

Global Trade Management and Foreign Trade Zones – Taking control of the supply chain

Businesses are increasingly taking advantage of the ability of a Foreign-Trade Zone (FTZ) to deliver significant benefits. Any size of importer or exporter, including retailers and medium to large manufacturers, can defer costs incurred from customs duties, taxes and tariffs, improve speed to global markets, competitiveness, and minimize encounters with bureaucratic regulations.

But many are now realizing that FTZs are just one element in a sophisticated import or export supply chain management strategy, and that a more concerted push toward increased supply chain efficiency will naturally lead businesses to invest in a total Global Trade Management (GTM) solution. GTM systems deliver advantages to companies by streamlining screening of export orders; eliminating order-processing delays; gaining visibility into landed costs; reducing inbound delays; and streamlining financial trade.

Although it is not necessary to have an FTZ in place before embracing a broader GTM strategy, it's often the starting point on the GTM journey. So let's look at the advantages an FTZ delivers to a typical US importer.

In a typical scenario, some of the goods that arrive at US ports are either destined for a further, foreign destination, or might constitute parts for assembling in the US, which then get assigned a different Harmonized Tariff Schedule (HTS).

Without an FTZ arrangement, when a company imports goods destined for Canada, for example, it pays US duty upon arrival in the United States and then pays Canadian duty when those goods are shipped across the border. This practice is clearly not cost effective, and there are often broker fees associated with each product movement. One customer facing this scenario found that, beyond duty, goods are subject to user fees on imported goods, notably a Merchandise Processing Fee (MPF) on entries. Fees and duty can really pile up, making the difference between profit and loss.

With an FTZ, you not only avoid multiple processing fees, you also pay duty only on the goods you distribute in the US when you distribute them, and not before. In

the case of items assembled out of imported parts, an FTZ allows you to pay tariffs only on the HTS of the finished product, rather than aggregating duties on the individual components – often at a much lower rate.

FTZs also simplify the payment of duty and brokerage fees, because you are paying out once a week, say, instead of multiple times, whenever a shipment comes in, reducing administration costs.

Exporters sending goods to other countries benefit similarly from FTZs in local destinations. With a rapidly changing landscape of sourcing parts and materials, as well as new markets opening and expanding all over the world, the advantages are compellingly clear. Again, it's not essential to start





with an FTZ, but it's often the prompt for smart businesses to realize they will gain even greater benefits from embracing a wider global trade management (GTM) service package from a third party such as QuestaWeb.

GTM encompasses virtually every aspect of international movement of goods. Many companies find that, once they've started increasing control on imports and exports by channeling them through an FTZ, they want more control, and working with a GTM partner gives it to them.

A great example is in the area of compliance. Several of the companies we work with we have taken a look at the global compliance for all their vendors and supply chain partners, and have found they

didn't have truly excellent management of their products, evaluations, costs under trade agreements and countries of origin. In fact, it's actually quite amazing how many companies, even huge ones, do not have a handle on this. You can use an FTZ, but without all the information about the value of the products coming into it, compliance can easily become the tail that wags the dog. Plenty of companies will make an analysis of whether an FTZ is going to save them money, and go out and buy FTZ software, only to find their compliance team is struggling to handle the complexities of operations.

Data flow is the key. There's a huge amount of it available but, without the right systems to channel it, its

utility is limited. It helps to think of data as the fuel, and a GTM system as the vehicle. One major international manufacturer customer of ours established two FTZs in the US to handle import flow, but realized they needed more. They needed an FTZ solution that could integrate easily with their ERP, GTM and third-party WMS systems. Moreover, they needed software to handle input from the two FTZs concurrently while maintaining complete data separation and integrity.

Our FTZ solution is CBP approved, allowing electronic filing of entries, weekly estimates and in-bonds directly with US Customs; it also is AES approved, with direct electronic filing of CF 214s. The system automatically generates

other documents, such as CF 216s. Much of the module's advanced functionality derives from its comprehensive product database. Its robust functionality and rich content; its rule-based integration tools; and its electronic links to multiple regulatory government agencies proactively manages the entire FTZ process.

With it, our customer benefits from direct interfaces with their ERP system and third-party WMS, and inventory reconciliations occur nightly. The customer with two FTZ zones felt they had tight inventory control processes before the implementing an FTZ solution, but with the solution they can be sure that they pay all the legally required duty and not a penny more.

Another great benefit of embracing a GTM approach is improving duty

drawback. These are complex, and many companies fall behind with filings, often leaving money on the table. QuestaWeb's Customs House Broker module offers key components such as ABI, AII/RLF, ACH, AMS, Reconciliation, Drawback, In-Bond, Document Binder and Query Reporting. Customers can transmit and receive data on imported merchandise through a direct electronic interface with CBP, leading to more timely, complete and accurate data.

Even better, GTM allows importers and exporters to work with their international suppliers, empowering them to enter their own importer security filing (ISF) data elements via the Web-based system. Since ISFs and self-entries rely on many of the same data elements, having suppliers enter data will eliminate one step in the current

two-step process. Importers no longer need to pay freight forwarders to prepare ISFs, and the software can automatically generate import documentation from systems data, saving more time and money.

In short, smart use of GTM systems means importers and exporters can manage their entire supply chain as if it were a single entity, rather than a series of operational functions that communicate poorly with one another. Everything can be managed in one place, because FTAs, harmonization codes and other crucial information are all in one system. The fuel in the form of data can be pumped in from anywhere, but without the vehicle in the form of the GTM system, that information just sits in separate buckets all over the place.

Companies often spend years trying to figure out how to manage all this; trying to write their own programs, manage databases, wrangle it all via Excel spreadsheets... and it will become a nightmare. The beauty of well-thought-out GTM software is that it has tremendous impact on the FTZ process as well as many, many other day-to-day business processes. It does this by relentlessly streamlining the intricate dovetailing of many different, crucial systems, such as ERP, TMS, WMS and order management. The automation that then becomes possible greatly reduces the human involvement, and brings error rates significantly down. We've seen companies reduce their compliance department of 20 to five with this tool.

The advantages to GTM seems self-evident, but it's astonishing



how big a leap this appears to be for C-level executives to take. What seems to happen is that a company realizes compliance is an issue and potential liability, so they go out and hire a compliance officer and think they've solved the problem. But they give them no tools -- just a computer and spreadsheets and say, go ahead and keep us compliant. We see compliance departments at multi-billion companies that simply don't have the tools they need to handle this. They have nowhere to centrally manage the data; they have inadequate control. Then they get an assessment by Customs and are fined a lot of money. The C-level execs don't realize that, given the right tools, the team could have managed the whole process correctly.

Admittedly, the compliance team itself can act as a barrier to improvement. Often, the team has established their own fiefdom and have built their own processes. They're resistant to change in the form of a new system. Further, they're aware that a team of, say, seven or eight people is going to get streamlined to two or three, causing an understandably fearful response. So, the first step in selling a move into GTM to internal departments is usually an emotional one. The people at the top driving this decision need to understand the likely impact, and the compliance team has to see it as a tool that will help them do a better job.

Another barrier to adopting GTM is that most companies don't have people on staff who can implement a GTM system. One the most important considerations when choosing a GTM partner is making sure they're great at integration.



Many companies are wary of implementing GTM because they think it's going to cost them too much to implement. Integration – getting all those systems to seamlessly exchange information and automatically generate documentation and alerts – is the largest part of this.

There are other benefits to implementing a GTM system than simply minimizing costs and fines while increasing drawbacks and compliance. It offers the opportunity to work much more efficiently and seamlessly with vendors. A GTM system's ability to allow vendors to enter data brings massively enhanced visibility throughout the supply chain. Let's say a company has 50 vendors overseas. When a purchase order is sent to that vendor, it comes into the GTM system. When vendor is ready to ship, he or she can only see his or her own POs, and enter all the information needed about what's being sent. The GTM system then automatically generates all necessary compliance documents, invoices, Customs filings and so on. What that means is the importer has total visibility into everything that's moving; who's picking it up; who's delivering it -- the whole picture.

In the past, a vendor might decline to log into a separate system and just send you an email that you then had to mine for important data and enter manually into your database. But now, the purchase order is in the system and the vendor is in the system (which automatically screens for denied parties, by the way), and that data populates where it needs to go. This also applies to logistics providers. The point is GTM systems



offer high levels of control at every stage of the supply chain -- from purchase orders, to distribution center or FTZs, to end users if you're shipping direct to them. You have control over all that, and visibility into entire process. That's the key.

And control leads to agility. Many companies are challenged by razor-thin margins, and GTM systems facilitate making very finite calculations of landed costs. GTM also aids in making decisions about sourcing.

With all the aggregated data available in a GTM system, when considering a new source, you can look at that location to see if there's a suitable port nearby, rail links, road infrastructure, or anything else needed to move a product in good time. In Tom Travis's book, "Doing Business Anywhere: The Essential Guide to Going Global," he advises importers that, when they find a country in which to source products or materials, on the same day, they should be looking for the next country to source from. Things move fast in the global marketplace.

C-level executives need to embrace GTM systems as important business management tools, just as they have with WMS and ERP systems. The right GTM technology can transform and control a company's whole supply chain. Frequently, the path to GTM starts with taking advantage of an FTZ, because it points out where there are weaknesses in the supply chain – in compliance, fees, duty drawbacks or other functions. With an FTZ, they see a direct and immediate payback, and that's usually when the light bulb goes on. They wonder what else they can do to get control.

In the past, many companies have considered it enough to seek out a partner with comprehensive data content. But the content is the content – it's just the fuel. It doesn't matter if you fill up your car at an Exxon or a Shell gas station; your car keeps moving once you put fuel in. The essential part is to choose the vehicle. Partnering with the right GTM system vendor is a game-changer.