Sourcing Innovation

Catching up with GDM: Don't Underestimate Trade Compliance

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Last October, while discussing Global Trade Data Management, I introduced you to Global Data Mining, a company that specializes in helping high-volume, high-value global trade businesses build effective trade databases for extensive trade reporting and comprehensive auditing to significantly improve their processes, reduce their error rates, and save time and money in their global trade endeavors.

Even though one of my interests is understanding how you can improve your global strategic sourcing processes with better trade data, it's clear that the most pressing issue today for most companies is just trade compliance. Today, Trade Compliance goes well beyond just assigning the proper Export Control Classification Number (ECCN) and the proper Harmonized Tariff Schedule (HTS), but also involves making sure you are paying the proper duties, qualifying for Value Added Tax rebates, and taking advantage of Foreign Trade Zones. It also means that, before you ship your goods to their destination, you make sure they are complaint with any local regulations such as the EU RoHS, WEE, or REACH directives, the HAZMAT requirements, or the EC ELV directive. (Don't know what these are? Keep checking the e-Sourcing Wiki - a wiki-paper defining the basics of Global Trade is forthcoming.)

It's a lot more costly than most organizations think it is. According to their whitepapers, error rates in global trade processes approach 10% to 20% and effective control of global trade processes is often 100 to 200 times worse when compared to accounts payable processes within a company. And the savings opportunities often go well beyond the 2.5% to 10% that previous Aberdeen research studies have indicated it to be. In conjunction with the Aberdeen Group, in preparation for their upcoming benchmark study, GDM analyzed the actual trade data for five organizations with 66B in revenue and found direct-compliance related savings opportunities of $261.2M alone. It might not sound like much, but it's likely just the tip of the iceberg as the savings came only from non-compliance, self-filing, and free trade zone savings that could be identified on data analysis alone. Imagine what better sourcing that considered trade compliance and import / export rates, free trade zones, and automatic e-filing opportunities from day one could accomplish!

With complex cross border transactions expected to account for more than 10T this year, according to the McKinsey quarterly, with many companies still struggling to adapt to the HTS reforms in January, with pre-arrival e-manifests almost the norm now for cross-border trucking into the USA, with the recent elimination of many VAT rebates in China, and with the rapid multiplication of foreign trade zones in dozens of countries around the world, each with their own laws and benefits, it's a given that billions of dollars are being lost by businesses around the globe just on Trade Compliance alone. So take it seriously, and if you need help, seek it out.

I'd be comfortable starting with Global Data Mining or their partner, the International Trade Bureau. They're open about their tools, capabilities, and results, and will happily work with other vendors if you need a solution they can't supply on their own. As to whom else plays in the trade management space, there's Bearing Point Consulting, Core Solutions, Management Dynamics, Integration Point, QuestaWeb, and Tradebeam. As with PLM, I'm not an expert in the Global Trade Management space when it comes to all the players and their capabilities, but I do think a few of capabilities of Global Data Mining, along with a few of the reports, are unique and certainly worth investigating if you do a significant volume of global trade and have never analyzed your compliance or cost efficiency. Having them audit your data and prepare a summary will not cost you much, but could identify millions in savings. In one $3B apparel company alone they found $161.5M in potential duty and free trade savings - 5% of revenue - not cost, revenue! It's something to think about.