



**In collaboration with the Queensland Government and  
the Australian Trade Commission**

**Seminars - March 2006 Queensland**

**“Distribution of Consumer Products in the USA:  
Fulfillment Warehousing”**

**Presenter**

**Amy K. Frey  
President  
ATC International, Inc**

**Headquarters • 2201 Distribution Circle • Silver Spring, MD 20910  
ph 301-562-6960 • fax 301-562-6972**

**West Coast • 413 North Oak Street • Inglewood, CA 90302  
ph 310-671-0899 • fax 310-671-2788**



## **I. Introduction**

Amy Frey

A. ATC International

B. Consumer Products

## **II. What To Anticipate When Doing Business In the USA**

### **A. Importing**

- i. Traditional Import/Distributor Margins are 35% – 150% - expensive for Australian manufacturers
- ii. Most US Retailers Do Not Import
- iii. US Import System is More Complicated than Others
  1. US Federal ID Number for all shipments containing Textile or Food Products
  2. Manufacturers ID Number for all Textile Shipments
  3. FDA Registration Number for all Food Shipments – Exporter and Importer
  4. Specific Descriptions - Harmonized Tariff Codes –
    - a. 6-8 digits other countries vs. 10 digits for USA

### **B. US Buyers**

- i. Buy From Companies with a US Presence
  1. Concerns regarding Time Difference
  2. Product Availability for Re-orders
  3. Customer Service & Returns
- ii. Want to deal with “Experts or Specialists”
  1. Don’t expect the buyer to tell you what will sell – you tell them - do your research before the meeting not during
  2. Sell proven product that is something you can easily produce
  3. Narrow the focus of the range and presentation
- iii. Don’t Negotiate on Pricing
  1. They just move on to the next vendor
- iv. Write Small Opening Orders
  1. To Test Product
  2. May Take up to 12 months for larger orders
- v. Are Difficult to Contact
  1. Often requires several – many phone calls to reach
  2. US Buyers Don’t Do Lunch
  3. Being Aussie Helps to Open Doors
  4. Don’t waste their time – door will close quickly
- vi. Usually have Specific Delivery Requirements
  1. Catalog Companies - packaging
  2. Medium/Larger – routing guidelines & delivery appointments



### C. Payment Considerations

- i. Retailers will pay freight from a US warehouse to their store
  1. Standard Term for US Wholesale Pricing
    - a. “*FOB – Inglewood, California*”
- ii. Retailers don’t pay freight from Australia to their Store
- iii. Retailers Don’t Pay by T/T or Letter of Credit
  1. Credit Card Payment in US \$
  2. Credit Application and Terms of Net 30
  3. Payment by US\$ Check
  4. Mail check to a US address
- iv. Terminology Differences are Strong in Accounting Area
  1. “Raising an Invoice”
- v. Establishing a Bank Account in the USA
  1. Banks Require a *US Federal ID Number*
  2. Once you have obtained a Federal ID Number, Must File Annual US Tax Report – stating Australian Company dab in USA paying taxes in Australia.
  3. Discuss with Export Specialists – Austrade
  4. Alternative: Set up a US\$ Account in Australia
  5. Alternative: Use credit card payment as often as possible

### D. US Bar Coding & EDI Systems

- i. Australian Bar Codes May or May not be Readable by a US Retailer
- ii. US Bar Code numbers (UPCs) are available through your local supplier of EAN codes
- iii. Larger Retailers Use EDI to Communicate with Vendors about all but the initial Sale
- iv. US and Australian EDI Systems are not the same
- v. Exemptions from EDI – initial orders only
- vi. EDI is great - will help to grow sales quickly
- vii. EDI Service Bureaus – standard for US smaller suppliers

### E. Questions to Consider when selling to US Market

- i. How do you service small orders initially without being too expensive?
- ii. How do you get the attention of a good distributor or sales agent?
- iii. How do you support sales or a sales agent from Australia?
- iv. The way exporters choose to handle these decisions often determines the success of their US business.
  1. Too Hard – Walk Away
  2. Invest a lot of \$money
  3. Control the process - find companies to outsource the services you require to complete your supply chain to US retailers for short or long term

### III. **What is Fulfillment Warehousing?**

#### A. Fulfillment Warehousing and Third-Party Logistics (3PL)

- i. Background: Companies during the middle and latter part of the 1990s discovered the benefits of hiring outside, or third party, logistics experts to manage the total flow of products, enabling companies to become more efficient, competitive and to focus on their own core competencies. Originated from US military distribution methods. Today 3PLs are used extensively in US wholesale distribution supply chains.

#### B. Fulfillment Warehousing,

- i. Part of the 3PL industry, refers to the service providers who offer warehousing, picking & packing and shipping services.
- ii. Gained momentum when e-commerce (direct to consumer selling) began to emerge in the past 10 years.

#### C. Industry Snapshot

- i. U.S. contract logistics' industry size: US\$46 billion, with an average annual growth rate of between 10-15 percent each year. (Armstrong and Associates).
- ii. Total logistics activities make up 15-20 percent of finished product costs. (International Warehouse Logistics Association)
- iii. Nearly 75 percent of U.S. manufacturers and suppliers are either using or considering a contract logistics service, and that figure will go higher (survey by Ernst & Young LLP).
- iv. 75 percent of Fortune 500 manufacturers utilize 3PL services. 50% or more have used 3PLs for five or more years. 75% would increase their use Warehouse management and transportation services are the most frequently outsourced logistics functions (Source: Northeastern University/Accenture Annual 3PL user survey, 2006, Reed Business Information)

### IV. **How Fulfillment Warehousing Works**

#### A. Stock is owned by the Manufacturer/Supplier

#### B. All systems are set up in Supplier's name

#### C. Invoiced per service, storage and freight

#### D. Supplier selects how orders are to be sent in/out of warehouse facility

#### E. Facility advises of shipping and inventory information regularly

#### F. Order turn around usually within 1-3 days

#### G. Services Available

- i. Storage, Pick & Pack, Cross docking
- ii. Domestic Freight & International Freight
- iii. Re-labeling, bar coding, EDI support
- iv. Order Entry, Customer Support
- v. Bookkeeping

#### H. Other

- i. Minimums may be required on monthly or weekly basis
- ii. Pay for service on flat rates or percentage with minimums
- iii. Warehouses specialize – ecommerce vs. wholesale distribution
- iv. Property Insurance considerations

**V. ATC International Services for Australian Companies****A. Trade Show Start Up**

- i. Guidance with developing a US price list in preparation for a trade show (1 hour consultation via phone)
- ii. 3 months usage of ATC's US address and toll free number
- iii. Order enquiries and faxes are immediately forwarded

EXAMPLE: Safety Equipment Outdoor Retailer Show

**B. Sample Shipment Service**

- i. ATC is Importer of Record
- ii. ATC facilitates getting through US customs and forwards onto trade shows or buyers
- iii. Limited hold ups with US Customs, quick response to concerns
- iv. Impresses the US buyer by coming from a local warehouse

EXAMPLE: NY Gifts, World Ag Expo, Fancy Foods, G'day LA

**C. Direct Delivery**

- i. ATC is Importer of Record
- ii. Delivery from US port to Retailer warehouse/store (FIS terms)
- iii. Larger orders going direct to one location
- iv. Buyer not hassled by US customs
- v. Delivery is set up like a local vendor delivery – fits in with retailer guidelines

EXAMPLE: Soap Products & Wool Underlays

**D. Cross-docking Service**

- i. Supplier does not hold stock in the USA
- ii. Orders are picked in Australia and consolidated into one shipment to ATC
- iii. ATC can be Importer of Record
- iv. ATC receives the shipment and dispatches to individual stores within 24-48 hours from receipt at ATC's warehouse.
- v. Ideal for shipping orders from Trade Shows
- vi. Provides the impression of holding stock in the US without the investment
- vii. Returns, CODs, and customer service are handled through ATC

EXAMPLE: Maternity Clothing

**E. Pick & Pack Warehousing**

- i. ATC holds stock
- ii. Ship within 24 hour from receipt of order/packing slip
- iii. No order is too big or too small – no minimums
- iv. Tracking and freight information are sent via email on date of shipping.
- v. Notification when shipment is rec'd is emailed automatically (UPS Shipments).
- vi. EDI set up and ongoing EDI replenishment services
- vii. Assistance with understanding US retailer requirements for larger shipments/orders

EXAMPLE: Men's hosiery

- F. Basic Business Management
    - i. US Address, Phone Number, Light Customer Service
    - ii. Collections, Bank Deposits, Credit Application Processing and other services available upon request
    - iii. Accounts Managed in Australia with assistance from ATC when requested
    - iv. Pay only when you request the additional services
  - G. Premium Business Management
    - i. Accounts Managed by ATC
    - ii. Monthly Reports to Australian Company
    - iii. Collections, Bank Deposits, Credit Application Processing as needed
    - iv. Additional services set up and utilized when required automatically
- VI. **ATC International Advantages**
- A. Over 16 years experience with importing Australian consumer products into the USA
  - B. Immediate assistance with identifying differences between Australian – US business practices and areas where there could be misunderstandings
  - C. Experience selling Australian consumer products to US buyers (16 years)
  - D. Vested interest in maintaining a good reputation in the Australian market and with Austrade and other state government organizations
  - E. Familiarity with shipping to all types of US retailers including: department stores, specialty retailers, boutiques, catalogs, e-commerce, direct to consumer, volume discounter, TV networks, mom & pop shops
  - F. Small enough to react quickly and to become very familiar with products and people in the supply chain
  - G. Large enough to service national and international shipping needs
  - H. Services expressly designed for other successful Australian exporters
  - I. Regular visits to Australia
  - J. Warehousing on both the East and West Coast of the USA

### **Trade Show Shipments**

- Before shipping trade show materials to the US, confirm that the trade show organizers will act as Importer of Record. If they will not, have someone in the US assist with importing the shipment.
- Allow 5-15 days of extra time for trade show shipment clearance through US Customs, depending upon if it's sent via air or sea.
- Samples must have a value assigned to them on the commercial invoice.
- All products in the shipment (i.e.; give aways, promotional materials etc) must be declared on the commercial invoice.
- Take real orders at Trade Shows; be ready with a US friendly price list.

### **Import Costs**

- Duty rates are subject to change but putting the HTC (Harmonized Tariff Code) on the commercial invoice helps to avoid mis-classification and changes in duty rates.
- US Customs examines 20% of all import shipments.
- US Customs exam fees are passed on to whoever is paying the import and clearance costs in addition to storage fees.
- Some US Customs exams can take weeks (container shipments) others just take an additional day or three (air freight).
- Shipments going from the US to Canada will incur additional duty rates – specifically, Canadian duty on Australian made items.

### **For Developing the Strategy**

- Get as much information about the market, the competition and pricing as possible. The Queensland Government and Austrade provide excellent information about the US market.
- Look for a product niche – narrow the target market focus based on price, product type or geographical region.
- Be an expert – offer a select, smaller range of products.
- Smaller orders are a great way to test the market and the systems. Smaller buyers are more forgiving. Mistakes made in shipments to bigger buyers may result in losing a valuable business opportunity. Treasure the small start up orders.

### **For Starting Out**

- How you start out selling is usually not how you will end up selling to the US.
- Maintain an address that is separate from sales agents for receiving payments.
- US buyers pay by check. They do not pay by wire transfer.
- Open a US\$ bank account in Australia first.
- It's not necessary to set up a US company in the beginning unless the product is subject to liability issues.
- Visit key customers and the market at least once a year.
- Be patient. It may take 2-3 years to achieve a profit.
- Don't be too quick to put stock on hand in the US. Invest in airfreight first.
- When traveling to the States, allow a bit of time for relaxing, adjusting to the time difference and to enjoy yourself!



## A Few US Definitions

**MID or Manufacturers ID Number** – Applies to all shipments containing textiles or clothing. Generated by the Customs Broker with the first shipment into the USA. All commercial invoices for textiles & clothing must show the name and address of the manufacturer by item or group of items. The broker then assigns a MID. Express carriers may require manufacturers name and address on all shipments in addition to the MID. Manufacturer refers to the company that provides the article with its country of origin. The MID replaces the Textile Declaration form.

**FDA Registration Number** - All companies sending food samples or product to the US must register with the FDA at [www.fda.gov](http://www.fda.gov). The registration applies to each factory location producing goods destined for the US market. Anyone importing food in the USA must also be registered with the US FDA.

**Prior Notice** – Any food shipment into the US must be filed before it arrives into port with the US FDA. Prior notice should be completed by the shipper, freight forwarder or importer as to be determined in advance of the shipments departure. Prior notice must be completed online via the US FDA website. [www.fda.gov](http://www.fda.gov)

**Federal ID Number or Employer ID Number (EIN)** – Equivalent of an ABN in Australia. Registers your company with the US Tax Office (the Internal Revenue Service). EINs are required for setting up a US bank account, importing certain products into the USA, obtaining insurance in the US and for organizing credit card facilities in the USA. It is possible to register and obtain a EIN as a foreign corporation doing business in the USA but yearly filing with the IRS will be required to remind them that you pay taxes in Australia, not the USA, unless you set up a corporation or entity in the US which will also provide your company with an EIN.

**FOB** – Term usually used on US Wholesale Price List to imply that the buyer pays freight from a US-based warehouse to their store or distribution center.  
*le; All Prices FOB Inglewood, California*

**COD** – Cash on Delivery – useful for shipping to smaller shops and boutiques for the first few times or if their credit rating is not good. Cash on Delivery actually refers to a company check, cashiers check or money order. Specify the COD preference on order forms or under trading terms.  
*le; "Orders sent COD must be paid for by cashiers check or money order. Company checks are not accepted."*

**Net 30 Terms** – Refers to providing a customer with credit for 30 days from date of invoice. Usually Net 30 Terms are given to larger retailers automatically or for smaller customers, only after a credit application has been received and the vendor has approved credit.  
*le; "Net 30 Day Terms Available with Credit Approval only."*

**EDI** – Electronic Data Interchange – used to transmit all documents and shipping information pertaining to an order between vendor and retailer. Particularly important when dealing with larger US retailers and department stores.