



## Supply Chain Technology

### Global shift

**Shippers are changing the way they buy and use import/export software. Here's what they're doing—and why.**

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Logistics Management  
October 1, 2004

Importing and exporting have to be among the most labor-intensive, paper-heavy activities on Earth. When you add up all the shipping and payment documents, advance shipment notices, licenses, certifications, and inspections required by the exporter, the importer, the freight forwarder, the customs broker, the local and international carriers, the banks, customs authorities at both origin and destination, and assorted other government agencies... it's easy to see why a typical international trade transaction may involve 100 or more individual steps.

To manage that complexity, more and more shippers are relying on import/export software. When this software first came on the scene, vendors focused on automating the repetitive creation of trade documents. Later, they expanded their products' capabilities to include tariff classification, landed-cost calculations, customs regulations, denied-party screening, and order tracking, to name a few. Today, exporters and importers can purchase low-cost solutions that handle a single task such as document creation, or expensive, "soup-to-nuts" global trade management solutions that control and track trade transactions from purchase order to final delivery.

No matter which import/export package a shipper buys, the attraction is the same: It saves companies thousands of hours work while dramatically cutting costs. For example, export control laws require shippers to screen buyers against denied-parties lists. There are more than 30 of these constantly changing lists, which name entities with ties to terrorists, criminal groups, and unfriendly governments. With some exporters having to review tens of thousands of orders annually, it's difficult to conduct adequate checks. Software that's updated daily, by contrast, can do the job in a few seconds.

But time and cost savings are not the only reason shippers are flocking to import/export software these days. With security concerns and demands for supply chain visibility increasing, shippers are looking for more functionality from their software packages. At the same time, shrinking budgets mean buyers must spend more cautiously on technology.

Here's an overview of those and other trends that are shaping the import/export software market today.

**Security takes center stage:** Since the terrorist attacks of Sept. 11, importers and exporters have been subject to a growing list of requirements aimed at improving trade security and preventing terrorism. To meet those demands, they're increasingly turning to import/export software for help. Many of those products include modules for checking orders against denied-parties lists, tracking suppliers' and end users' activities, and checking compliance with export control regulations. Some shippers are using import/export software to create electronic advance-shipment notices required by U.S. Customs and Border Protection (CBP) and to comply with C-TPAT, the CBP program that requires importers to document how they and their suppliers ensure an acceptable level of security.

With penalties for violating export control laws potentially reaching \$30 million dollars, "there are compelling reasons to build compliance checks into a company's business processes," says Larry Christensen, vice president, trade content, for Vastera, a provider of trade management software and services. Software can do that by establishing protocols for processing export orders and creating transaction records, he notes.

Christensen also predicts that the merging of federal agencies into huge organizations like the Department of Homeland Security will make software an important tool for complying with security mandates. Import and export administration, trade policy, and national security are all converging under a single bureaucratic umbrella—and

that means importers and exporters will need to organize data in similar fashion.

**Piecemeal purchasing:** When the economy faltered, shippers cut back on huge, enterprisewide software buys. Nowadays users are more likely to purchase specific pieces of a vendor's software lineup, says Rajiv Uppal, president and CEO of software vendor NextLinx Corp. "Customers today want partial solutions, not the entire product line," he says. "They are buying one piece at a time and adding modules."

That was the case for Elite Group, a Houston-based freight forwarder and customs broker that bought two modules from NextLinx. Elite uses those modules to help it conduct denied-party screenings and put together landed-cost quotations, says John Little, director of compliance and employee development. The decision to buy just two modules was based on customers' requests for assistance with those specific activities. The software steps in when automation can meet customers' requirements faster and more efficiently than existing capabilities, he explains.

**Transaction-based pricing:** Buyers not only want to pay less for import/export software, but they also want to spread their payments out. The number of users wanting solutions delivered over the Internet with monthly subscriptions or transaction-based fees has noticeably increased. "Most new customers want a transaction-based model rather than a straight purchase with a big payment up front," says Beth Peterson, vice president, solutions marketing, for software vendor Open Harbor.

**Integration a priority:** Importing and exporting are intimately connected with internal finance, making ease of integration with enterprise resource planning (ERP) systems a top priority for many companies. That was the main reason a multinational chemical manufacturer recently chose SAP's Global Trade Services software to manage regulatory compliance, says Misty Rutter, an international regulatory consultant who is working on the implementation. The company had already rolled out an SAP order-processing system worldwide, so the ability to link export compliance around the world directly to order processing and eliminate rekeying of data was a big selling point, she says. But there was a trade off: That particular software provides only the procedural framework, so the user must build in business rules and regulatory content.

**Access through third parties:** Even the smallest shipper can now gain access to import/export software through third parties. Software providers working behind the scenes make it possible for carriers and freight forwarders to attract customers by offering selected services, such as landed-cost calculators, product classification, and document preparation, often on a fee-per-transaction basis. DHL, for example, recently partnered with Open Harbor, and FedEx Trade Networks is working with NextLinx.

**Filling in the gaps:** Domestic information systems don't necessarily work well for international business. Not only do foreign suppliers have varying degrees of technological sophistication, but for cultural reasons they also organize and use information differently. Add to that the common practice of tacking export/import solutions onto a patchwork of legacy systems, and shippers end up with information gaps that compromise order visibility.

That's what happened to The Children's Place, a clothing retailer that imports about 95 percent of the merchandise sold in its 650 stores. Rapid growth brought data-availability problems to light, says Chief Information Officer Ed DeMartino. He needed a flexible solution that would improve collaboration and data sharing with foreign suppliers, provide order visibility from manufacturing through shipping and delivery, and improve financial processes to speed payments to suppliers.

DeMartino found the answer in TradeStone, which integrates data into a single, Internet-resident "window" for viewing orders as they move through the import pipeline. The quality of the data input by foreign suppliers is high, he says, because the software was designed with cultural and linguistic differences in mind. "Training is simple and easy for remote users...and a lot of those areas are not rich in IT knowledge," DeMartino says. The suppliers, moreover, are eager to participate because TradeStone gives them access to information they didn't have before. "They all want accessibility to purchase-order information," DeMartino notes. "It was long overdue."

**One world, one system:** Many shippers are using import/export software to create uniform information infrastructures worldwide. The Children's Place, for example, is using TradeStone to standardize the way all of its suppliers input order information. "We are focused on getting each and every one of our suppliers to use this," says DeMartino. Likewise, Rutter's multinational client is using SAP's GTS module to impose uniform practices on all company subsidiaries. "[The software] gathers information and feeds it back into the parent company, giving them visibility into what everyone is doing and how they are doing it," she explains.

The software providers, though, must strike the right balance between global consistency and local needs, says

Uppal. Working with customs and trade law experts around the world, his and other software companies are building in adaptations for local requirements while still maintaining procedural consistency.

**Creative applications:** Importers and exporters are finding new ways to use software to meet changing business needs. Some of these approaches include:

- *Screening software downloads:* Export compliance is a challenge for companies that deliver software over the Internet. "By delivering over the Web they're taking out logistics and transportation costs, but they don't have the physical checkpoints [where companies normally review documentation]," says Peterson. Automation guarantees that online buyers are screened, often in a matter of seconds, she says.
- *Making "what if" comparisons:* Elite Group's Little says customers increasingly are asking for help in researching costs for importing from different countries. By using software to check duties, taxes, and trade regulations in the potential countries of origin, trade experts can put together "what if" scenarios that will help importers make the right decision.
- *Using exports to manage imports:* Traditionally, a supplier's export activities are managed separately from the buyer's import activities, even when both are subsidiaries of the same company. Renault, the French auto manufacturer, is breaking that mold by using Open Harbor's software to manage both ends of the supply chain for its new "Logan" economy car. "Renault looks at every export as an import," says Peterson. "The export data electronically builds the import documentation, so it eliminates duplication and reduces the cost per vehicle."
- *Tracking after-sale parts and repairs:* Even companies that have a handle on regulatory compliance for imports and exports often fail to apply controls to after-sale repairs and parts orders, says Peterson. Software can bring after-sales service and repair organizations, which typically have no regulatory expertise, into the procedural loop.
- *Verifying financial data and business processes:* Shippers that are involved in mergers and acquisitions, as well as those undergoing customs and tax audits, are using import/export software as an audit tool because it automatically records each step in every trade transaction. That capability also is helping companies comply with the Sarbanes-Oxley Act, which requires companies to certify that their business processes and financial statements meet specified standards. "If there is sufficient reliance on export revenues that it would materially affect the company's financial performance if something went wrong—for example, if you received a denial order forbidding you from exporting because of a violation—then your export control procedures would have to be certified," Christensen says.

## Why software is not enough

Could software replace import and export managers? Might it eliminate the need for freight forwarders and customs brokers?

Not a chance, says Jeffrey Guettler, director, business development for Sojitz Trade Management Solutions, which manages global trade operations and information technology for its clients. "Companies relying solely on software will be disappointed in the results," he says. "Technology can certainly provide critical assistance, but it's not a replacement for expertise."

Now that U.S. law shifts responsibility and risk related to customs compliance to the importer, human experience and expertise is more important than ever, Guettler believes. "You really need expertise to manage financial decisions as well as to negotiate cultural issues—it's not just a matter of diligently inputting data. You have to be preemptive in managing international trade," he observes.

Guettler cites the case of a large importer that purchased global supply chain software in order to increase visibility of international trade transactions and improve regulatory compliance. Over the last two years the importer has employed a dozen consultants to customize and prepare the software for launch next year. Once the software is fully implemented, a dedicated staff will update and manage the program. Most importantly, he adds, trade experts will be needed to interpret reports and respond appropriately.

"Software gives you an indication whether there's going to be an issue," says John Little, who oversees regulatory compliance for Elite Group, a freight forwarder and customs broker that specializes in chemicals and food products. He advises software users to follow up on those alerts by researching other sources. either

electronically or in person.

Recently, for example, Elite got wind of a new requirement in China that shipments from the United States be fumigated for mosquitoes. There was no information about it online or in other published sources, so Little asked his company's staff in China to investigate. They found out that the rule applied in just a couple of ports. "We couldn't have learned about that without having somebody over there to look into it," he says.

## **Providers of import/export software**

Want to learn more about what import/export software can do for you? Listed below are the names and Web addresses of some providers of these products. Keep in mind that each package will have its own unique combination of features and will require varying degrees of data input and updating by users.

**Importers Software Services Inc.** [www.importerssoftware.com](http://www.importerssoftware.com)

**Intermart Inc.** [www.shippingsolutions.com](http://www.shippingsolutions.com)

**KPMG LLP Customs Info** [www.customsinfo.com](http://www.customsinfo.com)

**MSR Customs Corp.** [www.ecustoms.com](http://www.ecustoms.com)

**NextLinx Corp.** [www.nextlinx.com](http://www.nextlinx.com)

**OCR Services Inc.** [www.ocr-inc.com](http://www.ocr-inc.com)

**Open Harbor** [www.openharbor.com](http://www.openharbor.com)

**Precision Software** [www.precisionsoftware.com](http://www.precisionsoftware.com)

**Questaweb Inc.** [www.questaweb.com](http://www.questaweb.com)

**SAP Global Trade Services** [www.sap.com/gts](http://www.sap.com/gts)

**TradeBeam** [www.tradebeam.com](http://www.tradebeam.com)

**TradePoint Systems LLC** [www.tradepointsystems.com](http://www.tradepointsystems.com)

**TradeStone Software** [www.tradestonesoftware.com](http://www.tradestonesoftware.com)

**Vastera** [www.vastera.com](http://www.vastera.com)

**Xporta** [www.xporta.com](http://www.xporta.com)