

Trade Optimization: Vital in Eliminating Chaos in Global Supply Chains

What every CFO should know about global trade

By Matt Gersper and Dave Merritt

Government regulations and ineffective supply chains are costing industry 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 problems and restoring lost profits.

CFO Concerns

For financial executives, the impact of supply chain risks, trade policies and regulations are major concerns. A study¹ concluded international trade effectiveness and “hanging on” to the company’s hard-earned cash are top concerns for CFOs. Six of the top 20 concerns listed by CFOs are related to or impacted by international trade effectiveness.

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



A study² by APQC and Global Data Mining revealed a typical U.S. bound international supply chain performs perfectly less than 10 percent of the time, and estimated that internal controls for cross-border transactions are 200 times worse than a company’s accounting controls. A McKinsey study³ estimates cross-border volume will be increasing fourfold in the next 14 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.



Though these studies relate to the U.S. importer there is no evidence to contradict that other geographies are incurring the same delays and unnecessary costs. The European Union (EU), which is strongly aligned with U.S. supply chain criteria, is therefore equally at risk when trading outside its borders.

Stop the Bleeding

Optimizing global trade effectiveness and improving supply chain speed can inject trillions of dollars into national economies - billions of dollars for states/countries and millions of dollars annually for businesses.

¹ Source: Business Outlook Survey by CFO Europe, Tilburg University and Duke University

² Global Trade Metrics Study Reveals Opportunity for Dramatic Gains by APQC & Global Data Mining

³ www.trademerritt.com (Retrieved July 2007), Global Trade to 70 trillion

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It is time for business executives to measure 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.

According to an Aberdeen Group study⁴ 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.

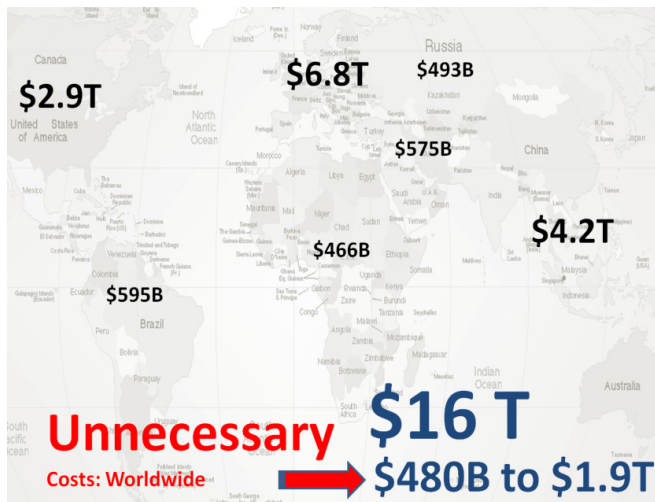
This chart applies the Aberdeen metrics to estimate unnecessary costs based on company size.

Poor Controls

Company Size	Estimated Imports (1/3 of revenues)	Minimum Costs	Maximum 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 data analysis⁵ by Global Data Mining of more than \$181 billion in U.S. imports has consistently supported the conclusions reached by the Aberdeen Group.

Applying the Aberdeen metrics to the \$16 trillion in yearly global imports would create an annual industry cash infusion between \$480 billion and \$1.9 trillion. Imagine the impact this would have on worldwide job creation and in strengthening the global economy. Europe stands to gain the most as it leads the world in imports with nearly \$7 trillion annually, but every region could create significant opportunities for its businesses and people.



A study⁶ 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, a sign of diminished confidence among share holders.

⁴ Aberdeen Group, The CFO's Agenda for Global Trade Benchmark Report, *How Companies Control Global Sourcing and Selling to Improve Cash Flow and Profitability*, September 2005

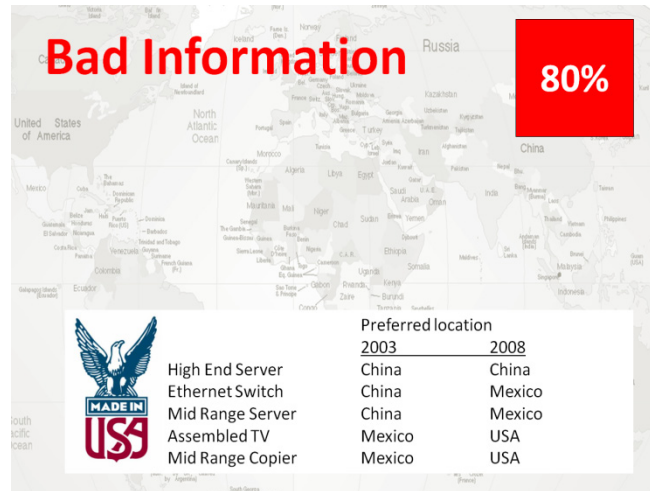
⁵ http://www.gdmlc.com/webinars/30/Data_Mining_help_Financial_Executives.pdf, statistics updated May 6, 2010

⁶ Supply chain disruptions destroy shareholder value and corporate profitability

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McKinsey⁷ recently analyzed goods manufactured for U.S. consumption 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 optimal country to manufacture four of the five commodities changed, an 80 percent shift. Financial executives must maintain agile, frequently updated strategies to optimize the constantly changing variables associated with international trade.



Cross Border and Supply Chain Analysis

In applying the results of the surveys and analysis completed on business peer groups and supply chains: how does a business establish a global picture of its own business regulatory requirements and cross border activities? Is the compliance policy and business process best-in-class to mitigate risk and identify gaps? The path to the realisation of a company's supply chain savings is to know the how, where, when and who. Assessments and audits of the entire supply chain, or in selected areas of pain, are crucial steps to achieving the goal of "eliminating chaos" and harvesting rewards.

To illustrate how large this opportunity may be, consider a multinational, \$5 billion company. In reviewing its annual report, we were able to estimate potential savings of between \$58 million and \$235 million annually through basic process improvement in the areas of trade agreement management, sourcing opportunities, foreign trade zone utilization, and supply chain finance strategies – that is enough to improve the company's enterprise-wide gross margin between 100 and 400 basis points and achieve a major corporate goal set by the CEO.



Conclusion

Poor business process controls, government interference and regulations, supply chain disruptions and obsolete information negatively impact the bottom line. Companies cannot effectively compete on the global stage with unnecessary supply chain costs, out-dated strategies, fines and market-based penalties eroding profits. Financial executives must stop the money drain by identifying hidden, needless and preventable costs and then take action to optimize business processes and return those costs to the company's bottom-line.

⁷ McKinsey on Business, Time to rethink offshoring.

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

What: Trade Optimization is Critical for CFO's
When: Thurs, Apr 21, 2011 9:00 AM - 10:00 AM EDT
Where: Online: <https://www1.gotomeeting.com/register/983860857>

Matt Gersper (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.

Dave Merritt (david.g.merritt@jpmorgan.com) is practice leader for the EMEA Trade Management Consulting team at J.P. Morgan., who has more than 40 years of international trade compliance experience. Dave designs, implements and evaluates compliance policies for both business and is currently actively involved the implementation and effects of the Modernised Community Customs Code within the EU.

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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