Example – effect of ‘buy-back’ clause on price

	Case 1: The distributor does not assume the risk of obsolescence of products because it benefits from a “buy-back” clause whereby all unsold inventory is purchased back by the manufacturer.	**Case 2** The distributor assumes the risk of obsolescence of products. It does not benefit from “buy-back” clause in its contractual relationship with with manufacturer.
Sales of product (For illustration purposes, assume both sell the same volume of the same product on the same market at the same price)	1000	1000
Purchase price from manufacturer taking account of the obsolescence risk in accordance with the functional analysis	700	640
Gross margin	300 (30%)	360 (36%)
Loss on obsolete inventory	0	50
Other expenses	250	250
Net profit margin	50 (5%)	60 (6%)

Source: OECD Transfer Pricing Guidelines 2017, p 427 (Highlighting added)

Note: The example is provided for illustration only