NEW ZEALAND

GENERAL EXPORT CHANNEL COSTS FOR CONSUMER GOODS

An overview of general cost considerations with exporting in common Consumer Goods channels

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Introduction to this report

Background

Prospective exporters in the consumer goods space often see a market as attractive without fully understanding the various costs that go into exporting, or whether they are able to compete on price.

Methodology

The primary research in this report is sourced from interviews with a variety of sources, including:

- NZTE Business Development Managers
- NZTE Customer Managers
- NZTE Beachhead Advisors
- Retail experts and brand owners.

Purpose

The purpose of this report is to give prospective exporters an understanding of what costs they may need to factor in when deciding whether they can be profitable in-market.

Limitations

Information in this report is intended only to be used as a guide for what costs an exporter might expect to see and are only the considerations called out by experts during these interviews.

Not all of the costs outlined in this report will apply to every exporter, and in some markets, there will be additional costs not covered by this report.

We recommend that prospective exporters confirm which costs apply as they progress their export journey and seek our further information from their channel partners, and in-market experts.

Use this report to...

Understand the types of costs you may encounter in-market.

There are a variety of cost considerations throughout this report. Some factor into the unit price of a product (i.e., retailer gross margin), while others are fixed or variable costs which may not factor into pricing but need to be accounted for so that an exporter can calculate breakeven points.

Build a margin model that captures the per-unit costs you may encounter in-market.

A margin model is way of showing the various costs that go into setting the final retail price of a product. It includes costs such as discounts, marketing, and margins, which should all be factored in when deciding what price point an exporter wants to sell a product for.

Use the margin model to scenario test how changing different costs affects your bottom line.

By working backwards from a retail price and subtracting the relevant per unit costs, an exporter can understand whether they will have any profit leftover to contribute to fixed and variable costs outside of those use for pricing considerations (i.e., product samples). It is important for an exporter to test a variety of scenarios.

Overlay in-market knowledge and market entry strategy on top of these considerations.

Not all costs will apply

The considerations in this report are based on primary interviews with a variety of experts. Therefore, they should be treated as potential cost considerations as opposed to what an exporter will definitely experience. Exporters will still need to identify which costs apply to them.

For example, some costs in this report are more common for certain categories (i.e., sampling) or are only considerations for a particular channel (i.e., marketplace commission).

Costs incurred may vary by market

Not only do the costs encountered by an exporter vary by category and channel, but certain export markets will have costs that are specific to them.

Prospective exporters should always seek in-market expertise to ensure that they are aware of any market-specific costs.

There may be overlap between costs

The goal of this report is to capture a wide variety of costs that an exporter may encounter. Because of this, certain costs may overlap with each other.

For example, depending on the services provided by a **marketing agency**, some of an exporter's **consumer marketing** and/or **localised content production** may be covered by a **marketing agency line item**.

Expert advice is still necessary

The considerations in this report aim to prompt prospective exporters to think about what costs might apply to them. They are not a substitute for seeking expert advice.

Example Margin Models

This section outlines examples of top-down margin models for the following channels:

1. **Direct-to-Consumer eCommerce** – Where an exporter sells products through a website that they own.
2. **Marketplace eCommerce** – Where an exporter is selling product through an eCommerce platform (i..e., Amazon.)
3. **Mass Retail** – General department store, big box retailer, or national chain with general merchandise.
4. **Specialty Retail** – Premium department store, specific category retailer, or independent.

These margin models are only examples using the costs in the glossary. Prospective exporters should go through the cost glossary and seek in-market expertise to understand their full cost outlook.

Introduction to Margin Models

The diagram to the right displays a top-down margin model and the cost categories that might be included.

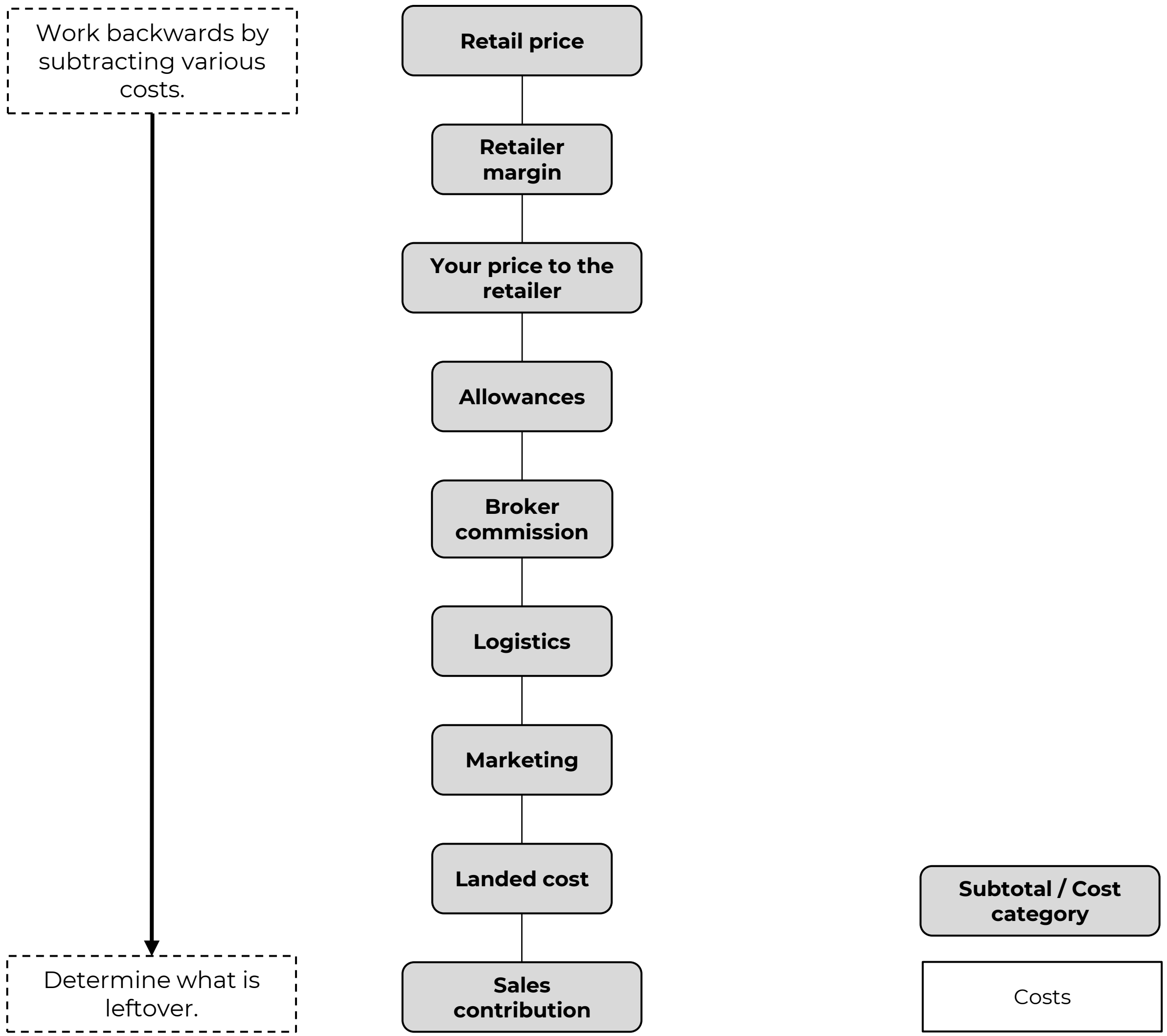
In this section, each of the 4 channels will have an example margin model similar the one to the right, but with the cost categories (i.e., **allowances**, **logistics**, **marketing**) expanded to include specific line items.

Sales contribution (at the bottom) is the profit leftover to go towards fixed costs, variable costs that are not included in the margin model, or unknown export costs that may arise

Exporters should **understand the margin model specific for their pathway to market**. Using a margin model, an exporter can work backwards from a desired retail price all the way to **sales contribution** to figure out what is leftover for other costs.

The goal is for an exporter to be updating their margin model as they gain more in-market knowledge.

Each example also includes a list of costs not included in the model that **sales contribution** may go towards.



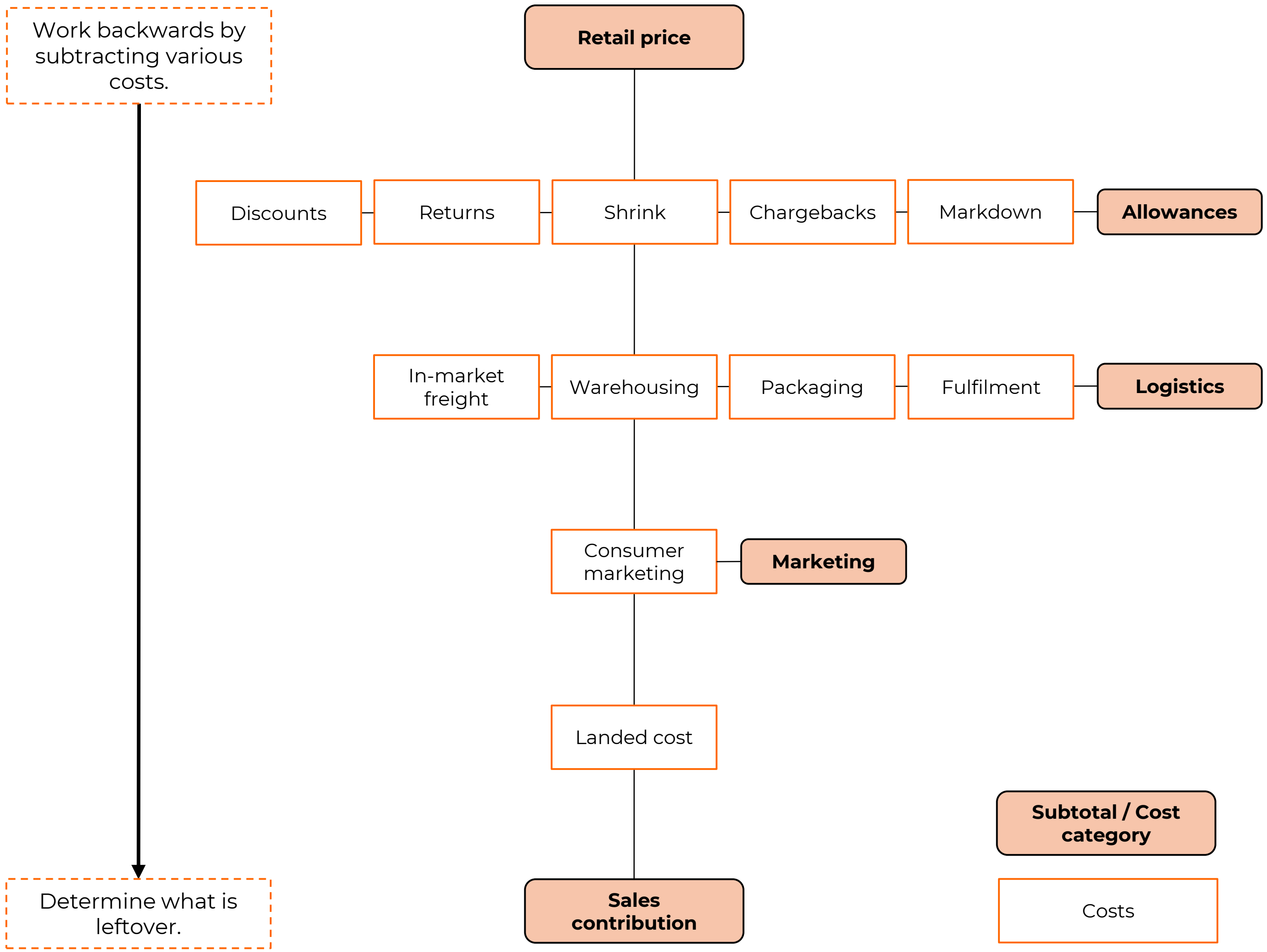
Example Margin Model – Direct-to-Consumer eCommerce

The diagram to the right displays a **potential** top-down margin model for a **direct-to-consumer eCommerce** approach.

Sales contribution may go towards (but is not limited to):

- Compliance costs
- Localised customer service
- Localised content or copy
- Payment processing and localised payment considerations
- Sampling
- Website development and site localisation
- Website hosting and plugin fees

Click any of the costs above, or on the ***Costs*** *boxes to the right to be taken to the relevant definition.*



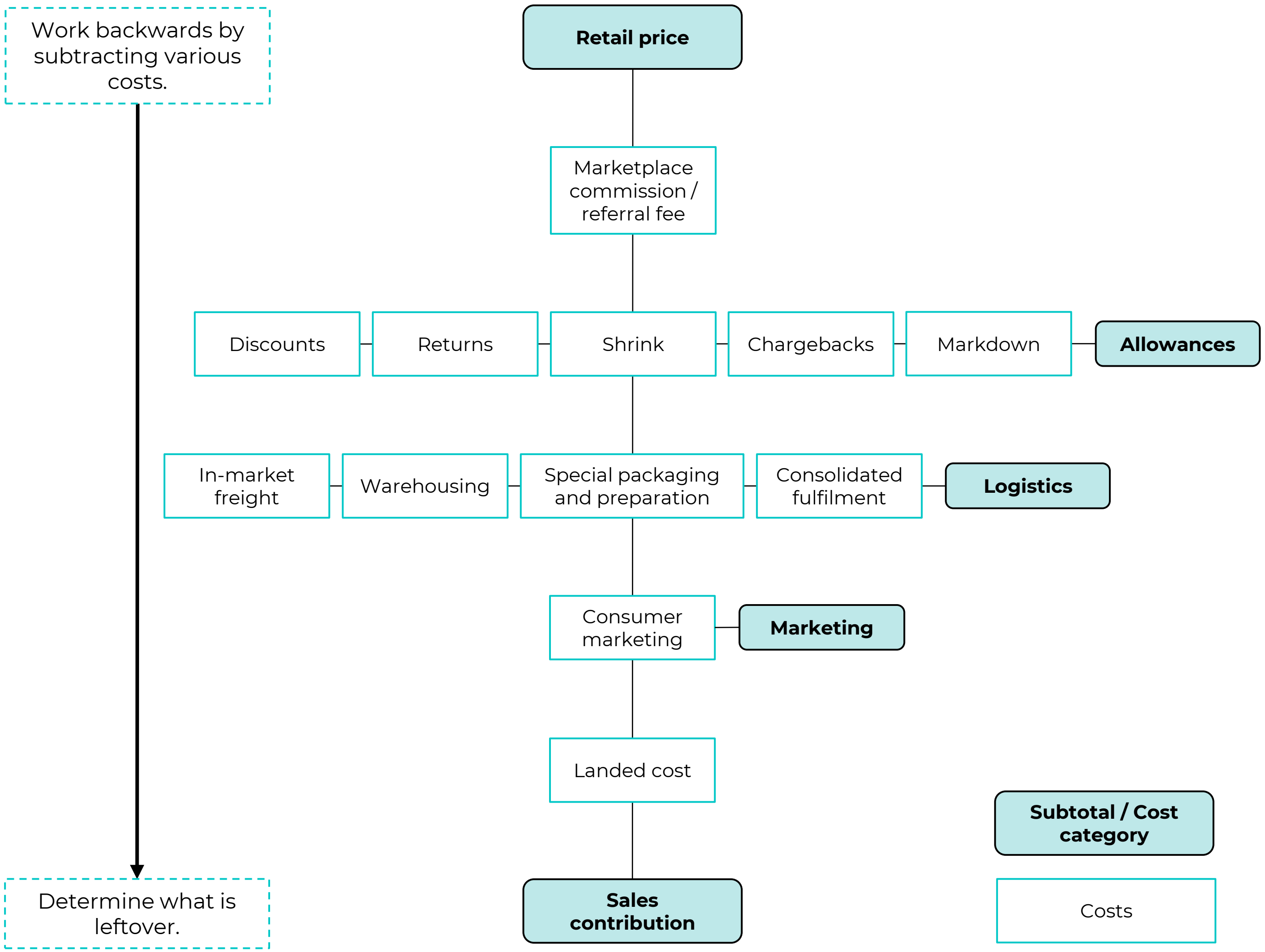
Example Margin Model – Marketplace eCommerce

The diagram to the right displays a **potential** top-down margin model for a **Marketplace eCommerce** approach.

Sales contribution may go towards (but is not limited to):

- Compliance costs
- Hiring of staff to manage the eCommerce store
- Localised customer service
- Localised content or copy
- Marketing agency fees
- Marketplace platform marketing spend
- Review programs
- Subscription / listing fees

*Click any of the costs above, or on the **Costs** boxes to the right to be taken to the relevant definition.*



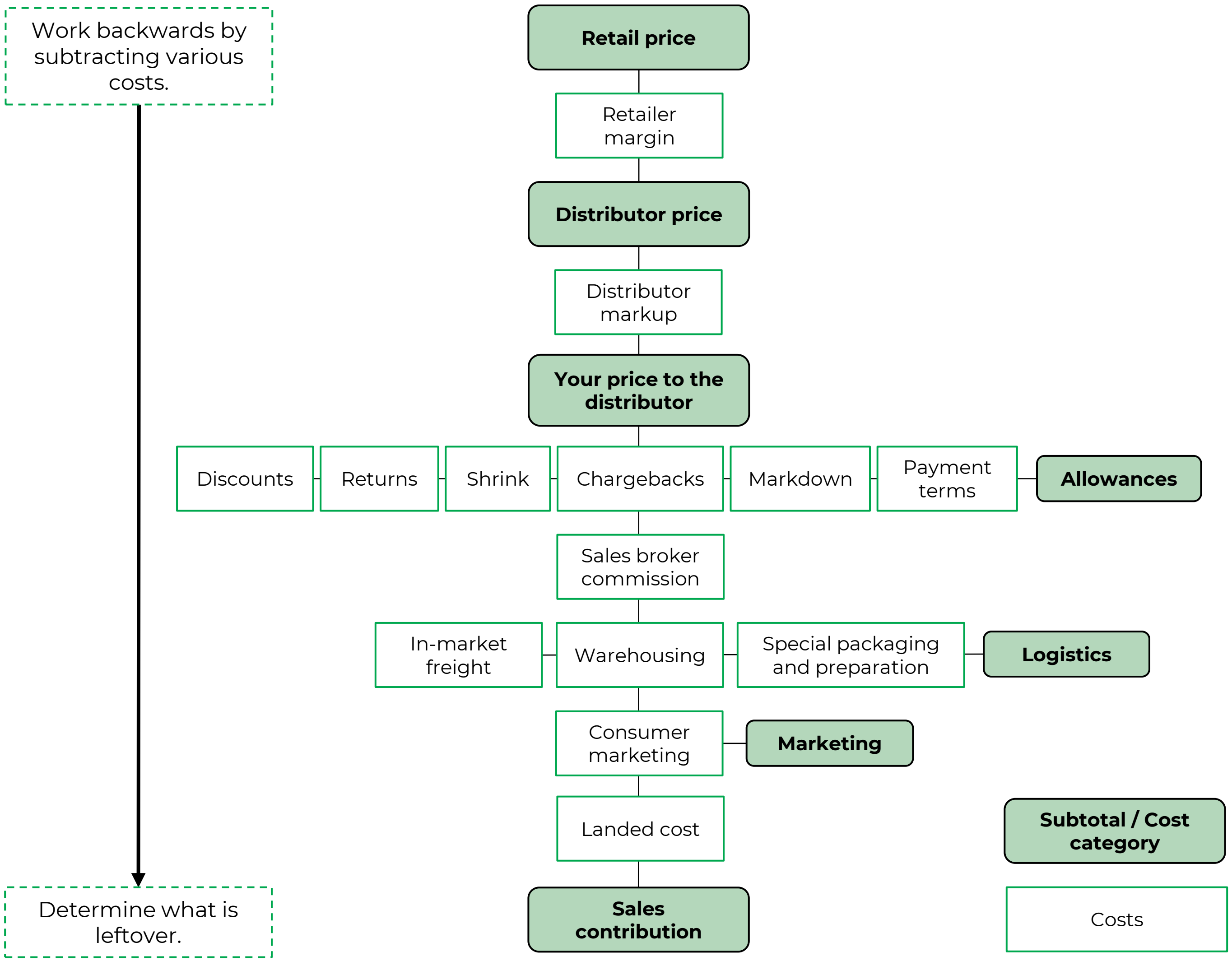
Example Margin Model – Mass Retail

The diagram to the right displays a **potential** top-down margin model in a **Mass Retail** channel.

Sales contribution may go towards (but is not limited to):

- Compliance costs
- Electronic data interchange (EDI) fees
- In-market travel and trade show costs
- Sampling
- Setup costs for in-store promotions
- Shelf placement fees

*Click any of the costs above, or on the **Costs** boxes to the right to be taken to the relevant definition.*



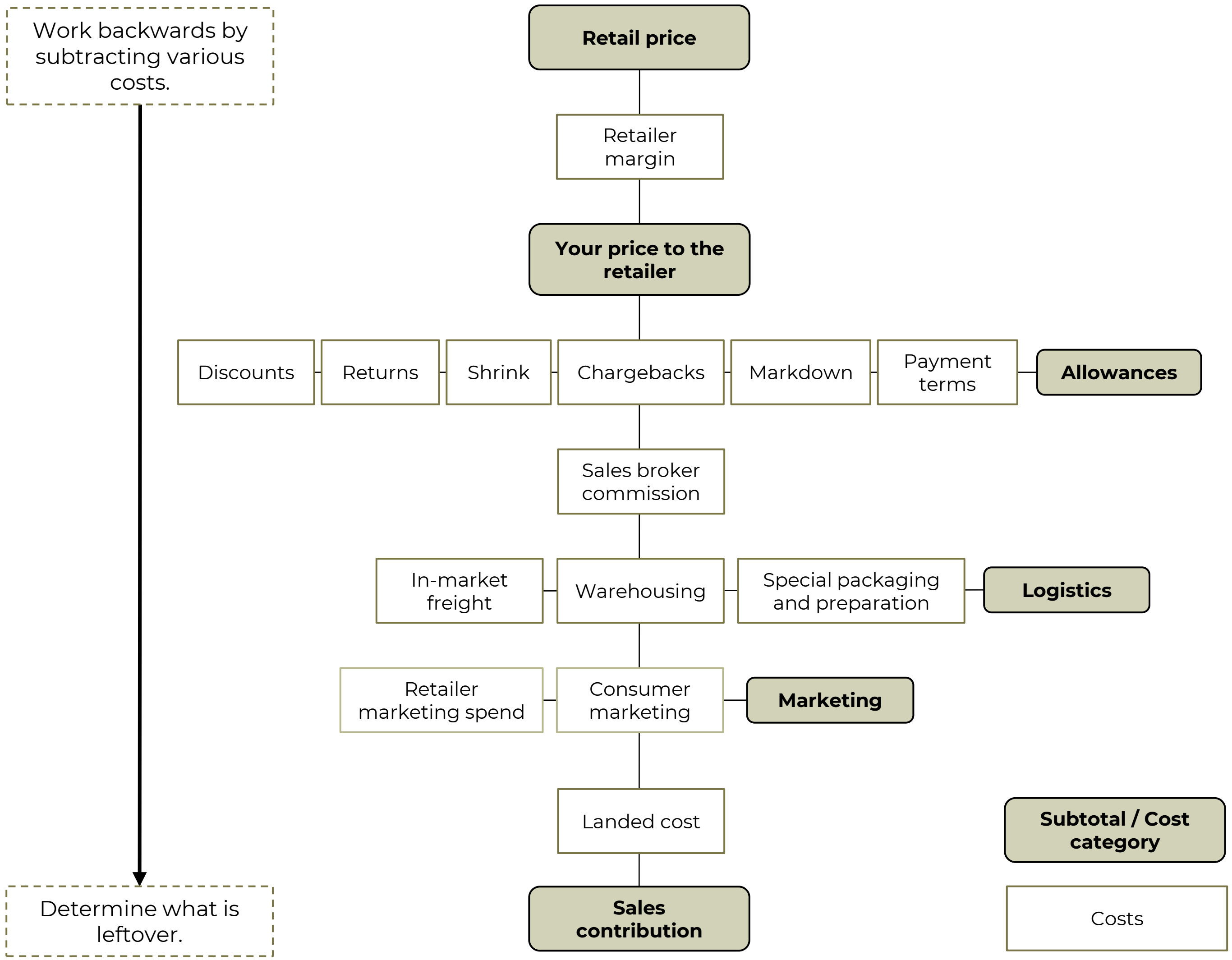
Example Margin Model – Specialty Retail

The diagram to the right displays a **potential** top-down margin model in a **Specialty Retail** channel.

Sales contribution may go towards (but is not limited to):

- Compliance costs
- Electronic data interchange (EDI) fees
- In-market travel and trade show costs
- Retailer event participation
- Sampling
- Setup costs for in-store promotions
- Staff incentives and/or training

Click any of the costs above, or on the ***Costs*** *boxes to the right to be taken to the relevant definition.*



Cost Glossary

This section categorises, lists, and defines a variety of costs that an exporter may encounter.

As noted previously, this glossary is not intended to be a complete list of all the costs an exporter will encounter.

When reading this glossary, prospective exporters should keep in mind that:

- **Not all costs will apply**
- **There may be overlap between costs**
- **Costs incurred may vary by market**
- **Expert advice is still necessary**

Cost Glossary

Note – Not every cost in the Cost Glossary will apply, and there may be some costs an exporter will encounter that are not covered in this report. Some costs are more common in certain categories or are only applicable to certain channels. Additionally, there may be market-specific costs not covered in this report. These costs are not a substitute for seeking expert advice.

Click the relevant name to return to the example margin model: **Direct-to-Consumer eCommerce** | **Marketplace eCommerce** | **Mass Retail** | **Specialty Retail**

CATEGORY	COST	DEFINITION
In-market visits	In-market travel and trade show costs	Cost of travel for an exporter to get a better understanding of the market landscape, assess in-market partners, meet existing contacts, and participate in trade shows.
Compliance	Compliance with any consumer, channel partner, marketplace, or retailer requirements	Costs associated with helping a product become compliant with any third-party certification that a channel partner may require.
	Compliance with government regulations	Costs associated with making a product compliant with in-market government regulations.
Building a digital presence	Subscription / listing fees	A monthly fee paid by an exporter to a marketplace to use their platform.
	Marketplace storefront set up and ongoing maintenance	These are any costs to create a storefront on a marketplace, whether they are charged by the platform themselves or an agency partner. Beyond the set-up fee, there may also be ongoing maintenance costs to ensure the storefront is up to date.
	Payment processing and localised payment considerations	Any payment processing fees that allow customers to use credit cards or a local payment method.
	Website development and site localisation	Any costs associated with building a website and ensuring the website is adapted to requirements in a target market.
	Website hosting and plugin fees	Website hosting fees and any fees for additional plugins used to ensure the site has localised functionality (i.e., accounting software fees).
Customer Service	Localised customer service	Depending on the product and market, an exporter may need to have localised customer service representatives to field customer queries.
Hiring	Hiring to increase export capability	Any hiring done specifically to help an exporter reach or operate in their target market. For example, while initially an exporter may run their marketplace storefront themselves, in the long-term an exporter may look to hire someone to manage this side of their business or expand a current employee's responsibilities.

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CATEGORY	COST	DEFINITION
Marketing	Marketing agency	An exporter may look to hire an agency to help manage localised marketing, who are typically paid a monthly retainer. Depending on the range of services an agency provides, there may be some overlap with other marketing line items.
	Consumer marketing	Separate from other marketing line items, this refers to marketing spend outside of the channel to increase awareness and sales in-market. Examples include affiliates, influencers, and purchasing ads on digital platforms.
	Localised content or copy	Costs associated with developing content or copy specific to a new channel, market, or region that better resonates with the consumer.
	Retailer event participation	Retailers may host or participate in several events each year that an exporter can also participate in. This is the cost to an exporter of participating in these events.
	Retailer marketing spend	This is the spend on a retailer's various marketing programs. This can sometimes be a contractual obligation in the form of co-op marketing fees. In some cases, this may include allowances for promotional discounts as well.
	Marketplace platform marketing spend	This is the spend on a marketplace platform's various programs and advertising tools which an exporter can use to drive traffic to their storefront.
	Review programs	Some marketplaces may offer programs where they select insightful reviewers to review an exporter's products. This can come at a cost but assist in boosting product credibility and preference.
	Sampling	These are single-use, multi-use, or even full-sized products provided consistently (i.e., monthly) by an exporter. Whether an exporter supplies these and the volume supplied depends on the product category, number of SKUs, and channel.

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CATEGORY	COST	DEFINITION
Marketing	Setup costs for in-store promotions	This could include fixtures, windows, endcaps (displays at the end of an isle), or point-of-sale promotions in-store. The cost of the physical displays for these may rest on an exporter. This may be grouped with retailer marketing spend depending on an exporter's arrangement with a retailer.
	Staff incentives or gifting	Costs associated with providing staff with incentives to sell a product such as free samples or products.
	Staff training	The cost of designing and providing any training to staff (i.e., brochures).
Landed cost	Landed cost	The sum of all costs associated with getting a product on the ground in-market. Examples of these costs include manufacturing, freight to reach the market, tariffs, and duties.
Logistics	Fulfilment	The cost of processing an order and shipping the product to a customer. For **marketplace platforms**, this is the fee for them to pick, pack, and ship an order to a customer, and is sometimes referred to as a **consolidated fulfilment fee**.
	In-market freight	The cost of any in-market freight to move product to a warehouse or distribution centre after it has landed in-market. This is separate from fulfilment which focuses on freight costs to fulfil an order.
	Packaging	The cost of packaging a product so it is ready to ship, this may include collateral.
	Special packaging and preparation costs	Retailers and marketplace platforms may have special requirements for the packaging and preparation of products which exporters need to meet. An example of this could be special hangers required by a retailer for apparel products.
	Warehousing / inventory storage fees	The cost of storing products in-market. These may vary by the size and weight of the product, the time of the year (seasonal premium rates), levels of security, and the quality of the warehousing itself (i.e., warehousing with minimal dust).
Sales Broker	Broker commission	May be a percentage of sales or a monthly flat fee (whichever is higher) paid to a broker for any services provided (i.e., general guidance, category reviews, day-to-day management).

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CATEGORY	COST	DEFINITION
Allowances	Chargebacks	Fees and loss of revenue associated with product chargebacks. This is different from a returns allowance where a refund for a return is issued by an exporter rather than a bank. Common reasons for customer chargebacks include fraud and product dissatisfaction. There may also be a cost associated with any currency exchange that has to take place as part of this.
	Discount allowance	An allowance for any discounts that an exporter, marketplace, or retailer places on products. To determine this allowance, an exporter needs to consider the average percentage that their goods are discounted by over a year. I.e., if an exporter expects its goods to be discounted by 10% for 50% of the time, then on average their goods will be discounted by 5% throughout the year, so they could allocate 5% of gross sales to cover this.
	Markdown allowance	Markdowns occur when a retailer needs to clear out inventory, so they begin to discount it. This is different to a discount allowance, where products are discounted because of a particular sale. Whether an exporter carries this cost depends on the arrangement with the retailer. Markdowns may occur if an exporter's products are not selling as quickly as anticipated, or a retailer may markdown stock so that they can clear their inventory for the next season. A retailer may have an expected margin that they want to reach even if they have to markdown products. In some cases, a markdown allowance may be paid by an exporter as part of an agreement to ensure a retailer reaches their expected margin. I.e., if a retailer needs to charge an RRP of $100 to make their expected margin, but has to markdown the product to $80, the exporter may be expected to cover the $20 difference so the retailer can still make their expected margin.
	Payment terms allowance	As part of the terms and conditions there may be a clause for how long until an exporter is paid after goods arrive. In some cases, a retailer may offer to pay an exporter sooner if an exporter gives them a discount on the invoice. I.e., **2 / 10 net 30** means that a retailer will get a **2**% discount if they pay in **10** days, otherwise payment will be due **30** days after the receipt of goods.
	Penalties for late / incorrect shipments	A retailer may make an exporter pay a fee to cover lost revenue due to shipments that arrive late or have products missing.
	Returns allowance	The cost to an exporter of accepting product returns. Depending on an exporter’s returns policy, some percentage of gross sales could be allocated towards this. This is different to chargeback allowance, where a chargeback is issued by a bank as opposed to an exporter.
	Shrink allowance	Stock loss due to theft, fraud, damage, and clerical errors.

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CATEGORY	COST	DEFINITION
Distributor	Distributor margin / markup	Distributors may have set margins or markups that they use to determine the sale price of an item, based on what they bought the goods for. A markup is the difference between the sale price of a product to a retailer and what the distributor paid for it (**cost**), divided by the cost. I.e., if a distributor bought a good for $5.00 and wants a 50% markup, they would sell it for $7.50 (150% of $5.00). The markup formula is: **Markup % = (sale price per unit - cost per unit) / cost per unit x 100** A margin is the difference between the sale price of a product to a retailer and what the distributor paid for it (**cost**), divided by the sale price. I.e., if a distributor bought a good for $5.00 and wants a 50% margin, they would sell it for $10.00 (because 50% of $10 is $5). The formula to calculate margin is: **Margin % = (sale price per unit - cost per unit) / sale price per unit x 100**
Retailer setup fees	Electronic data interchange fees	An electronic data interchange (EDI) connection is the electronic communication between a retailer's fulfilment centre and an exporter. Among other things, this allows the retailer to see an exporter's catalogue in full. There may be fees associated with setting up the EDI with a retailer.
	Shelf placement fees	The cost charged by a retailer for products to be placed on shelves. In some markets these may be referred to as **slotting fees**.
Marketplace referral fee	Marketplace commission / referral fee	This is the percentage taken from the retail sale price of a product by a marketplace platform. I.e., if the referral fee for an item is 15% and the retail sale price is $10, the marketplace would receive $1.50.
Retailer margin / markup	Retailer margin / markup	Retailers may have set margins or markups that they use to determine the retail price of an item, based on what they bought the goods for. A markup is the difference between the retail price of a product and what the retailer paid for it (**cost**), divided by the cost. I.e., if a retailer bought a good for $5.00 and wants a 50% margin, they would sell it for $7.50 (150% of $5.00). The markup formula is: **Markup % = (sale price per unit - cost per unit) / cost per unit x 100** A margin is the difference between the retail price of a product and what the retailer paid for it (**cost**), divided by the sale price. I.e., if a retailer bought a good for $5.00 and wants a 50% margin, they would sell it for $10.00 (because 50% of $10 is $5). The formula to calculate margin is: **Margin % = (sale price per unit - cost per unit) / sale price per unit x 100**

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