

# ***White Paper***

## **Build a Truly Profitable Business by Streamlining Your Landed Costs**

A white paper explaining how software solutions  
can help business owners stay on top of true costs

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## Executive Summary

Identification of true landed costs — a long-time goal of manufacturers, distributors, importers and retailers - has grown in importance for all successful businesses in today's increasingly competitive market.

Landed costs are those sometimes hidden costs that are involved in making goods available for sale. Typical landed costs might include freight, duties, handling fees, and other charges that, if ignored, would distort the cost of the product being sold. While many software systems include basic landed cost tracking, a new breed of software systems is evolving to provide business owners with greater control over how landed costs are applied.

As Bruce Wulfsohn, president of Japan Auto Parts (an importer of Japanese Automobile engines, gearboxes and transmissions) says, "As more companies in the auto industry are competing on price, it's become even more important to know our true inventory costs accurately and immediately. This gets complicated by varying costs like freight, the duty imposed on imported products, and of course the exchange rate. The trick is to know our real costs at time of selling, even though some of the bills will only arrive weeks later."

When acquiring a new system, the key is to buy the maximum flexibility you can afford, planning for future upgrades, and continually minimizing manual interaction.

This White Paper focuses on mid-size business needs. It provides comprehensive background information; examines some common business challenges; suggests cost-effective solutions; provides links to case studies; and lists resources for additional information.

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## Introduction

The convergence and streamlining of technology and accounting have helped global business expansion. Just as the North American Free Trade Agreement (NAFTA) opened up the door to free trade and new technologies, automation has eased cross-border shipping. At the same time, accounting regulations have tightened, competition is increasing, and budgets are shrinking. Companies need to show their commitment to strong financial accountability, while continuing to make profits.

The old 'will do' accounting system is simply too limiting to deal effectively with the new complicated accounting realities. Paper-based manual systems are open to daily error, compounded at the annual audit. Even an automated accounting system combined with spreadsheets can be too rigid to deal with rapidly changing regulations and trade agreements.

While all businesses recognize the need to develop an efficient automated accounting system, many small and mid-sized companies feel confused by conflicting information, escalating costs, and limited time in which to gather resources to make a decision. They feel overwhelmed by the IT advantages of the large corporations, with their big budgets, trained personnel, new equipment, and endorsement from management for long-term implementations.

Fortunately, software companies are aware of the new market opportunity, and are developing new enterprise resource planning (ERP) systems for mid-size businesses. Cost-effective accounting and business systems are now being developed specifically for small to mid size<sup>1</sup> businesses. These new accounting systems are narrowing the technology divide between Tier One and Tier Three companies. Easy to use, and offering a good return on investment, the streamlined automation reduces manual errors, provides instant reports, and gives accurate, customizable tracking of costs.

## Background

Landed costs are the total expenses incurred to purchase, transport, and import goods from one place to another, within a country or across continents, including border fees, duties, taxes, transport costs, insurance, trans-loading, and port handling fees. A landed cost will therefore involve the calculation of three main elements: the actual cost of the goods; transportation and insurance; and other government fees assessed on the goods.

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<sup>1</sup> Mid sized businesses are those with revenues of \$5-\$50 million, and up to 50 employees.

It's easy to sell products at a loss when you don't know what it costs to get them to you in the first place.

*"Without the actual landed costs, you can't address a lot of issues," according to Timothy Minahan, the director of supply-chain management research at Boston's Aberdeen Group Inc., at a Council of Logistics Management Conference.*

These issues include saving time, reducing labour costs, streamlining operations, and integrating business operations.

## **Time**

Without an integrated accounting system, it can take days of laborious communications to find a particular landed cost. Innumerable, time-intensive telephone calls, emails, and faxes, follow every product change, simply to counter the unknown effects on transportation plans or classifications.

Capturing the actual shipping, handling, and import fees (landed costs), and rolling all these into the actual cost of goods, is made simple with an integrated system. The company can account for additional costs beyond the merchandise cost of inventory incurred in purchasing items, including freight and miscellaneous origin and destination charges, and then represent these costs in the valuation of inventory.

## **Cost**

Organizations can no longer afford to relegate logistics to the back office or shipping docks. All business operations, from sales and marketing, to manufacturing and supply chain execution, to after-market service, rely heavily on logistics activities and information. Transportation expenditures can be 20% greater than the combined costs of warehousing, customer service and order entry. As companies outsource more operations and support a larger, often global, customer base, logistics is increasingly important.

### **Effective systems calculate all the costs accrued along the way.**

Companies with an integrated IT framework gain significant cost and performance advantages. Conversely, organizations that do not embrace integration will suffer from disconnected business processes, poor market intelligence, high inventory and transportation costs, and slow responsiveness to changing market dynamics.

## Results

The accurate tracking of landed costs leads to:

- **improved cash flow** - inventory is accurately calculated, releasing cash flow, lowering borrowing costs, and allowing growth potential;
- **increased sales** - the sales force gains timely access to accurate information, makes fewer errors, closes more sales and establishes longer-lasting customer relationships;
- **improved time management** - improved efficiency reduces the picking, packing and shipping time;
- **reduced employee costs** - business can expand without adding human resources; and
- **cost savings** - error elimination in the picking and packing process saves money, and improves customer relations.

Such improvements can be the critical difference between success and failure.

## More Sophisticated Software is the Solution

In an ARC Advisory Group newsletter ('Effectively Managing Service Parts Inventories') a survey showed:

*"...49 percent (of those surveyed) stated their most recent implementation of Supply Chain Management software was successful, yielded significant ROI, and had no adoption issues. The top three success factors mentioned include good performance/functionality, faster/more accurate/easier to manage data, and reduced costs/increased profitability."*

Most systems cover the basics fairly well, offering standard features for General Ledger, Accounts Receivable, Payable, Inventory, and Payroll areas. The crucial differences lie in the interface, navigational tools, customizing options, updates, and integration with e-commerce web sites. Specific needs often differentiate a business from its competitors, so it is essential that any accounting software is flexible enough to work with a company's existing systems to maintain that critical edge.

### **A standard off-the-shelf solution will not do the job.**

Until recently, the only alternatives have been the low-end 'one size fits all' package, or the high-end, purpose-built system with individually written applications and high costs. The new mid-range systems offer a much-needed third choice. A detailed needs analysis and careful research will identify the best software system to fit your company's requirements.

**The ideal solution for the growing mid-sized company is a mid-range flexible package capable of handling business complexity, allowing some customization, timely upgrades, and giving cost effective results which meet business needs.**

In selecting a new business software system, you should be able to look forward to the following benefits:

- inventory costs that are inclusive of landed cost;
- a greater level of control over how landed cost factors are applied to items purchased;
- lowering costs of materials by considering the total costs of procuring goods;
- reducing duty payments by identifying all preferential trade agreements, enabling calculation to be based on various identifiers, such as volume, weight, or dollar amounts;
- reducing the need for post-sale customer service by delivering goods at expected prices;
- decreasing operational expenses by eliminating manual tasks and costly mistakes; and
- optimization of profits through proper pricing strategies.

## **Conclusion**

Tangible benefits and satisfactory returns vary from business to business. But, every business can enjoy the immediate results of increased automation in landed cost calculations - increased profits, decreased costs, and no surprises at year-end.

Effective results are the trademark of the improved Tier three solutions.

Geared to companies with annual revenues of \$3 to \$50 million, they are less complicated than expensive Tier one solutions, have shorter implementation times and offer improved connectivity and collaboration.

It is critical that the chosen system can take all the pieces of the business and integrate them into one database to make communications seamless. A needs analysis should be completed prior to researching available and affordable systems. Consideration also needs to be given to the ability of the any new system to expand and grow along with the company.

