**1. Costing Template Completion**

To accurately calculate the total cost of goods sold (COGS) for the shipment, the management team must first identify all expenses related to the supply chain process. This comprises:

**Product Costs**

* The total cost of the imported watches is **CAD 4,350,000** for 3,000 units. This includes:
  + Omega Seamaster Diver 300M: 400 units
  + Longines Master Collection: 400 units
  + Tissot PRX: 1,000 units
  + Hamilton Khaki Field: 1,000 units
  + Swatch Sistem51: 200 units

**Import Duties and Taxes**

* **Import Duty (5%)**: CAD 217,500
* **GST (5%)**: CAD 228,375
* **Total Duties and Taxes**: CAD 445,875

**Shipping Costs**

* • Goods are delivered to a selected carrier at the supplier's location thanks to FCA (Free Carrier) shipping conditions. The cost of shipping up to this stage must be covered.

**Other Costs**

* Extra costs for things like packing, warranty terms, special branding (like engraving), and advertising. (Kenton, 2025)

Once all these costs are calculated and entered into the costing template, the management team will have a clear understanding of the total COGS for the shipment.

**2. Market Price Establishment**

A markup strategy is used to determine a competitive retail price for every product. In the luxury watch sector, markup rates usually fall between 30% and 50% in order to maintain market competitiveness and guarantee profitability.

**Retail Price Calculation**

Using the formula:  
**Retail Price = Cost Per Unit / (1 – Markup Percentage)**

**Example:**

For Omega Seamaster Diver 300M:

* Cost per unit: CAD 5,481
* Markup: 40% (or multiplier of 0.60)
* Retail Price = CAD 5,481 / 0.60 = CAD 9,135

Swiss Crafters may market their items competitively and maintain a solid profit margin using this strategy.

**3. Gross Margin Analysis**

Gross margin is a critical metric that reflects profitability and operational efficiency. It is calculated as follows:

**Total Revenue**

The expected revenue is derived from selling all units at their respective retail prices:  
**Total Revenue = CAD 8,247,000**

**Total COGS**

The total cost of goods sold includes product costs and duties/taxes:  
**Total COGS = CAD 4,947,875**

**Gross Margin Formula**

**Gross Margin = (Total Revenue – Total COGS) / Total Revenue × 100**

**Calculation:**

* Gross Margin = (CAD 8,247,000 – CAD 4,947,875) / CAD 8,247,000 × 100
* Gross Margin = **47.25%**

This gross margin is indicative of strong profitability for Swiss Crafters’ shipment.

**Expanded Analysis**

**Profitability Breakdown**

Swiss Crafters will generate a total profit of:  
**Profit = Total Revenue – Total COGS = CAD 8,247,000 – CAD 4,947,875 = CAD 3,897,000**

This profit shows good cost control and pricing tactics and is in line with industry norms for sales of luxury timepieces.

**Strategic Considerations**

To maximize profitability and maintain customer satisfaction:

1. **Demand Forecasting**: To prevent overstocking or understocking, make sure your estimates are accurate.
2. **Cost Optimization**: Keep an eye on supply chain activities to save expenses without sacrificing quality.
3. **Market Positioning**: To support premium prices and emphasise uniqueness and tradition in marketing initiatives.
4. **Customer Experience**: Provide individualised services like premium packaging and engraving to improve the sense of value. (Richardson & Richardson, 2025)

**Conclusion**

By completing the costing template and applying these calculations:

Swiss Crafters can establish competitive retail prices for its luxury watches.

The company achieves a robust gross margin of 47.25%, ensuring profitability while meeting market expectations.

Strategic efforts in inventory management, supplier selection (Swatch Group), and customer-focused services will further strengthen its position in Canada's growing luxury watch market

Continuous Improvement Strategies for Swiss Crafters’ Luxury Watch Operations

**i) Reducing Costs of Goods Sold (COGS) by 10%**

**Current COGS**: CAD 4,947,875  
**Target Reduction**: CAD 494,788

**Actionable Solutions:**

1. **Bulk Purchase Negotiations**:
   * Leverage the existing partnership with Swatch Group to negotiate a **5–7% bulk discount** on the CAD 4.35M product cost (e.g., CAD 217,500–304,500 savings) by committing to multi-year contracts or larger orders1.
   * Example: Reducing unit costs for the **Hamilton Khaki Field** (CAD 522/unit) by 5% would save CAD 26,100 on 1,000 units.
2. **Tariff Optimization**:
   * Work with customs brokers to reclassify components (e.g., watch movements) under duty-free Harmonized System (HS) codes, potentially reducing the 5% import duty1. (bklemm@foley.com, 2025)
3. **Logistics Efficiency**:
   * Shift from FCA (Free Carrier) to **FOB (Free On Board)** terms to consolidate shipments and reduce per-unit freight costs by 8–12%1.
   * Partner with a logistics provider specializing in luxury goods to streamline customs clearance and reduce delays. (Flora, 2025)
4. **Packaging Simplification**:
   * Replace non-essential packaging elements (e.g., redundant inner boxes) with eco-friendly materials, cutting packaging costs by 15% without compromising luxury appeal1. (Packaging and Labelling, 2024)

**ii) Increasing Gross Margins**

**Current Gross Margin**: 47.25%  
**Target Increase**: 5–7 percentage points

**Actionable Solutions:**

1. **Premium Pricing Strategies**:
   * Introduce **limited-edition collections** (e.g., Montreal-themed designs) with a 50–60% markup instead of 40%, capitalizing on exclusivity1.
   * Bundle high-margin accessories (e.g., CAD 300 alligator leather straps) with watch purchases to boost average transaction value.
2. **Product Mix Optimization**:
   * Reduce focus on lower-margin models like the **Swatch Sistem51** (CAD 218 retail price) and allocate inventory to higher-margin brands like **Omega** (CAD 9,135 retail price)1.
3. **Dynamic Pricing**:
   * Use AI-driven tools to adjust prices in real-time based on demand (e.g., +10% during holiday seasons)1.

**iii) Reducing Delivery Times**

**Current Lead Time**: 60 days

**Actionable Solutions:**

1. **Supplier Collaboration**:
   * Work with Swatch Group to implement **just-in-time (JIT) production**, reducing lead times by 15–20 days through shared inventory forecasts1.
2. **Partial Shipments**:
   * Split orders into batches (e.g., 500 units/month) to ensure continuous stock flow for retailers.
3. **Regional Warehousing**:
   * Establish a bonded warehouse in Montreal to pre-clear customs for frequent models, cutting delivery times by 10 days1.

**iv) Enhancing Product Quality**

**Actionable Solutions:**

1. **Supplier Quality Agreements**:
   * Mandate **ISO 9001 certification** for Swatch Group’s manufacturing processes, ensuring consistent quality across all units1.
2. **Enhanced Testing Protocols**:
   * Implement a **3-stage quality check**:
     1. Movement accuracy testing (±2 seconds/day tolerance).
     2. Water resistance validation (up to 300 meters for diver models).
     3. Aesthetic inspection for scratches/imperfections1.
3. **Material Upgrades**:
   * Source **Grade 5 titanium** for select models (e.g., Longines Master Collection) to improve durability and reduce weight.
4. **Extended Warranties**:
   * Offer a 5-year warranty (up from 2 years) for watches priced above CAD 5,000, reinforcing brand reliability1. (Mfg, 2024)

**Expected Outcomes**

| **Metric** | **Improvement Target** | **Key Driver** |
| --- | --- | --- |
| COGS Reduction | 10% (CAD 494,788) | Bulk discounts, tariff optimization |
| Gross Margin Increase | 5–7% | Premium pricing, product mix shifts |
| Delivery Time Reduction | 25–30 days | JIT production, regional warehousing |
| Quality Complaints | 20% reduction | Enhanced testing, material upgrades |

By aligning these strategies with Swiss Crafters’ luxury positioning and supplier capabilities, the company can strengthen its market leadership while maintaining the exclusivity demanded by Canadian customers1.

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