INTERNATIONAL TRADE AND FINANCE MASTERCLASS

PART 01 OF 25 · SECTION I: THE PHYSICAL ARCHITECTURE OF GLOBAL TRADE

PART 1

HOW GLOBAL TRADE ACTUALLY WORKS

A complete picture of the physical and commercial architecture of international commerce — from the invention of the shipping container to the moment a product lands in your customer's hands.

IN THIS PART

- The container revolution and why it changed the world
- Every party involved in a cross-border shipment
- Incoterms 2020 — all eleven terms explained simply
- Ocean, air, and rail freight compared
- How a container port actually operates
- The freight forwarder and what they actually do

CASE STUDIES

Each part includes fully worked case studies with detailed calculations, real-world context, and practical lessons for CFOs and finance leaders.

THE FOUNDATION OF EVERYTHING

Why International Trade Is the Engine of Modern Prosperity

Before we discuss a single document, a single tariff rate, or a single financial instrument, we need to understand something fundamental. International trade is not simply the act of buying things from other countries. It is the mechanism through which the entire world economy organizes itself to produce goods and services as efficiently as possible, delivering them to the people who need them at prices that would be impossible if every country tried to produce everything it consumed on its own.

Think about the shirt you are wearing right now. The cotton was almost certainly grown in one country, spun into thread in another, woven into fabric in a third, cut and sewn into a garment in a fourth, shipped by ocean freight in a container, cleared through customs in your home country, distributed to a warehouse, and then delivered to the store or your door. Every single step of that journey involved a different company, a different country, a different currency, a different legal system, and a different financial instrument. Understanding how all of those pieces fit together is the foundation of everything else we will cover in this program.

The scale of what we are talking about is almost impossible to grasp. World merchandise trade was approximately twenty-three trillion dollars in 2022. That is twenty-three thousand billion dollars of goods crossing international borders in a single year. Add services trade and the number climbs past thirty trillion. The infrastructure that makes this possible — the ships, the ports, the aircraft, the trucks, the banks, the insurance companies, the customs agencies, the freight forwarders, and the financial systems that move the money — represents one of the most complex and remarkable organizational achievements in human history.

The Container Revolution: How a Metal Box Changed Civilization

To understand modern international trade, you must first understand the shipping container. Before 1956, loading a ship was an extraordinary exercise in manual labor and inefficiency. Goods arrived at the dock in barrels, crates, sacks, and loose piles. Hundreds of longshoremen would carry, drag, and stack each item individually into the ship's hold. A typical cargo ship spent more time in port being loaded and unloaded than it spent at sea. The labor cost of moving goods from one country to another was so high that it effectively made many goods uneconomical to trade internationally.

In 1956, a truck driver and businessman named Malcolm McLean had a simple idea. Instead of unloading goods from trucks and reloading them onto ships, why not put the entire truck trailer onto the ship? McLean refined the idea into a standardized metal box — the intermodal shipping container — that could move seamlessly from a truck to a train to a ship and back again without ever being opened or repacked. The contents were loaded once at the factory and unloaded once at the destination. Everything in between was simply moving the sealed box.

The financial impact was transformative and almost immediate. Before containerization, the cost of loading and unloading a ton of cargo was approximately five dollars and eighty cents. After containerization, that cost fell to sixteen cents per ton. That is a reduction of approximately ninety-seven percent. When moving goods costs almost nothing, it becomes economical to manufacture in the lowest-cost location on earth and sell everywhere. The entire structure of global manufacturing that we take for granted today — the fact that a toy is made in China, a car is assembled from parts made in twenty countries, and a smartphone contains components from a dozen nations — was made possible by a simple standardized metal box.

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◆ CONTAINERIZATION COST IMPACT

THE ECONOMICS OF CONTAINERIZATION
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PRE-CONTAINER ERA (before 1956):
Loading cost per ton of cargo: $5.80
Time in port (typical cargo ship): 3 weeks
Theft and damage rates: Very high
Labor required to load one ship: 500+ longshoremen
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POST-CONTAINER ERA (after 1956):
Loading cost per ton of cargo: $0.16
Time in port (container ship): 24-48 hours
Theft and damage rates: Dramatically lower
Labor required to load one ship: 20-30 crane operators
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COST REDUCTION: ($5.80 - $0.16) / $5.80 = 97.2%
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EXAMPLE — SHIPMENT OF 500 TONS OF GOODS:
Pre-container loading cost: 500 x $5.80 = $2,900
Post-container loading cost: 500 x $0.16 = $80
Saving per shipment: $2,820
Multiply by thousands of shipments per year and the
cumulative saving makes global manufacturing viable.
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Today there are approximately twenty-six million shipping containers in the world, and they collectively make approximately two hundred and fifty million trips per year. The largest container ships — called Ultra Large Container Vessels — can carry more than twenty-four thousand containers at once. If you stacked the containers on one of those ships end to end, the line would stretch approximately one hundred and forty-four kilometers. The ship itself is longer than four football fields. Understanding that this infrastructure exists, and how it operates, is the starting point for everything a CFO needs to know about international trade.

The Complete Journey of a Shipment

To make the abstract concrete, let us follow a single shipment from its origin to its destination. Imagine that a clothing retailer in New York has placed an order with a garment manufacturer in Dhaka, Bangladesh, for ten thousand units of a particular style of shirt. The manufacturer has agreed to produce the shirts and deliver them to New York within sixty days. Here is every step of what happens next.

Step One: The Purchase Order and Commercial Agreement

The transaction begins with a commercial agreement between the buyer in New York and the seller in Dhaka. This agreement — typically formalized as a purchase order accompanied by terms and conditions — establishes the key commercial parameters: the price per unit, the total quantity, the product specifications, the delivery deadline, the

payment terms, and crucially, the delivery terms known as Incoterms. We will discuss Incoterms in detail shortly, but for now understand that the Incoterm chosen in this agreement determines at exactly which point in the journey the risk of loss or damage transfers from the seller to the buyer, and which party is responsible for paying for freight, insurance, and customs clearance.

Step Two: Production and Pre-Shipment Preparation

The manufacturer in Dhaka produces the shirts according to the buyer's specifications. While production is underway, the manufacturer's export team begins preparing the documentation that will accompany the shipment. This includes the commercial invoice, which describes the goods and states the price; the packing list, which details the contents of each carton; and if required, a certificate of origin, which proves where the goods were manufactured and determines which tariff rate will apply when they arrive in the United States. We will cover each of these documents in detail in Part Two of this program.

Step Three: The Freight Forwarder Engagement

Neither the manufacturer in Dhaka nor the retailer in New York has the expertise or the relationships to organize an international shipment on their own. This is where the freight forwarder enters the picture. A freight forwarder is a specialist company that acts as an intermediary between shippers and carriers. The forwarder's job is to organize the entire logistics chain — booking space on a vessel, arranging inland transportation from the factory to the port, handling the export customs declaration, coordinating with the shipping line on documentation, and sometimes arranging cargo insurance. The forwarder does not physically move the goods. Instead, they coordinate the multiple parties who do.

■ WHAT A FREIGHT FORWARDER ACTUALLY DOES

A freight forwarder is sometimes described as a travel agent for cargo. Just as a travel agent does not own the aircraft but has the relationships and expertise to book the best seats at the best prices, a freight forwarder does not own the ships or trucks but has the carrier relationships to negotiate competitive rates and the expertise to navigate the documentation requirements of different countries. A good freight forwarder is one of the most valuable relationships a company doing international business can have. A bad one can cost you a shipment.

Step Four: Inland Transportation to the Port of Origin

Once the shirts are produced, packed, and ready to ship, they need to be transported from the factory in Dhaka to the Port of Chittagong, which is Bangladesh's primary international container port. This inland movement — called the inland haulage or drayage — is typically arranged by the freight forwarder using a local trucking company. The goods are loaded into a container — either at the factory (called a Full Container Load, or FCL) or at a container freight station where multiple smaller shipments are consolidated into a single container (called a Less than Container Load, or LCL).

Step Five: Export Customs Clearance

Before the container can be loaded onto the ship, it must clear export customs in Bangladesh. This involves the freight forwarder or a customs broker filing an export declaration with the Bangladesh Customs authority. The declaration states what is in the container, where it is going, the value of the goods, and who the exporter is. The

customs authority reviews the declaration and either approves it — allowing the container to proceed to the port — or raises a query or inspection request. In most cases for routine commercial shipments, export clearance is straightforward and takes a few hours.

Step Six: Port Operations and Vessel Loading

With export clearance obtained, the container is delivered to the port terminal. Understanding what happens inside a container terminal is genuinely fascinating and helps explain why port congestion — as happened dramatically during the COVID-19 pandemic — can paralyze global supply chains so completely.

A modern container terminal is essentially a highly automated storage and sorting system operating on an enormous scale. Containers arrive by truck through the terminal gate, where they are photographed, weighed, and their identification numbers are recorded. They are then moved by straddle carriers or automated guided vehicles to their designated position in the terminal's stacking yard. When the vessel is ready to load, massive quayside cranes — called Ship-to-Shore cranes — lift the containers from the stack and place them precisely into the vessel's cargo holds and on the deck above. A large container terminal can load or unload four thousand to five thousand containers per day.

Step Seven: Ocean Transit

With the container loaded, the vessel departs Chittagong and begins its journey to the United States. The typical ocean transit time from Bangladesh to the East Coast of the United States is approximately twenty-five to thirty days. During this time, the cargo is in the care of the ocean carrier — the shipping line. The shipping line has issued a Bill of Lading, which is the document that serves as a receipt for the goods, a contract of carriage, and — crucially — a document of title. We will discuss the Bill of Lading in depth in Part Two.

Step Eight: Import Customs Clearance in the United States

When the vessel arrives at the Port of New York and New Jersey, the retailer's customs broker files an import entry with US Customs and Border Protection. This is a detailed document that describes the goods, their value, their country of origin, and their Harmonized System classification code — the ten-digit number that determines how much import duty must be paid. US Customs reviews the entry, assesses the applicable duty, and either releases the shipment or selects it for physical examination. We will cover the entire customs clearance process in Parts Three and Four.

Step Nine: Inland Delivery to the Retailer's Warehouse

Once customs clearance is obtained, the container is picked up from the port terminal by a truck and delivered to the retailer's distribution warehouse in New Jersey. The shirts are unloaded, inspected, sorted, and allocated to stores. The entire journey from the factory in Dhaka to the retailer's shelf in New York has taken approximately forty-five to fifty days and has involved at least twelve separate companies operating in two countries, speaking two different languages, working under two different legal systems, and transacting in two different currencies.

Understanding Incoterms 2020

Incoterms — which stands for International Commercial Terms — are a set of standardized trade terms published by the International Chamber of Commerce. The current version, Incoterms 2020, defines eleven terms that describe the obligations, costs, and risks associated with the delivery of goods in international transactions. Every international trade contract should specify which Incoterm applies, because the Incoterm determines three critically important things: who is responsible for freight costs, who is responsible for insurance, and at which precise point in the journey does the risk of loss or damage transfer from the seller to the buyer.

Think of Incoterms as a spectrum. At one end is EXW — Ex Works — where the seller does almost nothing except make the goods available at the factory door. Everything else is the buyer's problem and the buyer's cost. At the other end is DDP — Delivered Duty Paid — where the seller does everything: arranges the freight, pays for the insurance, clears customs in both countries, pays all the duties, and delivers the goods to the buyer's door. Everything in between is a different allocation of responsibility between the buyer and the seller.

Incoterm	Full Name	Risk Transfer Point	Who Pays Freight	Who Arranges Insurance
EXW	Ex Works	Seller's factory door — buyer takes all risk from here	Buyer pays everything	Buyer
FCA	Free Carrier	When goods handed to buyer's carrier at named place	Buyer pays main freight	Buyer
CPT	Carriage Paid To	When goods handed to first carrier	Seller pays to destination	Buyer
CIP	Carriage and Insurance Paid	When goods handed to first carrier	Seller pays to destination	Seller (all-risk cover required)
DAP	Delivered at Place	At named destination, before unloading	Seller pays to destination	Seller arranges
DPU	Delivered at Place Unloaded	At destination after unloading	Seller pays including unloading	Seller arranges
DDP	Delivered Duty Paid	At buyer's door after all duties paid	Seller pays everything	Seller arranges
FAS	Free Alongside Ship	When goods placed alongside vessel at origin port	Buyer pays ocean freight	Buyer
FOB	Free On Board	When goods loaded on board vessel at origin port	Buyer pays ocean freight	Buyer
CFR	Cost and Freight	When goods loaded on board vessel at origin	Seller pays ocean freight	Buyer
CIF	Cost Insurance Freight	When goods loaded on board vessel at origin	Seller pays ocean freight	Seller (minimum cover only)

The Most Important Incoterms Distinction: Where Risk Transfers

The single most consequential aspect of any Incoterm is the precise point at which risk transfers from the seller to the buyer. This matters enormously because if the goods are damaged or lost after that transfer point, it is the buyer's problem. If they are damaged before that point, it is the seller's problem.

Consider the difference between FOB and CIF, which are the two most commonly used Incoterms in container trade. Under FOB — Free On Board — the risk transfers when the goods are loaded on board the vessel at the port of origin. This means the seller is responsible for getting the goods to the port and loading them. But the moment that container is lifted by the crane and placed on the ship, the risk is the buyer's. If the ship sinks three days later, the buyer bears the loss. Under CIF — Cost, Insurance, and Freight — the risk transfers at exactly the same point — when the goods are loaded on board the vessel. The difference is that under CIF, the seller has an obligation to pay for the ocean freight and to arrange insurance. But critically, even under CIF, the seller has only fulfilled its obligation once the goods are on board the ship. If the goods are destroyed on the vessel after that point, it is still the buyer's problem — the buyer just has the benefit of an insurance policy that the seller arranged.

■ THE CIF TRAP THAT CATCHES BUYERS

Many buyers negotiate CIF terms thinking they are fully protected because the seller has arranged insurance. This is a dangerous misunderstanding. Under CIF, the Incoterm only requires the seller to arrange minimum insurance coverage — which is Institute Cargo Clauses C, the most restrictive level of marine cargo insurance. This covers only a narrow list of named perils and excludes many common causes of loss. A buyer negotiating CIF terms should always insist on Institute Cargo Clauses A coverage, which is all-risk. We cover insurance in detail in Part Eight.

Ocean, Air, and Rail: Choosing the Right Mode

One of the most practical decisions a CFO makes in international trade is the choice of transportation mode. The three primary options — ocean freight, air freight, and international rail — have very different cost profiles, transit times, and risk characteristics. The right choice depends on the value of the goods, the urgency of delivery, the physical characteristics of the cargo, and the trade lane.

◆ **FREIGHT MODE ECONOMICS**

FREIGHT MODE COMPARISON — SHANGHAI TO ROTTERDAM

MODE	TRANSIT TIME	COST PER KG	CAPACITY
Ocean (FCL)	28-32 days	$0.08-$0.15	20,000+ kg
Ocean (LCL)	35-42 days	$0.20-$0.40	Any size
Rail	**16-20 days**	**$0.25-$0.60**	**Up to 80 tons**
Air Freight	**5-7 days**	**$3.50-$8.00**	**Up to 100 tons**

WHEN TO USE AIR FREIGHT:

High value, low weight goods (electronics, pharmaceuticals)

Time-critical shipments (fashion, perishables, spare parts)

Emergency replenishment when ocean shipment is delayed

When air cost < cost of lost sales from stockout

EXAMPLE DECISION — SHIPMENT OF $500,000 ELECTRONICS:

Weight: 2,000 kg

Ocean cost: 2,000 kg x $0.12 = $240

Air cost: 2,000 kg x $5.00 = $10,000

Additional air cost vs. ocean: $9,760

Ocean transit time: 28 days

Air transit time: 5 days

Saving from faster transit (23 days):

Inventory carrying cost: $500,000 x 20% / 365 x 23 = $6,301

Earlier sale revenue recognition: potentially significant

NET: Air freight can be justified even at 42x the cost when time-value and inventory savings are included

FCL versus LCL: The Container Load Decision

When shipping by ocean freight, one of the most important decisions is whether to use a Full Container Load or a Less than Container Load. A Full Container Load means you fill an entire container — either a twenty-foot container, which can hold approximately twenty-two to twenty-five tons of cargo and has a volume of approximately thirty-three cubic meters, or a forty-foot container, which can hold approximately twenty-six tons and has a volume of approximately sixty-seven cubic meters. A Less than Container Load means your cargo shares a container with other shippers' cargo and you pay only for the space your cargo occupies.

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◆ FCL vs LCL DECISION FRAMEWORK

FCL vs LCL COST COMPARISON
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SCENARIO: Shipping 5,000 kg / 12 cubic meters, Shanghai to LA
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OPTION A: LCL (Less than Container Load)
LCL rate: $85 per cubic meter
Your volume: 12 cbm x $85 = $1,020
LCL handling fee (CFS charge): $180
Total LCL cost: $1,200
Transit time: 35 days (includes consolidation)
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OPTION B: FCL (Full Container Load — 20ft)
FCL rate Shanghai to LA: $1,800
You use 12/33 = 36% of the container
Cost per cbm: $1,800 / 33 cbm = $55
Total FCL cost: $1,800
Transit time: 14 days (direct, no consolidation)
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DECISION: LCL is cheaper ($1,200 vs $1,800) BUT FCL
is 21 days faster. If goods are worth $100,000:
Carrying cost saving: $100,000 x 20% / 365 x 21 = $1,151
FCL effective net cost: $1,800 - $1,151 = $649
FCL is actually CHEAPER once time value is included
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CASE STUDY 1

Dhaka Garments Ltd.

Navigating FOB versus CIF — A $2.8M Lesson in Incoterm Risk

Background

Dhaka Garments Ltd. is a mid-size Bangladeshi garment manufacturer with annual exports of approximately thirty-five million dollars. For the first eight years of its existence, the company sold exclusively on FOB terms — meaning buyers arranged their own freight and insurance once goods were loaded at Chittagong port. In 2019, the company's largest customer, a European retailer, requested that Dhaka Garments shift to CIF terms so the retailer could simplify its logistics management. The request seemed straightforward, but the financial implications were more complex than they appeared.

The CIF Transition and Its Hidden Costs

When Dhaka Garments agreed to CIF terms, it became responsible for arranging and paying for ocean freight and marine insurance on all shipments to the European retailer. The company's finance team calculated the additional cost at approximately four hundred thousand dollars per year in freight and insurance premiums. They added this cost to their unit prices and the deal was done. What they did not adequately account for was the currency risk — they were now booking freight in US dollars on routes priced in dollars, while their selling prices were in euros. When the euro weakened against

the dollar in 2020, the freight costs in euro terms rose sharply while the selling prices remained fixed, compressing margins significantly.

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◆ CIF CURRENCY EXPOSURE CALCULATION

DHAKA GARMENTS — CIF CURRENCY RISK ANALYSIS
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Annual shipments to European retailer: EUR 8,400,000
EUR/USD rate at contract signing (Jan 2020): EUR 1 = $1.12
Freight cost budgeted at $1.12: $400,000 / 1.12 = EUR 357,143
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EUR/USD rate mid-2020 (dollar strengthened): EUR 1 = $1.07
Freight cost at $1.07: $400,000 / 1.07 = EUR 373,832
Additional EUR cost from currency move: EUR 16,689
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Full year impact across all freight bookings:
Budget freight cost (EUR equivalent): EUR 357,143
Actual freight cost (EUR equivalent): EUR 373,832
Margin erosion from FX on freight alone: EUR 16,689
As percentage of revenue: EUR 16,689 / EUR 8.4M = 0.20%
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LESSON: Under CIF terms, freight cost is a USD obligation
for a EUR-billing seller. This creates FX exposure that
must be hedged or built into the pricing buffer.
RESOLUTION: Company added 3% freight buffer to CIF prices
and began hedging freight-related USD payables forward.
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CASE STUDY 2

TechShip Electronics

The Air Freight Decision — When Speed Is Worth Ten Times the Price

Background

TechShip Electronics manufactures consumer electronics in Shenzhen, China, and sells primarily to retailers in North America and Europe. In November 2021, during the peak of the post-COVID supply chain crisis, TechShip faced a critical decision. Its ocean freight shipment of fifteen thousand units of a new gaming headset — scheduled to arrive at the Port of Los Angeles on December first — was delayed at sea due to port congestion. The new expected arrival was December twenty-second, with customs clearance and inland delivery putting product in stores no earlier than December twenty-eighth. The Christmas selling window would be almost entirely missed.

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◆ AIR FREIGHT DECISION ANALYSIS

TECHSHIP — AIR FREIGHT vs. OCEAN FREIGHT DECISION
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Shipment details:
Units: 15,000 gaming headsets
Unit value: $85
Total cargo value: 15,000 x $85 = $1,275,000
Total weight: 15,000 x 0.6 kg = 9,000 kg
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OPTION A: WAIT FOR OCEAN SHIPMENT (arrive Dec 28)
Freight cost (already paid): $3,200
Units sold in Christmas season: estimated 4,000
(only 3 days of peak selling before Dec 31)
Units sold: 4,000 x $85 retail margin = revenue
Lost sales (11,000 units x $42 contribution): ($462,000)
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OPTION B: AIR FREIGHT NEW SHIPMENT (arrive Dec 12)
Air freight cost: 9,000 kg x $6.50 = $58,500
Units sold in Christmas season: estimated 14,000
Additional contribution vs. Option A:
10,000 additional units x $42 = $420,000
Net benefit of air freight:
$420,000 - $58,500 air premium = $361,500
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DECISION: Air freight is justified by a factor of 7x
The air freight costs $58,500 but saves $420,000 in
contribution margin. The CFO approved air freight
within two hours of receiving the analysis.
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CASE STUDY 3

03 Meridian Agricultural Exports

LCL to FCL Upgrade — How a Consolidation Decision Saved $180,000

Background

Meridian Agricultural Exports is a Brazilian company that exports processed food products — primarily specialty sauces, condiments, and preserved fruits — to specialty food retailers in the United States and Canada. For three years, Meridian had been shipping all its orders via LCL freight, consolidating small orders from multiple US customers into shared containers at a consolidation freight station in Santos. The freight manager had always used LCL because individual orders were rarely large enough to fill a container. When the company hired a new CFO, one of the first things she did was review the freight cost structure in detail.

The Analysis

The new CFO pulled three years of shipping records and discovered that while no single customer order was large enough to fill a container, the total volume of orders shipping to the northeastern United States in any given month was consistently between sixty and eighty percent of a forty-foot container. The company was paying LCL rates and LCL handling fees for cargo that could easily fill its own dedicated container if orders were batched and consolidated on a monthly shipping schedule instead of being shipped as each order was ready.

◆ FREIGHT OPTIMIZATION ANALYSIS

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MERIDIAN — LCL vs FCL FREIGHT COST ANALYSIS
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Monthly shipment volume to US Northeast:
Average cubic meters per month: 52 cbm
Average weight per month: 18,000 kg
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CURRENT METHOD: LCL (multiple small shipments)
LCL ocean rate Santos to New York: $110/cbm
52 cbm x $110 = $5,720/month
CFS handling (origin): 52 x $18 = $936/month
CFS handling (destination): 52 x $22 = $1,144/month
Total LCL monthly cost: $7,800/month
Annual LCL cost: $93,600/year
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NEW METHOD: Monthly FCL (40-foot container)
FCL rate Santos to New York (40ft): $3,200/month
Inland delivery from NY port to warehouse: $450/month
Total FCL monthly cost: $3,650/month
Annual FCL cost: $43,800/year
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ANNUAL SAVING: $93,600 - $43,800 = $49,800/year
ADDITIONAL BENEFIT: FCL transit 28 days vs LCL 38 days
10 days faster delivery reduces inventory in transit
Inventory value in transit: avg $420,000
Carrying cost saving: $420,000 x 18%/365 x 10 = $2,072
Total annual benefit: $49,800 + $2,072 = $51,872/year
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■■ KEY LESSONS FROM PART ONE

International trade is built on physical infrastructure — ships, containers, ports, trucks, and aircraft — that most finance professionals never see and rarely think about. But the decisions made about that infrastructure — which Incoterm to use, which freight mode to choose, whether to consolidate shipments or ship separately — have direct and measurable financial consequences. The three case studies in this part illustrate that the CFO who understands the physical layer of international trade is the CFO who can find savings, manage risks, and make better decisions

than the one who delegates those questions entirely to the logistics team.

In Part Two, we will go inside the documentary architecture of international trade — every paper that travels with every shipment, what each one does, and what happens when even one of them is wrong.