Global Logistics

Yamaha tunes up its import operations

Technology helped Yamaha Corporation of America take control and conquer its import management challenges.

By John Kerr
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Picture this scenario: Customs authorities at the Port of Long Beach have placed a hold on four containers that have just arrived from Indonesia. They're part of a shipment of 50 containers, and none of them can leave the port until the four have been inspected and released. Four of the 50 units are carrying 28 grand pianos each; that's at least $150,000 of cargo per container. Many of the other containers contain professional audio gear, adding to the importer's huge dollar delay.

For Yamaha Corporation of America (YCA), a supplier of musical instruments and equipment in Buena Park, Calif., such holdups were part of the normal friction of importing from overseas. Yamaha is by no means alone in that regard: Many importers, large and small, have experienced similar problems as inspectors search for compliance violations and contraband.

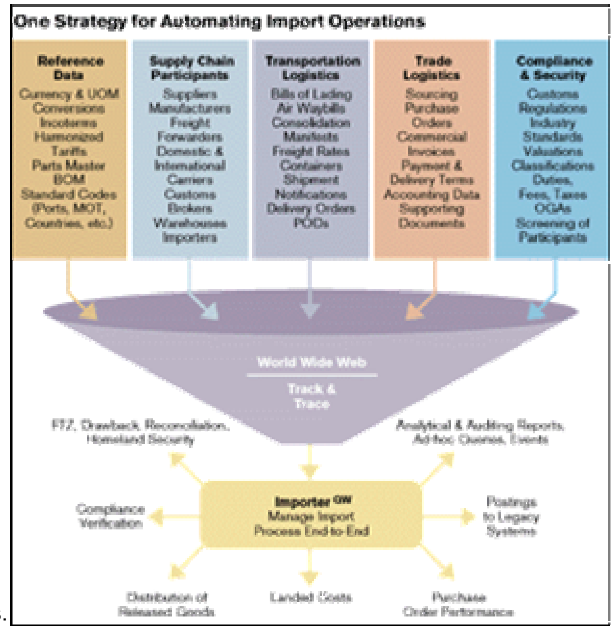
In the last three years, the delays and consequent costs have been getting worse as U.S. Customs and Border Protection (CBP) has tightened security rules "Since Sept 11, there's been a kind of zero-tolerance stance in U.S. Customs. The stakes are much higher," observes Adrian Gonzalez, director of the Logistics Executive Council at research firm ARC Advisory Group. The agency has also broadened its enforcement target from the 1,000 largest importers to the top 9,000, notes Felix Pekar, chief operating officer of global trade management software vendor QuestaWeb Inc.

Customs holdups are just one of the challenges confronting importers. Their own inefficiencies have exerted a drag on productivity and kept costs high. As a result, supply chains often have too much inventory in the pipeline, and importers don't get the full cost picture they need to price products correctly. Well into the 21st century, moreover, most are still handling import processes manually.

Yamaha was typical. A supplier—usually Yamaha Corporation of Japan—would ship components and finished products, then send shipping and customs documentation by mail or fax. YCA would forward those documents to a customs broker, which would use them to clear the shipment and invoice YCA by mail. The brokers' invoices were costly: For entries with many different product classifications, the per-line costs on top of the base fee could add up to as much as $300. Yamaha was spending well into six figures per year on such fees.

YCA had begun automating parts of its import process 12 years ago. But its rigid legacy systems—highly customized applications handling data feeds from Yamaha in Japan and running on an older mainframe—made progress difficult. The system could handle minimal levels of electronic data interchange (EDI), but it embraced only a fraction of the company's import data needs. In practice, Japan often ended up sending both EDI and hard-copy documentation to its U.S. subsidiary. For some components and accessories, moreover, it was common to see a variance of 5 percent or more between actual and estimated landed costs. (Landed cost, used by importers to determine pricing, is the total of the manufacturer's selling price plus all costs related to transportation, customs, security, financing, taxes, and inventory.)

A Chance to Change



The first real opportunity for change came in 1996 when Yamaha prepared to replace its custom-built information system with an Oracle enterprise resource planning (ERP) package. The new solution drove processes ranging from distribution management to order entry to financial controls, but it did not directly handle imports. Nevertheless, YCA saw a chance to improve the accuracy of its landed-cost data. Import team leader Juna Kim spearheaded efforts to identify actual costs using real data, concentrating on the two largest cost components: customs duties and ocean freight. "If those two are accurate, most of the other numbers have very small influence," she explains. That initiative brought estimated landed costs to within 98 percent of actuals.

But the migration to a more flexible, automated system was triggered by YCA's Japanese parent moving to the R/3 ERP system from SAP. One phase of that implementation included a new export process, which legislated a change in YCA's import procedures.

Kim saw even greater opportunities to improve YCA's import effectiveness—in particular, to arrive at highly accurate landed costs, tighten up its financial reporting, and move products to its dealers more quickly—with positive consequences for cash flow. Says Brian Jemelian, corporate vice president of finance and administration: "We can't process invoices until the product is in our warehouse. As we reduce delays in clearing customs, we get product into our warehouse faster."

In 2002, Kim worked with Vimal Thomas, YCA's general manager of information technology, to plan an upgrade that would reduce manual data input, more easily generate management reports, and allow other departments, such as finance, to query import data remotely. Her evaluation of trade management software offerings led her to select QuestaWeb Inc.'s Importer^{QW} system. Soon after, QuestaWeb's specialists began to customize an Internet-based solution that would interface with the SAP export program and meet the requirements of U.S. government security programs, such as the Customs-Trade Partnership against Terrorism (C-TPAT).

Although the implementation relied on some then-unproven technologies and required a change in development tools partway through, advance planning helped the project go smoothly. "YCA knew exactly what they wanted—they were very technology-savvy," says QuestaWeb CEO Leon Turetsky.

Measurable Benefits

The new program has introduced numerous improvements to YCA's import processes. It offers better system navigation; creates EDI messages for customs clearance; and allocates payables invoices and prorates costs by, for example, department number and manifest number. It also provides landed-cost variance reports by bill of lading, by invoice, or by product. There is a more powerful and more secure query management engine, and better reporting of ozone depleting chemical (ODC) taxes. (That tax is a levy on importers of products that are manufactured using chemicals that deplete the ozone layer.) The QuestaWeb package also includes a pre-classified product catalog, which saves time when preparing customs entries.

Today YCA can point to several measurable benefits from its new import management process. These include:

- *Faster customs clearance.* Customs officials gain confidence in an importer's reliability when they receive accurate, repeatable numbers tailored precisely to their formats. The software has helped Yamaha meet that standard, and YCA now experiences far fewer customs delays. Airfreight clearance is 31 percent faster than before, and ocean freight clearance times have improved by 63 percent. "Strong customs compliance is core to this system, even beyond inventory savings and time savings," says Jemelian. "It results in compliance not only with U.S. Customs but also with other government agencies that we're accountable to, such as the Federal Communications Commission."

- *Tighter financial reporting.* Because invoices are paid against actual landed costs, it's vital to have minimal variance between actual and estimated costs. YCA puts a premium on its new ability to narrow that gap. Ocean freight, insurance, and other costs are captured exactly as they are. Before the automated process was rolled out, YCA had pulled estimated landed costs up to about 98 percent of actuals. Today, they are very close to 100 percent accuracy, virtually eliminating the need to analyze variances.
- *Lower broker fees.* With the new software, YCA has been able not only to reduce customs brokers' processing fees for each invoice but also to negotiate reductions of as much as 30 percent annually in service charges. At the same time, the company has pushed its brokers to take on more value-added work, such as providing trade advisory services.
- *Less staff required.* One of the import program's plus-points is that it lets YCA assign employees more effectively. First, the import department can now run with two-thirds of the staff it used to have. (Some employees were reassigned after their roles were automated.) And second, the Web-based system allows more than 10 times as many people to access import data and extract customized reports. "Previously, any time our front offices wanted to know when this or that product was going to come in, they would have to call us. Now we don't get any of those calls," says Kim.
- *Better data reporting.* Because it has an accurate picture of landed costs, Yamaha can now figure dealer pricing earlier and hold to those price points. Now, data is nearly 70 percent better in terms of reduced redundancy, accuracy, completeness, and compliance.

The new system also makes it possible to aggregate key financial data elements more accurately and more rapidly. As a result, YCA can close its books in three business days. Just a few years ago, it took almost twice as long.

The Quest Continues

Yamaha Corporation's achievements have important ramifications for other importers. CBP is going paperless, and businesses that don't do the same may be in for some unpleasant surprises. The most recalcitrant, moreover, may find that manual systems render them less competitive than their rivals and may seriously impede operations if another terrorist incident leads to even tighter security.

Those issues can't be fully addressed by off-the-shelf software; import processes must be customized to meet not only industry and customs specifications but also individual manufacturers' specs. Nor can problems be eased simply by outsourcing more functions to brokers or to managed-services providers, believes QuestaWeb's Turetsky, who argues that sensitive information is best kept behind a company's own firewall.

Meanwhile, Yamaha is pushing ahead with its quest for process improvements. Kim and Thomas expect to go live early in 2005 with an automated tracking system that will allow all supply chain participants, from trucking companies to Yamaha's sales teams, to use a single Web page to pinpoint product location.

YCA expects that will further trim its manufacturing-to-delivery cycle time. The sooner those keyboards, pianos, and saxophones are in Yamaha's warehouses, the faster they can be shipped out to dealers. And since the tracking system will further accelerate cash flow, it's music to the ears of Yamaha's finance chiefs.

For more information, please call (908) 233-2300 or visit Questaweb, Inc.
Source: Logistics Management