

International Shipping: Why and how should I do it?

Author: Managing Director, MetaPack

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This report is to help senior managers think about the practical benefits, operational choices and economics of the shipments options for International markets. Readers will be coming to the issue of International shipments from a number of perspectives. These include, but are not restricted to, B2C Internet retailers:

- ❖ That don't currently and would like to ship to markets outside of their home country, but are unsure of the legal requirements, international shipping rules, complexity, and carrier options in order to be able to do so.
- ❖ That currently export, but only to specific, usually EU, countries, and now wish to expand their range of service options and territories.
- ❖ That currently exports across the world and are now looking to reduce export shipping cost and the cost of overseas returns, or are looking to expand their range of delivery options.

Exporting is full of risks – why should I?

A few domestic catalogue retailers have, for many years, offered overseas clients the opportunity to purchase, but these retailers are known and have trusted brands. This trust in the brand and the pre-internet environment with its lack of information (about competitors) allowed the catalogue retailers to offer an expensive and low-service model, as there was little threat to their core business. Overseas sales were seen as true margin enhancing sales, with customers prepared to put up with a lot to get the goods.

The internet has changed that. Many retailers now look to sell to overseas clients, allowing them to encroach on the territory of the domestic retailers and offer real competition. Consumers can now compare prices, service and quality on-line and their choice of retailer is no longer constrained by national boundaries. This may benefit the consumer, but it also benefits retailers that are prepared to offer the right product, price and delivery service for overseas customers. Therefore, expanding the potential market through International exposure via the web can be a great way to build revenue and increase margin. However, when not executed properly overseas shipments can eradicate margin and lose customers.



International Shipping: How and why should I do it?

International trade is more complex than domestic retailing as the number of parties involved increases, i.e. it can now include Customs and other government departments, international carriers, multiple carriers and may also involve insurers and export service providers. And although the Internet seems to have eliminated or shrunk national boundaries, there are still language and currency complications, which require clear, accurate, complete and timely information exchanges between the retailer and the customer. Handled properly, the retailer can achieve speedy delivery, low shipping costs and satisfied customers.

Unfortunately, consumers are not always aware of the additional charges or hassle ordering from abroad may bring. One major clothing retailer that enjoys substantial export revenues has recognised that when it comes to returning goods, their process ensures that they lose the customer through creating (unnecessary) frustration and expense for that customer.

Therefore, it is important that a retailer understands the language and rules for exporting before embarking on such activity. The smart retailer will also use an application that builds-in these rules and provides the retailer with a range of options to suit the various service offerings that the retailer wishes to make available.

Terminology and Rules?

Depending on the product, the quantity, the value and the countries of origin and destination exporting can be very complex and, potentially, expensive. There is a whole lexicon of terminology (legally defined under Incoterms) which define contractual responsibility for freight, duty, insurance and the point of transfer of liability. Fortunately, the business to consumer retailer only has to deal with two of these exporting terms, namely DDU and DDP.

DDP (Delivery Duty Paid): This is where the shipper/seller is responsible for dealing with all of the tasks involved in moving the goods from the point of origin to the buyer's door. It is the shipper/seller's responsibility to insure the goods and absorb all risks including the payment of local taxes, duties and fees. This is sometimes referred to as Landed Cost.



International Shipping: How and why should I do it?

DDU (Delivery Duty Unpaid): This is where the shipper is only responsible for the delivery to the customer (sometimes only to the port of entry), but puts the responsibility for paying any import duty and taxes onto the buyer.

Specific goods, e.g. military goods (or those that are designated as dual use), animal products, medicines, antiques or works of art can only be exported under the authority of an export licence. The various types of licences are issued by the Export Control Organisation and each licence has specific terms and conditions of use.

As this is a global issue, the countries of origin and destination play a big issue. For this paper it is assumed that the seller is shipping out of the UK. If the buyer is in the EU the rules around exporting are generally simpler. Specific products, such as tobacco and alcohol can be subject to restrictions and may be liable to duty and VAT on the importing country. However, the majority of products, regardless of value, can be shipped to the other 26 EU countries without the need for specific paperwork and will not be subject to duty or tax. This does not take away the complexities of the delivery service; this subject will be covered later.

It should be born in mind that for exporting purposes the EU does not include: the Channel Islands (Jersey, Guernsey, Alderney, Herm and Sark), Andorra, the Canary Islands, Monaco, Gibraltar, San Marino and the Vatican City State.

When exporting outside of the EU (including those listed above) additional documentation is required. A parcel usually needs to contain a Commercial Invoice, which should be on the outside of the package inside a clear envelope, although this is not universally enforced. Depending on the freight company used, it may be necessary to produce up to 5 copies of the Commercial Invoice.

The next factor to take into account is the value of the goods in the package. If the goods are valued at up to £270, a CN22 form will need to be completed; quite often this form is applied as a sticker. It requires a brief description of the contents along with their value and weight. However, if the goods are valued at over £270 a CN23 form will need to be completed. The CN23 form requires quite a lot more information and will need to be inserted into a plastic wallet on the outside of the



International Shipping: How and why should I do it?

parcel. Aside from some additional general details (to the CN22) the CN23 requires, for each unique product in the parcel, the HS Tariff Code (World Customs Organisation (WCO) Harmonised System) and the Country of Origin.

The HS Tariff Code and the Country of Origin are very important and are used by the Customs Department in the importing country. It is here where the amount and type of duty and taxes are calculated. In some cases goods will be impounded or refused to be imported if they contravene the local country import controls. Many countries have duty/tax exempt limits, e.g. the USA does not levy taxes or duty for goods where the total value is less than \$200. However, if close to this limit the shipper should be aware that the exchange rate could very well put a parcel over this limit. Each month the exchange rates between the various currencies is fixed and available from government web-sites (HMRC for the UK), and these change at the beginning of the month. Furthermore, Customs authorities take a dim view on retailers that ship multiple parcels to a single address where each parcel happens to be below the duty exempt limit.

This takes us back to the DDP versus DDU choice. With DDU it is the buyer's responsibility to pay the taxes and allow the goods to be delivered. The carrier handling the import will manage the paperwork and contact the buyer to arrange the tax and duty payment where applicable. On the face of it, that makes the exporter's life easier. Except, that it creates a lot of hassle for the buyer and can result in the parcel being returned and the customer making a claim. Regardless, if not clearly declared and defined up-front it can make for an unhappy customer.

DDP can be harder for the retailer to administer, but the key to deriving the correct duty and tax amounts is by knowing the HS Tariff Code and Country of Origin, which are necessary for the customs paperwork anyway. The DDP calculation uses the input information, per product, and the shipping costs to calculate the total Landed Cost or DDP price. Although the actual algorithms in the DDP calculation are not complex, the data required to match the HS Tariff Code and Country of Origin against the unique and specific taxes and duties for each and every country is vast and ever changing. Virtually all exporters in FMCG



International Shipping: How and why should I do it?

markets (as opposed to bulk shipments) use outsourced companies to maintain and manage such data and calculations.

Shipping Options?

Exporting, even within the EU, can carry a high shipping cost. There is always a trade-off between speed of delivery and cost. Various destinations are better served by specific carriers. Furthermore, weight is no longer the main determinant of price, 'volumetrics' (the physical cubic space of the goods as well as any dimension exceeding a carriers pre-set limit) play a much larger part; air cargo is as much about space taken as it is weight and carriers are restricted by the handling equipment of the smallest dimension within their network or partner network.

It is not just the RoW countries that are zoned, zoning for tariff and delivery time applies within the EU. Again, zones will vary by carrier depending upon their relative strengths, and selecting the cheapest carrier for the desired service is a premium requirement of most retailers.

The larger volume retailers who regularly ship multiple parcels to a single country can take advantage of the 'break-bulk' option. One carrier can be used to deliver a pallet load of parcels to a destination country and a local carrier, applying local delivery rates, can then handle the shipment within country. The problem faced by most retailers in this scenario is that either they lose visibility of the parcels once with the local carrier or they have to integrate the local carriers and bulk carriers systems with their own.

The traceability issue is easily overcome when using a multi-carrier, multi-modal application such as that from MetaPack. A feature of the MetaPack SaaS is that the 'child' parcels inherit the tracking of the bulk 'parent'.

Return to sender

Returns are the area that all retailers hate. With exports the additional cost can be higher, with the dreaded consequential impact on margin. The cost of the return shipment is likely to be higher (for those not paid



International Shipping: How and why should I do it?

by the customer), but the inexperienced or ill prepared retailer can be faced with import duty cost even though it was paid on the original import.

The well prepared retailer will ensure that it can easily reproduce the customs documentation that proves the export and then consolidate that data for presentation to the Custom authorities to reclaim the double duty. Therefore, it is important that whichever application used by the retailer has the ability to store and re-print the customs documents relating to the original order (as well as complying with the mandatory requirement to retain and produce such information for up to six years).

It's quite complex – can it be made easier?

One way is to use a single carrier specialising on exports – they can provide the necessary forms and documentation, etc. The retailer can then integrate with that carrier or use the carrier's application directly. This also involves having a carrier specific printer along with the terminal.

Using a single carrier can be restrictive and, potentially, unnecessarily expensive. Most carriers are good in a few areas, be it a delivery method, geography or service criteria, but few, if any, are able to provide a comprehensive range of services at an attractive price for all of a retailers desires. Therefore, the smart retailer will use multiple carriers – selecting the right carrier based on specific service, performance and cost criteria. This solution gives rise to its own headaches. For each carrier, it will require specific paperwork, and the need to install multiple carrier's proprietary system and printers or to undertake the systems integration with each one. Furthermore, someone in the organisation, or a clever piece of software, will need to decide parcel-by-parcel which carrier should be used.

There is a solution to the multiple carrier issue. MetaPack provide a Software as a Service application which is integrated with all of the leading International carriers. It is also integrated with a number of local country carriers. The MetaPack software allows the retailer to use a single pack bench and printer for multiple carriers and print all of the



International Shipping:
How and why should I do it?

required customs documentation. MetaPack provides a single interface for parcel tracking including the multi-level break-bulk operations, which allows the retailer's customer care team a single access to all parcels regardless of the carrier. MetaPack also allow for reprinting of customs documentation for lost documents on the outbound and, more importantly, for the retailer to use in reclaiming 'double' customs duty payments.

The bottom line is that many retailers do export and overcome the hurdles; it's just that some retailers do it better than others.

About MetaPack

MetaPack is the leading provider of delivery management solutions that promote best practice, transform online shopping and help retailers exceed customer expectations. We are the only company providing a single point of integration for carriers enabling retailers to reduce costs and offer comprehensive delivery options as well as complete tracking through extensive performance reporting. We allow for proactive customer care through email notification and SMS messaging for all shipments. Customers range from large and multichannel retailers such as John Lewis, ASOS, B&Q, Marks & Spencer to many smaller pure play companies.