

Export Calculation

The Key to Success in Export Trade

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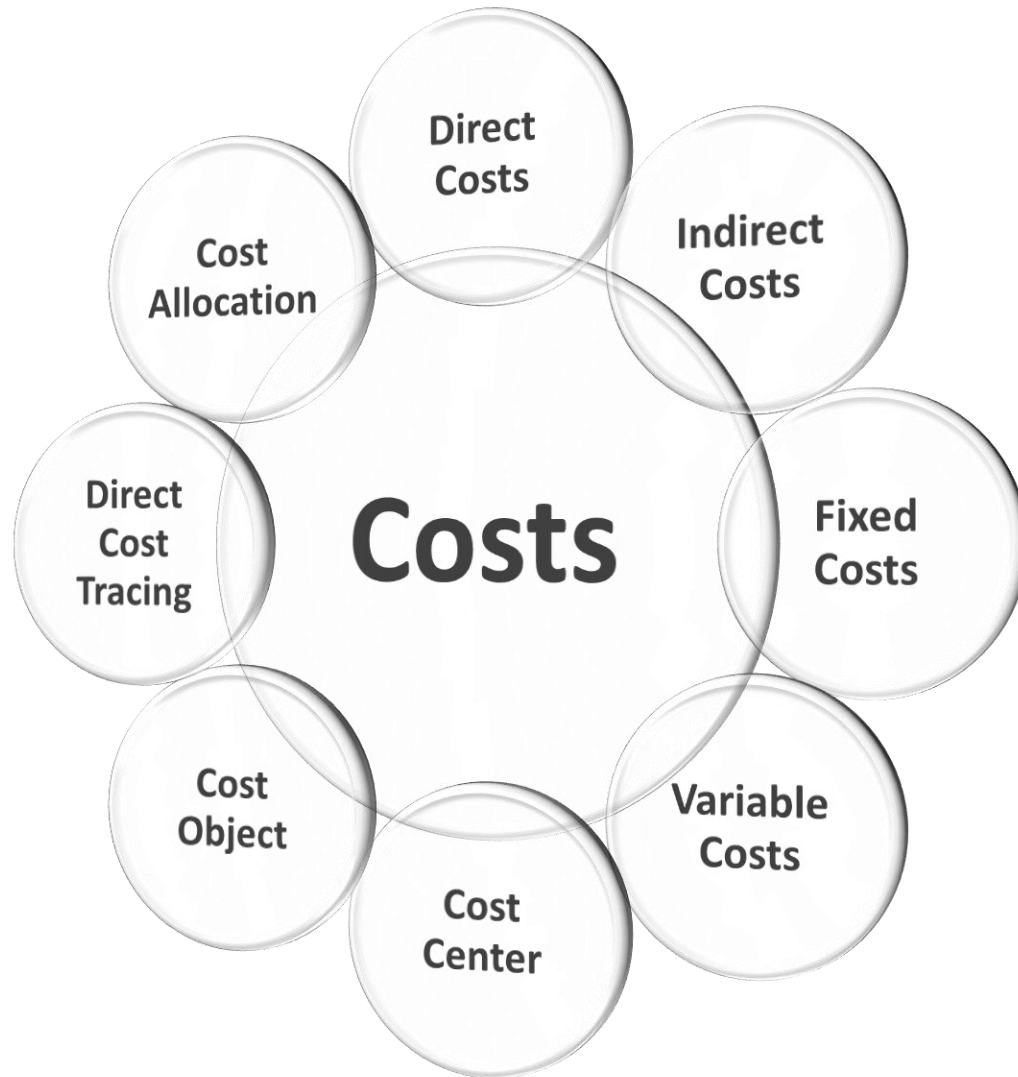
Content

- BASICS OF EXPORT CALCULATION
- ADDITIONAL COSTS OF EXPORT
- INCOTERMS
- TERMS OF PAYMENT
- EXPORT CALCULATION (EXAMPLES)

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Key Terms - Overview



Key Terms: Direct Costs

Direct costs

- Definition:
 - Can be assigned specifically and exclusively to a cost object (*direct cost tracing*)
- Examples:
 - Material, labor
 - Carpenter: wood, screws, glue, staff (production)

Key Terms: Indirect Costs

Indirect costs

- Definition:
 - Cannot be assigned specifically and exclusively to a cost object (***cost allocation***)
- Examples:
 - Rent, insurance, marketing and sales, overhead costs
 - Carpenter: storage, rent, insurance, accounting

Key Terms: Fixed Costs

Fixed costs

- Definition:
 - Remain constant for a specified time period and are not affected by the volume of activity
- Examples:
 - Rent, insurance, marketing and sales, overhead costs
 - Carpenter: storage, rent, insurance, accounting

Key Terms: Variable Costs

Variable costs

- Definition:
 - Vary in direct proportion to the volume of activity
- Examples:
 - Material, labor
 - Carpenter: wood, screws, glue, staff (production)

Key Terms: Cost Center

Cost center

- Definition:
 - The location where costs arise (direct costs → direct cost tracing)
 - The location to which costs are assigned to (indirect costs → cost allocation)
 - Departments
- Examples:
 - Storage, production, human resources, marketing and sales, accounting
 - Carpenter: storage, production, marketing and sales, accounting

Key Terms: Cost Object

Cost object

- Definition:
 - Any activity for which a separate measurement of costs is desired
- Examples:
 - Products or services
 - Carpenter: table, closet, kitchen

Key Terms: Direct Cost Tracing

Cost allocation

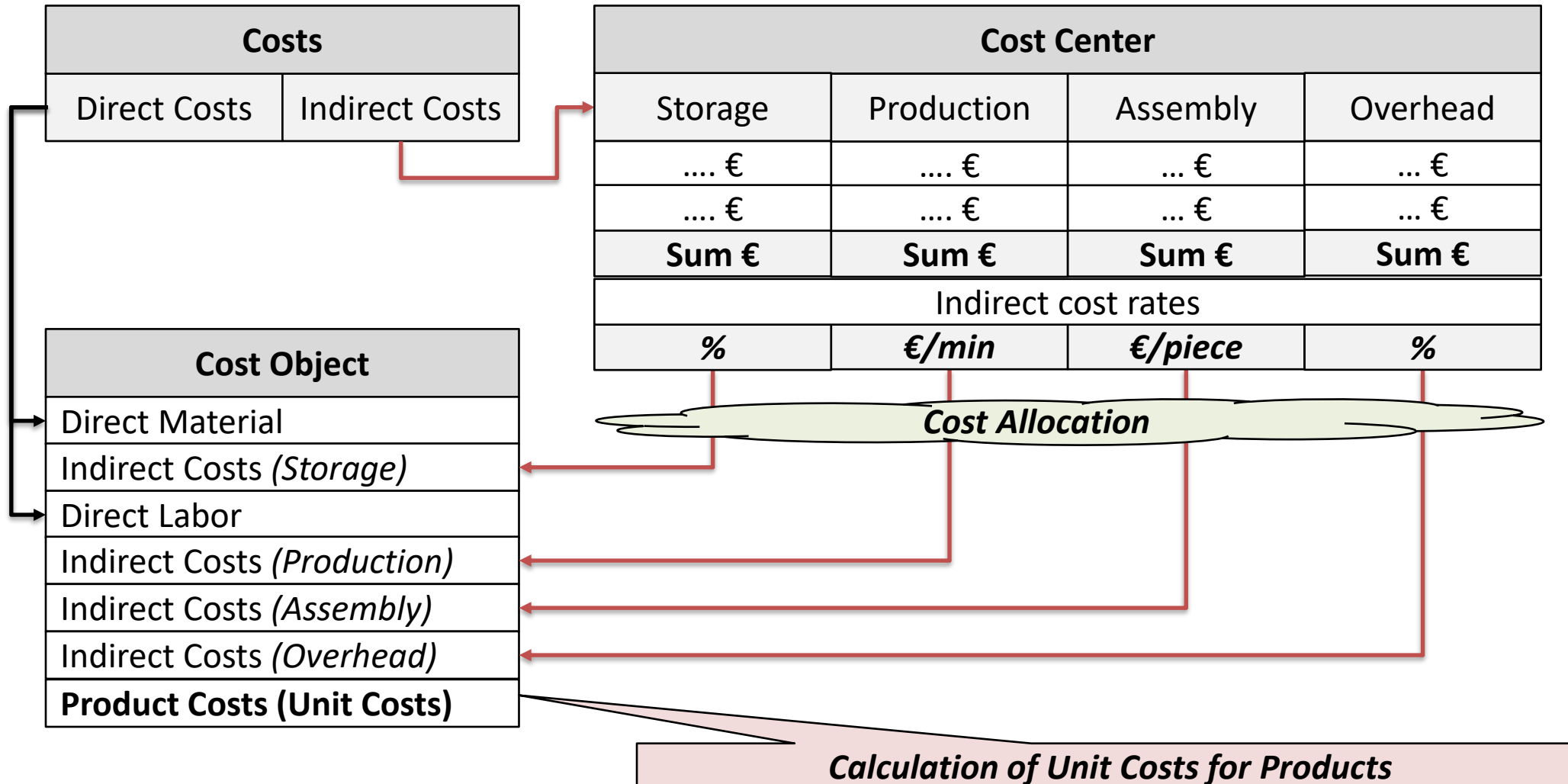
- Definition:
 - The process of assigning costs directly to a cost object
- Examples:
 - Material, labor
 - Carpenter: wood, staff (production)

Key Terms: Cost Allocation

Cost allocation

- Definition:
 - The process of assigning (indirect) costs to cost objects where a direct measure of the resources consumed by these cost objects does not exist
 - The cost object must cover all (direct + indirect) costs that arise in a company
- Examples:
 - Rent, insurance, marketing and sales, overhead costs
 - Carpenter: storage, rent, insurance, accounting

Cost Assignment (Example)



Conclusion

- **Costs** are monetary measures of the resources sacrificed to produce a good or a service
- **Total costs** consist of direct and indirect costs
- **Product costs** are the starting point for export calculation
- Figure out the **domestic unit price** before starting to export
- Find out which **additional costs** arise when exporting the goods
- Domestic unit price + additional costs = **export price**

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Additional Costs of Export (I)

- **New direct costs:**
 - Product modification (material and labor)
- **New indirect costs:**
 - Market research
 - Phone calls (e.g. agents and distributors, freight forwarders etc.)
 - Legal advice (e.g. structuring agreements with a selling agent or distributor)
 - Translation (e.g. packaging and marketing materials)
 - Transactional costs depending on payment methods
 - Financing costs (e.g. forward sales, factoring costs, bank cuts, guarantees)
 - Letter of Credit expenses (e.g. opening costs, reserve cuts)
 - Insurance (e.g. extension of policies for product liability, professional indemnity)

Additional Costs of Export (II)

- Consignment specific **direct costs**:
 - Specific packaging for the cargo
 - Insurance specific to transportation
 - Export licenses and documentation
 - Additional documents required for customs (e.g. health certificates, permits)
 - Shipping, transportation and storage
- Other considerations:
 - **Currency** of payment:
 - Do fluctuating currency rates affect your margin?
 - **Taxes and duties**:
 - There may be sales tax / local VAT and custom charges (duties)
- Note: **Incoterms** have a major effect on additional costs

Conclusion

- The additional costs of export lead to a higher **export price** than the domestic unit price
- There are **additional costs** that have to be taken into consideration
 - Product modification
 - Market research
 - Legal advice, translation
 - Transactional, financing and insurance costs
 - Currency, taxes, duties
 - Etc.
- Domestic unit price + additional costs = export price
- **Incoterms** have major effects on additional costs

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Incoterms: Overview

- INCOTERMS = International Commercial Terms
- Release
 - 1936 International Chamber of Commerce (ICC)
- Revisions
 - 1953, 1967, 1976, 1980, 1990, 2000, 2010, 2019 (last update)
- Current version
 - INCOTERMS 2020

Incoterms: Purpose

- Series of pre-defined commercial terms published by the ICC relating to international commercial law
- The rules are intended to clearly communicate and define the **obligations, risk, and costs** involved in the **global or international delivery** of goods from seller to buyer
- Incoterms **do not** conclude a contract, determine the price payable, currency or credit terms, govern contract laws, or define where title to goods transfers will occur

Incoterms: What the rules do...

- **Obligations**

- Who does what between seller and buyer
 - Who organizes carriage or insurance of the goods, who obtains shipping documents and export or import licenses etc.

- **Risk**

- Where and when the seller “delivers” the goods → **Delivery**
- **Delivery:** At this point the risk of loss or damage to the goods is transferred from seller to buyer

- **Costs**

- Which party is responsible for which cost
 - Transport, packaging, loading/unloading costs, checking or security-related costs etc.
- **Destination:** The point named in the Incoterm to which carriage has been paid

Incoterms: What the rules do not do...

- Incoterms are not a substitute for a contract of sale
- Incoterms do not deal with the following matters:
 - whether there is a contract of sale at all
 - specifications of the goods sold
 - time, place, method, or currency of payment of the price
 - remedies which can be sought for breach of the contract of sale
 - consequences of delay / other breaches in performance of contractual obligations
 - effect of sanctions
 - imposition of tariffs
 - export of import prohibitions
 - force majeure or hardship
 - intellectual property rights
 - method, venue, or law of dispute resolution in case of such breach
 - the transfer of property/title/ownership of the goods sold

Incoterms: Incorporation

- To apply Incoterms, the seller must **make it clear** in the sales contract
- Point out the **name of place** next to the chosen Incoterm
 - **All Rules:** Place indicates where the goods are “**delivered**” (except in C-Rules)
 - **D-Rules:** It points out the place of **delivery** and **destination** – the seller must organize the **carriage** to that point
 - **C-Rules:** It indicates the **destination** to which the seller must organize and pay for the **carriage** of goods, which is **not**, however, the place or port of **delivery**
- Add the **year** to make clear which version of Incoterms is applied
- Examples for Incoterms
 - CIF Klagenfurt am Wörthersee, Austria, Incoterms 2020
 - DAP Europaplatz 1, 9020 Klagenfurt am Wörthersee, Austria, Incoterms 2020

Incoterms: Division

Group C: Main Carriage Paid → CFR, CIF, CPT, CIP

- Seller concludes a transport contract with the forwarder and takes the costs
- Seller is responsible for conducting export clearance
- Risk is transferred at the time of posting the goods to the buyer
- Matters arising after loading are the buyer's responsibility (e.g. costs related to transporting and other events)

Group D: Arrival → DAP, DPU, DDP

- Seller is obliged to deliver the goods to a specific place or the port of destination

Group E: Departure → EXW

- Seller makes the goods available to the buyer at the delivery point indicated by the seller
- Seller is not obliged either to customs or export clearance and does not bear the risk and costs of loading

Group F: Main Carriage Unpaid → FCA, FAS, FOB

- Seller is obliged to perform export customs clearance
- Seller does not pay transport and insurance costs

Incoterms: Rules

Descriptions → Annex

- Any mode(s) of transport:
 - EXW Ex Works (named place of delivery)
 - FCA Free Carrier (named place of delivery)
 - CPT Carriage Paid To (named place of destination)
 - CIP Carriage and Insurance Paid To (named place of destination)
 - DAP Delivered at Place (named place of destination)
 - DPU Delivered at Place Unloaded (named place of destination)
 - DDP Delivered Duty Paid (named place of destination)
- Sea and inland waterway transport:
 - FAS Free Alongside Ship (named port of shipment)
 - FOB Free On Board (named port of shipment)
 - CFR Cost and Freight (named port of destination)
 - CIF Cost, Insurance, Freight (named port of destination)

INCOTERMS® 2020



Seller



Carrier



Border



Port



Ship



Port



Place of Destination



Buyer

Any Transport Modes

EXW (Ex Works)

FCA (Free Carrier)

CPT (Carriage Paid To)

CIP (Carriage and Insurance Paid To)

DAP (Delivered at)

DPU (Delivered at Place Unloaded)

DDP (Delivered Duty Paid)

Waterway Transport

FAS (Free Alongside Ship)



FOB (Free On Board)



CFR (Cost and Freight)



CIF (Cost, Insurance, Freight)



Seller's risk	Seller's obligation	Transport insurance (seller's obligation)	Buyer's risk	Buyer's obligation	for waterways only
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Incoterms: Examples

EXW – Ex Works

- Seller places the goods at the disposal of the buyer at the seller's premises or at another named place (i.e., works, factory, warehouse, etc.)
- Seller does not need to load the goods on any collecting vehicle
- Seller does not need to clear the goods for export, where such clearance is applicable

DDP - Delivered Duty Paid

- Seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on the arriving means of transport ready for unloading at the named place of destination
- Seller bears all the costs and risks involved in bringing the goods to the place of destination
- Seller must clear the products not only for export but also for import, to pay any duty for both export and import and to carry out all customs formalities

Conclusion

- Incoterms are intended to clearly communicate and define the **obligations, costs, and risks** involved in the global or international delivery of goods from seller to buyer
- Incoterms **do not** conclude a contract, determine the price payable, currency or credit terms, govern contract laws, or define where title to goods transfers will occur
- To apply Incoterms, the seller must...
 - **make it clear** in the sales contract
 - point out the **name of place** next to the chosen Incoterm
 - add the **year** to make clear which version of Incoterms is applied
- Incoterms have a major effect on **additional costs**

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Terms of Payment - Overview

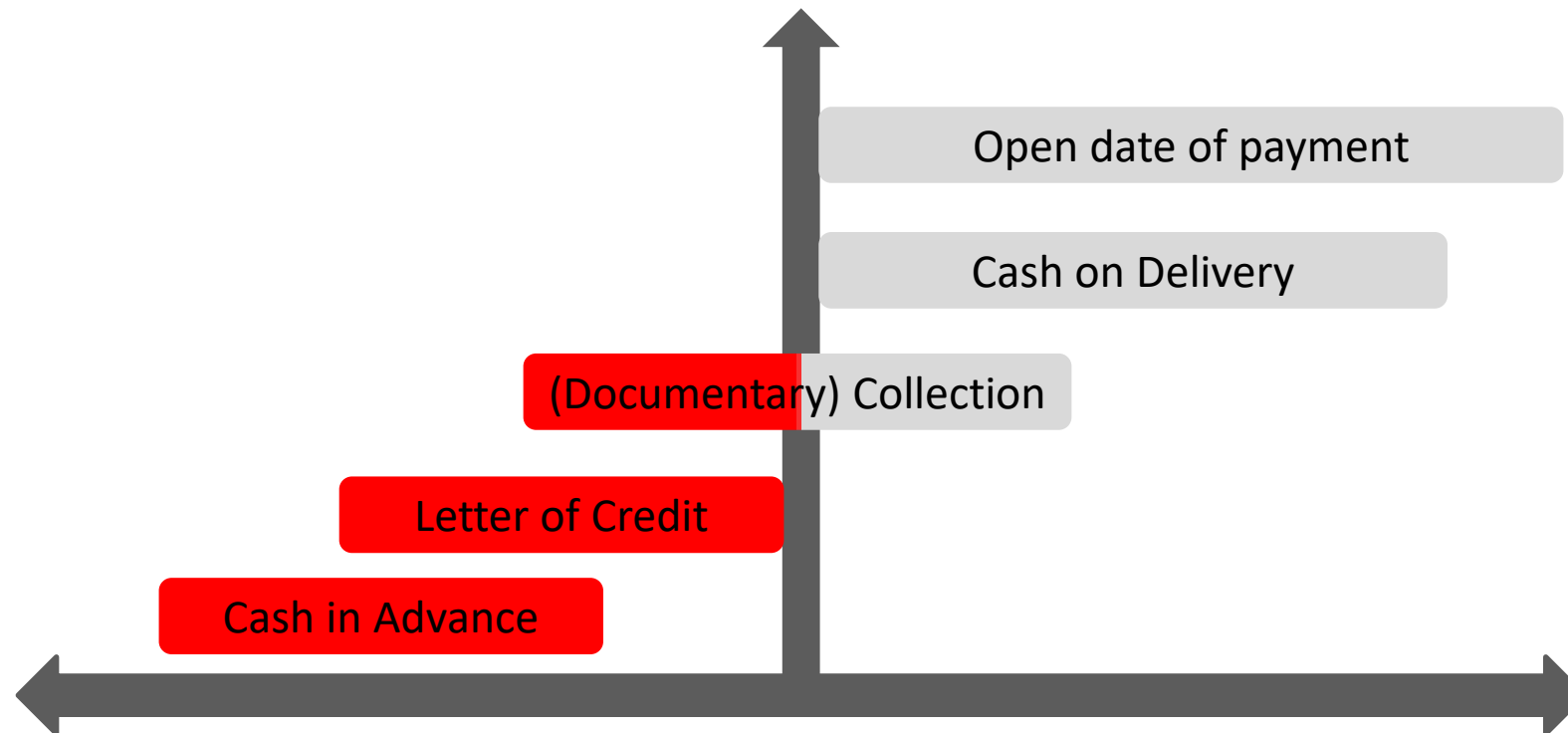
- **Conditions** under which a seller (vendor) completes a sale
- Terms of payment **cover**:
 - When the payment is expected (e.g. May 15th, 2020)
 - Any conditions on that payment (e.g. Payment in advance)
 - Any discounts the buyer will receive (e.g. 2% cash discount)
- Terms can apply to any party in the sale
 - e.g. wholesaler, individual consumer
- Depending on the terms of payment **financing costs** can arise
- Costs are **additional costs** in calculating the export price

Terms of Payment - Examples

- **CIA:** Cash in advance
- **CWO:** Cash with order
- **CBS:** Cash before shipment
- **COD:** Cash on delivery
- **Net 30:** Payment 30 days after invoice date
- **2% 14 Net 30:** 2% discount if payment received within 14 days otherwise payment 30 days after invoice date
- **Letter of credit:** documentary credit confirmed by a bank
- **Bill of exchange:** promise to pay at a later date, usually supported by a bank

Terms of Payment - Preference

Increasing financial risk
regarding the payment



Terms of payment preferred by
the exporter (**seller**)

Terms of payment preferred by
the importer (**buyer**)

Conclusion

- Terms of payment are conditions under which a sale is completed
- Terms of payment cover:
 - when the payment is expected
 - any conditions on that payment
 - any discounts the buyer will receive
- Depending on the terms of payment **financing costs** can arise
- Costs are **additional costs** in calculating the export price
- The seller prefers:
 - Early receivment at low risk
- The buyer prefers:
 - Late payment at low risk

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Export Calculation

Export Calculation (Any mode(s) of transport):	Incoterms	Incoterms_Rule
+ Direct material		
+ Direct labor		
+ Special costs of production		
= Prime costs		
+ Overhead costs		
+ Cost of administration		
+ Cost of sales		
= Original Costs		
+ Costs of financing (e.g. guarantees, currency hedging, bank charges, interest, cash discounts, allowances)		
+ Margin		
= Price "Ex Works" (EXW)	EXW	Ex Works
+ Costs of Documents (e.g. certificate of origin)		
+ Transport insurance to carrier/freight forwarder		
+ Transport costs to carrier		
+ Loading costs		
= Price „Free Carrier“ (FCA)	FCA	Free Carrier
+ Transport costs to destination		
= Price „Carriage Paid to“ (CPT)	CPT	Carriage Paid To
+ Transport insurance to destination		
= Price „Carriage and Insurance Paid to“ (CIP)	CIP	Carriage And Insurance Paid To
+ Transport costs to destination		
+ Risk premium		
= Price „Delivered at Place“ (DAP)	DAP	Delivered at Place
+ Unloading costs at destination		
= Price „Delivered at Place Unloaded“ (DPU)	DPU	Delivered at Place Unloaded
+ VAT		
+ Consumption taxes		
= Price „Delivered Duty Paid“ (DDP)	DDP	Delivered Duty Paid

Export Calculation - Waterway transport

Export Calculation (waterway transport):		Incoterms	Incoterms_Rule
	Price „Free Carrier“ (FCA)	FCA	Free Carrier
+	Transport costs to named port of shipment		
+	Storage costs		
=	Price „Free Alongside Ship“ (FAS)	FAS	Free Alongside Ship
+	Port dues at port of shipment		
=	Price „Free On Board“ (FOB)	FOB	Free On Board
+	Costs of Bill of Lading		
+	Costs of sea freight to port of destination		
=	Price „Cost and Freight“ (CFR)	CFR	Cost And Freight
+	Transport insurance for sea way		
=	Price „Cost, Insurance, Freight“ (CIF)	CIF	Cost, Insurance and Freight
+	Port dues at port of destination		
=	Price „Delivered at Place Unloaded“ (DPU)	DPU	Delivered at Place Unloaded
+	VAT		
+	Consumption taxes		
=	Price „Delivered Duty Paid“ (DDP)	DDP	Delivered Duty Paid



Export Calculation (Example)

- The **Expedire GmbH** is a mid-sized company in Carinthia, Austria, that has been focused on the production of **special-purpose machines** for many years. Due to the marketing campaign of the Carinthian Chamber of Commerce the management of the company heard about the “Export Day”, which was held under the motto “Meet the World”. Some useful contacts to business delegates from different countries were made. That led to an inquiry of an importer from Saudi-Arabia. Five machines should be **offered** based on the following incoterm “**Delivered Duty Paid (DDP), Riyadh, Incoterms 2020**”
- The management accountant of the Expedire GmbH identified the relevant cost components for this offer using the expertise of the responsible department-managers.

1	Direct material costs	36.000	8	Transport cost to Hamburg (alongside ship)	6.600
2	Indirect material costs	15%	9	Handling costs at the quay, port dues	1.200
3	Direct Labor costs	27.000	10	Costs for sea transport	19.200
4	Indirect Labor costs	125%	11	Transport insurance for seaway	3.600
5	Margin	25%	12	Port dues at destination	4.800
6	Costs of seaworthy packing	8.100	13	Costs of transport to Riyadh	7.200
7	Costs for accreditation and legalization	1.200	14	Taxes in Saudi-Arabia	4.200

Export Calculation (Example)

Direct material (1)		36.000 €
+ Indirect material (2)		5.400 €
+ Direct labor (3)		27.000 €
+ Indirect labor (4)		33.750 €
Prime costs		102.150 €
+ Margin (5)		25.538 €
+ Seaworthy packing (6)		8.100 €
+ Costs of documents (7)		1.200 €
= Price "Ex Works"	EXW	136.988 €
+ Transport costs to port Hamburg (8)		6.600 €
= Price „Free Alongside Ship“	FAS	143.588 €
+ Port dues at port of shipment (9)		1.200 €
= Price „Free On Board“	FOB	144.788 €
+ Costs of sea freight to port of destination (10)		19.200 €
= Price „Cost and Freight“	CFR	163.988 €
+ Transport insurance for seaway (11)		3.600 €
= Price „Cost, Insurance, Freight“	CIF	167.588 €
+ Port dues at port of destination (12)		4.800 €
= Price "Delivered at Place Unloaded"	DPU	172.388 €
+ Transport costs to Riyadh (13)		7.200 €
+ Taxes in Saudi-Arabia (14)		4.200 €
= Price „Delivered Duty Paid“	DDP	183.788 €

1	Direct material costs	36.000
2	Indirect material costs	15%
3	Direct Labor costs	27.000
4	Indirect Labor costs	125%
5	Margin	25%
6	Costs of seaworthy packing	8.100
7	Costs for accreditation and legalization	1.200
8	Transport cost to Hamburg (alongside ship)	6.600
9	Handling costs at the quay, port dues	1.200
10	Costs for sea transport	19.200
11	Transport insurance for seaway	3.600
12	Port dues at destination	4.800
13	Costs of transport to Riyadh	7.200
14	Taxes in Saudi-Arabia	4.200

Conclusion

- **Product costs** are the starting point for export calculation
- Figure out the **domestic unit price** before starting to export
- Point out clearly which **Incoterms** are applied → obligations, risk and costs have crucial effects on additional costs
- Find out which **additional costs** arise when exporting the goods
- Domestic unit price + additional costs = **export price**

...questions???

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ANNEX

- Costs – Key Terms
- Incoterms – Overview
- Incoterms – Key Terms
- Incoterms – Details

Key Terms: Costs

- **Cost Allocation**
 - The process of assigning (indirect) costs to cost objects where a direct measure of the resources consumed by these cost objects does not exist
- **Cost Center**
 - The location where costs arise (direct costs → direct cost tracing)
 - The location to which costs are assigned to (indirect costs → cost allocation)
- **Cost Object**
 - Any activity for which a separate measurement of costs is desired
- **Direct Costs**
 - Can be assigned specifically and exclusively to a cost object (*direct cost tracing*)
- **Direct Cost Tracing**
 - The process of assigning costs directly to a cost object
- **Fixed Costs**
 - Remain constant for a specified time period and are not affected by the volume of activity
- **Indirect Costs**
 - Cannot be assigned specifically and exclusively to a cost object (*cost allocation*)
- **Variable Costs**
 - Vary in direct proportion to the volume of activity

INCOTERMS® 2020



Seller



Carrier



Border



Port



Ship



Port



Place of Destination



Buyer

Any Transport Modes

EXW (Ex Works)

FCA (Free Carrier)

CPT (Carriage Paid To)

CIP (Carriage and Insurance Paid To)

DAP (Delivered at)

DPU (Delivered at Place Unloaded)

DDP (Delivered Duty Paid)

Waterway Transport

FAS (Free Alongside Ship)



FOB (Free On Board)



CFR (Cost and Freight)



CIF (Cost, Insurance, Freight)



recommended

seller's obligation

recommended

Seller's risk

Seller's obligation

Transport insurance
(seller's obligation)

Buyer's risk

Buyer's obligation



for waterways only

Incoterms: Key Terms

- **Delivery**
 - The point in the transaction where the risk of loss or damage to the goods is transferred from seller to buyer
- **Destination (Arrival)**
 - The point named in the Incoterm to which carriage has been paid
- **Free**
 - Seller has an obligation to deliver the goods to a named place for transfer to a carrier
- **Carrier**
 - Any person who, in a contract of carriage, undertakes to perform / procure the performance of transport by rail, road, air, sea, inland waterway or by a combination of such modes
- **Freight forwarder**
 - A company that makes or assists in the making of shipping arrangements;
- **Terminal**
 - Any place, whether covered or not, such as a dock, warehouse, container yard or road, rail or air cargo terminal
- **To clear for export**
 - File Shipper's Export Declaration and get export permit

EXW – Ex Works

- Ex works is when the seller places the goods at the disposal of the buyer at the seller's premises or at another named place
 - i.e., works, factory, warehouse, etc.
- Seller does not need to load the goods on any collecting vehicle
- Seller does not need to clear the goods for export, where such clearance is applicable

FCA - Free Carrier

- Seller delivers the goods to the carrier or another person nominated by the buyer at the seller's premises or another named place
- Parties are well advised to specify as explicitly as possible the point within the named place of delivery
- The risk passes to the buyer at the named place of delivery

CPT - Carriage Paid To

- Seller delivers the goods to the carrier or another person nominated by the seller at an agreed place (if any such site is agreed between parties)
- Seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination

CIP - Carriage and Insurance Paid To

- Seller has the same responsibilities as CPT, but also contracts for insurance covers against the buyer's risk of loss of or damage to the goods during the carriage
- Buyer should note that under CIP the seller is required to obtain insurance only on minimum cover.
- If the buyer wants more insurance protection, he will need an agreement with the seller or make own extra insurance arrangements

DAP - Delivered at

- Seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination
- Seller bears all risks involved in bringing the goods to the named place

DPU - Delivered at Place Unloaded

- DPU replaces the former Incoterm 2010 DAT (Delivered At Terminal)
- Seller delivers when the goods, once unloaded are placed at the disposal of the buyer at a named place of destination
- Seller bears all risks involved in bringing the goods to and unloading them at the named place of destination

DDP - Delivered Duty Paid

- Seller delivers the goods when the goods are placed at the disposal of the buyer, cleared for import on the arriving means of transport ready for unloading at the named place of destination
- Seller bears all the costs and risks involved in bringing the goods to the place of destination.
- Seller must clear the products not only for export but also for import, to pay any duty for both export and import and to carry out all customs formalities

FAS - Free Alongside Ship



- Seller delivers when the goods are placed alongside the vessel (e.g., on a quay or a barge) nominated by the buyer at the named port of shipment
- Risk of loss of or damage to the goods passes when the products are alongside the ship
- Buyer bears all costs from that moment onwards

FOB - Free On Board



- Seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered
- Risk of loss of or damage to the goods passes when the products are on board the vessel
- Buyer bears all costs from that moment onwards

CFR - Cost and Freight



- Seller delivers the goods on board the vessel or procures the goods already so delivered
- Risk of loss of or damage to the goods passes when the products are on board the vessel
- Seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination

CIF - Cost, Insurance, Freight



- Seller delivers the goods on board the vessel or procures the goods already so delivered
- Risk of loss or damage to the goods passes when they are on the ship
- Seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination
- Seller also contracts for insurance cover against the buyer's risk of loss of or damage to the goods during the carriage
- Buyer should note that under CIF the seller is required to obtain insurance only on minimum cover
- If the buyer wants more insurance protection, he will need an agreement with the seller or make own extra insurance arrangements