

Landed Cost Calculation: Effortless Margin Improvement

Increased operating costs and changing trade dynamics have strained margins for many companies. One reason is that companies often make detailed pricing decisions based merely on production costs instead of landed costs, so they do not have a full picture. The result is suboptimal pricing decisions and lower margins. Yet, most companies lack the resources and expertise to manually gather and process timely information about total landed cost elements, such as duties, tariffs, taxes and harbor fees. E2open's applications for imports and exports make it possible to automate this process, resulting in more optimal pricing decisions and improved margins.

The sheer complexity of simple math

In this era of global sourcing, accurate analysis and calculation of total landed costs are imperative for organizations with distributed supply chain operations. Too often, tactics to reduce costs end up being suboptimal, generating cost savings in one area while increasing the total landed cost. For example, procurement organizations are commonly incentivized to lower the purchase price variance of products. While this lowers the actual product cost, it may increase expenses related to transportation, inventory, warehousing and customs, thereby causing a net increase in unit costs.

The importance of landed cost

Landed cost is the most powerful way to calculate margins. This is because, unlike mere production costs, landed costs include the total cost of a product from the suppliers and factory floors to the customer's door. It encapsulates all manufacturing costs, end-to-end regulatory transportation fees, customs duties, taxes, tariffs, currency conversion, consolidation, special handling and payment fees. All of these components are essential to establishing proper selling prices and determining the actual margin per unit.



Key capabilities

- Calculates the final landed cost for a shipment, including duty, excise, value-added, provincial, profit and statistical taxes, customs fees, port charges and all other import taxes and accessorial
- Includes estimated transportation and insurance costs
- Run multiple calculations for different sourcing locations to compare costs

Key benefits

- Reduces time-intensive and costly manual processes
- Improves the accuracy and completeness of landed cost estimates
- Enhances sourcing, routing and order fulfillment decisions based on cost
- Maximizes product profitability and margins
- Increases opportunities for new market penetration

Taking the pain out and improving margins

Because companies often lack time or resources to analyze every potential course of action, they miss opportunities to reduce transportation and duty costs.

By assigning costs associated with the various components of a product, a company can leverage e2open's cost analysis technology to run product-specific simulations that identify optimal sourcing locations, rationalize networks and mitigate risk. Ultimately, these exercises allow businesses to run reality-based cost models that enhance profit margins and improve cash flow.

While not always considered, some of the factors associated with arriving at accurate landed costs include:

- Creation of an "apples-to-apples" view that shows how costs vary based solely upon a specific factor like sourcing location, shipment mode or time-frame
- Accounting for the costs associated with non-tariff regulatory factors, such as licenses and fees

Turning on automation

Automating the process of landed cost calculation is critical. No accounting department has time to research the most current trade data needed to perform the manual calculations, yet no executive or shareholder wants to lose the additional profits these calculations can identify. Outside of labor cost fluctuations, inaccurate landed cost calculations are the primary driver of margin erosion.

E2open Global Trade applications help companies get landed cost right, enabling accurate cost calculations. With integration to e2open's logistics capabilities, companies can easily add accurate shipping costs by country and lane. This provides an inclusive total landed cost. These applications open global possibilities for growing companies relying on foreign-made goods or selling into major foreign markets by automating the assignment of product classification codes and accurate duties and tariffs, eliminating manual effort.

The world's most accurate trade content

Updated daily by global trade specialists, e2open's Global Knowledge® application includes the world's most extensive and most accurate body of international trade rules, regulations and product-specific duty and tariff rates — all collectively referred to as trade content. E2open's landed cost calculators use this content to drive the most accurate unit cost estimates, make cost-effective sourcing decisions and maximize product profitability.

Quantifying sourcing decisions with accurate data

To find the lowest total landed cost, global organizations must think strategically across the design-to-deliver process. An end-to-end channel and supply chain management platform like e2open allows organizations to compare sourcing scenarios and make important purchasing decisions using actual data rather than best guesses. By providing specific inputs, such as product classification, source and destination countries and Incoterms®, planners can see a detailed analysis of the specific supply source and understand the effect on the

estimated landed cost when variables change. Changing the variables in the landed cost equation gives sourcing teams the ability to model a complete picture of overall cost, time to delivery, mode of transport, route and compliance implications associated with each sourcing decision.

End-to-end supply chain management platform

Once an organization implements any e2open platform application, it is easy to add more capabilities in the future for better visibility, coordination and control over the end-to-end supply chain. The e2open platform creates a digital representation of the internal — and optionally external — network, connects internal enterprise resource planning (ERP) and financial systems using SAP® and Oracle® certified adapters for timely data feeds, and normalizes and cleanses the data to make it decision-grade. Using machine learning-enabled algorithms and supply chain management applications, the platform processes the data and provides bi-directional, closed-loop communications back to ERP systems for execution. This facilitates the evolution of supply chain processes towards true convergence of end-to-end planning and execution.

No one wants to leave money on the table. With automation tools and up-to-date trade content, companies can easily create accurate total landed cost calculations, improving margins and driving competitive advantage.

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