THE HIDDEN COSTS OF IMPORTING GOODS

AND HOW TO AVOID THEM

After what has been one of the most challenging years on record for the shipping industry, now more than ever it's important to avoid any nasty surprises when it comes to your freight.

2020 has seen sky-high freight rates, container shortages and worldwide restrictions causing massive shipping delays - a situation some in the industry are labelling a black swan moment.

The litany of issues has caused major frustration, as well as a huge impact on the bottom line of businesses around the world.

The natural and understandable result is that businesses try to cut costs wherever possible - often leading them to select the freight option with the lowest upfront pricing.

While that's a tempting option, in most scenarios the cheaper option upfront doesn't necessarily add up to the cheapest option when the job's done.

When you're making a decision on how to get your goods from A to B, you might be faced with the decision of whether to choose a Cost & Freight option (**CFR**) or the Free On Board option (**FOB**) and like in nearly every industry around the world, the old adage applies:

"If it seems too good to be true, it probably is."

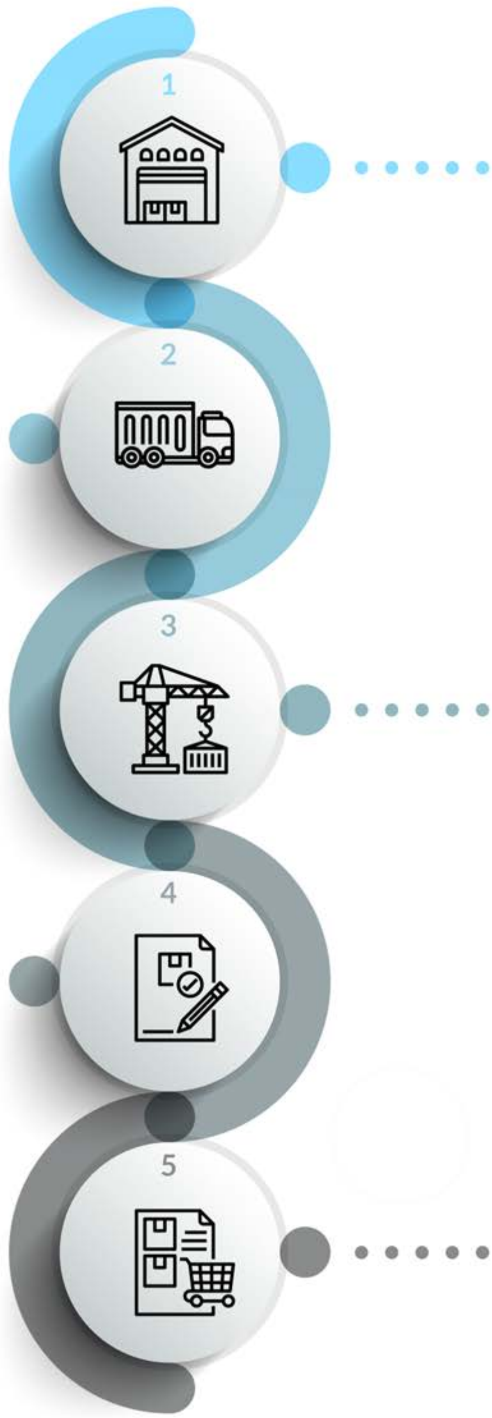
We're going to break down the hidden costs for you when considering CFR versus FOB and help you avoid ending up with nasty surprises along the way.

/ THE SHIPPING PROCESS

What exactly is the shipping process and who needs to be paid for what?

The trouble with the term shipping is that it sounds like one action, rather than what it is: a streamlined process where lots of moving parts are coming together at exactly the right time. It can be the reason people fail to factor in what different elements need to be paid for when they're importing something into Australia. Unlike an online order in which you pay for fast or slow shipping, when you're looking at importing it's important that you as the buyer know the different stages and steps so you can recognise a 'too good to be true' deal when you see one.

/ HOW IT WORKS



Step One

The supplier packages the goods in the factory.

Step Two

A courier/haulier picks the goods up and takes them to the port.

Step Three

For shared containers, in a warehouse at the port, the goods are loaded into a container (by hand or forklift) and then the container is loaded onto a vessel (by crane).

Step Four

An Export Licence must be bought to allow the goods to leave the country of origin.

Step Five

The goods then need to be declared to Customs; someone is paid to do this.

Step Six

To ship the goods; official documents need to be raised. This is done for a fee.

Step Seven

Once on board the vessel, the cost of sea freight is to cover the sea transportation from port to port.

Step Eight

Now in Australia, the goods are unloaded from the ship (by crane) to be transferred into a warehouse (by truck) where the container is unpacked (by hand or forklift). The port and warehouse take care of this, for a fee.

Step Nine

The goods then need to be declared to Australian customs by a broker.

Step Ten

Finally, a haulier collects the goods and delivers to your chose location.

As you can see, each of those steps involve people doing specific jobs, and unfortunately there's not really any way of getting around the fact you have to pay people to do those jobs.

There is no such thing as a free lunch; importing from overseas costs money and you will always have to pay for all the processes involved. The difference in shipping terms is rarely in price — it's in foresight. Being able to see your costs upfront allows you to budget and make the informed decision to buy.

/ FAIR WARNINGS

When you know what's coming, you know what to expect

If you're choosing a CFR shipping arrangement, the supplier will arrange your freight for you. One less thing to worry about, right? Not necessarily.

It may seem simpler and cheaper to go ahead and let your supplier arrange your freight for you, but this is when huge problems can occur. A supplier will often pick the cheapest service / shipping line because it's beneficial to them, but it can come at a risk to your shipment and your bottom line.

These freight rates that are obtained at the port of loading are very low and in order to sustain these rock bottom rates the local agents in Australia charge the consignee (you) astronomical local charges. From the local charges collected, a rebate is given back to their agents in the country of origin.

It seems like a strange practice, but it happens every day in the freight forwarding industry. The one person that ends up losing in this process is you, the buyer. The cost of your freight is incorporated into the cost of your product, while you end up being out of pocket here in Australia with excessive local charges.

So what exactly are the hidden fees?

Technically speaking, they're not hidden fees. Those fees are there to be paid regardless, you just won't know about them if you're using a CFR arrangement. It's ineffective cost management.

In each of the stages of the importing process, we know things need to get paid for. The difference between the two arrangements is one tells you upfront what the whole cost will be, the other doesn't. The CFR arrangement effectively splits the process into two stages of responsibility. One is the responsibility of getting the goods out of the country of origin, and the second is having the goods arrive in Australia and be delivered where you need them. In most cases, the supplier you're buying from may not even know about the potential charges in the second stage of responsibility, because as far as they're concerned, their part of the job is done.

The supplier will use a freight forwarding company to take care of their goods. In the same way you just want the goods here, the supplier just wants to get the goods to you. The supplier pays a one-time fee to the freight forwarder and it becomes the forwarder's responsibility to then take care of the entire process. From here on out, the goods are no longer in the supplier's control and the supplier has no influence over the costs. In their minds, job done.

The trouble is, the low shipping rate the supplier has negotiated with the freight forwarding company is often fraught because the margins at that end can be wafer thin.

To make sure they always have cargo to ship, some freight forwarders will offer their services for a very cheap rate. They sometimes even offer their services to the supplier for free - or pay the suppliers to use them. Good news for the suppliers because they can then offer you, the buyer. The issue here is that the forwarders then immediately begin the shipment working at a loss - which they will need to make back. But they don't just want to make it back, they're also a business, so they also want to make a profit. Despite the attractive initial price, the costs in the process still add up and the freight company need to make their money back somehow. And how do they do that? Your imports.

/ FOB vs CFR

How FOB is different, and might save you longer term

So how do we take the hidden cost of importing into Australia and shine a big bright light onto them? A good start is to look into a 'Free On Board' (FOB) shipping arrangement.

Under this arrangement, the seller's responsibilities include everything up to getting the goods loaded onto the vessel at the agreed outbound port.

The first charge to the buyer is the freight costs and then they are responsible for all the costs to get the goods to their final destination.

The good news about this arrangement is you can actually use shipping terms to your advantage to avoid bill shock at the end of your shipping process. You can choose shipping terms to suit what it actually is you're importing rather than a cookie-cutter approach, so you can manage everything that goes on with your goods. We would recommend FOB shipping terms to most first-time importers.

/ PROS & CONS

FOB PROS

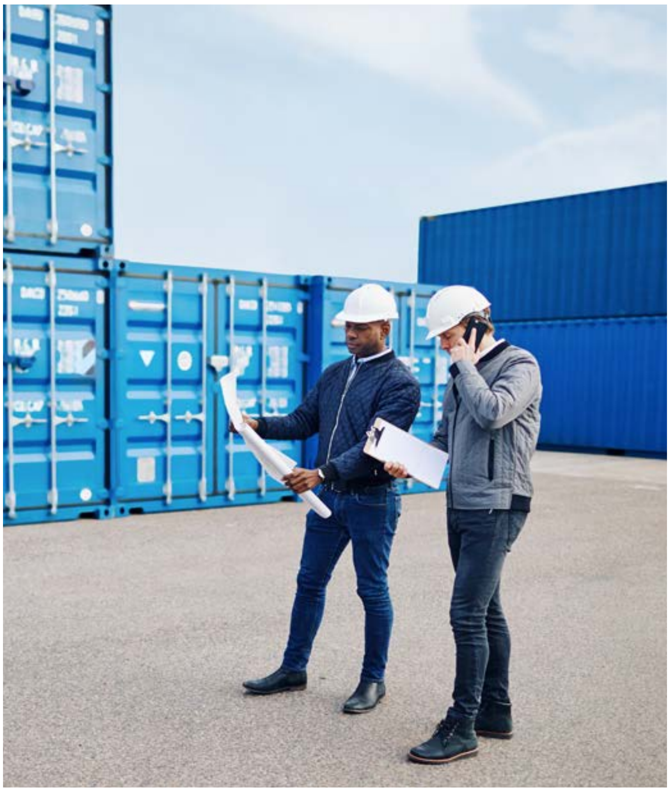
- You know what you are required to pay for ahead of time. Each step of the importation process is mapped out and you're not lumped with excess charges when your shipment arrives in Australia.

- Total control over your freight costs. You have the benefit of hiring your own forwarder at an agreed freight rate plus you'll know about the other, inevitable, charges upfont as well so you can budget for them and not be stuck wishing you'd done your homework when your imports arrive.

- The comfort of knowing where your shipment is. FOB shipping terms can offer you exact and timely information from your forwarder, which means solving any issues or hassles during transit is done as problems arise.

- Transparency on shipping movements, as you have a local contact to provide shipping information, quoted costs for both freight and locals which makes planning at your end much simpler.

- Can look more expensive upfront, but as we know, it's not in the end.



CFR "PROS"

- Cheaper upfront.

CFR CONS

- No way of knowing what the total cost of the import will be.

- No information available on where your shipment is.

- You may not know who the local handling agent is and what their charges will be, which may bring with it inconvenience and additional costs in handling your shipment.

/ YOUR ROLE

Using FOB shipping terms is the easiest way to keep your costs under control. They propose an even split of responsibilities and obligations between the supplier & the buyer and you become responsible for your goods much earlier in the process than on CFR terms. All you'll need is the FOB price from your supplier for the goods and an FOB shipping cost. When buying on FOB terms, buyers (importers) are responsible for:

- Freight costs.
- Port handling at destination.
- Customs clearance at destination.
- Delivery to final location.

Now we know this sounds like a lot to a first-time importer, but the only extra responsibility you take on is the duty of covering freight costs. Which is easy enough - you just hire a company like us.

As experienced freight forwarders we give you an upfront quote and we can have it delivered to your door - with absolutely no hidden costs.

/ IF IT SOUNDS TOO GOOD TO BE TRUE, IT PROBABLY IS

Look we get it, running a business isn't cheap so we understand why lots of importers fall into the trap of shipping under CFR terms. Overseas freight forwarders will always offer suppliers with near unbeatable shipping rates and in some cases even pay suppliers for their freight but as you now know, this will always be taken into consideration when it comes to the Australian terminal charges. Shipping under these terms is always unpredictable and importers will never know the cost of the terminal charges until the invoice arrives. One sure-fire way to land yourself in a budgeting headache!

On the other hand, FOB terms are very clear with no hidden costs. The freight rate may be more than what the supplier's agent is offering, but the Australian terminal charges are set so that you know what to budget for. EES Shipping will always recommend importing under FOB terms to our clients due to the simplicity and transparency. And as always, if you're in need of some assistance we're ready to go. After all, logistics is our world.

/About us

Logistics is our world. We deliver anything, anywhere in the world. With our finger on the global pulse and the care you only get from a family business, you're in great hands.

EES Shipping is one of Australia's major international freight forwarders and plays an extensive role in the promotion and development of overseas markets for Australian manufacturers and suppliers.

EES Shipping is proud to maintain confident relationships with local customs agents, freight forwarders, international removalists, manufacturers and government departments which has enabled us to expand to servicing more countries more frequently, with minimal transit times and competitive freight costs.

If you want to do your shipping more efficiently and cost-effectively, call or email us and we'll work with you to deliver the best possible solution for your business.

EES SHIPPING PTY LTD

T: +61 8 9414 7711
E: info@eescair.com
W: eescair.com