

Adding it all up

Landed-cost calculators, imperative in a cost-obsessed environment, have made limited progress

BY EUGENE GILLIGAN

For many companies today, it's all about cost, and the competitiveness that a reined-in cost structure yields. Retailers trying to compete against Wal-Mart know this well, but the need to manage costs extends to any company in the international market. The current political controversy over outsourcing jobs to India and elsewhere stems directly from this bottom-line imperative.

That is why quantifying costs is no longer a peripheral issue, and why many companies have turned to so-called landed-cost calculators to help them make the most informed decisions on where and from whom to source goods, and how to move it. With raw materials typically originating in multiple locations and goods moving through several stages of the supply chain, and with factors such as duty rates, anti-dumping duties and insurance to be considered, total cost can be a complex figure to determine.

In other words, manufacturers should not be overly impressed with the low quoted price of materials because other costs are not insignificant and, when fully acknowledged, can put a very different light on a sourcing decision. The Aberdeen Group, in a July 2003 Global Trade Management Benchmark Report, estimated that non-material costs account for 20 to 40 percent of a product's total cost.

Yet landed-cost calculators have not been the panacea some have promised them to be, observers say. Many landed-cost calculators on the market today are not keeping up with the increasing complexity of the global supply chain, said

Carla Reed, vice president of ChainLink Research. She compares the process to planning a trip to 10 countries, and not allowing for currency differences when budgeting.

"Many of them tend to have been developed for a 'one-to-one' shipment, and don't take into account the many value-added and incremental cost components of offshore and non-asset-based manufacturing," Reed said. "So much is manufactured today in a series of geographic locations vs. a single offshore factory."

But the shortcomings of some landed-cost programs have not stopped companies from entering the market for such services. Last year, Rockwell Automation, a \$4 billion Milwaukee-based manufacturer of devices that help automate factories, decided it needed a landed-cost calculator to assist in its overseas sourcing, manufacturing and shipment decisions. It has 12 overseas owned or joint venture factories, and sources materials and components from many vendors worldwide.

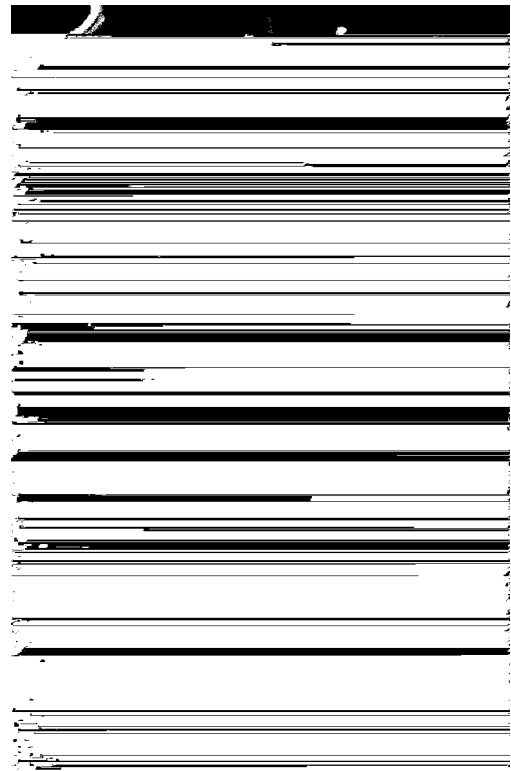
Patrick Moran, Rockwell's manager of global supply-chain improvement, went shopping for landed-cost calculators, narrowed the field to three, and eventually chose the Global Sourcing program from Santa Clara, Calif.-based Xporta that was introduced last December. The idea was to replace traditional spreadsheets with a more sophisticated approach, Moran said.

He said the program's greatest value to Rockwell will be in situations where complex decisions need to be made involving sourcing, manufacturing and shipping. In performing the

calculations, a client such as Rockwell is able to tap into Xporta's current database of over a million duty rates and some 80,000 anti-dumping and countervailing duties. Such costs can amount to as much as 40 percent of a sourced material's cost, said Dave Home, Xporta's president and chief executive.

Xporta's service extends to other aspects of sourcing decisions, such as route optimization to determine the best transport strategy, and allows qualitative factors to be figured in as well. "Xporta is a step up from most landed-cost calculators due to its breadth," said William McBeath, chief research officer at ChainLink Research. "Its claim to fame is its optimization and modeling tools that measure quality costs, tooling and set-up expenses."

Xporta is just one of several firms offering landed-cost engines. Others include Open Harbor, Arzoon, NextLinX, Vastera, GT Nexus and FedEx Trade Networks. Yet while ana-



lysts praise Xporta's product, they note that it does not have the breadth of service offered by other firms whose logistics software extends to such areas as supply-chain visibility, exception management, procurement and contract management. McBeath praises some aspects of the Xporta program. He said it enjoys only a "thin competitive advantage" because of its standalone nature.

"It's the 'best-of-breed' vs. 'whole suite' argument," McBeath said. "I'd rather have an integrated system," he said. "Calculating total landed costs better be really important to you."

And even a "best-of-breed" system like that of Xporta has trouble measuring the myriad factors that affect landed cost; McBeath said. He has constructed a model called Total Cost of Supply that he says includes 13 factors that affect total landed costs. The factors vary from "simple," such as material and transportation costs, to "emerging best practice," which measures customization costs, relationship

costs and financing costs. The Xporta program measures about half of the factors in McBeath's model.

Open Harbor marketed its landed-cost calculator as a separate product in 2000, but eventually folded it into its Global Security Compliance Solution. The calculator never found an audience as a separate product, said Beth Peterson, an Open Harbor vice president. She said many companies were content to base their sourcing decisions on estimates based on cost history.

But ChainLink Research's Reed said more advanced calculators are imperative. "It must be a true order performance system that's linked back to a company's financial data," Reed said.

She praised the so-called 3rdwave program from Blinco Systems of Toronto for its ability to tap into a broader range of data. Its landed-cost calculator is part of a software program that links all descriptions, customs duties and tariffs, activities, costs

and references to each specific product, lot and batch.

Blinco's major client, Honda Trading America, handles the steel, aluminum, plastic raw materials and automotive parts purchasing requirements for Honda of America Manufacturing. The company operates in a just-in-time delivery environment, and requires software that supports multi-language and multiple currency accounting processes. Honda Trading America also requires a system that would balance accounts quickly, and then pass along the information to other enterprise-wide systems at its business partners.

A frequently undersold aspect of landed-cost calculators is their ability to compare estimated to actual costs, said Ned Blinick, Blinco's vice president.

"One-half of the power of these tools is to know the cost of sourcing overseas," Blinick said. "But the other half is estimating your costs, and then determining if that matches what you're actually paying when the bills come in."

Landed-cost calculators are mostly used to estimate sourcing costs, and not used as frequently to measure actual costs on a shipment-by-shipment basis, said John Fontanella, vice president of AMR Research. Retailers, who are intensely margin-driven, may be clients for advanced calculators for their private label products, he said.

"They're quick to build an activity-based costing model that asks, 'What if I buy a product from this source, and transport it to this final destination?'" he said.

With more free-trade agreements being signed that eliminate or reduce tariffs, will the need for these calculators diminish? That's unlikely, said Horne of Xporta.

"An agreement may eliminate duties, but other fees pop up, like harbor maintenance taxes and processing fees," Horne said. "They're harder to mine and locate. And many times, they eclipse the duty that's being reduced."

Honda Trading America uses the landed-cost software of Blinco Systems.

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