

GTM Drives Compliance and Efficiency in Cross-Border Trade

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At a time of increased regulation and complexity in global supply chains, companies can't do without a sophisticated global trade management application.

If your supply chain crosses international borders - and how many today don't? - then some form of global trade management application is a must. The recent explosion in offshore manufacturing, accompanied by a slew of new rules on importing and exporting, have upped the requirements for trade expertise. Traditional tools and business processes can't do the job.

"Simply stated, companies can no longer rely on manual processes to manage their global trade operations, which is why the [GTM] systems market is one of the fastest-growing segments of the software industry," says Adrian Gonzalez, research analyst with ARC Advisory Group, in a recent brief. But GTM is about more than software. As Gonzalez points out, companies that source or sell across borders need access to a wealth of information about rules, quotas, duties, preferential agreements and restricted parties. Armed with such information, they can stay on the right side of regulators, and even expand their markets in a tough economy.

The necessary tools depend on the size and sophistication of the buyer. Larger entities tend to have some baseline GTM capability, notes Nathan Pien, senior vice president of marketing and product management with Management Dynamics Inc. They're looking to take cost out of their supply chains with techniques such as direct importation, giving them more control over suppliers and inbound transportation contracts. But the strategy also requires a higher level of expertise in the Line points of trade.

Preferential trade agreements offer one obvious source of savings, in the form of reduced or waived duties. Many companies haven't looked beyond NAFTA, the North American Free Trade Agreement among the U.S, Canada and Mexico. Yet there are more than 200 FTAs either in effect or in development, offering traders "a multimillion-dollar opportunity," says Pieri. A Management Dynamics survey found companies expecting to save between \$500,000 and \$1m for each trade agreement they implement, Pieri estimates that larger organizations will need portfolios of between six and 26 active F'FAs, resulting in huge savings if they make proper use of those instruments.

There are other advantages to a robust GTM process. A lot of companies have relied on a single logistics service provider to handle the basics of transportation and customs clearance. As they expand into new markets or acquire other businesses, they are likely to find themselves working with multiple partners. Says Pieri: "they might not feel they have the ability to freely negotiate rates for service if they are deeply entwined with a provider's systems."

Modern GTM applications are frequently available in an on-demand, or software-as-a-service (SaaS) version. According to Pieri, the technology gives users a subscription-based system that is highly configurable yet covers all aspects of an export-management program. It includes the ability to store classifications in a centralized product master, screen against multiple sanction lists, determine whether licenses are required, and file the necessary documents with government regulators in an electronic

format. This year, Management Dynamics is adding a compliance dashboard for importing, incorporating supplier portals, process automation, visibility, trade agreements and international transportation management, Pieri says.

It's Time to Comply

Bernie Hart, executive director of global sales with J.P. Morgan, says companies are under increasing pressure to focus on international data consistency, in line with new regulatory efforts in the U.S. and elsewhere. U.S. Customs and Border Protection has begun full enforcement of its Importer Security Filing (ISF) regime, also known as the 102 rule. It requires importers or their agents to submit additional data elements to Customs 24 hours prior to the departure of a U.S-bound vessel from its port of origin. The rule went into effect in 2009, but Customs didn't begin assessing fines for non-compliance until this year.

Don't expect the agency to stop with 10+2. Hart sees Customs extending its reach to include the advance filing of data on valuation and country of origin, to name just two possibilities. The goal is to obtain more complete information at a shipment's point of origin. In the future, importers will need tools that can handle the additional reporting burden. "The infrastructure is now built," says Hart. "As long as it's out there and we're all required to use it, it will continue to get expanded. "

J.P. Morgan is urging its clients to focus on data consistency across countries and agencies. Among regulators, that goal is far from achieved, but Hart sees progress in the European Union, "in small bits and bytes." Eventually, he believes, national customs bodies will come to agree on a standardized method for the filing of entries worldwide. In the meantime, the private sector should be working on harmonizing its own processes, both in terms of technology and business practices.

Companies should begin with the basics - part numbers and product SKUs - then manage them in a coherent fashion across the organization. "I preach to everyone that you should be looking toward setting up a global trade database," Hart says. It should consist of a data repository for each market - "think of it as a passport for each country" - maintained from one central location. All of the regulatory requirements of a given country can be tied to the part number.

It's a great idea on paper, but few traders have managed to fully automate their regulatory processes, says Hart. A company might have developed a part master, but it isn't necessarily used by every division. Mergers and acquisitions tend to create fractured organizations, and even those that grew organically can be hindered by silos with poor communication and incompatible processes.

Often the problem is worse than that. Wayne Slossberg, vice president of QuestaWeb, has seen major companies with "absolutely no organization of information for their global trade management." Many rely on spreadsheets based on the limited information that resides within enterprise resource planning systems.

For a global entity, automation and standardization of GTM can be a daunting task. Any company making product in multiple countries must cope with constant tariff changes and the screening of vendors for security purposes. A number of businesses have signed on to the voluntary Customs-Trade Partnership Against Terrorism (C-TPAT), but they aren't likely to meet the strict requirements of the initiative without some kind of tool for tracking the particulars.

GTM technology does much more than automate existing processes and supply chains. It can result in major changes in the way product is sourced, driven by a clearer understanding of the fees and filing requirements of various countries. Companies can also come to understand the concept of total landed cost - something they might not have been thinking about, when they outsourced their production capability to countries with cheap labor.

Compelling as the rewards might seem, a good number of top executives have failed to embrace GTM technology, Slossberg says. "They don't understand it. It's hard [for compliance experts] to articulate the value to a company."

One possible explanation is that proponents of GTM have failed to find "the proper button to push" with C-level executives, whether that's tax savings, avoidance of fines or the creation of more efficient supply chains. "Every company I've been at has had a different thing," Slossberg says. "Plus, a lot of Executives don't engage the IT people."

Or perhaps those executives are afraid to learn the truth about their trading processes. Many have relied on outside customs brokers, freight forwarders or third-party logistics providers to handle their trade compliance issues. Slossberg tells of one QuestaWeb client that, having implemented the vendor's international freight forwarding module, discovered 300 mistakes in its shipping process. "It wasn't the 3PL's fault," he says. "It was the information that people were putting in. There was no product database to validate off of."

A New Kind of Barrier

Blame also the constant changes in tariffs and trade rules enacted by countries seeking either to raise revenue or protect local markets from an incursion of imports. Ironically, the growth of multilateral trade agreements to reduce duties might have contributed to the problem. Confronted by a spate of FTAs and liberalizing actions by the World Trade Organization, governments have been replacing tariff barriers with regulatory barriers, says Anne van de Heetkamp, director of global trade compliance with TradeBeam.

Good GTM intelligence can not only help businesses to navigate those increasingly complex regimes, it can prompt them to take a second look at their sourcing strategies, says van de Heetkamp. While the discovery of landed cost hasn't necessarily resulted in an exodus of protection in China, it is likely to affect future decisions. "It's very hard to pull out once you're truly committed, she says, "but when you have a new product line, or have to remake a decision, its not automatically going to be the same decision."

Even with the best GTM tools, it's still a challenge to assess current and future duties, transportation models and manufacturing cost, Technology vendors offer "a lot of fractured pieces of that solution," van de Heetkamp says.

An effective GTM program attacks the problem on several fronts. First, says van de Heetkamp, make sure you're not shipping to any suspicious buyers, through the use of restricted-party screening systems. Second, adopt a compliance system that flags any orders that shouldn't be shipped, or identifies the licensing requirements for that shipment. Third, go for a tool that generates detailed information on duty rates and allows for the calculation of true landed cost.

IT budgets are tight, van de Heetkamp acknowledges, but she urges immediate action all the same. "If you do that now, when the economy is down, it will allow you to expand the number of shipments without expanding your compliance staff." In addition, a good GTM system will set up the infrastructure for future growth in trade activity, as well as customs filing requirements.

A common issue is the need to secure supplier information further up the supply chain. The trend calls for tighter links with all parties, especially manufacturers, says Cindy Yamamoto, senior vice president of product strategy for global logistics execution with Descartes Systems Group. It's not just a question of complying with the law, she says. By implementing a formal GTM process, companies gain more control over their costs and contracts. They ensure that the right vendors are being deployed at the right price. And they can calculate the true cost of transportation and better manage their overall spend, Yamamoto says.

GTM automation also allows businesses to optimize their processes with fewer resources - an essential capability in a downturn, says Jonathan Wasserman, Descartes' senior vice president of product strategy for global trade and compliance. Cash flow can be managed against tight margins. And companies can combat the growing "fragility" of supply chains, caused by fluctuations in inventory and currency-exchange rates.

Such factors are ensuring that "compliance now has a different seat at the table," says Wasserman. Traders can no longer rely on their brokers to act as "gatekeepers" for documentation and compliance. When a rule is violated, it's the ultimate importer or exporter who pays the price. Never mind that the company might not have known all of the details of a given manufactured product, including the duties and quota treatment that are attached to it.

Yamamoto says companies should start by determining who its carriers are. "The agreements you make for transportation are going to drive the rest of our business processes. Once you determine who your base of carriers is, you want tools to manage the booking process against contract."

Once again, it all comes down to having a centralized database, against which vendor performance can be measured globally. Spreadsheets and preferred-carrier lists are of little use if a booking can't be checked against the original contract.

The same level of diligence should be applied to the regulatory aspect of trade, says Wasserman. Shippers need tools that can verify original purchase orders, commercial invoices, customs entries, warehouse receipts and accounts payable. Key data gets translated into an accurate and compliant commercial invoice for filing with the relevant agencies. "You need to prove to Customs that you're keeping an eye on it," he says.

An Essential Tool

One way of looking at GTM is as a means of improving the efficiency of a global logistics network, with regulatory compliance a welcome side benefit. Total landed cost accounts for between 20 and 30 percent of a product's overall expense, says Derek Gittoes, vice president of logistics product strategy with Oracle Corp. Supply-chain managers can offset the negative impact of longer lead times by minimizing the variability of delivery cycles and order lead times. The way to do that is by gaining visibility over the chain.

Companies also need to be looking at systems that can handle an expansion of their markets. "By having the right set of technologies and processes in place," says Gittoes, "they can address tactical cost issues and position themselves for growth ahead." Yet another reason for making an investment in GTM while the economy is still in the doldrums.

The buyer of a GTM application needn't wait months or years to experience its benefits. Merely keeping compliant with new regulations should be reason enough to go shopping for a new system. With U.S. Customs and other agencies demanding more details about international shipments, the alternative to automation is to spend hours on the phone collecting data from suppliers and preparing documents by hand. Over the longer term, the business pay-off becomes more evident. "It's not a bad thing to have more information about your suppliers," says Gittoes. "If you know you need certain data elements for compliance, you'll want to start incorporating those into your own contracting process."

A initial investment in GTM should cover the areas of compliance, supply-chain visibility and trading partner collaboration, says Gittoes. One baseline requirement is having on hand the right global trade master data. It contains all the information needed to classify products properly and ensure correct filings. Many companies struggle with obtaining "one version of the truth" for their product master, which might be available in multiple versions depending on the country of export or import, Gittoes says. The information needs to be synched up and made available to all parties involved in the transaction.

Easier said than done, of course, Clay Perry, senior vice president of global markets with Integration Point Inc., notes all of the places where international trade data can reside - within an ERP system, at the broker or forwarder, with Customs, the U.S. Census Bureau and the supplier, to name a few. In most cases, he says, "you can't go to a single place and say, 'I want to look at all of my trade information, how much duty I paid, what my classifications are and whether this qualifies for a trade agreement.'" Making matters worse is the failure of those systems to integrate in a meaningful way.

The goal isn't necessarily to have all of that information contained within a single platform, Perry says. But companies can acquire systems that will access the data wherever it might be, for purposes of ensuring compliance. A good way to begin is by creating a product classification database for all countries. That can serve as the master source of information for a company's ERI system as well as those of brokers, suppliers and other outside entities.

"The key thing is that there's a central repository maintained by someone in trade management," says Perry. "Otherwise you don't know the benefits and the pain points - that your broker has been classifying 25 percent of your products incorrectly for the last 10 years. "

The next step, Perry says, is to be able to audit broker activity on the back end. Companies need to know if their agents made any classification changes or didn't follow through with a filing. A post-entm audit tool helps to ensure that the shipper of record retains control over the data, and doesn't run afoul of regulators somewhere in the world.

More sophisticated applications can follow, assuming corporate executives have the foresight to invest in modern GTM systems. Slossberg sums it up in simple terms "It's the next great frontier for recovering and creating revenue for your company."