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Exporting Simplified: Four Key Parties and Ten Steps for Beginners

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INTRODUCTION

Among the various ways global firms can market their products and services overseas, exporting is a fundamental function in doing business internationally - regardless of the mode of entry. From simple indirect exporting, where someone within the home country (e.g., an Export Management Company or EMC) handles the process, to more complex entry strategies such as foreign direct investment, exporting remains foundational.

Exporting, the oldest form of international business, involves a transaction between buyer and seller in different countries. Quite simply, exporting happens when a business sells a product or services to a customer abroad. Despite its importance, only about 1% of U.S. businesses export, and only 25%of manufacturers export (Kogon 2021). The global impact of tariffs – such as those recently imposed by the U.S. – demonstrates just how central exporting is to global trade, affecting over 200 countries in the world.

Politicians often advocate for increased exports to imports to improve the balance of trade, while business firms seek foreign markets for greater profitability and future growth. Because of its nature as a fundamental function for international business, most companies entering international markets start by exporting tangible goods produced domestically and sold abroad.

One of the long-term solutions improving the U.S. trade imbalance is empowering American businesses with knowledge and skills in exporting the products produced domestically. Since 1976[*], the U.S. trade balance has never been positive. It has been negatived $6 billion in 1976 to $903.5 billion in 2024, the most recent year. The trade deficit increase is well over 14, 958% since 1976.

THE PURPOSE

This article introduces a ten-step process to complete a basic export transaction – from product promotion to secure payment collection. These steps are designed to help potential exporters overcome common fears and misconceptions about exporting. Recent trade tensions and tariff discussions under the U.S. President Donald Trump underscored the relevance of global trade. Often, products are designed in the U.S. but manufactured elsewhere – only to be imported back. For example, socks designed in Kansas City, Missouri by Blackboard Inc. are made in China

[*] U.S. Trade in goods and Services-Balance of Payments (BOP) Basis available at gands.pdf.

and labeled accordingly, and then imported back to the U.S. The socks labeled "Blackboard" are used as sales promotion for the Blackboard, Inc.

Understanding how exporting works can empower businesses to explore new markets with confidence. Considering the complexity of exporting as one of the six most common fears about exporting (America's SBDC Florida 2025), this guide aims to demystify the process.

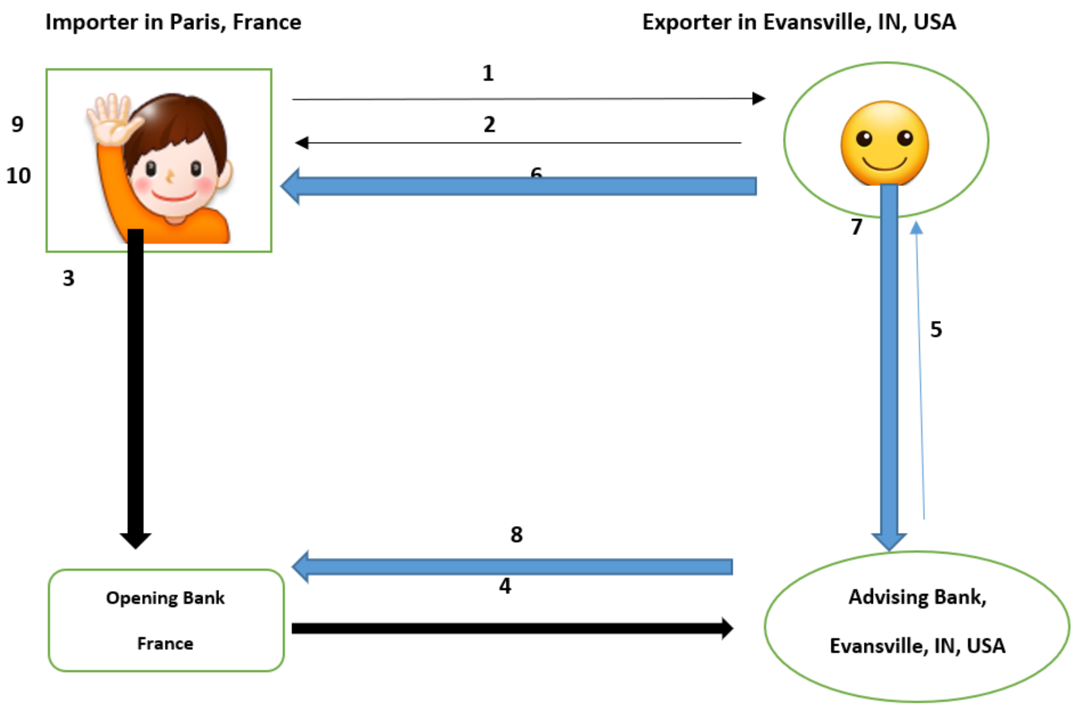

Figure 1: Four Parties in Exporting

FOUR PARTIES IN EXPORTING

While many stakeholders can be involved in exporting (e.g., shipping agencies, marine insurance firms, customs agents, and financial institutions etc.), four parties are central throughout the process as shown in Figure 1:

1. Exporter (the seller)
2. Importer (the buyer)
3. Opening bank {also called the issuing bank located in the importer's country for issuing a letter of credit (L/C) by the request of the importer}.
4. Advising bank (located in the exporter's country for informing the exporter of the L/C).

Exporter: An exporter is the party in the U.S. selling merchandise to foreign buyers. This can include manufacturers, manufacturer's agents, distributors, or export management companies (EMC†) that are in the U.S. EMCs are usually small firms that act as an important middleman for

† An EMC can leverage its expertise to systematically develop overseas distribution channels for small and mid-sized U.S. manufacturers. An EMC gets a commission ranging from 10% for consumer goods to 15% for B2B products. The EMC Directory can be found at https://www.trade.gov/data-visualization/export-management-company-emc-directory. They can be filtered by industry, state, export-region, and specialization.

firms with relatively small international volume to export or those unwilling to involve their own personnel in international function (Cateora et al., 2016). Since 2000, the U.S. census Bureau officially replaced the term, exporter with USPPI (U.S. Principal Party in Interest) to improve the compliance of export documentation under Foreign Trade Regulations (FTR) where exporters include a U.S. wholesalers or distributors of the merchandise for export, a U.S. manufacturers selling the merchandise for export, a U.S. other party who directly negotiated between the U.S. seller and foreign buyers and received the order for the export of the merchandise, and a foreign entity who is in the U.S. when items are purchased or obtained for export.

Importer: An importer is a person, a company, or an institution that buys goods from abroad to sell or use them for producing other products. It refers to any individual, firm or legal entity that can include any commercial enterprises, government agencies, and institutions. There are more than 200 countries in the world, and an importer could be in any of these countries, but in recent decades, most importers of the U.S. merchandise are in two continents: the Asia and the Europe, because of the rapid economic growth experiencing in Asia, while the world most advanced economies being in Europe.

Opening Bank (Issuing Bank): An opening or issuing bank also known as a buyer's bank is typically based in importer's country as the importer uses the opening bank to issue a letter of credit (L/C), thereby assuring payment will be made by an importer when goods or services are provided by an exporter. The two financial institutions, issuing banks and advising banks, serve as trusted intermediaries between the importer and the exporter, ensuring that the transaction proceeds smoothly and that the interests of both parties are safeguarded. The issuing bank's primary role is to issue a letter of credit, which is a commitment that the importer's bank will pay the exporter a specified amount of money within a certain period, provided the exporter meets the terms and conditions outlined in the document.

Advising Bank: The advising bank is typically located in the exporter's country and is responsible for advising and confirming the L/C issued by the issuing bank. Since the importer and the exporter may not have established a trusted relationship, the dual-bank system mitigates the risks inherent in exporting and importing (FasterCapital, 2025). The advising bank verifies the authenticity of the L/C, and advises the exporter who is the beneficiary of the L/C. In summary, the exporter as a seller and the importer as a buyer are facilitated by two financial institutions, an issuing bank and an advising bank that play a pivotal role, acting as a guarantor and mediator that ensures international transactions are executed smoothly and with trust. For an importer, the issuing bank is a financial ally that underwrites their credibility, while for the exporter, the advising bank is a promise and commitment that stands by to fulfill the payment once the terms and conditions are met.

In summary, these four parties; exporter, importer, opening bank, and advising bank are key players in the process of exporting from beginning to end. Of course, without saying there are many other parties to be involved that facilitate the exporting process such as shipping agencies that issue bill of lading (B/L), freight forwarder that makes transportation arrangement, insurance companies, and customs brokers that prepare documents for goods to clear the importer's country customs. These are just more prominent examples among many.

TEN STEPS OF EXPORTING

Below is a simplified ten-step process for completing an export transaction, illustrated using hypothetical exporter in Evansville, IN, USA and importer in Paris, France.

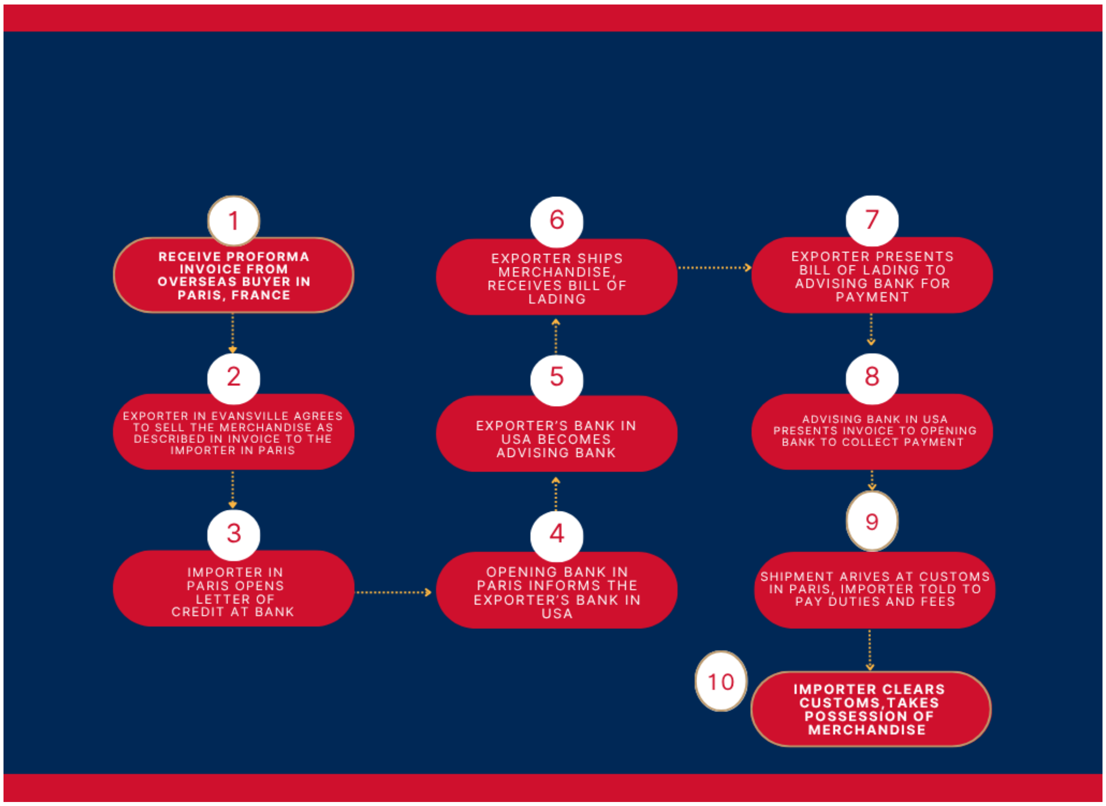

Figure 2: Ten Steps of Exporting

Step 1: Receiving Purchase Order from the Importer

At the first stage, the exporter needs to market the products and services they can offer to overseas customers and receive a purchase order. Potential buyers can range from individuals to commercial enterprises and government agencies of 240 plus countries in the world. A target market decision will be hinged on the type of products, final consumers or business organizations and several key factors such as profitability, growth potential, and cultural and geographical proximity. Based on the promotional literatures including the export price list provided by the exporter, the importer sends a purchase order to the exporter.

The exporter must pay keen attention to the export price list with definite dates during which the export price is effective. Once the export price is set up, it will be very difficult to increase the price until the list's expiration date. The export price for the merchandise gives the importer an idea of what the items sell for to their local consumers so the importer can plan his markup. The U.S. exporter must specify the price with US$ (US dollars) to avoid confusion with dollars of other countries like the Canadian dollars (CA$) and Hong Kong dollar (HK$). There are more than 50 countries using the dollar currency in the world.

There is one important caveat that all exporters must adhere to before accepting a purchase order. It is a must that the exporter contacts the appropriate government offices to assure that the goods can be exported and obtain the proper export license before the goods are shipped (Albaum etc., 2005). For compliance, international freight forwarders are good sources of information on the matter, and international freight forwarders can provide valuable information and assistance in this area. To avoid potential problems for the importer, the potential exporter could also check that the goods can be legally imported into the importer's country.

Step 2: Sending *Pro Forma* Invoice‡ to the Importer

Upon receiving a purchase order, the exporter sends a *pro forma* invoice to the importer after making sure that the products can be manufactured and shipped on time meeting the terms and conditions specified in *pro forma* invoice. The most common terms and conditions include a sight L/C that can be cashed upon presentation, any cash discount and effective price period, and shipping date. The *pro forma* invoice becomes a crucial information on which the importer goes to her local bank to open an L/C.

In pricing the merchandise for exporting, the exporter and the importer need to understand the pricing terms in international transactions. There are fourteen terms in export pricing under the Incoterms 2020, but they can group into four basic categories of pricing terms in exporting. They are E, F, C, and D terms (Bruskiewicz, 1991).

E-terms stands for Ex Works, abbreviated EXW. Ex Works means the exporter makes the goods available at their location, such as factory or warehouse, and the importer is responsible for all transport costs and risks from that point onward. Under the term, the price of the merchandise will be priced the lowest among the four basic pricing terms because the exporter has minimal responsibility by placing the merchandise ready for pickup. The importer must handle all aspects of transportation, including loading, shipping, and customs clearance. Since the importer is overseas, he must arrange for pickup at the importer's premise.

F-Terms include FCA (Free Carrier), FAS (Free Alongside Ship), and FOB (free on board) that is the most used. The price of the merchandise under FOB will be higher than EXW because the exporter must bring the goods to the port and ship the FOB vessel at a port. In summary, under the FOB, the exporter is required to deliver goods to a carrier.

C-Terms can stand for CFR (Cost and Freight), CPT (Carriage Paid To), CIP (Carriage and Insurance Paid to), and CIF (Cost, Insurance, and Freight) under which the exporter pays for insurance, freight, and assumes responsibility for the goods to be delivered to a designated port. The exporter is responsible for the shipment but does not assume the risk of loss or damage after shipment.

‡ Pro forma invoice originated from the Latin, ***pro forma*** meaning "in the form of" is a quotation, subject to the importer's approval. The letter of credit (L/C) is set up in accordance with the *pro forma invoice*. Before issuing a pro forma invoice, the exporter must exchange communications with the importer by faxes or emails back and forth to clarify exactly what the deal is and what the L/C should say on key points (Zodl, 1995).

D-Terms include DAF (Delivered at Frontier), DES (Delivered Ex Ship), DDQ (Delivered Ex Quay), DDU (Delivered Duty Unpaid), and DDP (Delivered Duty Paid). Under D-terms, the exporter bears all costs and risks to the named destination point.

Step 3: Opening an L/C by the Importer

Once the importer in Paris, France decides to buy the merchandise from the exporter in Evansville, IN, USA, the importer applies for a letter of credit (L/C) for the cost of the merchandise to import at a local commercial bank. The L/C is normally irrevocable, and it is called an irrevocable L/C that does not allow any changes unless all the parties involved agree. For an importer with a weak credit standing is more likely asked to put up collateral to cove the L/C amount.

The bank that satisfies itself the importer is good for the funds becomes an opening bank (also called an issuing bank). The importer is an applicant as well as an opener of the L/C. The opening bank sends the L/C to a bank in the exporter's country by mail, telex, fax, or a system called SWIFT (Society for Worldwide Interbank Financial Transactions), which is a system operated specifically for international banking). At this point, the opening bank assumes the obligation to pay the exporter in the U.S.

The bank in the exporter's country that receives the L/C becomes an advising bank for the exporter. One note worthwhile at this point is that it is highly recommended the exporter ask the importer to make sure the L/C is irrevocable, which means it cannot be revoked or amended before an expiry date unless all the parties involved agree to modify or change the L/C.

In summary, among the six methods[§] of payment for exports letters of credit are one of the most frequently used methods of payment in international transactions. To secure the payment further, irrevocable L/C is the most secure form of international trade payment next to cash in advance payment, because it cannot be cancelled or modified without the consent of the beneficiary, who is the exporter. Therefore, today, according to the new rules drawn by the International Chamber of Commerce, all the letters of credit are considered irrevocable unless otherwise stated (Czinkota et al., 2004).

Step 4: Opening Bank Informing Advising Bank of the L/C

As soon as the L/C is to be issued, the opening bank prepares the L/C with all the necessary clauses and sends the original L/C to the advising bank located in the exporter's country. It is customarily that the opening bank asks the advising bank to correspond to confirm the L/C received. The most common clauses stipulated in the L/C are a importer's purchase order, a packing slip, the type of bill of lading (B/L), and a copy of marine insurance that covers sufficient amount of the cost of merchandise, usually 110% or more.

Step 5: Advising Bank Informing the Exporter of the L/C

The advising bank in the U.S. advises the exporter of the original L/C transmitted from the opening bank in the importer's country. With the irrevocable L/C in hand, the exporter is

[§] The six export payment methods from the safest for the exporter are cash in advance, irrevocable letter of credit, revocable letter of credit, sight draft, time draft, and open account.

assured that he will be paid when he ships the merchandise specified in the pro forma invoice meeting all the terms and conditions.

Now, the confident exporter will manufacture the products and must plan to ship the merchandise within the time frame specified in the L/C. The exporter needs to consider the distance and time that international shipment will take, not to face the expiration date in the L/C. An expired L/C will be no longer valid for payment for the merchandise that is already shipped or on the way to the importer.

Step 6: Shipping the Merchandise to the Importer

The exporter needs to choose the right mode of transportation for shipping the merchandise because the shipping costs are the most severe factor in increasing the costs of the products and ultimately the costs are borne by the consumers in foreign markets. The higher shipping costs could easily dilute the competitiveness of the products.

In the process of exporting, as a product moves from one country to another, the exporter will realize many costs other than the shipping costs, the largest after the costs of the merchandise cause the price to escalate. They include insurance, tariffs, importer margins, middlemen margins, administrative costs, and even exchange rate fluctuation. Price escalation makes competing in foreign markets more difficult for many exporters. One strategy to mitigate the impact from price escalation is to utilize foreign trade zone[**] (FTZ) in which various tariffs and taxes are not charged. Increased costs often put the exporter in a position where either profit margin be reduced, or the product price becomes too high for consumers to afford (Baack et al., 2013). This becomes more obvious in the low-income countries where the final consumers are highly price sensitive.

Step 7: Presenting B/L for Payment at Advising Bank

The bill of lading (B/L) is an essential document in the shipping process, providing a comprehensive record of the transaction and serving as a safeguard for all parties involved. Upon completion of the product loading on board, the captain can issue a bill of lading to the shipper, clean or foul bill of lading. Ideally, the exporter should obtain clean B/L, not foul B/L that notes discrepancies or damage to the merchandise. The foul B/L may delay or refuse to the payment for the merchandise by the importer and the opening bank. The most common notes in the foul B/L are wet products, damaged, dubious condition, or incorrect quantity.

Step 8: Collecting Payment from Opening Bank

One important note to the U.S. exporter is that you always want to be paid in U.S. dollars at a U.S. bank. This keeps you out of the foreign currency risks and payable in U.S. dollars. In case the payment is a wire transfer, the importer goes to her international bank and directs it to the exporter's account in his bank. The money will be transferred between the opening bank and the advising bank overnight.

[**] FTZ (Foreign Trade Zone) are typically near seaports or airports designated to facilitate international trade where foreign businesses are allowed to operate to manufacture or process foreign products, and payment of import duties is postponed until the product leaves the FTZ area and enters the country. In the U.S., there are 195 FTZs and as many as 3,000 in the world.

Step 9: Clearing the Merchandise out of Customs House

As soon as the shipment (the merchandise) arrives at the port, the carrier notifies the importer (or customs broker). It is common that the importer hires a licensed customs broker to handle the customs clearance paying duties and handling paperwork.

In today's world, much of these works are done electronically. The common documents needed at the customs house are B/L as proof of shipment, packing list, import declaration, certificate of origin that prevents transshipment to disguise the origination of the merchandise, receipts of duty payment, taxes and fees, and sometimes customs inspection. In many instances, the importer needs to be prepared to assume several unexpected expenses to pay for the final clearance of the shipment such as harbor fees and warehouse charges).

Step 10: Possession of Merchandise with Release Order

The importer can possess the shipment once documents are approved, payments are made, and customs issues a release order. The merchandise is released from the bonded warehouse or port terminal. In summary, there are five stages to go through to complete the customs clearance after the merchandise arrives at the port. They are:

1. The importer files documents including import declaration.
2. Customs House reviews with inspections of merchandise.
3. Payment of tariffs, taxes, and fees
4. Receive a release order from the customs house.
5. The importer collects the shipment from the port warehouse.

SUMMARY AND CONCLUSION

The article has focused on the two key aspects of understanding the process of exporting; the four parties involved and ten steps to go through from beginning to end in exporting merchandise overseas. The article is written to make the exporting process understood simple so that by understanding exporting process business management are encouraged to know exporting opens doors to growth and profitability and further going after larger markets in the world, considering, for example, the percentage of the U.S. consumers in the global market is less than 5% of the world. The greater potential is outside of the United States market.

Exporting means more production from increased volume to sell. A larger volume of production enables businesses to experience economies of scale that result in lower product average costs. Lower costs empower greater competitiveness.

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