

Creating a Competitive Advantage in Global Trade



Leveraging the power of data to free millions of dollars trapped in your global supply chain.

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GLOBAL DATA MINING



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Executive Summary

This white paper is designed as executive wake-up call alerting business leaders to the financial opportunities to be found in optimizing and automating global trade processes.

Originally published in early 2006, it is re-written here to include significant advancements in how multi-national companies are leveraging the power of their global trade data to improve business processes, to make contributions to their competitive advantage and improving bottom line profitability.

There are millions of dollars in working capital languishing in your international supply chain. So says Beth Enslow of the AberdeenGroup in her September 2005, *CFO's Agenda for Global Trade Benchmark Report*. The report boldly states, "A \$1 billion company can free \$10 million to \$40 million in cash by better controlling its basic global trade processes." Global trade remains one of the last frontiers where upgrading and optimizing business systems can create very significant financial and operational gains, giving corporations an additional strategy to create competitive advantage.

Two-thirds of the 170 companies surveyed by the Aberdeen Group reported that improving global trade processes is among their top three corporate initiatives.

Accounting Comparison

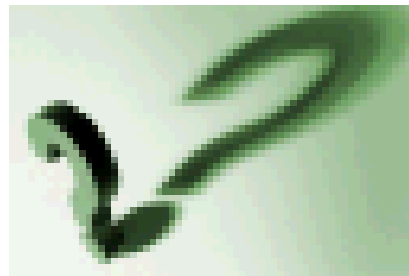
Most major corporations have tight internal controls, sophisticated technology, and well managed organizations overseeing its various accounting processes. In fact, corporations have become so competent at self-auditing every invoice for complete accuracy that error rates typically discovered by outside auditing firms are only *one-tenth of one percent*.

Executives may be surprised to learn that error rates in global trade processes approach 10 to 20 percent. The effective control of global trade processes is often *100 to 200 times worse* compared to accounts payable processes in the same company (see box on left). Surprisingly, this fact has gone unnoticed by many executives and the costs of ineffectiveness are growing. If you are a business leader reading this, have you taken notice in your company?

World Trade volume continues to grow at a dizzying pace. Total international trade grew from \$3 trillion in 1990 to \$10 trillion in 2006. The consulting firm McKenzie & Company recently estimated that international trade will reach \$70 trillion by 2025.

Trade regulation and compliance has become sobering business. The events of September 11th, 2001 and the corporate corruption scandals of Enron and WorldCom changed forever the world of international trade. The U.S. government has responded aggressively by adding more complexity and more scrutiny to international trading standards and programs. It is also developing technology solutions and a National Targeting Center to increase its oversight and enforcement capability. In addition, the Sarbanes-Oxley Act of 2002 imposes strict requirements on executives, has potent enforcement powers and a strong emphasis on internal controls.

However, direct observation reveals that global trade processes remain woefully inadequate and error rates are staggeringly high. Why do so many large corporations continue to let this happen?



An executive looking for answers is likely to find several.

- **UNDER-FUNDING:** Global trade operations are notorious for their lack of funding. They are overworked, understaffed, and typically using outdated technologies. Many international professionals simply have too much to do and not enough staff or resources to do it with.
- **OUTSOURCING:** Many companies have outsourced stewardship in the areas of Banking, Brokering and other third party trade services and have failed to invest adequate time or oversight in managing these important resources.
- **IGNORANCE:** Inadequate transparency, incomplete information and lack of metrics have left the executive in the dark regarding the magnitude of the problems (and opportunity) in international trade.

For many executives, global trade has simply been a low priority. This has caused an industry-wide epidemic of high-error rates, non-compliance, incorrect declarations, and inaccurate financials – all of which can put you at serious risk, and your company at a competitive disadvantage.

Yet opportunities abound! A solution lies within the grasp of a determined executive. Your company's trade data can provide a blueprint to the corrective actions required to produce critical improvements and free literally millions of dollars from your supply chain. With existing data, current technology and a little resolve, corporations can implement cost-saving operational improvements, and design internal controls to effectively manage trade compliance and risk. And surprisingly, it can be done with a positive Return on Investment.

Section 2

Understanding the History of Global Trade

Global trade is one of the few remaining corporate functions where arcane ‘old style business rituals’ are still the norm. Like other corporate functions before they were re-engineered and automated, global trade has been dominated by paper documentation and strapped together with multiple tiered manual processes. Service providers in charge have depended on the use of historical, intuitive knowledge of “what’s supposed to happen to process trade goods.” When errors are discovered (often simply stumbled upon) they are corrected one transaction at a time. It is classic ‘fire-fighting’ style process management, usually without a plan or executive oversight. It’s not working well.

The long history of International Trade is fraught with supply chain complexity and unknown risks. Meeting today’s challenges will require re-engineering using modern tools of automation. If your company is sourcing or selling on the world stage in the 21st Century, you will need sophisticated international trade knowledge and automated operations or your company will simply fall behind competitively.



As global trade activity continues its exponential growth, operational and financial executives will require a clear picture of projected cash flow, inventory levels, compliance metrics and hard and soft financial commitments. Global supply chain uncertainties — such as delayed or incomplete shipments, freight expediting expenses, unexpected customs fees or fines, and foreign currency fluctuations will need to be anticipated, decoded, and integrated into the company’s overall business strategy to maintain a competitive advantage.

One Chief Financial Officer confided that his import operation is “a big black hole,” lacking the information he needed to effectively assess risk and improve operations. Executives today must demand more. The world of global trade is undergoing a massive transformation, *an automation revolution*. Enlightened executives are re-engineering their internal work processes, improving their companies’ global trade systems and creating new wealth through competitive trade advantages.

Section 3

Trade Database contributes \$5 million annually

Companies can leverage lessons learned and existing “best practices” in building an effective strategy to evaluate, prioritize and implement global trade initiatives.

The following sections discuss real-life case studies that illustrate the benefits of challenging and reframing archaic “old line” business practices and the significant rewards that can be gained by leveraging data to improve basic global trade processes.

Consider the Item Master File; the foundation of any effective procurement, inventory and accounts payable system. It is the Item Master file that maintains accurate information about each item in that system – including the negotiated cost of each item. Virtually every major business in America cares for and maintains their Item Master File in a database that is electronically linked to procurement, payable and receiving systems so that current and reliable information is automatically applied as transactions occur.

In the world of global trade, this common business practice is seldom followed. It is the exception to find a global trade organization that maintains accurate and up-to-date item information regarding classification, licensing, or other relevant information in a database that is connected to enterprise-wide systems.

EXAMPLE: One import professional spent more than three years single-handedly developing such a database and the impact has been significant for his company. Before his database was created, the average days of demurrage, or as he called it the ‘spin-time’ of an entry clearing customs was six days.

Three years later, with thousands of items classified, documented and managed in a trade database, the spin-time has been reduced to 1.45 days, an improvement of more than 300%. Estimating the cost of each additional day ‘in transit’ equal to ½ of one percent of the value of goods, this \$250,000 per year importer is saving \$5.6 million per year – not including the competitive advantage of having its product to market more than 4 days faster.

CONCLUSION: This professional should be commended for his initiative, but could have made this contribution to his company sooner if he had been given additional support. For example, a third party servicing firm that specializes in classifying large numbers of items could have helped reduce the “spin-time” to 1.45 day more than two years earlier and created a significant advantage for this company over its competitors during that time. Do you have time to wait?

FINANCIAL IMPACT: \$5,600,000

Section 4

FTZ accelerates the Supply Chain & Saves Millions

“Foreign-Trade Zones or FTZ’s can save importers millions of dollars and will often improve the speed of the supply chain,” says Tommy Berry, a leading expert in FTZ’s. Mr. Berry, President & CEO of PointTrade Services, Inc., has been involved in more than 150 FTZ sites in 29 states helping his clients save hundreds of millions of dollars over the past 20 years.

C-TPAT Best Practice

The January 06 *NAFTZ Zones Report* stated; ‘In the latest CBP guidelines on C-TPAT Best Practices include that ‘termination of the supply chain into a CBP-secure and activated FTZ site constitutes a Best Practice.’

The Foreign-Trade Zones Program is a federal program. FTZ’s are established to encourage and expedite U.S. participation in international trade. Foreign goods may be admitted to an FTZ without being subject to Customs duties or certain excise taxes. An importer using an FTZ can defer payment of duties until goods are entered into the commerce of the United States.

EXAMPLE: FTZ’s can be an excellent cash-creation strategy for companies with high trade volume. An importer with an FTZ accumulates multiple shipments imported during a 7-day period and combines them on one weekly entry. Weekly entry filing typically results in a company saving hundreds of thousands of dollars in broker’s fees and merchandise processing fees. Furthermore, all goods entering an FTZ are duty free until they leave the zone.

A recent analysis of a \$300 million importer with an inventory of \$100 million of imported goods saved nearly \$2,700,000 one-time duty savings as the inventory ‘pipeline’ filled up with duty-free goods. The total first-year *return on investment* for this importer exceeded \$3 million with annual recurring savings in excess of \$1,500,000.

CONCLUSION: If you are not enjoying the many benefits of a Foreign-Trade Zone, your global supply chain could be unnecessarily squandering millions of dollars per year. The savings and costs associated with creating an FTZ for your company can be easily calculated using your company’s trade data. Companies like Mr. Berry’s provide an *FTZ Return on Investment* estimate with all of the information you need to make an informed decision. Have you calculated FTZ benefits for your company?

FINANCIAL IMPACT: \$3,000,000

Section 5

Turbo-tax for importers

“Self-filing can help importers improve overall compliance, improve supply chain speed and can also save hundreds of thousands or even millions of dollars every year,” says Michael Laden, a leading trade consultant. Mr. Laden, President & CEO of TRG Direct, was personally involved in optimizing the global trade operations for two very large importers before creating TRG Direct, which he calls the “Turbo Tax” for importers.

Self-filing systems leverage trade databases like that described in section 3. The system uniformly applies tariff classification, value, country of origin, quantity and Free Trade Agreements to improve consistency, control, and compliance.

Self-filing systems allows an importer to pre-file entries with Customs & Border Protection (CBP) and actually obtain clearance information up to five (5) full days *before* the vessel arrives at its US port of destination. Shipments not targeted by CBP for examination can be moved as soon as the vessel completes discharging, often saving one or two days out of your supply chain transit time.



Self-filing systems have automated the routine process of filing entries with CBP. Linking the technology of a self-filing system with an importer’s classification database can improve compliance, improve supply chain speed and save hundreds of thousands, or even millions of dollars for importers with high-volume import operations.

EXAMPLE: In one analysis, an importer with 11,295 entries per year had annual savings of more than \$600, 000. A smaller importer with less than 5,000 entries had annual savings of more than \$250,000.

CONCLUSION: The automation revolution is beginning to reach the global trade industry and companies like TRG Direct are bringing innovative solutions to help global traders improve business processes, automate routine operations, and create significant savings. Have you considered the benefits of self-filing for your company?

FINANCIAL IMPACT: \$600,000

Collaboration, Integration and Sourcing Analysis

In the spring of 2007, the team at Global Data Mining (GDM) was engaged in a project with a large importer that wanted a better solution for analyzing their sourcing data. The importer's idea was to integrate their import data with the data captured by the US International Trade Commission (ITC) on all imports entering the United States.

The theory was to identify high-volume items in which the importer was paying millions of dollars in duties and compare to the ITC data to determine if trade agreements or other preferential treatments could help the company reduce its overall tax burden.

A web-based development session was scheduled with the team from GDM and the importer. In less than 60 minutes, the importer had explained the concept and identified the data sources in order for the team at GDM to design the specifications for this report. Three weeks later, the concept had become a reality.

The new report allowed the importer to quickly identify all high volume classification codes in which it had paid greater than \$500,000 in annual duties. Next to each classification code is the complete history from ITC for all imports into the United States for that same classification of goods. The ITC data also showed the total amount of duty and the duty rate paid by each country.

The importer now has all the information needed to analyze if trade agreements or other preferential treatments exist that can help it reduce its tax obligation on high-volume, high-duty imports.

EXAMPLE: In just one analysis, the company imported more than \$13 million of Harmonized System (HS) code 4411.19.4000 and paid more than \$800,000 in duties or 6 percent.

The ITC data revealed that Canada was the largest shipper of HS code 4411.19.4000 into the United States with more than \$164 million per year but paid only \$260,157 in duties or 0.16 percent. Belgium was the second leading shipper of HS code 4411.19.4000 with \$160 million but paid nearly \$10 million in duties (the full 6 percent.) The next six countries also paid the full 6 percent duty. Brazil, the ninth largest shipper of HS code 4411.19.4000 with \$15 million pays only \$5,484 or 0.04 percent.

CONCLUSION: Integrating a company's data with outside data sources (in this case, ITC data) provides a more complete picture of a company's supply chain in order for decision makers to make informed decisions. In this example, the importer now has a very clear picture that, all other things equal, Canada and Brazil have a significant advantage for US companies interested in importing HS code 4411.19.4000.

FINANCIAL IMPACT: \$12,500,000

Section 7

Taking Action

Following September 11, 2001, the President immediately recognized our national security had changed forever, and that new policies, new organizations and new tools would be required to protect America against terrorism. *He acted.*

Case Studies

Our Case Studies represent recent and well-documented events. We have elected to keep the names of the individuals and their respective companies confidential, with the exception of those who authorized being included in this report.

The following year, Congress recognized that corporate corruption exemplified by the failures of Enron, World Com, and others, required new legislation and reporting requirements in order to protect investors. *They acted.*

These two events have changed forever the responsibility and liability of companies importing merchandise into and exporting merchandise from the United States of America. *Have you taken action?*

- How certain are you that your company has sufficient internal controls within your import/export operations?
- How certain are you of the accuracy and transparency of trade data feeding your financial systems and U.S. Customs and Border Protection (CBP)?
- Does your company have a single person who has direct and regular access to the CEO, COO, and CFO to inform them of logistics and trade related risks and issues?
- Has your company documented internal controls that demonstrate REASONABLE CARE in accordance with the Modernization Act of 1993?
- Does your company meet the rigid standards for internal controls, transparency and accuracy of your international accounting and record keeping set by the SARBANES-OXLEY ACT OF 2002 (SOX)?

If you are an executive for a major corporation, *it is time to act!*

With existing data, current technology and a little resolve, corporations can implement cost-saving operational improvements; design internal controls to effectively manage trade compliance and risk; and free literally millions of dollars from their global supply chain. Improving and optimizing global trade is indeed one of the last business frontiers for corporate process improvement... *now is the time for you to act!*

About the Authors

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Matt Gersper, Founder and President of Global Data Mining, LLC, has more than 20 years of experience optimizing processes and helping customers turn unorganized data into information managers and executives need to improve performance. His vision and expertise have driven successful results in retail, wholesale, trade, logistics and manufacturing sectors. He founded a practice for reengineering and automating business processes for a worldwide leader in recovery auditing. Matt is an enthusiastic contributor to the global trade industry as an author and frequent speaker at industry conferences and events. Mr. Gersper is also an owner of CUSTOMS Info, LLC and director for the International Trade Bureau. Matt obtained his degree in Economics from University of California – Davis.

Randell Carr is President of the International Trade Bureau, LLC. He is an experienced senior manager who has provided financial data analysis and consolidated reporting services to the world's largest companies. Randell speaks English, French and Spanish and has developed an international network of business contacts, living and working in Toronto, Atlanta, Dallas, Brussels, London, Paris, Madrid, Milan and Stockholm. He currently resides in Montreal.

About Global Data Mining

Global Data Mining is the leading authority in providing comprehensive data services to the global trade community. GDM helps companies with high-volume, high-value global trade businesses build effective trade databases, create extensive trade reporting and conduct comprehensive electronic auditing of global trade processes. The data experts at GDM have an intense focus and commitment to the technical levels of knowledge required to automate and control processes in large multi-national corporate systems. GDM helps its clients organize and manage massive amounts of global trade data. Visit us at www.gdmlc.com.

