

Managing Trade Compliance Data across the Supply Chain Utilizing a Centralized Platform

A White Paper by Integration Point

August 2010

Executive Summary

In a world gone flat, global expansion is a necessity if one is to remain competitive. For most companies, such a shift in operations also adds complexity to the trade functions that support those operations. For the most part, companies have come to the conclusion they are ill equipped to deal with an ever changing landscape consisting of new sets of regulatory requirements needing to be understood and to which the company must adhere. The unfortunate reality is that with increased complexity comes more trade-related risks. To minimize these regulatory risks, it is imperative that accurate and timely trade compliance data be available across the entire global supply chain. The significance trade compliance data has and how its use grows in proportion to the number of countries in which a company operates cannot be understated.

Organizations must raise awareness of trade compliance data and re-think supply chain strategies to draw attention to the data needed to manage the movement of goods across borders and to bring some long overdue exposure to the multiple areas trade data is utilized both internally and externally. This paper builds the business case for how trade compliance data, when stored in a shared, common platform and then distributed to all key stakeholders when needed, improves the overall efficiency of a supply chain and mitigates risk.

On Point

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- United Nations Trade Documents Toolkits, United Nations, 2005

Global Expansion Equals Growing Complexity

As companies continue to expand globally to reach new markets, managing a global supply chain and improving efficiency has become a top priority as companies struggle with the issues surrounding sourcing and selling in a global marketplace. For any compliance manager involved in importing or exporting goods across an extended supply chain, there is a true understanding and appreciation of the effort required to have the “right product at the right place at the right time”.

Millions of dollars have been spent implementing ERP, supply chain, warehouse, and transportation management solutions in an attempt to ensure that goods are exactly where they are needed when a consumer is ready to purchase. In addition, a great deal of focus has been placed on how making structural changes or automating certain functions can achieve greater supply chain efficiency in the form of improved visibility, shorter lead times, or decreased inventory levels. The question now becomes where to look next to squeeze even more margins out of the supply chain.

That answer lies in an area that is typically overlooked until either a shipment is delayed at the border or the company is fined by a regulatory agency. This is the area of global trade compliance, or more specifically, global trade compliance data.

Trade compliance data includes regulatory data such as tariff numbers, taxes and duties, export licenses, quotas, import/export controls, rules of origin, etc. Unfortunately, its importance in supporting the movement of goods and the payment of duties across a global supply chain is commonly viewed as necessary overhead and not a core competency within the supply chain organization. All too often, little regard is placed on the significant disruption not having accurate compliance data readily available can have on the supply chain until a high profile event occurs. By then, however, everyone is in reactive mode. A company's reputation has been tarnished if the situation makes the news, and at the end of the day everyone involved remains focused only on the symptom and not the underlying root cause.

Trade Compliance Data across the Global Supply Chain

Has your company, as part of any internal discussion on how to improve the efficiency of your supply chain, ever given serious thought to how much the efficient flow of money, information, and goods across your supply chain depends on having the correct trade compliance data available when and where it is needed? In most companies, chances are good that this question has never been posed or fully explored as it is rarely discussed outside of the Compliance department.

Considering that most supply chain improvement projects to date have concentrated on the physical movement of product - either moving it faster, across shorter distances, or only when it is needed - it is not surprising that the critical role trade compliance data fills does not receive a great deal of attention.

To compete and win in a global economy, just as much attention (if not more when you consider the financial impact of a compliance related disruption and/or fine) must be paid to knowing where to get trade data inside the organization. This is as important as improving the ability to more accurately forecast, knowing what current inventory levels are and where it is located, or how to improve the distribution of goods over the last mile. The days of thinking that Compliance, much like the Supply Chain department has been in the past, is nothing more than a cost center are over. Companies that fail to raise the profile of the Compliance department and trade data can expect to experience with increasing frequency multiple points of failure across a global supply chain including shipments being delayed, fines and penalties being assessed, and a hit to the company's hard earned reputation. In short, can your company afford not to take Compliance more seriously than it has in the past?

The World is Flat but Regulatory Changes Run Deep and Wide

It is a quote that has been used by many — a typical international transaction requires 35 documents across 25 parties complying with more than 600 regulations and more than 500 trade agreements. (Source: *Supply Chain Digest*, June 2008). What is often overlooked is the cost of complying with the myriad of regulations required when moving goods across a supply chain that spans any number of international borders. Per the United Nations, “The cost of maintaining trade documentation is a significant component of the final market price of the goods. It is estimated that *direct and indirect costs of trade documentation accumulate to 5% to 10% of the value of the goods*, depending on the nature of the goods and the specific supply chain scenario.” In fact, the inefficient administration of customs processes accounts for 7% of the cost of international trade, according to a United Nations study. (Source: *United Nations Trade Documents Toolkits*, United Nations, 2005)

What is lost in those numbers is how the correct, or for that matter, the incorrect use of global trade compliance data has a direct correlation to not only the physical flow of the supply chain including the completion of trade documentation, but also the overall financial performance of an organization.

When scrutinized, companies quickly realize how much having accurate and timely trade compliance data facilitates a smooth transaction between trading partners, allows for lower duties and taxes, and lowers the risk of enforcement if accurate data is provided to the appropriate customs agencies. According to the AberdeenGroup, companies who are not “Best in Class” experience, on average, a 25% error rate on international orders due to the use of inaccurate trade compliance data. (Source: *AberdeenGroup “Global Trade Compliance Priorities in 2008”*)

Left Hand, Right Hand, and Trade Compliance Data

Just as important, but not as well known or studied outside of the world of the trade compliance community, is the extent to which trade compliance processes and data are integrated with existing internal supply chain processes. Getting product to market goes way beyond how fast a shipment moves from origin to destination. It is critical to also factor into the lifecycle of a product where it is sourced and from what supplier(s), how the product is classified in the various markets in which it is produced and sold, what trade agreements are available, and to whom the company ultimately ships.

Trade compliance processes, in reality, touch nearly every aspect of the enterprise, including research & development (R&D), engineering, procurement, logistics, manufacturing, sales, and finance. To help understand how far reaching trade compliance data is inside an organization, let’s illustrate “cause and effect” examples showing how functional areas outside the Compliance department can directly impact the use of trade compliance when it is not shared.



- Procurement/Sourcing changes sourcing locations/suppliers without researching trade preference benefits being utilized and only informs Compliance after the fact that a new product and/or supplier has been added resulting in higher total landed costs and potential delays at the border
- Engineering makes changes to a finished good Bill of Material (BOM) altering the classification or country of origin but doesn’t notify Compliance resulting in the possibility of lost duty savings or non-compliance
- Manufacturing does not provide valuation information which ultimately impacts the total duties paid

- Logistics works with trading partners and supplies them with information required for shipment but does not ensure compliance with trusted trader programs needed for the un-interrupted flow of goods across borders
- Sales fails to screen customers to identify potential restricted parties, putting the company at risk for non-compliance, penalties and bad publicity
- Finance manages international payments, receivables, assists, and transfer pricing based in part on available compliance data but does not verify if the quantity, classification, and valuation is accurate and up-to-date
- Compliance classifies products with only half the picture directly impacting its ability to use compliance data effectively as part of the company's supply chain strategy

When looking across the entire organization it becomes very apparent how decisions made in areas outside the Compliance department directly influence what trade compliance data is used during the lifecycle of a product. In many organizations, departments outside of Compliance have either minimal knowledge and/or little visibility into how decisions made locally ultimately alters how product is moved and the duty amounts paid.

Ending the information disconnect described above requires changing the way compliance data is used, captured, and shared. Without the institutional knowledge of the Compliance department becoming more tightly integrated with all functional areas across the entire company, organizations are missing opportunities to achieve tangible improvements in both supply chain flow and cost savings. To compete in today's global economy, trade compliance data must be viewed as strategic in nature and given a new level of significance inside an organization and its supply chain operations. Trade compliance cannot function effectively without collaboration and support from every area inside the company that plays a role in how goods are designed, manufactured, shipped, and purchased.

The Harmonized System (HS) and the Supply Chain

When discussing trade compliance data and its use across a supply chain, attention must be given to the HS number and the role it plays in importing and exporting product across international borders.

The Harmonized System, or HS, is one of the keys to global trade coordination and is a crucial part of the global marketplace. According to the World Customs Organization, the Harmonized System is used by more than 177 countries as the basis for Customs Tariffs and Statistical Information. The widespread adoption of the HS has, through the implementation of an internationally standardized system of names and numbers, dramatically improved the global trade community's ability to trade product across international borders. *(Source: World Trade Organization website)*

Because the HS number is used by customs agencies to collect duties and statistics, careful consideration must be given to how it is applied when classifying a product. But, as they say, it doesn't stop there. The selection of an HS number must also be thought through in regards to how it will be shared throughout the entire supply chain, its potential impact on the speed of the supply chain in terms of its availability at the time shipping documents are transferred between parties and when presenting to customs agencies, and to the total amount of duties paid that ultimately impact the bottom line. **When incorrect classification data is used, it cascades throughout the supply chain leaving multiple compliance failures, delayed hand offs, and higher risks of fines and penalties in its wake.**

When it comes to looking for low hanging fruit that can yield immediate payback, reducing inventory levels is not the only quick hit available. Revisiting how products are classified and in particular, verifying products are classified correctly, has the potential to significantly lower duty rates, taxes, and tariffs. So much so that U.S. Customs estimates between \$1.5 and \$2.3 billion of the \$20 billion paid by over 300,000 importers to the U.S. Government each year is likely an overpayment and is eligible for refund to the importer. *(Source: US Customs & Border Protection estimates)*

Outside of the US, according to an APEC estimate, trade facilitation could reduce trade transaction costs by about 5.8 per cent in industrialized APEC economies, by 6.2 per cent in newly industrialized APEC economies, and by 7.7 per cent in industrializing APEC economies. In most cases, an improvement in customs procedures may lead to the largest reduction of transaction costs. (Source: *Measuring the Impact of APEC Trade Facilitation on APEC Economies: A CGE Analysis* (Singapore))

Classification is the foundation for all customs transactions and having input from each functional area is critical if a company ever wants to: (1) effectively manage how products are classified across the organization and (2) have full visibility into all information needed to classify a product correctly.

To fully support the free flow of data across the supply chain, product classification must be integrated within a shared, common repository along with other key data elements such as what products are dual sourced, the supplier(s), Country of Origin, HS/HTS number, ECN/ECCN number, reporting unit of measure, and FTA eligibility. Given that one person's export is another's import, having key data stored centrally, including multiple classifications for each product, will facilitate the efficient flow of trade data between the trading partners involved at both ends of the transactions.

Additionally, when consolidated into one, common platform, and then integrated with a global trade content database that provides up-to-date regulatory data for every country, an organization has at their fingertips the data needed to determine sourcing and selling opportunities, duties and tariffs associated with the country of export and import, free trade eligibility, and the total cost of doing business across borders.

The Case for a Centrally Managed Parts Repository

The value proposition for implementing a centralized platform to manage trade compliance data goes beyond replacing the existing practice of using an Excel spreadsheet to store HS numbers by deploying a centralized parts repository that is "hosted" on the Internet just because it's possible.

While storing HS numbers is a key building block of any centralized parts repository, and should not be downplayed, it is where the journey starts, not where it ends. With its full potential met, a common parts repository becomes the enterprise "system of record" for trade compliance data and once in place, enables the consolidation and sharing of all compliance data required to meet the varying rules and regulations pertaining to the movement of goods internationally.

Identifying the need for a centralized platform remains, for the most part, a challenge when trying to get senior level management support. The fundamental reasons for the lack of adoption come back to what has been touched on already: a lack of understanding outside of the Compliance department on how much compliance data directly impacts the speed of a supply chain, the overall financial performance of the company, and its ability to keep the company in compliance.



To help raise awareness on the value a centralized repository can deliver, outlined below are very specific reasons for how an organization can use, and more importantly, benefit from a centralized, global classification platform. A centralized product repository, when implemented and integrated with existing processes, delivers the following:

1. **Centralized product database.** Consolidating product classification databases for all countries of operation into a shared repository allows for central management of key trade data such as product number and/or SKU, product description, HS number, Country of Origin, reporting unit of measure, supplier, business unit, and supporting documentation such as binding rulings across all regions. As a result, an organization has the ability to leverage a centrally controlled classification database which standardizes trade compliance processes, increases product trade data accuracy, reduces errors, increases internal and external communication, strengthens compliance ratings, and improves the timeliness of the information shared with external trading partners. When every participant in the supply chain is using the same information, goods move more smoothly.

2. **Increased compliance data visibility.** Managing classification data for the entire enterprise in one location provides visibility for both internal and external stakeholders. With a common platform in place, all departments now play a direct role in how compliance data is captured and how it should be used to classify products. Data, such as product design from engineering or sourcing locations from procurement, is now provided in a timely manner and incorporated into determining the classification of both new and existing products. With data now readily available, strategic sourcing decisions can take into consideration the impact of engineering decisions, sourcing locations, local duties, taxes, trade restrictions, and available preferential trade agreements.

Compliance data visibility, which is now possible, is accomplished when additions, changes, or deletions to the classification data repository are made and then shared internally with key and externally with trading partners and customs agencies alike. For example, sharing accurate, up-to-date trade data electronically with each customs broker involved in the clearing of a shipment greatly reduces the possibility of a broker either not having all the data needed or having outdated information at the time the entry is created.

3. **Improved compliance across the supply chain.** Providing on-demand availability to the classification database via the web ensures that every trading partner has access to and uses the same classification data at every stage in the supply chain.

4. **Minimized risks and/or delays in the supply chain.** Having the correct classification data in an easily accessible platform reduces the chance of shipments being delayed in customs that result in demurrage, disruption to the flow of goods, and uncertainty.

5. **Demonstrated reasonable care.** Complying with government regulations is required by all importers and exporters. Deploying a solution focused on managing and maintaining accurate classification data demonstrates reasonable care and improves a company's compliance rating. With the right solution, companies can institute required steps individuals must follow before a product is fully classified, attach supporting documentation such as binding rulings to support the classification, and track every individual who was involved in supplying key information used in the final determination.

6. **Enhanced management of trade preference programs applicability.** A Global Classification platform, when integrated with a global trade content database that is continually updated, becomes an invaluable tool for helping organizations to stay current in an environment of ever changing regulations. With an integrated solution, companies have access to accurate and reliable information on the preferential trade agreements available for all sourcing locations, what the preferential duties rates are for those countries, and what rules of origin need to be met in order to qualify. Once eligibility is determined, products can then be flagged in the classification database and shared with the customs brokers ensuring eligible products are declared as such at the time of entry.

7. **Synchronized trade compliance data.** A centralized parts repository, once deployed, not only provides a common platform for trade compliance data, but it is also capable of integrating with existing legacy applications such as ERP, WMS, and supply chain visibility to share trade data with those applications supporting the sourcing, manufacturing, shipping, and delivery of goods. Sharing trade data electronically is yet one more key component in maximizing the widespread use of trade data. Providing the appropriate data when needed to complete the shipping documentation, for clearing the shipment through customs, or for declaring what was shipped to customs, is how trade compliance data contributes to the overall financial and physical flow of the supply chain.

8. Integrated with Global Trade Content. Having the ability to store data in a central repository is good. Having global trade content integrated with a centralized parts repository is invaluable. With global trade content integrated on a centralized platform, companies have at their disposal access to up-to-date trade content such as tariff schedules, duties, taxes, OGA's, rules of origin, and restricted party lists. Now, in one location, companies have all product data and trade content in one central location needed to support their compliance operations globally.

For those organizations with a centralized parts repository already in place, the benefits outlined above have already presented themselves and the value of having a common platform in place is well understood by everyone inside and outside the organization. For those that have not yet deliberated how a centralized platform can improve their operations now is the time to begin asking how truly inefficient the capturing and sharing of trade compliance data is today and what it is costing the organization and its trading partners in time and money.

Conclusion

The impact of not having accurate and timely data available cannot be understated. As has been discussed throughout this paper, having trade compliance data readily available must become a central component of any organization's global strategy. Regardless of which way you look at it, trade compliance data in a global economy has moved "front and center" as one of those areas that needs to move from the back room to the boardroom. Whether you are looking at trade compliance from a cost avoidance (fines & penalties), a cost savings (lowered duty rates), or a risk mitigation (fewer supply chain disruptions) perspective, how trade data is captured and disseminated throughout your organization and beyond most become "core" to an organization's global operations.

By not making both the cultural and structural changes necessary, the flow of information, goods, and money throughout the supply chain will continue to be held hostage to not having the "right (compliance) information at the right place at the right time." As the global economy continues to expand, and as new markets continue to open up, the significance of trade compliance data will only grow in proportion. The question then becomes, does your organization reevaluate how trade data is used internally and make the necessary changes or do you continue the "status quo" and hope for the best? The choice is yours.

About Integration Point[®], Inc.

A leading provider of global trade management solutions, Integration Point, Inc. assists international companies by providing import and export visibility globally, delivering up-to-date global regulatory information and facilitating connectivity to supply chain partners and government agencies around the world. Built on a single, web-based platform, Integration Point allows organizations to secure their supply chain and comply with global regulatory requirements while improving visibility and realizing savings opportunities. The Integration Point Global Trade Management suite of products includes solutions for: import/export management, supply chain security, entry validation, restricted party screening, product classification, free trade agreement qualification and duty deferral program management (US FTZ, Mexico Maquiladora, EU Customs Warehousing, etc.) For more information, visit the website at www.IntegrationPoint.com