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GLOBAL TRADE MANAGEMENT: BEST PRACTICES AND CRITICAL CAPABILITIES TO OUTPACE CHANGE

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Global Trade Management (GTM) is a hot topic in supply chain circles, and all companies involved in international trade are likely to be affected in some manner by changes resulting from Brexit, the USMCA, and US / China trade agreements. With the coming changes, trade policies will alter the landscape, profitability, and risk of trade along specific routes. This report examines the critical GTM capabilities and technologies that companies should have in place to deliver superior performance results compared to their competition.

Pressures on International Supply Chain

While companies recognize that they will be affected by changes in international trade regulations, they still need to manage their costs, fulfillment / service levels, and security. Reducing costs is always at the top of the list of a company's business model, and pressures can come in many forms (e.g., total landed costs, fuel, labor, carrier costs). Customer mandates for faster, more accurate, and unique fulfillment adds pressure to international supply chains when direct shipments to customers are required. Global complexity has increased due to the size, scale, and scope for international supply chains. Now that security, chain of custody, and tracking requirements for many industries are mandatory, companies are dealing with more complexity than ever before.

GTM Background and Recent Changes

Historically, trade management functioned when the product was ready to ship. GTM for many companies has been outsourced to partners for the movement of goods, which has sufficed until now — but changes are on the way. The Belt and Road initiative and similar trade agreement offers promise improved international connectivity between and across countries. More advanced companies now incorporate GTM considerations into their product design and sourcing decisions as part of their corporate strategy. This requires in-house expertise. With the coming changes, new trade agreements may now put companies on the wrong side of existing tariffs or trade agreements — particularly single or sole sourced products. The questions

now are, how should companies respond to these new trade agreements and do they have the internal capabilities prepared to tackle these challenges?

Challenges Still Linger on Ability to Keep Up

Are lagging capabilities tied to delayed technology investment? Across all companies, Aberdeen research found that 28% are still saddled with cumbersome manual processes. They also struggle with having access to up-to-date information for SKU (stock-keeping units) classification, which is essential in GTM. In addition, companies have indicated that GTM operations are siloed with little centralization and sharing of information across the enterprise. This suggests that investment in technology has lagged in solving the connectivity and streamlining issues.

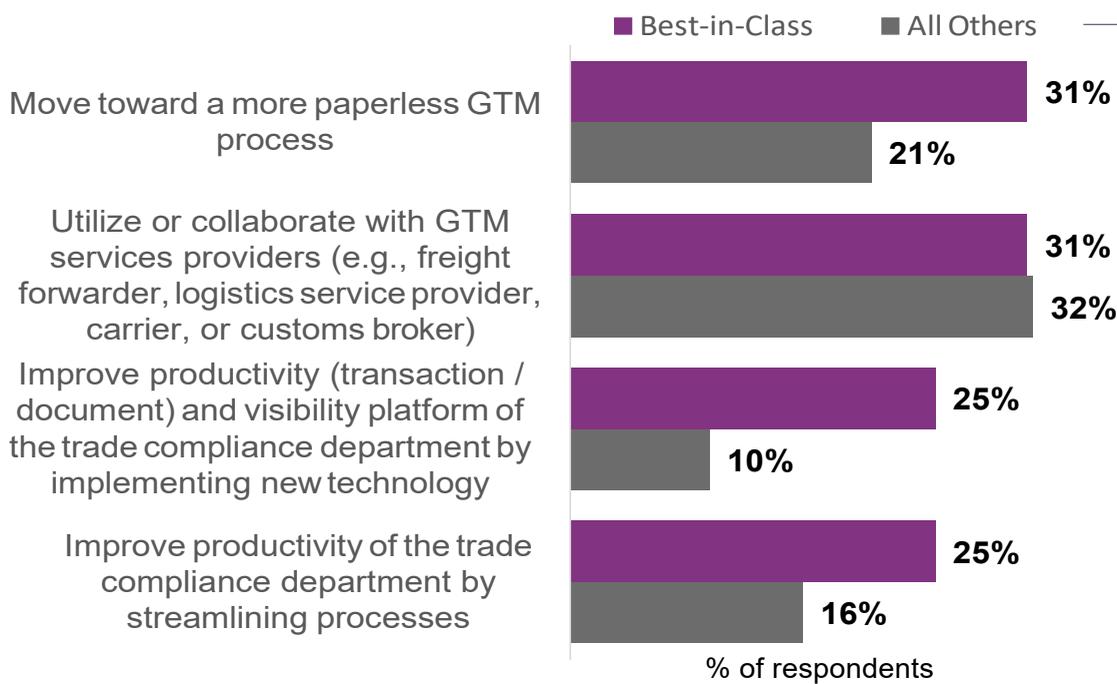
Actions to Address Issues Now

Best-in-Class companies (see sidebar) are far more likely to address immediate challenges to streamline and address productivity (Figure 1).

Figure 1: New Technology Adoption Yields Greater Productivity and Visibility

**Best-in-Class Definition
(Based on performance metrics)**

- ▶ Best-in-Class: Top 20%
- ▶ Industry Average: Middle 50%
- ▶ Laggards: Bottom 30%
- ▶ All Others: The sum of the Industry Average and Laggards, equal to the Bottom 80%



n = 126, Source: Aberdeen, October 2019

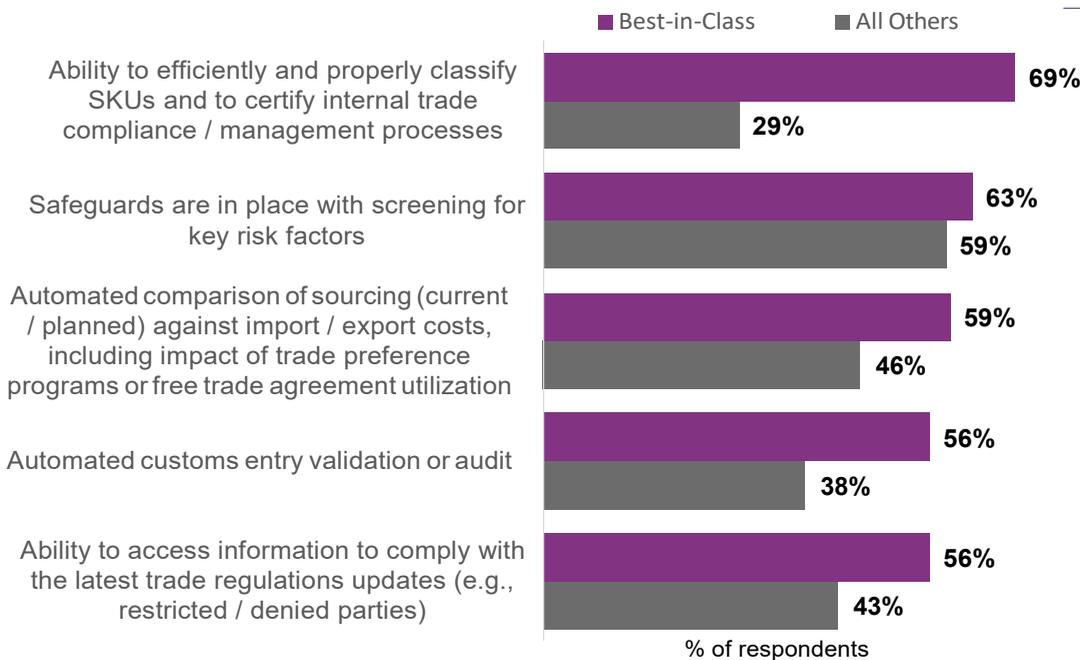
Outdated, manual, paper-based systems are still prevalent — even for Best-in-Class companies. When companies adopt new technologies, productivity improves for transactions, documentation, and visibility into the platform of

the trade compliance department. Best-in-Class companies are 2.5x more likely to adopt this strategy of using new technology to improve their efficiency. Thus, additional internal efforts to streamline and automate existing processes can further improve productivity. The Best-in-Class have demonstrated that, by adopting new technologies, they are setting themselves up for greater productivity and visibility. How do these improvements affect their GTM capabilities?

Fundamental Trade Management Capabilities

Through examining fundamental GTM capabilities, it can be seen that Best-in-Class companies are significantly better across critical areas — allowing them to have a streamlined solution to keep up with the pace and complexity of the GTM processes. They are more than 2.3x as likely to have the ability to properly classify SKUs, and 28% more likely to have automated sourcing comparison against import / export and trade preference or free trade agreements. In terms of upstream capabilities, they are 47% more likely to have automated customs entry validation or audit, and are also 30% more likely to have the ability to access information with the latest trade regulation updates. This data should be a wake-up call for All Other companies, who at 29% adoption levels, the ability to properly classify SKUs is significantly behind that of the Best-in-Class (Figure 2).

Figure 2: Critical Global Trade Management Capabilities



n = 126, Source: Aberdeen, November 2019

Best-in-Class Performance

► **Percentage of perfect orders received from international suppliers**

- Best-in-Class: 89%
- All Others: 30%

► **Percentage of perfect orders (complete and on-time) delivered to international customers**

- Best-in-Class: 90%
- All Others: 30%

► **YoY change in the percentage of average trade compliance costs relative to declared shipment value**

- Best-in-Class: - 2.9%
- All Others: 19.8%

► **Change in total landed costs per unit of import / export handled**

- Best-in-Class: - 6.3%
- All Others: 11.7%

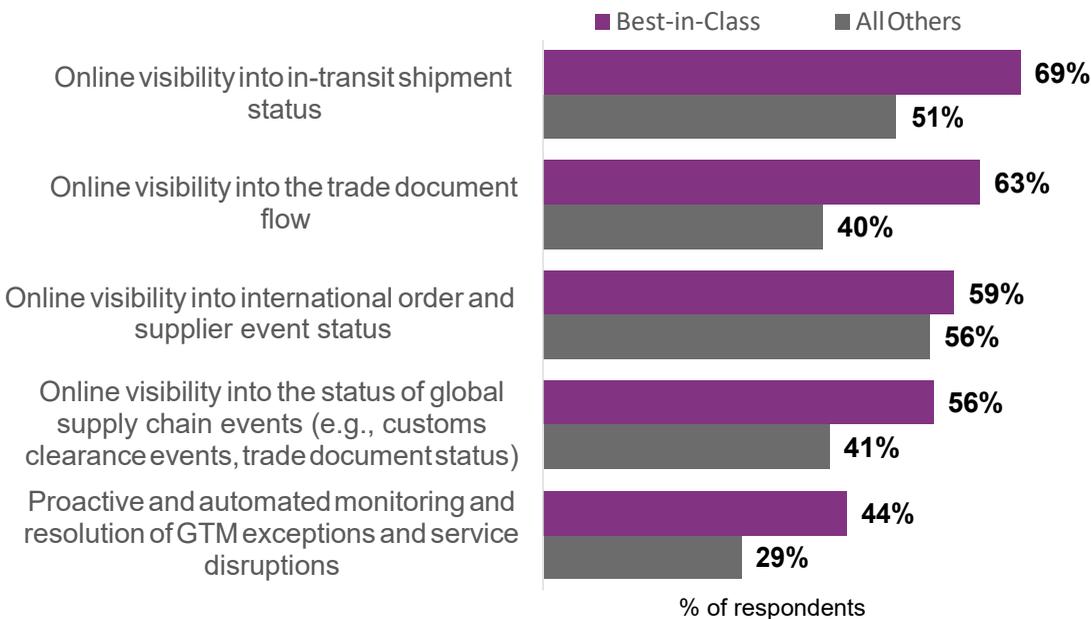
International Transportation Visibility

International transportation visibility is a *must have* requirement to keep shipments moving and alert of any issue. For domestic and international transportation, in-transit shipment status is a *must-know* capability to keep schedules on-track and exceptions alerted. For international shipments, visibility into trade documents is just as important. It is critical because shipments will sit if the paperwork is not available and correct. Any international order or supplier event (such as customs clearance) is also needed — particularly at key milestones to make sure the product is still flowing.

These supply chain events must also be monitored. Any cross-border movement is an event with new entities involved. Knowing the status of a shipment at each critical step is worth the effort. Having a solution in place that can monitor and provide exception alerts greatly simplifies the task of tracking and tracing international shipments.

The chart below (Figure 3) reflects most of the big pieces and the level of proficiency that organizations have, based on their maturity level. The Best-in-Class are much more likely to have these advanced visibility processes in place than their peers.

Figure 3: The Best-in-Class are more prepared in all areas



n = 126, Source: Aberdeen, November 2019

Upstream GTM Enablers

▶ The automation to keep up with audits and metrics simplifies the exception management

▶ Country and export licenses and certificates of origin must accompany shipments. Best-in-Class are twice as likely to have this in place

▶ Knowing about preferential trade items or agreements is key to sourcing intelligently on an international level

▶ Free trade agreements, knowing what's available, and exploring their impact can pay big dividends on cost reduction efforts — tariff shopping might be worth the effort

Duty, Tariff, and Costing Capabilities

A further component of visibility is cost. All companies need duty, tariff, and cost calculations to use in their ongoing commerce. The Best-in-Class have a significant edge — duty, tariff, and tax calculations all go into the cost of the product and cost of compliance calculations. Duty drawback management is one proactive measure to minimize the impact of duties. Moreover, duties paid can be recovered if a product is subsequently shipped to another country or scrapped. In addition, landed costs determine a basis for a product costing on an equal basis. Lastly, delivered cost is what retailers need immediately upon receipt so that they can populate their systems and determine what their true profit margins are and the level of discounts they might offer.

Table 1 provides more insight into how the Best-in-Class companies are vastly better across all forms of calculations.

Table 1: Critical Compliance and Costing Capabilities

Compliance and Cost Capability	Best-in-Class Top 20%	All Others Bottom 80%	Comparison
Duty, Tariff and Tax Calculations	81%	52%	56% >
Duty Drawback Management	75%	41%	83% >
Landed Cost Calculations	69%	46%	50% >
Delivered Cost Calculations	69%	59%	17% >

Managing in a Challenging Trade Environment

Changes will occur under Brexit, USMCA, and the US / China trade agreements. Navigating this complex trade environment is critical for any organization. What actions can be taken if results are unfavorable in the short, intermediate, and long-term? Is the technology in-place?

- ▶ Short-term for single or sole sourced products
 - Duty drawback to recapture duties paid if a product is received and then exported to another country
 - Recapture duties if a product is scrapped
- ▶ Intermediate-term for single or sole sources
 - Restructure manufacturing to leverage tariffs from other countries
 - Resource if viable alternatives are available on single sourced items

Best-in-Class More Likely to Adopt Technology

- ▶ Home Grown is over 56% - potential barrier to change
 - ▶ ERP providers or modules
 - Best-in-Class: 56%
 - All Others: 51%
 - ▶ Third Party or Partner Solutions
 - Best-in-Class: 56% - 69%
 - All Others: 29% - 38%
 - ▶ On-demand or SaaS is a popular choice for companies who want to add functionality without a complete replacement — particularly if they are operating in a cloud environment.
 - ▶ The number one criteria cited for a cloud-based solution is standardization across multiple entities.
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- Sole source — develop new supplier in alternative country using existing upstream sourcing capabilities

▶ Longer-term

- Invest in upstream GTM technology
- Engage upstream GTM capabilities in product sourcing and design, for preferential trade agreements, country of origin options, and free trade zone opportunities
- Possibility involvement of Product Design to restructure product to leverage GTM options

Key Takeaways

GTM is a popular topic amongst supply chain professionals. Three major trade initiatives are in process and there will be changes to deal with; USMCA, Brexit, and the China-US trade agreement.

Most companies find themselves behind the curve in having in-house expertise and software solutions. Best-in-Class companies are significantly ahead of their competition in having the necessary capabilities in place. For the remaining 80% (All Others) there is much work to be done. From the technology perspective, over 55% companies report home grown applications, which may be a reason for resistance to change.

Given the challenges that companies are facing, if they do not have the solutions and in-house expertise to address and manage the imminent changes, they should be partnering now with 3rd party providers to give them some capabilities and access to data they don't have in-house. Aberdeen also recommends that all companies follow the lead of the Best-in-Class companies to break down the silos of information and invest in a cloud-based solution to address the GTM solutions requirements.

Related Research

- ▶ [Global Trade Management: Trends, Challenges, and Best Practices;](#) November 2019
- ▶ [SCM For Small to Medium Business \(SMB\): Strategies that Leaders Have in Place;](#) May 2019
- ▶ [Why Now is the Time to Elevate Your Business with an EPM Cloud Suite;](#) August 2019

About Aberdeen

Since 1988, Aberdeen has published research that helps businesses worldwide improve their performance. Our analysts derive facts-based, vendor-neutral insights from a proprietary analytical framework which identifies Best-in-Class organizations from primary research conducted with industry practitioners. Aberdeen provides intent-based marketing and sales solutions that deliver performance improvements in advertising click-through rates and sales pipelines, resulting in a measurable ROI. Aberdeen is headquartered in Waltham, Massachusetts, USA.

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