

# Quotation for Exporting

2-SP02-09-131

This problem situation was written by Genaro Espinosa López (genaro\_espinosa@tec.mx) and translated by Laura Elena Morales Garza of Global Words, with the purpose of serving as support material for instructors of the “Natural Soaps Cost Optimization” document. The problem situation is based on different people’s experiences; some data has been modified at the request of the people and institutions involved.

All Rights Reserves © Instituto Tecnológico y de Estudios Superiores de Monterrey; Av. General Ramón Corona No. 2514 Col. Nuevo México, Zapopan, Jalisco 45138, México. ITESM forbids any type of reproduction, storage, or transmission in whole or in part of this work, without written consent.



Tecnológico de Monterrey  
Escuela de Negocios



## The Company

The company Velas Aromáticas S.A. (VASA) specializes in the production and commercialization of artisan scented candles produced with natural plants and pigments.

It all started at the beginning of the 90's in Charcas, San Luis Potosí (Mexico), when Mrs. Dora Luz Gutiérrez, better known as Aunt Doris, began making candles in her kitchen, with the difference that she added aromatic plants and pigments from natural sources, such as the cochineal bug, the marigold flower, and some other elements of this type.



**Source.** Photograph of Muffin Creatives in Pexels, 2020.

Her products started to be very successful, and she soon expanded towards the center and the south of the country. Many years later, the company institutionalized and today they produce and commercialize scented candles across the Mexican Republic.

The CEO, Mr. Eustaquio Gaitán, wants to start exploring the possibility of exporting the candles to the United States, and Central & South America, and he assigned this task to Luis Alfredo Valdés, VASA's business manager.

Mr. Valdés sent samples of the products to different companies in the United States. One of them, Candlx, is quite interested in commercializing the candles in that country.

## The Opportunity

Candlx is based in Birmingham, Alabama, where their central warehouses are located. They commercialize natural-origin products throughout the country, especially regarding the candle industry for domestic use and aromatherapy.

Candlx has requested Velas Aromáticas a quotation for the monthly purchase of six 40-foot containers in the following six months. Depending on the prices and the product's rotation, they could sit down again to negotiate a possible representation of Velas Aromáticas in the United States.

Candlx requests the quotation in the following INCOTERMS, in dollars per candle (USD/Candle):

- EXWORKS Charcas, SLP, México incoterms® 2020
- FOB Tampico, Tamaulipas, México incoterms® 2020
- CIF Gulfport, Mississippi, U.S.A. incoterms® 2020
- DDP Birmingham, Alabama, U.S.A. incoterms® 2020

### Relevant Information

Luis Alfredo requested information to the Finance area of the company to prepare a correct quotation. After analyzing the company's expenses, the finance manager provided him the following data:

The total fixed costs of the company associated to the sale of the product to be quoted amount to six thousand dollars (USD) per month. Variable costs that were calculated per unit produced are presented in the following table:

| Concept                   | USD/unit |
|---------------------------|----------|
| Workmanship               | 0.44     |
| Raw material              | 0.85     |
| Exports packaging         | 0.08     |
| Exports labeling          | 0.05     |
| Production indirect costs | 0.11     |

**Source.** Own elaboration, 2023.

There are other considerations that Luis Alfredo will have to consider:

| Concept                                                                                                                              |
|--------------------------------------------------------------------------------------------------------------------------------------|
| The product will be packed in a 12-piece cardboard box.                                                                              |
| The measures of the cardboard box in centimeters are: 52.2 x 24.3 x 30.2                                                             |
| The container will be filled only with boxes: should pallets be used, the number of units that could be sent would decrease.         |
| The outer dimensions of a 40-foot container are 12.19 meters long x 2.44 meters wide x 2.59 meters tall.                             |
| The inside dimensions of a 40-foot container are 12.025 meters long x 2.352 meters wide x 2.393 meters tall.                         |
| For security reasons, the maritime transport company will only allow for the 40-foot container to be filled to a maximum 90 percent. |

**Source.** Own elaboration, 2023.

To calculate the total costs that Velas Aromáticas will have, Luis Alfredo investigated some information that impinge on the calculations for the different INCOTERMS:

| Concept                                                                                                                                                                                                                        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The cost for inland freight from the plant to the port of Tampico is of \$500 USD/container.                                                                                                                                   |
| The cost for inland freight from Gulfport to the Birmingham plant is of \$700 USD/container.                                                                                                                                   |
| The cost for maritime freight from the port of Tampico to Gulfport, Mississippi U.S.A. is of \$4,000 USD/container.                                                                                                            |
| The tariff of the custom agent on the Mexican side is of \$250 USD/container.                                                                                                                                                  |
| The tariff of the custom agent on the American side is of \$450 USD/container.                                                                                                                                                 |
| There is an insurance company in Mexico which offers a maritime insurance from Tampico to Gulfport, Mississippi, U.S.A., with a 5% cost of the Total Invoice Amount.                                                           |
| On the American side, it is required that everything that is transported inland is insured, so Luis Alfredo quoted with Fleet Insurance, and he was offered an inland insurance with a cost of 2% of the Total Invoice Amount. |

|                                                                                                |
|------------------------------------------------------------------------------------------------|
| The loading and unloading maneuvers in the port of Tampico have a cost of \$100 USD/container  |
| The loading and unloading maneuvers in the Gulfport have a cost of \$150 USD/container.        |
| The loading and unloading maneuvers in the Birmingham plant have a cost of \$50 USD/container. |

**Source.** Own elaboration, 2023.

### The Decision

If Velas Aromáticas negotiates successfully with Candlx, this can be a gateway to start selling their products across the United States. Luis Alfredo's idea is to cover all export expenses and have a 12 percent mark-up.

- Which information should Luis Alfredo consider?
- Which should be the quotation of INCOTERM EXWORKS in USD/candle that Luis Alfredo sends to Candlx?
- Which should be the quotation of INCOTERM FOB in USD/candle that Luis Alfredo sends to Candlx?
- Which should be the quotation of INCOTERM CIF in USD/candle that Luis Alfredo sends to Candlx?
- Which should be the quotation of INCOTERM DDP in USD/candle that Luis Alfredo sends to Candlx?