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## **Wheelbarrow per Unit Cost**

Materials and labour	\$20.52
+ Factory burden	4.20
+ Marketing costs (sales, advertising, etc.)	3.82
+ Administration	<u>7.73</u>
= Total costs	36.27
+ Average profit on local sales	<u>5.45</u>
= Basic sales price, ex works, net of discounts and federal tax	\$41.72

The accountant makes several observations. First, the marketing costs (\$3.82) do not apply to exporting but only to domestic sales and could thus be shaved from export costing. Second, since plant operations are currently 20 per cent below production capacity, the factory burden (\$4.20) actually represents sunk costs that are incurred whether or not the export order is accepted. Third, there are almost no administrative costs involved in the transaction, since the trading company will pick up the product at the plant in return for cash payment and then handle exporting. In addition, the accountant points out that, like factory burden, administrative costs (\$7.73) are sunk costs and already covered by domestic sales.

He concludes that, keeping to the average profit margin, the wheelbarrows could be sold to the trading company for as low as:

Material	\$20.52
+ Profit	<u>+ 5.45</u>
= Minimum f.o.b., ex plant for export	\$25.97

The president of the manufacturing firm is not entirely convinced by this conclusion. He is opposed in principle to the idea of selling so low and he observes that it would be unwise to set a precedent of "subsidizing exports at the expense of domestic operations." Still he feels it would be great to export and the trading company's offer is really tempting. They do the work and he makes a quick \$3000 dollars. He decides to continue negotiations.

Mr. Kampouris is asking for \$32.00, so he starts quite comfortably at \$36.00, knowing that he can go well below that price. There follow a few rounds of final offers and counter offers, peppered on both sides with remarks about "how hard it is to make a buck these days." But, they finally agree on an f.o.b. ex plant of \$34.33 and Mr. Kampouris manages to get some \$200.00 worth of spare parts included at no cost.