GLOBAL TRADE MANAGEMENT

TAPPING INTO A HIDDEN SOURCE OF VALUE

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SCM World

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EXECUTIVE SUMMARY

In late June, the United States Congress granted President Barack Obama the authority to "fast track" negotiations on international trade deals. This action makes it much more likely that significant multi-lateral trade agreements such as the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership will be finalised. If this does happen, two enormously consequential trade agreements will join the nearly 600 free-trade agreements already in place across the globe.

This possibility should act as a strong incentive for companies to reassess their current trade management processes and capabilities. Successfully engaging new markets and taking advantage of the opportunities inherent in existing and future free-trade agreements requires higher levels of customs and trade expertise, as well as the maturation of current processes and systems.

This is no easy task, however. It can take years for companies to develop trade expertise, redesign trade processes and implement tools and systems to automate and optimise these processes. But for those who accept this challenge, the opportunity is huge: companies can potentially save millions of dollars annually by utilising free-trade agreements and simplifying cross-border operational processes.

Surprisingly, many companies are unaware of this opportunity. They underestimate the upside of managing global trade well, see it primarily as a compliance tool, or are overwhelmed by its sheer complexity. The value of global trade remains hidden and untapped, and, consequently, companies leave margin on the table and limit the effectiveness of their market growth plans.

Companies that effectively manage global trade do the following:

- **Simplify customs and cross-border operational processes.** Impediments to new market growth, such as a lack of compliance with country import regulations, cause companies to redesign ineffective, non-standard processes to drive greater efficiency in customs operations. This ensures that products are compliant for sale and are available in markets.

- **Utilise free-trade agreements and other trade facilitation vehicles during supply chain network design.** Leaders that have redesigned their customs operational processes quickly become aware of the opportunity for duty savings once they understand the full scope of their companies' duty spend. At this point, they begin to make sourcing, production and logistics decisions that factor in free-trade agreements and other trade facilitation vehicles during supply chain design.

- **Invest in trade automation tools**. Trade automation applications have a demonstrable impact on simplifying and bringing efficiency to cross-border operations. The master data these tools bring to supply chain design decisions and landed cost analysis is also essential for capturing savings in duty spend.

Companies that have taken these steps are confident that they are doing everything within their power to optimise margins, speed products to market and grow revenues, while reducing the risks they face in trade agreement non-compliance.

INTRODUCTION

Today is a good day for Supply Chain Steve (a fictional cartoon character created by SCM World). And it's one that has been months in the making. His supply chain design team is presenting to key commercial leaders its model for one of the most important product launches in the company's history.

Steve has the best design team in the industry, hands down. Product engineering's nose for quality is so strong that Steve now refers to them as his "quality bloodhounds". The price reductions negotiated by his sourcing team are mind blowing. Manufacturing has selected the most optimal plants in the network and, lately, they've been performing with the precision of an atomic clock. And he has the most creative logistics team on the planet.

They've nailed packaging design, the amount of inventory to carry, the splits between ocean, air and truck for both inbound and outbound. Their projections on future currency adjustments and potential changes in commercial terms with providers are realistic and objective. From Steve's perspective, the analysis is watertight.

Mitch, the commercial lead for this product launch, is impressed. "Fantastic work, Steve," he says. "We are looking at some very healthy margins for this one. Tremendous!"

Steve gives a little fist pump beneath the table. He has a fresh box of M&Ms waiting for him in his office. He is now looking forward to the end of this meeting so he can go and enjoy them.

"Excuse me, what about trade?" It's the new guy, Robert, from finance. Steve is hit with a wave of uncertainty. He doesn't know him, but he looks pretty brainy. "Where does trade factor into this analysis?"

Robert's question is met with blank expressions from everyone, including Steve. "Trade. You know, customs, taxes, duties," he continues.

Irritated, Steve replies: "Finance is responsible for that, Robert."

"What I mean," says Robert, "is are we proactively trying to reduce our duty spend? We have opportunities to save on the tariffs we pay in cross-border trade. This will make our margins even stronger."

"That sounds good," says Mitch. "How do we do that?"

Robert stands up, excited. "It all starts with understanding the specific six-digit HS number for the product," he explains. "Once we look that number up in the general notes section of the harmonised tariff schedules, we can then determine whether or not we need to reclassify the product so it meets originating goods requirements. And if we keep a customs handbook, we may be eligible for duty drawback. So what…"

Mitch's face has undergone a substantial transformation, and he now appears to be on the verge of vomiting on the table.

"Robert," he interrupts. "Just pay the bill when it comes in, okay? Good work team."

The meeting adjourns. Steve heads back to his office where he opens his celebratory box of M&Ms. However, he pauses before tucking in. What was Robert getting at with his commentary on HS numbers,

customs handbooks and duty drawbacks? He's curious now. Steve gets up to go and find him. Did his team miss an opportunity to improve gross margins for this launch? Did they leave money on the table?

THE PROBLEM WITH TRADE MANAGEMENT

The short answer is, yes, they did. Understanding what Supply Chain Steve's team missed and what they could have done differently, however, requires a longer answer. Capturing the opportunity inherent in the proactive management of duties and tariffs requires process and technological capabilities that can take years to mature.

Moreover, the opportunity is not always apparent owing to a lack of clarity on organisational accountability for trade. Is legal responsible for it? Finance? Supply chain? Is it the responsibility of the commercial team of each business unit? In each geography? If no group or function has trade as part of its mandate, and tariffs and duties are written off as simply the cost of product, then any landed-cost analysis is fundamentally flawed. This, in turn, leads to an inaccurate understanding of gross margins, as we saw in the hypothetical example above.

"The problem with global trade," says one seasoned network designer for a large automotive manufacturer, "is that when you put your ladder up in the cherry tree, global trade doesn't typically show up in the lower-rung ladder work you do. It tends to be higher up in the branches and a little harder to get to. It's not something most companies are looking at on a daily basis."

This report aims to help companies visualise what is a significant opportunity. Depending on factors such as the volume of trade and sales, companies can save hundreds of millions of dollars in duties and tariffs every year – not just as a one-off – by making smarter supply chain decisions.

And it's not just about duty savings either. Companies that focus on developing more standard cross-border operational processes will increase speed to market, reduce risk and enable revenue growth. But trade management can be complex, and tapping into this hidden source of value requires companies to develop the right expertise, the right processes and the right tools.

DEFINING GLOBAL TRADE MANAGEMENT

The first word that comes to mind for most supply chain leaders when hearing the term global trade management (GTM) is probably "compliance" – it helps companies to comply with arcane and ever-changing trade regulations and cross-border customs procedures. Its usefulness primarily resides in quickly and compliantly clearing packages and making sure the company is not engaged in anything that will result in significant fines and penalties or, worse still, jail time for its executives.

This is, however, a myopic and antiquated view of global trade, and it is partially responsible for the lack of mindshare GTM has with supply chain leaders. "Customs and trade compliance is not a sexy job," admits the head of customs at an industrial manufacturer. "Not many people raise their hands to own it as a function, because once you start issuing documents you become personally liable for those documents."

Another reason global trade is not often top of mind for senior executives is its sheer complexity. With close to 600 free-trade agreements worldwide, and different customs rules, regulations and levels of maturity in place in different countries, expertise and knowledge can be hard to locate. Often it will be broadly diffused across functional and organisational boundaries. For many companies, trade management is a black box – no one is really sure how it works.

So what is it? SCM World defines global trade management as "the processes, capabilities, tools and expertise that enable companies to do the following:

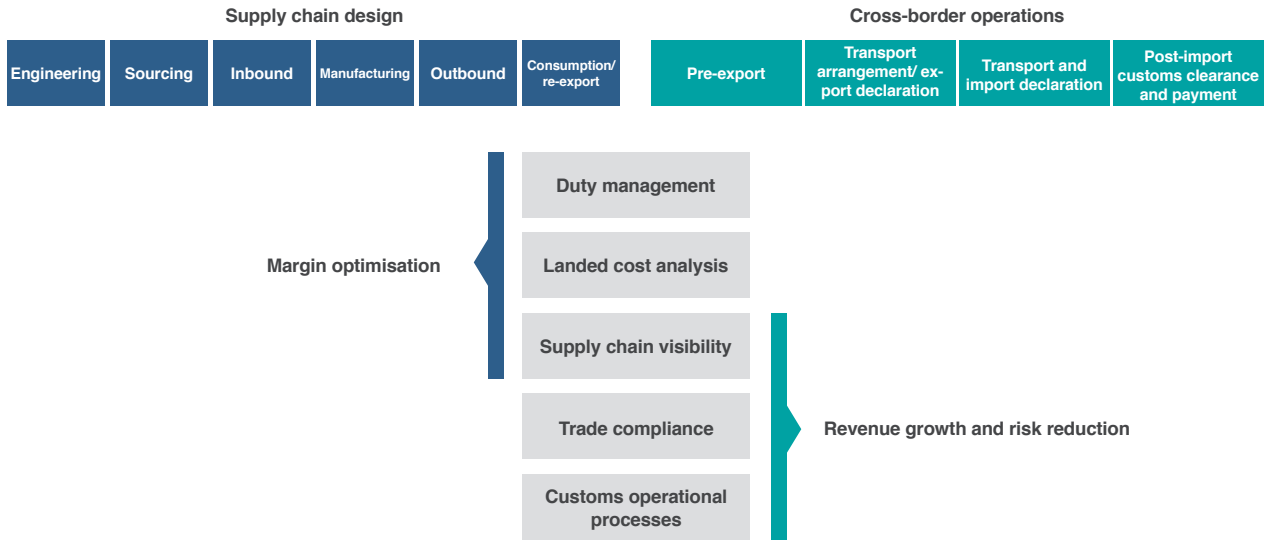
- Optimise margins through the use of free-trade agreements and other trade facilitation vehicles during supply chain network design.
- Support market growth and reduce risk by more effectively managing the flow across international borders of physical goods and services, as well as financial, legal, regulatory and operational information."

Figure 1 shows a visual representation of this definition. Running horizontally across the top of the "T" are the two main processes of global trade management: supply chain network design and cross-border operations. The primary functional disciplines involved in the analytical modelling and design work are on the left. On the right are the four main sub-processes of cross-border operations. These, in turn, are supported by the five capabilities found in the trunk of the "T", which, taken together, aid in achieving the main objectives of global trade: optimising margins, growing revenues and reducing risk.

Some companies and solution providers include a third overarching process of GTM: collaborative supply chain execution. This includes factors at the front end of product development, such as collaborative product design with external suppliers, as well as more transactional elements such as supplier capacity management, and purchase order and raw material order management. For the purposes of this report, however, we are going to focus on the foundational elements shown in Figure 1, as a means of capturing the hidden opportunities within global trade.

(See the appendix for a glossary of some of the more common global trade management terms and concepts in use in industry.)

1 | The global trade management "T"



Source: SCM World

WHAT'S DRIVING ADVANCES IN GLOBAL TRADE MANAGEMENT?

Among the companies interviewed for this report, most described a similar pattern to the discovery of untapped value in global trade management. They only became aware of the opportunity as a result of problems that emerged as their companies increased international sales and found new sources of supply.

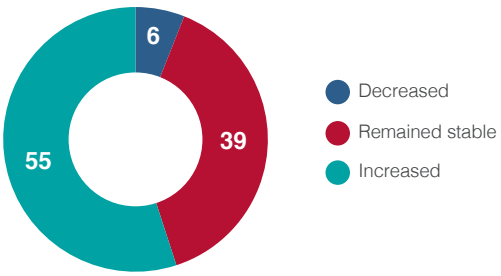
One-third of respondents to an SCM World field survey on global trade management in 2013 sell into or source from more than 100 countries. In both cases, this growth has been occurring for some time and is expected to increase in the short to medium term. Figure 2 depicts changes to international sales over a 10-year period.

The majority (55%) of respondents saw an increase in international sales over the previous decade. Globalisation and the facilitation of trade through free-trade agreements and the reduction of barriers to trade (whether related to tariffs or onerous customs procedures) clearly have incentivised international sales. This growth is expected to continue. Over the next five years, two-thirds of survey respondents predicted an increase in international sales – a rise of 11 percentage points compared with the previous decade.

Global sales growth brings with it the increased complexity of managing multiple cross-border operations. Supply chain leaders in charge of fulfilling these international sales are facing the uncomfortable realisation that they lack experience of efficiently and compliantly moving, marketing and selling products into these new markets.

The picture is similar for sourcing. Figure 3 highlights the proportion of products and materials respondent companies are importing from foreign supply sources.

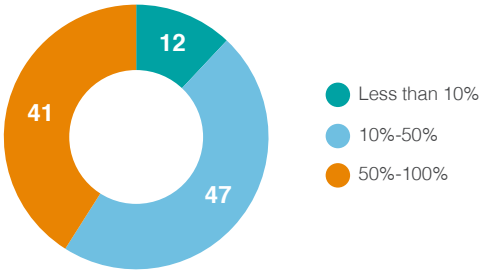
2 | Changes in international sales over past decade



Source: Global Trade Management Strategies survey 2013

% of respondents n=144

3 | Share of products and materials imported from abroad



Source: Global Trade Management Strategies survey 2013

% of respondents
n=144

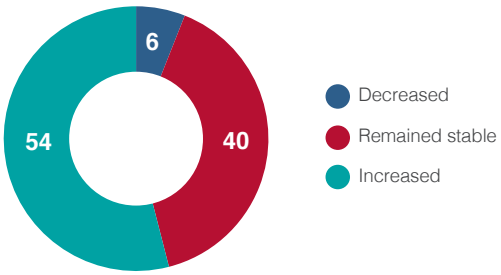
The data illustrates the degree to which supply chains have become more international. Four out of 10 respondents import more than half of their products and materials from supply sources beyond the borders of their company's headquarters. As we saw with international sales, this expansion has been occurring for some time. Figure 4 reflects how the importation of products and materials has changed over the past 10 years.

Imports decreased for only a small percentage of respondent companies. The majority (54%) saw an increase in imports. Moreover, the next five years looks a lot like the last 10 when it comes to changes in material and product imports.

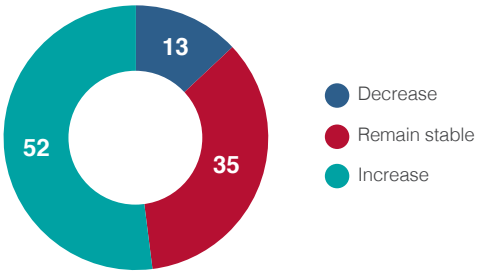
To reiterate, sales and sourcing growth has made managing the flow of products, services and information across borders more complex. As companies begin to dig into the root causes of problems impeding international sales opportunities, they gain awareness of the impact sourcing decisions have on tariff spend. This creates new variables that companies need to consider when making supply chain decisions. These variables can potentially reveal an untapped reservoir of savings and margin improvement above and beyond the typical price reduction activities that has driven most sourcing and production decisions to date.

New trade agreements such as the Trans-Pacific Partnership (TPP) will create another set of variables and new inflection points for companies to consider. For instance, owing to the scope of this agreement, and how it interrelates with regional free-trade agreements already in place (ASEAN, for example), companies could potentially reap enormous benefits through a fundamental remapping of their supply chains, accompanied by investment in the customs and trade expertise needed to compliantly and legally abide by the rules.

4 | Change in product and material imports over past decade



5 | Expected change in product/material imports over next five years



Source: Global Trade Management Strategies survey 2013

% of respondents
n=144

Hilti captures the hidden potential of foreign trade management

The Hilti Corporation, a 4.5 billion Swiss franc manufacturer and solutions provider for the construction and energy industries, has an impressive global trade capability. It ships approximately 52,000 SKUs globally and processes around 800,000 order lines per year, supported by 200,000 production orders or sourcing activities, and uses a network of more than 1,000 suppliers. Proving compliance with the rules of any applicable free-trade agreements is an enormous task, owing to the volume of data involved. Yet, Hilti achieves over 99.5% trade compliance with a customs and trade team of 10 people.

From a duty management perspective, the results are equally as impressive. In the first few years that the customs and trade team was operational, it removed 7-8 million Swiss francs in duty costs annually.

Five years in the making

As with any foreign trade management evolution, Hilti did not achieve this overnight. It took the company five years to develop the process capability. And, like many others, Hilti didn't start with an understanding of the potential jackpot in duty savings that could result from stronger process maturity; rather, it started with compliance challenges.

"The first step was gaining awareness that we had an issue," says Ruediger Kuebler, Head of Global Materials Management, who owns customs and trade compliance. "And for us that issue was compliance."

Importing products into certain countries requires proof in the certificate of origin for these products. Typically, the chamber of commerce issues certificates of origin and, to do so, it requires all pre-documents, statements from suppliers, signed invoices from customs authorities, and other evidence.

Hilti realised it was becoming more important to ensure compliance with the chambers of commerce requirements when importing goods into the countries where it was generating sales. Only when it started digging deeper into the issues did it unearth significant customs duty saving opportunities.

Developing a talented team

The 10-member customs and trade compliance team is structured into three sub-groups. One team works on global sanctions to ensure compliance; the second focuses on free-trade agreements and country of origin issues; and the third takes data from that team and ensures that Hilti suppliers and customs authorities have accurate invoices and delivery notes that reflect exactly what the other sub-groups are doing from an operational perspective.

Customs and trade compliance sits within the logistics organisation at Hilti, and it can sometimes seem like a thankless job. However, the strength of Hilti's team goes a long way to making it a function of strategic importance to the business. Again, this didn't happen overnight – it took five years, and finding the right expertise was a challenge.

"It is really hard to find qualified customs people who have been stable in customs for years," says Kuebler. "It takes time to develop the competency to make the link from production to the trade system and to the documentation."

The strategic nature of foreign trade management

As a result of the work customs and trade compliance has done in maturing its capability, executive management now understands the significant cost impact that duties can have on the P&L, and the need to consider the use of free-trade agreements when making sourcing decisions. "We have a simulation tool that factors in tariffs and duties for any location we source materials from and where we finally ship the product," explains Kuebler. If the impact of customs costs on product-line profitability has not been factored into the equation, then executives will not sign off on the sourcing or production decision.

Customs and duties is a must-have input into Hilti's total cost of ownership process. "We have full transparency into what we refer to as our strategic product costs," he continues. "This includes transport, handling, production costs and, of course, customs and duties. When it comes to customs and duties, we are very sharp."

FACTORING THE COST OF TRADE INTO SUPPLY CHAIN DESIGN

Think back to our opening hypothetical scenario involving Supply Chain Steve. When new finance guy Robert asked where trade factored into the supply chain model Steve and his team had developed for the upcoming product launch, an awkward silence ensued. Nobody could answer the question.

6 | An overlooked issue

Even though it's hypothetical, the scenario accurately depicts the challenge companies face in factoring trade into the landed-cost analysis critical to supply chain design. As a result of unclear accountability, firms may not know if anyone consciously considers the cost of trade when making supply chain design decisions. At a broader level, they struggle to quantify what impact duty spend has on overall margins. They lack the process and system sophistication to easily compile and report this information.

In the survey referenced earlier, we asked respondents to rank their top five global trade challenges. By a wide margin, total landed cost budget variance is the biggest (Figure 7). The projections presented at the beginning of the design process often vary (either up or down) compared to the actuals, and margins end up suffering for it. It's interesting to note that managing preferential duty programmes and free-trade agreements is near the bottom of the list, since supply chain design decisions are often made without any attempt to use these to reduce duty spend.

7 | Biggest global trade management issues

Weighted score (5 point for rank #1, 4 for #2, 3 for #3, 2 for #4, 1 for #5)

Source: GTM strategies survey 2013 n=144

8 | Calculating total landed costs

Source: SCM World

Figure 8 illustrates the flow of a typical total landed cost process at work in many organisations. It allows us to visualise the opportunity we have to factor in the cost of trade along this continuum of inputs. Where does trade fit? It has to be considered along the entire continuum represented here.

THE DOWNSIDE OF LANDED COST ANALYSIS

Typically what happens during the landed costs phase of supply chain design is that each of the functions represented along the top of Figure 8 feeds into the process information on the materials and processing costs related to their function. For example, engineering adds "A" pricing, which might consist of quality specifications and other criteria that it's measured on. Sourcing then takes this and adds "B" pricing – the cost of components or materials sourced from the selected location. Inbound logistics gets involved and adds "C" pricing – the cost to deliver the components or materials to the manufacturing location. Manufacturing adds "D" pricing – the combined costs of engineering, sourcing, inbound, as well as the transformational manufacturing costs. This continues all the way down the chain to consumption or re-export.

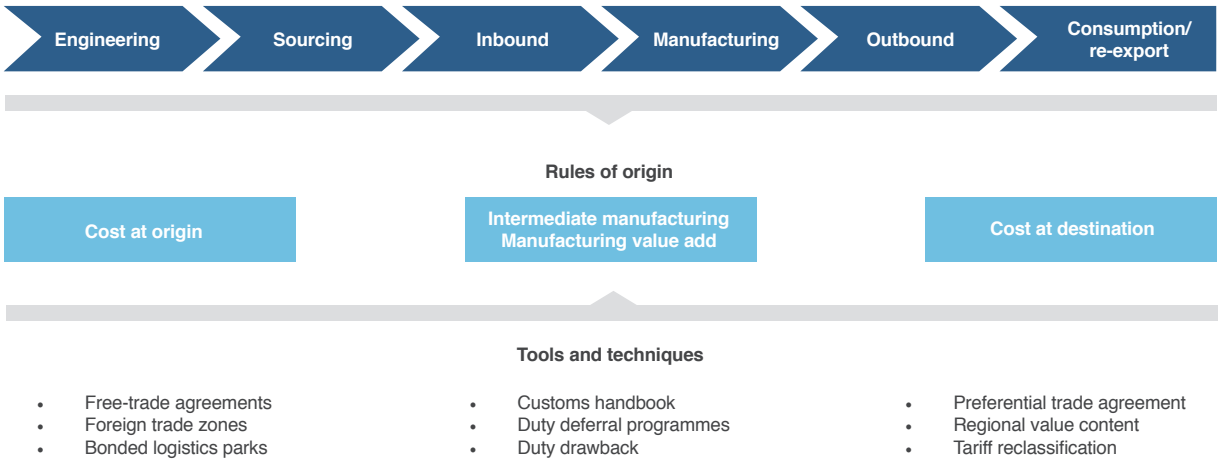
The problem is that if none of the functions is accountable for tariff and duty spend, then none will consider designing a supply chain that aims to reduce this spend. Essentially, companies leave money on the table, no matter how rigorous the rest of the analysis. To get an accurate picture of gross margins, each of the functions must be aware of the potential impact of trade on the decisions they make.

"Trade, if it is being done correctly, is an inherently cross-functional activity," says the auto maker network designer quoted previously. "Any function can own it, it doesn't matter really. However, if the owner of trade is not liaising with the other functions involved in the design, no one will understand how the individual decisions they make at the functional level impact total landed cost or total cost of ownership. If you leave decisions in the hands of any individual function, the cost of trade is never understood."

WHAT DOES IT LOOK LIKE WHEN DONE WELL?

Figure 9 takes the existing model and includes process elements and trade facilitation tools to help quantify the impact and to develop models to reduce that impact.

9 | Supply chain network design and margin optimisation



Source: SCM World

Let's break some of this apart:

Rules of origin. Essentially the building blocks for free-trade agreements, these are used to determine the country of origin for materials and products. As such, rules of origin naturally fall within the tools, techniques and trade regime requirements section of Figure 9. Since all tariff exemption claims are based on proven compliance with rules of origin, we pull it out and set it above the other factors. Without the expertise or technical ability to prove rules of origin for source materials, intermediate or finished goods, the risks for companies claiming duty savings rise significantly.

According to the head of customs for a large industrial manufacturer: "You need the capabilities to be able to prove compliance with any FTA (free-trade agreement). You need robust documentation, good systems, as well as the expertise and understanding in the personnel you have managing these processes. If a customs authority does a compliance check and you are not capable of proving that you are in line with the FTA, then you will face severe penalty payments."

Cost at origin. In order to take advantage of opportunities to reduce tariff spend, supply chain design teams must be involved at the beginning when engineering and sourcing are reviewing and selecting supply points of origin. If the design team isn't involved at this stage, the only way to save on duties is if they get lucky and the sites selected have trade-enabling infrastructure and agreements already in place.

As multiple origin source points are considered, the design team can then map the impact of trade to each of these potential supply sources. Imagine, for instance, that the sourcing team has selected three potential sources of supply, and that these sources could potentially feed 25 different manufacturing facilities across the network. The team in charge of the design will be looking at free-trade agreements, bonded logistics parks or free-trade zones, using appropriate HS (harmonised system) codes or any of the tools referenced at the bottom of the graphic, to make the smartest decision from the perspective of optimising margins.

Intermediate manufacturing/manufacturing value add. It's also critical to understand any intermediate manufacturing steps, and if the products/materials undergo what is known as a "substantial transformation" (meaning it is essentially a new product requiring a new HS code). If the latter is true, companies may be able to claim that the product meets rules of origin requirements from the location where that intermediate step occurs.

Cost at destination. Lastly, companies need to understand the costs and product plans at destination. Often, companies will re-export products and materials after they've been imported into a country owing to shifts in demand, excess inventory that requires re-allocation, or any number of other reasons.

Leading companies keep what's referred to as a customs or finished goods handbook that tracks materials and components used in a process, and any leftover that could then be re-exported. For example, if a company imported 1,000 widgets into a country, consumed 500 of those widgets and re-exported the remaining 500, it should get a rebate (duty drawback) on those re-exported widgets. Does any company really want to pay taxes that it doesn't have to? Of course not, but many do just that.

SIMPLIFYING CROSS-BORDER OPERATIONS

The second main component of global trade management is cross-border operations. It is here that the complexity and burden on companies can be particularly onerous. For instance, Warren Hausman and Hau Lee of Stanford University detail 106 sub-processes that companies follow when exporting from China to the United States.[1]

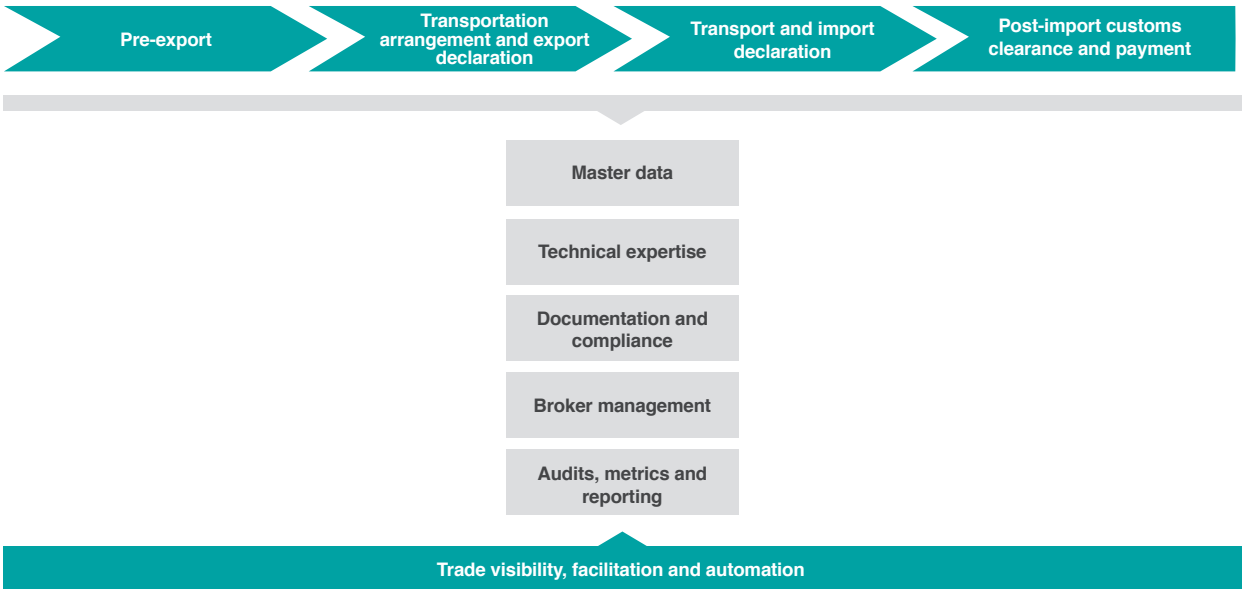
Even so, there are steps companies can take to simplify and globalise their approach to cross-border operations. First, they must map their current processes and the degree to which these processes vary by geography. With this initial understanding, a firm can begin to design the process it wants, not the one it inherited. Cross-border trade processes can be fragmented, with knowledge and expertise scattered across functions, business units and geographies. Bringing this expertise together and using it to design a process capable of global roll-out more systematically is ideal, but it can take a lot of time and investment to do so.

Figure 10 depicts the four main process steps of cross-border operations as described by Hausman and Lee, and the accompanying enablers companies can use to manage the process in a more efficient and simplified manner.

Seeing the process and its enablers from this perspective gives companies the best opportunity to ensure compliance while more quickly getting products and materials into market for sales or production purposes. Moreover, it highlights the areas where companies may currently lack capability, and provides a visual understanding of gaps that need to be closed.

Lastly, it highlights the importance of supporting cross-border operations with trade visibility, facilitation and automation tools. Hausman and Lee's analysis quantifies the opportunity available to companies implementing these tools. According to the authors, the estimated average annual benefit to exporters that utilise these tools is 2% of annual sales; for importers, the average annual benefit is around 1.4%. By assuming a net profit of 6% for both exporters and importers, the authors extrapolate a 28% increase in annual profits for exporters and a 23% increase for importers. These tools have a huge impact.

10 | Managing cross-border operations



Source: Warren Hausman and Hau Lee, Stanford University

[1] Warren H. Hausman and Hau L. Lee, *"A process analysis of global trade management: an inductive approach", Journal of Supply Chain Management,* April 2010.

Leaner, faster GE is building world-class global trade capability

GE is one of the most respected companies on the planet. It is also one of the most diverse, with large, profitable business units ranging from GE Power and Water and GE Energy Management, to GE Oil and Gas, GE Healthcare, GE Aviation, GE Transportation and GE Lighting. Serving customers in approximately 175 countries and with 2014 revenues of nearly $150 billion, GE has an enviable track record in leveraging scale to meet customer needs no matter where they are in the world.

Five years ago, GE created its Global Growth Organisation to leverage global scale, build local capabilities and provide company-to-country infrastructure solutions. It placed many of its most senior leaders in its main growth markets to ensure that the company's resources could be mobilised to meet the needs of customers as quickly as possible. Being responsive to market needs – no matter where they were in the world – presented a new challenge for GE: how to organise enabling functions to support the operating businesses without duplicating effort.

Big opportunity in customs and trade

Customs operations was one area that GE pinpointed as a key enabler for global responsiveness and success in new markets. The challenge was to ensure that the company had sufficient technical customs expertise and was properly addressing FCPA (Foreign Corrupt Practices Act) risks in markets where corruption indices were rated very high.

"What we realised," says Tim Santo, Executive Global Process Leader for the customs shared services operation, "is that customs could become a barrier to our expansion. When we looked across the globe, we realised that we didn't always have good brokers and the right expertise in all locations, and we needed to assure ourselves that we had the right controls in place to meet the company's rigorous compliance standards.

"GE has a strong compliance culture and our scale enables us to utilise the same high standards across the globe, especially when doing business in new locations."

The company opted to put standards in place around customs processes and create a common architecture that would allow it to know how to start a customs process when it went into new markets. GE realised that it didn't need a different customs process for each of its P&Ls, and that one common process would make more sense.

Clean sheet of paper beginning

As the customs opportunity became clear, GE brought together some of its best customs talent across the company – people running the different operational processes – and asked them to answer the question: if GE was going to redesign its customs processes from scratch, what process would the company want?

The group identified best practices among the various legacy processes, determined how to best resource the team, identified the most trusted service providers, and determined which systems could be automated.

"The key," explains Santo, "was to hold nothing back, hold nothing sacred, and to redesign our entire process."

Out of this initiative, GE developed its future customs process delivery model and made technology investments to build an automated trade tool. In tandem, the team developed a risk model that factored in differences by business unit and geography. This risk model formed the basis of the standard operational processes created by the team. It defined the level of control and rigour the customs teams would manage in each country, while at the macro level it ensured that the redesigned process and tool became the enterprise standard. GE is now in the process of rolling this process out consistently with standard service providers and operating procedures across the company.

The 'aha' moment – uncovering the gold mine

As GE's customs operations metamorphosis continued, the team experienced a significant "aha" moment. "We realised we couldn't run a report that told

us what we pay in duties across the company," says Santo. "Once we started to build that data we started to see how big the opportunity was."

Equipped with the redesigned process, which is supported by Amber Road's global trade solution, GE now has a central view of its import/export activity across the company, and can begin to make smarter supply chain decisions.

"As a company, we can save ourselves millions of dollars by leveraging data analytics and solid processes to ensure that we analyse our spend and eliminate leakage where possible," Santo adds. "We now have the data to help us focus on where to drive savings. And we are talking big numbers here."

By becoming leaner, more efficient and automating its trade management process, GE is now capable of capturing this opportunity, not only to operate a more cost-efficient customs operation, but also to help the company meet the needs of its customers – wherever they are in the world.

GE global footprint

Source: GE 2014 annual report

CONCLUSIONS & RECOMMENDATIONS

Supply Chain Steve couldn't have predicted that when he left his box of M&Ms uneaten on his desk and walked down the hall to Robert's office, he was a starting on a journey that would take nearly three years to complete.

His team's initial supply chain design – the one he had been so proud of – was in fact successful. The product did very well. But he missed something: the spend on tariffs and duties. And because of this he left money and margin on the table. At the time, he promised himself he would never allow that to happen again.

Three years later, Steve doesn't only have the best design team in the industry, he also has the most skilled team at utilising free-trade agreements, proving customs compliance and simplifying cross-border operations. Steve got himself a new box of M&Ms to celebrate.

Here are steps that companies can take to begin releasing some of the hidden value in global trade management:

- **Determine whether you have an opportunity with global trade or not.** Companies first must understand if they have a problem. One sign that a problem exists is an inability to run a report that clearly and accurately states what your company pays in duty spend. Moreover, if trade isn't factored into the supply chain design analysis, then chances are your company is giving up margin.

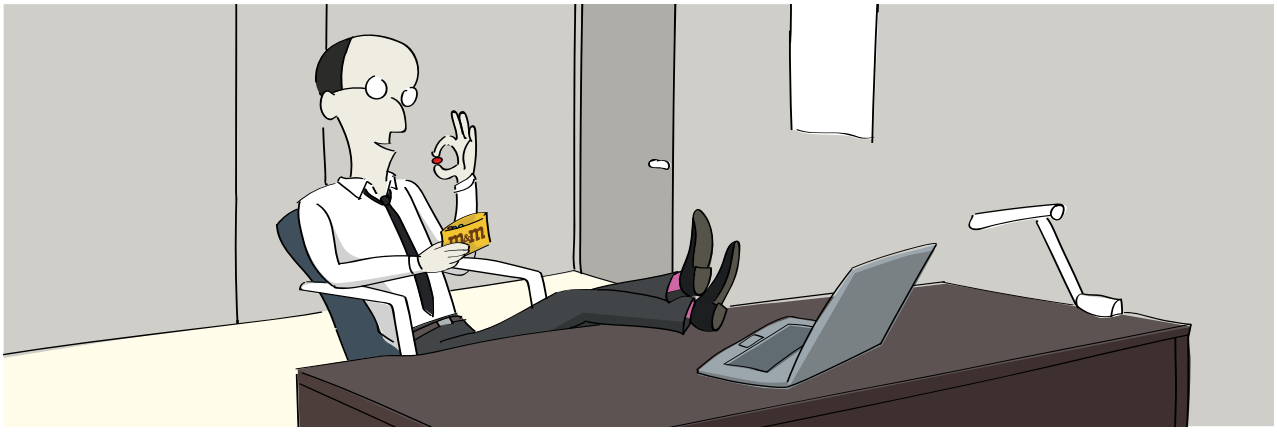
- **Map your current customs and cross-border operational processes.** This is the heavy lifting that must happen in order to begin simplifying cross-border operations and creating the right customs expertise within your organisation.

- **Develop your future state customs and cross-border operational processes.** This is the process you would design if you could start from scratch. It is another heavy-lifting exercise, but one that is absolutely critical to discover and seize the full opportunity with global trade.

- **Factor trade into your total landed cost analysis at the beginning of sourcing activities.** This is particularly important for any changes the sourcing organisation may be considering around commodity locations, the shifting of production from one location to another, or adding new capacity to the supply chain network.

- **Develop or hire the right people for the job.** Companies have tried to start initiatives to harvest the potential of global trade and failed because they couldn't find people with the right expertise. One place to look is with your service agents or carriers who have the experience doing customs declarations. However, these individuals will still need to be developed in order to operate in the cross-functional manner required.

- **Invest in trade automation tools.** Trade is an area ripe for automation, and capturing the opportunity is nearly impossible without the data, analytics and process simplification provided by a robust toolset.



APPENDIX

GLOSSARY OF GLOBAL TRADE MANAGEMENT TERMS

Term	Explination
Rules of origin	Used to determine the country of origin of a product for purposes of international trade. There are two common types of rules of origin depending upon application, the preferential and non-preferential rules of origin. Tariff and duty fees are impacted by rules of origin classification.
Incoterms	A set of pre-defined commercial terms published by the International Chamber of Commerce that are used in international commercial transactions or procurement processes. These rules, such as “free on board” and “delivery duty paid”, are intended to communicate the costs, tasks and risks associated with the transport and delivery of goods.
Foreign trade zones	Secure areas legally outside the customs territory of the United States. Their purpose is to attract and promote international trade and commerce. Foreign exporters planning to open or expand new American outlets may forwardtheir goods to a foreign trade zone in the US to be held for an unlimited period while awaiting a favourable market in the US or nearby countries. During this time, goods will not be subject to CBP entry requirements, payment of duty, tax or bond.
Tariff engineering	Modifying the design of an imported product to reduce duty or tariff expense associated with that product.
Bonded logistics parks	A type of special economic zone; trade arrangements are similar to those of a bonded warehouse but over a specific geographic area. Goods may be stored, manipulated or undergo manufacturing operations without payment of duty.
Duty drawback	The refund of certain duties, internal revenue taxes and certain fees collected upon the importation of goods. Such refunds are only allowed upon the exportation or destruction of goods under US Customs and Border Protection supervision.
Customs handbook	The practice of documenting all the imported parts/materials used in final assembly in order to be able to claim duty drawback when a completed system is re-exported. For instance, if a company did not use all imported parts/materials in final assembly, the finished goods handbook allows for a refund on any duties paid on those unused materials.
Harmonised system	The Harmonised Commodity Description and Coding System, also known as the Harmonised System (HS) of tariff nomenclature, is an internationally standardised system of names and numbers to classify traded products. These codes determine tariff assignment and eligibility for preferential trade programmes.
Tariff classification	Numbered category in a country’s customs tariff schedule to which goods being imported or exported are determined to belong for the purpose of (1) imposing duties and taxes, and (2) recording into the country’s international trade statistics. Most countries classify goods in accordance with the harmonised commodity description and coding system, popularly known as the harmonised system (see above).
Regional value content	RVC rules require that a product include a certain percentage of originating content in order to qualify for certain free-trade agreements.
Transfer pricing	The price at which divisions of a company transact with each other. Transactions may include the trade of supplies or labour between departments. Transfer prices are used when individual entities of a larger multi-entity firm are treated and measured as separately run entities. Firms will often raise or lower the transfer price of goods or materials to ensure an optimal income tax position. This typically can be in conflict with the customs valuation on imported goods and materials.
Customs valuation	A customs procedure applied to determine the customs value of imported goods. If the rate of duty is ad valorem, the customs value is essential to determine the duty to be paid on an imported good.
Customs assist	Goods or services provided by a buyer that lend tangible value to the production of the final product by the manufacturer. For example, raw materials are considered assists if the buyer sends them to the manufacturer to be processed or used in the product that will ultimately be imported into the US. Failing to account for customs assists that the importer has contributed to the manufacture of their products can mean reporting a lower valuation and therefore underpaying customs duties.

ABOUT SCM WORLD

SCM World is the supply chain talent development partner for the world's leading companies, empowering professionals with the capability, commitment and confidence to drive greater positive impact on business performance and help solve three of the world's fundamental challenges: health, hunger and environmental sustainability.

The SCM World community accelerates collective learning and performance by harnessing the knowledge of the most forward-thinking supply chain practitioners, shared through industry-leading research, best-practice exchanges, peer networking and events. Over 150 companies participate in and contribute to the SCM World community, including P&G, Unilever, Nestlé, Samsung, Lenovo, Cisco, Merck, Caterpillar, Nike, Raytheon, Chevron, Shell and BASF.

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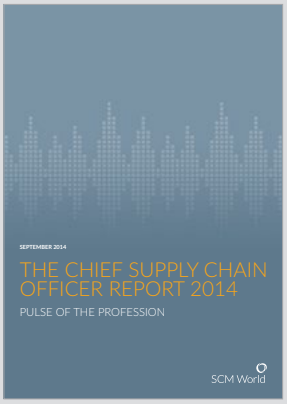

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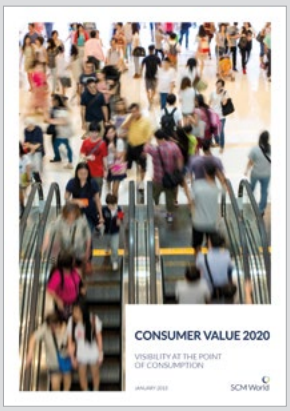

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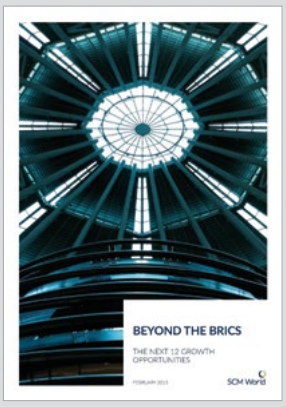

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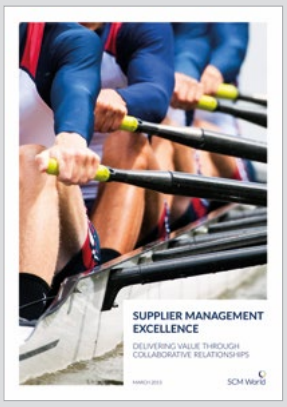

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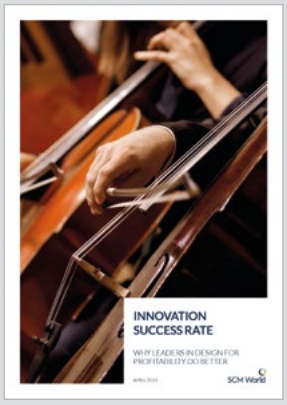

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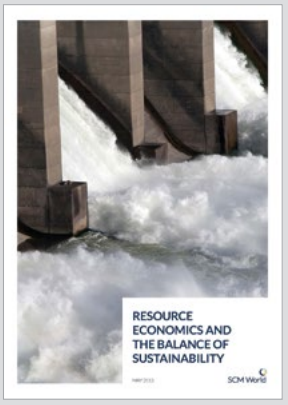

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