American Shipper

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Import Operations and Compliance Benchmark Study: Two Worlds Collide

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Executive Summary

American Shipper and BPE Global designed this year's study to provide readers with a deeper understanding of the trends and issues impacting U.S. import operations and compliance managers.

In late March and early April 2013, 343 qualified respondents participated in a 31-question benchmarking survey covering organizational structure, training, responsibilities, operations processes, costs, technology, and more.

The following study results are shown in an aggregate form and segmented to draw meaningful comparisons within the industry and ultimately call out actionable best practices.

A key item of note is that this study exclusively looks at issues related to importing goods into the United States. While many findings in this study are global in nature, trade issues, regulations, and compliance vary from country to country, and these issues should be looked at individually when considering other origin and destination pairs.

Convergence

The working theory for this year's report was that shippers would see the need, loud and clear, that integrating their import compliance and operations functions and processes would help them better leverage resources and investment in technology, leading to more efficiencies. While shippers may see the need, the reality, however, is that there's little to suggest that this shift has yet taken place. Two-thirds of shipper respondents to the study admit they still use manual or spreadsheet-based processes for import operations and compliance. Without that first basic step of automating these critical elements of the import process, true integration isn't even possible.

From a technology perspective, more than 60 percent of shippers have no plans to integrate their GTM and TMS functions or only have it, at best, in their five-year plan. This indicates further that a blending of operations and compliance is not a priority for the majority of shippers. Even those that have indicated they have already merged their systems may in fact be overstating that integration.

Technology

Systems-based shippers are clearly more efficient than their manual counterparts in certain areas, like their ability to process shipments. It's why this report has consistently advocated for investment in import process technology. This year's report highlighted that efficiency gap clearly. Systems-based shippers process more than three times the number of entries than manual shippers, yet require only twice the full-time equivalent employees that manual shippers do. That efficiency enables systems-based shippers to maintain more complex import supply chains. On average, they import from 62 percent more countries of origin, and answer to nearly 40 percent more regulatory agencies.

Yet less than one-third of shippers are satisfied with their current setup. The barrier to investment in import IT is largely one of cost, or lack of ROI, or an inability to communicate the importance of automating the compliance and transportation processes.

Alternatively, companies see cost reduction as the No. 1 reason to invest in systems. From a compliance standpoint, it's heartening to see that risk management and documentation accuracy are also key drivers. On the whole, though, large companies see the opportunity for cost reduction and increased productivity, putting them at an advantage over smaller shippers and those that don't invest in systems.

Filing and accuracy

There seems to be little variance between shippers large or small, systems-based or not, in terms of customs filing accuracy and timeliness. But the positive news is that most respondents place an emphasis on these aspects of their import process. Regardless of the type of shipper, a 90 percent or higher accuracy rate was consistent among 85 percent of respondents, and a timeliness rate of 90 percent or better was reported among no less than 84 percent of respondents.

Based on audits, 84 percent of respondents had a filings accuracy rate of 90 percent or better, and 63 percent achieved a rate of 95 percent or higher. Only 2 percent had rates lower than 70 percent—a threshold under which U.S. Customs and Border Protection may deem unacceptable.

There remains, however, a small subset of shippers that don't audit at all—7 percent in this year's report. A failure to audit at all makes a shipper exceedingly vulnerable to fines and delays.

Executive Summary

C-TPAT/ISA disappointment

This year's report attempted to gain a view into how beneficial trade facilitation programs like C-TPAT and ISA are for importers. The short answer: they aren't as beneficial as the majority of importers would like them to be.

Sixty percent of shippers said they are uncertain of the benefits of C-TPAT participation, see less benefit than anticipated, or no benefit at all. Just 11 percent said the program has delivered all that it promised. What's more, there's little differentiation between winners and shippers as a whole, suggesting there's consensus that C-TPAT is largely not delivering the benefits shippers expect. It should be noted that companies have to participate in C-TPAT to be eligible for ISA.

On the ISA side of things, the picture is worse. A third of respondents say they derive no benefit from the program, and nearly one half say they are uncertain of its benefits. Winners were far more likely than all shippers to see ISA as having delivered the promised benefits, but this is little consolation. Only one in five winners is satisfied with those benefits.

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STUDY BACKGROUND

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TERMINOLOGY

This study makes use of several industry terms and acronyms that you may or may not be familiar with. These definitions and explanations should be kept in mind when going over the results and trends that follow.

Full Time Equivalent (FTE)—The number of working hours that represents one full-time employee during a fixed time period, such as one month or one year.

Global Trade Management (GTM)—This is the practice of stream¬lining the entire life-cycle of global trade across order, logistics, compli¬ance, and settlement activities to significantly improve operating efficiencies and cash flow, while reducing risk. GTM includes, but is not limited to, trade compliance, visibility to shipments, total landed cost, trade security, and trade finance.

Importer Security Filing (ISF)—Importers or their agents (e.g., licensed customs broker) must electronically submit advanced cargo information to the U.S. Customs and Border Protection in the form of an ISF. This only applies to cargo arriving in the United States by ocean vessel. The ISF covers shipments intended to be entered into the United States including those destined to a Foreign Trade Zone.

Importers, or their agents, must provide eight data elements no later than 24 hours before the cargo is laden aboard a vessel destined to the United States. Two additional data elements must be submitted as early as possible, but no later than 24 hours prior to the ship's arrival at a U.S. port.

LSP/3PL—Logistics service providers (LSPs) are companies that charge a fee for supply chain services, including but not limited to transporta¬tion, distribution, warehousing, and customs services. A third-party logistics provider (3PL) is a non-asset-based LSP.

Systems-Based vs. Manual—Many of the data points represented in these pages show the differences between companies that use a systems-based approach for import management versus those that manually handle this process.

For this report, "systems-based" and "automated" designate companies that use at least one application to facilitate their import functions. These do not mean that human interactions have been entirely or even mostly eliminated.

Likewise, "manual" does not mean these firms do not use e-mail, fax and other technologies outside of import functions. There is an assumption that basic computing is ubiquitous in the logistics management field.

DEMOGRAPHICS

Survey respondents represent every major industry involved in importing goods, including discrete and process manufacturing, retail/wholesale, and 3PL/intermediary.

This year's participants represent companies of all sizes, but medium-sized enterprises of between $100 million and $1 billion in annual sales were the most heavily represented by a narrow margin. The remainder of respondents was split nearly evenly between companies with annual sales of $1 billion or those with less than $100 million.

FIGURE 1: Industry Segments

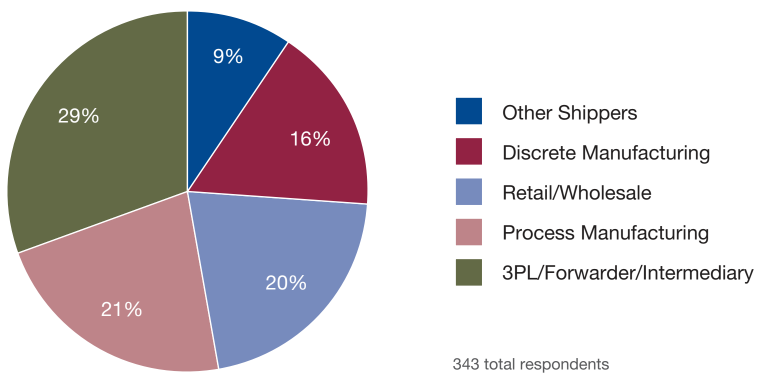
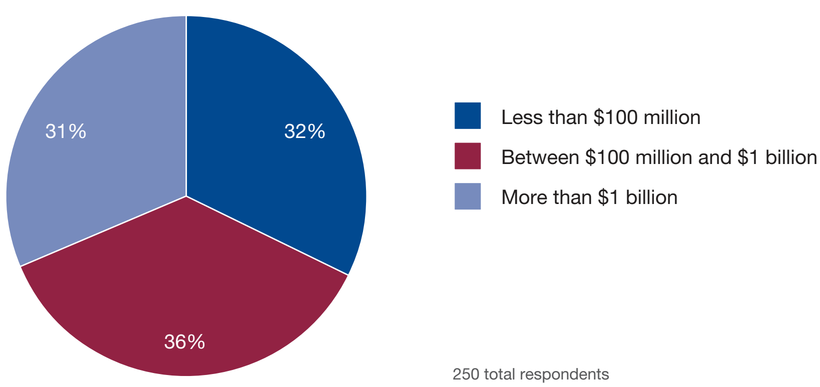


FIGURE 2: Company Size



WINNERS DEFINED

Each *American Shipper* benchmarking study seeks to highlight best practices by parsing companies who deliver excellent results—"Winners"—from the average and subpar performers. In the case of this study, winners are shippers that meet three criteria:

- Importer Security Filings have a 95percent rate of accuracy and timeliness.
- Cost per Customs filing is less than $75.
- Customs entry filings are 95 percent accurate or better based on audit results.

Section II: Structure, Training, and Policies

This year's study on import compliance and operations, in many ways, took its cue from some key findings in *American Shipper's* series of benchmark reports. While there are still sections on the critical elements of compliance (like filing accuracy and timeliness) and operations (like C-TPAT participation and effectiveness), this report aimed to gauge how much those two worlds were converging in practical reality. We have consistently found two dynamics emerge across the breadth of our research: first, logistics practitioners are being tasked with responsibility for more aspects of their supply chains; and second, winning supply chains have a higher degree of integration between their domestic and international operations, and specific to this report, between their operations and compliance departments.

The working theory was that shippers would see the need, loud and clear, that integrating these functions and processes would help them better leverage resources and investment in technology, leading to more efficiencies. In reality, however, there's little to suggest that this shift has yet taken place. First of all, two-thirds of shipper respondents to the study admit they still use manual or spreadsheet-based processes for import operations and compliance. Without that first basic step of automating these critical elements of the import process, true integration isn't even possible.

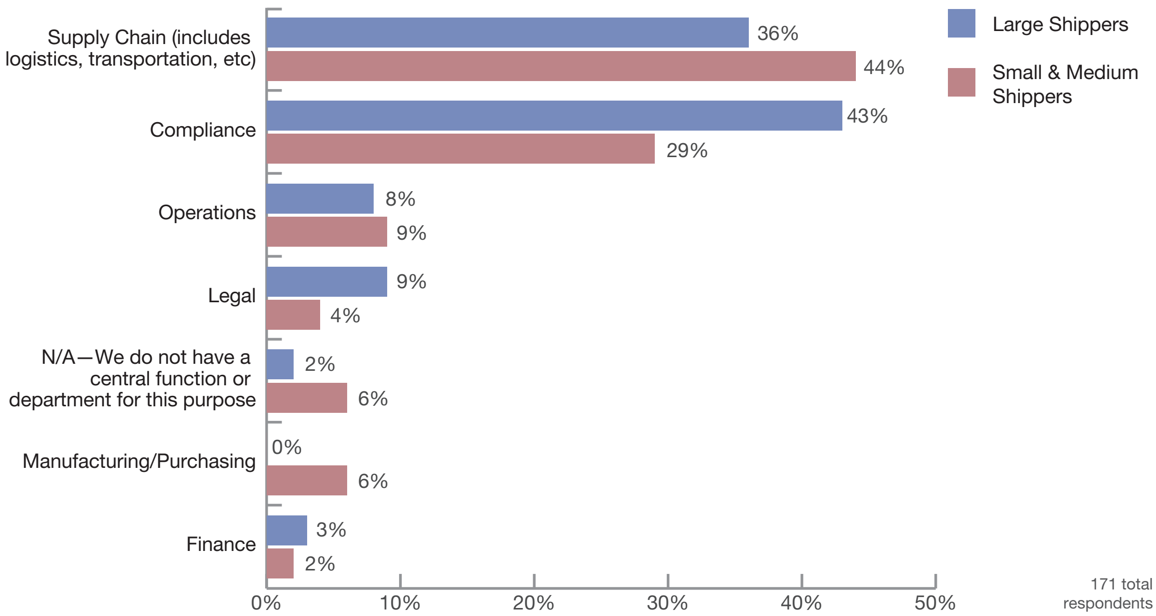
Indeed, even among those who have adopted a system for either compliance (i.e. global trade management) or transportation management, more than 60 percent have no plans to integrate the two within the next five years. Only around a quarter of those systems-based shippers have done so already. What we are left to infer is that those who see value in this integration have already committed to it, while those who don't see it (or find it hard to convince the C-level of its importance) have left it aside as a priority. More than a third of shippers said they have no plans to integrate the two—just to emphasize the point, that's a larger percentage than those who have already integrated.

Yet it's undeniable that compliance and logistics operations are inextricably linked when it comes to importing goods. A customs hold will stop a shipment in its tracks just as fast as a port strike or a missed vessel sailing. These two worlds already collide on a regular basis in the real world. Yet it appears shippers prefer to deal with these two worlds as parallel, yet separate processes.

There are a few other areas of emphasis in this year's report. First, the report continues to gauge acceptance of technology, and uses it as a benchmark for best in class supply chains. Second, this year's report looked more closely at the issues that keep import professionals up at night, such as their top concerns, as well as how they've prepared for supply chain disruptions.

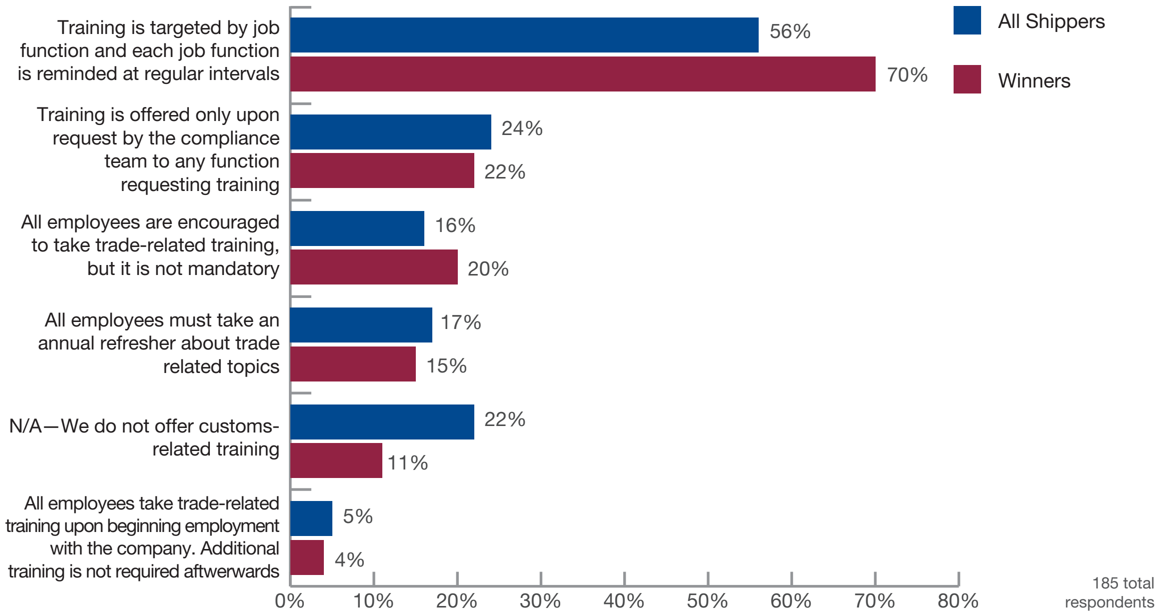
This report also uses company size as a point of comparison more than in years past. It's become clear that the $1 billion in sales mark is a line of demarcation when it comes to how shippers view their supply chain activities. The comparison between large and small/medium-sized shippers was often most poignant this year.

FIGURE 3: Who is Responsible for Import Policy?



The first place where we see the intersection of compliance and logistics is in the area of managing policy. Figure 3 shows that import policy is largely driven by one of two departments: supply chain or compliance. Last year's report focused on the benefits and drawbacks of such an approach—namely that best practice dictates that the compliance department should drive this policy, but that winners tend to drive their import policy from the supply chain or operations departments. It was apparent this year that a greater number of large shippers (that is, those with sales of $1 billion or more) see import policy as a compliance department issue, and that smaller and medium-sized shippers see it more often as supply chain function. This is likely due to the fact that larger shippers tend to place a stronger emphasis on compliance, whether by design or because of heightened scrutiny following a compliance incident or penalty. That idea is substantiated by the fact that 9 percent of larger shippers saw import policy as a legal department responsibility, compared to 4 percent of small and medium-sized shippers.

FIGURE 4: Delivery of Customs-Related Training



In order to communicate the policy and expectations related to import compliance, training is essential. Figure 4 clearly shows that winners, and more than 50 percent of all shippers, place an intense focus on customizing training to each job function impacting trade and delivering this training at regular intervals. This is a best practice not only in trade compliance, but also to ensure collaboration between compliance and operational teams.

A global trade training program is a pillar in any trade-related internal controls program. Training—whether in person, web-based, or in a virtual classroom—can help personnel understand how seemingly unrelated job functions impact import operations and compliance. Some examples: order management is responsible for transactional data that may impact classification and country of origin management; research and development/product management must share product roadmaps with trade compliance and advise of any function, feature, or sourcing modifications so that classification and duty exposure can be assessed and country of origin can be determined; and finance must team with trade compliance to establish valuation methodologies appropriate for customs purposes.

Also not to be overlooked, training programs relay expectations of the trade department in the areas of corporate audit, records retention, the engagement of party partners, and communications with government agencies.

Once the roles of corporate job functions are defined, it is clear that the training delivered to, for example, finance should be quite different from training delivered to order management. Finance may be required to participate in a cost/benefit assessment prior to participation in a free trade agreement. Accordingly, this topic would be covered in training customized for this job function. Order management, on the other hand, plays less of a role in free trade agreements and would not need such training.

What cannot be overlooked are the results related to those not offering customs-related training. A portion of all shippers, large or small, manual or systems-based, reported that they offered no customs-related training—some as high as 25 percent of the time. This is an alarming rate, as it shows that trade compliance is centralized in one function and tasked with managing compliance end-to-end. This model is largely unsustainable and often correlated with a weak internal controls program.

A general trade compliance training program may benefit a company by raising awareness of trade compliance, but training delivered regularly, and customized by job function, demonstrates solid internal controls, distinguishes winners from all others, and enables collaboration among compliance and operational teams.

Section III: Import Compliance

The term "import compliance" is interpreted differently across companies. While all companies agree that, in general, the term refers to compliance with the regulatory requirements of an importing country, the paths to succeeding in import compliance and leveraging its potential are varied. Interpretations of "import compliance" range from routinely supplying necessary paperwork and using a customs broker to enter company merchandise into a country, to carefully constructing a global internal controls program that partners with customs brokers, measures risk, minimizes duty exposure, and requires the integration of most job functions within a company.

As this year's report focuses on the intersection of operations and compliance, its clear that many types of shippers realize that "import compliance" amounts to more than a mountain of paperwork and another business hurdle to clear. Instead, companies realize the competitive edge that customs compliance can bring, and are working to create a robust compliance program that not only edges out competition by obtaining favorable duty / tax treatment, but one that fosters agility in business decisions and ensures that potential fines and delays related to regulatory requirements are anticipated and prevented.

The results in Figure 5 demonstrate that an overwhelming majority of both manual and systems-based shippers outsource customs entry filings and that manual shippers rarely—almost never—self-file.

In looking back at how respondents characterized the nature of their entry filings in 2011 and 2012, it is clear that a majority of shippers prefer to outsource their filings. While the results show that there was a noteworthy dip in outsourcing during 2012, this could be attributed to cost-cutting measures implemented during the recession.

FIGURE 5: Nature of Customs Entry Filing

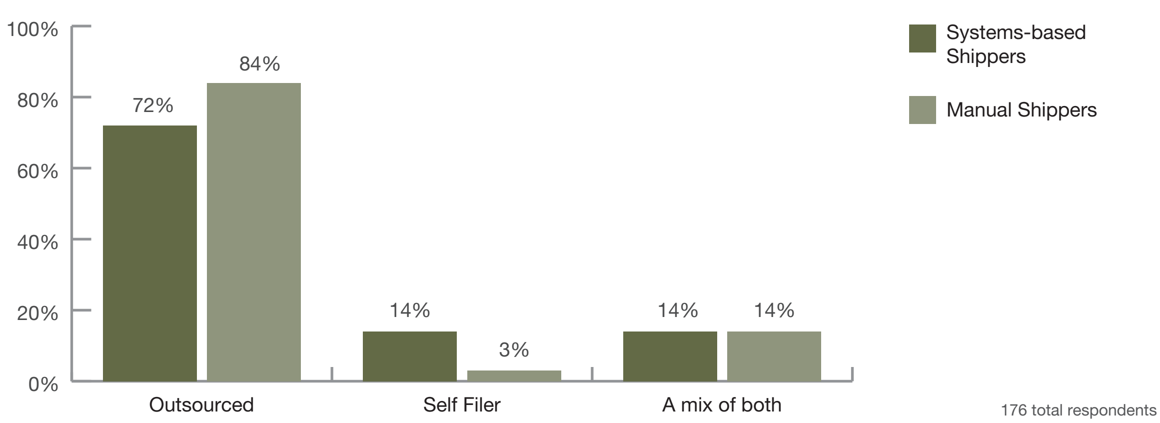
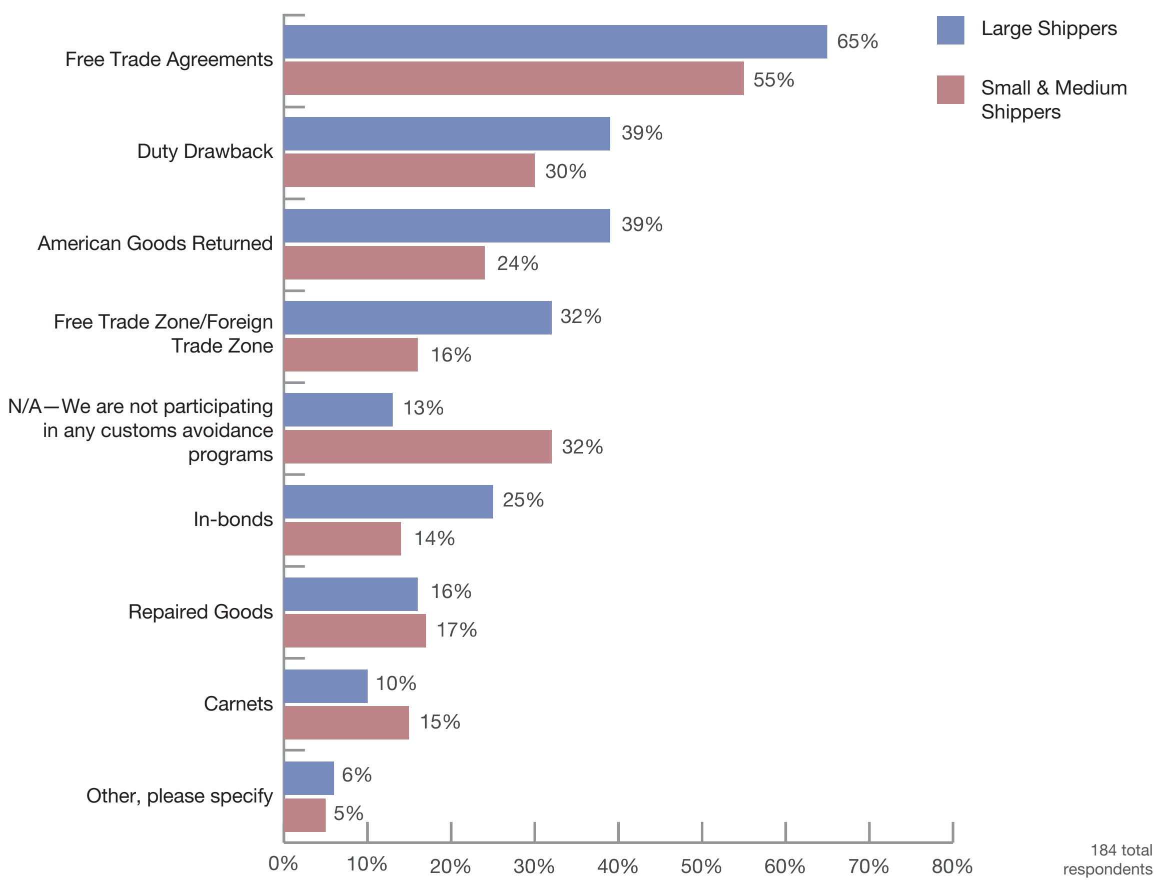


Figure 6 illustrates that free trade agreements (FTAs) are the most common duty avoidance program among all types of shippers in 2013. More than half of manual shippers and nearly 70 percent of systems-based shippers leverage FTAs. Reinforcing the importance of FTAs among manual shippers was the finding that nearly one-third of these shippers reported that FTAs were the only duty avoidance program used. Drilling down into the type of manufacturer relying on FTAs, we found that the largest percentage of FTA users came from process manufacturing, where 70 percent of this industry segment reported that they leverage FTAs.

Another interesting finding from the survey was that duty drawback was the second most used duty avoidance program by systems-based shippers (nearly 42 percent), while only about a quarter of manual shippers leveraged this program.

FIGURE 6: Participation in Duty Avoidance Programs



The use of FTAs and duty drawback demonstrates the cooperation between a shipper's operations and compliance teams. In the case of drawback programs, there must be alignment between supply chain operations, global trade compliance, corporate finance, and a company's customs brokers. It is nearly impossible to administer a duty drawback program without the cooperation of these corporate functions.

Similarly, qualifying goods under an FTA and administering a corporate preferential trade program requires an understanding of the lower level materials or components, classification of these items, as well as the development of a cost/benefit analysis related to participating in the program. Engineers, scientists, product managers, and sourcing managers may be called on for the component/material assessment and classification while operations, finance, and global trade compliance work together to develop realistic thresholds for a cost/benefit analysis.

It is impossible to overlook the finding that many respondents are not participating in any duty avoidance program at all, including nearly 30 percent of winners. There are several reasons: they may be high-tech companies leveraging the duty-free status of ITA member countries; they may not have the headcount to administer duty avoidance programs; they may not have the ability to coordinate trade compliance across many job functions; or they may have performed a detailed risk analysis and determined that the savings on the duty avoidance does not outweigh the costs and risks associated with administering the program. However, we can only speculate as the study did not provide a means to conclude why companies may not participate in duty avoidance programs. Accordingly, this may be an area of focus in 2014.

It is clear how important these duty avoidance programs are to the trade community. Comparing this statistic to the accuracy in audits, it's encouraging to find that 87 percent of manual shippers reported accuracy in their customs filings and 85 percent of systems-based shippers reported a 10 percent or less error rate in their customs entries. This is great news as administering duty-avoidance programs requires extra attention to detail and recordkeeping requirements. What is somewhat concerning is the risk level these same companies are willing to tolerate. About 7 percent of manual shippers and 6 percent of systems-based shippers do not audit their entries at all. These shippers are making themselves hugely vulnerable by simply not reviewing their entry documents.

FIGURE 7: ISF Accuracy

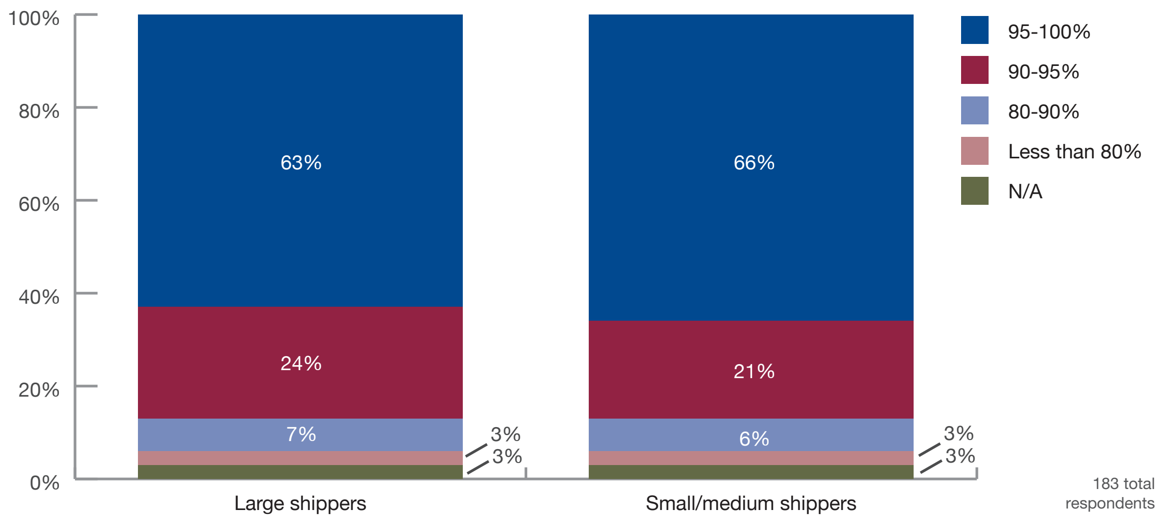
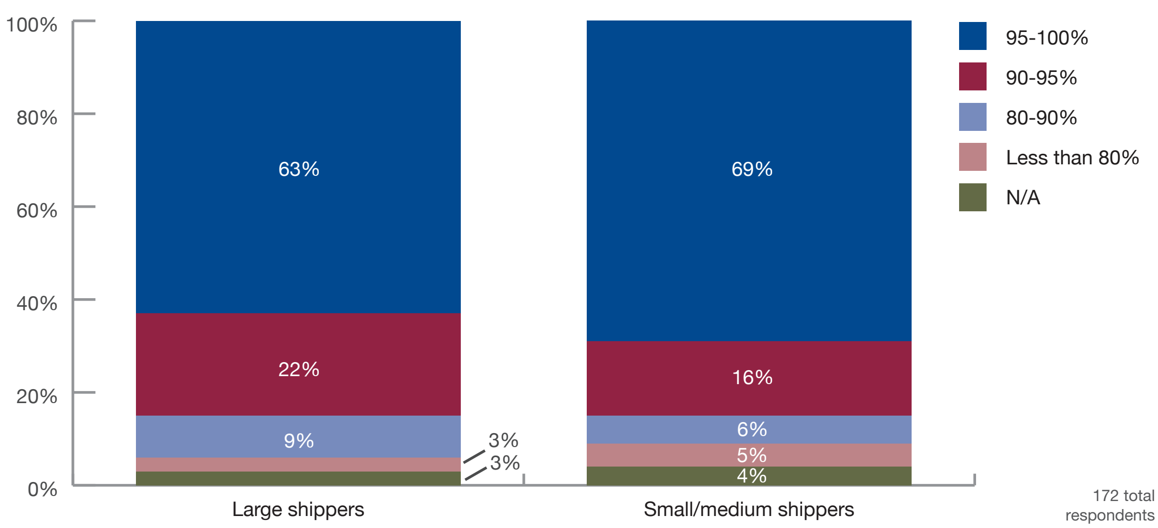


FIGURE 8: ISF Timeliness



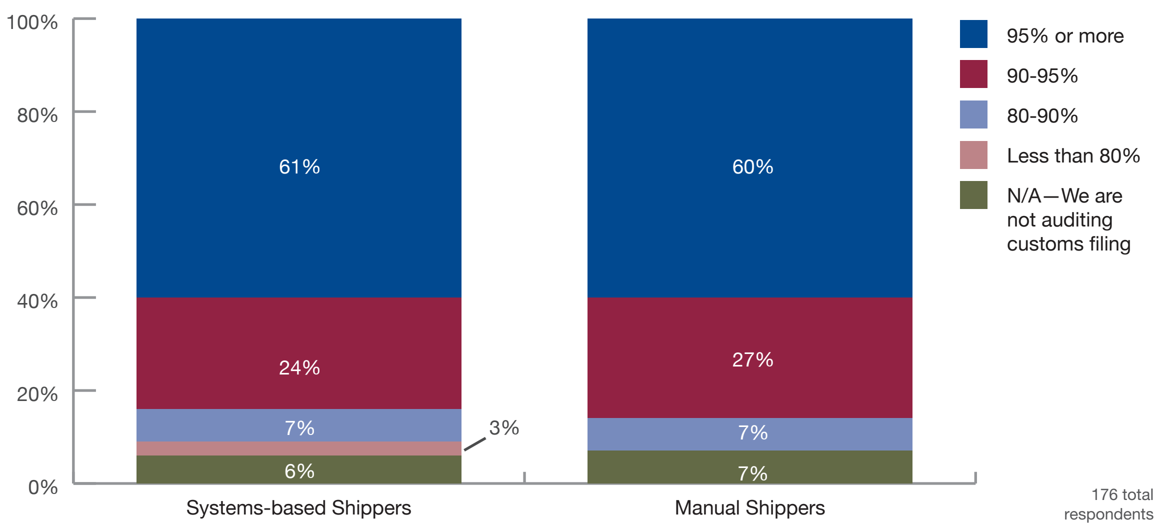
Figures 7 and 8 are not surprising. The accuracy and timeliness of Importer Security Filing (ISF) go hand-in-hand. All shippers, whether large or small, whether manual or systems-based, had corresponding results in accuracy and timeliness. Regardless of the type of shipper, a 90 percent or higher accuracy rate was consistent among 85 percent of respondents, and a timeliness rate of 90 percent or better was reported among no less than 84 percent of respondents.

To be deemed a winner in this report, a shipper had to have 95 percent or greater accuracy and timeliness in Importer Security Filings. Interestingly, 89 percent of manual shippers reported a 90 percent or greater accuracy rate and 86 percent of them reported that they submitted their security filings in a timely manner.

At first glance, Figure 9 shows what all shippers would like to see: an error rate of 10 percent or less in customs filings based on internal audit results. Drilling down into the numbers we see that 84 percent of all shippers reported a 90 percent or greater accuracy of customs entry filings based on audit results with more than 63 percent of all shippers (not counting 3PLs) boasting a 95 percent or better accuracy rate. Less than 2 percent of all shippers reported what customs authorities would deem an unacceptable error rate—70 percent or more.

Even better news, it appears that shippers have been holding this high standard for some time as similar results were reported in last year's report.

FIGURE 9: Accuracy of Customs Filing Based on Audit



176 total respondents

Taking a closer look at the results, however, some interesting dynamics emerge. The segment of shippers that were between 80-90 percent accurate reflects about the same amount of shippers that do not audit at all (roughly 6 percent, respectively). In 2012 *American Shipper* spotlighted a 15 percent segment of small shippers and a 5 percent segment of medium and large shippers that performed no audits at all. In the last year, small and medium-sized shippers appear to have increased their internal audit procedures as there is a diminished percentage of these shippers reporting a lack of auditing of customs entry filings. Large shippers, however, continued at the same rate—if not slightly increased—of being likely not to audit customs entry filings.

A company's customs entry filing is a snapshot of its internal controls program. The customs entry filing brings together data from several teams as product classification must be correct, customs valuation must be appropriate, commercial descriptions of products must be clear, country of origin declarations must be accurate, and the paperwork must be consistent and filed timely. Last year's report discussed the risk associated with not auditing entries, as well as how this may be indicative of a company's commitment to compliance and internal controls. While those points are still valid, auditing customs entries is also a way to gauge how well partnerships both internally and externally are working. In the spirit of uniting compliance with operations, errors in customs entries may point to a lack of communication, understanding, or expectations between the global trade compliance team and other corporate functions.

FIGURE 10: Cost per Entry Filing—3PLs vs Shippers

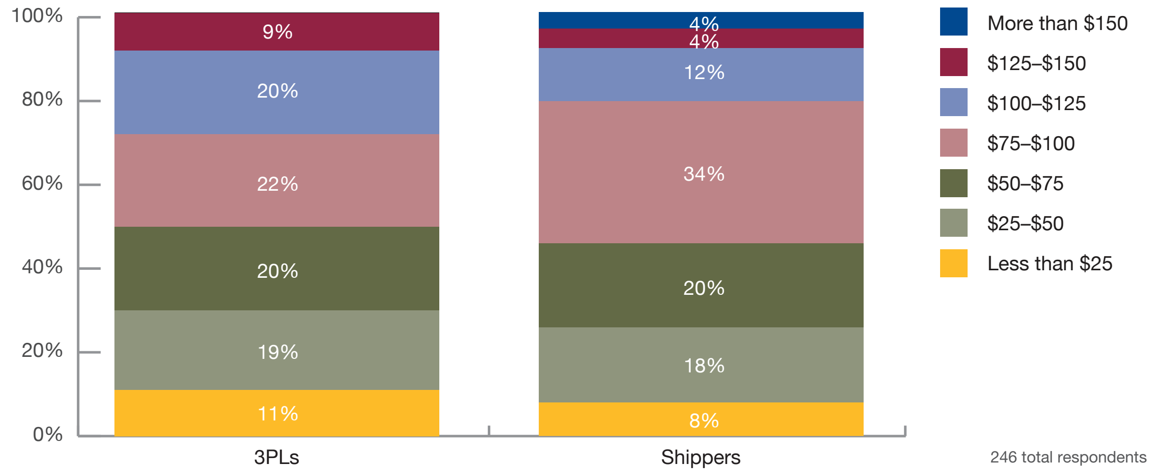
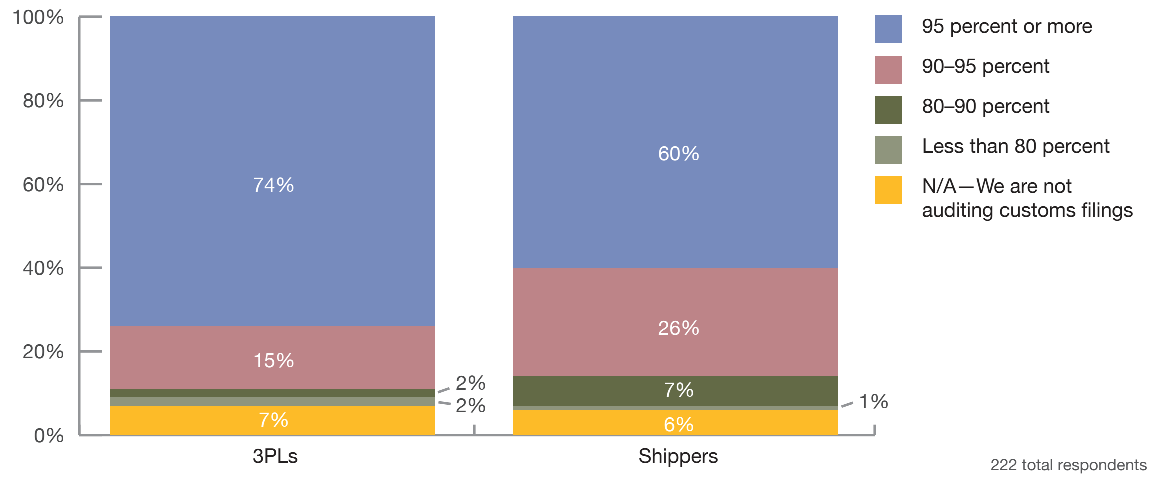


FIGURE 11: Accuracy of Customs Filings Based on Audit—3PLs vs Shippers



3PLs are often lumped into broader shipper categories, but the reality is, their business is far different than that of a beneficial cargo owner. This year's report eyed two compliance metrics to compare 3PLs to shippers—cost of entry filing and filing accuracy.

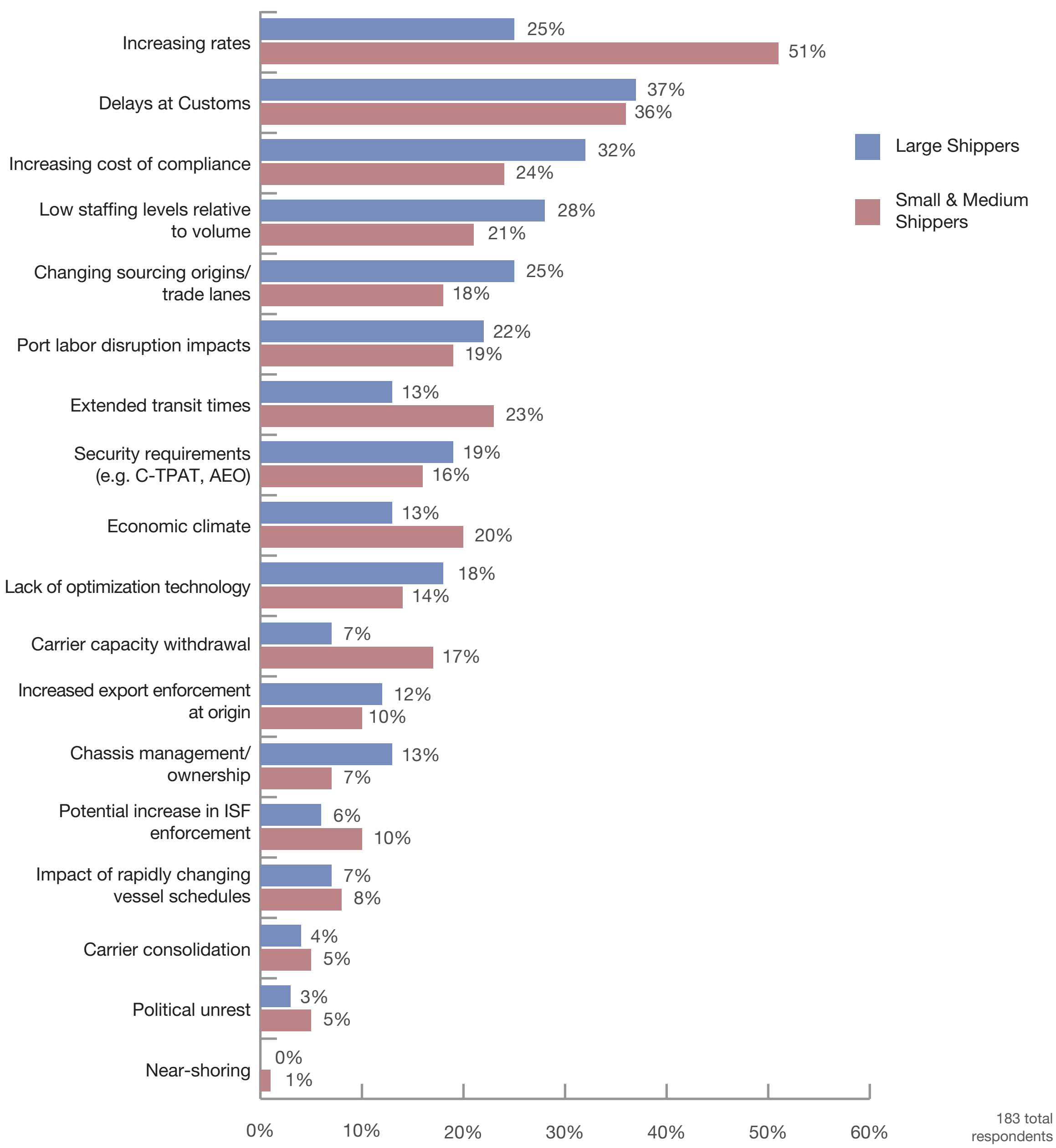
In the case of filing costs, there was little difference. 3PLs were marginally more likely to have an average cost below $50, but also more likely to have an average cost above $100. Shippers predominantly fell in the $50 to $100 range.

In terms of filing accuracy, 3PLs performed better on the top end—around 25 percent more said their accuracy was 95 percent or better based on audits.

Section IV: Operations

This report is essentially about determining the balance of operations and compliance concerns that exists today, and if there's a place where the dichotomy of how large shippers view these concerns compared to small and medium-sized shippers, it's in Figure 12. Small and medium-sized shippers are clearly more pre-occupied with the operational side of

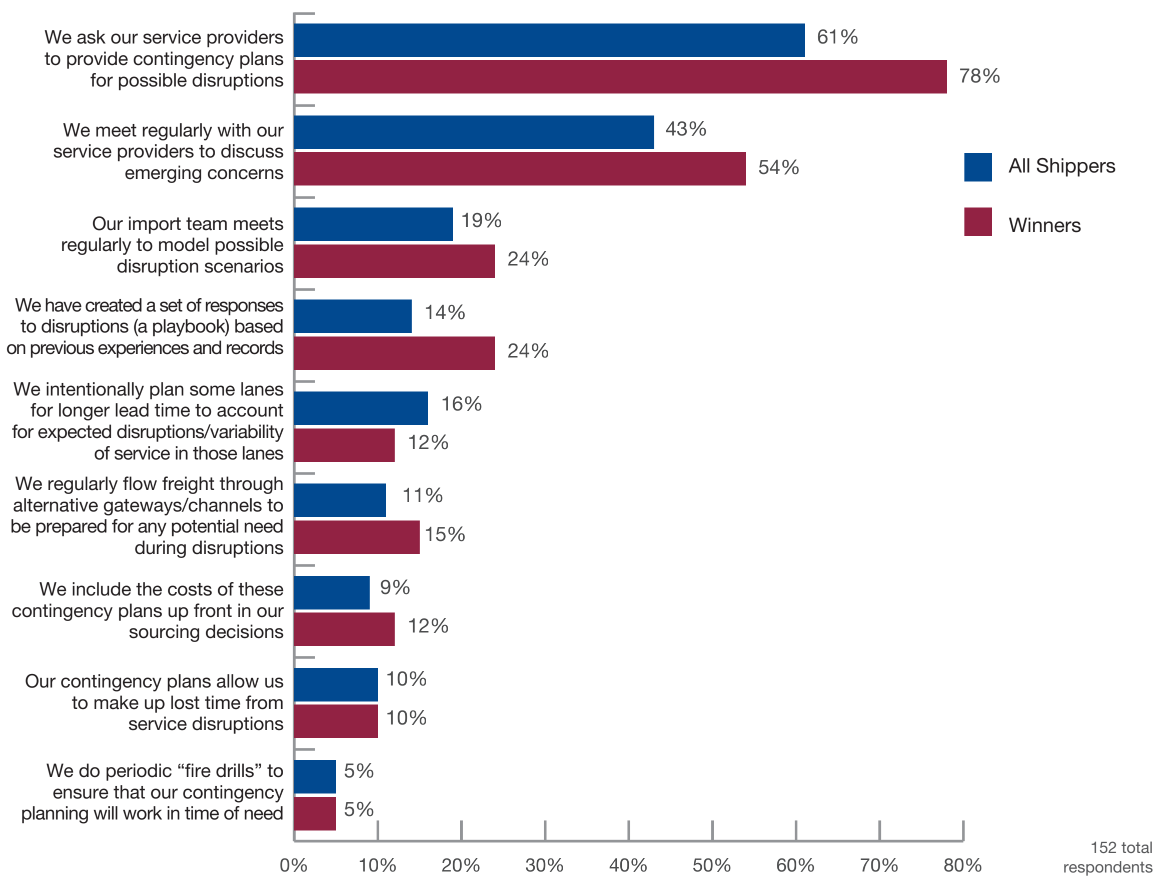
FIGURE 12: Top Import-Related Concerns



the equation—rates, transit times, capacity, and economic conditions. Large shippers, meanwhile, have more focus on security and compliance related issues—the increasing cost of compliance, changing sourcing regions, security regulations.

Smaller shippers tend to have less of a C-level compliance focus. They tend to have smaller staffs that are responsible for multiple facets of the import process. They also tend to import from fewer locations. All this drives a sharper focus on the day-to-day, logistics-oriented concerns of an importer. They tend to not know what they don't know, as the saying goes. Larger shippers tend to have broader concerns—Their supply chains are more voluminous and touch more countries. So they worry about compliance and rates, security and capacity.

FIGURE 13: Import Disruption Plans



If exporters are the wide receivers of global trade—i.e. they know the route they are going to run—importers can be seen as the defensive backs. As such, they don't know what may happen to their cargo on the origin side and have to prepare for many more eventualities than an exporter. That lack of control is part of what makes the import process so complex.

While some import disruptions can be foreseen, most are not. It's hard to predict the next port strike, much less volcanic eruption or tsunami. While it was somewhat encouraging to see that more than 60 percent of shippers expect their service providers to outline contingencies for a disruption, it's also disconcerting to see that fewer than half of shippers meet regularly with those providers to discuss emerging concerns. Part of planning ahead is having a regular dialogue about what could potentially upend import flows—it's too late to discuss after a disruption has already happened.

Fewer than 20 percent of shippers said they undertook the other initiatives outlined in Figure 13. It's notable, however, that winners clearly plan ahead to a greater degree, in terms of expectations, regular meetings with providers, game planning for disruptions, and using alternative gateways to ensure all their goods aren't vulnerable to one channel.

As with last year's report, winners more efficiently process import entries than any single category of shippers. In terms of entries per full time equivalent employee (FTE), winners were 50 percent more productive than the next best group. Interestingly, winners also used fewer countries of origin, perhaps a nod to winnowing out the origins that are least successful for their supply chain.

FIGURE 14: Importer's Productivity Matrix—Shipper Type

	Regulatory agencies	Countries of Origin	Brokers Used	Entries per year	FTE for Imports
Retail/wholesale	2.81	13.6	1.78	8,108.75	3.03
Process Manufacturers	2.37	19.77	2.57	3,343.59	1.92
Discrete Manufacturers	2.37	13.83	2.54	6,599.82	2.09
Winners	2.58	12.98	2.02	9,765.16	2.57

178 total respondents

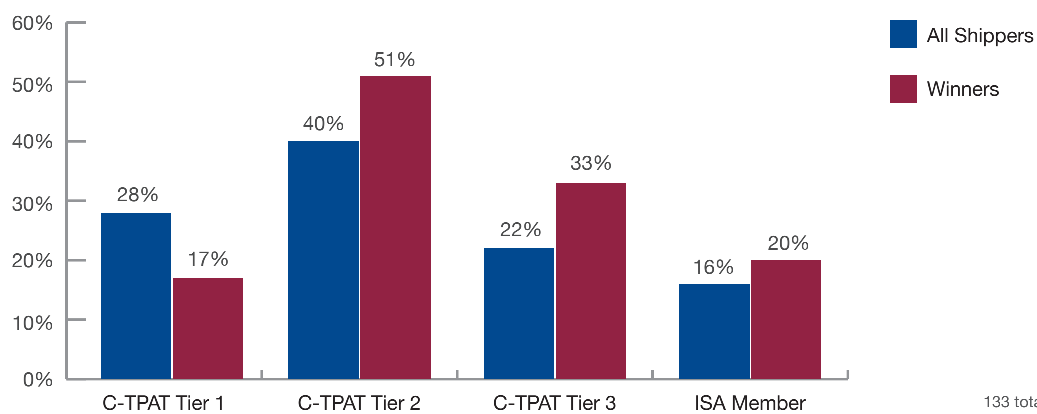
The productivity gap between systems-based shippers and manual ones is, no surprise, just as wide. Figure 15 shows that shippers that use compliance or operations systems process three times as many entries, on average, using only twice as many FTEs, while dealing with more countries of origin and more regulatory agencies. A manual approach to imports inevitably limits how much a shipper can process, and how much complexity it can manage.

FIGURE 15: Importer's Productivity Matrix—Systems Based or Manual

	Regulatory agencies	Countries of Origin	Brokers Used	Entries per year	FTE for Imports
Systems-based	3	17.76	2.23	11,119.83	3.63
Manual	2.17	10.98	2.79	3,320.31	1.74

178 total respondents

FIGURE 16: C-TPAT/ISA Participation



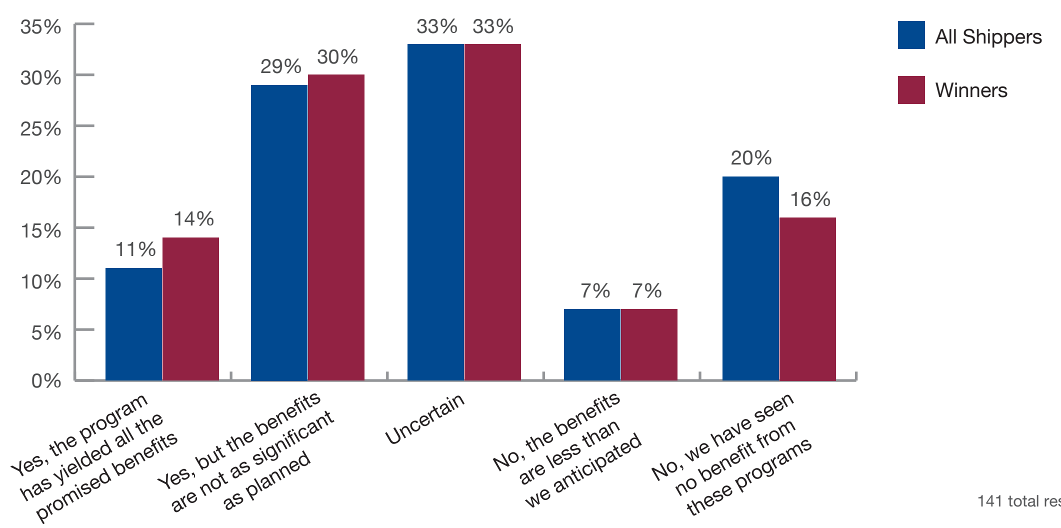
133 total respondents

No shock that winners in this study tend to be much more engaged in trade facilitation programs like C-TPAT and ISA. The difference is particularly stark at the highest tier of C-TPAT participation. Again, as discussed in last year's report, there is a correlation between a company's internal emphasis on operational efficiency and rigorous compliance, and it's determination to join programs like C-TPAT or ISA. However, the success of the U.S. government in luring companies into these trade facilitation partnerships seems to have plateaued. Participation in ISA and among the various tiers of C-TPAT is virtually unchanged from a year ago.

Participation in these programs does signal a shipper's intent to link its compliance and operations departments, a key theme in this year's report. That participation is largely the same as a year ago suggests convergence of the two isn't a high priority for shippers not already in these programs.

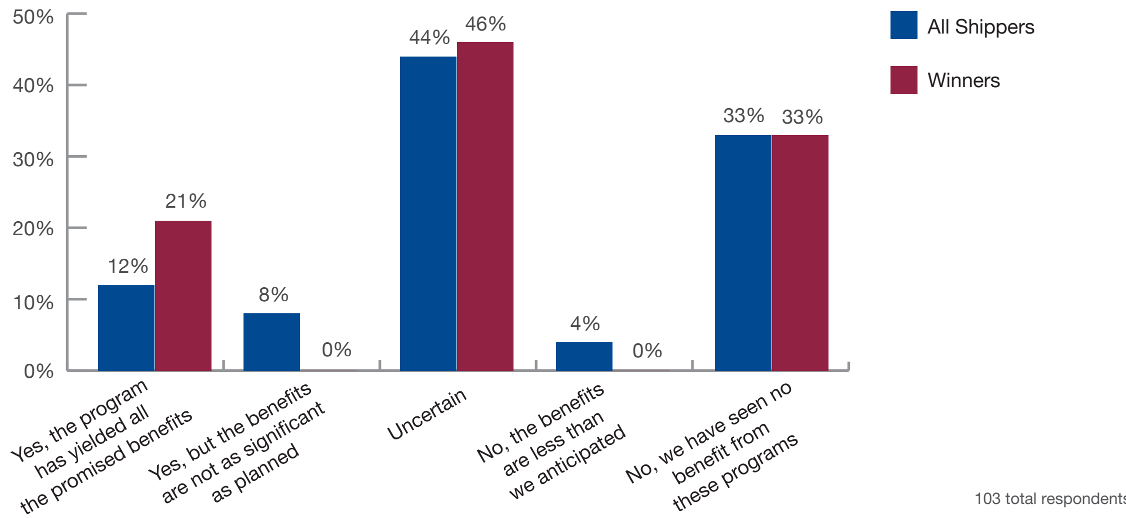
This year's report attempted to dive deeper into these trade facilitation programs, gauging whether shippers felt satisfied with the benefits of participation. The results weren't altogether encouraging from a customs perspective. Sixty percent of shippers said they are uncertain of the benefits of C-TPAT participation, see less benefit than anticipated, or no benefit at all. Just 11 percent said the program has delivered all that it promised. What's more, there's little differentiation between winners and shippers as a whole, suggesting there's consensus that C-TPAT is largely not delivering the benefits shippers expect.

FIGURE 17: C-TPAT Effectiveness



141 total respondents

FIGURE 18: ISA Effectiveness



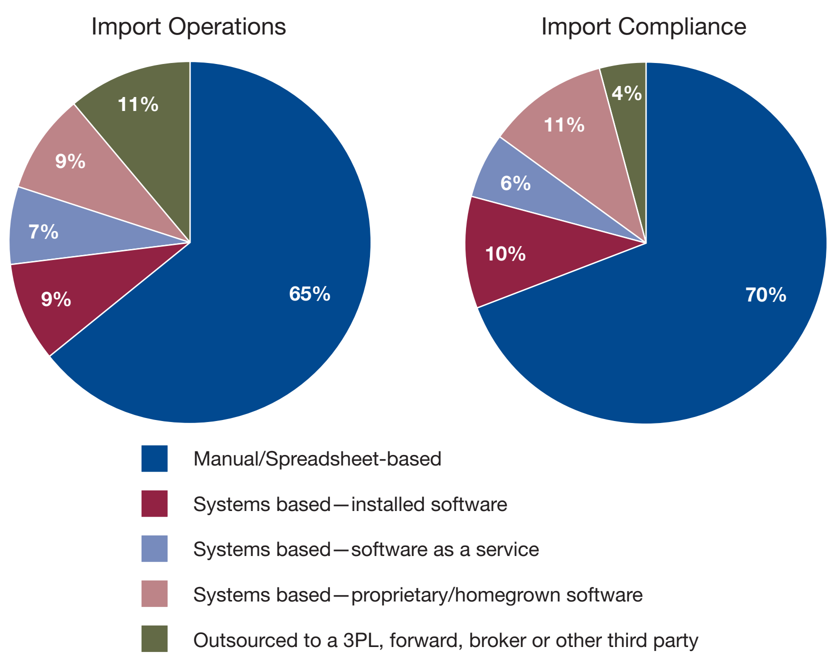
On the ISA side of things, the picture is worse. A third of respondents say they derive no benefit from the program, and nearly one half say they are uncertain of its benefits. It should be noted that companies have to participate in C-TPAT to be eligible for ISA. Winners were far more likely than all shippers to see ISA as having delivered the promised benefits, but this is little consolation. Only one in five winners is satisfied with those benefits.

Section V: Technology

One of the more telling statistics in this year's report: roughly two-thirds of shippers don't use systems for either compliance or operations. While this report generally advocates for the use of s systems-based approach, systems don't always equate to better operations. They often just help automate bad processes. Whether due to a deficit of urgency, a lack of investment priority, or unease with the vendor landscape in the GTM and TMS markets, the majority of shippers continue to turn their back on a systems-based approach to importing.

On the operations side, among those that use a system, there's an equitable spread between internally developed systems, software-as-a-service (SaaS) offerings, and installed platforms. A similar number of respondents outsource this function. On the compliance side, the split is roughly similar, though weighted more heavily toward proprietary or installed systems.

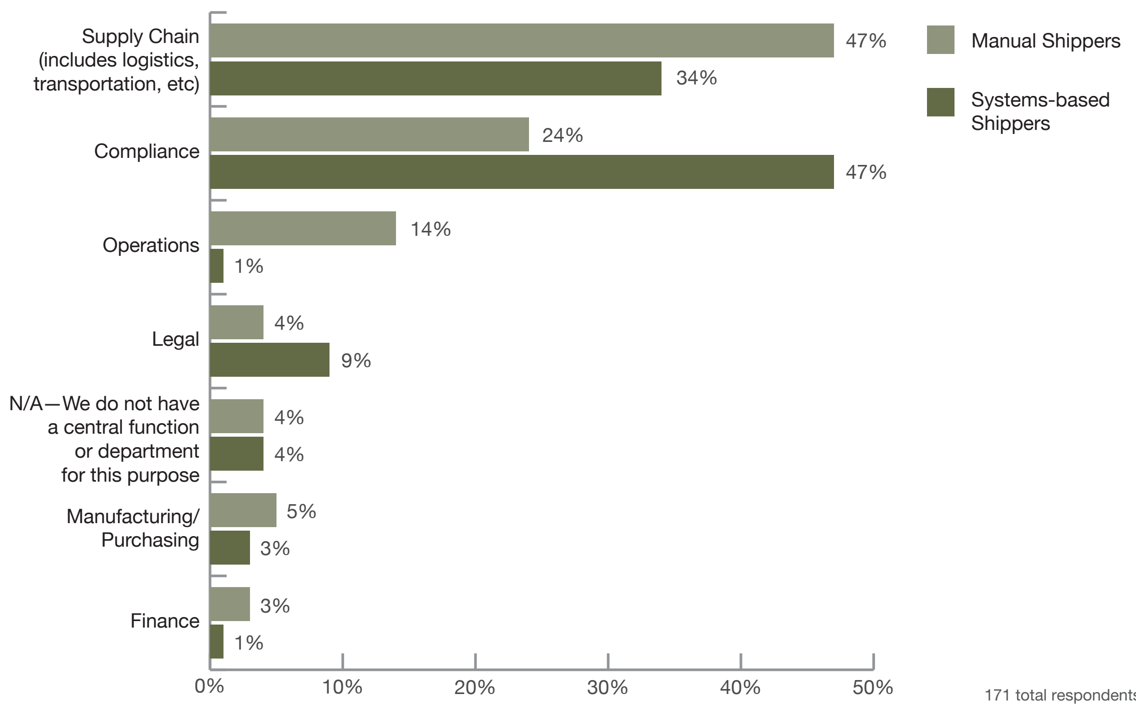
FIGURE 19: Nature of Import Process—All Shippers



171 total respondents

The question of who is responsible for setting import policy was discussed on a broader basis earlier in this report, but it's also worth exploring from the basis of whether a company uses a system or not. It's clear that systems-based shippers have their compliance department set the agenda at double the rate of manual shippers, who are more likely to let the supply chain or operations department drive those decisions. Systems-based shippers clearly see that the import process relies on accurate compliance information, and that the compliance department, more often than not, is better placed to enable that flow.

FIGURE 20: Who is Responsible for Import Policy?



171 total respondents

FIGURE 21: Import Technology Functionality

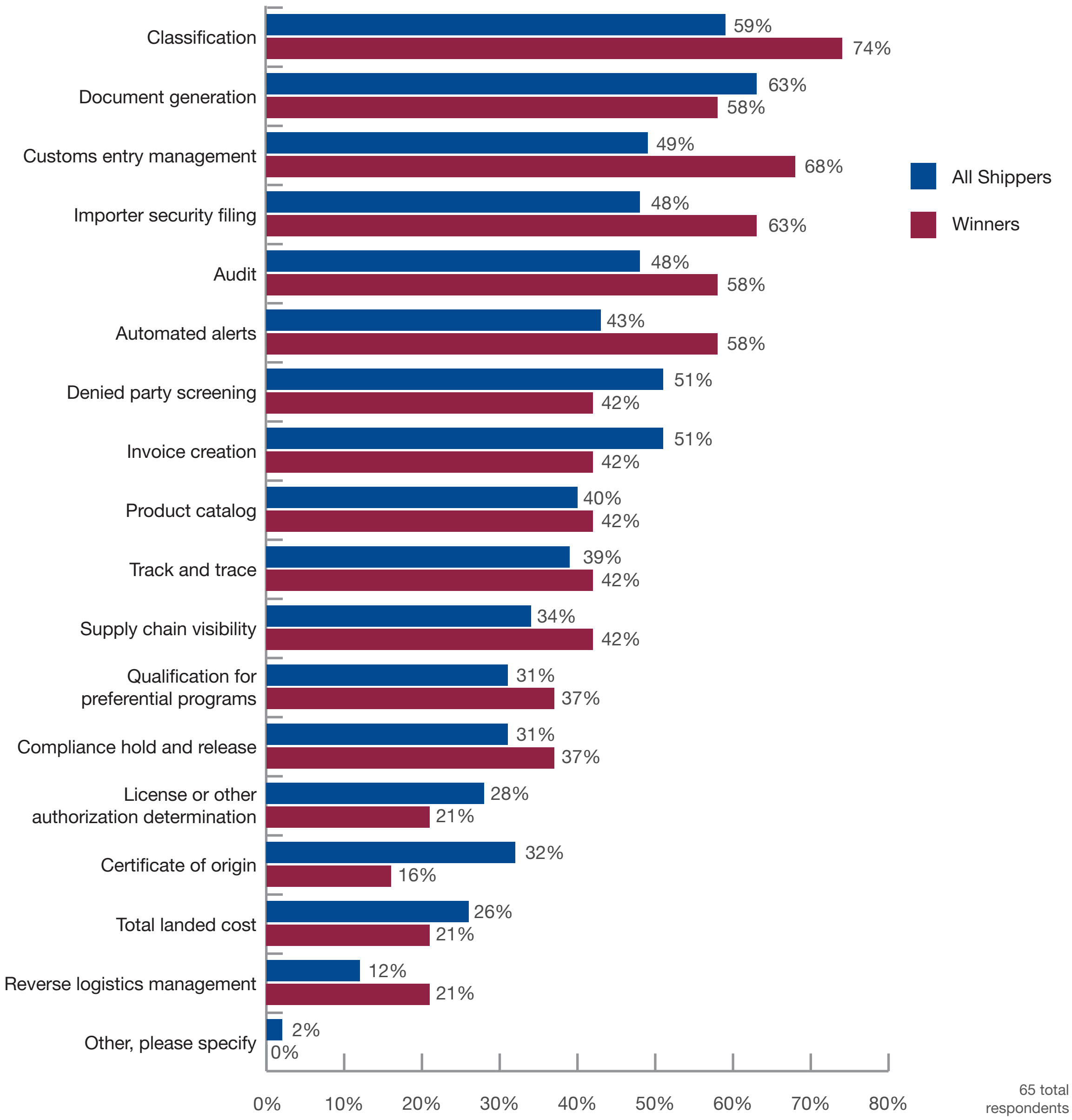
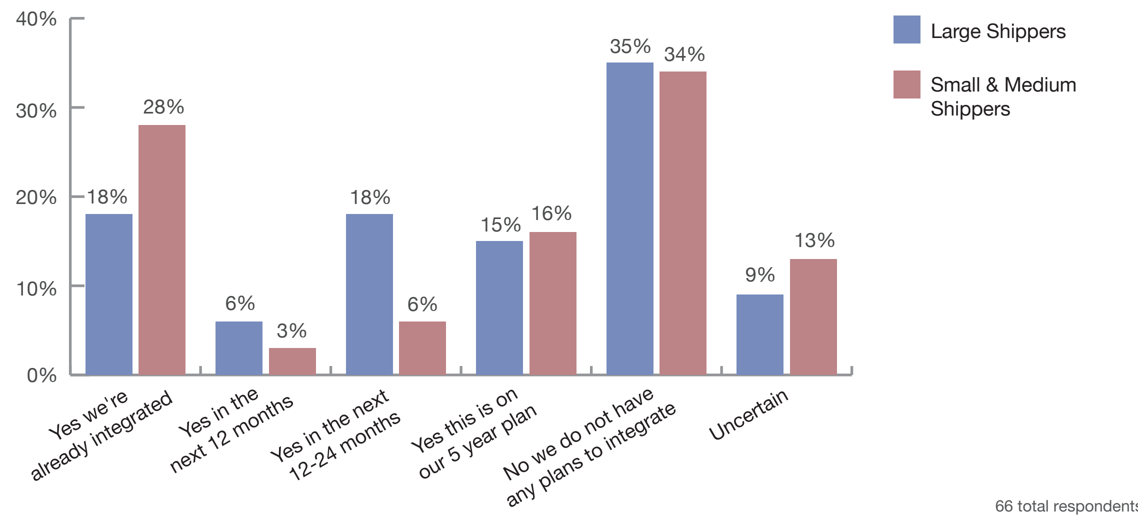


Figure 21 shows how shippers and winners use their technology platforms in the import process. Three areas where IT played a wider role than in last year's report are customs entry management, importer security filing, and audit. One word of caution in reading this chart: shippers can sometimes inadvertently overstate their level of automation when it comes to particular import functionalities. For example, it's difficult to imagine that half of systems-based shippers have the capability to automate the customs audit process. Other functions can likely be taken more at face value, like classification or, further down the list, track and trace.

FIGURE 22: Plans to Integrate TMS and GTM

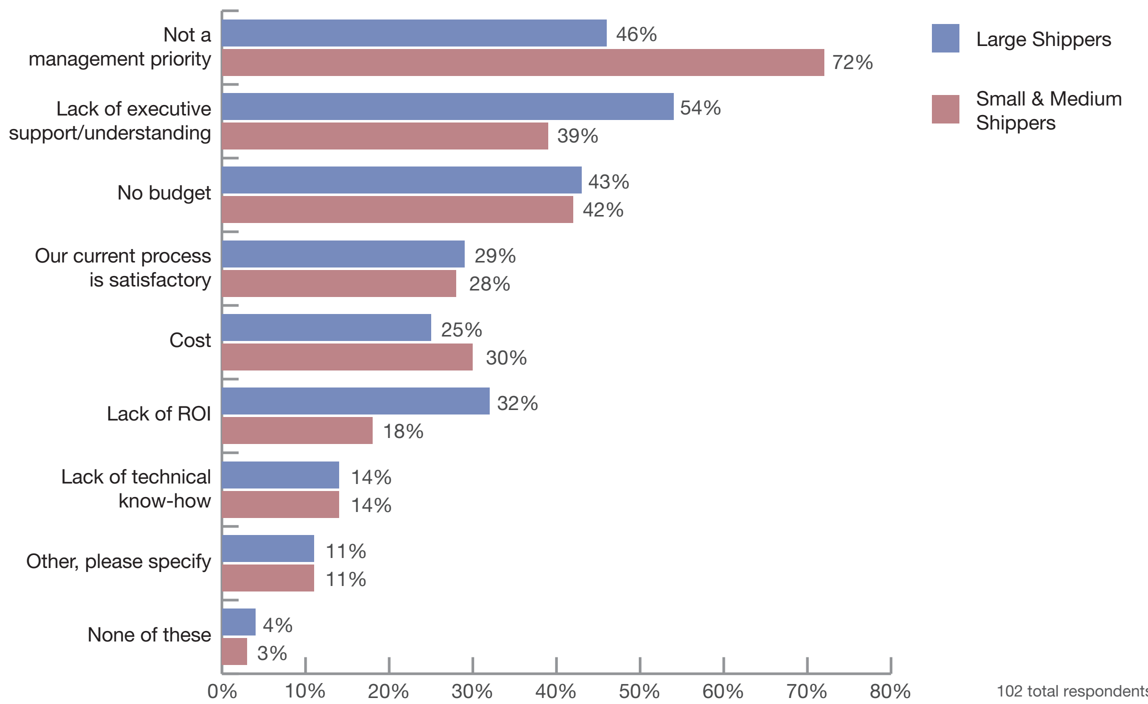


If there's a chart that underlines the theme of this year's report, it's Fig. 22. Yet the numbers are a bit disheartening. More than 60 percent of shippers have no plans to integrate their GTM and TMS functions or only have it, at best, in their five-year plan. A more optimistic reading of this chart shows that more than half of respondents have either integrated already, or plan to do so in the next five years.

However, a reality check is required here as well. Nearly 20 percent of large shippers and more than a quarter of small shippers say they've integrated their compliance and operations processes, but they too might find that their definition of integration doesn't really equal true integration. Having channels of communication between operations and compliance isn't the same as blending the two into a common system.

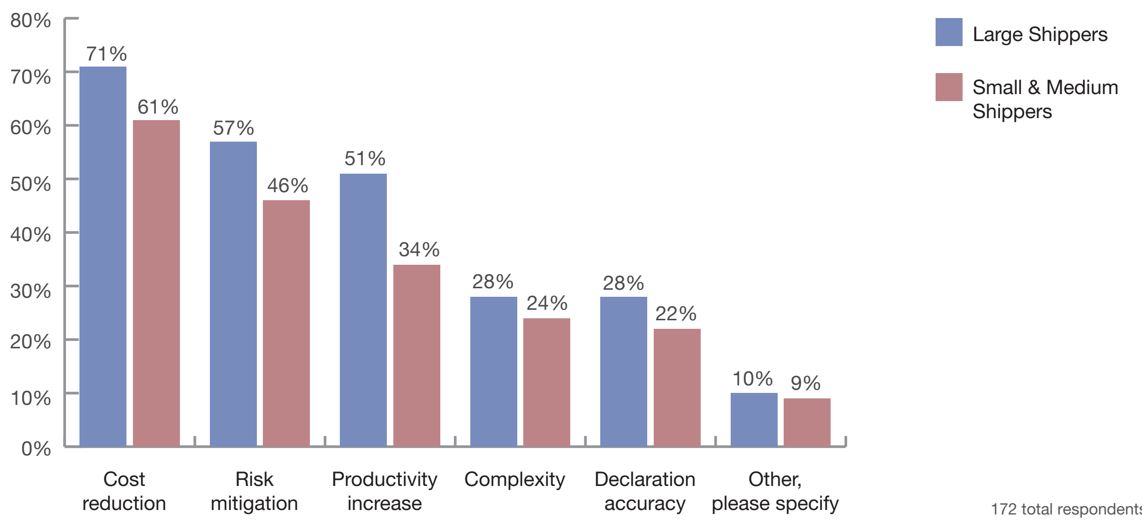
Bear in mind also that respondents to this question already indicated that they were using a system for operations or compliance, so this is a group that is already predisposed to be aware of the benefits of a system-based approach. Yet only a quarter have already integrated these complementary processes, and more than a third have no plans to do so. The two worlds of import compliance and operations are colliding, yet shippers are largely still handling them as though they exist in different universes.

FIGURE 23: Inhibitors to Buying/Upgrading Import Technology



So what stops shippers from investing in import systems? Overwhelmingly, the problem is a lack of support or understanding at the executive level, particularly among small and medium-sized shippers. A lack of resources is also to blame. What's telling, and promising for services and solutions providers, is that less than one-third of shippers are satisfied with their current setup. The barrier to investment in import IT is largely one of cost, or lack of ROI, or an inability to communicate the importance of automating the compliance and transportation processes.

FIGURE 24: Drivers to Upgrade/Buy/Replace Systems



172 total respondents

Alternatively, companies see cost reduction as the No. 1 reason to invest in systems. From a compliance standpoint, it's heartening to see that risk management and documentation accuracy are also key drivers. On the whole, though, large companies see the opportunity for cost reduction and increased productivity.

Section VII: Best Practices

Based on the survey results and subsequent analysis, *American Shipper* and BPE Global suggest U.S.-based importers take the following steps to align their import practices with winners or best-in-class operators:

- In general a transition from manual import operations and compliance processes to a systems-based approach seems like a no-brainer, but this year's results showed that manual shippers fared well in terms of accuracy. While systems-based shippers, on average, are more efficient, it's not a given that a system will solve a shipper's problem. Often systems perpetuate errors. Knowing whether your company has the import complexity or scale that demands a systems-based approach is a key first step.
- Import training initiatives should be a priority and should be developed in such a way that they are targeted at specific job functions and delivered regularly.
- Duty avoidance programs aren't for all shippers, but for those where the programs are valuable, participation should trigger an engagement between operations and compliance.
- Audit, audit, audit. There continues to be no better way to improve import performance and demonstrate a corporate emphasis on compliance than to audit customs entries as completely as possible.
- Make the convergence of import operations and compliance at least a medium-term goal. Companies that continue to segment the functions of these departments risk missing out on the benefits of more efficient import processes, as well as the ability to better leverage investment in technology.

Appendix A: About Our Sponsors

AMBER ROAD

Amber Road is the world's leading provider of on-demand Global Trade Management (GTM) solutions. We provide a single, on-demand platform that automates and streamlines global trade. By helping organizations to comply with country-specific trade regulations, as well as plan, execute and track global shipments, Amber Road enables goods to flow unimpeded across international borders in the most efficient, compliant and profitable way.

Our solutions automate import and export processes, provide order and shipment-level visibility, calculate duties, taxes and fees, administer preferential trade programs, ensure regulatory compliance and simplify the financing, sourcing and transporting of goods across international borders. Download our Import Management brochure at bit.ly/importmgmt, visit us at www.AmberRoad.com, or email us at Solutions@AmberRoad.com for more info.

LIVINGSTON

A leading North American provider of customs brokerage and trade compliance services, Livingston International also offers trade consulting, global trade management and international freight forwarding solutions. With 3,200 employees at more than 125 locations around the world, Livingston helps our 38,000 clients manage their customs, trade and shipping needs from end-to-end.

SAP

SAP Global Trade Services is the recognized leader of global trade management software. SAP helps companies of all sizes and industries run better. From back office to boardroom, warehouse to storefront, desktop to mobile device, SAP empowers people and organizations to work together more efficiently and use business insight more effectively to stay ahead of the competition. SAP applications and services enable more than 183,000 customers (includes customers from the acquisition of Sybase) to operate profitably, adapt continuously, and grow sustainably. For more information please visit www.sap.com/gts or call 1-800-872-1727

Appendix B: About Our Partner

BPE GLOBAL

Decrease risk and optimize efficiency with BPE Global. Since 2004, companies have achieved results through BPE's global trade consulting and training services. BPE's team of seasoned regulatory and operational experts has the ability to navigate the complexities of global trade compliance, supply chain management, and logistics operations. As a recognized leader in trade compliance and logistics management, BPE Global provides solutions that are customized to your company's needs.

The BPE team is made up of knowledgeable, energetic and pragmatic licensed customs brokers, each with over ten years of experience. BPE gives back to the trade community by sharing knowledge and skills through webinars, publications, trade events, and as a recognized Trade Ambassador to U.S. Customs and Border Protection.

Enabling companies to succeed in global business is our mission. Helping you achieve efficiencies and best practices in compliance is our passion. To learn more about BPE, visit www.bpeglobal.com.

Appendix C: About *American Shipper* Research

BACKGROUND

Since our first edition in May 1974, *American Shipper* has provided U.S.-based logistics practitioners with accurate, timely and actionable news and analysis. The company is widely recognized as the voice of the international transportation community.

In 2008 *American Shipper* launched its first formal, independent research initiative focused on the state of transportation management systems in the logistics service provider market. Since that time the company has published more than a dozen reports on subjects ranging from regulatory compliance to sustainability.

SCOPE

American Shipper research initiatives typically address international or global supply chain issues from a U.S.-centric point of view. The research will be most relevant to those readers managing large volumes of airfreight, containerized ocean and domestic intermodal freight. *American Shipper* readers are tasked with managing large volumes of freight moving into and out of the country so the research scope reflects those interests.

METHODOLOGY

American Shipper benchmark studies are based upon responses from a pool of approximately 30,000 readers accessible by e-mail invitation. Generally each benchmarking project is based on 200-500 qualified responses to a 25-35 question survey depending on the nature and complexity of the topic.

American Shipper reports compare readers from key market segments defined by industry vertical, company size, and other variables, in an effort to call out trends and ultimate best practices. Segments created for comparisons always consist of more than 50 responses to keep the potential margin of error to a minimum.

LIBRARY

American Shipper's complete library of research is available on our Website: AmericanShipper.com/Research.

Annual studies include:

- Global Trade Management
- U.S. Export Compliance
- U.S. Import Compliance
- International Transportation Management
- Transportation Procurement
- Transportation Settlement

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