

## Compliance Through Technology

### Author(s):

#### Leon Turetsky

Leon Turetsky is chief executive officer of QuestaWeb, Inc., Westfield, New Jersey, a provider of Web-based global trade and logistics management solutions.

February 2008, *Inside Supply Management*<sup>®</sup> Vol. 19, No. 2, page 12

#### *Tapping Into ... Logistics — Streamlined Processes*

**Implementing a global trade management system enables organizations to achieve significant time and dollar savings during the movement of goods and services.**

Organizations today operate in a global marketplace where optimal allocation of resources is critical. Developments aimed at enhancing supply chain management, such as computerization, just-in-time delivery principles and other logistics concepts enable companies to better cope with the complexities associated with a worldwide playing field. What follows in this article is an in-depth examination of another such technological development that streamlines global trade management (GTM).

While the transition to global operations has reaped untold business economies, these gains have come at a price. According to Hans van Bodegraven in the book *Simplification of Customs Procedures: Reducing Transaction Costs for Efficiency, Integrity and Trade Facilitation*, meeting the data requirements needed to move goods across borders (for example, providing compliance documents and trade certificates) adds an estimated 2 percent to 10 percent to their final market price. This translates to some \$75 billion worldwide each year.

The need for customs is inescapable, as it protects public safety and constitutes a key revenue collection device. Still, customs regulations undeniably comprise the most visible barrier to international trade. Penalties for noncompliance can be far-reaching, ranging from delayed goods to increased frequency of inspections to hefty monetary fines.

Not all barriers can be blamed on government entities, however. Banking requirements add another dimension to international trade, requiring firms to produce original paper documents before a letter of credit can be issued. Locating and transmitting these documents constitute other trade hurdles over which firms must navigate.

Together, banking and government requirements can effectively dissuade many companies from ever entering the global marketplace. However, the technology involved in global trade management helps expedite the logistics process and achieve compliance at each step in the supply chain. Better still, GTM technology can minimize organizations' costs of accomplishing this.

## Step-By-Step Assistance

The typical supply chain possesses seven points where firms must meet compliance requirements. GTM is one of the most reliable ways to guide firms through each step.

**1) Sourcing.** For purposes of this discussion, *sourcing* refers to exploiting global efficiencies to identify alternate supplier sources. The prevailing duty rate, coupled with the availability of a preferential duty treatment program, is one of the most important considerations when selecting a manufacturing or services facility.

Other key compliance factors include applicable exporting fees and taxes, required documentation and the cost to compile these documents. In seconds, GTM technology tied to a company's product database can perform pre-classifications for multiple countries, allocate costs, estimate transportation rates and delineate documentation requirements.

Moreover, the technology enables a firm to not only source products successfully but also identify the most advantageous production schedule. The system performs all the initial denied party screenings to assure firms of worry-free trade, compliant with U.S. Homeland Security and public safety regulations.

A denied party screening is a relatively recent phenomenon prompted by the fact that many countries restrict firms from conducting business with specific individuals, companies or even countries. These entities are referred to as embargoed countries, or denied or restricted parties. Checking business transactions against these denied party lists is called a *denied party screening*. Denied party lists primarily include known terrorists, sources that fund terrorists and parties guilty of trade violations.

**2) Procurement.** As used in this context, *procurement* is the acquisition of goods and services. As discussed previously, organizations must screen purchase orders (transmitted and received) against multiple denied party lists — GTM technology simplifies this process. However, as the importer of record, supply professionals' responsibilities do not end here. They must ensure that all their supply chain partners are compliant. How can firms possibly know all the international regulations — or exercise control over partners' trade-related actions — when maneuvering through customs in their own country is the stuff of nightmares?

A GTM system contains all the requirements and can automatically attach a list to the purchase order that delineates the exact export documents the supplier (or agent) must compile. In addition, using the estimated delivery dates to the overseas shipper/agent, the GTM technology will schedule milestones and issue alerts when any events are missed. If an organization's GTM system is Web-based, any supplier with a computer and a browser can input data directly, and the GTM system will automatically populate and generate the documents that need to be presented to local authorities at the origin/export country.

It can do the same for import documents expected by customs in the country of destination (for example, a certificate of origin, Generalized System of Preferences (GSP)

or NAFTA certificate and so on). GTM technology also enables supply professionals, as the importer of record, to monitor overall compliance performance at every stage by every supplier via the system's global visibility module. Any missed action items are immediately brought to supply professionals' attention, and they always know "where their stuff is."

**3) Shipment.** After goods are manufactured and consolidated for a shipment, but before they are loaded onto a conveyance, appropriate export information must be filed with local authorities, carriers and banks; prearranged import documents also must be delivered to supply professionals' firms or agents. For ocean shipments into the United States, data required by a 24-hour rule must be filed and accepted by U.S. Customs.

A GTM system integrates all these activities with supply management organizations' import process. The system ensures all the compliance information has been verified, all the commercial invoices have been checked against purchase orders, all the event notifications have occurred and new action items have been generated. Import processes forge ahead unimpeded by errors or omissions. Accuracy is facilitated by eliminating data re-keying; the GTM system already contains all the information needed.

**4) Financials.** Banks or importers will accept letter of credit documentation if they have open accounts with suppliers. GTM systems with an integrated financial module capable of reconciling financial, trade and transportation data — and able to certify the correctness of information — will reduce delays associated with this process.

**5) Receiving.** The next action is verifying received goods against packing lists, commercial invoices and purchase orders. An integrated GTM system with a centralized database essentially eliminates this step, because verification occurs when the manufacturer inputs production information earlier in the process. At that time, the system noted every exception and corrected it in advance of goods arrival. Supply professionals can now move to the next step: customs clearance.

**6) Clearance.** Clearance can be a time-consuming process, especially if it is done manually at the time of entry. A GTM system allows supply management firms to receive commercial invoices, transportation information and compliance data electronically before the shipment arrives. The system can then automatically create and file an import entry over U.S. Customs' automated broker interface (ABI) or make a customs declaration message (CUSDEC)-like transmission to a customhouse broker ahead of time.

When brokers perform clearance on a firm's behalf, the GTM technology allows all the customs information to be exchanged real-time with their data warehouse. The firm's system's data warehouse not only gives them easy access to relevant statistics for current transactions but also builds a knowledge base for future review. This capability provides firms with the data they need to maintain their competitive edge.

**7) Distribution.** When companies' goods are delivered to their customers, proof of deliveries must be filed. With GTM technology, these documents can be posted to their global visibility module.

Should any question ever arise about compliance at any stage of a firm's supply chain, its GTM system has all the documentation readily accessible for printing. There is no need to contact others or pay the exorbitant costs to produce this proof.

#### **GTM's Value**

A computerized GTM system not only automates and integrates business processes but also ensures compliance by enforcing all the regulations that apply at each step along the supply chain. GTM eliminates unreliable manual and visual verification processes. This can be a benefit when transaction volume is high and trade complexity is great. In the very best GTM systems, operator intervention is only required in exceptional situations when the GTM system cannot make a definitive decision. This allows supply executives to concentrate on more vital business activities.

Implemented correctly, GTM benefits all supply chain participants via fewer delays, inspections and audits. This translates to fewer fines and chargebacks and reduced staffing requirements, which guarantees a quick ROI from a supply management organization's technology investment. Most importantly, it has solidified its market position with a more competitive pricing structure — the reason the organization looked to foreign manufacturing in the first place.

*To contact the author, please send an e-mail to [author@ism.ws](mailto:author@ism.ws).*