

THE COST OF EXPORTING

MAKE SURE YOU CAN MAKE MONEY INTERNATIONALLY

KEY TOPICS

- Before you start
- Forecasting your cash flow
- Export costs in detail
- Forecasting your sales
- Your break-even point, and what it tells you
- Where to go for help
- Useful tools



**EXPORT
ESSENTIALS
GUIDES**



There's no point exporting unless you know you can make a profit - and that means knowing all of the costs involved. Be realistic about your sales forecasts, look carefully at all your costs, and get professional financial advice throughout the process.

Before you start

When working out if you can make money from exporting, it's worth bearing a few points in mind:

- Exporting generally takes twice as long, and costs twice as much, as originally planned. It might be several years before you start to see a financial return from the export part of your business

- Sales and revenue often take longer to generate than planned
- Customers may be slower to place orders than you hoped - and slower to pay than you'd expect in New Zealand

You need to be able to manage the cost and cash flow burden of your export operations until they start to make money in their own right.

There are two key steps to find out if you can make money from exporting:

- Complete a cash flow forecast
- Calculate your break-even point

Forecasting your cash flow

Cash flow forecasting means working out exactly when your cash will be coming in and when it will be going out each month.

It's important to have an accurate cash flow forecast for the export part of your business, so that you know when it will be able to support itself financially - and how much money you'll need to keep it going in the meantime.

Exporting can put added pressure on your cash flow, including a result of larger sales and orders, longer payment cycles, and extra up-front investment in export markets.

You need to ensure you have more money coming in than going out, as well as making

provision for the daily flow of money and identifying how much money you'll need to fund your export start-up costs.

A good cash flow forecast will also help you spot any gaps in your export planning. For example, if most of your sales are on credit rather than cash, you need to be prepared for payment to be delayed for one or two months after each sale - or even longer, depending on the agreed terms and how effectively you can chase debtors. You'll need to carry the cost of all those sales in the meantime.

Building a good cash flow forecast requires:

- Skill with Microsoft Excel or other budgeting software
- The right forecast model (get advice from your accountant to help with this)
- Forecasting a range of scenarios - best, worst, and likely - so you're prepared for uncertainty
- A way of collecting the data that drives your forecast model.

Main sources of incoming cash

- Cash from sales, contracts or subscriptions – for sales made this month
- Cash due from debtors this month - for sales made on credit in previous months
- Interest and royalties due to you this month

Main sources of outgoing cash

- Cash payments for stock you bought this month
- Cash payments due this month – for stock you bought on credit in previous months
- Regular monthly expenses – wages, rent, power, drawings, taxes paid, and interest
- Set-up costs in overseas markets
- Travel and research costs, including samples
- Protection of intellectual property
- Advertising and marketing costs

Export costs in detail

Because starting to export is essentially opening up a new operation, you'll have a number of initial set-up costs, as well as new variable and ongoing costs as part of making sales and doing business overseas.

Initial set-up costs

Assuming you've already developed your product, you will also need to include the following costs in your calculations:

- Market research
- In-market promotions and trade shows
- New marketing materials, including translation
- Overseas travel and market visits
- Branding, packaging and labelling changes to suit the market
- Investment in new equipment or production capacity
- Set-up costs of an overseas office
- Storage and premise leasing costs (New Zealand and offshore)
- Employing additional sales people and staff, locally and offshore
- Freight and customs compliance costs
- Product modification, if needed
- Intellectual property and other legal costs (such as compliance in the target market)

- Compliance costs for in-market standards and regulations (e.g. working through testing regimes)
- Credit checking
- IT infrastructure, development or support costs.

Product or service costs

You will also need to work out the actual landed cost of your product or service into the target market. Start with your standard costs, then add:

- Freight and shipping to port of departure – including customs clearance fees
- Air or sea freight and product insurance
- International transport
- Ground transportation from port of entry to the warehouse or customer
- Warehouse or storage fees
- Break-bulk fees, if you'll be using a third party warehouse
- Wholesaler or agent margins or commissions
- Import duty, tariffs and other import taxes
- Additional banking charges and export financing.



FREIGHT COSTS

Freight costs are usually passed on to the customer in your end price, but they're still ongoing costs that need to be included in your cash flow forecasts. Remember that depending on the method you use, each shipment will likely have an upfront freight cost that takes time (possibly months) for you to recover in sales. There can be many separate freight charges on a shipment – including from factory to port, port to port, port to warehouse, and from warehouse to end destination. The simplest method is to have a freight forwarder handle the whole process.

Your selling price

Once you know your costs inside out, you're ready to work out your pricing. This will depend on the type of product and service you're selling, your overall strategy, and the market you're selling into.

This is a detailed area in itself - check out our separate guide to **pricing for export** to work through the issues and use cost plus and top down methods to calculate your selling price.

Forecasting your sales

Sales forecasting is the hardest part of any export budget - but you can make it a lot easier by putting as much time as you can into researching your export market.

Think carefully about your competitors and their market share, the local customers and what they are likely to buy, and what marketing and promotion you'll be doing to drive sales.

When it's time to estimate actual sales numbers, fight the temptation to make broad top-down predictions. Your numbers should be carefully researched and very cautious - especially for the first few years.

Don't do this alone! Get your accountant and an export advisor to check all of your financial forecasts.

Your break-even point, and what it tells you

Once you've researched your selling price, identified your costs and completed a cash flow forecast, you can calculate your break-even point.

This is the amount of your product or service that you'd need to sell in your export market to make back your costs. Every extra unit of sales after this point should be making you money.

You can then compare your break-even point with the level of demand that you've identified in your export market, through the detailed research that you've done for your sales forecasts.

This is a key moment in working out whether your export plans will work, for two reasons:

- Will you actually make enough money out of your shipments to make it worth your while? Can you trim costs or find efficiencies - or should you increase your prices?
- Is there enough demand in the market for you to reach your break-even point and minimum sales targets?

This can often tell you whether exporting to a particular market is viable at all. If you'd need to sell 500 units a year to break even in a market that can only absorb 200, it's not worth your time or effort. But if the market can potentially take 5,000 units, you're in a much better position.

Where to go for help

Always start off by speaking with your accountant or financial advisor for specialist assistance.

Regional Business Partners

The Regional Business Partner Network (RBP) has specialist growth advisors available to provide you with advice, information and connections to support your business.

 regionalbusinesspartners.co.nz

New Zealand Customs Service

You'll sometimes need to get rulings from overseas customs authorities on duties in their market for your products, so you can account for these in your costs and pricing. You can find a comprehensive list of these authorities via the New Zealand Customs Service online library.

 customs.govt.nz

Customs Brokers and Freight Forwarders Federation (CBAFF)

CBAFF is New Zealand's national federation of freight forwarders and customs brokers, affiliated with the wider transport industry. You can access a list of members online for help with logistics and export requirements, to give you more certainty on your export costs.

 cbaff.org.nz

New Zealand Export Credit Office (NZECO)


NZECO provides financial guarantee products to help New Zealand exporters grow internationally. These products can help you secure export sales, access trade finance, and better manage your cash flow for export. NZECO is part of the New Zealand Treasury, and its guarantees and policies are backed by the New Zealand Government via the Minister of Finance.

 nzeco.govt.nz



Useful tools

We've created a basic **Monthly Cashflow Forecast and Breakeven Calculator** to help you get a handle on the costs of exporting for your business. Find these resources on our website here:

 nzte.govt.nz/tools-and-templates/calculating-the-cost-of-exporting

More handy tools and templates including an **Export Plan** template are available to download at

 nzte.govt.nz/tools-and-templates

Get a fuller picture of exporting with our other **Export Essentials Guides**, available for download at

 nzte.govt.nz/export-assistance/export-essentials-guides

The **New Zealand Story** is a free toolkit that provides a simple set of brand values, images, videos and presentations that can help you define your value proposition and promote your business offshore.

 nzstory.govt.nz



About NZTE

Export Essentials resources are brought to you by New Zealand Trade and Enterprise (NZTE), New Zealand's international business development agency. We exist for one purpose: to grow businesses internationally, bigger, better and faster, for the good of New Zealand.

We're here to help you get the right focus and information at the right time in your exporting journey, whether you need practical help to get started, a deep partnership to develop a fully global business, or anywhere in between.

Find out more at nzte.govt.nz/about or get in touch with us: nzte.govt.nz/contact-us

Go further with Export Essentials Workshops

Wherever you want to take your business next, it's good to know you're on the right track. NZTE's Export Essentials Workshops put you in full control of your export plans, using lessons learnt by New Zealand businesses in markets around the world.

Find out more and register for upcoming workshops at nzte.govt.nz/essentials

