

Supply Chain Cost Audit™

By Matt Gersper

Ineffective supply chains are costing U.S. businesses millions of dollars in hidden costs, destroying company profits and eroding global competitiveness. Auditing and improving basic global trade processes helps U.S. CFO's and financial executives identify and recover unnecessary costs in their international and domestic supply chains.

According to a study of 233 enterprises by the AberdeenGroup¹, "A \$1 billion company that imports a third of its goods can *free between \$10 million and \$40 million in cash* by better controlling its basic global trade processes." A separate study by Purdue University² estimates each day saved in supply chain shipping time is worth between 0.5 and 0.8 percent of the cost of goods. In this example, just a one day improvement would be worth an additional \$1.6 to \$2.6 million.

"Stimulus" Money

This chart applies the Aberdeen metrics to estimate potential savings based on company size.

Independent analysis³ of more than \$178 billion in U.S. imports has consistently supported the conclusions reached by the AberdeenGroup.

Company Size	# of Companies	Estimated Imports (1/3 of revenues)	Minimum Savings	Maximum Savings
\$10 to \$49.9 million	122,785	\$6,798,448	\$204,158	\$816,630
\$50 to \$99.9 million	15,895	\$22,980,753	\$690,113	\$2,760,451
\$100 to \$249.9 million	8,732	\$50,775,041	\$1,524,776	\$6,099,104
\$250 to \$499.9 million	2,880	\$116,537,757	\$3,499,632	\$13,998,529
\$500 to \$999.9 million	1,544	\$232,940,424	\$6,995,208	\$27,980,832
\$1 to 2.499 billion	1,056	\$518,424,451	\$15,568,302	\$62,273,207
\$2.5 billion or more	891	\$3,483,961,990	\$104,623,483	\$418,493,933

Applying these metrics to the \$1.9 trillion in U.S. imports⁴ would create an annual cash infusion into U.S. businesses of between \$67 billion and \$247 billion if every U.S. business improved its global trade processes and supply chain speed. Imagine the impact this would have on U.S. jobs and in strengthening our economy. The total funds for the American Recovery and Reinvestment Act of 2009⁵ awarded from February 17, 2009 through December 31, 2009 was only \$183 billion? And only \$54 billion have actually been received. I call on financial executives to provide leadership, take action and compete their way out of this recession using data and technology to light the way.

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Analyze Your Business

The Supply Chain Cost Audit™ helps U.S. businesses quantify hidden and unnecessary costs in their U.S. import operations. In addition, auditing top-tier domestic suppliers using the same analytics helps identify unnecessary costs buried in a company's cost-of-goods, improves company profits, and strengthens the U.S. economy one business at a time.

¹ AberdeenGroup, The CFO's Agenda for Global Trade Benchmark Report, *How Companies Control Global Sourcing and Selling to Improve Cash Flow and Profitability*, September 2005

² Purdue University, *Time as a Trade Barrier*, July, 2001

³ http://www.gdmlc.com/webinars/30/Data_Mining_help_Financial_Executives.pdf, statistics updated May 6, 2010

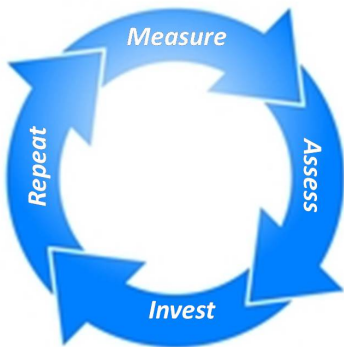
⁴ http://useconomy.about.com/od/tradepolicy/p/Trade_Deficit.htm

⁵ <http://www.recovery.gov/Pages/home.aspx>

Business Intelligence Identifies Cost Cutting CFO's Have Yet To Discover

U.S. importers can obtain Importer Trade Activity (ITRAC) data of their company's import transactions with minimal cost and effort⁶. This data is used to provide comprehensive analytics⁷ of financial opportunities in a company's U.S. import operations. These reports provide powerful visibility and a deep view into financial opportunities from optimizing trade agreement management, sourcing opportunities, foreign trade zone opportunities, and supply chain finance strategies.

Rigorous analysis of a company's U.S. import data enables its leaders to conduct a comprehensive and sober assessment. Reports identify critical areas of financial opportunity and help executives assess each opportunity by defining the baseline, setting expectations for improvement, and creating the return on investment (ROI) justification to fund a project.



Proven Model

The Supply Chain Cost Audit™ follows a proven model of business process optimization. First apply the model to a company's U.S. import operations. Then use it to audit domestic suppliers to identify unnecessary and hidden supply chain costs.

1. *Measure*: acquire company's import data & apply best-in-class global trade analytics
2. *Assess*: examine report details, draw conclusions & quantify opportunities⁸
3. *Invest*: approve projects and funds teams
4. *Repeat*: measure results, continue process until diminishing returns

Audit Your Suppliers

With the concept proven and successfully implemented for U.S. import operations, the program should be expanded to the company's top-tier domestic suppliers. A U.S. retail executive recently revealed that nearly 90 percent of the imported goods in his stores were purchased from domestic suppliers. Just imagine the unnecessary supply chain costs that may be buried in the cost-of-goods for his company.

Many companies have "supplier programs" aimed at reducing its cost-of-goods. The Supply Chain Cost Audit™ can be integrated into such programs or can stand alone.

A company's domestic suppliers can be educated through papers such as this one, written policies, supplier workshops and webinars. The goal is to have every top-tier domestic supplier follow the proven model of business process optimization: analyze its ITRAC data, identify unnecessary supply chain costs, optimize trade agreement management, sourcing opportunities, foreign trade zone opportunities, and supply chain finance strategies—and reduce its cost-of-goods.

Supply Chain Cost Audit™		
Financial Analytics	Potential Savings	
	\$10,396,761	
Annual Summary	\$787,383	7.57%
Ex Dett. for MID, HTS SPI	\$269,811	2.60%
Potential Sourcing Savings	\$2,199,548	21.16%
FTZ Analysis	\$1,558,202	14.99%
Cash Discount	\$1,895,667	18.23%
Sourcing Opportunities	\$650,664	6.26%
Competitive Trade Benchmark	\$2,560,005	24.62%
ACE Periodic Monthly Statement	\$153,363	1.48%
Estimated Self Filing	\$322,118	3.10%

⁶ Free ITRAC request form: <http://www.gdmlc.com/FOIA/info.html>

⁷ Xtreme Trade Intelligence™ Reports: <http://www.gdmlc.com/XTI/sample/Order.aspx>

⁸ Visibility & Control Solutions™ by GDM

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After education comes implementation. During the implementation phase, each domestic supplier follows the same four steps of the *Proven Model* listed above: measure, assess, invest and repeat. Each supplier should be encouraged to report its results so progress can be measured and expectations for cost reductions can be set. It is important to note that cost reductions are achieved by eliminating unnecessary costs, *not* by cutting into the profits of suppliers. In fact, a strong case can be made for sharing the savings. The Supply Chain Cost Audit™ is a process improvement program that strengthens both the supplier and the customer by optimizing supply chains, returning millions of dollars hidden costs, increasing the global competitiveness of U.S. businesses and creating U.S. jobs.

Xtreme Trade Intelligence™ Reports by GDM

1. Annual Summary: Summary by year of entries, value and duties compared to the general duty rate.
2. Exception Detail for MID,HTS,SPI: Exception report showing instances of items with the same MID & HTS receiving different Special Preference Treatment.
3. Potential Sourcing Savings: Exception report showing all suppliers of a given HTS along with the SPI treatment for each supplier.
4. FTZ Analysis: Comparison of broker fees, manufacturing processing fees and cost of inventory for the previous 12 months to what the costs would have been if a Foreign Trade Zone had been in place.
5. Cash Discount: Analysis of the application of a 2% early payment discount to total purchases from a given supplier
6. Sourcing Opportunities: The potential from alternative sourcing opportunities is demonstrated by calculating the duty savings that could be realized by importing from other countries with lower duty rates, based on the global availability for a given HTS.
7. Competitive Trade Benchmark: Comparison of the average duty paid for a given HTS to the average duty paid on all imports of that same HTS.
8. ACE Periodic Monthly Statement: Analysis of the effect of deferred payment terms based on a 6% annualized cost of money when duty payments are made monthly instead of daily.
9. Estimated Self Filing: Comparison of historical broker fees and entries to estimated broker fees and entries in a self-filing environment.

If you have an interest in a demonstration of the Supply Chain Cost Audit™ program just let us know via email.

Please send questions or comments to mattgersper@gdmlc.com.

Matt Gersper, founder and president of Global Data Mining (www.gdmlc.com) and co-owner of CUSTOMS Info (www.customsinfo.com), has over 20 years of experience turning unorganized and underutilized data into corporate assets managers and executives use to improve bottom-line performance.