GOING GLOBAL – ARE YOU READY?

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It's the best of times to take your business global. It's the worst of times to take your business global. With apologies to Charles Dickens, we are living in roilingly uncertain times when it comes to global trade, driving both risks and opportunities as high as they've ever been. Further, the disadvantages of staying safely domestic are rising. Most manufacturers and retailers who want to remain competitive will simply *have* to expand their businesses internationally. E-commerce has made borders virtually disappear for consumers; a 21st-century phenomenon they have embraced with eagerness. They buy products from all over the globe with the click of a mouse, and they expect prompt delivery. If you're not going global, you can be sure your competitors are.

Even if you're not in the business of delivering finished goods across borders, efficiencies in transportation and supply chain management, combined with fluctuations in economic fortunes around the world, mean even companies selling exclusively domestically are nevertheless almost certain to be sourcing raw materials, parts and finished product from an ever-changing roster of overseas providers. So, of course, the problem for the makers and sellers of goods is that borders are just as solid as they ever were when it comes to moving physical cargo around – be it inbound or outbound. For a shipper, the world is not at all how it looks on the internet.

Globalization 2.0

This is not the time to be putting your head in the sand, tempting as it may be. We've been hearing about globalization for decades now, yes, but we're now in a new phase the business community is referring to as Globalization 2.0. As Fortune Magazine pointed out last year in an article titled "The most admired companies are more global than ever":

"The International Monetary Fund predicts that, by 2050, only three of the top 10 world economies will be in the West – U.S., Germany and the U.K. To exploit opportunities, companies will need to increase local participation in strategic and operational decisions."

But going global is tricky. A Harvard Business Review June 2015 article by three strategic management academics, "Few Companies Actually Succeed at Going Global", advised:

"In an analysis of 20,000 companies in 30 countries, we found that companies selling abroad had an average Return on Assets (ROA) of *minus* 1 percent as long as *five years* after their move. It takes 10 years to reach a modest +1 percent and only 40 percent of companies turn in more than 3 percent."

Kevin McCollom, Global Solution Vice President, SAP Governance, Risk & Compliance in Palo Alto, CA, says enterprises tend to hover between a glass-half-full and glass-half-empty attitude to globalization. "Change allows some to move ahead of the pack and causes others to fall behind," said McCollom. "They also see it's the greatest time of uncertainty and risk in the lives of their organization. Trade policy and legislation is being upended in the entire developed economy." Top of mind right now is the surprising Brexit vote in the UK in June to leave the Economic Union. "I don't think people fully grasp the scope and gravity of Brexit," warned McCollom. "It's going to reform the trading block of 400m people in some of the most developed economies in the world." Another trade-related shift in the news right now is the possible re-configuring of the Trans-Pacific Partnership (TPP) trade agreement. Given that much of the product sold in the U.S. is made in Asia, and that consumer markets in the region, such as China, are expanding more than 5 percent per year, this, too, presents problems—and opportunity.

Exports are trickier than imports

All the while, the main challenge for most companies is in shifting to cross-border exports. Claire Callahan, Director of Solution Engineering at SAP in Chicago says many companies already practiced in the art of importing from overseas simply don't understand how very different exports can be. They've never had to think about sanctioned party screening, for example. Callahan explains: "They'll say: 'I can't sell to that person? I can't send a lawnmower to Iran? I'm not a defense contractor! Why does it matter?' Well, it does matter."

For all but the smallest of companies, the complexity of complying with global export controls requires automation. The days when the multiple details could be tracked and managed via Excel spreadsheets are long gone.

Kevin Riddell, International Logistics Manager North America for Tremco, a manufacturer of chemical construction products based in Cleveland, uses SAP's Global Trade Services solution to manage compliance with Customs and sanctioned party screening, as well as to derive the greatest benefits from free trade agreements and other duty-minimizing legislation. Using SAP GTS does more than simply take paperwork off his desk. "It's more than efficiency," Riddell explained. "It would be impossible to do compliance without automation. I defy anyone who says they do it manually, because it's too great a task." Riddell added that, because the rules are updated automatically, there's been a huge increase in accuracy, as well as the other, obvious benefits.

Among these, of course, is avoidance of penalties when compliance goes wrong. Companies that are audited for trade agreement compliance experience a financial impact in the form of fines that can be twice the duty in cases of negligence. If fraud is determined, those fines can go up to the value of the goods. And, in terms of sanctions – for example trading with parties considered to be dangerous to national security interests – or failing to apply for the correct Department of Commerce export licenses, there is the real danger of jail time.

The ever-changing roster of trade rules and other regulations means compliance is a moving target; requiring skills and manpower that are not in the core competency or budget of most shippers. Derek Abramovitch, partner and Vice President of Business Development at Vigilant Global Trade Services, which provides compliance process outsourcing services in support of shippers leveraging SAP and other software companies' Global Trade Management(GTM) systems, said that even government agencies struggle to provide companies with guidance or tools to keep up to date with ever-changing rules. "Part of the challenge is that governmental agencies such as BIS (the U.S. Bureau of Industry and Security) - which administers and enforces export control regulations -and OFAC (The Office of Foreign Assets Control) - which administers and enforces economic and trade sanctions - are not really taking into consideration the operational impact or challenges on Companies when implementing changes to their respective regulations." He points to OFAC's trade sanctions of the 50 percent rule as applied against certain commercial entities in Russia, for example. "It is difficult for companies to follow the 50 percent rule (that an entity is blocked if one or more blocked persons directly or indirectly owns a 50 percent or greater interest in the entity, whether individually or in the aggregate) to determine if a company is on the list, or owns more than 50 percent of a company, because the situation can be fluid, ownership is not

necessarily public information, and it's hard to keep up," observed Abramovitch. "There's a gap between understanding how to apply the changes and remain compliant based on guidance from the government. The challenge is even greater for companies that have not implemented technology to handle the constantly changing nature of these rules."

Internal barriers to compliance excellence

The result is that many shippers either delay shipments while they figure out compliance, with the consequent negative results on commercial relationships and competitive advantage, or expose themselves to fines and other sorts of delays by simply taking a fingers-crossed approach. "A lot of companies are placing their trust in agents and brokers, but there's a big difference between classifying something correctly and just grabbing a code," said Abramovitch. "We are amazed at the number of Fortune 1000 companies who have no idea what they're doing with compliance; who barely realize Canada is not the U.S. and therefore an international shipment."

Abramovitch compares trade compliance management to insurance. "You don't buy it to increase profitability or swell revenue; you buy it to mitigate risk and remain compliant," he points out. "If you buy the wrong insurance, it cripples you. If you're not clearing shipments in good time, if you're getting held up at Customs, the impact on the supply chain is very real."

Abramovitch points out that there is an eternal struggle between shippers' internal departments over these considerations. "It's the tug between sales, who have just sold something, and legal, who won't ship it until they've checked it out thoroughly," he said. "You don't want to be the area that holds things up."

As anyone involved with supply chain management knows, there's a constant tension between the vested interests of R&D, procurement, marketing, sales, legal, manufacturing… all of which have their demands and effects on supply chain decisions and outcomes. Meanwhile, the wheels are spinning ever faster, with more customers demanding faster delivery, often on the basis of lean inventory management, while decisions about sourcing can be required practically overnight.

Said Callahan: "Companies are becoming more savvy now. They realize that, when they have different supplier opportunities in different parts of the world, they need to first consider duty costs, trade agreements and so on. So they realize there are risks they need to consider, but also opportunities."

Failure to bring sophisticated tools to these assessment functions can really hurt competitiveness, she warned. "There's money being left on the table, because the administrative burden in a manual environment is too high," she said. "Companies aspire to do better, but they need a tool to help them."

She pointed out that many U.S.-based companies are shifting to self-filing compliance paperwork, and managing Customs filing in-house, where previously they have tended to rely on brokers. "They've just been throwing this into that bucket of freight costs," she said. "But now, they're hiring people who come from the brokerage industry and have brokerage licenses, to help look for that money being left on the table. I can't imagine doing this without any kind of software or outsourced help."

Making it work

Despite blind spots when it comes to the need for compliance management, and struggles between the interests of different internal departments, most shippers are smart enough to know that increased globalization is the way forward. McCollom observed that there's a tougher, smarter, more long-term attitude emerging among companies that survived the 2008 Great Recession, and the other reversals of fortune of the past. It's not uncommon, now, for a company to be celebrating 100 years in business, enjoying the wider view that century of experience offers. "They are diversifying their markets and supply chains to hedge their bets against precisely the kinds of ups and down they've seen go on before in geographies and verticals," he said. "Businesses are smart enough to know that things will turn around, and that things are not the same everywhere, so they need to be diversified across the globe and across industries, and set themselves up to capitalize on advantages in the future; to squeeze good fortune out of adversity."

The right tools are essential, and automated Global Trade Management is among them. "Companies tell us they need speed, agility and flexibility -- including from their supply chain management -- to keep up with the staggering rate of change and uncertainty, but also to help them when they identify an open field to run to and outflank their competitors," McCollom said.

Of course, as with all new software systems, there's a lot more to it than simply flipping a switch. "The hard part is, it's only as good as the data going into it," said Riddell at Tremco. "It's true what they say: Garbage in, garbage out. It took a while for the data from our core SAP program to be cleansed so it was useful to the SAP GTS system. But this would be true for any system. On the whole, implementation was fairly quick and easy." Riddell said he not only received an impressive level of support from SAP, but was invited to take a place on SAP's User Influence Council in the U.S., leading to at least one implementation of an improvement he suggested. "They've been very open with the customer base, very willing to hear where we would like to see the program go, and very responsive. I've been very impressed," he said.

Has compliance become cheaper? "I'm not sure I'd say that," he said, with a grin. "It's become more compliant."