



Making the Business Case for Automating Global Trade Management

A QAD Leadership White Paper for the
Global Manufacturing Industry

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MAKING THE BUSINESS CASE FOR AUTOMATING GLOBAL TRADE MANAGEMENT

GLOBAL TRADE MANAGEMENT AND TRADE COMPLIANCE ARE UNTAPPED SOURCES OF COMPETITIVE ADVANTAGE

For many years, enterprises treated trade compliance as a back-office function. The sales department was tasked with selling more product; the logistics department was responsible for making sure goods were delivered to customers; but the trade compliance department was seen as something of a necessary evil that, on occasion, slowed down the supply chain or prevented sales.

Traditionally, trade compliance has focused on mitigating risk. This included avoiding penalties and protecting a company's reputation. These are certainly important goals. Companies that violate compliance regulations can face steep fines and loss of trading privileges. In some cases, perpetrators can be jailed. However, "risk" can be a nebulous concept. As a result, many companies have resisted investing in compliance personnel and enabling technology, especially if regulators have yet to come knocking.

GLOBAL TRADE MANAGEMENT VS TRADE COMPLIANCE

GLOBAL TRADE MANAGEMENT (GTM)

seeks to streamline all global trade activities. This includes orders, global logistics, and settlements to improve operational efficiencies and increase cash flow.

TRADE COMPLIANCE

addresses the regulations and trade-specific costs of conducting international trade. Compliance professionals seek to ensure companies adhere to global trade rules, avoid penalties and compliance-related delays. Trade compliance is a key aspect of overall GTM.



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RISK VS REWARD

Today, best-in-class companies understand that automating global trade management and compliance processes is not merely about avoiding risk — it is about unlocking reward and boosting supply chain performance.

The volume of world merchandise trade may have been impacted by the COVID-19 pandemic, but the trend is clear — more companies are engaged in international trade than ever before.

This means companies have an increased need to connect to suppliers, partners and customers around the world. A comprehensive global trade management strategy can offer cross-functional significant benefits. These include:

- **Procurement costs:** instead of simply purchasing from the lowest cost supplier, a robust GTM strategy looks at total landed cost, including transportation costs and duties.
- **Supply chain velocity:** decreasing delays, simplifying border crossings
- **Operational efficiencies:** automation and a single version of the truth is used across departments, functional areas, and geographies.

70%

of companies using global trade management solutions report a return on investment within just 13 months on average.⁹

THE CROSS-FUNCTIONAL IMPACT OF COMPLIANCE

Compliance can impact many different functional areas in a company. Here are four functional areas where compliance can be used strategically.

PRODUCT DEVELOPMENT

If a company's manufacturing or engineering team makes changes to the finished product without alerting the compliance department, they may do so in a way that alters the classification or country of origin. As a result, your company could end up paying the wrong duty rate, or incorrectly claim preferential duties under a free trade agreement.

PROCUREMENT

In many companies, product and sourcing decisions are made without input from the trade and customs department with regard to duty/tax liability, special regulatory requirements, or other related issues which could result in added risk, time and/or cost upon entry. Furthermore, companies should consider the total landed cost as well as transportation costs when selecting vendors.

MANUFACTURING

Manufacturing teams are not compliance specialists. Therefore, they may be unaware of what materials — and in what quantities — can impact a finished product's classification and resultant duty rate.

SALES & DISTRIBUTION

Depending on what you sell and where you sell it, it may be necessary to screen all customers to identify any restrictions. Dual use goods, or goods that could have potential military use, definitely need to be screened. It is worth bearing in mind that these restrictions can apply to goods that seem innocuous such as precision pipes, O-rings, life jackets and engines.

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GLOBAL TRADE: FOUR AREAS OF CHALLENGE

Global trade certainly has challenges. Here are four areas where companies engaged in global trade may struggle.

1. Complex regulations: Trade regulations change frequently. Rules around import and export can also vary significantly depending on the country.

In 2019, the World Bank estimated that on average companies spend around 9 hours and \$275 per shipment to finalize all compliance and documentation requirements to import goods into the United States¹ Many countries have significantly more stringent and onerous compliance and documentation requirements.

Adhering to all these rules makes compliance a challenge — particularly for companies whose operations include multiple geographies and regulatory regimes.

2. Costs: Cost containment is crucial for companies engaged in global trade. A survey by Deloitte found that 78% of chief procurement officers stated that driving operational efficiency was the top business priority followed closely by reducing costs with 77%.²

Deloitte also found that leveraging GTM technology in the cloud allowed companies to unlock value and increase efficiencies. A number of strategies can be leveraged to reduce costs, including duty savings through the utilization of free trade agreements, and/or foreign-trade zones; as well as freight spend reduction through zone skipping and consolidation, plus automated freight bill auditing.

3. Disruption and risk: Complex global supply chains have inherent risks. Single sourcing critical products can delay

production if a vendor experiences a fire, weather event or other unforeseeable event, such as a global pandemic. Other significant areas of risk across global supply chains is non-compliance with regulatory requirements. Incorrectly classifying products, or falsely claiming preferential duties under a free trade agreement opens up a company to significant penalties as well as reputational damage. Given the complexities of both classification and FTA determinations, it is very possible for human error to be the cause of such violations.

4. Efficiency: Companies that do not have standard global trade and compliance procedures across their operations can have unidentified gaps in their processes. This can lead to compliance risk, information silos and poor productivity.

Furthermore, manual procedures to comply with global trade requirements are time-consuming, resource intensive and error-prone. Automation frees up key personnel to concentrate on strategic and value-added initiatives aligned with a company's key strategic goals.

DID YOU KNOW THAT 4 IS GREATER THAN 24?

One QAD customer, a global manufacturer of construction machinery and equipment, reduced the number of steps required to prepare an export shipment from 24 different screens to 4 simple workflow enabled steps thereby enabling their global trade team to do more with less.

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THE BUSINESS CASE FOR AUTOMATING GTM

Companies need a combination of people, processes and enabling technology in order to leverage best practices for global trade management. Technology alone is not enough — knowledgeable professionals and clear, consistent processes are also necessary. Here we look at four areas where global trade management technology can benefit companies.

SUPPLY CHAIN VELOCITY

One of the major challenges of global trade management is, as discussed above, the complexity of regulations. Manual processes and siloed data mean that compliance personnel do not have the necessary and scalable tools to handle the sheer volume of global trade requirements.

A study by Deloitte found that 52% of companies lack the headcount to perform all their import operations. Additionally, 37% of companies did not have enough personnel to perform all their export operations.³

GTM solutions speed up the movement of goods. For example, access to up-to-date trade content integrated with your export management system means that you have visibility into license requirements. Similarly, integrating trade content with your import management system means that you will not miss potential admissibility issues, such as those required by a partnering government agency. Without complete documentation, shipments are slowed down or stopped, creating supply chain bottlenecks, increasing costs and delivering poor customer service.

A comprehensive GTM solution takes the guesswork out of licensing and documentation requirements, ensuring that the correct information is presented to authorities, at the right time, in the right format and language.

Furthermore, automated global trade management solutions give companies access to up-to-date trade content. As a result, companies can:

- Easily address changes in the tariff schedule so that they are not under or overpaying duties
- Screen suppliers, customers and other trading partners against current restricted party lists
- Adhere to changing regulatory requirements wherever they trade

COST CONTROLS

Companies can use GTM technology to reduce duties, import fees and brokerage costs. Technology assists with strategic sourcing, such as qualifying goods for preferential duties under free trade agreements, as well as leveraging programs such as Foreign-Trade Zones.

As well as leveraging enabling technologies, companies should task their trade professionals with analyzing possible trade lanes. This analysis should include:

- The impact of import/ export controls
- Whether goods qualify for preferential duties under a free trade agreement
- Transportation costs
- Documentation requirements

For example, let's say the procurement department generally chooses suppliers based on unit price alone. If your company is not taking into account the total "landed cost" — including transportation and duties — as well as transportation time, this could be a false economy that adds costs, time and inefficiencies. Furthermore, sourcing decisions can impact the eligibility of your finished goods for preferential duties under a free trade agreement.

Companies that import dutiable goods should also undertake a cost/benefit analysis of leveraging cost containment strategies such as a foreign-trade zone. This allows companies to defer duties

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on goods for domestic markets, and eliminate them entirely on exports. However, the cost savings are not on duties alone. In some cases, companies with high volumes of imports can save millions of dollars each year on MPF and broker fees too.

MITIGATING RISK

Supply chain risk can come in a variety of forms. Weather events, natural disasters, cyberattacks, crime and other unforeseen happenings can disrupt supply chains without warning.

A second significant area of risk comes in the form of new laws and regulations. Sometimes the impact of these is positive, such as a new free trade agreement. Other times, regulations can put a company at risk of penalties and serious reputational damage, such as laws designed to ensure that no forced labor was used across a supply chain.

Then there are the day-to-day risks, many of which are caused by human error. Examples include failing to conduct trading partner screening, a wrong HS classification, incorrectly claiming preferential duties, or not adhering to licensing requirements.

To manage risk, companies first must understand what could go wrong, and what the impact would be. Once that is clearly understood, companies can assess what tools and processes they need to mitigate risk.

No supply chain is ever completely free of risk, but technology can easily manage risks associated with trade laws and regulations, as well as human error. Examples include:

- Consistent, auditable classification process
- Proactively identifying goods with admissibility flags or special requirements
- Vendor and customer screening
- Export declaration preparation
- License and permit management
- Free trade agreement origin determination
- Preparation and solicitation of Certificates of Origin
- Inventory tracking for Foreign-Trade Zones
- Documentation preparation
- Record retention and audit trails

EFFICIENCY GAINS

Automation results in increased productivity, efficiency and accuracy. By leveraging technology, companies can free up compliance personnel from repetitive tasks, allowing them to concentrate on value-added initiatives such as strategic sourcing.

With automation and workflows, your company can ensure that critical processes, checks and controls, as well as licensing requirements are always met. This eliminates the need for manual checks, ensures no required documentation is missing as well as eliminates human error.

One study found that companies that use automation increase staff productivity by 15.88%⁴. In a 2019 Deloitte Global Trade Automation Survey, respondents indicated that for both import and export activities, day-to-day operational tasks such as classification storage and determination are among the activities most frequently automated.⁵

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What do best-in-class companies automate? ⁶

Online access to trade content:	77%	Restricted party screening:	58%
Centralized and shared trade compliance data:	70%	Compliance with security regulations:	46%
Documentation exchange and communication with brokers:	58%	Qualifying goods against free trade agreements rules of origin:	33%

	Best-in-Class	Competitors
Frequency of out-of-stock inventory in the past year ⁷	0.8% decrease	0.9% increase
Total landed cost per unit year-over-year ⁷	2.71% decrease	5.03% increase
Orders delivered to customers that are complete and on time ⁷	96%	87%
Reduced global trade spend year-over-year ⁸	69%	21%
Orders received from suppliers that are complete and on time ⁷	95%	85%
Visibility into all international outbound orders shipped status within hours ⁷	88%	54%

THE BUSINESS BENEFITS OF AUTOMATING GTM

Companies that adopt cloud-based GTM solutions for improved performance and visibility experience a number of benefits relative to their competitors.

CONCLUSION

Any company dependent on trade needs three critical things: knowledgeable personnel, robust processes and enabling technology.

Technology allows companies to mature their operations, giving them greater flexibility in the face of disruption, plus increased visibility and transparency across the supply chain. With clearly defined, standardized and automated workflows, companies have a consistent approach to global trade across the entire enterprise. This results in more efficient and cost effective processes, mitigating risk in dynamic trading environments.

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