

# Landed Costs: Get them right every time

## INTRODUCTION

Knowing the cost of inventory is part of any successful logistics business. Yet understanding the true cost of the goods that you are importing is not always easy.

Therein lies a problem. There is no point importing wooden toys at \$2.00 per item and wholesaling them for \$1.50 each. Or purchasing heavy machinery at \$250,000 per item and selling them for \$249,999. Moreover, if landed costs are not allocated correctly, the true profitability of a stock line can be skewed. A container carrying five large and 5,000 small items, landed for \$1000, will apportion \$5 for all items based on container quantity – even if the five large items filled half the container.

Granted this is all common sense yet, that said, do you know the true cost of the inventory sitting in your warehouse?

While most companies can readily cite the purchase price of the goods they import, a surprising number are unable to account for all the associated costs such as freight, customs, exchange rate fluctuations or government duties.

What's more, many fail to recognise that these costs are variable, fluctuating from deal to deal or month to month. It's not possible to just set-and-forget a sale price based on the last shipment's costs because with each new arrival, the cost of the deal will very likely change.

*It may seem like a small issue, but recouping costs is a business necessity and understanding landed costs is the essential starting point for ensuring profitable business transactions.*

## CONTRIBUTING COSTS

Landed costs are the expenses incurred when purchasing goods and transporting them to your office or warehouse ready for sale. They are expenses that can dramatically increase the total cost of your goods and which must be reflected in your wholesale and retail prices if you wish to achieve a profit.

The most common expenses include:

- The invoiced price
- International freight fees
- Local courier charges
- Insurance for the goods
- Cross-border taxes and government duties
- Customs charges

- Banking or brokers fees and commissions

Admittedly some of these costs can be difficult to identify and complex to calculate. Freight and courier charges may involve multiple transactions in multiple currencies. Sometimes it's impossible to be sure when a shipment will arrive and exchange rate fluctuations can result in major differences between the anticipated price and the invoiced cost. This in turn can impact the value at which GST, duty and charges are calculated. Identifying your landed costs requires many steps including the processing of receipts and data to reach a final figure.

Many companies are turning to automated systems to reduce the complexity of managing landed costs. The aim is to track and calculate landed costs within a single integrated business system – one that automatically captures the data as it is entered into your accounts; that prompts you for any missing data; and which automatically calculates total and unit pricing. Ideally such systems should allow additional costs to be entered or amended even after the goods have been received, ensuring that late-arriving charges or exchange rate fluctuations are reflected in the true cost of goods.

Recording this data enables you to understand how much your stock actually costs. It helps to determine how much money is being tied up in your inventory and allows you to set a realistic sale price.

## SHIPMENT VISIBILITY

Integrated systems capable of recording landed costs offer other, additional benefits. They provide a way of tracking the full shipment life cycle, monitoring everything from the initial order through to loading, departure date, arrival and receipt dates, and recording way bill, vessel and container information. Displaying all shipment related data on a single screen, the system becomes a tool that enables sales staff to know what's available and ready to be sold, and which informs logistics when to prepare for the next arrival.

## THE WORK FLOW AFFECT

Automated systems enable work flows to be streamlined in ways that are difficult to achieve through purely manual processes. Data can be shared among departments so that any changes to inventory costs flow through to the general ledger and other accounts. Managers can access shipping and cost information from their own desktops rather than relying on a single person or trying to locate shipment data in a Manilla folder that is bursting at the seams.

## ANALYSIS FOR BETTER BUSINESS PLANNING

When an importer fails to accurately measure landed costs it makes it impossible to measure the business margins. How do you know you are recouping your expenses when you don't know what those costs are as they relate to each inventory item?

With a little more sophistication, an understanding of landed costs can offer insights into variations to cost that may enable amendments to stock price or which are valuable when working out future mark-ups.

A breakdown of transportation expenses can help you to understand the cost benefits relating to the optimal supplier locations, or suggest where to locate your next warehouse when considering a move interstate or overseas. You can start to model how changes to production or location may impact your supply chain.

Perhaps your business would benefit from larger shipments and reduced per item shipping costs, but would the increased margin cover the need for additional warehousing? The best place to start to understand all these types of questions is in your landed costs.

## THE VALUE OF GETTING IT RIGHT

Working capital is precious to any business. More so to a business that holds inventory. Seeing and understanding all import-related expenses provides an essential basis for fast and accurate decision making - in short, optimising your inventory investment. It allows you to calculate purchasing costs and to plan for the variable expenses. It provides the history that will help you to ascertain the products and price points that are right for your business as you plan for the future. But most importantly, understanding your landed costs gives you the power to ensure that every business transaction delivers the margin you want, at a level of investment that is based on fact, not guesswork.

## WHITE PAPER FEEDBACK AND QUESTIONS

Any feedback or questions, generated by this white paper, would be much appreciated.

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