

Sojitz Navigates Complexities of Compliance

by Stacey Kusterbeck

When a start-up manufacturer of organic apparel set out to label its garments made of bamboo fabric, things got complicated. According to Federal Trade Commission (FTC) regulations, the fabric couldn't be labeled "bamboo," because it was considered a manmade fiber.

If this sounds like a nitpicky technicality, consider the financial impact if U.S. Customs asked for the mislabeled goods to be fixed and redelivered. Depending on whether the goods had already shipped, the importer would face a hefty fine or unhappy retailer.

And labeling is just one small component of the numerous, complex details that today's apparel importers must comply with — or face great expense, delays and governmental liabilities.

Unfortunately, compliance is often viewed as overhead by companies, with compliance professionals wearing many hats. "Although business leaders do realize it's a high-risk area, it's often a low-priority area for IT funding," says Asa McLoughlin, operations manager at New York City-based Sojitz Corporation of America, a global trading company. "Until that container with your fall line, that should be at your most important retailer's tomorrow, is stuck [in customs], it's probably not going to get your board room's attention."

Systems At A Glance

- **Business-to-business integration:** Inovis
- **ERP:** Homegrown Total Management System
- **Human resources:** ADP
- **Trade management:** QuestaWeb

Trend toward outsourcing

Because small- to mid-size apparel firms might lack the resources to purchase global trade management systems or hire seasoned compliance professionals, they are increasingly turning to outsourcing to navigate customs clearance.

In the above case, the garments made from bamboo were labeled correctly as "rayon from bamboo" as a result of a third party's involvement — that of Sojitz. Their Portland, OR-based apparel office was largely built around three decades of experience working for a single client — Nike, a relationship that began back when it was called Blue Ribbon Sports. By letting Sojitz handle most of its compliance functions, Nike freed up capital and human resources.

To help Nike supply dozens of countries, Sojitz handled all of the firm's import documentation, ensuring that shipping documents matched the purchase orders. "In the beginning, every import entry went through our office. Entries for shipments that came in to the port of Portland were filed directly from our office, tied up with Nike's EDI and all their other brokers as well," says McLoughlin.

But when a firm gets to a certain size, it often makes strategic sense to bring the compliance function in-house, something that Nike did about seven years ago (and longtime Sojitz clients Columbia Sportswear and Hanna Andersson also did recently.)

Sojitz showed Nike what a functioning compliance infrastructure looks like by acting as its own back office for a few years. "We have been able to get clients from relying on us almost 100 percent for their import compliance, to the point where they are able to take compliance in-house, by educating them about what is important, creating full import manuals that they could take on in-house and setting up broker management," she says.

Today, Sojitz plays a reduced role in Nike's customs compliance, but still processes more than 4,000 commercial invoices each month for "foreign-to-foreign" moves. "For some destinations, the Sojitz invoice to Nike is the one required for that country's custom's clearance, so visibility, accuracy, and processing speed are essential," she says.

Apparel rules are tougher

When it comes to customs compliance, rules surrounding apparel are stricter than for any other commodity. For example, the actual manufacturer of goods must be reported on your customs entry, down to the name and address, in order to report the correct manufacturer identification code. "With a lot of the offshore sourcing groups, people don't know to provide that information." Without it, however, you are breaking the law, McLoughlin says.

Classifications present another potential pitfall, largely because they are so complex. Many companies trust their broker to provide the correct information, but that's dangerous, because brokers often don't have it, says McLoughlin.

Inaccurate information can result in fines or inappropriate duties. For instance, the duty range for winter gloves can be as wide as 2 percent to 20 percent, depending on components and classifications, and these criteria are closely scrutinized. (To qualify as a ski glove, for example, the product should have a hook and a clasp, a reinforced thumb area, a tightening at the wrist, and a reinforced knuckle area, while sports gloves have additional criteria depending on the sport.)

One maker of high-end ski apparel found this out the hard way after officials took a phrase from the company's catalogue literally, interpreting "bashing the gates" as engaging in some type of physical labor, instead of as ski slang. As a result, customs ruled that the glove in question was neither a ski nor a sports glove, and as such it was assessed a much higher rate of duty (18.6 percent vs. 2.8 percent for the general sport classification).

For one client, a diligent Sojitz account manager classified down jackets correctly by using a spreadsheet to question the offshore manufacturer about the exact weight and makeup of down fill. "Not only is it important that the correct information was reported, but it also happened to save the importer 19 percent in duties for the styles affected," says McLoughlin.

Technology ties it all together

Sojitz is currently implementing QuestaWeb's TradeMasterQW, an Internetbased, fully integrated trade management solution, giving even its smallest apparel clients access to the same supply chain data and visibility as multi-billion dollar global corporations have. "It will tie all the different functional areas of trade together so we can integrate the overall business strategy," says McLoughlin. "We'll be able to have information quicker at our fingertips to email reports whenever needed."

For example, receiving actual landed cost reports by SKU, color and size immediately upon warehouse delivery can help benchmark profitability against MSRP (manufacturer suggested retail price), and allow forecasts to be adjusted.

Also, sourcing and vendor management are tied together with accounts payable and customs compliance, reducing manual input by an estimated 80 percent, says McLoughlin.

In addition to being "very solid in compliance," the tool is also flexible relative to the types of formats it can handle for entering purchase orders, shipping documents, product and vendor information, she adds. The tool can handle EDI, XML and Excel files, and can be adapted with user-friendly interface windows for companies that can't handle those formats, she says.

By having accurate vendor and product information in the system early in the process, Sojitz can identify potential "show stoppers" before the shipping season to reduce the chances of exams and cargo delays resulting from incomplete or incorrect information.

Sometimes, production moves from one vendor to another, resulting in additional paperwork that needs to be handled well in advance of shipping time. With TradeMaster, the company is alerted, as early as purchase order placement, to any product on a purchase order (PO) that was not reviewed and classified during the company's pre-season review, says McLoughlin. This allows Sojitz to work out most potential problems before goods are shipped and arrive at U.S. borders, she adds.

Then, when advance shipping notices (ASNs) come in from the vendors, they are automatically compared to PO information, which has already been verified against the product and vendor database. Since the system is exception-based, it's not necessary to look at every transaction. For instance, if there is a pricing discrepancy between the shipping documents and the PO, the system flags it.

When the goods are delivered, the entry information is sent electronically, tying the shipping documents and POs together. Another check is done to confirm that the broker entry was filed correctly. Next, the payment records are tied into the entire flow, to show that the payment to the vendor matches the declaration to customs.

Customs compliance may not be the most exciting topic, but it's important to remember that non-compliance can bring your business grinding to a halt, and shouldn't be given short shrift. "Importing is a privilege — it is not a right. Where would your company be tomorrow if this privilege is revoked?" asks McLoughlin. //

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