Global Trade
International Trade

An Examination of the Delivered Duty Paid Model

Wherein the Seller Takes on All Responsibility for Product Delivery in an International Trade Transaction

May 9th, 2017 | Written by Anne van de Heetkamp

While the Delivered Duty Paid model is not the latest invention, it is definitely gaining ground in Global Trade Management (GTM). The DDP model is based on the Delivered Duty Paid (DDP) Incoterm and provides benefits to all participants in crossborder transactions. The key questions with this model are who ultimately pays for the service, and what are the associated benefits and risks?

What is the DDP Model?

The DDP model is focused on making the transaction as easy and as transparent as possible for the customer. It is defined by the seller taking on all responsibility related to product delivery, including the fulfillment of compliance requirements, duty payment, shipping, and handling. The buyer/customer simply pays and receives the goods. The customer still pays for the import duties, but they do so upon checkout – making it a transparent transaction rather than a wait-and-see game.

Why is it popular?

The transparency associated with the DDP model relates to two key components: the buyer only pays a single time for all product, shipping, handling, and duties. There are no surprises when it comes to payment of import duties or documentation once the product is at the customer's doorstep. In addition, assuming the seller applies the low value thresholds correctly, the buyer would not incur any unnecessary fees, once again providing the buyers with a much needed service. The seller, now managing all of the supply chain from sale through delivery, has full insight into every step of the delivery, which allows them to make adjustments as needed. This model is particularly popular in B2C markets, as the seller limits the risk of product abandonment, dissatisfied customers, and instead improves user experience and brand loyalty.

For larger and bulk shipments, the DDP model seems to fill less of a need. The value of shipments, contractual obligations, and overall division of responsibilities is much further defined, and the risks and opportunities the DDP model entails are less applicable.

What makes the model work?

In order for the DDP model to work, it is necessary that the seller be able to calculate the total landed costs upon checkout and know about any and all compliance requirements that may come into play in shipping the goods from the seller 's warehouse to the buyer's doorstep.

For each product, the duty rate, and any other import duties or fees such as value-added tax (VAT) associated with import into the foreign jurisdiction is required, which means that the Harmonized System (HS) Code is needed. The seller would need to have all products available for international sale classified for each specific jurisdiction without knowing for certain that the product will actually be sold into those countries. That upfront investment is one that many sellers shy away from and is considered an obstacle to the DDP model. Luckily, some services and methodologies are available to minimize this effort, for example word based automated classification, average duty rate, etc. These applications may not be 100% accurate, but will suffice when it comes to supporting a reasonably well working DDP model.

Additionally, the seller must be aware of products for which compliance requirements like licenses or certifications apply, or products that may not be shipped at all to certain countries, such as t-shirts with particular language going into Malaysia. This information can be HS code related or associated with other local regulations. Having this data is critical to avoid disappointing the customer. Certain widgets can even prevent customers from the relevant countries viewing these items in the storefront.

What are the challenges?

Besides trade content necessities, additional challenges need to be ironed out. The traditional B2C model would transfer title from the seller to the buyer somewhere around the border, making the buyer responsible for import duties. The DDP model breaks that mold, and the seller is responsible for duty payment. However, in specific countries, this would require the seller to become importer of record, register in that country for VAT and other tax purposes, and bring along multiple tax filing requirements.

These requirements are not favorable for small and medium companies, and definitely not attractive for those limited shipments into smaller markets. Supply chain collaboration is the key. The seller could benefit from the assistance of a forwarder, such as an express delivery service. Whether this support includes a full transfer of title or not, express forwarders like DHL are extremely useful when it comes to facilitating the DDP model.

What remains are the usual challenges and opportunities regarding checkout procedures (currency, credit card acceptance), assuring the buyer is not on any restricted party (RP) list—an RP screen through the ecommerce platform or upon checkout can be performed while calculating total landed costs—customer support (which is simplified with the customer's reliance on only the seller's support desk and not on the shipper, importer, or government), and of course shopping cart abandonment (which is a commercial component that global trade is less involved in).

Conclusion

The DDP model allows each link in the supply chain do what they do best, and the customer to benefit from the transparency. Avoiding unwelcome surprises, highlighted by unexpected duties due upon delivery, increases customer satisfaction and improve competitiveness, especially in a B2C setting.

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