

Session 4:

Costing & Pricing

How should I price my product?



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AM I COMPETITIVE OVERSEAS?



Photo: Wild Blue Ridge, [www.wildblue.com](#), Flight



Cost to Market

- Base cost in US
- Cost to port of export
- Cost to port of import
- **Landed cost** (includes customs & duties)
- **Cost delivered to overseas warehouse**



FREIGHT FORWARDER

(A "travel agent" for your goods)

1. Complete product description
2. Type of packaging & no. of pieces
3. Gross & net weight
4. Dimensions





FREIGHT FORWARDER (contd.)

5. Ports of export & import
6. Method of shipping
7. Value
8. Special instructions from customer

Photo: Farewell Los Angeles, uploaded on Flickr



Case Study – Freight Forwarder INFO

Product Description:

- ❖ 12,660 sets of brake pads
- ❖ 633 cartons to a 20 foot container
- ❖ 37980 lbs.
(max 38,000 lbs.)





SHIPPING COSTS*



✦ <u>Price Ex-Works</u>	<u>US\$ 50,640</u>
✦ Inland freight to Miami	682
✦ Port/ terminal handling charges	50
✦ Forwarder fees	175
✦ <u>FOB Miami</u> (Free on Board)	<u>US\$ 51,547</u>

* For more information on INCOTERMS view Session 7

Photo: Robin Stevens, rejs@bcynic.org.uk



MORE SHIPPING COSTS



✦ <u>FOB Miami</u> (Free on Board)	<u>US\$ 51,547</u>
✦ Ocean freight	1,000
✦ <u>CFR Santos, Brazil</u> (Cost & Freight)	<u>US\$ 52,547</u>
✦ Insurance	233
✦ <u>CIF Santos, Brazil</u> (Cost, Insurance & Freight)	<u>US\$ 52,780</u>

Image: Composite by SBDC



BUYER COSTS: FOREIGN TARIFFS

- ✦ Find your HS Code (Session 2)
- ✦ Find tariff rates:
 - ✦ Export.gov: “Country Specific Tariff and Tax Information”
 - ✦ Export-U2.com “Links page”

Once you know your HS Code, you can also call 1-800-USA-TRADE for help with foreign tariff info. (or e-mail: tic@ita.doc.gov)



Photo: Online Currency by Campbell © Flickr



BUYER COSTS: FOREIGN TARIFFS IN BRAZIL

- **Industrial Product Tax**
(or IPI federal sales tax) ranges from 5% to 15%.
- **Merchandise Circulation Tax**
(or ICMS – state sales tax) of about 18%
- **Miscellaneous Tax** of about 1%, and a
- **Social Security Tax** of about 10%.

FOREIGN TARIFF RESOURCE: 1-800-USA-TRADE

(Note: Brazilian tariff & tax rates are exceptionally high, complex, and change almost daily!)





BUYER COSTS – LANDED COST

CIF SANTOS, BRAZIL US\$ 52,780
(Cost Insurance & Freight)

◆ Tariff	9,500
◆ IPI mfr products tax	3,114
◆ ICMS VAT tax	11,771
◆ PIS and CoFins tax	7,138
◆ Merchant marine tax	250
◆ Warehouse Charge	235
◆ Terminal handling charge	100

Photo: Bureau by Erzsébet Bal, © Fotopedia



BUYER COST – DDP

(Delivery Duty Paid)

◆ Custom brokers union fee	160
◆ Custom brokerage fee	343
◆ SISCOMEX fee	30
◆ Cargo transportation fee	35
<u>Landed Cost – Santos, Brazil</u>	<u>\$ 85,456</u>
◆ Inland freight	100
<u>Del ivered Duty Paid –Sao Paol o</u>	<u>\$ 85,556</u>

Photo: MODIS Rapid Response Team, © MODIS/USPO, by Holl Riebeck



The Results

Ex Works	US\$ 50,640
Landed Cost – Santos	US\$ 85,456
<u>DIFFERENCE =</u>	<u>US\$ 34,816</u>
Unit Cost Ex Works	US\$ 4.00
Unit Cost Landed	US\$ 6.75



Repeat the Exercise

For each of your target markets
Check for any additional expenses





PROMOTIONAL EXPENSES

(-) US marketing

(+) Foreign marketing:

- trade shows
- translating literature
- overseas travel

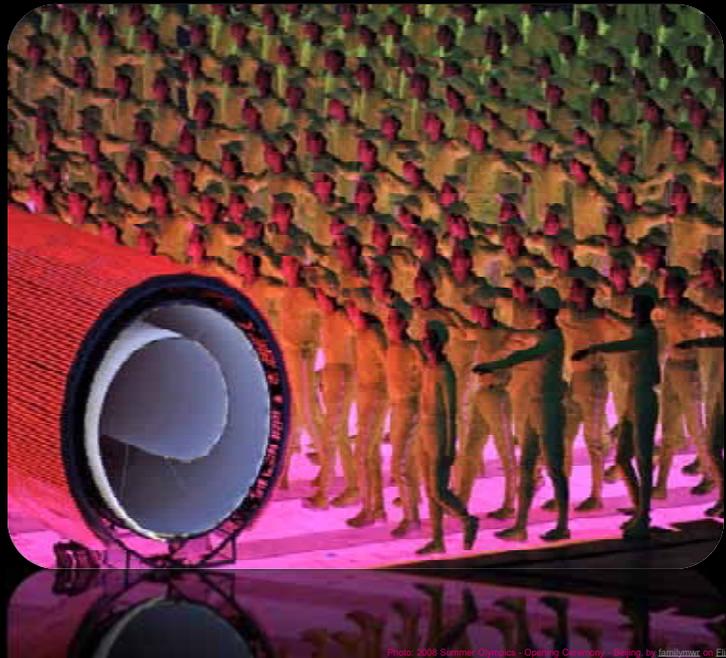


Photo: 2008 Summer Olympics - Opening Ceremony, being by ianlamar on Flickr



ADJUSTED COSTING EXERCISE

Wholesale Price US\$ 50,640

Special export packing 127

Marketing Costs:

(+) Sales staff ---

(+) Advertising 500

(+) Exhibits/ trade shows ---

(+) Discounts/ commissions 227

(-) Domestic marketing (-1,200)

After Mod. & Promo US\$ 50,294



ADJUSTED COSTING EXERCISE

<u>Product w/ Mods & Promo</u>	<u>US\$ 50,294</u>
Financing expenses	227

<u>Ex Works – Atlanta</u>	<u>US\$ 50,521</u>
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<u>DDP - Sao Paulo</u>	<u>US\$ 85,365</u>
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(Delivery Duty Paid*)

Decrease of	US\$ 191
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CAN OUR EXPORTER BE COMPETITIVE IN BRAZIL?

- Don't Know as of yet?
- Compare relative costs of market entry
- Can price properly for the market

Photo: Brasil patria amada, by Diogo Diniz, Sample Business



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Trade Assistance



call:

1-800-USA TRADE

or consult your nearest:

US Export Assistance Center

In Georgia you can also call the SBDC International Trade Center
at 678-985-6820



Session 4:

The End

Costing and Pricing

