

Global Sourcing: One Size Does Not Fit All

A discussion with global trade expert Matt Gersper

Global sourcing has long been seen as a way to reduce spending on materials. Yet many organizations do not realize how complex global sourcing can be. In deciding what and where to source globally, organizations should consider many factors that impact the movement of materials from one country to another. Organizations must also remember that the global situation can change, creating the need to regularly revisit sourcing strategies to maintain the best value over time.

In July of 2011, APQC interviewed global trade expert Matt Gersper about the factors that organizations must consider when sourcing globally and the pitfalls they should avoid.

Gersper is president and founder of Global Data Mining (GDM) and co-owner of its sister company CUSTOMS Info (CI). [CI and GDM](#) provide data services on global trade. Gersper has authored articles and papers on the global trade industry and is a frequent speaker at industry conferences and events.

Q. What factors do organizations need to examine when considering global sourcing?

There are multiple factors associated with global sourcing.

- ▶ One is that you want to make sure you have the correct [Harmonized Commodity Description and Coding System](#) (HS) classification and that you're providing all the proper documentation and reasonable care for your classification selection. This is one of the areas that would be a risk if you move from domestic sourcing to global sourcing. You need to document and show reasonable care to the customs authorities.
- ▶ Another is different OGA (other government agency) requirements for imports. There are over 30 different U.S. government agencies that have certain requirements on imports and exports. For example, the [Department of Transportation](#) has a requirement that if you're going to import hazardous material you need to get a permit so they know when it hits our shores and where it's going. If you start sourcing internationally rather than just domestically, you may encounter OGA requirements on your imports that you haven't encountered before.
- ▶ Another factor is longer delivery time. Your imports are coming from a greater distance, so they take longer to get here.
- ▶ You also have to consider that there are three layers of transportation costs and time: foreign transportation to the port, port to port transportation, and domestic transportation from the port. You have to consider all the costs and time involved.
- ▶ Of course there is also foreign customs processing time and possible delays. And if there are delays at the port there are demurrage costs. One of the things to consider is that on

January 1, 2012 the [World Customs Organization](#) will release its [five-year update of the HS](#). This means that there are a whole host of tariff codes that are going to change effective January 1, 2012. If you don't have your codes correct, then you have the potential of being held up at the ports, which of course means time delays, demurrage costs, etc.

- ▶ Another factor is domestic customs processing time. You have two customs you have to deal with: one to get a commodity out of the country you're importing from and one to get it into the country you're importing to.
- ▶ There are also post-entry customs consequences. If you've done something wrong you've got to deal with it.
- ▶ You should also consider the duties, taxes, and fees associated with importation. You should be aware of free trade zones where you could minimize duty expenses. There are other fees: for example, a merchandise processing fee is assessed to every import that comes into the United States, a harbor maintenance fee is assessed if it comes into a seaport. Those types of things will have to be considered as part of the overall landed cost.
- ▶ Most importantly, you should consider the constantly changing variables and trends of the geopolitical world that we are involved in with supply chain. There are so many factors that are involved in the total landed cost decision and they're constantly changing. You can't just come up with one strategy. You have to always be measuring, always looking at the trends to determine where is the right place to be sourcing today.

Q. Do you have any advice for organizations that want to initiate global sourcing?

Use predictive analytics. If you've never done global sourcing, you have to classify your commodities. Classification is an absolute requirement to get merchandise out of one country and to get it into another country. If you're going to source from Taiwan, you have to have the Taiwanese commodity code to get it out of the country and you have to have the U.S. code to get it into the United States. Most countries have some sort of governing customs agency; ours is the [U.S. Customs and Border Protection](#) that sets the classification number and the duty rate for each product. If you're going to get into global sourcing you have to have a mechanism for getting your product classified correctly and kept up to date as tariffs change.

Then you want to look to see where the best places to source are. You can take your company's parts master file and the materials that you're going to be sourcing with the classification codes and the relative values of how much you purchased of those particular products in the previous year. You can take the items and create what we call a basket of goods that you can compare to all U.S. imports. You can compare that basket of goods with all U.S. imports from around the world to see how much was imported and the top 10 source countries. You can look at trends across years. You can take it a step further and predict which countries are going to be the top sources of supply based on each country's year over year growth rate. You can also look at the fastest growing source countries.

You can evaluate a particular commodity and calculate the total cost imported by U.S. importers and the duty rates that were paid. You can also look at a particular commodity and see all the

source countries for that commodity and identify countries that are duty-free. If you look at a basket of goods you can combine the duty rates and give the basket a global duty rate.

The advice is that there's a lot of data out there that can help you predict those countries with the highest sourcing demand and the lowest duties and taxes. There are shipping tables so you can add time and cost to the different countries and you can start making good decisions.

Q. What are the top countries used in global sourcing? What makes them unique?

That depends on the commodities that are involved. There isn't a generic answer—if you're involved in high-tech it might be one way, if you're involved in apparel it might be another way, if you're involved in oil and gas it might be a different set of countries. It really depends on the basket of goods that the business in question is interested in. Also, it's not static. India might be a great place to go in 2011 and it might be the wrong place to go in 2014.

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