Pacific Trade Invest

PRICING GUIDE
FOR PACIFIC ISLAND EXPORTERS

PACIFIC ISLANDS
FORUM SECRETARIAT

WHY IS EXPORT PRICING DIFFERENT?

Two reasons:

- *You are dealing with a market that may be unfamiliar to you. It is very important to understand how you fit into that market.*
- *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 New Zealand 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 New Zealand 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 New Zealand standards, insurance, credit checking, export documentation, export financing charges and training of a New Zealand 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 New Zealand 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.
- New Zealand 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 New Zealand at a high cost to you. Don't trust buyers or agents, make sure you are confident that you have fully complied with New Zealand regulations.
- Get good advice on how your local currency is competing with the New Zealand 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 New Zealand 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 New Zealand 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 2020 - CHART OF RESPONSIBILITY

Incoterm	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAP	DPU	DDP
Export packaging	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading charges	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Delivery to port/ place	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export duty, taxes and customs clearance	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Origin terminal charges	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading on carriage	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Carriage charges	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Insurance	Negotiable	Negotiable	Negotiable	Negotiable	Negotiable	*Seller	Negotiable	**Seller	Negotiable	Negotiable	Negotiable
Destination terminal charges	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller
Delivery to destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller
Unloading at destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller
Import duty, taxes, and customs clearance	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	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.

Consult the ICC website for more information.

https://iccwbo.org/business-solutions/incoterms-rules/

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
plus Transport to carrier (eg wharf, airport)	$17
plus Customs clearance (ECN)	$8
plus Additional packing/labour for transport	$5
plus Agent's commission (eg 10% of FOB price)	$13
Total	**$143**
CFR (Cost and Freight) or CPT (Carriage Paid To)	
FOB Price (obtained from the step above)	$143
plus Sea/air freight charges to wharf/airport	$32
plus Sea/air document fees (eg Airway Bill, B/L)	$11
plus BAF (Bunker Adjustment Factor)**	$2
plus Transport contingency #	$2
Total	**$190**
CIF (Cost, Insurance and Freight)	
CFR or CPT price (obtained from the step above)	$190
plus 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) - Total	**$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 Auckland NZD $100

FOB Christchurch NZD $143

CFR Wellington NZD $190

DOWNLOAD OUR CALCULATOR

Visit our Blue Pacific Portal to download an excel sheet which will automatically run the calculations needed for pricing methods in this guide.

https://pacifictradeinvest.com/blue-pacific-portal/

‘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.

REMEMBER - THIS IS AN EXAMPLE ONLY	Per item	Calculations
Similar product at retail store NZD$99	$99	
Deduct GST %15 (GST is included in all New Zealand retail sales)		99 ÷ 1.15
Consumer Price per item Excluding GST*	$86	
Deduct retail margin of 60%		86 ÷ 1.6
Retailers’ Buying Price Per Item	**$53.75**	
Deduct Importers margin of 30%**+ Clearance & Warehouse Allowance of 3%		
& Advertising & Promotion Allowance of 5% = total of 38%		53.75 ÷ 1.38
Importers Buy Price per item NZD$	$39	
Deduct Duty (5%) of CIF		39 ÷ 1.05
Importers Price per item before duty	**$37**	
CIF per item	$37	
Deduct Freight ***	$2	
Deduct Marine Insurance	$1	
FOB per item	**$34**	

* %15 GST applies in New Zealand.

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

***Assumes freight all in (OTHC, Freight, BAF/CAF, DTHC, etc) of NZD 2,400 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 https://www.tariff-finder.govt.nz/ 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.

40000 units	Total unit sales	per unit
Revenue	$400,000	$10.00
Variable Costs	$160,000	$4.00
Contribution	$240,000	$6.00
Fixed Costs	$150,000	$3.75
Net Profit/Loss	**$90,000**	**$2.25**
20000 units	**Total unit sales**	**per unit**
Revenue	$200,000	$10.00
Variable Costs	$80,000	$4.00
Contribution	$120,000	$6.00
Fixed Costs	$150,000	$7.50
Net Profit/Loss	**-$30,000**	**-$1.50**

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.

USEFUL WEBSITES AND LINKS

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

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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