

Am I Ready to Become A Direct Product Importer?

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As a company that spends all of our time dealing in Product Sourcing research and education, we get that question often. eBay Sellers hear all kinds of things about the incredibly low prices to be had when buying products overseas.

It's true, the prices are very low. However, the cost of becoming a Direct Importer is very high, and there are many other issues to be considered.

We've seen many eBay Sellers spend a couple of years working through regular domestic wholesale channels to build a solid, profitable eBay business, and then take those profits and enter into the world of Direct Importing successfully. It is **not** a step to be taken too early in your business, though.

This report details many of the issues faced by those who feel they're ready to take a solid, profitable eBay business to the next level by Directly Importing products from overseas. We'll use China as a sourcing example in this report.

Importing existing products from China

- **Low Factory Costs**

It's true that purchasing products in China will get you an extremely low factory-direct price on existing products already being made there. The Chinese Government actually subsidizes manufacturing operations, and factories go so far as to actually house factory workers brought in from outlying areas during their work week. A person who lives in a rural area in China can be bussed in to the factory at the beginning of the week, fed and housed during the work week, then bussed home again at the end of the week. This allows the manufacturer to access a labor force that badly needs work even at a low rate of pay. Because of the low labor costs to the manufacturers, producing products in China is very cost-effective.

- **Existing Trade Organizations**

There are now a tremendous number of Chinese Trade Organizations that will act as your "eyes and ears" in China. You can find a huge assortment of them at www.Alibaba.com, among other places. These Trade Organizations will work with you to locate factories that will produce the products you want to buy. They will place your orders for you, and accept payment, which usually works on a "half up-front, half upon delivery" payment schedule. They will warehouse your products for you at a Chinese shipyard prior to sending them to the US. They will work to combine your shipments with other companies' shipments in order to lower your overseas shipping costs. They will randomly inspect the products for you to insure that you do not receive damaged goods. Many of them will work with Import Agents here in the US to coordinate shipping the products from China to the US.

This all sounds wonderful, but the fact is that you have to be very careful when you choose who you work with. If you're not working with someone that you can absolutely trust, you could end up losing your "half-up-front" deposit payment, waiting months on end for shipments that may never arrive, receiving damaged goods, receiving products other than those you ordered, and any number of other undesirable situations.

If you have a problem with an order while the products are still in China, you're going to find out very quickly that United States law does not apply in China, and you could be out a great deal of money with no possible recourse.

If you have a problem with an order once it reaches the US, you're going to find that it's not a simple case of returning damaged goods or having replacements sent if the products you got were not what you ordered. For example, just returning one large order of one single type of product could cost you thousands of dollars in overseas shipping alone. Then you have to wait for the proper products to be shipped back to you, and pay overseas shipping *again*. You have very little legal recourse; the only thing you can hold over a Trade Agent's head is your refusal to pay the other half of the order price upon receipt at a US Port. In that case, though, you could find yourself with your products locked up in a Port Customs Warehouse with no authorization for release while you pay storage fees, or you could be left in possession of damaged merchandise at half-price that you can't sell.

The only way to be certain that you are working with a reliable Agent in China is to actually GO there. If you're going to import products from China, you need to travel to China, tour factories, tour Trade Shows, meet with manufacturer's representatives, and *personally* engage a Trade Agent that you feel you can trust. Your Agent needs to be someone who is very well connected with many different manufacturing companies. He or she must speak English fluently so that you can understand the person you're dealing with clearly. He or she must also be fluent in several Chinese dialects that are spoken throughout the different manufacturing regions in China. You can expect to spend at least \$10,000 to make a trip like that and engage a trustworthy Agent successfully.

- **Buying as a US Company vs. Buying as a Chinese Company**

The most successful Direct Importers not only go to China to set up a relationship with a Trade Agent; they also actually form a Chinese company, with a small office in China, in order to make their purchases. You see, when a Chinese manufacturer sells to a US company, there is a certain level of Export Pricing they will charge on their products. If you, as an Importer, actually buy products from Chinese manufacturers as a *Chinese Company*, your prices will be lower. Depending on how much you buy, the cost of maintaining a small company (even an empty one-room office) of your own in China can easily be offset by the money you save on your product buys.

When you do this, you have your Chinese company make the purchases of your products through your Trade Agent, then your Chinese company exports them to your business in the US.

- **Order Minimums**

If you thought that the domestic (US) wholesalers you've been working with require high minimum orders when you buy bulk products, you're truly in for a shock when you buy directly from China.

In this report, we'll use an example of a fold-up Camping Chair that is a popular product in both physical stores and online. This is the kind of chair that is made of aluminum poles and nylon fabric, that collapses and folds into a carry bag. I'm sure you've seen one! The ones that have printed designs on them sell for anywhere from \$14 to \$18 here in the US.

You can purchase these chairs with printed designs on them for \$4.80, direct from the manufacturer in China. Sounds great, doesn't it! That's about a 300% profit margin! Slow

down, though...we're just starting to talk about Order Minimums, and we haven't even gotten close to the costs of bringing these products into the US yet!

In order to get a price of \$4.80 per chair, which is the *least* effective price break you can get on them, you must buy *5,000 of each individual chair design that you order*. That's how many of these chairs a manufacturer can fit into a 20 foot overseas shipping container, and that's the smallest order they'll fill directly. Of course, if you buy 10,000 of each chair that you order, your price goes down by a few cents, and so on.

If you were to order just *one design of one fold-up camping chair* from a Chinese manufacturer, your price out the factory door is \$24,000. Keep in mind that the price quoted by your Trade Agent also usually includes fees charge by your Trade Agent.

- **Overseas Shipping**

Your Trade Agent in China can work with you to find the lowest available rates on overseas shipping to the US. Generally, the lower the rate is, the longer you have to wait for your products. Quoted rates on one 20 foot shipping container from China to the US for our camping chair example are around \$4500 at the time of this example.

- **Lead Times**

Chinese manufacturers produce products on a demand basis. That means that when you place your order, they schedule a factory to *make* your order. They don't keep warehouses full of inventory lying around waiting for orders. In our example, it can take several weeks just to get your camping chairs made.

Then, the chairs have to be shipped from the factory to the Chinese Port that your trade Agent designates. They have to sit in a warehouse while your Agent arranges to have them inspected, and scheduled for shipping. Then they have to wait until the ship they'll travel to the US on is loaded, and then they have to make the overseas crossing.

So, when importing from China, you need to know months in advance what you're going to sell, because it's generally going to take a good three months from the time you place your order, for your products to arrive in the US.

- **Clearing US Customs**

Once your shipping container full of chairs arrives at it's destination Port of Entry into the US, you're going to be dealing with US Customs. Getting that shipping container out of your US Port Customs Warehouse practically requires that you take a college course! Of course, the thing to do here is to pay a US-based Import Agent close to your Port of Entry to do this for you, but it's important to understand what it is they do.

- **Tariffs**

The US International Trade Commission uses something called the Harmonized Tariff System to determine whether you need to pay an Import Duty on the product you're importing. The HTS is a database containing details on every type of product made anywhere in the world. Experts spend *years* learning how to classify a product in order to determine it's correct Duty Rate. Each product imported into the US will have a unique 8 digit HTS number. Looking up that number tells your Import Agent whether there is to be a Tariff (Duty) charged on that product, and if so, how much it will be. Once that's determined, you'll need to pay that Duty if there is one. In our example of the camping chairs, there is no Duty to be paid.

- **Continuous Bond**

In order to import products through Ports of Entry in to the US, you need to be Bonded (insured). When starting out, you'll need to pay about \$700 to establish a Continuous Bond of \$50,000 per year if you plan on continuously importing. It will cost about \$600 a year to renew this Bond. If you start bringing in more and more products, your Bond requirement will be reviewed, and you will have to increase your amount of Bond coverage.

- **Merchandise Processing Fee**

You will be required to pay a Merchandise Processing Fee equal to .21% (zero point two one percent) of the total value of your shipment, with a minimum of \$21. For our \$24,000 order of camping chairs, that's about \$50.

- **Harbor Maintenance Fee**

You'll also pay a Harbor Maintenance Fee of .125% (point one two five percent), with a maximum due of \$485. In our camping chair example, this equals about \$30.

- **Entry Clearance Fee**

You'll pay an Entry Clearance Fee of \$125 per Port Entry. If there are more than 3 different product types in your shipment, you'll pay an additional \$5 per product type (line entry on your Bill of Lading).

These are the most common types of fees you'll pay in order to get your product shipment through US Customs at your Port of Entry. As I said, it's best to find and work with an Import Agent to get this done; you certainly don't want to try it yourself. Your Import Agent can also work directly with your Trade Agent to find the least expensive overseas shipping rates and more.

- **Local Shipping**

Once your shipping container is free of the US Customs Warehouse, you need to get it from the Port, to your own location. You generally have a couple of days to hire a trucking company and get them in there to pick up your container before the Port starts charging you storage fees. Your local shipping carrier is going to charge you over-the-road rates that will cost at least several hundred dollars and up per shipping container, depending on how close you are to a US Port of Entry.

- **Warehousing Your Products**

When you start ordering shipping containers full of camping chairs, you're not going to be able to store them in your garage or your spare bedroom. We're talking about serious inventory now, moving into the big time!

The best solution for this is a company called a 3PL, or 3rd Party Logistics warehouse.

A 3PL is a large warehouse and shipping operation that stores and ships products for many different people at the same time. One 3PL could be storing and shipping products for a hundred or more eBay Sellers, or any number of other kinds of businesses.

Here's how it works.

1. You set up an account with a 3PL. They give you a web-based interface with their system, so that you can interact with them just like you were dealing with your own warehouse.
2. When your camping chairs arrive from China, you have them sent from the Port of Entry to your 3PL warehouse.
3. The order arrives at the 3PL. They take the products off the truck, and scan them into their computerized inventory system for you. They notify you through your Web interface that your products have arrived, and you can go on your computer to see your new inventory numbers.
4. The 3PL stores your products on their own warehouse shelves, and marks the shelves with bar codes identifying the products as yours.
5. When you make a sale, you bring up the 3PL system on your computer screen, and tell them where to send the product.
6. The 3PL sends someone into the warehouse to pick the product from your warehouse shelves. Then they process it and ship it to your customer for you, using UPS, FedEx, USPS, or whatever shipping carrier you want.
7. The product is automatically removed from your online inventory.
8. We all know that sometimes customers want to return products they buy from you. A 3PL is great for that, too. They'll take the return, process it for you, and place it back on your shelves for resale.

So, working with a 3PL is like having your own giant warehouse facility and employees without having to rent the space and hire the employees.

Of course, nothing in business is free, and there are certain charges you pay to a 3PL to do all this for you. Typically, it can cost from a few hundred dollars to a couple of thousand to get set up with a 3PL and to customize your interface with them.

You'll generally pay a monthly fee to use their inventory interface.

You'll pay a certain charge per carton for the 3PL to unload your products from a truck, scan them in and stock them on their shelves.

There's a charge for the 3PL to pick your product from the shelf, and process it for shipping to your customer.

Then, you'll pay the actual shipping cost plus about 10%.

Overall, if you're working on the scale you need to be in order to import directly from China, the 3PL is your most cost-effective initial solution for delivering your imported products to your customers.

- **Importing Overall**

As you can see, while buying products directly from China will get you very low costs on the products themselves, actually getting them to the US and then getting them sent to your customers is not cheap. In fact, that's where most of your money goes when you import. Our 300% profit margin in the beginning of this example gets quickly chopped down to well under 40% or less after factoring in all the costs we've talked about. Add to

that the fact that you're risking large dollar amounts and speculating on products that might or might not sell months in advance, and you can see that Direct Importing is a game best played when you've built and stabilized your business to the point where it can withstand a few hits from importing mistakes without crumbling financially. Importing is a volume business, just like wholesale. To make it really work, you have to sell a lot of product in as short a time as possible, and you need to try to make few to no mistakes in the process.

Other Importing Issues

- **Buying Gray Market Goods**

Ever see all those ads on the Internet that claim to sell you imported Gucci, Prada, and other designer brand name products at pennies on the dollar? Don't be fooled. As a businessperson, you have to be smarter than that. There is no free lunch in business, and this is no exception. Products that are sold under these pretenses are either black market copies, or gray market export-only products that are not legally supposed to be in the US. The fastest way to get yourself in trouble with eBay is to break the rules, and eBay definitely has rules about the products that you can sell.

It is very important that you check the eBay VERO program and understand what you can and can't do in your eBay business. Gray and black market products are definitely high on the list of can't-do's!

- **Branding your Own Products**

There are many companies that create their own product brands and have Chinese manufacturers place those brands on products they already manufacture. You could, for example, find a Chinese sporting goods manufacturer and have them put your brand name on several different kinds of tents, sleeping bags and other gear.

While this can be an exciting prospect, remember that all the costs involved in Importing, as we've discussed above, come into play. Additionally, there are more costs involved in creating the brand and having the Chinese manufacturer do production runs for you. Typically, your minimum order requirements from the factory will be much higher for branded production runs.

Also remember that now that you own a Brand, you have to create a Brand Awareness for it in the US market. That can mean incredibly costly investments in advertising, public relations and other areas. Creating a brand is not something to be taken lightly. It's best done with very unique specialty items that few others are selling on eBay.

- **Manufacturing Your Own Products**

This is a question we also get from time to time here at WorldwideBrands.com, and the answer is very similar to Branding existing products. Take all the costs associated with Importing, add the costs associated with Branding, and then add additional costs for designers, mold makers, US Trademarks and Patents if applicable, making sure your products can be brought into the US in the first place (compliance with US Customs Regulations), etc., and you're manufacturing your own products.

When you Import, it's a good idea to have your own office in China. When you manufacture, you're crazy if you don't have your own office in China, with more than one person staffing it. It's not that expensive to actually rent and staff a factory floor in China, either. However, as we've discussed in this entire report, the expenses come in when you move the products from China to the US and distribute them to your customers.

In closing, yes, many eBay Sellers import products directly, and do very well with it. Some eBay Sellers brand their own products, and do well with it. Some manufacture their own products, and are successful at that.

However, it's very important to remember that you need to walk before you run. Work your Product Sourcing domestically with legitimate wholesalers first. Build up the experience and the capital you need. Learn every thing you can about importing, and then learn it again. Many people online will tell you that you can import your own products quickly and cheaply. It's not true. Those people are simply importing *middlemen*, much like wholesale middlemen who get in between you and the real source, raising your cost. In order to be a real importer, making your own profits on your own imported products, you need to do a great deal of groundwork in preparation.

Nothing is impossible. eBayers prove that every day. Just give yourself the best possible chance to succeed by taking your time and building your business the right way. eBay and China (as well as many other countries you can import from) will both still be here when you're ready!

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