

# Beyond documents: Trade management moves to the financial side of the street

**Malcolm Wheatley, senior contributing editor -- Manufacturing Business Technology, 8/1/2008**

Headquartered in Littleton, Colo., **Holiday Creations** sells custom-designed seasonal merchandise such as decorative lights and festive wreaths. The company is a "virtual" manufacturer: All its products are manufactured for the company in China under the supervision of a Hong Kong-based operations office. Finished products are then imported to the U.S., and sold to other countries as well.

Canada, for example, is a significant market. And in such a price-conscious product category, shipping to these countries via the U.S. is inefficient—adding to cost, time, and import-export paperwork.

The solution? An end-to-end global trade management (GTM) system from **QuestaWeb** that replaces manual procedures and faxed documents with a Web-based electronic workflow credited with streamlining business processes and saving thousands of hours of employee effort.

Better still, in-built compliance "comes as standard," says QuestaWeb CEO Leon Turetsky, particularly for denied-party stipulations, special trade programs, and the Harmonized Tariff codes applicable for each shipment. And not just compliance with U.S. trade laws, but those of each country with which Holiday Creations does business. "One simple error can cost thousands of dollars," claims Monica Robinson, operations specialist at Holiday Creations.

Talk to global trade management insiders and they will say businesses like Holiday Creations are driving the global trade management agenda. Today it's rare that a manufacturer isn't importing or exporting something—and often, as with Holiday Creations, to and from multiple countries.

The result? Even as GTM is viewed as a core piece of business functionality—smoothing the cumbersome document flow that underpins global trade—solutions sets have evolved in surprising new directions.

## The financial bent



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"Global trade management has moved on," affirms Derek Gittoes, VP of logistics product strategy at **Oracle**. "Instead of merely acting as a denied-parties check and [delivering] specialized trade content to assist with preparing documentation and determining tariff codes, GTM

systems are offering more sophisticated capabilities like trade finance support, and landed cost management. It's about the financial aspect of trade management, even as the physical goods are moving from point A to point B."

Take landed cost management. A just-published study from the Canadian Imperial Bank of Commerce observes the soaring price of oil is matched by an equally skyward hike in freight costs. The cost of sending a 40-foot container from Shanghai to the U.S. East Coast has risen from \$3,000 in 2000 to \$8,000 today—and potentially to \$15,000 should oil reach \$200 a barrel.

So for a growing number of manufacturers, it's more important than ever to figure out if sourcing from overseas really is cheaper than buying domestically once shipping costs, tariffs, duties, and other related charges are factored.

Pat Furey, senior category manager with e-procurement vendor **Ariba**, cites a conversation that took place with a manufacturer using Ariba solutions. "The buyer is not sourcing from China anymore, and he does not want to source from Mexico either," Furey relates. "Instead he's actively talking to his traditional suppliers back in the U.S."

It's not an isolated instance. "Compared to three or four years ago, customers are [more] aware of the implications of tariffs, duties, and shipping costs on sourcing and logistics decisions," stresses Furey.

And for many of those trade-related costs—particularly those that are more complicated to figure out—the natural repository of that data turns out to be a GTM system. Not only does such a system bring such data into one easy-to-access location, points out Ty Bordner, VP of solutions consulting at GTM vendor **Management Dynamics**, but it also offers highly specialized import-export content.

These databases make it easy to explore contrasting "what-if?" scenarios—e.g., importing from Mexico rather than India.

Says Bordner, "You need to know all the relevant duties, fees, taxes, and tariff schedules before you can make an apples-to-apples comparison, and be able to say if buying from one foreign supplier is cheaper than buying from another."

And what's more, he stresses, manufacturers must be able to evaluate such comparisons at an unprecedented level of granularity. A Total Landed Cost rollup for Brazil, for instance, involves tracking up to 10 separate variables—more than double the three or four that are involved in most country comparisons, says Bordner.

Oracle's Gittoes points to a more extreme example. In rare instances, he says, Oracle consultants and customers have dealt with landed cost comparisons that required evaluation of more than 20 separate criteria.

Within manufacturers' sales and purchase orders, too, line-item visibility is a key requirement. Depending on the industry in question, it's perfectly possible for a multi-item export order to contain just a single item hedged with shipping restrictions laid down by the United States Bureau of Export Administration, detailing the countries to which it can and cannot be legally sold. The rest of the order is fine, but that one item shouldn't cross specified international boundaries.

**Leon Turetsky, CEO for global trade management solutions vendor QuestaWeb, says manufacturers need to know which items attract tariff concessions, and then demonstrate it during a subsequent audit such as those carried out by U.S. Immigration and Customs Enforcement officers.**



A standard denied-parties screening won't pick the problem up, stresses Bordner, because the issue is with the item, not the purchasing party placing the order. What's more, it would be naïve to assume that wily foreign purchasers wouldn't knowingly embed such banned items in a long order of perfectly legal exports.

## **Making concessions**

"On the import side, it's even more complicated," Bordner emphasizes. "If I'm importing from Mexico, and I wish to pay duties of zero percent as opposed to 10 percent, then I need to know at the line-item level which items qualify under the applicable trade agreement, and which don't. It's not a blanket 'per order' concession."

More than that, say Bordner and QuestaWeb's Turetsky, manufacturers need to know which items attract tariff concessions, and then demonstrate it during a subsequent audit such as one carried out by U.S. Immigration and Customs Enforcement officers.

"There's a tendency to think of compliance in terms of just denied-parties screening, but it's much broader than that," warns Turetsky. "It's being able to justify why a particular tariff was appropriate—and storing and then recalling the wealth of supporting documentation behind the decision."

Cue the other fast-emerging aspect of today's new breed of GTM systems: better management of the financial details of cross-border trade. Significant amounts of working capital can be tied up in goods on the high seas and awaiting customs clearance, points out Oracle's Gittoes, and manufacturers now know it's possible to proactively reduce this—instead of just suffering it—as GTM systems are oiling the wheels of trade mechanisms that are centuries old.

"We are seeing manufacturers exploit the power of global trade applications to free up capital by negotiating terms of trade that move away from Free on Board [FOB] contracts and letters of credit to open accounts," he says. The goal: move product across international borders as flexibly and freely as within national boundaries.

It's a trend that vendors have been quick to seize upon. **JPMorgan Global Trade Services**, for instance—formerly GTM vendor Vastera—has built upon its strengths in compliance and global trade content to smooth the flow of funds through international trade transactions.

"Global supply chains are getting longer, and have more intermediaries," notes Bernie Hart, a JPMorgan global product executive. "And every hand-off represents both a receivable and a payable, which is why we describe international trade as 'working capital in motion'."

By offering integrated logistics services alongside traditional trade documentation and compliance services and products, he says, JPMorgan can circumvent some of the roadblocks facing that working capital. As an asset-free, so-called 4PL-like "one-stop shop" for certain brokerage, distribution, and warehousing services, for example, JPMorgan aims to offer what Hart characterizes as "one throat to choke. In the U.S., we're even a licensed customs brokerage," he says.

### More alliances

Ariba's Furey points to the vendor's surprisingly low-key tie-up with financial institution **CitiGroup**. Citi, it seems, will be offering the opportunity for streamlined payment to those of its manufacturing customers engaged in international trade, with Ariba doing the behind-the-scenes heavy lifting. "The branding and the finance comes from CitiGroup, but the 'plumbing' comes Ariba," says Furey.

But perhaps the most ambitious global trade management vision comes from logistics service provider **UPS**. Its UPS Capital finance division aims to leverage its possession of key documents in the international trade process to enable faster payment—and reduced working capital requirements—in circumstances where banks would ordinarily be cautious at taking the risk.

As a logistics service provider physically in possession of the goods against which it is in effect lending, "The bet is a good one," insists Chris Vukas, managing director of global supply chain finance for UPS Capital. Banks, he notes, won't normally lend against goods still in, for example, China. But UPS, being in possession of both the negotiable bill of lading and the goods themselves, is in a uniquely secure position in the event of a default.

"In effect, we can pay against those goods when we take control of them at our bonded logistics park in China," says Vukas. "Our vision is 'synchronized commerce'—bringing together physical goods, information, and funds. Manufacturers and distributors tend to look at two dimensions—information and the goods—whereas as banks and finance companies look at information and funds. We straddle all three. We have the funds, we have the information, and we're the organization handling the goods."

For many, the prospect will be an alluring one, yet still somewhat out of reach. Despite the growing number of vendors offering easy-to-access global trade management capabilities via, for example, Software-as-a-Service, take-up of GTM systems remains well short of the number of manufacturing businesses that could benefit. That will likely change, as analysts are ranking GTM among the top three or four fastest-growing supply chain management application areas.

It's a development that isn't without a certain irony. As Jane Barrett, a director with Boston-based **AMR Research**, observes, even in highly globalized industries like the automotive vehicle and component sectors, "Manufacturers remain a strange mixture of total landed cost-aware and not-aware."

Greater visibility into the kind of information held by GTM systems will surely change that. The result? Ironically, GTM—as an application designed to facilitate taking on more global trade—will, in at least some cases, see companies doing less, once the landed cost implications are clearer.

Until then, many manufacturers will be doing what they've always done: Flying blind.