AN EVALUATION OF THE INTERNATIONAL IMPORTS PROCESSES FOLLOWED BY COMPANY CC WITHIN THE XYZ GROUP IN SOUTH AFRICA

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Abstract

Many businesses do not understand whether their international sourcing methods maximise profits and offer return on investment. This is owing to limited research being done with regard to procurement models that are utilized by companies, as well as whether these models in fact embrace the basic logistical elements of price, transportation and inventory costs. International sourcing is typically driven by cost considerations and has a cost advantage over domestic sources. However, they should have profit maximisation as the ultimate end goal. As with many other retailers in South Africa, Company CC within the XYZ group has not undergone any research in order to understand whether their international sourcing methods are efficient and effective in order to maximise profits. It is also important to understand what the risks are that are associated with imports. Imports are associated with various complexities, which impact on the way that we plan our business. It is therefore important, as a starting point, to ascertain whether the employees at Company CC within the XYZ group understand the process of imports and what it involves.

1. Introduction

Businesses are increasingly looking at international trade as means to boost their business opportunities. There are numerous reasons for the inadequacies of operating models that are constructed to procure and pay for goods and services. These tend to include a lack of or incorrect usage of processes, tools or resources that are required to execute the sourcing strategy. Profit maximisation and return on investment is an area that is poorly understood with regards to international sourcing methods. This is due to the lack of research being done in this area. International sourcing is typically driven by cost considerations and has a cost advantage over domestic sources. However, they should have profit maximisation as the ultimate end goal.

2. Background to the problem

Company CC is flagship retail outlet in the XYZ Group. The first Company CC store that was opened in 1968 had a clear philosophy, which was to offer customers everyday products at the best possible prices. This philosophy meant that products would have various sources of origin,
including overseas countries in order to ensure the best prices. Company CC has not undergone any research in order to understand whether their international sourcing methods are efficient and effective in order to maximize profits. The basic logistical elements of price, transportation and inventory costs requires to be a detailed part of procurement models that are used in companies because profitability is a direct result of the procurement model used.

The XYZ Group consists of various subdivisions, namely:

- Company H – a Health, Home and Beauty specialist retailer;
- Company M & D – a courier pharmacy, which delivers chronic medicines country wide;
- Company PD – the largest full-line pharmaceutical wholesaler in the country that supplies retail pharmacies, private hospitals, dispensing doctors and retail health stores;
- Company S – a retail chain that specializes in home entertainment; and
- Company B & S – a high profile global brand, which markets naturally inspired beauty products, and focuses primarily on the middle to upper income groups. Company CC manages Company B & D under a franchise arrangement in South Africa.

Company CC has been using various models of procurement for importing without understanding whether they are effective in terms of return on investment. Company CC purchases imported products into a centralized Cape Town distribution centre. These products are then transferred to various regional distribution centers in Durban and Centurion, South Africa. Stores then draw stock from their respective distribution centres. The purchasing patterns are hence done with a national view in mind. This impact on the quantities that are purchased, pricing, transport costs, duties and storage costs. The purpose of this study is to analyze and evaluate the current procurement model/s that are utilized at Company CC in terms of effectiveness, and to understand whether all costs have been factored into the process in order to attain maximum profits. It is also important to understand what the risks are that are associated with imports. Imports are associated with various complexities, which impact on the way that we plan our business. It is, therefore, necessary to ascertain, which is the most effective procurement model, and to then recommend the most suitable and effective model for Company CC.

3. Problem statement
The Company CC has been using various models of procurement without understanding whether they are effective in terms of return on investment. There is no understanding or analysis, which has been undertaken by the business in order to ascertain whether these models of procurement in fact maximise profits in the organisation. There is also no insight as to whether Company CC staff understands the imports process, and in order to maximize profits, you should have a clear understanding of the process and what it involves. According to Company CC in-house data, which was analyzed in February 2012, imports contribute 12% to Company CC’s total sales and 22% to Company CCs’ total margins. Private label contributes 67% of all imports, and imported products contribute 21% of Company CCs’ total product catalogue. By the end of February 2012, 39% of Company CC overstocks were owing to imports, with a committed stock percentage of 48% (Company CC In-house data, 2012). This study evaluates the knowledge base of the employees at Company CC, and evaluates various models of procurement in order to ascertain, which are the most effective in terms of profit maximisation and, in turn, to then recommend the way forward for Imports in Company CC.
4. **Research aims and objectives**

According to economic theory the goal of each company is profit maximization. In order to achieve profits, certain strategies need to be put in place within organizations. Strategic sourcing is hence becoming a focus area in most organizations, in order to achieve the ultimate goal. The importance of understanding the fundamentals of sourcing and how it ties into the strategy of the company is vital to achieving this goal of profit maximization. The aim of the research is to formulate the most effective strategy for procuring imported products in Company CC in order to maximise profits.

The results should contribute to a clear understanding of the imports process, thereby using the procurement methods to its full potential in order to maximize profits. As a result the sourcing strategy within Company CC will be reviewed to ascertain whether it relates to other sourcing strategies in practice.

The following research objectives were postulated in order to achieve the purpose of the study. These include the following:

- To evaluate an understanding of Company CC staff with regard to imports;
- To determine whether Company CC staff understand the risks involved when importing products;
- To determine the effectiveness of the current procurement model used at Company CC; and
- To make recommendations by means of an effective imports strategy that will ensure profit maximisation.

5. **BRIEF LITERATURE REVIEW**

The importing of goods comes with various complexities and processes and involves many different parties in order to be successful. Tradestream (2013:6) has simplified this into two workflows, as the first occurs prior to the purchase order and the second occurs after the purchase order. Figure 1 below is a graphical presentation of the flow of the imports process. Prior to the purchase order, the processes would include:

- Sourcing;
- Costing;
- Tariffs; and
- Purchasing Foreign Exchange.

Subsequent to the purchase order would include the following processes:

- Logistics;
- Clearing; and
- Settlements and Payments.
5.1 Sourcing

As stated by Cavusgil et al. (cited in Fraering & Prasad, 1999: 451), international outsourcing represents an opportunity to obtain materials at a lower cost than is available in the home country. The General Agreement on Tariffs and Trade (GATT) and the establishment of the World Trade Organisation (WTO) have assisted to globalize the sourcing option. However, in determining, which country to procure from, the organization should stay away from nations that have high tariffs, volatile currencies and poor infrastructure. Sourcing decisions should be consistent with the logistics strategies in terms of tight supplier communication, integrated logistics and reliable delivery in order to minimize the overall costs over the entire supply chain. Prior to importing a product, the right product must be sourced from the right supplier. In order to do this, an organization will require a strong supplier base from which to select (Tradestream, 2013:7). According to Mahadevan (2009:323), there has been a significant change in trading partner relationships. From an era of ‘independence’ between the supplier and buyer, it has been transformed into an era of ‘mutual dependence’ and even further into a ‘state of interdependence’. The increasing cost pressures that are prevalent in organisations translate directly into considering ways and means to reduce costs of goods while increasing quality, performance and competitive advantage.

Lawrence and Lorsch (cited in Fraering and Prasad, 1999: 454) mention that contingency theories suggest that optimal organizational design is determined by interaction between the environment and characteristics of the firm. The purpose of the contingency model below, as depicted in Figure 2, is to predict sourcing strategies, which result in maximum performance based on product, organization and location specific conditions.

Fraering and Prasad (1999:454) believe that the type of product will have an influencing factor on the sourcing decision. The way that a company is managed will also influence the sourcing decision. Ellram and Siferd (cited in Fraering and Prasad, 1999: 454-455) firmly agree with the fact that operational effectiveness is a vital factor, which ultimately affects the sourcing decision. In addition, a firm’s innovation affects its ability to cope with the changing dynamic environment, which indirectly affects profitability.

According to Fraering and Prasad (1999: 453), an organization will reap the rewards of global sourcing only if it has an efficient logistics system to support it. Picard (cited in Fraering and Prasad, 1999: 453) lists factors that are of utmost importance when sourcing internationally, and these include:

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**Figure 1: A high level graphical presentation of the Imports Process**
• Variances in transport reliability;
• Frequency of shipments;
• Custom clearances; and
• Tariffs.

**Figure 2: Contingency model for sourcing and logistics strategies**

![Contingency model diagram](source)

*Source: Fraering & Prasad (1999: 454)*

### 5.1.2 Supplier Selection

According to Chan, Kumar, Tiwari, Lau and Choy (2008:3826-3828), selection of a global supplier is a complicated and risk prone task. Selection of suppliers is one of the most important aspects that firms must incorporate into their strategic processes. The direct and indirect consequences of poor decision making in selecting suppliers will become more critical as organizations become more dependent on suppliers. The frequent changing of global suppliers is not feasible in current globalized and competitive markets; hence this should be done with great precision. Most researchers have identified cost, quality and service as their prime decision criteria when selecting suppliers. According to Fredriksson and Jonsson (2009: 229), in order to create stable and cost efficient supply chains, it is crucial to match the right product with the right supplier at the right location.

According to Tradestream (2013:7), there is a growing importance of purchasing and the identification, selection, development and management of the proper suppliers. There can be serious consequences owing to the selection of a poor supplier:

• Out of stock situations which result in a loss of sales;
• Recalls of products owing to poor quality or out of specification components;
- Weakening of an organisation’s competitive position; and
- Company or brand damage.

According to Tradestream (2013:7), a possible set of criteria to use in the selection of suppliers would include the following:

- **Quality** – the quality of the final product means improved customer service and satisfaction and thus leads to competitive advantage of the organization;
- **Price, cost and cost structure** – quality and other key criteria cannot be compromised for cost;
- **Delivery** – the importance of on-time delivery is of utmost importance;
- **Time** – time-based competition, which includes a reduction in lead times;
- **Flexibility** – this is important particularly when a supplier must be selected for an integrated supply chain. The adaptation of a supplier to changing business conditions, different needs and developing new products and services is a key asset;
- **Service** – suppliers should be able to surpass in all aspects of customer services, including the quick resolution of complaints and claims, even changes in delivery;
- **Financial status and risk assessment** – it is imperative to assess the financial condition of a possible supplier, as this reduces the risk factor. This is the most important criterion for initial screening of all possible suppliers; and
- **Environment, ethics and social responsibility** – it is of utmost importance that suppliers become increasingly sensitive to the environment and environmental issues. These include: the adoption of environmental management systems, environmental friendly packaging, both for product containerization and for use in transit, reuse, recycling and remanufacturing, waste disposal and the cartage of hazardous materials and toxic waste.

In order to guarantee that the above criteria are met before entering into an agreement with a supplier, importers should ensure that the supplier’s factory undergoes a Factory and Social Audit. Audits are usually performed by a third party specialist and are a good way to assess includes the following:

- Machinery is in working order and is suitable to manufacture the product;
- Factory management is capable of performing the necessary processes;
- Finished goods are stored safely;
- Production is executed in a timely fashion;
- Workplace health and safety;
- Working hours and wages;
- Child labour; and
- Discipline and discrimination in the workplace.

The process of selecting a supplier can be relatively simple to being complicated and difficult. This selection is not made in isolation, but takes into account environment and company policies, strategies and specifically purchasing and supply policies. Figure 3 below summarises the challenges that organizations face when sourcing from China. According to Towers and Song (2010:533), developing a strong understanding of the buyer’s requirements will ensure a mutually beneficial trading relationship within the sourcing process.

### 5.1.2.1 Advantages and disadvantages of international suppliers

Levy (cited in Fraering and Prasad, 1999: 453) adds that disruptions in supply chain results in higher costs owing to expedited shipping, larger inventories, and lower demand fulfillment when
shipping and lead times are long. Production-related disruptions are caused by quality standards and specifications not being met, late deliveries from suppliers, and other internal production-related difficulties. These are all disadvantages to importing products. Levy, Markides and Berg (cited in Fredriksson and Jonsson, 2009: 230) state that distance and means of transport affect lead times, and lead-time lengths, in turn, affect a company’s ability to respond to demand changes, market and increases in response times. Levy (cited in Fredriksson and Jonsson, 2009: 230) emphasizes that long lead times may increase costs in terms of expedited freight, unfulfilled demand, tied-up capital, extra inventory, and managerial time spent on “fire-fighting”. Caddick and Bale (cited in Fredriksson and Jonsson, 2009: 230) point out those long distances also increase the length of communication lines, thereby decreasing the closeness of contact; making problem solving at an operational level a bit more difficult. For South African buyers there are, however, also disadvantages, namely:

- Higher transport costs;
- Longer lead times;
- More administration;
- Exchange rate risks;
- Political risks; and
- Cultural barriers.

5.2 Costing and foreign exchange

5.2.1 Costing essentials

Numerous costs are incurred when importing a product, over and above the cost of the product itself. According to Tradestream (2013:20), these can be broken down into the following categories or cost groups:

- Supply – the cost of the product as per the supplier’s invoice;
- Freight – including freight costs and fuel surcharges;
- Forwarding – including consolidation fees, transport or cargo to the port of loading;
- Clearing – including port fees and transport from docking to the final destination;
- Customs – the duty charges incurred on a product, as well as any additional tax;
- Agent’s commission – usually a percentage of the order amount owing to a third party agent;
- Insurance – cost to insure the goods; and
- Internal provisions – additional “just in case” costs.

The total of all these cost lines across the various cost groups is used to calculate the landed cost of a product. At various stages of the import process, as more information is attained about the order, the importer will attempt to determine the specific costs, which should be incurred for the order.

According to Tradestream (2013:21), during the initial stages of the supplier negotiation process, buyers will perform a cost calculation to establish whether a product is viable for import. This initial cost is referred to as the Estimated Landed Cost or ELC. The ELC should accurately estimate the landed cost of goods to ensure that the buying margin can be realized on the order that is placed. Due to the nature of the importing process, costing variables can change between the point of calculating an ELC and the point of raising the purchase order (PO). It is, therefore,
imperative to recalculate the landed cost of the product. This subsequent costing is referred to as the Confirmed Landed Cost (CLC) and is usually done prior to raising an order.

5.2.2 Landed cost calculations

According to Tradestream (2013:21), for an accurate CLC, the calculation should be thorough and detailed. This is achieved by defining the import costs, which are specific to the product and the various factors, which influence these costs, including:

- Incoterms;
- Exchange rates;
- Order quantity;
- Order volume;
- Settlement dates;
- Ship mode;
- Ship dates; and
- Transport routes.

The actual landed cost (ALC) is the simplest of all three calculations, as it is based on actual figures. This calculation is completed at the end of the imports process once all invoices and all direct and indirect costs are known. The purpose of the ALC is to determine what the actual cost of importing the product is. With visibility of both, the organisation can analyse the variance in value between the ALC and the CLC. The organisation can also analyse to what the variance is attributed. These aids in identifying problem areas in costing and one can then make an informed decision as to how to mitigate costing variances between CLC and ALC. Unforeseen costs are always a possibility, but the aim is to ensure that profit is guaranteed when importing a product.

5.2.3 Tariffing

The definition of tariff is “an official list showing the duties or customs imposed by a government on imports or exports”. Duties are imposed on imported goods in order to raise their effective costs, thereby increasing the demand for locally manufactured products. Every imported product is assigned a specific tariff code or heading, which, in turn, is linked to the duty or duties that are payable. Tariff codes are derived by using the following criteria:

- Detailed description of the product;
- The composition of the product in terms of the materials, which are used in the construction of the product; and
- The country of origin, which indicates where the product was manufactured.

An accurate tariff code relies on accurate information received. An internationally recognized tariff book, known as the “Harmonized Customs and Excise Book”, is used to determine tariff codes. A correct tariff code is vital from a costing perspective, as duty percentages can differ hugely, between 0% and 45%, depending on the code that is used.

According to Tradestream (2013:23), the list of duties, which is linked to the tariff code, depends on the following criteria:

- The value of the goods;
- The volume or quantity of the goods; and
- The actual tariff classification or the tariff code of the product.
Common import duties include:

- Customs Duty – levied on imported goods and is usually calculated as a percentage on the value of the goods;
- Ad Valorem Duty – levied on a wide variety of luxury or non-essential items, for example, perfume or firearms. Calculated as a percentage of the value of goods;
- Anti-dumping duty – levied on questionably low-priced products to increase their price in the importing country and so protect local industry from unfair competition; and
- Customs Value added tax (VAT) – levied at 14% on the majority of imported goods. It is not a cost, which is directly payable by the importer, but is transferred to the end consumer.

Kim and Hwang (cited in Fraering and Prasad, 1999: 453) believe that quantity discounts are a means of offsetting tariffs and higher transportation costs, which are encountered when purchasing internationally.

5.2.4 Foreign exchange essentials

Foreign exchange is the exchange of one currency for another. Banks are the natural intermediaries between the demand for, and supply of foreign exchange. The foreign exchange market assists international trade and investment by enabling currency conversion. Exchange rates are nothing more than the price of one currency, which is expressed in terms of another.

5.2.4.1 Types of rates

Selling and buying rates are always from the bank’s point of view. The selling rate is the rate at which the bank sells foreign currency to a customer in order to effect payment for goods that are purchased overseas. The buying rate is the rate at which the bank will buy foreign currency from an exporter, which has been received in respect of goods that are sold overseas. The bank’s selling rate will always be more expensive than its buying rate.

5.2.4.2 Forward exchange contracts

Events during past decades have highlighted the volatility of exchange rates. There are various factors, which impact on exchange markets such as economic, technical, political and psychological factors. As a result of this volatility, the need for and use of forward exchange contracts has been reinforced. This is particularly the case amongst commercial enterprises that seek to secure profit levels in the domestic currency, such as the Clicks Organisation. A forward exchange contract protects one from possible exchange losses, should there be an adverse movement in the exchange rate. However, it precludes one from making a fortuitous profit, should the exchange rate move in one’s favour. The objective of this contract is to restore one to the original position that one wanted to be in at inception. The object of entering into a forward exchange contract or “covering forward” is to immediately fix a rate of exchange for the purchase or sale of a foreign currency to be delivered on an agreed future date. Hence, it is intended to free the buyer or seller from exchange rate fluctuations, which might occur between the commencement date of the contract and the value/delivery date of the contract (Tradestream, 2013:25).

Advantages of forward exchange contracts are that they cater for diverse types of commercial and financial transactions and both importers and exporters can make use of it; the organisation is
protected against unfavourable exchange rate fluctuations; the exact value of the import order can be calculated on the day it is processed; and budgeting and costing are accurate.

There are, however, also disadvantages of foreign exchange contracts. Once a company has covered a transaction with a forward foreign exchange contract, it cannot take advantage of the preferential exchange rate movements. If an order is cancelled or there is any surplus amount that is outstanding on a forward exchange, it must be surrendered at the prevailing spot exchange rate, which can result in financial loss. Early deliveries, extensions, surrenders and cancellations during the fixed period of a forward exchange contract are done on a swap basis, which causes additional administration (Tradestream, 2013:25).

5.2.4.3 Spot rates

Exchange rates are quoted on the basis of their value or delivery date. Exchange rate quotations, which have a value date of two days are called spot rates (Tradestream, 2013:26).

5.2.4.4 Forward rates

Tradestream (2013:26) stipulates that if an importer wishes to fix an exchange rate with a value date sometime in the future, then they will enter into a forward exchange rate contract with the bank and the exchange rate is termed a forward rate. One determines the forward rate by increasing or decreasing the spot rate by the difference in interest rates between the currencies that are involved. This interest differential is known as the forward margin and is measured in points. When points are added to the spot rate, there is a forward point’s premium; when points are subtracted from the spot rate, there is a point’s discount. The calculation of the number of discount or premium points to subtract from or add to a forward exchange contract is based on the following formula:

\[ \text{Premium/discount} = (\text{exchange rate} \times \text{interested rate differential}) \times \left( \frac{\text{days contract duration}}{360 \text{ or } 365} \right) \]

5.2.5 Settlement of international transactions

According to Tradestream (2013:34), when an importer enters into negotiations with a prospective supplier, the aspect of payment assumes great importance. Two important considerations are when the payment will take place and how the payment will take place. From the exporter’s point of view, the most satisfactory arrangement would be to receive payment for his/her goods in advance. Conversely, the importer would like to delay paying for the goods as long as possible. There is usually a compromise between the importer and the exporter, and a limited period of credit is given. It is important that the commencement date of the credit is clearly defined, for example, 90 days from bill of lading or 90 days from invoice date. Payment terms are also important elements to consider in conjunction with price and quality of the goods. Import and export transactions are settled through the international banking system and no movement of currencies from one country to another should be involved.

5.2.6 Forwarding and clearing

According to Richards (n/d:1) freight forwarding and international buying are inextricably linked. When an order has been placed with an international supplier, the goods are required to be delivered. The international freight forwarder is the organization that has the necessary skills, infrastructure and expertise to ensure that the delivery function is carried out. International orders
take time to process and deliver, and there are often delays owing to circumstances. The freight forwarder co-ordinates the activities of various organizations, which include aspects such as shipping, groupage operators, container terminal and depot operators, port authorities and customs brokers. This is done to give the importer one point of contact. The freight forwarder ensures accurate information, timely feedback and regular communication between the supplier and the importer. Hence, the overall aim of the freight forwarder is to provide importers with a reliable and cost effective delivery service. According to Tradestream (2013:28), once manufacturing is complete, the supplier will make a booking with the selected carrier or logistics service provider to pick up the cargo and deliver it to the necessary location.

### 5.2.7 Shipping and modes of transport

The management of transport is important as it ensures that the products are received on time at the place where they are required and in a usable condition. The large costs involved in managing inbound transport are a compelling reason for efficiency in this regard. A good transportation system can enable a firm to achieve a competitive advantage by helping to satisfy customer needs faster and at a lower cost. Tradestream (2013:29) summarises a few key factors to consider when choosing a suitable transport mode:

- Nature of commodity, which includes dimensions and weight, and whether special facilities are required;
- The degree of packaging and costs thereof;
- Cargo handling and the possibility of damage;
- Transit time and the urgency of the consignment;
- Overall transport costs and evaluation of alternatives;
- Reliability and service quality; and
- Availability and flexibility of the mode of transport.

According to Finch (2008:540-544), there are various modes of transport that are available, which are described below.

- **Air** – despite the relatively high costs, this mode of transport has increased dramatically. It is normally limited to high value and small mass products owing to its high costs. The principle advantage is the speed at which goods can be transported. As lead times are shorter, it is unnecessary to keep large stock quantities, which reduce the requirements for working capital. Consumer items that have a short life cycle or a short shelf life are often transported by using air freight.
- **Road** – this mode is relatively fast. It is more expensive than rail transport, and the risks are greater with regards to accidents and hijackings. There are also strict legal requirements that should be met. This mode is usually used to transport goods from manufacturer to warehouse or distribution center.
- **Rail** – although this mode of transport is particularly suited to long distance mass transport, it is bound to outlets in terms of infrastructure.
- **Sea** – due to the nature of shipping, it is possible to transport large quantities of goods. Although it is a relatively slow method of transport, the risk of damage is generally smaller and costs are lower.

### 5.2.8 Customs clearing

According to Tradestream (2013:30), as soon as the shipping line sends an Arrival Notification (ANF), official notification informing the shipment’s arrival, the process of customs clearance
can begin. Often importers will contract clearing agents to handle the customs clearing activities on their behalf. In the case of the Clicks Organisation, this is also done by Expeditors. These activities include compiling and submitting the necessary declaration and import documentation to SARS in a timely manner. For declaration purposes, SARS has implemented a Single Administrative Document (SAD-500), which is a multi-purpose goods declaration form, which covers imports, exports, cross border and transit movements, and thus simplifies the clearance process, reduces paperwork and allows for quicker turnaround time.

5.2.9 Import documentation

According to David (2009:128), a large number of documents are required by countries in which goods are imported. The reasons why documents are required are:

- to ensure that no inferior quality goods are imported;
- to help to determine the appropriate tariff classification;
- to help to determine the accurate value of imported goods;
- to protect importers from fraudulent exporters; and
- to limit inappropriate imports of products.

The following supporting documents are required to accompany the completed SAD-500 form when it is submitted to SARS for their approval:

- Transport documents, including an ocean / master bill of lading – a transport document issued by the shipping line, which certifies the carriage of cargo on behalf of the importer;
- Commercial invoice – a document stating the value of the goods that are imported; the buyer and seller’s details and the date and terms of sale
- Packing list - a list of goods in shipment;
- Certificate of origin – a document stating the shipment’s country of origin; and an
- Imports permit – a document stating that the importer is permitted to bring in a specified quantity of goods.

Submissions of declarations may be manual or via electronic data interchange (EDI). The customs clearance process includes acceptance and verification that the goods declaration is consistent with the documents that are provided, inspection of cargo, as well as the collection of duties and VAT. SARS requires that customs clearance takes place within 7 days of the goods being deemed imported. However, clearance turnaround should preferably occur before the vessel arrives at port so that cargo can be released immediately and be transported to its final destination. If importers fail to declare goods accurately and in a timely manner, the cargo may be detained and removed to a state warehouse. Only once all customs requirements are met, will the goods be released to the importer upon receipt of state warehouse rent. SARS has the right to sell any unclaimed goods at a public auction after a set time, the proceeds of which go towards duties, VAT or other expenses.

5.2.10 Movement of goods from port to stores

According to Tradestream (2013:33), there are several activities, which must take place post customs clearance and prior to goods being discharged from the port. These activities include the settling of cargo dues and other fees, which are payable to the ports authority; obtaining carrier release from the shipping line; and passing a container terminal order to the ports authority. The documents that are required to be provided to the shipping line prior to cargo being released includes the SAD-500 customs declaration, which is authorized by SARS, proving that the goods have been customs cleared; cargo dues order authorized by TNPA, proving that cargo dues have
been settled with the port and the ocean bill of lading. This should all happen within a set number of days, which is known as ‘line free days’ in order to avoid demurrage charges. The transporter or agent should present TNPA with a container terminal order (CTO); which is a pass that the port must pass before the container is transported from the port vicinity. If all procedures are adhered to, container haulage is arranged. Containers are usually either transported by the shipping line itself (carrier haulage) or by a third party logistics service provider (merchant haulage). Once the container has been delivered to the required destination and the cargo has been unpacked, the empty container should be returned to the shipping line. This should also happen within a set number of days in order to avoid paying a detention fee.

5.3 Purchase orders

According to Richards (n/d: 21-22) purchase orders or indent forms are critical in the international buying process. It should be designed as a summarized clear instruction to the supplier and should cover the following aspects:

- Purchase terms;
- Mode of transport;
- Forwarding agent;
- Distribution of documents;
- Method of payment;
- Description of goods ordered;
- Price of goods;
- Shipping marks;
- Port of Shipment; and
- Destination of shipment.

5.4 Methods of payment

According to Doran (2006:1-8) and Tradestream (2013:35-37), the various options, which are available to importers are summarized below.

- Open account – this method does not require the presentation of the shipping documents to the bank and the delivery of the documents to the importer via the banking system. Payment is made on receipt of goods or at the agreed time relating to the commercial invoice or bill of lading dates.
- Letters of credit – this method is more secure for the seller. The importer commits to pay before receiving the goods. Payment is guaranteed by an irrevocable letter of credit, provided that the importer’s conditions are met.
- Documentary collections through the bank and confirming houses – this method involves sight drafts and term bills. This method gives the seller the protection of payment before the documents are released. This is used often as the buyer decides when he is ready to collect the documents, hence committing himself/herself to payment.

The method that is used will largely depend on the trust that exists between the seller and the buyer and their credit or cash requirements.

5.5 Groupage operator

A groupage operator consolidates a less than container load (LCL) into full container load (FCL) shipments, and in this way the smaller orders have the benefits of containerization. Most freight
forwarders act in dual capacity as they offer the groupage operator services as well (Richards, n/d:3).

5.6 Risks associated with global sourcing

According to Christopher, Mena, Khan and Yurt (2010: 67), certain risks are coupled with the many benefits that global sourcing holds for organizations. These risks are, however, not understood when making global sourcing decisions. Mitigation of these risks is also not clearly understood once global sourcing is in place. As cited by Mitchell (1995) in Christopher et al. (2010: 68), the element of risk in supply chains is a critical issue, since performance suffers owing to inability to manage it. Poorly managed risks can lead to a host of other issues, namely:

- Inaccurate forecasting;
- Lower product quality;
- Decrease in turnover and share price;
- Loss of reputation;
- Poor relationship with other members of the supply chain; and
- Conflict among the stakeholders of an organization.

5.7 Supply chain risk strategies

As cited by Christopher and Peck (2004) in Christopher et al. (2010: 68), there are five supply chain risk categories that are classified as follows:

- Process risk;
- Control risk;
- Demand risk may begin in the consumer market, but may have knock-on effects throughout the chain. Christopher and Peck (2004), as cited in Christopher et al. (2010:69), believes that demand risk “…relates to potential or actual disturbances to the flow of product, information, and in this instance cash emanating from within the network, between the focal firm and the market”;
- Supply risk is defined by Zsidisin (2003), Manuj and Mentzer (2008b) in Christopher et al. (2010:69) as “…the distribution of outcomes related to adverse events in inbound supply that affect the ability of the focal firm to meet customer demand (in terms of both quantity and quality) within anticipated costs and time, or cause threats to customer life and safety”; and
- Environmental risk, as defined by Christopher and Peck (2004) in Christopher et al. (2010:69) is that which “…may be the result of socio-political, economic or technological events many miles or organizations removed from the focal firm’s own supply chains, but may have carry-over effects through linkages to other industry networks”.

Although there are several strategies, which are suggested for risk management in the supply chain context, there are no models that focus specifically on global sourcing. Christopher’s (2005) in Christopher et al. (2010:69) models were adapted to propose a framework for strategies that mitigate global sourcing risks and these would include:

- Network re-engineering;
- Collaboration between global sourcing parties;
- Agility; and
• Creating a global sourcing risk management culture.

The above strategies are managed in isolation at present, but are inevitably interrelated; and hence require integration (Christopher et al., 2010:71).

5.8 Parallel imports

According to Pierre (2009:28), one of the greatest problems faced by a company, which is involved in several markets, is the risk of parallel imports. Parallel imports, which are also referred to as gray market goods, are goods that are sold outside of the regular distribution channels of a company. This usually occurs owing to a discrepancy in the price that is charged in one country in comparison with another country. Gray goods are not counterfeit products, but they are sold outside of the channel that is chosen by the company. Parallel imports occur in all sorts of product ranges. In order to avoid this, the company should have a coherent entry strategy, which means that there should be no discrepancies in price between various countries. There is no legal recourse, as the product is legitimate.

5.9 Dumping

According to Kostecki (1991:7-8), dumping is a permanent feature of marketing strategies amongst numerous companies, whereas anti-dumping complaints are increasingly resorted to as a defensive tool to stop the challengers. Dumping is defined as offering a product for sale in a foreign market at a price that is below “normal value”, where “normal value” is usually defined in anti-dumping laws as the price that is charged by an organisation in its home market. In the instance where the domestic price is nonexistent, the estimated cost of production is used, or the highest comparable price that is charged in third markets is used. A functional typology of dumping and related marketing strategies is schematically presented in Table 1 below.

Table 1: Dumping and export marketing objectives (Kostecki: 1991:8)

<table>
<thead>
<tr>
<th>Type of dumping</th>
<th>Export marketing objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cyclical dumping</td>
<td>To maintain export sales during periods of slack demand</td>
</tr>
<tr>
<td>Penetration dumping</td>
<td>Rapid gains in market share aiming to reach economy of scale in production and export distribution</td>
</tr>
<tr>
<td>Defensive dumping</td>
<td>To deter entry by other competitors</td>
</tr>
<tr>
<td>Early arrival dumping</td>
<td>Strategy driving at market leadership in a newly-invented product</td>
</tr>
<tr>
<td>Head-on dumping</td>
<td>Pricing strategy designed to attack a market leader in an export market</td>
</tr>
<tr>
<td>Predatory dumping</td>
<td>Strategy intending to establish monopoly in a foreign market</td>
</tr>
<tr>
<td>Accidental dumping</td>
<td>No deliberate intention to engage in aggressive export pricing</td>
</tr>
</tbody>
</table>

Dumping is not prohibited. An export company may practice dumping for the following reasons:

• It has some control over prices in at least one of the markets;
• It is able to segment markets so that cheap exports cannot be shipped back to its home market; and
• The elasticity of demand, which faces the organisation is higher for exports than for domestic sales.

The economic theory suggests that organizations that follow the general rule of profit maximisation would equate marginal revenue and marginal cost by charging higher prices in its home market than the export market (Kostecki, 1991:7).

5.10 Profitability

There are many reasons for a business existing, but the most fundamental is profitability. Without profitability no objectives in a company will be met, as the company will go bankrupt. According to Finch (2008: 38-39), the three most common measures of profitability are profit margins, return on assets and return on equity. Each of these compare the net income to a particular input and each is a critical measure of the success of operations. Profitability measures are measures of the productivity of money. Below are formulas for these profitability measures:

• Profit margin = income / sales;
• Return on assets = net income / total assets; and
• Return on equity = net income / total equity.

5.11 Supply chain models

According to Acar, Kadipasaoglu and Schipperijn (2010:3246), supply chain models are categorized in different ways. Generally, these are classified as:

• Analytical – which may be deterministic, stochastic or hybrid; and
• Simulation models.

In the management of supply chains, a major complicating factor is uncertainty. Key sources of uncertainty include supply, demand, lead times, transportation lead times and exchange rate fluctuations. These uncertainties have a negative effect on supply chain performance.

Meixell and Gargeya (2005), in Christopher et al. (2010:69) published comprehensive literature reviews on global supply chain models and concluded that:

• Global supply chain models should address the complex supply chain design problem by extending models to include both external supplier locations and internal manufacturing;
• Global supply chain models require a broader emphasis on multiple production and distribution tiers in the supply chain;
• Alternative objectives should be addressed in order to broaden definitions on performance measures that are used in global supply chain models; and
• Few models address the comprehensive practical global supply chain design problem.

Reasons for global sourcing includes lower labour, land, raw materials and facility costs. Methods such as Total Cost of Ownership (TCO) and Life Cycle Costing (LCC) have been widely advocated in literature to avoid narrow-minded views of costs. However, these methods are rarely utilized in practice owing to the fact that they are demanding in terms of time, data and cooperation (Milligan, 2000; Wouters et al., 2009 in Christopher et al., 2010: 69). In addition to the possibility of lower costs, benefits that are gained from global sourcing include access to new
markets, better quality and higher flexibility (Christopher et al. 2010: 69). However, these benefits cannot be guaranteed as they also come with increased risk exposure as depicted in various literatures.

In a personal interview with Roger Koch, he emphasized the fact that Clicks uses a demand driven forecasting model for replenishing their inventory. Risks that are associated with imports include obsolescence, long lead times and poor communication. Roger stated that Optimiza was a service allocation model.

According to Shapiro (2007: 404), better co-ordination of activities across company functions and between the company and its suppliers and customers will greatly reduce the uncertainty factor. Certain measure could include the following:

- Improving accuracy of forecasting by developing better forecasting models and by promoting better communication between various role players;
- Sharing supply chain information with suppliers, third party transportation providers and all relevant parties;
- Ensure that stock is accurately tracked;
- Consolidate number of locations that products are held and reducing product variety and
- Postponing product customization to later stages of the supply chain.

According to Shapiro (2007:406-408), inventory models are involve relationship that are not easily represented in optimization models. This incompatibility is rarely revealed by developers of supply chain models and is harbored as an “open secret”. The simplest of all models is the economic order quantity (EOQ) model. This model has found widespread application over past 50 years, due to its simplistic form and interpretation. When taking uncertainties like lead time into account, this model becomes the probabilistic model. The ABC classification method is used when product range is so diverse that it recognizes that a small percentage of the product range accounts for the majority of the sales. The percentage is usually split as “A” being 20% of product and accounting for 60% of the sales; “B” being 20% of product and accounting for 20% of sales and “C” being 60% of product and accounting for 20% of the sales.

According to Roger, the advantages of Optimiza include visibility, control and consistency. Some of the disadvantages of using Optimiza for imports ordering process at Clicks include the fact that skills are required to work the system and accountability as it is a centralized process. Roger believes that imports would be a more profitable business if it is a centralized competency.

Optimiza is a demand driven forecasting model and replenishment system mainly focused on distributors that have long lead times. Demand forecasting takes into account promotional and seasonal impact on stock. It has the functionality to model and project inventory levels and requirements. Optimiza provides excellent exception management and visibility and has the functionality to review and manage supplier lead times. Optimiza improves stock projections to assist in planning of Foreign Exchange. It also reduces surplus orders, thereby improving stock turn, reducing markdowns and obsolescence thereby increasing profits.

6. RESEARCH METHODOLOGY

It is important to understand that research is a never-ending process. Goddard and Melville (2001:1) state that research can be regarded as a process of expanding the boundaries of our ignorance. Saunders, Lewis and Thornhill (2009:5) define research as something that people
would systematically undertake to find out things. This includes collecting and interpreting data systematically in order to increase their knowledge regarding a certain field. According to Saunders et al. (2009:141-153), no research strategy is innately inferior or superior to any other. The ability to meet the objectives of the study and to answer the research questions are more important than the type of research strategy that is employed. The choice of the research strategy that is employed was guided by the research objectives and questions, the extent of the current base of knowledge, and the amount of time and resources that are available in order to complete the research. There are various types of research strategies that include: experiments, surveys, case studies, grounded theory, action research, ethnography, and archival research. The terms quantitative and qualitative are used extensively in business and management research to differentiate between both data collection techniques and data analysis procedures. Combinations of research techniques can be used and is often used in research since it may provide better opportunities to answer research questions (Saunders et al., 2009:141-153).

For purposes of this study, quantitative methods were utilised, whereby a questionnaire was compiled and distributed to employees in the merchandise department at Company CC. The respondents were able to indicate their choice by either circling or ticking their responses to the questions provided. The questionnaire is one of the most widely used data collection techniques within survey strategies. Each respondent is asked to respond to the same set of questions, and it provides an efficient way of collecting responses from a large sample prior to qualitative analysis (Saunders et al., 2009:361). The questionnaire/survey is a popular and common strategy in business and management research and is most commonly used to answer who, what, where, and how questions (Saunders et al., 2009:144).

7. RESEARCH FINDINGS

The aim of the research was to evaluate the understanding of Company CC staff with regards to imports, to determine whether there are risks involved when importing, to determine whether the current procurement model is effective and to then make recommendations based on the findings to ensure understanding and profit maximisation of imports. Saunders et al. (2009:399) explained that the overall response rate for questionnaires can be up to 60% depending on techniques used in the administration process. The data used in this study was collected by means of a questionnaire. A total of 75 questionnaires were distributed to Company CC employees in the merchandise department and 51 completed questionnaires were collected and captured. This presents a response rate of 68%, hence it can therefore be concluded that the sample is sufficient to obtain an accurate and valid response.

According to Table 2, 86.3% of the respondents agreed that SCM/JDA system was the system used previously to place import orders; 9.8% agreed that imports orders were placed manually; 2% agreed that Optimiza was previously used to place import orders and 2% suggested that other systems were used to place import orders previously. In table 3, 100% of the respondents agreed that Optimiza was the current system used at Company CC to place import orders.

<table>
<thead>
<tr>
<th>Table 2</th>
<th>The system previously used at Company CC to place import orders</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Valid</td>
<td></td>
</tr>
<tr>
<td>SCM /JDA system</td>
<td>44</td>
</tr>
<tr>
<td>Manual</td>
<td>5</td>
</tr>
<tr>
<td>Optimiza</td>
<td>1</td>
</tr>
</tbody>
</table>

70
According to Table 3, the current system used at Company CC to place import orders is Optimiza. The table shows the following:

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimiza</td>
<td>51</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

According to Table 4, 17.6% of the respondents strongly agreed that they had an understanding of how imports operate; 70.6% agreed; 9.8% was unsure and 2% disagreed that they had an understanding of how imports operate.

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>9</td>
<td>17.6</td>
<td>17.6</td>
<td>17.6</td>
</tr>
<tr>
<td>Agree</td>
<td>36</td>
<td>70.6</td>
<td>70.6</td>
<td>88.2</td>
</tr>
<tr>
<td>Unsure</td>
<td>5</td>
<td>9.8</td>
<td>9.8</td>
<td>98</td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

According to Table 5, 56.9% agreed that they have been given training on the imports system, whereas 43.1% have not been given training.

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>29</td>
<td>56.9</td>
<td>56.9</td>
<td>56.9</td>
</tr>
<tr>
<td>No</td>
<td>22</td>
<td>43.1</td>
<td>43.1</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

8. RECOMMENDATIONS

The overall findings indicate that there is a need for Company CCs’ employees to understand the imports process. There is also a need for training to be administered which includes strategies, costs and foreign exchange rates. An understanding about procurement methods and profit maximization needs to be summarized and trained on to all areas in the Company CCs’ merchandise department. It is with an understanding about the processes and how procurement and all other factors impact on costs and profits, in order to make imports a profitable business at Company CC.

With regards to the current system used at Company CC, which is Optimiza, there needs to be an in depth training session to all employees whether they utilize the system or not. Training should include the advantages and disadvantages of the system. In this way people understand the limitations of the system and can therefore plan around it. Knowledge about the way the system
works, and its limitations will result in employees making planned and informed decisions about imports purchasing and ultimately this will drive profit maximization as the ultimate end goal.

Further recommendations could include using a decentralised process where the buyer places their own orders and the system consolidates at loading port; to have more control over orders placed; to have a centralised ordering department; to make use of a shipping company that places and consolidates orders and negotiate that suppliers hold stock for Company CC.

The present national and international economic slump that has many businesses recounting their pennies is a starting point for further area of study. Further research studies could include the impact of the economic slump on profits at Company CCs and other retailers in South Africa. How to gain competitive advantage in this current economic environment is another area of study which could be researched. Further research can also be conducted to determine how to attract new customers into Company CC within the XYZs Group and keep them there as loyal customers. The research that can be conducted are quite endless, but very limiting if it is focused on one retailer. Company CC membership cards for customers can be another topic that can be researched in order to improve and maintain competitive advantage.

9. CONCLUSION

It can be deduced from the literature review that the imports process lends itself to potential risks, which requires an in-depth understanding in order to manage this risk. Imports are a means of creating competitive advantage by increasing profits, extending ranges, which are available to customers and satisfying the needs of customers. The imports process requires a thorough understanding, coupled with an effective system, which takes into account all aspects, including quality, price, stock holding, and supply chain. Price and quality plays a vital role as part of the strategy to either gain market share from competitors or/and to expand the market itself. The current market environment and economic climate has provided consumers with a variety of options, therefore, all of these should be achieved without the consumer sensing that there may be less value in their purchase.

10. BIBLIOGRAPHY


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