

White Paper

The ROI of Automating Trade Compliance



Amber Road
POWERING GLOBAL TRADE



Table of Contents

Introduction.....3

The Value of Automating Export Compliance4

The Value of Automating Import Compliance5

The Value of Automating Trade Agreement Management7

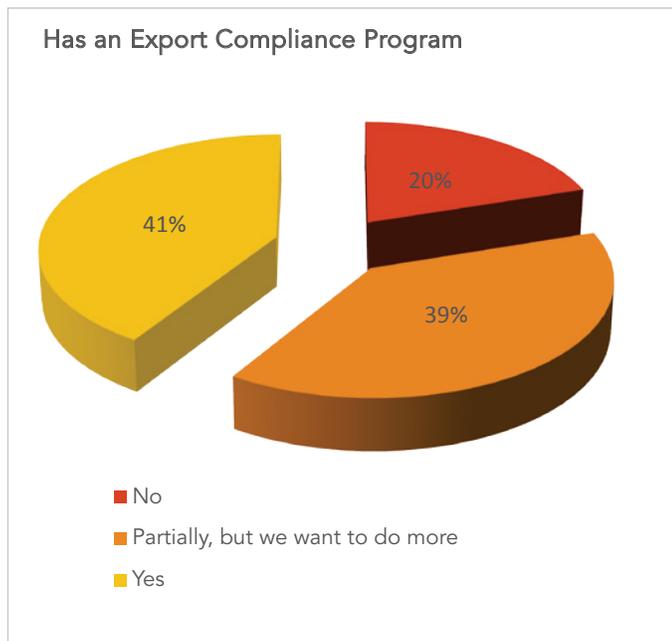
Conclusions7

Example: US Fines and Penalties8



Introduction

Trade compliance is a critical function to ensure that an organization's international orders and imported goods comply with trade regulations of both the country of export and the country of import. Yet, a recent study conducted by the AberdeenGroup found that while 86% of companies surveyed are global, only 20% reported having a formal trade compliance program for their global shipments.¹ Our own research bore this out, and we also determined that nearly 40% thought they should be doing more with their export compliance program.²



While an organization's executives can often perceive the compliance team as a cost center that impedes business and is a waste of time, the opposite is actually true — compliance can yield return on investment (ROI). The challenge for this team is to educate the business on the regulatory environment, the need for compliance and the value of investing in and automating this area.

A trade compliance team faces significant external pressures:

- **Outsourcing globally to remain competitive** — for the compliance team, it is often difficult to manage offshore suppliers in terms of standards, ethics, product definition and quality control.
- **Expanding global distribution to facilitate growth** — the team must ensure all transactions comply with their own country's export regulations and be aware of import controls at the ultimate destination and in-between.

- **Global security initiatives** — the team must understand the impact of required data collection on the organization's business processes and information systems.
- **Increased enforcement and penalties** — accountability for compliance rests with the organization, and depending on the infraction, it can face large fines, executives may be jailed, and it may lose its export privileges.

With these pressures come three key challenges:

- Educating coworkers on how their business decisions affect compliance.
- Managing what is still a very error prone and paper-intensive process.
- Dealing with the lack of qualified staff and hiring freezes.

This paper will examine how automating trade compliance can yield significant returns on investment while also addressing the challenges faced by compliance professionals. (Except where noted, all statistics come from the cited AberdeenGroup report.)

1 "Globalization: Linking Supply Chain Transformation to the Profit and Loss Statement," AberdeenGroup, Sep 2011
2 "Is the Mid-Market Ready to Increase Exports: Compliance is Still a Challenge," Amber Road, Feb 2012



The Value of Automating Export Compliance

By automating and streamlining the entire export process, organizations can eliminate delays of exported products to customers caused by compliance checks. Export compliance automation includes functions such as:

- Product classification
- Restricted party screening
- License determination and management
- Transaction management (including order consolidation)
- Document generation and automated printing/routing
- Automated document filing
- Collaborating with freight forwarders and other third parties
- Collecting and using current trade content (classification, licensing, restricted party lists, documents, etc.)

Key Benefit Areas

The key benefit area for exports is in the productivity gains that full automation affords. What previously took hours of manual effort can be reduced to minutes, freeing compliance staff to manage by exception and pursue strategic initiatives. Overall benefits include:

- **Handle more export transactions with the same or fewer staff**
 - Automate the entire process of screening, licensing and document production
 - Provide access to information for all interested parties (compliance, logistics, procurement, distribution, forwarders, etc.)
 - Manage by exception to reduce manual effort by 90% (by cutting the need to verify compliance to fewer than 10% of all transactions)
 - Realize productivity savings of up to 90% (by saving 20-30 minutes of manual effort per export transaction)
 - Eliminate the need to hire more staff at \$80,000-\$100,000 per year, which is the equivalent of \$40-\$50 per hour, or approximately \$15 per transaction
- **Reduce forwarder fees by 20-30%**
 - Electronically provide shipment details and avoid re-keying data
 - The average broker fee for filing an import is \$75 per filing. By self-filing, an exporter can reduce this cost to under \$10, or an 85% reduction in brokerage fees
- **Capture duty drawback savings upon re-export**
 - Savings vary, but can range from up to 30% of total duties paid
 - An organization can recover up to 80% of duties on certain items, depending on trade agreements in effect
 - Many companies will have a \$200,000-\$1,000,000 opportunity in drawback per year, but many don't have the ability to file drawback claims
- **Reduce systems overhead (for companies with an existing patchwork of solutions)**
 - Retire old systems (servers, database licenses)
 - Reduce IT support costs (by 1-5 FTEs)



■ Reduce errors that could result in penalties

- Reduce the number of international orders with errors to less than 4% (error rate ranges from 10-25%)
- Reduce license applications rejected by Customs to less than 0.6% (rejection rate ranges from 1-6.5%)
- Reduce number of export shipments held at Customs for exam to less than 0.7% (average exam rate ranges from 1-6.7%)

■ Enhance visibility and control

- Reduce inventory tied up in Customs by 50% or more
- Improve compliance with SOX and preserve export privileges
- Standardize workflow and centralize all compliance data and reporting
- Capture all transactions with electronic audit trail
- Respond faster and demonstrate highest level of “reasonable care” during Customs audit

The Value of Automating Import Compliance

Import compliance automation includes functions such as:

- Product classification
- Generation of compliance-oriented purchase orders
- Providing a supplier portal
- Restricted party screening
- License determination and management
- Transaction management (including order consolidation)
- Document generation and automated printing/routing
- Forwarder portal for origin planning
- Collecting and filing data for global security initiatives
- Collecting and using current trade content (classification, licensing, restricted party lists, documents, etc.)

Key Benefit Areas

The key benefits for automating import compliance are the reduction of broker fees and the productivity gains that allow staff to handle increasing trade volumes. One customer reported being able to double import volumes in five years, without increasing headcount.

Many importers can also take advantage of supply chain efficiencies arising from more careful management of order cycles and pre-clearing Customs. With new reporting requirements from global security initiatives, many importers are also looking at the value of self-filing. Overall benefits include:

■ Properly classify goods to pay the correct duty

- Reduce payment of incorrect duty to about 2% of the time (average overpayment rate is 11%)
- Reconcile the entry with the invoice and order to confirm that the entry is valid and the broker paid the correct duty
- Reconcile entries prior to filing to catch classification issues and make needed value adjustments



- **Improve coordination with suppliers to reduce order cycle time**
 - Cut the time needed to generate and confirm an advance ship notice to less than an hour (average time is 1-2 days)
 - Secure buyer approval of the shipment by confirming order compliance (fill rates and ship windows)
- **Reduce inventory and shipment exams by pre-clearing Customs**
 - Save 1–2 days of inventory turn by pre-clearing Customs more than 90% of the time (typical Customs clearance cycle time is 1-3 days)
 - Achieve a 2.2% Customs hold rate (average hold rate is 9.4%) which translates to approximately 0.3 days of inventory
 - Use broker scorecards to identify cycle time exceptions by broker by port
- **Consolidate shipments to reduce merchandise processing fees**
 - Save \$100 -\$500 per consolidated entry by consolidating 5% of import entries
 - Eliminate broker fees on the newly consolidated imports for a potential savings of \$2.5 per entry (\$50 per entry x 5%)
- **Reduce broker fees by sending electronic “pre-Customs entries”**
 - Broker avoids rekeying data, which may result in a 20-30% fee reduction. Many customers report a 30% reduction in fees by automating this information feed
 - Avoid rekeying errors and improve entry accuracy
- **Reduce broker fees by self-filing**
 - Self-file for less than \$10 per entry and reduce the need for brokers (one FTE can file 5,000 entries annually)
 - Reduce entry cycle time and prevent delays by reacting to errors in real time
 - Eliminate broker premiums for dock fees and transportation arrangements
 - Apply for a filer code, so that you — as the importer of record — can self-file without a license or permit
 - Establish a strong relationship with Customs to further aid with resolving issues
- **Handle more import transactions with the same or fewer staff**
 - Automating the entire import process and providing online access to information for all interested parties can reduce manual effort (increase productivity) by 90%
 - Eliminate the need to hire more staff at \$80,000-\$100,000 per year, which is the equivalent of \$40-\$50 per hour, or approximately \$11 per transaction
- **Enhance visibility and control**
 - Standardize workflow and centralize all compliance data and reporting
 - Capture all transactions with electronic audit trail
 - Respond faster and demonstrate highest level of “reasonable care” during Customs audit
 - Centralize import payables



- **In the US, use foreign trade zones to “suspend duty” until goods are ready to be received**
 - Avoid having to pay duties on goods that may not be imported (as well as avoid merchandise processing fees, brokerage fees and transportation costs)
 - Substantial costs are involved in setting up an FTZ, but depending on the organization’s supply chain, it can have a strong ROI

The Value of Automating Trade Agreement Management

Trade agreement automation includes functions such as:

- Product classification
- Campaign management to solicit suppliers by trade agreement
- Providing a supplier solicitation portal
- Managing rule of origin content for each trade agreement
- Integrating bills of materials with a qualification engine

Key Benefit Areas

The key benefit of automating free trade agreements (FTAs) comes from realizing more duty savings by actively pursuing additional trade agreement opportunities. Due to headcount constraints or the cost of outsourcing, many organizations only focus on one or two agreements. Automating the process can enable organizations to unlock the duty savings from two or more agreements while avoiding the costs of outsourcing the solicitation and qualification processes.

- **Capture more duty savings (first agreement)**
 - Improve FTA coverage for all eligible products by 20-50%
 - Assuming duty savings of 2-3%, a 20-50% improvement in coverage will net 0.4-1.5% additional duty savings on the sourced value of goods from the first trade agreement with no net change in headcount
- **Capture subsequent duty savings (second and additional agreements)**
 - Assume 30-60% of the value of imports could qualify for one or more additional agreements, but is not currently managed today
 - Assuming a duty savings of 2-3%, this equates to a reduction in duties paid per import value of 0.6-1.8% with no net change in headcount
- **Reduce or eliminate the cost of outsourcing FTA administration**
 - Outsourcing typically costs \$100,000-\$250,000 for administration of a trade agreement (usually 50% of the highest value)
 - Multiple vendors may be needed for different FTAs, whereas automation requires only small incremental costs for additional agreements

Conclusions

Although most organizations see the need for compliance as their participation in global markets expands, many still don't recognize the value of investing in software that will automate compliance functions. Further, they can't help but see compliance as a cost of doing business, rather than a potential source of marginal revenue.

If trade automation software can help reduce total landed costs by streamlining processes and boosting productivity, then a compelling business case for investment can be made in any organization.



Example: US Fines and Penalties

Import

- If found negligent, the fine is up to 2 times the value of duties and taxes owed
- If found grossly negligent, the fine is up to 4 times the value of duties, taxes and fees
- If found to be fraudulent, the penalty is incarceration
- The inability to produce a document is a \$10,000 fine per document

Export

- Up to 10 years in prison
- \$250,000 per violation (for individuals)
- Greater of \$1,000,000 per violation or up to 5 times the value of the export (for organizations)
- \$11,000 per administrative violation (\$120,000 per violation in cases involving items controlled for national security reasons)
- Suspension or revocation of export privileges

Recent Court Cases

- Balli Group PLC and Balli Aviation were fined \$15,000,000 for conspiracy to export and re-export US-origin aircraft to Iran
- Optrex was fined \$6,000,000 due to classification error
- Pillsbury settled for \$3,900,000 due to fraudulent drawback entries
- Mine Safety Appliances Company of Pittsburgh, PA was fined \$470,000 for exports to the Middle East (Syria, Iran from the UAE)
- Data Physics, San Jose CA was fined \$55,000 for shipments to China and prohibited from exporting for 5 years
- Pioneer Speakers was fined for misrepresentation in NAFTA claims (\$21,000,000) and failure to comply with record keeping requirements (\$15,000,000). The case was settled at \$10,000,000

About Amber Road

Amber Road provides a single, on-demand platform that automates and streamlines global trade. By helping organizations to comply with country-specific trade regulations, as well as plan, execute and track global shipments, Amber Road enables goods to flow unimpeded across international borders in the most efficient, compliant and profitable way.

