Oracle Landed Cost Management

ORACLE E-BUSINESS SUITE

Oracle Landed Cost Management (LCM) gives organizations financial visibility into their extended supply chain costs, including transportation and handling fees, insurance, duties and taxes. Since these types of charges can constitute a significant portion (upwards of 40%) of an item's cost, it is important to accurately incorporate them into overall financial processes and decision making activities. Oracle LCM initially estimates these charges and later updates them with actual amounts as they become known on receipt of invoices, pro-rating them to shipments, orders, and products. This allows companies to improve visibility into outstanding liabilities, enhance competitiveness, ensure that complex trade activities are compliant with regulatory mandates, and maximize profits
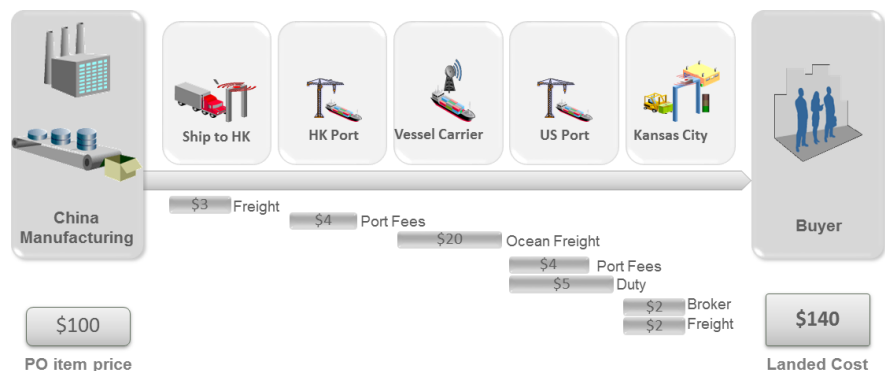

Figure 1. Impact of extended costs on total landed costs for an inbound shipment.

KEY BUSNIESS BENEFITS

Oracle Landed Cost Management helps organizations gain insight into all of the "real" costs associated with acquiring products enabling them to:

• Increase financial visibility into the extended supply chain

• Enhance sourcing competitiveness

• Maximize product profitability

• Ensure regulatory compliance

Increase Financial Visibility into the Supply Chain

Oracle Landed Cost Management provides organizations better visibility into their outstanding liabilities. Tracking costs as soon as they are known gives product line managers, as well as financial professionals, more insight into their exposure for budgeting and reporting. Initially the cost factors, or charges, can be automatically simulated from rules setup in Advanced Pricing or are manually entered when creating purchase orders. This enables buyers to make better sourcing decisions by exposing them to the overall landed costs including all applicable charges, instead of relying on the item price only.

Single, integrated landed cost solution - Logistics, Financials, Procurement

- Automatic financial update of variances between landed cost actuals and estimates
- Powerful allocation engine prorates charges base d on weight, volume, quantity, or value
- Flexible rules engine for determining a template of estimated charges
- Landed cost component estimates and actual values maintained for reporting
- Charge estimates and actual variances update inventory valuation and GL
- Consideration of VAT recovery
- Multiple currencies and multiple units of measure
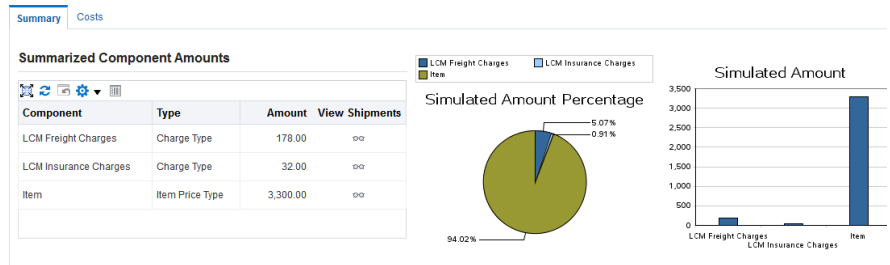- Charges tracked as expenses or liabilities

Figure 2. Landed Cost Simulation for a Purchase Order.

Next, charge simulations are carried forward into the estimated landed costs during the receiving process. These values update the inventory value, in addition to Oracle Financials, and get revised as actual charge invoices are validated. Early estimation and accounting provides insight into additional charges, fees and taxes that were not typically known until well after invoices were received. Furthermore, Oracle Landed Cost Management automatically allocates the charges back to the individual product responsible for them, not just to the high level parent product or category, allowing organizations to gain insight into this product specific information. Additionally, it gives users the opportunity to perfect the sourcing process and correct cash flow plans by following up the variances from estimated to actual landed costs.

Focus	Component Number	Details	Component Type	Component Reference	Item	Estimated Amount	Billed Amount	Actual Amount	Actual History
	◢ 4	∞	Shipment	All Shipments					🔲
✛	◢ 1	∞	Line Group						🔲
✛	◢ 1	∞	Shipment Line	Item	AS18947	2,410.00	2,628.00	2,628.00	🔲
		∞	Shipment Line Allocation	Item	AS18947	2,200.00	2,400.00	2,400.00	🔲
		∞	Charge Line Allocation	LCM Freight Charges		178.00	190.00	190.00	🔲
		∞	Charge Line Allocation	LCM Insurance Charges		32.00	38.00	38.00	🔲

Figure 3. Estimated vs. Actual Landed Cost Breakdown

Oracle LCM provides better insight into an organization's outstanding liabilities by tracking estimated landed costs and import duties and taxes as soon as they are known.

Enhance Competitiveness

When companies can identify and measure all of the extended supply chain costs — transportation charges, insurance, import fees, duties and taxes — as far upstream as possible, they have strategic visibility to the information needed to support complex sourcing decisions and supplier negotiations. Furthermore, they can use this landed cost information to more accurately price goods with the full understanding of the charges that have historically been associated with bringing that item to market.

Maximize Product Profitability

Oracle LCM helps tracking the hidden costs associated with complex supply chains. It automatically captures and itemizes extended costs such as freight, insurance, and brokerage fees as well as duties and taxes. With Oracle LCM, these cost components are flexibly allocated and assigned back to the products to which they should apply.

To help in the material cost accuracy, the charges can be estimated during or prior to receiving of the goods and then adjusted when the actual invoices (for the charges or the item) are matched to the receipts. This helps provide detailed item cost tracking and more accurate profitability reports. Furthermore, LCM users can identify opportunities for additional cost reduction simply by viewing the per-unit breakdown of the item's various cost factors.
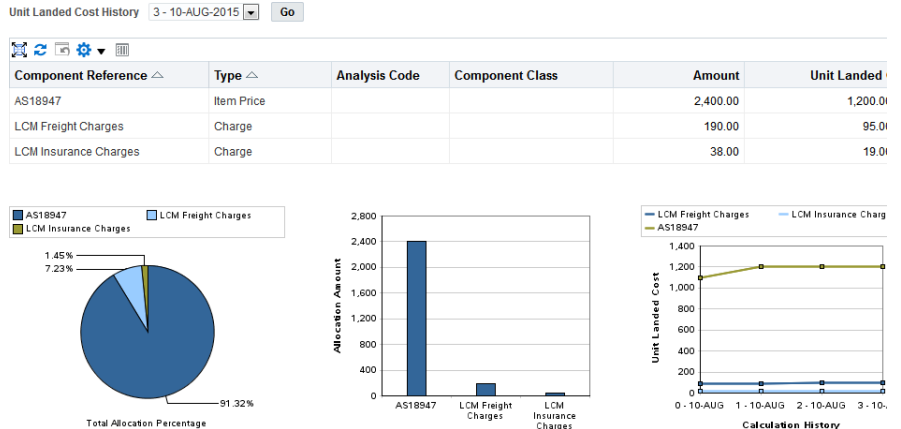

Figure 4. Item unit landed cost breakdown

Equipped with visibility into additional supply chain cost, companies can track product performance more accurately against profitability targets and budgets.

Ensure Compliance

Oracle LCM helps to support compliant business practices. Itemizing and tracking all acquisition costs as they apply to a product is a global best practice for industries with complex supply chains. It enables the organizations to better link their product supply flows with their financial processing and reporting. LCM helps organizations operating in regions with regulations requiring item specific profitability documentation and income tax calculations like India, and Romania. In addition, the landed costs are calculated considering the non-recoverable tax amount when they include taxes such as VAT, where a certain amount is eligible for tax recovery. Finally, Oracle LCM helps to tie charge invoices to receipts providing the evidence to authenticate inventory cost declarations and financial reports.

ORACLE®

Integrated Cloud Applications & Platform Services

Oracle is committed to developing practices and products that help protect the environment