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## Getting a Grip on Challenge of International Trade Logistics

By Robert J. Bowman

**The need for vigilance against global terrorism and unauthorized technology transfer combines with the search for new supply-chain efficiencies. • Fifth in the Best Practices series.**

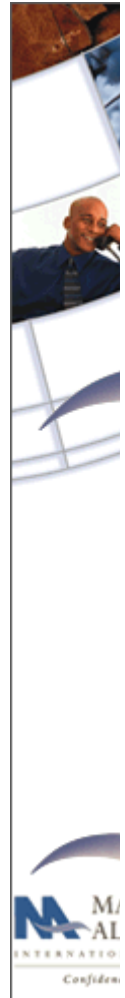
It doesn't seem fair. A maker of sensitive high-tech equipment takes great pains to ensure that its overseas customer is a legitimate entity. Then that company turns around and resells the goods to an unauthorized party. And the U.S. government comes down hard.

Like it or not, exporters today are required to know precisely who is buying their wares, even if the end-user is several steps down the supply chain. Companies that fail to do their homework can be hit by massive fines, even driven out of business. So, too, can sellers of innocuous items, if they run afoul of the tangle of import regulations enforced by customs agencies all over the world.

The solution lies in a top-flight process for managing international trade logistics. Managers must have a grip on import and export rules, product classifications, license-determination guidelines, import duties, quotas, denied or restricted parties, duty drawback opportunities, and the day-to-day performance of third-party logistics providers, among other things. And, of course, they must conform to strict new security measures in the post-9/11 world. Finally, there are the benefits to be reaped from a system that efficiently manages the seamless flow of product, data and funds across the global supply chain — as well as the pitfalls of one that doesn't.

Virtually every link of the supply chain is affected by international trade logistics. Here are 10 best practices of companies that have revamped their ITL programs to realize maximum efficiencies, cost savings and compliance with global regulators.

**1. Centralize and integrate.** Global sourcing is on the rise, especially in China. But the lure of low-cost manufacturing can be cancelled out if companies don't have the ability to manage data and product "from factory floor to the customer's store," says Dick Metzler, executive vice president of DHL Americas in Plantation, Fla. Too often, the flow of information from disparate sources creates pockets of delay, miscommunication and inefficiency. The best companies can smoothly manage the entire process, beginning with purchase order and



advance ship notice (ASN), either through electronic data interchange (EDI) or web-based standards such as extensible markup language (XML). Both offer the technology to handle changes or the “scrubbing” of data caused by a sudden shift in customer buying patterns.

Global trade calls for global control of data, insists Beth Peterson, vice president of product solutions with San Carlos, Calif.-based Open Harbor Inc. Tyco International Ltd., the diversified maker of electronics, security and fire-suppression products, among other things, has automated its rules and procedures related to international trade compliance. In the past, says Peterson, it simply issued a procedures manual to its global units, and hoped for company-wide compliance. Now, Tyco runs all customer orders against those rules and generates proper classifications, along with a complete list of required documents. With the help of Open Harbor, it conducts restricted-party screenings against some 20 different lists.

Companies can use a centralized data warehouse to generate key performance indicators (KPIs) on trading partners and logistics vendors, according to Michael Del Sarto, director of product management with Global eXchange Services Inc. in Gaithersburg, Md. They match plans with actual events, receiving alerts when exceptions occur anywhere in the chain. They can even monitor such esoteric factors as container utilization rates, to make vendors more efficient and get better freight rates.

Step one is to eliminate the dreaded “silo mentality,” whereby individual departments within a company fail to share information or cooperate in speeding product from factory to buyer. One well-known maker of branded footwear ran into trouble when redesigning its fall line because it couldn’t compare forecasts against actual orders, says Jeff Guettler, director of business development with the Trade Management Solutions Group of Portland, Ore.-based Sojitz Corp. of America. Yet another footwear maker found success in data standardization, which allowed it to outsource to third-party logistics providers while still operating a coherent, unified supply chain. It could immediately assess the “domino effect” of changes in sales orders and production schedules, Guettler says.

**2. Take control of shipments earlier in the process.** New U.S. cargo-security laws require shippers to know more about their upstream suppliers and logistics providers. The 24-hour manifest rule, for example, calls for the filing of all manifest information at least 24 hours prior to the loading of cargo aboard a ship bound for the U.S. But companies should do more than just file the right papers, suggests Darren Maynard, chief operating officer of NextLinx Corp. in Rockville, Md. They should consider taking responsibility for freight earlier — as far back as the factory. C.I.F. (cost, insurance and freight) terms require shippers to assert direct control over carrier, routing, duties and other elements from the start, rather than the moment freight is loaded aboard the vessel. Maynard says companies also must be able to work with an extended cast of outsourced service providers, including 3PLs, customs brokers and freight consolidators, yet still maintain control over the shipment from start to finish.

Del Sarto says the factory should be fully incorporated into the supply chain, even if it’s owned and operated independently. Such an approach allows sellers to make delivery promises to their customers that can be kept. Bob Garrison, vice president of supplier management with UPS Supply Chain Solutions in Dallas, says logistics providers are responding to this need by performing full distribution services at the



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source, especially China and other parts of Asia. Fewer deconsolidation and warehouse facilities need be located in North America; instead, freight can be shipped directly from Asia to stores in the U.S. tagged, priced and ready for sale.

**3. Pre-classify and pre-clear.** Regardless of how it might seem to a frustrated importer, customs agencies don't like delays anymore than traders do. Established shippers have been working with customs in recent years, particularly in the U.S. and Canada, to pre-clear goods so that they aren't stopped upon arrival at the border. Such companies maintain databases with all relevant product classifications, as well as electronic links with customs, to address clearance formalities as early as possible. The automotive industry has been especially proactive in this regard, says Beth Mersch, director of managed services export operations for Vastera Inc. in Dulles, Va. Automakers have been driven by the North American Free Trade Agreement, allowing them to fashion a continent-wide supply chain under which auto parts are sourced from plants in Mexico for cars built in Canada, then sold in the U.S.

Unfortunately, the growth of North American trans-border trade has generated huge traffic jams at major crossing points, with trucks waiting for hours to pass over, says Ken Halle, chief operating officer of TradePoint Systems LLC in Nashua, N.H. But those that engage in pre-clearance programs with customs have a much easier time. General Motors is among the first to take advantage of a U.S.-Canadian customs program known as the Free and Secure Trade (FAST) initiative, eliminating paper documents and letting participating trucks skip to the head of the line. TradePoint sells commercial software for users of FAST. GM alone clears more than 7,000 shipments a week using the process at Detroit and Port Huron, Mich., Buffalo, N.Y. and now Laredo, Tex.

**4. Push the limits of automation.** International traders are far from tapping the full potential of information technology to support their logistics programs. The goal, says Mersch, should be to provide seamless processing of imports and exports, eliminating the errors that crop up as a result of repeated manual entries in multiple systems. Global trade management software such as that of Vastera can receive data electronically from a host of legacy and enterprise systems, and deploy the information for inventory control and order processing. It can then be reformatted for purposes of trade compliance, and delivered to government agencies for reporting and pre-clearance. Some of Vastera's major telecommunications clients use the technology to manage their contract manufacturers — yet another manifestation of the outsourcing craze—so that communication snags between independent entities are kept to a minimum.

Oracle Corp. uses TradePoint applications to manage nearly two million software exports a year, performing denied-parties screening, license determinations and regular checks on embargoed countries, Halle says. Third-party providers such as DHL and Menlo Worldwide work closely with TradePoint, not only to automate export clearance and determine proper classification, but to develop periodic statements for the payment of duties. As a result, such payments can be made on a monthly basis instead of daily.

**5. Use new security requirements to improve the supply chain.** New laws for tighter control over international shipments may seem burdensome, but they're also an opportunity to streamline the movement of goods across borders and boost customer service. The new Customs-Trade Partnership Against Terrorism (C-TPAT) program

requires participants to keep detailed information on trading and service partners, notes Garrison. But it also gives companies a single source of data about all vendors, helping them to ensure that everyone is meeting the same stringent set of requirements. Ultimately, it expedites the clearance of goods. What's good for the government, it turns out, can also create an efficient supply chain that better serves the customer.

Software programs are springing up to help companies adhere to the new government requirements. Using a system provided by Global eXchange Services, retailers can match seal numbers on containers arriving at their distribution centers with ASNs, for faster clearance through C-TPAT. Containers that don't match up go into a holding area. Unique serial numbers, often utilizing radio-frequency identification (RFID) and Electronic Product Code (EPC) standards, can also be used to control numerous pre-shipment events, including orders received, items in production, items inspected, and finished goods booked for shipment, Del Sarto says.

**6. Consider direct importing.** Every link in the chain costs time and money, and each must justify its role in getting goods to market. According to Garrison, an increasing number of consumer packaged goods (CPG) suppliers are shipping direct to retailers, bypassing intermediaries such as wholesalers or distributors. Nearly every company is engaging in this practice to some extent, he says, with direct shipments averaging 10 to 20 percent of total volumes. The result is significant cost savings, in a business where margins can be perilously thin.

The trend began in earnest last year, says Garrison, as CPG companies and retailers sought new ways to achieve competitive advantage. They had squeezed every possible savings out of other parts of the chain; rival retailers were already running similar store formats, merchandising and marketing campaigns. "The supply chain," says Garrison, "is one of the last areas to compete in."

The strategy won't work, however, unless companies can plan for actual demand further up the chain. A producer of 1,000 shirts must have a fairly accurate notion of which sizes and colors to produce for direct shipment, instead of keeping them in a warehouse and feeding the right SKUs to stores as needed. So the best retailers have labored to create links between Asian suppliers and their point-of-sale data.

They can do better, Garrison says. He believes that up to 50 percent of CPG shipments in key sectors could be shipped directly to stores. At the same time, he says, intermediaries will continue to play an important role, as they strive to become more efficient and offer value-added services such as pricing, ticketing and garments on hangers.

**7. Use trade-compliance procedures to become a good corporate citizen.** In today's media-obsessed society, image is everything. A company that is perceived as doing business with shady buyers can take a big hit from investors and the public at large, not to mention government prosecutors. Charles Menkhorst, global vice president of service-parts logistics with DHL, says the vendor's clients are increasingly asking for trade-compliance services such as screening of denied third-party buyers. They are acutely aware of the potential for delays, penalties and other costs related to inadequate screening programs.

Recently a large multinational customer of DHL was almost forced by

the U.S. government to stop moving shipments in and out of China because it had done business with a local logistics provider that was shipping certain other customers' products to Iraq. As companies become more concerned about their public images, "we see a very strong shift to [trade-compliance] services," Menkhorst says. DHL, which often acts as a third-party logistics supplier for global spare parts, uses Open Harbor's database of blacklisted companies to ensure compliance on the part of its own client base. In addition, it recently debuted a Trade Automation Service to supply comprehensive trade and customs information on its web site.

TradePoint checks some 16 different lists against the shipments of customers such as Oracle, Halle says. They detail such miscreants as denied persons, "convicted" factories, and institutions for money-laundering. Post 9/11, with public sensitivity at a heightened level, trade-management vendors such as TradePoint also must have access to U.S. and United Nations lists of suspected terrorists. Only in the last several years have such records been available in a single place, says Halle. Companies have leapt at the chance to demonstrate their willingness to comply with tough new security rules.

**8. Think strategically.** It might seem attractive, finding that one perfect provider that can perform logistics services at the lowest price. But companies should take care to vary their vendor base, says Maynard. The potential for disruptions in the supply chain — due to natural disaster, terrorist attack, epidemic, labor unrest, energy price hikes, new regulations, unforeseen congestion or carrier bankruptcy — is ever-present. Alternative carriers, 3PLs and routings must always be available. Even in the best of times, companies should spread their business around, assuring them of preferential treatment by alternative vendors in a crunch. IBM used to make all of its printers in Argentina, notes Maynard, but it could quickly gear up U.S. production if necessary. The problem with most companies, he adds, is that "trade is not often managed as a strategy."

A high-level view of trade and logistics management can help companies to identify the lowest-cost routes in terms of transportation cost and tariffs. The proliferation of bilateral and multilateral trade agreements, with their array of preferential duty schemes, makes such a capability more important than ever before, Maynard says.

Companies should also think about outsourcing more strategically, says Menkhorst. Execution-based processes such as warehousing and transportation are frequently outsourced, he notes, but a good global 3PL can handle more. KLA-Tencor Corp., a maker of process-control systems for semiconductor manufacturers, has turned over the management of virtually its entire supply chain to DHL. As a result, it was able to scrap an outmoded IT system and concentrate on manufacturing, research and development, Menkhorst says.

**9. Treat downloads as exports.** Many vendors don't seem to realize that the downloading of software to customers can be considered an export, just like the physical movement of product. Peterson cites BEA Systems Inc., the big vendor of applications infrastructure software, whose products are delivered almost entirely through downloads. Buyers outside U.S. borders must register, then are screened for acceptability by Open Harbor. With order-cycle times running at less than a minute, the process must be nearly instantaneous.

Open Harbor checks all prospective customers' internet and e-mail addresses in order to confirm their identity and location. But many U.S.

companies with foreign sales don't have a similar process, and are exposing themselves to penalties for non-compliance with export rules. "Their business is at risk," Peterson says.

**10. Build an international load-control center.** Companies typically assert a high degree of control over their domestic transportation networks, says Garrison. The same doesn't hold true for the international side. The domestic model should be applied on a broader scale, so that all logistics partners within a given region can be managed from a single location.

Domestically, a well-managed shipper knows precisely how many trucks are moving at any given time, and whether they're showing up at the distribution center on schedule. (The process can be managed just as effectively by a third party, Garrison says, although the underlying shipper must retain oversight of the vendor.) But when manufacturing moves to China, the picture becomes a lot more complex. A physical facility in that country can perform load-control duties, overcoming differences in time zones and languages between the regional operation and headquarters in the U.S.

The concept is still in its infancy, Garrison says, with companies starting to realize the wisdom of comprehensive local control over international logistics. The pioneers are mostly retailers with a need to improve supply-chain efficiencies, beginning in China. Eventually, they might extend the strategy to cover all of Asia, staffing a centralized facility with employees skilled in multiple languages. Says Garrison: "It's evolving as we speak."

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