



The Value of Integrating Trade Compliance with Global Trade Management Software

Creating Competitive Advantage
Through Functional Integration and
Holistic Collaboration

by Dan Gardner

A QAD Leadership White Paper for
Global Trade and Transportation Execution

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THE VALUE OF INTEGRATING TRADE COMPLIANCE WITH GLOBAL TRADE MANAGEMENT SOFTWARE

ABOUT THE AUTHOR

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INTRODUCTION

During the course of the last two decades a great deal of disruption has taken place in the field of supply chain management. Fueled by a combination of factors that include the continued expansion of cross-border trade, the explosion of both B2C and B2B e-commerce, and the advent of cloud-based technology solutions, more people are engaged in international business today than at any point in human history.

This growth has fostered a diversity of players that ranges from a lone fashion designer in Milan that imports from Asia and sells on Amazon, to well entrenched, manufacturers that import and export on every continent. From São Paulo to Shanghai, and all the way back to Stuttgart or St. Louis, companies of all sizes are involved in multiple facets of supply chain operations.

For all of this variety, companies engaged in global business share several common objectives. Equally applicable to a sole proprietor as to an auto manufacturer with plants in Europe and the US, when it comes to a one-year budget period, executives are working on four goals. In what we'll call the "Four Pillars" of global supply chain management, those shared objectives are listed below.



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THE “FOUR PILLARS” OF GLOBAL SUPPLY CHAIN MANAGEMENT

Increase Sales: The famous, “right product in the right place at the right time” mantra now applies not only to single channels of distribution, but to omnichannel operations across multiple geographies. Easier said than done, maximizing product sales without experiencing stock-outs or bloated inventories remains the lynchpin of supply chain management.

Reduce Landed Costs: Having a product in the right place and time is one thing; getting it there at a cost that allows for a fair profit is an entirely different story. In addition to the unit cost of a product, companies are constantly working to drive down the expenses that constitute an item’s landed cost, which include transportation, customs clearance, duties and taxes.

Compress Cumulative Lead Times: Tactically, “CLT” is the number of days that go by from the moment a buyer places an order with an overseas seller, until the goods are received at their domestic point of distribution, for sale to the final consumer. In a world where product life cycles are counted in days, compressed lead times are a major component of a company’s value proposition.

Optimize Inventory: As old as commerce itself, the need to balance the supply of merchandise with unpredictable

demand is the bane of business people. Closely linked to revenue maximization and a key driver of the “Customer Experience”, everything comes down to having the stuff people want, when they want it, and at a price they’re willing to pay. A primary function of supply chain management, the trick to optimizing inventories is to have enough product on hand to fill every sales order, but to not carry so much stock that it forces a seller to offer discounted prices that actually generate losses.

As companies engage in a number of activities to achieve the above goals, a common theme that has emerged in the 21st century is that of “Supply Chain Integration”. This is as much a physical-world undertaking as a digital transformation — integration involves the linking of tasks, activities and processes in ways that create value for both internal and external customers.

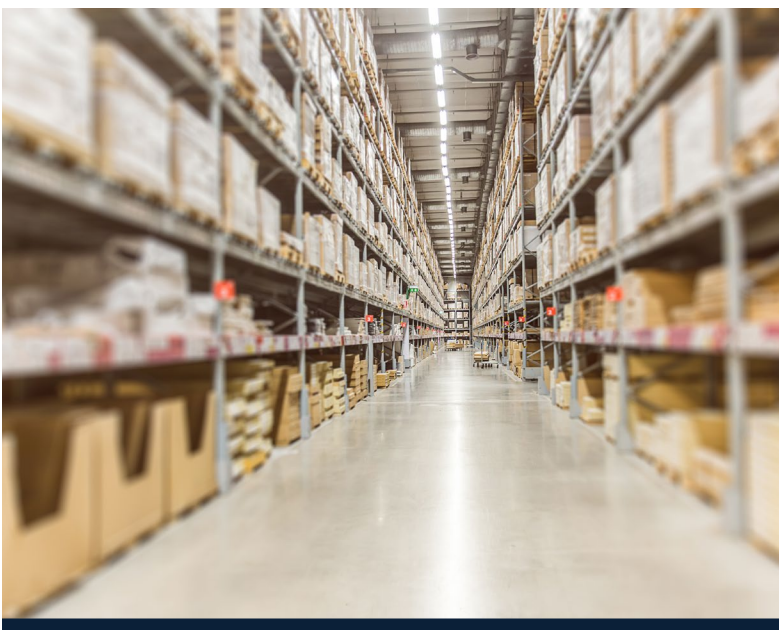
Without question, the digital integration of disciplines such as purchasing, manufacturing, sales and logistics is what enables the physical execution of those very functions. When these operations are brought into a cloud-based environment, the positive impact on the customer experience is immense. It is for these reasons that the technology-enabled alignment of supply chains will remain a source of competitive advantage for decades to come.

THE EVOLUTION OF DIGITAL SUPPLY CHAINS

The ways in which companies have digitized their supply chains are as varied as the number of firms engaged in international trade. With solutions that range from high-end Enterprise Resource Planning suites to a hodge-podge of Google Docs and email attachments, there is no shortage of creativity when it comes to getting business functions to, “sing off the same sheet of music.”

In the early days of The Digital Age, companies began by integrating their own internal processes. Starting with functional disciplines such as Demand Planning, Inventory Management and Accounting, these in-house efforts allowed firms to create a “Single Version of the Truth”, while enabling the execution of multi-departmental activities in an orderly fashion.

Because cross-border trade involves a great deal of outsourcing, the next step in the digitization process compelled companies to integrate their systems with those of their business partners. Driven initially by



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Electronic Data Interchange (EDI), these efforts have been accelerated through the use of Application Program Interfaces (API). Today, most carriers, customs entities, 3PLs, banks and cargo insurance firms are capable of sharing information with the trade community.

Great strides have been made in the integration of supply chains, however, there is one mission-critical discipline that's been neglected — Trade Compliance. Often viewed as a “necessary evil”, adherence to trade regulations has for the most part, remained in a silo. Essential to both import and export models, the ability to link compliance with other operational areas represents an order-of-magnitude gain in trade facilitation, customer service, productivity and profitability.

To the above end, it is the position of this white paper that trade compliance is not only a source of competitive advantage as a stand-alone function; its alignment with other disciplines will enhance execution across the entire supply chain ecosystem. Based on the fundamental premise that a multi-functional, holistic approach to compliance is simply good business, the balance of this paper is dedicated to explaining precisely how that can be done.

TRADE COMPLIANCE AS COMPETITIVE ADVANTAGE

Based on a company's business model, there are many ways to harness trade compliance for competitive advantage. Whether a company imports or exports, the most basic requirement calls for products to be classified per the criteria found in the World Customs Organization's (WCO) six-digit Harmonized Commodity Description and Coding System (HS).

Because member countries of the WCO can seek item-specific granularity by adding digits to the original six-digit nomenclature, even greater precision is required when classifying a product. In the US and Europe, for example, a ten-digit structure is used. By extending accurate classification out to the country-specific requirement, a firm can make determinations as to the rules and regulations they need to follow.

On the import side of the house, the buyers of foreign-origin goods combine product classification with factors like purchase price and country of origin to estimate the amount of duties and taxes owed to a customs

entity. A major component of an importer's landed cost calculations, the proper classification and valuation of imported merchandise also impacts the ease with which goods flow across international borders.

Needless to say, when the refrain, “our shipment is stuck in customs” is invoked, the ripple effect on operations is crippling. Whether it's because of classification-related issues, or other regulatory infractions like failed product testing or inadequate labeling, an absence of merchandise due to compliance shortcomings invariably results in lost sales, high landed costs, extended lead times and inventory imbalances.

Apart from the above, importers must also conform to supply chain security procedures. Whether it's meeting the standards of the European Union's Advance Cargo Security Filing, or the US Importer Security Filing, there are clear rules to assure the security of a country's inbound maritime supply chain. If a company fails to comply in these instances, goods cannot be loaded on board a vessel at a foreign port.

Just like imports, effective export compliance consists of planning, execution and record keeping. Founded on accurate product classifications, companies in Europe and the US can then determine what they're licensing requirements are, if they qualify for an exemption, or if they can ship under the distinction of “NLR” (No License Required).

Upon completing upfront compliance work, exporters still have to present shipment-specific electronic declarations to their respective customs entities, the details of which must be 100 percent consistent with their earlier classifications. Be it the Export Control System in Europe, or the Automated Export System in the US, compliance will literally make a break or company's export program.

When Electronic Export Information is incorrect, inconsistent or totally absent, export sales cannot occur. For reasons that span an incorrect product classification to shipping an item under a license exemption that doesn't apply, non-compliance not only results in lost sales, violators will find themselves penalized by government agencies that have the right to suspend their export privileges.

Consistent with our previous observations, the ripple effect inherent to deficient regulatory compliance always

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leads to increases in landed costs, much longer lead times due to delays and of course, inventory problems. Add to those maladies the fact that stalled exports have a direct impact on overseas customers, and the damage to a company's brand image can be irreparable.

With just a few examples, it's clear that respect for trade regulations isn't just about following rules; in a broader sense, a digitized compliance program removes friction from supply chains. In other words, because compliance is an upstream function, the downstream ease with which goods move is felt by vendors, customers, strategic partners and ultimately, a company's P&L. Interestingly, the same principles can be applied to Free Trade Agreements.

WHAT DOES COMPLIANCE HAVE TO DO WITH FREE TRADE AGREEMENTS?

When most people think about a free trade agreement (FTA) they envision the free flow of goods, services and information. What they might not consider is that while FTAs are definitely meant to increase trade between countries, participants have to follow certain rules to qualify their products for preferential treatment. In today's world, updates to accords like the US-Mexico-Canada Agreement demand even more vigilance from importers and exporters.

The essence of any FTA is the ability to prove the economic nationality of a product to establish it as an, "originating good" within the territories of participating nations. Once that is achieved, products enjoy either reduced, or completely duty free status when imported into one of those countries. Recalling that customs duties

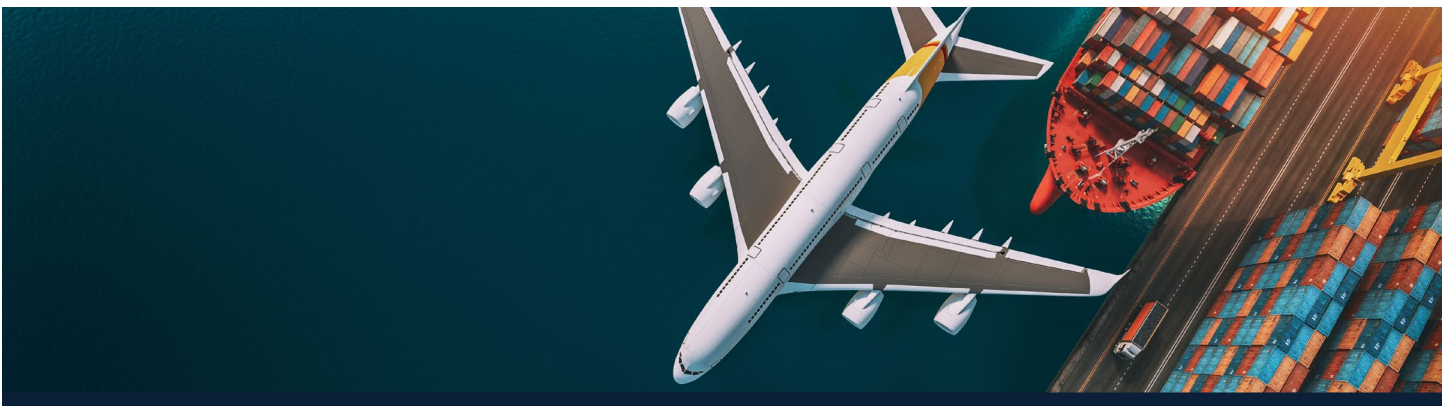
are a major component of landed costs, the financial benefits inherent to an FTA represent but one facet of their many advantages.

Depending on the nature and composition of a product, the complexity of the qualification process can range from meeting some very basic criteria, to a deep dive of an item's Bill of Materials, and the country of origin of every raw material in it. At a minimum, exporters and importers have to manage data that includes the commodity code classification of each product, the preference criteria applicable to an item, as well as be able to generate certificates of origin.

For more detailed operations, buyers and sellers of goods have to manage things like product-specific Regional Value Content percentages, De Minimis thresholds and changes in tariff classifications. When trading partners reach this level of sophistication and can meet the standards of an FTA, they will open the door to higher sales, lower costs, shorter lead times, optimized inventories and of course, much happier customers.

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By now a maxim of international business, compliance isn't just about checking regulatory boxes; it is a legitimate source of competitive advantage. As a discrete function, there is no doubt that adherence to regulations facilitates trade by removing friction from downstream operational tasks. Logically, it stands to reason that the integration of compliance with those downstream activities will elevate a company to the next level of competitive advantage.



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Two mission-critical areas that enable the flow of goods are documentation and transportation management. In the case of the former, the capacity to generate commercial invoices, packing lists, bills of lading and labels that mirror regulatory compliance is what removes friction from both origin and destination customs procedures. Of course, the best way to achieve that goal is to link upstream compliance details to the generation of downstream documentation.

To a great extent, success in global business is found at the nexus of compliance, trade facilitation and the economical shipment of goods. Across all modes of transport, including parcel, FTL, LTL, air and maritime, the need to balance lead times with landed costs is a difficult undertaking. This is an especially salient point when one considers that cross-border shipping involves multiple carriers that engage in a combination of transport modes to get goods to their final destination.

In response to the above challenges, companies often utilize Transportation Management Software (TMS) platforms. Originally designed to house rates and routing guides for all transport modes, TMS's now generate load plans, optimize routing, as well as create bills of lading and labels. Given these capabilities, the integration of a TMS with other Global Trade Management tools represents an order-of-magnitude advance in the digitization of supply chains.

THE QAD INTEGRATED SOLUTION

QAD has developed cross-functional solutions that link tasks across trade compliance, import and export operations, FTA management and omnichannel transportation capabilities. Rich with features that drive collaboration and customer satisfaction, the QAD solutions suite include the following capabilities:

IMPORT MANAGEMENT & EXECUTION

- Global product item master
- Smart product classification tool
- Automated admissibility alerts
- Vendor and 3PL screening
- Sourcing & landed cost comparisons
- Documentation generation
- ISF filing
- Entry self-filing
- Metrics, Key Performance Indicators and self-governance

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EXPORT MANAGEMENT & EXECUTION

- Smart product classification tool
- License and permit management
- Restricted party screening
- Multilingual documentation generation
- Electronic customs reporting
- Letter of credit management
- Landed cost calculations

FREE TRADE AGREEMENTS

- Compliance rules for 470+ WTO-based Free Trade Agreements
- Bill of Material (BOM) management
- Rules of origin for all HS headings
- Determination of item-specific origin status
- Regional Value Content & De Minimis calculations
- International currency conversion
- Generation of Certificates of Origin
- Automated record keeping

FOREIGN-TRADE ZONE (FTZ)

- Industry leading Inventory Control and Record keeping
- FTZ documentation and electronic submissions
- Notifications, Alerts and Audit Trails
- Advanced built-in reporting
- Powerful, easy to use custom reporting tools
- Flexible integration tools
- HTSUS update management

TRANSPORTATION MANAGEMENT & EXECUTION

- Automated routing guides
- Carrier rate comparisons
- Route planning
- Desktop shipping
- Documentation and label generation
- Freight audit & pay
- Carrier performance KPIs

MULTI-CARRIER SOLUTIONS

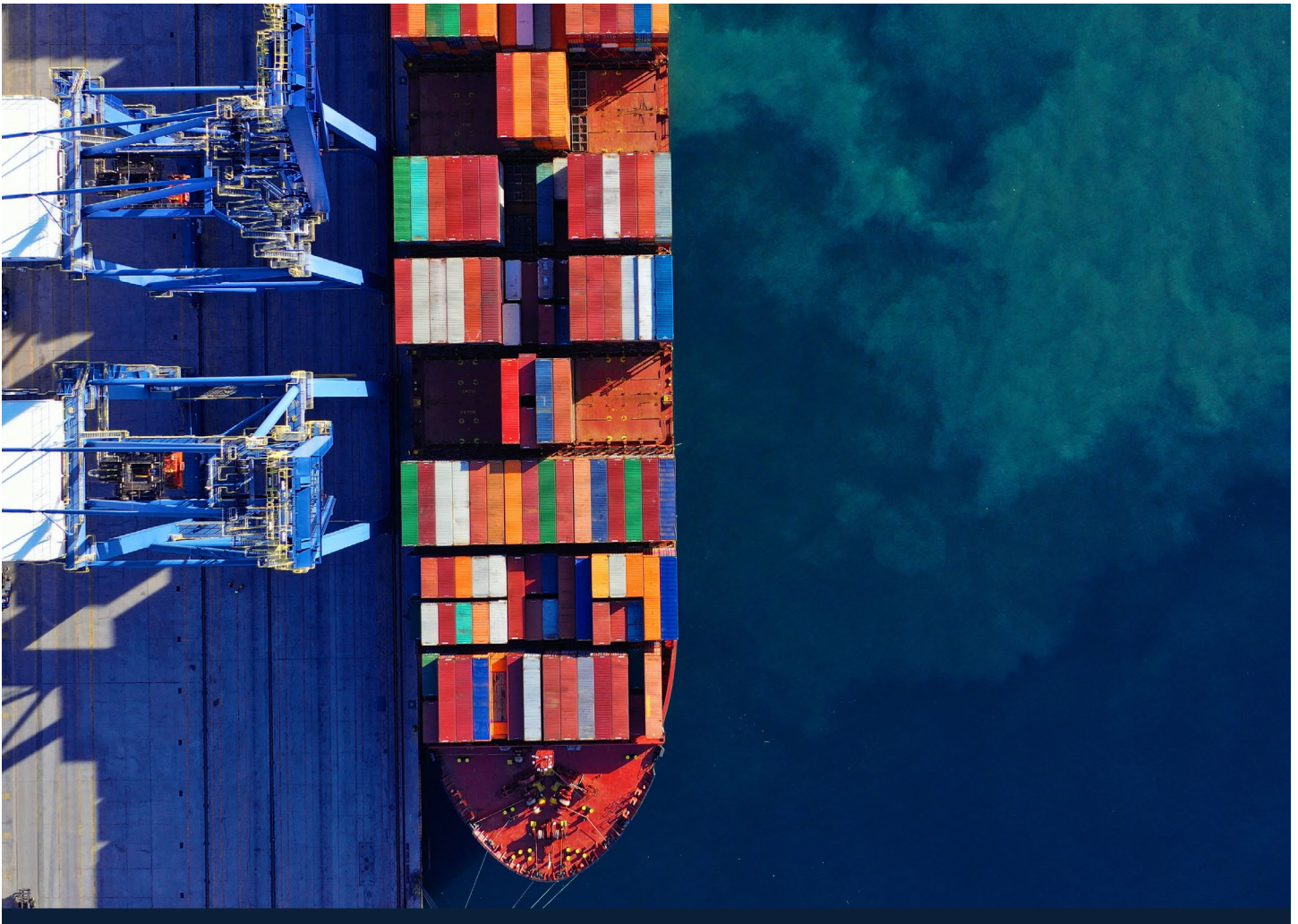
- Access to over 5,500 global carrier services (parcel, white glove, city couriers, et al.)
- Carrier management
- Omnichannel management
- Designation and management of shipping options (expedited, BOPIS, rural deliveries)
- Carrier cost comparisons
- Shipment consolidation
- Documentation and label generation
- Delivery confirmations
- Carrier performance metrics

CONCLUSION

In the hyper-competitive world of international trade, companies constantly seek ways to meet the demands of their customers — through activities such as product innovation, attractive pricing and trade facilitation. Ultimately, no single approach is going to create this competitive advantage; a combination of factors are needed to make it a reality.

As a part of this multi-pronged approach to achieving sustainable market advantage, the digitization and integration of supply chain functions remains fertile ground for continuous improvement. When deployed

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in a holistic fashion, the linking of all supply chain and logistics functions leads directly to increased sales, reduced landed costs, shorter lead times and enhanced product availability.

QAD does its part to enable the Four Pillars of Supply Chain Management by tying trade compliance tools to downstream operational capabilities that are native to both import and export environments. When connected to its transportation management and e-commerce solutions, the QAD platform is unparalleled in its ability to remove operational friction, enhance the customer experience and drive profitability.

ABOUT QAD GLOBAL TRADE AND TRANSPORTATION EXECUTION (GTTE)

QAD GTTE provides industry-leading global trade compliance, and multi carrier transportation execution solutions from a single, integrated platform. An ISO-certified company, QAD assists companies to streamline their import, export and transportation operations, optimize deliveries, and increase logistics ROI. QAD GTTE is a scalable and extensible solution that integrates with existing ERP and WMS solutions. Industry leaders in every region of the world rely on QAD to leverage thousands of carrier services and manage millions of global trade and shipping transactions every day.

For more information about QAD, visit our website, www.qad.com.



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