

An American Perspective on Global Trade Opportunities in Challenging Economic Times

BY MATT GERSPER

Before searching for answers to the question of how to respond to the current economic crisis, it is important to recognize the “crisis” for what it is. We are likely in the trough of a business cycle. Business cycles are normal occurrences and down-cycles, like we are in now serve the useful purpose of exposing weaknesses in industries, businesses and business processes. Poor business models and processes, and other hidden costs are often unnoticed, overlooked or even ignored during periods of economic prosperity or up-cycles. Inadequate global trade processes can be exposed by any executive looking for answers

Down-cycles such as the one we are in now inevitably lead to reassessment and often the elimination of inefficient enterprises, organizations and functional groups as scarce resources are transferred from less productive uses to more productive uses. Down-cycle capital must be carefully targeted in those areas where it can get the biggest bang for the buck. How one reacts in a down-cycle can determine whether a business or business unit emerges stronger and prepared to maximize the up-cycle opportunities that lie ahead or is crushed from the weight of the down-cycle itself.

DOWN CYCLES EXPOSE WEAKNESS FOR COMPANIES

In the face of increasing government regulations, and with logistics expenditures rising from an already staggering 9.9 percent of U.S. GDP, only 7 percent of executives are fully satisfied with their global trade programs.¹ An executive taking a critical look at his or her global supply chain operations will likely see many of the following weaknesses as causes of such dissatisfaction.

The Accounting Comparison

Most major companies have tight internal controls, sophisticated technology, and well-defined and well-managed organizations overseeing its accounting processes. In fact, companies 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 1 percent.²

However, executives may be surprised to learn that error rates associated with global trade processes are typically 10 to 20 percent and sometimes even higher.

Supply Chain Performance

A more comprehensive set of measurement tools, in the estimation of the data services firm Global Data Mining (GDM) and nonprofit research organization APQC, could reveal that as many as 90 percent of all international shipments have mismanaged handoffs that slow the transaction and add hidden costs to the importing company.³

A June 2007 article by Global Economy magazine reported that “in the first quarter of 2007, only 47% of container vessels globally arrived at the ports on time, the lowest level on record.”⁴

Beth Peterson, President of BPE, Inc., a trade consulting firm, presented a series of graphs in a March 2008 webinar, “Become the person your CFO relies on to strategically improve global trade.”⁵ Her presentation and comments sought to measure various aspects of global trade operations and referenced two different industry surveys:

- 1) American Association of Exporters & Importers (AAEI) Export Benchmark Survey,
- 2) BPE Global Trade Management Benchmark Survey.

The following are some of the results presented during the webinar that may help some ineffective global trade processes:

Under-represented

Global trade operations are often under-represented in the corporation. Nearly 80 percent of export personnel titles in the AAEI Export Benchmark Survey were at “manager” or below.

Under-staffed

Global trade operations are often inadequately staffed. More than 60 percent of companies in the BPE Global Trade Management Benchmark Survey reported having 15 or fewer staff in their global trade operations.

Overworked

Global trade operations are often overworked. Trade professionals complain that they are constantly being asked to do more with less. Sixty-four percent of respondents in the AAEI Export Benchmark Survey reported having responsibility for both import and export operations.

Underfunded

Global trade operations are often underfunded. The BPE Global Trade Management Benchmark Survey reported that less than 20 percent of companies have an automated global trade process. Seventy-five percent of all companies reported having a manual, or mixed (partially manual and partial automated) global trade process.

Outsourcing

Many companies have outsourced stewardship in the areas of trade finance, brokering and other third party trade services and have failed to invest adequate resources or oversight in managing these important functions.

Lack of Data

Inadequate transparency, incomplete information and lack of metrics have left executives in the dark regarding the magnitude of the problems (and opportunities) in international trade.

Autonomy and Silos

Additional weaknesses in the global supply chain can be attributed to the autonomous nature of the process. Stakeholders (importer, suppliers, transportation companies, customs agencies, customs brokers, freight forwarders, etc.) often act independently, with separate and incomplete information. Stakeholder decisions are motivated by self-interest. They cannot see other stakeholder data and therefore cannot make decisions in the context of the entire transaction. Adding to this primary problem are other communication failures: lack of importer-set standards and expectations, cultural differences, industry jargon, etc.

Executive Leadership

Finally, 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 import and export declarations, and inaccurate financials – all of which can put you at serious risk, and your company at a competitive disadvantage.

While there are many causes of inefficient supply chains, there is only one result: It is costing corporations millions of dollars in hidden costs and negatively impacting company profits.

In up-cycles or time of prosperity, these hidden costs are often unnoticed, overlooked or even ignored as they are masked by high profits and successes in other areas. In difficult and challenging times, these hidden costs can become unbearable.

DOWN CYCLES CREATE INCREASED GOVERNMENT OVERSIGHT & PENALTIES

The United States is also experiencing a revenue down-cycle and its response should be a concern to all companies involved in global trade.

U.S. Customs and Border Protection's (CBP) recently published "Trade Strategy for Fiscal Years 2009-2013" makes clear just how important revenue collection has become to the U.S. government.⁶ CBP's report lists "Enforce US Trade Laws and Collect Accurate Revenue" as its No. 2 strategic

goal ahead of "Advance National and Economic Security."

Technology has also played a role in the U.S. government's ability to target and penalize violators. CBP has been investing in increasingly sophisticated systems. One trade executive at an April 2008 KPMG LLP sponsored meeting said, "I'm amazed at how they can pull our data and hit the one weak point out of everything we have. Companies often believe the government [is] behind in technology, but they are not."⁷

THE LAST FRONTIER OF CORPORATE PROCESS IMPROVEMENT

Direct observation on many projects over the past four years has revealed that global trade processes remain woefully inadequate and error rates are staggeringly high. As a result, many global supply chains are prime opportunities for fast and significant ROI.

Global trade remains one of the last frontiers where upgrading and optimizing business systems, and taking full advantage of trade policies and programs, can create very significant financial and operational gains.

A September 2005, CFO's Agenda for Global Trade Benchmark Report concluded that a company importing between \$300 million and \$400 million could be squandering \$10 million to \$40 million in cash due to poor global trade processes."⁸

In the spring of 2007, Global Data Mining teamed up with Beth Enslow, who was then working as an industry analyst for the Aberdeen Group, to conduct a series of data analysis projects to support a presentation for the International Compliance Professionals Association (ICPA). Five ICPA members, all employees of Fortune 500 companies, volunteered their import trade data for the project. The result revealed more than \$558 million in potential savings in specific areas such as trade agreement management, sourcing opportunities, Foreign Trade Zones (FTZ) analysis, and supply chain finance strategies.

There is clear evidence that companies can invest in targeted global trade process optimization projects to reduce supply chain uncertainties such as delayed or incomplete shipments, freight expediting expenses, unexpected customs fees or fines, and foreign currency fluctuations and create fast and significant ROI.

Continued on page 17

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Continued from page 15

Notwithstanding the current economic slowdown it is expected that world trade volume will continue to grow at a rapid pace. Total international trade grew from \$3 trillion in 1990 to \$10 trillion in 2006. The consulting firm McKenzie & Company has estimated international trade will reach \$70 trillion by 2025.⁹

REACT WITH URGENCY

Challenging down-cycles require executives to make more informed and superior decisions because the margin of error is small. It is therefore critical to conduct a comprehensive and sober assessment of the business to identify functions that should be scaled back or eliminated, those that should be more vigorously invested in, and perhaps new ones that should be developed to respond to current conditions.

A comprehensive and sober assessment of the business requires complete and accurate business data. Executives striving to make superior decisions must demand information. Doing so can help them save their departments from budget restrictions, down-sizing or even elimination.

DELIVERING CORPORATE IMPACT

The following section presents real-life case studies that illustrate the benefits of using a process improvement model and the significant rewards that can be gained by implementing this process.

Example 1: Trade Database contributes \$5 million annually

Consider the Item Master File; the foundation of any effective procurement, inventory and accounts payable system. The Item Master file contains 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 2: 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.

Continued on page 19

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Continued from page 17

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 3: Collaboration, Integration and Sourcing Analysis

In 2007, the team at Global Data Mining was engaged in a project with a large importer seeking a better solution for analyzing their sourcing data. The importer's idea was to integrate their import data with the data captured by the United States 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 it to the ITC data to determine if trade agreements or other preferential treatments could help the company reduce its overall import duty burden.

The importer quickly identified all high volume classification codes in which it had paid greater than \$500,000 in annual duties. Next to each classification code was 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 had 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.

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. Utilizing the ITC data, an analysis of the top 9 shippers of this item revealed that import duties could have been as low as 0.04 percent, if the importer had sourced from a different country.

Meeting the challenges of this down-cycle will require informed and targeted investment. If your company is sourcing or selling on the world stage, investing in projects like the examples above can not only help you survive in 2009, but strive

in the years to follow. Strategic investment in sophisticated international trade knowledge and reengineering global trade processes using modern tools of automation will increase supply chain speed and increase company profits. ■

Matt Gersper is the President of Global Data Mining, LLC.

¹ Byrne, Patrick M. "Cross-border trade: Redefining high performance." Logistics Management. V44n3 pp:25-27, March 2005,

² Creating a Competitive Advantage in Global Trade, Leveraging the power of data to free millions of dollars

trapped in your global supply chain. By Matt Gersper, Global Data Mining, LLC & Randell Carr, International Trade Bureau

³ Global Trade Metrics Study Reveals Opportunity for Dramatic Gains

⁴ Global Economy, June 2007

⁵ Webinar: Become the person your CFO relies on to strategically improve global trade, March, 2008, Co-hosted by Global Data Mining, CUSTOMS Info, and BPE

⁶ http://www.customs.gov/linkhandler/cgov/trade/trade_outreach/trade_strategy/cbp_trade_strategy.ctt/cbp_trade_strategy.pdf

⁷ KPMG Effectively Managing Global Trade-Whitepaper

⁸ The CFO's Agenda for Global Trade Benchmark Report


⁹ Creating a Competitive Advantage in Global Trade, Leveraging the power of data to free millions of dollars trapped in your global supply chain. By Matt Gersper, Global Data Mining, LLC & Randell Carr, International Trade Bureau

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