

# Trade Optimization Hits Mark for CFO's Top 2010 Concerns

*How to Compete Out of this Recession through Business Process Excellence*

By Matt Gersper

New government regulations and ineffective supply chains are costing U.S. businesses millions of dollars in unnecessary fees and expenses, destroying company profits and eroding global competitiveness. Understanding risk factors associated with international business transactions can help companies estimate the financial impact these risks may have on their business and provide a framework for fixing the problems and restoring lost profits.

## Draining the Supply Chain

For financial executives the impact of supply chain risks, trade policies and regulations is a major concern. A recent study<sup>1</sup> concluded international trade effectiveness and “hanging on” to the company’s hard-earned cash are top concerns for CFO’s in 2010.

There are four main risk factors adding unnecessary costs to international transactions every day:

1. Government regulations
2. Delays in the supply chain
3. Inadequate internal and external controls
4. Inaccurate or obsolete information

| TOP EXTERNAL CONCERNS   |                                 | TOP INTERNAL CONCERNS   |  |
|-------------------------|---------------------------------|-------------------------|--|
| RANK (previous quarter) |                                 | RANK (previous quarter) |  |
| UNITED STATES           |                                 | UNITED STATES           |  |
| 1 (1)                   | Consumer demand                 | 1 (1)                   | Ability to forecast results              |
| 2 (2)                   | Credit markets/ interest rates  | 2 (NR)                  | Working capital management               |
| 3 (4)                   | New administration and Congress | 3 (2)                   | Maintaining morale during downturn       |
| 4 (3)                   | Housing market fallout          | 4 (3)                   | Balance sheet weakness                   |
| 5 (5)                   | Financial regulation            | 5 (4)                   | Cost of health care                      |
| 6 (6)                   | Currency volatility             | 6 (5)                   | Attracting/retaining qualified employees |
| 7 (7)                   | Cost of non-fuel commodities    | 7 (6)                   | Supply chain risk                        |
| 8 (8)                   | Cost of fuel                    | 8 (7)                   | Managing IT systems                      |
| 9 (NR)                  | Trade policies and agreements   | 9 (8)                   | Pension obligations                      |
| 10 (9)                  | Foreign competition             | 10 (9)                  | Intellectual property protection         |

▲ Increased ▼ Decreased ▬ Same \* New to top ten NR-not ranked  
\* Excluding China  
SOURCE: BUSINESS OUTLOOK SURVEY BY CFO EUROPE, TILBURG UNIVERSITY AND DUKE UNIVERSITY

A study<sup>2</sup> by APQC and Global Data Mining revealed a typical U.S. bound international supply chain performs perfectly less than 10 percent of the time, internal controls for cross-border transactions are 200-times worse than a company’s accounting controls, and a McKinsey study<sup>3</sup> estimates cross-border volume will be increasing seven-fold in the next 15 years. These conditions create chaos in many supply chains causing delayed shipments, adding millions of dollars of unnecessary costs, and create unknown risks for companies.



## Stop the Bleeding

Optimizing global trade effectiveness and improving supply chain speed can inject trillions of dollars into the national economy this decade. That translates into billions of dollars for states and millions of dollars annually for U.S. businesses.

It is time for business executives to quantify unnecessary trade costs, understand the significant financial opportunities available by optimizing global trade business processes, and take action to return these costs to the company’s bottom line.

<sup>1</sup> Source: Business Outlook Survey by CFO Europe, Tilburg University and Duke University

<sup>2</sup> Global Trade Metrics Study Reveals Opportunity for Dramatic Gains by APQC & Global Data Mining

<sup>3</sup> [www.trademerit.com](http://www.trademerit.com) (Retrieved July 2007), Global Trade to 70 trillion

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According to an AberdeenGroup study<sup>4</sup> of 233 enterprises, "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." The specific areas recommended for improvement are: trade agreement management, sourcing opportunities, foreign trade zone utilization, and supply chain finance strategies.

This chart applies the Aberdeen metrics to estimate unnecessary costs based on company size.

## Poor Controls

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

Independent analysis<sup>5</sup> by Global Data Mining of more than \$178 billion in U.S. imports has consistently supported the conclusions reached by the AberdeenGroup.

Applying the Aberdeen metrics to the \$1.9 trillion in annual U.S. imports<sup>6</sup> would create an annual cash infusion into U.S. businesses of between \$58 and \$232 billion. Imagine the impact this would have on U.S. jobs and in strengthening the economy. In comparison, the total funds for the American Recovery and Reinvestment Act of 2009<sup>7</sup> awarded in 2009 was only \$183 billion. And only \$54 billion was actually paid out.

## Regulations

### Importer Security Filing

| ISF penalties |                 |               |                  |
|---------------|-----------------|---------------|------------------|
|               | Import Value    | Ocean Entries | Potential Risk * |
| Company 1     | \$2,784,000,000 | 10,969        | \$9,140,000      |
| Company 2     | \$1,076,000,000 | 39,111        | \$32,592,000     |
| Company 3     | \$806,000,000   | 5,541         | \$4,617,000      |
| Company 4     | \$104,000,000   | 1,306         | \$1,088,000      |
| Company 5     | \$83,000,000    | 869           | \$724,000        |

\* 2 months of penalties (Jul 1 thru Aug 30, 2010)

### Big Brother

The new Importer Security Filing regulation commonly referred to as 10+2, gives the U.S. government additional powers to confiscate a company's cash<sup>8</sup>. Customs and Border Protection's (CBP) recent publication, "Trade Strategy for Fiscal Years 2009-2013," should be a wakeup call for every CFO. Astonishingly, the CBP report lists "Enforce U.S. Trade Laws and Collect Accurate Revenue" as its number two strategic goal ahead of "Advance National and Economic Security."

This chart shows penalties that could be incurred in just the first 60 days of the ISF penalty phase beginning July, 2010 based on company size. Penalties of this magnitude could have a devastating impact on any business.

In **Q3-10**, CBP will begin to issue fines for non-compliance and there will likely be more frequent holds on shipments for non-compliance.

<sup>4</sup> 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

<sup>5</sup> [http://www.gdmlc.com/webinars/30/Data\\_Mining\\_help\\_Financial\\_Executives.pdf](http://www.gdmlc.com/webinars/30/Data_Mining_help_Financial_Executives.pdf), statistics updated May 6, 2010

<sup>6</sup> [http://useconomy.about.com/od/tradepolicy/p/Trade\\_Deficit.htm](http://useconomy.about.com/od/tradepolicy/p/Trade_Deficit.htm)

<sup>7</sup> <http://www.recovery.gov/Pages/home.aspx>

<sup>8</sup>

<http://www.gdmlc.com/Webinars/30/Fines%20and%20Delays%20could%20hit%20US%20Importers%20Hard%20in%202010%20v05.pdf>

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Another important study<sup>9</sup> by the National Association of Manufacturers estimates the ISF regulation will create a permanent 2.8 day delay in supply chain speed.

This chart applies the cost model of supply chain delays from a Purdue University study<sup>10</sup> and estimates the annual financial impact that would be incurred from the 2.8 day permanent delay based on company size.

If the entire nation suffered the 2.8 day delay, it would be the equivalent of a \$27 billion to \$43 billion tax on U.S. businesses. This is bad policy in the midst of a challenging recession.

## Regulations

NAM + Purdue

**\$1.9 Trillion**  
**\$27-\$43 billion**



**2.8 days**  
(National Assoc. Manufacturers)

| Company Size             | Estimated Imports<br>(1/3 of revenues) | Minimum<br>Costs | Maximum<br>Costs |
|--------------------------|--|------------------|------------------|
| \$10 to \$49.9 million   | \$6,798,448                            | \$95,178         | \$152,285        |
| \$50 to \$99.9 million   | \$22,980,753                           | \$321,731        | \$514,769        |
| \$100 to \$249.9 million | \$50,775,041                           | \$710,851        | \$1,137,361      |
| \$250 to \$499.9 million | \$116,537,757                          | \$1,631,529      | \$2,610,446      |
| \$500 to \$999.9 million | \$232,940,424                          | \$3,261,166      | \$5,217,866      |
| \$1 to 2.499 billion     | \$518,424,451                          | \$7,257,942      | \$11,612,708     |
| \$2.5 billion or more    | \$3,483,961,990                        | \$48,775,468     | \$78,040,749     |

*"To put the cost in perspective, it is virtually the equivalent of doubling the import tariffs that manufacturers now pay to bring products and components into the United States."*

John Engler, president National Association of Manufacturers

To make matters worse, a recent study<sup>11</sup> by PricewaterhouseCoopers found that supply chain disruptions destroy shareholder value and corporate profitability. The study showed the market is quick to punish companies that report supply chain disruptions. On average, affected companies' share prices dropped nine percent below the benchmark group during the two-day announcement period.

Compared to benchmark stocks, more than half of the affected companies experienced greater volatility for at least two years, certainly a sign of diminished confidence among share holders.

## Bad Information

McKinsey



|                  | Preferred location |        |
|------------------|--------------------|--------|
|                  | 2003               | 2008   |
| High End Server  | China              | China  |
| Ethernet Switch  | China              | Mexico |
| Mid Range Server | China              | Mexico |
| Assembled TV     | Mexico             | USA    |
| Mid Range Copier | Mexico             | USA    |

McKinsey<sup>12</sup> recently analyzed goods manufactured for consumption in the U.S. market and mapped them to the optimal region to manufacture them in 2003 and then again in 2008. They compared China (as an offshore example), Mexico (as a near shore example) and the U.S. Surprisingly, in just five years, the best place to manufacture TVs and office copiers shifted from Mexico to the U.S. Financial executives must maintain agile, frequently updated strategies to optimize the constantly changing variables associated with international trade.

<sup>9</sup> Survey of U.S. Companies: Current and Potential Future Impact of the "10+2" Requirements

<sup>10</sup> <http://www.unc.edu/depts/econ/seminars/hummels.pdf>

<sup>11</sup> Supply chain disruptions destroy shareholder value and corporate profitability

<sup>12</sup> McKinsey on Business, Time to rethink offshoring.

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"We can compete our way out of this recession through business process excellence."

Matt Gersper  
President, Global Data Mining

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## **Conclusion**

Poor controls, government interference and regulations, supply chain disruptions and bad information negatively impact the bottom line. Companies cannot effectively compete on the global stage with outrageous supply chain costs, fines and market-based penalties of this magnitude. Financial executives must stop the money drain by identifying hidden and unnecessary costs and then take action to optimize business processes and return those costs to the company's bottom-line.

In Global Data Mining's free on-demand webinar you'll be presented a framework to help financial executives fix problems, hang on to more of their company's cash, and strengthen their company's competitiveness on the global stage. Don't miss this one. Millions of dollars may be at stake.

**What:** Trade Optimization Hits Mark for CFO's Top 2010 Concerns

**When:** On-demand. View the recorded webinar on your timeline.

**Where:** Online: register by visiting <https://www1.gotomeeting.com/register/747604248>

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*Matt Gersper ([mattgersper@gdmlc.com](mailto:mattgersper@gdmlc.com)), founder and president of Global Data Mining and co-owner of CUSTOMS Info, has over 20 years of experience optimizing processes and helping customers turn unorganized data into information that managers and executives can leverage to improve performance.*

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*CUSTOMS Info and Global Data Mining (CI/GDM) provide enterprise solutions to help businesses optimize Global Trade Management (GTM) systems and streamline global trade automation.*

*CUSTOMS Info provides the World's most comprehensive trade data repository delivered via web-based subscription or as data to populate any GTM or Landed Cost application. Global Data Mining builds state-of-the-art parts master classification databases to support automation projects and reporting requirements utilizing the proprietary Global Trade Desktop™—a secure, collaborative web-enabled data management system for all trading partners across the globe.*

*No other company focuses more on trade data, HTS classification support and landed cost services than CI/GDM—serving nearly 1000 companies worldwide with our fastest growing segment specializing in international ecommerce automation.*

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