Pacific Trade Invest
AUSTRALIA

PRICING GUIDE

For Pacific Island Exporters

WHY IS EXPORT PRICING DIFFERENT?

Two reasons:

1 - You are dealing with a market that may be unfamiliar to you. It is very important to understand how you fit into that market.

2 - There are many added costs that you need to take into account when sending products or services overseas.

If you don't understand these things you can very easily fall into some traps that will lead you to lose money and time and maybe even your business.

OPTIONS FOR CALCULATING EXPORT PRICE

The options below are explained later in this guide, and examples are also given.

Cost Plus The most common approach. Start with your normal wholesale price and then add to it the costs involved in exporting.

Marginal (or 'differential') costing may make you more competitive but also means you need to have someone in the Australian market who can capture new business and keep up with your competitors' responses.

When using this method it is important to keep in mind that your customers may see your opening price as a base level from which future discounting is anticipated.

Top down. This method is to observe your competitor in the Australian marketplace and use their price as a goal against which you need to be competitive.

WHAT ARE THE EXPORT COMPONENTS YOU NEED TO CONSIDER?

There may be export costs you don't know about and can only learn about through experience.

It is very important, right from the start, that you learn what these costs are.

Some of the costs specific to export transactions include market research, travel, international communications, production of export literature and documentation, freight forwarding and other logistics charges.

Costs also include export packing, product modifications, labelling, compliance with Australian standards, insurance, credit checking, export documentation, export financing charges and training of an Australian distributor's staff.

Distributor and retail margins will also need to be taken into account when pricing your products.

PAGE SUMMARY

Exporting has extra costs you need to be aware of.

'Cost plus' is the traditional approach to pricing in any market.

'Marginal' costing is a standard export pricing technique – but you must first be certain you have enough money coming in from your local business.

Beware of keeping your price low just to gain market entry. Your buyers may expect you to go even lower.

To sell your products or services your price must be close to, or better than your competitors. To work this out, use the 'Top Down' approach.

Plan for 'surprises.' There are higher risks when exporting because there is greater chance for things to go wrong without you seeing it coming.

WHAT ARE THE TRAPS?

If you don't put enough time and effort into developing your export price, a sale that at first might look great could cost you money, resources and time.

Make sure any agreement you make with a buyer is clear and documented, or recorded properly. *Do not rely on 'handshake deals.'*

Some costs that many people don't take seriously enough include:

- Extra freight and handling costs due to a misunderstanding of trading terms and conventions (see Incoterms section).
- Last-minute product changes to meet an export standard.
- Packaging and labelling requirements.
- Documentation requirements such as certificates of origin.
- Insurance (including credit insurance), finance and banking charges.
- Delays in customs clearance in Australia if documentation, packaging and labelling is not correct.

If your contract or agreement is not clear enough your buyer may demand (and enforce) that you provide after sale services, or replacements.

PAGE SUMMARY

Check with advisers and other exporters in your country to identify the areas where things can go wrong and costs go up.

Export documentation may be complicated. Use an expert.

Getting an order is exciting! But take extreme care about your costs.

Having your product rejected at a port of entry can result in heavy losses.

The 13 Incoterms are the basic language governing international transactions. Take time to understand them. (See next page)

EXPORT PRICING TIPS

- The temptation to accept an order, often under time pressure, can lead you to lose money if you don't understand and keep track of your costs.
- Costs can change at any time and if they do then you need to change your prices too.
- Australian Customs Clearance may be delayed. This can be costly so make sure you are clear about your liability, or responsibility.
- If you don't properly pack and label your product it could be rejected before entering Australia at a high cost to you. Don't trust buyers or agents, make sure you are confident that you have fully complied with Australian regulations.
- Get good advice on how your local currency is competing with the Australian dollar.
- When dealing with documentary credits (such as a letter of credit), remember that the wording on all documents must be precise and match contractual requirements. Simple mistakes in clauses in documentary credits can cause delays in receiving payment.
- Get a good feel for price behaviour in the Australian market. Get good local advice and experience of the market environment first-hand. Stress product or service benefits wherever possible, before accepting demands for a lower price.
- Service exporters are often faced with different issues. The way people use English in Australia may be different to what you are used to. This could cause people to misunderstand warranties, and other contracts.

WHAT ARE INCOTERMS?

Incoterms (International Commercial Terms) were introduced in 1936 to avoid confusion over the interpretation of shipping terms and to define the roles of the buyer and seller.

The latest version (Incoterms 2010) covers 11 terms and defines the responsibility between the buyer and seller for each component of an export transaction.

The chart provides a clear assignment of responsibility for both buyers and sellers in international transactions.

INCOTERMS 2010 - CHART OF RESPONSIBILITY

Incoterms 2010	EXW	FAS	FCA	FOB	CFR	CIF	CPT	CIP	DAT	DAP	DDP
Load to truck	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export Duty payment	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Transport to Exporter's Truck	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Unload Truck at the origin's port	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Landing charges at origin's port	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Transport to importer's port	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Landing charges at importer's port	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Unload onto trucks from the importer's port	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller
Transport to destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
Insurance	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Buyer	Seller	Buyer	Buyer	Buyer
Entry - Customs clearance, Duties and Taxes	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller

Buyer

Seller

Please note, this chart is a quick guide only and may not represent the most recent incoterms. We do not recommend you rely solely on this chart.

For precise definitions of the 11 Incoterms, consult the ICC website (https://iccwbo.org/publication/incoterms-rules-2010/) and study carefully the liabilities of both buyer and seller.

Mistakes and misunderstandings can be costly.

CALCULATING "COST PLUS" - PRICES ARE EXAMPLES ONLY

EXW	(EX WORKS)	
	Wholesale price (not including GST or delivery)	$100
	Total	**$100**

FOB	(FREE ON BOARD)	
	EXW Price (obtained from the step above)	$100
	+ Transport to carrier (eg wharf, airport) #	$17
	+ Customs clearance (ECN)	$8
	+ Additional packing/labour for transport	$5
	+ Agent's commission (eg 10% of FOB price)	$13
	Total	**$143**

CFR or **CPT**	(COST AND FREIGHT) (CARRIAGE PAID TO)	
	FOB Price (obtained from the step above)	$143
	+ Sea/air freight charges to wharf/airport	$32
	+ Sea/air document fees (eg Airway Bill, B/L)	$11
	+ BAF (Bunker Adjustment Factor)**	$2
	+ Transport contingency #	$2
	Total	**$190**

CIF	(COST, INSURANCE, FREIGHT)	
	CFR or CPT price (obtained from the step above)	$190
	+ Marine Insurance Premium	$2
	Total	**$192**

DDP	(DELIVERY DUTY PAID)***	
	CIF price (obtained from the step above)	$192
	+ Import duty/tax (calculated as 20% of CIF price)	$39
	+ Customs clearance fees	$8
	+ Delivery charge from airport to customer	$10
	DDP (Named Place)	$249

Suggested 5% of transport costs.

** May be charged by shipping/airfreight company (fuel surcharge).

*** Please note in some markets that sales taxes/VAT/GST may be applicable. Seek further advice from a local financial advisor.

'COST PLUS' EXPORT PRICING MODEL

When your importer asks you for a price, or "quote", they will specify the "type" of price they want by referring to one of the Incoterms.

To calculate this use the table (left).

In this table you can see certain services you or your importer will have to pay for (transport to wharf, customs clearance, etc). It is very important that you know what each service will cost you. Contact your service providers and write out a table like the one here.

It is very important to understand that this table works cumulatively. Each step down takes the price of the step before it and adds something to it.

THE FIRST STEP IS TO WORK OUT YOUR WHOLESALE PRICE

The two main costs that are incurred in production are:

Direct costs. These are costs, which can be associated with each unit / item produced. This includes direct cost such as raw materials /inputs and labour.

Indirect costs. These are the overheads incurred in making the product and include things such as electricity, rent, management and administration costs.

QUOTE FORMAT

When quoting a price you need to include the destination place name. From our example (left) you would quote:

EXW Sydney AUD $100

FOB Melbourne AUD $143

CFR Brisbane AUD $190

DOWNLOAD

Visit pacifictradeinvest.com to download an excel sheet which will automatically run the calculations needed for pricing methods in this booklet.

‘TOP DOWN’ EXPORT PRICING MODEL

In overseas markets it will usually be the market place that will set your retail price. The following is an example of how to estimate a competitors FOB price or to “work down” from a target price for your product.

Examining the prices of competitive products will give you another part of the jigsaw in understanding the market, and price points to negotiate with your agent.

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REMEMBER - THIS IS AN EXAMPLE ONLY	Per item	Calculations
Similar product at retail store AUD$99	$99	
Deduct GST %10 (GST is included in all Australian retail sales)		99 ÷ 1.1
Consumer Price per item Excluding GST*	$90	
Deduct retail margin of 60%		90 ÷ 1.60
Retailers’ Buying Price Per Item	$56.25	
Deduct Importers margin of 30%**+ Clearance & Warehouse Allowance of 3%		
& Advertising & Promotion Allowance of 5% = total of 38%		56.25 ÷ 1.38
Importers Buy Price per item AUD$	$40.76	
Deduct Duty (5%) of CIF		40.76 ÷ 1.05
Importers Price per item before duty	$38.82	
CIF per item	$38.82	
Deduct Freight ***	$1	
Deduct Marine Insurance	$1	
FOB per item	$36.82	

* %10 GST applies in Australia

**Retailers take a full margin on the selling price not the buying price.

***Assumes a freight rate of AUD $1200 for 20 foot FCL, sea freight container that packs 1200 items.

DUTY

Not all products will attract a duty charge. Those that do generally are charged at 5%

To find out if you are going to be charged duty, and how much, go to homeaffairs.gov.au or contact us and we will look it up for you.

MARGINAL OR DIFFERENTIAL COSTING EXPORT PRICING MODEL

This is a commonly used export pricing technique which is based on variable costs such as direct labour, direct material and variable manufacturing overheads. It is particularly useful where a company has excess production capacity and needs to reduce its export prices to be competitive. Marginal costing enables you to calculate the break-even point – the minimum price at which you can profitably sell to an overseas customer.

In this example, the selling price per unit is $10.00. Revenue is the income from sales. Variable costs need to be subtracted to find the "contribution". Fixed costs then should be subtracted from the Contribution to determine whether you're making a profit or a loss.

In this case selling 40,000 units results in a profit of $2.25 per unit, selling only 20,000 results in a loss of $1.50 per unit.

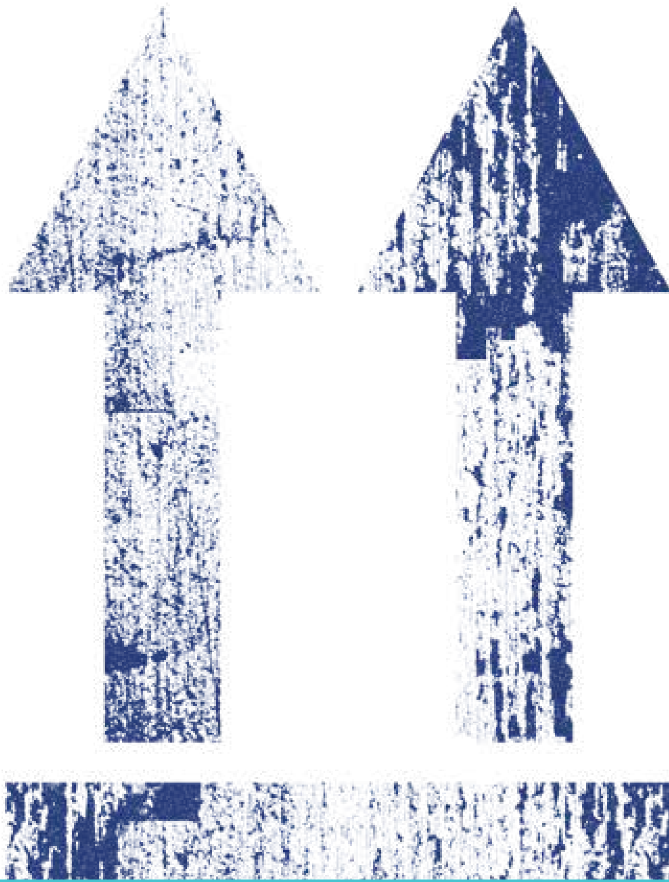
UNIT SALES	40,000		20,000	
	Total	Per Unit	Total	Per Unit
Revenue	$400,000	$10.00	$200,000	$10.00
Variable costs	$160,000	$4.00	$80,000	$4.00
Contribution	$240,000	$6.00	$120,000	$6.00
Fixed costs	$150,000	$3.75	$150,000	$7.50
Net profit / (loss)	**$90,000**	**$2.25**	**-$30,000**	**-$1.50**

USEFUL WEBSITES AND LINKS

Visit our website www.pacifictradeinvest.com to find other useful publications.

The Australian Department of Foreign Affairs and Trade (DFAT) has some useful information about exporting to Australia. View it at : www.dfat.gov.au/trade/resources

The first step in researching import duties for overseas markets is understanding the Harmonised Commodity Classification (HECC) code for your product. Visit the Foreign Trade website for more information: www.foreign-trade.com/reference/hscode.htm



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