If you still can’t find the Schedule B code you need, consult a commodity specialist at the U.S. Census Bureau Foreign Trade Division:

- For durable goods (metals, machinery, computers, electronics, and other miscellaneous goods), call (301) 763-3259;

- For nondurable goods (food, animal, wood, paper, mineral, chemical, and textile goods), call (301) 763-3484.

Your local Export Assistance Center or the Trade Information Center can help you identify the appropriate HS and Schedule B codes; call them at 800-USA-TRADE.

If your product is difficult to classify, the Customs Rulings Online Search System (CROSS) database can help you find its Schedule B code. CROSS contains official, legally binding rulings from other exporters’ and importers’ requests for Schedule B codes. Use this database to see whether other exporters or importers requested a ruling on the same or a similar product and, if so, what that ruling was. The CROSS database is found at rulings.customs.gov.
Multiple Items Shipped as a Set

The third General Rule of Interpretation addresses composite goods, mixtures, and items that are sold in a set. Let’s consider the example of an unassembled bicycle sold in a box containing the bicycle frame, handlebars, pedals, and seat. On official documentation, this product would be classified as a bicycle (because the item is sold as one unit), not as several different components. However, some sets are harder to classify. The GRI has established a three-step process for determining the Schedule B code in such situations; the introduction to the official Schedule B publication contains the relevant passage:

3(a) The heading that provides the most specific description shall be preferred to headings providing a more general description. However, when two or more headings each refer to parts only of the materials or substances contained in mixed or composite goods or to parts only of the items in a set put up for retail sale, those headings are to be regarded as equally specific in relation to those goods, even if one of them gives a more complete or precise description of the goods.

3(b) Mixtures, composite goods consisting of different materials or made up of different components, and goods put up in sets for retail sale, which cannot be classified by reference to 3(a), shall be classified as if they consisted of the material or component that gives them their essential character, insofar as this criterion is applicable.

3(c) When goods cannot be classified by reference to 3(a) or 3(b), they shall be classified under the heading that occurs last in numerical order among those that equally merit consideration.

Source: Introduction, Schedule B: Statistical Classification of Domestic and Foreign Commodities Exported from the United States
**Special Circumstances: Textiles/Apparel Shipped as a Set**

The rules that govern Schedule B codes for textiles and apparel sets are unique. Let’s say that Company X sells a set consisting of a hat, a top, and a pair of pants. According to the GRI passage excerpted above, a set should be classified under one Schedule B code. However, textiles are treated differently, as seen in Chapter 50, Note 14:

> Unless the context otherwise requires, textile garments of different headings are to be classified in their own headings even if put up in sets for retail sale. For the purposes of this note, the expression "textile garments" means garments of heading 6101 to 6114 and headings 6201 to 6211. (Note: These heading numbers include most articles of clothing.)

Therefore, if the top and the pants are primarily composed of textiles with different headings (i.e., the first four digits of the Schedule B number), then each item in the set must be listed separately under its own product classification. In our example above, export documentation must list the top, pants, and hat under separate product codes.

Many countries and regions, including Canada and the EU, apply these atypical rules to textiles.
Tips for Your Business Strategy: HS Codes

Determining the HS and Schedule B codes for your products can be complicated, depending on how many you have and how diverse your product line is. The strategies below can help you simplify the product-classification process.

**Personnel**

Classifying products becomes easier with experience. It requires specialized knowledge, so you should choose a few capable employees who will undergo training and then be responsible for assigning HS and Schedule B numbers to your product line. Training several product-classification “experts” is a good idea—that way, you’ll be covered in the event of one expert’s prolonged absence or departure.

When deciding which employees are good candidates for that training, consider these factors:

1. Likelihood of long-term employment;

2. Knowledge of product components and materials/ingredients; and

3. Access to inventory-management software.
Working With Your Suppliers
If you need to classify a large number of products, asking your suppliers to provide HS and/or Schedule B numbers could save you time. If you resell products that you purchased wholesale, your suppliers may have already classified them, especially if those suppliers have exported or imported them in the past. If you’re reselling products imported from an international supplier, then the shipping documentation probably lists the HS number and may contain the full Schedule B number. Keep in mind that modifying the product may change its classification.

Always remember, though, that you, the exporter, are responsible for correct reporting to the U.S. government, regardless of any classification that your supplier may suggest. This is an important consideration in determining if you should simply accept your supplier’s suggested Schedule B numbers. Some additional suggestions for using your supplier’s codes are:

- Use them as a guide for directing you to the approximate location of the code in the Schedule B book and use your own analysis to determine which code you will use; or

- Conduct your own product classification and use the supplier’s codes as a “double-check” of your work.
Top Sellers

If your company has thousands of items in its inventory, you may not need to classify all of them, especially if you’re just beginning the classification process. Remember, you only need to assign a Schedule B code to items that will actually be exported. If you plan to sell only some, rather than all, of your items to international clients, or if you think there is no market outside of the United States for particular products, then classify only the ones you plan to export. Make sure you develop some system to prohibit items that are not classified with a Schedule B number from being shipped internationally. You also might want to stipulate that some products can’t be shipped outside the country because of export controls. For more information, see “Export Controls” (Chapter 3).

Instead, classify your top-selling products first. Use these criteria to decide which to start with:

- Products with a history of international sales, if any;

- Top selling products overall;

- Products you have determined to be the top prospects for international sales; and

- Items in sales materials (e.g., catalogues, your website, etc.) that can be accessed by international customers.
**Grouping**
An additional, time-saving strategy that can be used to classify a large number of products is grouping them by product type. As noted earlier, the Schedule B book is divided into chapters with like products found in the same chapter. For example, Chapter 65 addresses headgear. Grouping all your hats, helmets, and headbands together and classifying them simultaneously according to the information in Chapter 65 would be much easier than constantly jumping from product to product in your portfolio. By focusing on one chapter at a time you will also become much more familiar with the classification codes in the chapter so you can quickly identify the correct code for your products.

**New Products**
Classifying new products just after they’ve been entered in your inventory system should be part of your business process. Train the individuals who enter new products into inventory to look for Schedule B numbers on the documents mentioned above (e.g., commercial invoices, certificates of origin, etc.). Be sure to emphasize that if the employees can’t determine a product’s Schedule B number, they should consult the staff expert(s)—classification is a complex process, and untrained employees who make classification errors can cause problems down the line.

**Worldwide Sales Permission**
If you sell products that you didn’t manufacture, be sure that your distribution agreements allow you to resell the products internationally. Some manufacturers don’t want their products sold internationally, because they are concerned about issues like liability and warranty coverage. If any of the items you offer can’t be sold internationally, there’s no reason to spend time classifying them.
Chapter 2
Country of Origin
Country of Origin: Introduction

As noted in the previous chapter, HS codes are one criterion used to determine the tariff on goods entering a country; country of origin is another. A certificate of origin is an official statement that indicates in which country the product was produced.

Country-of-origin determinations are governed by many rules; in certain circumstances, discerning a product’s origin is difficult. For example, if you import raw plastic pellets but then process them to manufacture a telephone handset in a U.S. facility, is the handset considered to be of U.S. origin? Or, if you import telephone-handset parts but then assemble and paint the finished product in the United States, what is that product’s country of origin?

The answer is: It depends. We’ll discuss why we need to determine country of origin and then discuss strategies for how to do it.
Why Do You Need to Specify Country of Origin?

Trade agreements between countries are formed in order to lower tariffs on items produced in those countries. For example, country A and country B sign a trade agreement that lowers the tariffs on goods produced in those countries to zero percent. Manufacturers now need to certify that their products originated in country A or B in order to get the lower rate. If a product originated in country C, was shipped to country B, and re-shipped to country A, it would not be eligible for the lower tariff because the lower rate only applied to items originating in country A or B.

The United States, Canada, and Mexico are members of the North American Free Trade Agreement (NAFTA), which offers preferential (i.e., lower) tariffs for items produced in those three countries. Canada, for example, wants to ensure that items coming from the United States were actually produced there and not simply shipped there from a non-NAFTA country to be forwarded to Canada. That’s why Canada demands that certificate of origin for all imports, or a specific NAFTA Certificate of Origin for items produced in those three countries.

Every country participates in multiple trade agreements, so each must determine a product’s country of origin in order to apply the appropriate tariff rate. In addition, many countries restrict or have quotas on imports from certain regions, so certificates of origin are also used to ensure compliance with these regulations.
Strategies for Determining Your Product’s Country of Origin

Wholesale Products
If you’re a retailer, not a manufacturer, then determining a product’s country of origin should be fairly simple: Ask the manufacturer to provide that information. The manufacturer will know the source(s) of the product’s raw materials and will have the most accurate information for determining the country of origin; sometimes, the manufacturer is the only one who can determine its country of origin. Obtaining country of origin information can be easy as long as you require the manufacturer to provide this information on every order you make with them.

If the inventory you purchase is imported and shipped directly to you, the country-of-origin information should be noted on the import documentation. In such cases, you can simply enter that information in your inventory-management system. If you use multiple suppliers from different countries—for example, if you’ve been using a supplier from Mexico and then decide to buy from one in Japan—you need to separate your inventory by country of origin, keep all necessary documentation, and make sure that your inventory-management system accurately reflects the country of origin for every item.
**Manufactured Products**

Determining the country of origin of the products you manufacture requires you to identify, assign a value to, and determine the country of origin of every component of your product. You then calculate the value of the foreign parts used in your product as a percentage of the total costs of all components. The resulting percentage can be used to determine from which country your product originates. An alternative method is to indicate the country in which the components underwent the substantial transformation that turned them into the finished product.

The specific calculations and methods used and the way these results are applied vary. Because of this complexity, developing a system for calculating the country of origin of your products is beyond the scope of this book. You must study training materials that specifically address product-origin certification in order to develop a process for calculating the content of your products and to ensure that you’re applying the results correctly.

An excellent place to start is the Department of Commerce export website, [export.gov](http://export.gov). Use the search function on that page and enter “certificate of origin.” Several links, including one for the NAFTA Certificate of Origin, will be especially helpful.

Many government and private organizations provide training on product-origin calculations. Find your local U.S. Export Assistance Center at [buyusa.gov](http://buyusa.gov) and ask for assistance in identifying local training opportunities, or type "certificate of origin training" into an Internet search engine.
Free-Trade Agreements

The United States has negotiated several free-trade agreements under which partner countries give preferential tariff rates to items that originate here; those rates can be as low as zero. A list of U.S. free-trade agreements is found on the website of the U.S. Trade Representative (ustr.gov).

The North American Free Trade Agreement (NAFTA) was created to facilitate tariff-free trade among Canada, Mexico, and the United States; as a result, the United States trades more with these partners than with any others. Under NAFTA, unique origin-determination rules apply; you can find them on export.gov. The site also explains how to comply with the rules of origin (found in Section 401 of the agreement), and how to complete a NAFTA Certificate of Origin.
Country-of-Origin Documentation

Commercial Invoice
The country of origin is listed on two documents used during shipping: the commercial invoice and the certificate of origin. Every shipment must include a commercial invoice that lists the country of origin for each product it contains; the information on that invoice will be used to determine the tariff rates for exports. You can view samples of commercial invoices on export.gov, in the “International Logistics” section.

Certificate of Origin
A certificate of origin is an official document, signed by the exporter, certifying the country of origin for each product contained in the shipment. With lower-value shipments (e.g., those under $1,000) customs officials will accept the country-of-origin information on the commercial invoice. Shippers may want to include a certificate of origin with larger-value shipments to ensure that nothing is held up in customs because of insufficient documentation. You can find sample certificates of origin, including the NAFTA Certificate of Origin, on export.gov, in the “International Logistics” section. Occasionally, a country’s customs authority requests that the certificate of origin be certified by the exporter’s chamber of commerce. If this happens, contact your local chamber for details on obtaining certification. For more information about this process, contact your local U.S. Export Assistance Center (buyusa.gov).

NAFTA Certificate of Origin
NAFTA requires a specific certificate of origin; you should familiarize yourself with it because you’re likely to send goods to either Mexico or Canada. You can find details on how and when to use this document on export.gov. Sometimes a certificate of origin isn’t required, as Shirley Drake of Bass Pro noted (“Case Study,” Chapter 2). If the goods are valued at $1,000 or less, the exporter may simply add an explanatory statement to the commercial invoice. You can find information about such statements on export.gov.
Six years ago, Bass Pro, Inc. hired Shirley Drake to develop and direct its export-compliance program. The company—one of America’s premier outdoor retailers, with retail stores across America and Canada and an online store at basspro.com—wanted to ensure that international sales from its website were fully compliant with U.S. export regulations.

**Business Challenge**

Bass Pro needed to ensure that its operations were as streamlined and efficient as possible. The company has over 90,000 SKUs and fills 800 to 1,200 international orders per week, so the export-compliance process needed to be as automated as possible.

**Approach**

“The first thing we did was develop an internal IT program capable of storing the regulatory information about our products,” Drake explained. The company modified its New Item Set-Up Form, adding fields for Export Control Classification Numbers (ECCNs), HS numbers, country of origin, and NAFTA eligibility, so it could collect the required export information directly from its suppliers. (ECCNs are special numbers used for export licensing purposes which will be discussed in Chapter 3.) “We now require each of our suppliers to provide harmonized codes and country-of-origin information when we order,” Drake said. “Some suppliers are very sophisticated and we accept what they provide us, but with less experienced vendors, we review the information they supply to ensure it’s accurate. In global commerce, you have to know how sophisticated your suppliers are.”

The company ensures that its products comply with export regulations by stipulating that an item cannot be exported until it has been assigned a Schedule B code, an approved ECCN, and a corresponding country of origin, and that an export-compliance associate has approved this information.

If any of that information is missing, the order generates an error code and the products are ineligible for export until the requisite information has been entered or corrected. Also, Bass Pro’s export-system software compares each product’s ECCN to the destination’s country code to determine whether the articles can be shipped to the destination country without an export license. (ECCN and export licenses are discussed in Chapter 3).

If all the information is present and correct, then the company’s automated export system approves the articles for inclusion in an export order. Approved orders then appear on an Order Edit screen. At this time a member of the export-compliance team manually reviews the order to make sure that no errors were keyed into the system and that no items are destined for countries where export is prohibited by the United States.

Once the international order has been approved on the Order Edit screen, the items are processed for shipping.
Bass Pro has also developed a system to annually renew the country of origin for all products eligible for export. This allows them to take advantage of preferential tariff rates stipulated in trade agreements like the North American Free Trade Agreement (NAFTA). This annual renewal process requires Bass Pro to send a communication to suppliers to certify the country of origin of all products they supply. An employee then enters into the inventory management system the origin country and the expiration date of this certification (certifications are usually valid for 12 months).

Bass Pro uses this information to state the appropriate country of origin on the requisite export documentation. A physical Certificate of Origin is not included in shipments, but only when the customer asks for the certificate, or if the item gets held up in customs.

“For shipments to NAFTA countries, low-value shipments (shipments valued at $1,000 or less) don’t require a certificate of origin in order to receive preferential tariff treatment. When Bass Pro exports certain items—its computer system tracks which SKUs are eligible for preferential treatment under NAFTA—a statement is added to the bottom of the commercial invoice noting that NAFTA treatment applies. Usually the statement is accepted in lieu of the certificate,” Drake said.

Details on NAFTA Certificates of Origin and circumstances in which a commercial invoice will suffice are discussed in Chapter 2 (“Country of Origin”).

Bass Pro does outsource some of its export-compliance tasks. All international shipments are processed in real time through a third-party online vendor in order to verify that the buyer is not on any U.S. government lists of parties to whom sales are prohibited.

**Insights**

When asked what advice she’d give to exporters looking to sell products globally, Drake said they should “get the full support of top management because selling internationally involves extra costs, and to be successful you need to spend some money on legal assistance, software changes, training, etc.”

Also, every company should train a compliance associate, who will attend training on Export Administration Regulations and other export controls. It’s essential to stay within the law. And, if your company sells products or technology that fall under International Traffic in Arms Regulations (ITAR), as Bass Pro does, your compliance associate(s) must receive ITAR training.

**Bass Pro and the U.S. Commercial Service**

Shirley Drake and Bass Pro have worked with the U.S. Commercial Service on many exporting issues. Their relationship and the hard work of the entire team at Bass Pro have allowed them to take advantage of international sales opportunities.

The U.S. Commercial Service, recognizing Bass Pro’s global efforts, presented the company with the “Export Achievement Certificate for Recent Accomplishments in the Global Marketplace.”
Export Controls: Introduction

To protect national security, foreign policy, and economic interests, the United States has established regulations that prohibit or limit certain exports. Known as export controls, these regulations also limit transactions with certain individuals, organizations, or countries. Because there are compelling reasons to prohibit certain transactions, the punishments and penalties for noncompliance are severe. This section provides an overview of some export controls; specialized training in each is highly recommended.
Export Administration Regulations (EAR) and the Bureau of Industry and Security (BIS)

Overview
Items with both commercial and military or nuclear proliferation applications are known as “dual-use products,” and they’re licensed by the Bureau of Industry and Security (BIS) of the U.S. Department of Commerce (www.bis.doc.gov). The regulations governing these types of products are found in the Export Administration Regulations (EAR), also found on the BIS website.

Relatively few items require a dual-use export license, but such licenses are required in certain situations involving national security, foreign policy, short supply, nuclear nonproliferation, missile technology, chemical and biological weapons, regional stability, crime control, or concerns about terrorism. An item's technical characteristics, its destination, its end-use and end-user, and other activities of the end-user determine whether a license is required. Before shipping your product, make sure you understand both the concept of dual use and basic export-control regulations.

Training
To learn about the EAR, visit the BIS website, which has videos that explain how to classify your products with an Export Control Classification Number (ECCN). ECCNs are the codes used to classify the products detailed in the EAR. This classification concept is similar to HS and schedule B numbers, but the system used is very different. It’s a good idea to make one of your employees the staff EAR expert, responsible for understanding the EAR and developing a comprehensive export-control policy for your company. In addition to studying the BIS videos, the staff expert should attend specific EAR and export-control seminars. Visit the BIS website or ask your local U.S. Commercial Service office or World Trade Center for information about where to find training.
**Strategy**

Every dual-use item needs a specific ECCN; the BIS website can help you determine the ECCN for your dual-use products. Approach ECCNs as you do HS numbers (Chapter 1): When adding a product to your inventory or reviewing your current product line, ask your suppliers whether they can provide the necessary ECCNs; create a field in your inventory-management system for ECCNs; and add a related field that lists the countries to which export of that product is prohibited by the EAR. If you are obtaining ECCN numbers from your suppliers, work closely with them to understand how they arrived at this ECCN determination. Make sure you are comfortable with their explanation and always double check with your internal expert as you are ultimately held responsible for violations of the EAR, not your supplier. Create as many internal controls as possible to make sure that you don’t inadvertently violate the EAR.

Since the ECCN and any license numbers you receive will need to appear on export documentation, this information should be easily accessible in your inventory-management system. As noted above, all dual-use items require a specific ECCN. Items that are not specified in the EAR under a specific ECCN are classified as "EAR99." Details on EAR99 can be found in the "ECCN Questions and Answers" section of the BIS website.

It’s a good idea to establish a companywide rule that underlines how crucial ECCNs and HS numbers are: If the inventory-management system doesn’t list an ECCN or HS number for a product, then that item is ineligible for international shipping. If possible, adapt your inventory-management software so it flags problematic orders. You need to be especially careful with items that require ECCNs—you don’t want to inadvertently violate export-restriction regulations.
International Traffic in Arms Regulations (ITAR)

The International Traffic in Arms Regulations (ITAR) control the sale of items used for military purposes. If you produce or sell these products, you need to learn about the ITAR. Details can be found on the U.S. Department of State website (pmddtc.state.gov).

Start by finding out whether your products for export (hardware, technical data, and/or defense services) are on the U.S. Munitions List (USML), found in Part 121 of the ITAR. If they are, then explore the ITAR website for complete information on the ITAR, or call your local U.S. Export Assistance Center (you can find contact information on buyusa.gov).

Exporting items on the USML without proper licensing has very serious legal consequences. If you don’t know whether your products are regulated by the ITAR, consult your local U.S. Export Assistance Center.
Denied Persons or Entities

Both the Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury and the Bureau of Industry and Security administer and enforce economic and trade sanctions against certain foreign countries, regimes, companies, and individuals, based on U.S. foreign-policy and national-security goals. Virtually every commercial transaction with any target of OFAC or BIS sanctions is prohibited, no matter what the product; a few exceptions are made in specific circumstances, but those don’t apply to the vast majority of transactions.

Because every product is subject to these regulations, every exporter must be aware of the individual, organizations, and countries on these lists. On the BIS home page (www.bis.doc.gov) you’ll find a link for “Lists to Check.” Check these before completing any international order. Always remember that you’re responsible for ensuring that your company complies with these regulations. If you prefer, you can hire a third-party company to conduct these checks for you in real time, via data transfers with your network. To find such companies, search the Internet for “export-compliance companies.”
Case Study
Dultmeier Sales LLC

Dultmeier Sales, a manufacturer and wholesale stocking distributor with two stocking locations, has been in business since 1934. The company generates significant sales through its website (dultmeier.com) and its credit manager, Kathleen Reynolds, is responsible for handling all aspects of international sales, from setting up new accounts to reviewing shipping documentation. "We’ve been selling online for about eight years; we have more than 50,000 SKUS, and we export everything that we sell domestically, except for items with HAZMAT restrictions," said Reynolds.

Approach
All international orders go through her; she reviews each individually, ensures that the order has been paid for, and then forwards it to shipping. "You learn about a lot of exporting issues through experience, like ensuring that you use only heat-treated or chemically treated pallets, and labeling every box, even if boxes are consolidated on a pallet, because sometimes pallets break apart in the shipping container."

Dultmeier relies on its suppliers to provide much of the information needed for export documentation. However, many suppliers are unaware of HS numbers or NAFTA Certificates of Origin. "You have to use your leverage as a buyer and insist that they get trained on Schedule B, HS, and origin criteria in order to sell to you," Reynolds said. To further minimize documentation problems, Dultmeier has two employees who maintain international data in its inventory-management system.

Dultmeier doesn’t charge different prices for different international markets, but it does charge a handling fee on international orders to recoup the cost of document preparation.

Insights
Reynolds offered some insights based on experience: Be attuned to issues that could arise when exporting textiles, which have highly specific HS code and time-consuming country of origin rules, and always scrutinize terrorist watch lists to make sure that you are not selling to a denied person or entity. She encourages any company that wants to expand its international e-commerce sales to budget time and money for export-requirements training, to develop a good relationship with its local U.S. Commercial Service office, and to encourage its shipping company to help with documentation (or find one that will).
Chapter 4
Ordering and Payment
Ordering and Payment: Introduction

You’ve worked hard to build a marketable product, make your brand recognizable, launch a great website, and create compelling product pages that attract international customers. It’s just as important to devise a sound plan that maximizes payment options for your international buyers while minimizing the risk of online fraud. Also, you want to ensure that you are collecting the appropriate information from your international customers and communicating all the responsibilities that buyers and sellers have in any online transactions.
Collecting Order Information

When you’re ready to sell internationally, make sure that essential customer information doesn’t fall through the cracks. Use these tips to create clear, customer-friendly payment pages:

• Label your fields as clearly as possible and provide alternatives to help customers who don’t speak English (or for whom it’s not the primary language). For example, “First” could be displayed as “First Name/Given Name” and “Last” as “Last/Family Name/Surname”;

• Add a third or even fourth line to the address field to accommodate longer international addresses;

• Add a field for “Country”;

• Insert a “Country Code” field above or to the left of the “Telephone Number” field;

• Ask for “State/Territory/Province” rather than just “State”; and

• Request “ZIP/Postal Code” rather than just “ZIP Code.” Also, if your system uses the “ZIP Code” entry to automatically fill in the “City” and “State” fields, you might want to offer separate fields for “ZIP Code” and “Postal Code”—many other countries use five-digit postal codes, and a postal code keyed into the “ZIP Code” field could gum up the customer’s address.
Payment Options for Your International Customers

Now that you have the customer’s order details and delivery information, it is time to collect payment.

U.S. firms that sell online have most likely accepted payment on credit cards that have been issued by banks in other countries. American Express, Visa, MasterCard, and Discover are the most frequently used payment systems worldwide, both in real and virtual stores. Keep in mind, though, that in some countries other payment methods are just as popular, if not more so. In many European countries, for example, people buying online pay by wire transfer or with country-specific cards, such as Carte Bleue in France. If you have determined that there is a large market for your products in a particular country, you may want to research some of these alternative payment methods to determine if accepting these other payment methods would increase sales.

Another payment option is PayPal, a third-party service that processes payments from customers’ credit cards and bank accounts and forwards you the money in a manner you select. PayPal has become increasingly popular among U.S. firms selling online to foreign buyers. Sellers like it because they don’t assume the risk of collecting the buyer’s payment information and because PayPal, which collects from the buyer’s bank account or credit card, essentially guarantees payment to the seller. PayPal is most popular in North America and Latin America and is gaining popularity worldwide. It doesn’t operate in all countries, but you can find comparable services to fill in the gaps.

Before you enter into an agreement with any of these payment options, find out how each company resolves payment disputes and take that into account when making your decision. In certain instances, a credit card holder can dispute a charge weeks or even months after the seller has received payment.
You’ll also want to consider the costs associated with every payment option. Each has a unique cost structure that will be listed in written agreements. If you are already selling online, discuss with your current bank and payment processor the fees associated with international payments. There are many companies that specialize in processing payments from international customers. To learn more about these companies, type “international online payment” into an Internet search engine.

The Culture of Online Fraud

Accepting online payment, even with established credit cards, exposes the seller to some risk. According to Cybersource’s 2010 11th Annual Online Fraud Report (cybersource.com), U.S. merchants continue to reject three times as many international orders (7.7 percent) as domestic orders (2.4 percent). Merchants reject orders they have reason to believe may be fraudulent. But there is some good news: The same survey notes that actual international e-commerce fraud rates for U.S. merchants fell from a 2008 average of 4.0 percent of total online orders to 2.0 percent in 2009. The drop can be attributed in part to firms that use various methods to safeguard against unauthorized use of credit cards.

Although the trends in online fraud are encouraging, U.S. firms need to continue to be vigilant. This is true especially in countries that used to be considered “safe” for e-commerce retailers. The U.S. Commercial Service has a long history of reports from U.S. exporters about online fraud coming from China and Nigeria, but now fraudulent activity is occurring in places where it was once rare; the U.S. Commercial Service is now receiving complaints about fraudulent activity in Singapore and the Scandinavian countries, among other previously low-risk countries.
Chargebacks

The possibility of incurring chargebacks, the process where the card holder’s issuing bank requests a reversal of charges on behalf of the card holder, is one of the more frustrating aspects of accepting payment online. Weeks, and sometimes months, after having received payment and delivered goods, a U.S. exporter might hear from a credit-card holder or a credit-card firm that wants him to reverse a charge for various reasons, including fraudulent use of the card.

According to Cybersource’s 2010 11th Annual Online Fraud Report, chargebacks account for nearly 50 percent of fraud claims (the other half were claims made by the card holder to the issuing bank, which then issued their own credit on the account). Because of the dollar volume involved in fraud, credit-card firms are playing a more active role in the mediation process on chargebacks. The Cybersource report noted that merchants win about 42 percent of the chargebacks they dispute with credit-card companies.
Ways to Minimize the Risk of Fraud

U.S. exporters can reduce their exposure to credit-card fraud in a number of ways but must keep in mind that each method has limitations.

Use Common Sense: If something seems wrong—for example, if a buyer’s billing and shipping addresses don’t match (especially if the addresses are in different countries)—then scrutinize the order and don’t process it until you’re sure that the credit card being used is legitimate.

Address-Verification System (AVS): Ask your bank how you can ensure that a buyer’s credit card is valid. An AVS—a system used to verify the identity of the person claiming to own the credit card that is available through your credit card processing company—can determine whether the address on a buyer’s credit-card account matches the address the buyer typed into your online order form. An AVS can check information for cardholders in Canada and the U.K., but not elsewhere.

Card Verification Number (CVN): At the time of purchase, many sellers require the customer to enter not only the credit-card number but also a three- or four-digit security code (usually found on the back of the card). In theory, that number is available only to the cardholder, so requiring it helps reduce the incidence of fraud. However, as more sellers require buyers to provide CVNs, it’s likely that savvy crooks will find ways to capture them, thus reducing the CVN’s effectiveness as a fraud-prevention tool.

IP Geolocation: This service that is available from various companies enables a seller to identify a prospective buyer’s geographic location (country, region, ZIP/postal code) based on the IP address of the computer being used. If the country or region of the buyer’s credit-card address doesn’t match that of the IP address, the seller can flag the order and then investigate or reject it. This method is increasing in popularity, particularly among larger exporters. For a list of companies providing this service, type in “IP Geolocation” into your Internet browser.
Background Checks: U.S. exporters—especially those involved in business-to-business (B2B) sales to a foreign agent or distributor that total thousands, possibly millions, of dollars—should conduct background checks on prospective buyers, even if that means taking the payment process offline or placing it on hold. Background checks may include purchasing a credit report on the prospective buyer, calling up references, or other practices. Conducting online due diligence in certain countries can be difficult; information about the company might be published in a language you can’t translate, or the practice of reviewing buyers and sellers online might not have caught on. Several firms can provide financial information about foreign companies, and the U.S. Commercial Service’s International Company Profile can also be of use (export.gov/salesandmarketing). Background checks can be costly and time-consuming, so they should only be used for higher value orders.

Country Exclusions: If your company is small and if you’re just testing the export waters, you might not want to ship to countries where the risk of fraud is high. Just be sure that your site lists those countries; that way, prospective customers won’t waste time building an order that can’t be filled.

Additional Resources: The best resources you have to combat fraud are your bank and the credit card companies themselves. These groups spend millions of dollars to combat credit card fraud and share that information with you in an effort to reduce fraud. You can also visit USA.gov and type in "Internet Fraud" in the search box. This gives you information on how to combat fraud and how to report fraud to the proper legal authorities.
Terms to Offer Customers

Incoterms
When the goods you export arrive at their destination, the importing country requires that all applicable tariffs (import taxes levied by the destination country) and local taxes, including Value Added Taxes (VAT), be paid; many companies make the buyer pay the tariffs and taxes. Buyers typically want to know the final price, with shipping and taxes included (known as the “landed cost”), before they agree to buy, but you might not be able to provide it—tariffs and taxes vary widely throughout the world, so determining those rates before you ship can be difficult. Be clear about your policy on tariffs—specifically, who pays and when payment will be due.

Shippers worldwide use standard trade definitions called Incoterms, which spell out who’s responsible for shipping, insurance, and tariffs on an item; they’re commonly used in international contracts and are protected by International Chamber of Commerce copyright. Familiarize yourself with Incoterms so you can choose the ones that enable you to provide excellent customer service and clearly define who is responsible for what charges. Look for the list of Incoterms on export.gov, in the “International Logistics” section. Also, experts at your local U.S. Export Assistance Center (contact information buyusa.gov) can help you decipher them.

The most common Incoterms are EXW (Ex Works); FOB (Free On Board); CIF (Cost, Insurance and Freight); CPT (Carriage Paid To); DDU (Delivered Duty Unpaid); and DDP (Delivery Duty Paid). Most business-to-business e-commerce agreements will use EXW, CPT, or CIF; most business-to-consumer transactions will use CPT or CIF and, sometimes, DDP. With the exception of DDP, the Incoterms mentioned above require the buyer to pay all tariffs and taxes upon arrival. To make sense of all these terms, you should take the time to understand the use of Incoterms. Look for the list of Incoterms on export.gov, in the “International Logistics” section, and view the easy-to-read Incoterms chart at iccwbo.org/incoterms/wallchart/wallchart.pdf.

For sample language you can use on your website, check out the “Standard Terms for Shipping” section below. And, keep in mind that some (maybe even most) customers are unfamiliar with Incoterms, so whenever you use one, be sure to spell out, in plain language, what it means.
**International Order Preparation Fees**
Selling internationally is labor-intensive; shipping preparations take longer, plus you spend time adding product information to your inventory-management system. To recover those costs, a company might charge its international customers an international order preparation fee. Some companies opt for a flat fee, while others use a sliding scale or a percentage of the total order to determine the fee.

**Standard Terms for Shipping**
You’ll want to post international shipping terms on your website. Here are two samples (your legal counsel should review all your terms and conditions):

**Sample Terms #1:** Orders that are shipped to countries outside the United States may be subject to import taxes, customs tariffs, and fees levied by the destination country or the shipping company. These charges are the customer’s responsibility and will be billed by the delivery company. We have no control over these charges and are unable to estimate them. Tariffs and taxes are neither collected nor included in your price calculation at the time of your order; for an estimate of these fees, which vary by region, contact the customs office in your area. Purchases are shipped with the terms INSERT APPROPRIATE INCOTERM(S).

**Sample Terms #2:** It is the buyer’s responsibility to ensure that the product can be lawfully imported to the destination country. The recipient must bear any additional charges for customs clearance; we have no control over such charges and cannot predict what they may be.
Introduction to Tariffs and Taxes

According to export.gov, a tariff (or duty—the words are used interchangeably) is a tax levied by a government on the value of an imported product. In some instances, sales and local taxes and customs fees will also be levied. Tariffs raise the prices of imported goods, thus making them less competitive within the market of the importing country.

These tariffs and taxes can significantly raise the final price of your product, so you need to understand not only how these charges will affect sales and pricing and how to communicate these extra charges with your customers so there are no surprises during the purchasing process.

This section will look at some strategies for determining tariffs, communicating with your customers, and some resources that can help you with these calculations.

Managing Customer Expectations on Tariffs and Taxes

Understanding what happens after you ship goods to your international customers will help you provide the best-possible, most cost-effective customer service. Depending on which Incoterm(s) you applied to the order (see p. 22), one of two things will happen.

Scenario 1: Delivery Duty Paid, or DDP: A package sent DDP arrives at the buyer’s shipping address with all tariffs paid. The delivery service might ask the buyer to sign for it and then hands it over.

Scenario 2: Other Delivery Incoterms, with Duties Unpaid (such as CPT, CIF, or DDU): These shipping terms indicate that the buyer is responsible for paying all tariffs and taxes when the goods arrive. The delivery service will either take the package to the buyer’s address and release it only after the buyer has paid all applicable tariffs and taxes, or will send a note informing him/her that his package has arrived, that tariffs and taxes are owed, and that the package will be released only upon payment of those charges.
Delivery Methods: Advantages and Disadvantages

Let’s review the advantages and disadvantages of each method.

**Delivery Duty Paid:** For the buyer, this is the easiest option—the package arrives and the buyer doesn’t need to do anything other than open it. The seller, however, assumes a fair amount of risk. For one thing, he has to estimate what the tariffs and taxes will be when the order arrives, and charge the customer the appropriate amount. If the retailer calculates incorrectly, he might undercharge the customer and lose money (or lower his margin) on the transaction, or he might overcharge the client and risk losing business.

**Delivery Duty Unpaid:** Although the buyer in this scenario bears a more obvious burden—he has to pay additional fees when the package arrives—the seller might bear one, too. If the buyer didn’t realize that he’d be responsible for paying taxes/tariffs, he might take his business elsewhere and perhaps even refuse delivery of the package. Both scenarios cost the seller money; in the latter, the seller has to pay for return shipping.

To avoid any hiccups, never assume that your buyers know about the fees associated with international shipping. Always be as clear as you can; even if you can’t provide an estimate, tell the buyer which circumstances will generate additional fees. The strategies below can help you communicate better with your customers and minimize your expenses or losses.
How to Calculate Tariffs

Calculating taxes can be difficult and time-consuming, especially when you want to ship multiple items in multiple orders to multiple countries. To calculate a tariff, you’ll need four pieces of information: the item’s HS or Schedule B number (see Chapter 1), its country of origin, its destination, and the value of the shipment (in many cases, this includes shipping costs).

The item’s HS code (the first six digits of its Schedule B number) will help you determine the individual tariff on that item. Go to the “Find Tariffs and Taxes” section of export.gov and look for links to tariff schedules for countries throughout the world; the site also contains sales and VAT tax rates for many countries.

Note: As of July 1, 2003, the EU requires all retailers to collect VAT for online sales of digital products and services to EU customers. If your company sells directly to EU customers, VAT registration will be required in one of the EU countries. Many third-party software companies provide e-commerce sales from their site with the VAT collection needed.

As you’ll notice when you search for any product’s tariff rate, a product’s Schedule B number isn’t identical to its product-identification number in the destination country.

Always remember that only the first six digits of these product-identification codes will match. The United States uses 10-digit classification numbers, but that’s not true of all countries. To determine the tariff on your product, you’ll have to reclassify it, using the destination country’s product-identification number.
Real Time Calculation for Clients

As mentioned earlier, calculating taxes is not particularly easy. Following the method above is impossible to do in “real-time” on your website. You are going to have to devise some strategies to do this.

Narrowing Your Geographic Focus

If you find that your products are doing particularly well in a few countries, you might consider limiting your exports to those spots. That gives you an opportunity to really learn the taxation systems of a few countries instead of feeling overwhelmed by the systems of dozens. As you become more comfortable with tariffs and have the resources to expand your focus, you might target additional countries where you think your products will do well.

This doesn’t mean you need to ignore orders from other countries. You can limit your real-time online transactions to orders from countries whose taxation systems are familiar. For other countries, explain to these customers that you will still accept their order but they must be submitted using an alternative method. This method could allow shoppers from these other countries to submit orders via your online shopping cart with the final calculation and payment determined in a follow up email.
Narrowing Your Product Focus
Another way to simplify operations is to sell only a portion of your line internationally; consider making noncore business lines ineligible for export. For example, if your core business is sunglasses but you also sell eyewear accessories such as lens cleaners and repair kits, you might want to make those accessories ineligible for international shipping. Fewer products mean fewer HS numbers and, in turn, fewer tariff calculations.

“Ballparking”
Another strategy when calculating tariffs is to get your figures in the ballpark and not worry about hitting home runs. You’re in the business of retailing, not shipping. As long as you’re earning good margins on your core products and your tariff estimates are reasonable, you should be fine. Estimate the tariffs on categories of your product line for specific countries or regions with the highest current or anticipated sales. Assume that you’ll overestimate some tariffs and underestimate others, and that ultimately you’ll break even. Individual tariff rates change with frequency, so you can’t hope for 100 percent accuracy.
Your Customs Broker

When calculating tariffs, remember that someone—usually a customs broker—will have to collect them and remit them to the proper government agency. Most shipping companies will provide these services for a fee. Find out what the fee is and try to incorporate it into the final cost you present to your buyer.

Technology Costs/Ongoing Review

The operational costs associated with determining and charging your customers tariffs and taxes can be quite large. There are two components to these costs: technology integration and ongoing-review costs.

If you want your system to calculate tariffs in real time when the customer places an order, your technology investment could be significant. Software that records different tariff rates for each of your products, houses that information in your system, and recalls it at the time of purchase will be required. Investigate these costs before deciding whether to develop a real-time system of calculating tariffs.

The associated labor costs also could be high. One or more of your employees will need to continually enter updated tariff information. In addition, that employee should review actual tariff charges after delivery to correct any discrepancies between your system’s calculation and the actual calculation by the importing government.
Third Party Assistance

Many third party service providers have developed customized and off-the-shelf solutions to help you manage international tariff calculations. The available solutions offer very different approaches to calculate tariffs, taxes, and shipping costs.

For example, one business model transfers your customer’s order to a shopping cart on the service provider’s website where the customer completes the transaction. Depending on your service contract, the service provider then becomes responsible for tariff calculation, shipping, fraud protection, product classification, complying with export restrictions, and licenses. Some service providers can also warehouse your products so the items are directly shipped from them to fulfill the order.

A different business model allows international customers to register for a U.S. shipping address, then have their products shipped to that address for reshipment to the destination country. Usually, this service requires the customer to register for the service prior to shopping online at e-commerce sites. These sites often allow your customers to receive more competitive shipping rates due to high-volume international rates these providers have negotiated with shipping companies. These lower shipping costs make your product more attractive to buyers.

With each of these options, there will be costs involved. Some request a fee from the merchant, some charge the buyer, and some earn their fees by marking up the shipping charges. You should understand up-front what the charges will be and determine how you will share these costs with the customer. The third parties are only successful if you are, so it can be a great partnership. For a list of third party vendors, enter “international shipping and shopping carts” or similar search terms into an Internet search engine.
Matt Cross is the co-owner of Red Rocket Hobbies (redrockethobbies.com), a retailer of hobby items such as radio-controlled airplanes, model rockets, and robots. The company was founded in 2006, and not long thereafter Cross began selling to international customers. “Originally, we only shipped in the U.S. but we were receiving inquiries from Canada, so we decided to start filling orders to Canadian customers,” said Cross.

**Business Challenge**
For Red Rocket, exporting was an eye-opening experience. Selling to Canadian customers initially seemed as simple as selling to those in the United States—just fill the order and ship it. But after a few weeks, Red Rocket began receiving bills from its shipping company for customs-broker charges and for tariffs and Canadian taxes. Red Rocket employees, previously unaware of such fees, hadn’t charged their customers accordingly, so the company wound up eating those costs. That cut into their profit margin, and many of the orders resulted in a loss. Because of this experience, Red Rocket stopped shipping to Canada. “We certainly made mistakes, but we learned from them and used that knowledge when we decided to enter the export market again,” Cross said.

About two years later, Red Rocket was still receiving a few requests daily from prospective international customers. Cross and his team decided to try exporting again, because they felt that if they didn’t, they’d be leaving money on the table—but they also knew that they needed to address some concerns before they ventured again into international shipping.

Credit-card fraud topped their list. The company had been the victim of fraud on domestic orders and was afraid that international orders would expose it to more risk than it was willing to bear. In addition, Red Rocket wanted a partner who could provide expertise on the export process, someone to ensure that its products complied with all U.S. export regulations and all import regulations in the buyer’s country, and to calculate and collect landed costs (i.e., shipping, tariffs, and taxes) on behalf of the customer so Red Rocket wouldn’t be responsible for those fees.

Case Study
Red Rocket Hobbies
**Approach**
Red Rocket found Bongo International, a third-party service provider, at a retailer trade show. Bongo offered all the services Red Rocket was looking for, and that gave the company the confidence to get back into the export game. Bongo integrated with Red Rocket’s shopping cart and provides the international buyer a U.S. address for order shipment. Once the order arrives at this U.S. address, the orders are packed, the proper documents are completed for international delivery, and the item is shipped to the buyer at their international address. Also, Bongo verifies the buyer’s credit information and credit-card details, provides analysis on potentially fraudulent orders, and forwards the information to Red Rocket so the company can determine whether the buyer is likely to be a credit risk.

**Insights**
“Using a third party enabled us to focus on our core business rather than on the details of tariff rates, taxes, and international shipping documentation,” Cross said. “Currently 5 percent of our total sales are international, but in these times, every extra order is extremely important. Now that Red Rocket has successfully, and profitably, exported its products, it’s developing a marketing plan to increase its global sales. With a partner to handle international-shipping matters (and headaches), the company has no reservations about expanding its international market.”
Chapter 5

Shipping and Returns
Shipping Methods: Introduction

Like tariffs and other taxes, shipping costs can significantly affect the price your customer pays for your products. This section will discuss ways to reduce costs associated with sending small packages by air. You can find information about larger shipments, such as those sent by ocean-going container load, at export.gov in the “International Logistics” section.
Setting Rates

Your shipping rates will be based on one or more of these factors: the value of the item, its dimensions, its weight, and your profit margin. When selling small, light items with high margins (jewelry, for example), you might choose not to charge a shipping fee or charge the customer a flat rate. When selling an item with a low margin (consumer electronics, for example), you’ll need to find inexpensive shipping options and calculate the cost accurately in order to preserve your profits.

Shipping companies can be valued partners when you’re calculating your shipping fees; many offer real-time tools that can be used on your website. Shipping fees typically fall into three categories: flat rate, in which the seller charges a set rate per item purchased or a set rate per order; percentage, in which the seller multiplies the total purchase price by a set percentage; or a real-time shipping calculation based on the item’s weight and dimensions. If you’re accustomed to shipping items domestically, you know that a package’s weight typically determines its shipping cost. However, when shipping internationally, the package’s dimensions are just as important, so you’ll want to pack your products in the smallest container possible. Also, you’ll need to enter each item’s weight and dimension in your inventory-management system, so as to accurately calculate its shipping cost.
Choosing a Provider

Like any supplier, a shipping company will take into account your volume when agreeing on which services to provide and setting prices. Sticking with one vendor rather than spreading your orders among many could help keep your shipping prices low. Keep in mind, though, that the shipper you want to work with might be unable to deliver to every country. Try to anticipate where you’ll be shipping and ask the company about its resources in those countries; for example, does it have employees on site or does it outsource to a subcontractor? You’ll probably want to build relationships with both a primary shipper and a reliable backup. That way, you’ll be covered if your primary shipper encounters workplace or customs problems in any given country.

Tracking

The ability for your shipper to allow you and your customer to track packages in transit is also a major benefit. When choosing a shipping provider, find out what tracking services they offer and the cost of those services. If the cost is high, you might want to increase your shipping charges on international orders accordingly.
Communicating With Buyers: Returns

You must specify the exact terms (shipping, returns, insurance costs, etc.) when your customer places an order. Be particularly careful when identifying who’s responsible for paying tariffs and other taxes, and/or any other fees that might be incurred.

Returning an international package is costly and time-consuming; clear communication about returns could save you money. State your return policy in plain language, and specify who is responsible for shipping charges and restocking fees. Be sure to make clear in your sales terms that any customer who wants to return merchandise must first request a return authorization (RA), which will contain specific information about returning merchandise. List the e-mail address and/or phone number the customer should use to request an RA. (To see how other retailers handle RAs, conduct an Internet search on “return authorization.”) Finally, keep in mind that sending a replacement might be cheaper than paying for return shipping; you can weigh the various costs when reviewing a customer’s RA request.

The best way to avoid returns is to provide your customers with the most comprehensive product description that you can. Your online description should contain everything you know about the product, as well as several clear photos (use small files whenever possible because larger ones can take too long to download). Also, be aware that warranty laws differ from country to country. If you’re shipping directly to consumers, you might be required to honor a longer warranty period.
Insurance

If you want to insure your packages, you can buy insurance from either your shipping company or a third-party insurance company. You can purchase insurance on each individual package that is sent or you can arrange to be charged a monthly fee based on your shipping volume and your loss history; do some research to determine what would be most cost-effective for you. If you want to give your customers the option of insuring their purchases, your shipping provider or shipping-insurance company can help you develop a formula that will set the insurance fee for any order.

Extra Fees

International shipments entail additional costs, including document preparation, broker’s charges, etc. To defray these expenses, some sellers add a flat handling fee to every international shipment.
Terms and Conditions

Here are some terms and conditions you might want to consider adding to your website (your legal counsel should review all your terms and conditions):

**Export Regulations:** All commodities, technology, or software are exported from the United States in accordance with the Export Administration Regulations. Diversion contrary to U.S. law is prohibited.

**Tariffs and Taxes Paid:** Tariffs and taxes will be prepaid and a $x.xx broker’s fee will be assessed per order.

**Tariffs and Taxes Unpaid:** The recipient is responsible for all tariffs, taxes, and customs fees at time of delivery. Please contact your local customs office for an estimate of these fees.

**More Tariffs and Taxes:** The recipient of an international shipment may be subject to such import taxes, customs tariffs, and fees, which are levied once a shipment reaches your country. Additional charges for customs clearance must be borne by the recipient; we have no control over these charges and cannot predict what they may be. Customs policies vary widely from country to country; you should contact your local customs office for further information. When customs-clearance procedures are required, they can cause delays beyond our original delivery estimates.

**Nondelivery:** Once the order is shipped to its final destination and the delivery is refused, you refuse to pay tariffs and taxes, and/or you are unavailable for delivery after X attempts, you will be responsible for any import tariffs, taxes, and shipping and handling fees to send the item(s) back to the merchant in the United States, as well as any re-stocking fees that may be applicable.

**Import Regulations:** You are responsible for ensuring that the product can be lawfully imported to the destination country. When ordering from COMPANY NAME, the recipient is the importer of record and must comply with all laws and regulations of the destination country.
Automated Export System (AES)

Federal law requires every exporter to use a computerized reporting system, called the Automated Export System (AES), to report shipments in which a product (or group of products classified under the same Schedule B number) is valued at $2,500 or more, or any shipment that requires an export license. This book doesn’t address this topic, but you can ask your shipping company for assistance (for a fee, it will complete the AES for you). Find information on AES filing requirements on the U.S. Census Foreign Trade Division website (www.census.gov/foreign-trade/aes), or seek help from your local Export Assistance Center (buyusa.gov).
**Bakers Shoes**

Bakers Shoes is a retailer of fashion footwear for women, headquartered in St. Louis, Missouri. Bakers operates more than 200 stores in 37 states and sells online at bakersshoes.com.

**Business Challenge**

According to Scott Cohn, director of merchandising and sales, Bakers Direct was receiving frequent requests from international customers who wanted to buy Bakers shoes online but couldn’t. “We were actively discouraging international shoppers by noting on our website that we didn’t ship internationally and by listing a U.S.-only 800 number as our method of contact. But the e-mails just kept coming, so we needed to devise a method to turn these inquiries into sales,” said Cohn.

**Approach**

To cater to the demand abroad, Cohn needed to develop a mechanism for processing and fulfilling international orders.

Bakers Shoes had no experience with exporting—all its retail locations are within the United States, so the company never had a reason to look into it.

Cohn began to research third-party solution providers that had experience with international transactions. He found companies whose services included warehousing their client’s products for international shipment, translating client websites, and integrating orders into a client’s financial and inventory software. With a clear understanding of its global business goals, Bakers evaluated these third-party options and hired iShopUSA (ishop-america.com) to handle its international fulfillment.

**Insights**

Working with iShopUSA enabled Bakers to open its website to international commerce. “This option enabled us to outsource our international-fulfillment operation, allowing us to sell to customers in other countries, without having to learn a completely new business operation or open ourselves up to the risks of fraud from international credit card users,” Cohn said. The adjustment for Bakers Shoes was minimal. The company expended some resources to investigate and design a size-conversion chart that could be used in what they expected to be their major international markets. It also added more images to its website, such as a ruler to link to its size chart, so non-English-speaking customers could shop with ease.

iShopUSA sends Bakers Shoes monthly reports on international sales activity, which will help the company plan future international expansion. Before Bakers started selling globally, it was turning away business and was not tracking potential international sales for its products. Now the company can focus on increasing international sales rather than on handling documentation issues for those sales.
Chapter 6

Ready to Sell
Final Thoughts

This manual provides an overview of the issues you need to explore so you can get your global e-commerce vehicle up and running. To make your experience successful, you need to take additional steps, among them:

- Marketing your site to international customers;
- Ensuring that your customer-service employees are trained to work with international customers; and
- Eliminating language barriers on your website and in all customer communications.

Many companies and service providers can help you. In addition, the Department of Commerce offers a useful e-commerce tool box (visit export.gov/sellingonline). And, you should meet with industry experts located throughout the nation at local U.S. Commercial Service offices (for a complete list visit buyusa.gov).

Everyone at the U.S. Department of Commerce wishes you all the success in the world with your international sales.