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# PREPARING YOUR SUPPLY CHAIN FOR GLOBAL TRADE: LESSONS FROM BEST-IN-CLASS COMPANIES

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**ABERDEEN**

Global Trade Management (GTM) is a hot topic in supply chain circles. All companies engaged in international trade will be affected by changes resulting from Brexit, the USMCA, and US / China trade agreements. Companies are taking stock of their GTM capabilities, realizing there may be gaps in their readiness, and evaluating what actions they should take to manage these changes. This report examines the critical GTM capabilities and the upstream GTM best practices that companies should have in place to stay ahead of the competition.

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## Introduction

The challenge that many companies are facing is that they have operated in a business-as-usual global trade environment — with very predictable tariffs, duties, and taxes — for the last several years. Their international supply / customer base has been relatively static. To succeed moving forward, companies must evaluate and address the lingering shortcomings from past practices:

- ▶ information silos
- ▶ poor communications
- ▶ outdated technology

This report examines what a GTM solution must include — through the lens of Best-in-Class companies and the tools and capabilities that they have in place to deliver superior performance results and manage in this dynamic environment. These trade conditions are particularly challenging for companies who find themselves on the wrong side of a tariff change.

## Pressures

Understanding the business and market pressures that companies face in managing their international trade provides the framework of drivers that influence the behaviors behind the various strategies that companies seek to implement. (Figure 1) Cost in its many forms — fuel, labor, and

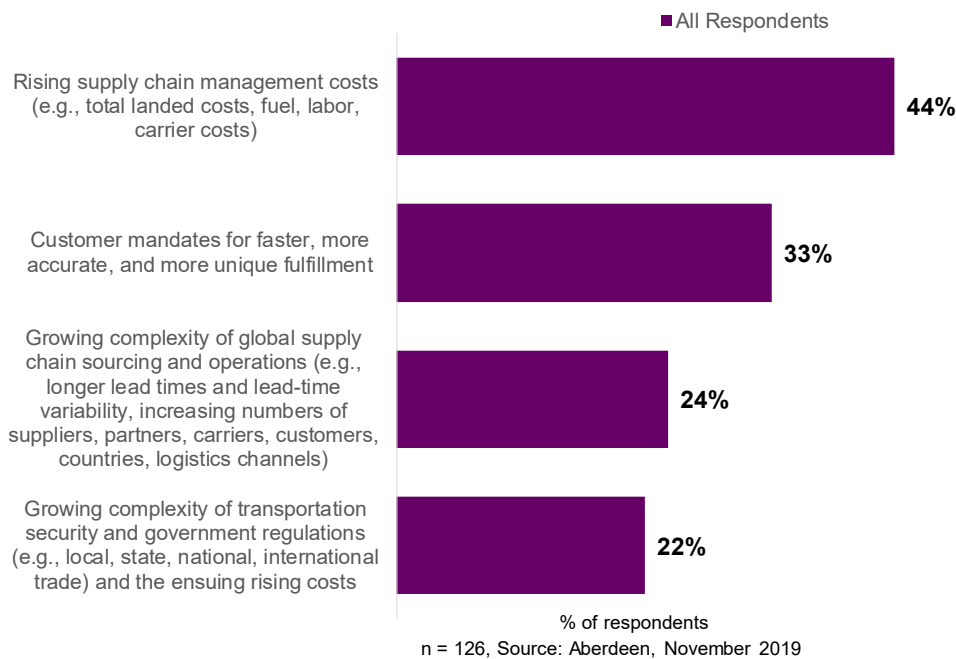
The Aberdeen maturity class framework comprises three groups of survey respondents. This data determines overall company performance. Classified by their self-reported performance across several key metrics, each respondent falls into one of three categories:

- ▶ **Best-in-Class:**  
Top 20% of respondents based on performance
- ▶ **Industry Average:**  
Middle 50% of respondents based on performance
- ▶ **Laggard:**  
Bottom 30% of respondents based on performance

A fourth category, **All Others**, combines **Industry Average** and **Laggard**.

carrier costs that contribute to the total landed costs — is always near the top of the list. Customer mandates for faster and more unique fulfillment add pressure to international supply chains, especially when direct shipments to customers are now in the mix.

**Figure 1: Business Pressures Facing GTM Organizations**



For international supply chains, global complexity has increased due to size, scale, and scope, which has a direct influence on costs and further complicates the support needed to meet increased customer mandates. For many industries, the complexity also affects the reporting requirements mandated by regulatory agencies, when it comes to security, chain of custody, and product tracking. As the number of touch points increases, so does the management cost to control them.

### Challenges Linger

As changes occur, and new requirements emerge from pending trade agreements, companies engaged in international trade must recognize and address some lingering issues to move forward. Figure 2 highlights the most troublesome challenges that still prevail, including cumbersome manual processes, which 28% of companies acknowledge still need to change.

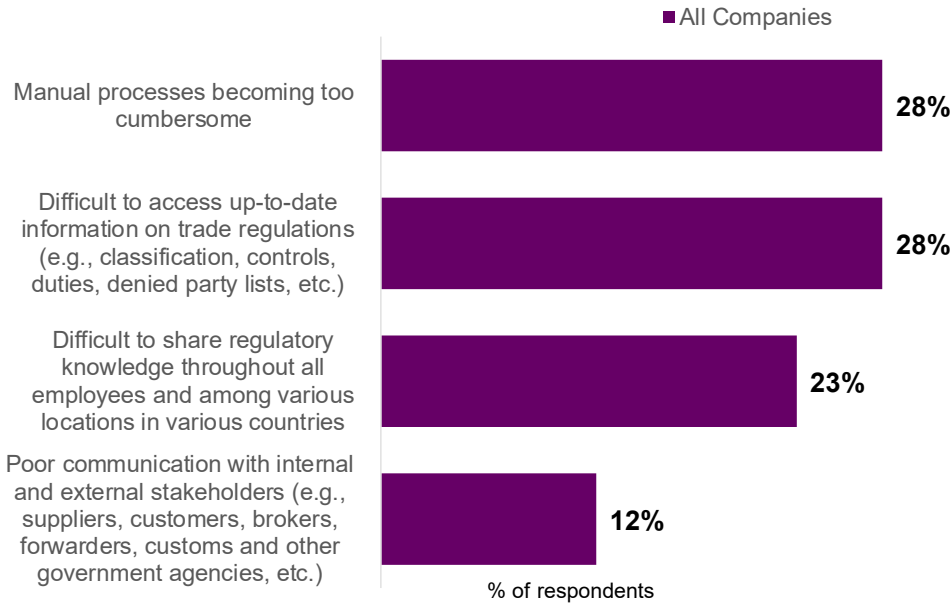
### Best-in-Class Maturity Matrix

In this report, respondents were ranked on the following criteria:

- ▶ **Percentage perfect orders received from international suppliers; % of information delivered on-time:**
  - Best-in-Class: 89%
  - All Others: 30%
- ▶ **Percentage perfect orders (complete and on time) delivered to international customers:**
  - Best-in-Class: 90%
  - All Others: 30%
- ▶ **YoY Change in % 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%

One of the basic needs of GTM is the ability to classify SKUs, which requires access to up-to-date information. Lack of this access is an issue that 28% of companies identify as needing to be addressed. Without access to current, real-time information, companies must react — rather than plan — to address the cost structure of their global trade decisions.

**Figure 2: GTM Must Address Lingering Challenges**



n = 126, Source: Aberdeen, November 2019

Responses also indicate that GTM operations remain siloed with little centralization or sharing of information across the enterprise, which also contributes to the difficulty in ready access to up-to-date classification data status. Internal and external stakeholders cite poor communication as in issue, whether due to the process and data silos in place or a conscious effort to decentralize GTM efforts, all of which suggest lagging investment in the technology needed to connect and streamline communications, and improve collaboration across the supply chain to make informed, confident decisions quickly.

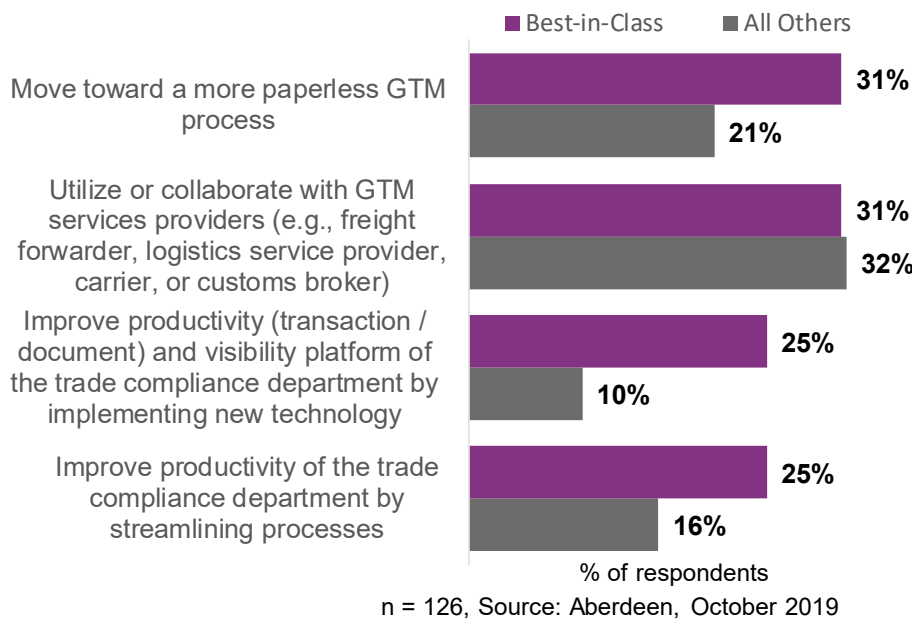
**Strategic Actions**

Assuming past practices created these issues, the question becomes, “What are companies doing about it?” Figure 3 shows the strategic actions that Best-in-Class companies — who are far more likely to address immediate challenges to streamline and address productivity issues vs. All Others — are taking already.

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Outdated, manual, paper-based systems still prevail, even for Best-in-Class companies, but the Best-in-Class are 48% more likely to move to a paperless GTM process. Both Best-in-Class and All Others are acting to utilize or collaborate with GTM service providers to gain access to up-to-date trade regulation and classification information.

**Figure 3: Strategic Actions to Address Lingerin Challenges**



**The Best-in-Class are 2.5x as likely as All Others to implement new technology to improve productivity and visibility at the transaction and document level.**

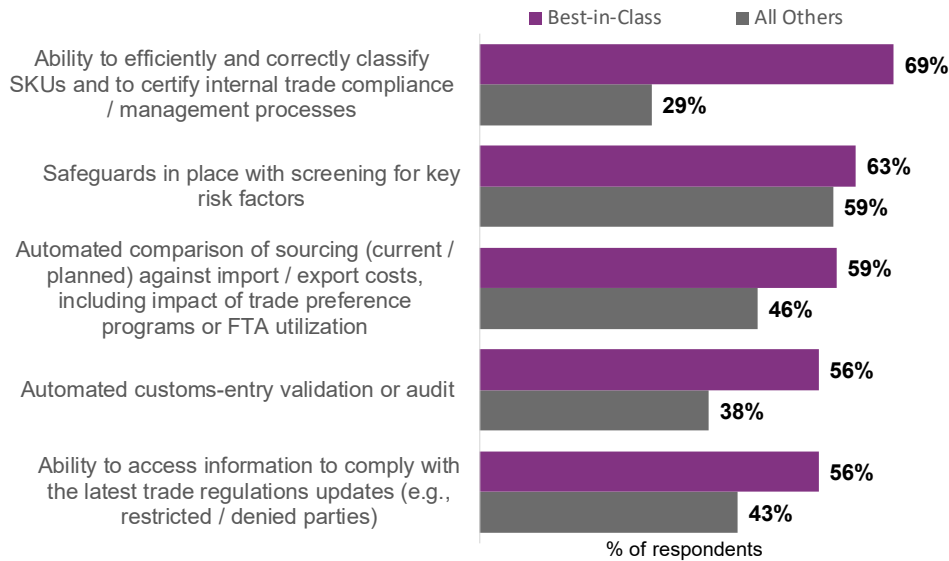
Inefficiencies exist at all companies, but the Best-in-Class are taking steps to correct this. The Best-in-Class are 2.5x as likely as All Others (25% vs. 10%) to implement new technology to improve productivity and visibility at the transaction and document level, which is a clear call-to-action for All Others, who, at 10% adoption, do not see technology as a means to productivity improvement. The Best-in-Class are 56% more likely than All Others (25% vs. 16%) to streamline processes as a vehicle to improve the productivity of the trade compliance department.

**Critical Global Trade Management Capabilities**

Companies should have basic components in place to manage their global trade. (Figure 4) The ability to classify SKUs efficiently and correctly is fundamental to GTM. The Best-in-Class are much further along the GTM-solution path (69% vs. 29% adoption for the competition), which indicates All Others are ill-equipped to manage the changes coming. All Others indicate that they are taking actions to get better access by working with partners, but their in-house capabilities are

inadequate. At 2.3x as likely to have the ability to classify SKUs correctly, the Best-in-Class companies are also 30% more likely to have the ability to access information with the latest trade-regulation updates.

**Figure 4: Fundamental Global Trade Management Capabilities**



n = 126, Source: Aberdeen, November 2019

In terms of managing the flow of information day-to-day, the Best-in-Class are 28% more likely to have automated comparison of sourcing against import / export costs, including the impact of trade preference programs. This capability enables cost projections for existing and planned orders, which gives companies the visibility to plan their business. Automated customs-entry validation is another area that improves efficiency in managing the business.

### Screening Compliance

Screening is another fundamental capability that companies must be aware of as part of their GTM capabilities. Firms can perform the screen themselves or pay for the service, but goods must pass a screening test in customs before shipments are made or received.

Screening classifications include embargoed countries, denied-party screening, and restricted countries and products. For established trade, screening may be routine; but, knowing the rules in advance when sourcing products and developing new suppliers internationally can save a lot of time and wasted effort.

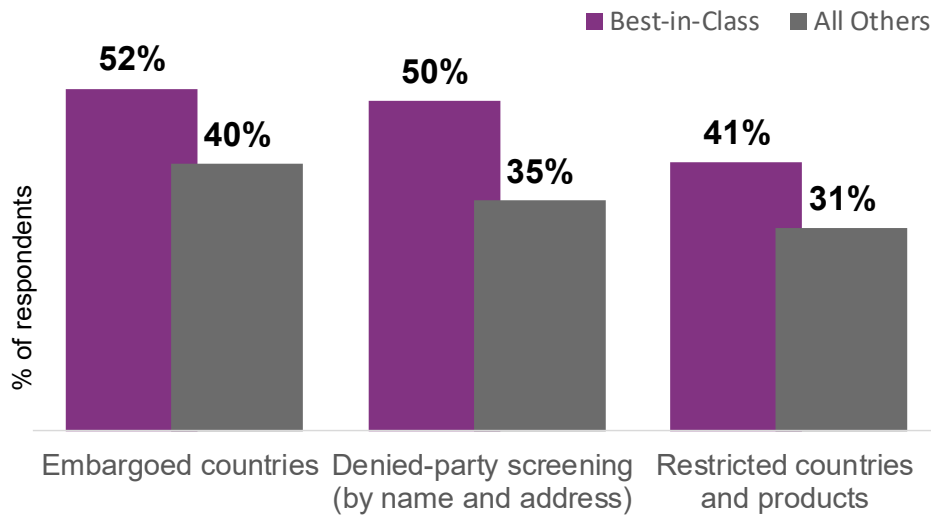
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As new agreements arise, new rules might be surface for any of these classifications. Companies, countries, and / or products may be added or removed from the list depending on the political climate, leadership changes, legal actions, etc. Any newsworthy breach of trust at the supply level could place a country, supplier, or product on one of the screening lists.

**Figure 5: Critical Compliance Screening for GTM**



n = 126, Source: Aberdeen, November 2019

For companies that deal with finished products (i.e., retailers or distributors), the sheer volume of reviews to be performed can be overwhelming. Customs will perform the regulatory at the point of entry, so the goal here is “no surprises.” Incorporating restrictions when ordering or developing a new supplier or product should be part of the upfront decision process rather than after the fact, which is why Best-in-Class companies are more likely to have the screening and restrictions by countries and products in place as part of their GTM solution. Staying current with the latest updates is also critical to the process.

### Critical Compliance and Costing Capabilities

In addition to the process capabilities for GTM, the ability to track and update cost metrics quickly is essential to understanding what costs are accumulating. With so many moving parts, having costing calculation capabilities is necessary for financial visibility. Table 1 provides the most commonly needed calculations, but there are additional metrics beyond these that may be necessary. Best-in-Class companies are significantly

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ahead of their competition in having these costing and tracking capabilities in place.

Duty, tariff, and tax is the international compliance cost of doing business. The landed cost incorporates the international plus all transportation costs to the destination facility. The delivered cost is similar but includes any other costs not included in the landed costs, like value-added services to have an item available for sale.

**Table 1: Tracking and Costing Calculations**

Costing Calculations	Best-in-Class Top 20%	All Others Bottom 20%	Best-in-Class vs All Others
Duty, Tariff, Tax	<b>81%</b>	<b>52%</b>	<b>56% &gt;</b>
Duty Drawback Management	<b>75%</b>	<b>41%</b>	<b>83% &gt;</b>
Landed Cost	<b>69%</b>	<b>46%</b>	<b>50% &gt;</b>
Delivered Cost	<b>69%</b>	<b>59%</b>	<b>17%</b>

The duty drawback management process deals with keeping track of all duties paid on a given item, and then what duties might be recaptured if that item is exported to another country or scrapped. The timing and application of duties determine how much has been paid and how much can be reclaimed. Since there is not one constant duty that is always applied, capturing, maintaining, and tracking the flow of duties for drawback purposes can be a labor-intensive task. Automation and modeling the duty drawback process can provide significant assistance to an organization’s ability to plan, monitor, and respond.

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**International Supply Chain Visibility**

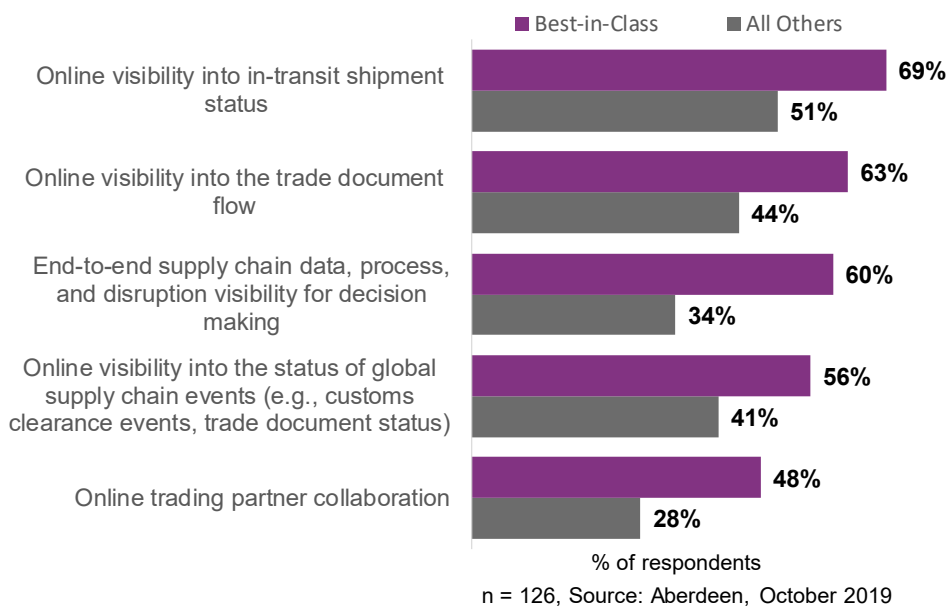
Having process capabilities in place provides the backbone that enables the execution and tracking of international orders. Due to the complexity of global trade, the number of elements involved in complete visibility increases continually. Figure 6 reflects the primary components and the level of proficiency that organizations have based on their maturity level. The Best-in-Class are much more likely to have these advanced visibility processes in place compared to the competition.



The challenge within the challenge is to identify, monitor, and incorporate into the planning all the additional international components of the upstream network. The visibility to in-transit status tracks where a shipment is relative to the schedules for active orders. This capability is common for domestic as well as international tracking.

For international shipments, trade document visibility tracks the flow of paper / documents that must accompany international shipments, which may be as critical as the shipment, ultimately. Without the proper documentation, international orders will sit or be set aside when there is a lengthy delay. Considering that an order that might flow through multiple countries and ports en route, the documentation can be a challenge in terms of description, value, and local variations that might arise.

**Figure 6: International Visibility**



Having an end-to-end view of supply chain data and process level is often talked about, but not all companies are yet there. Having the ability to have an actual model in place that represents the global supply chain is the first major step. Having a view of all disruptions that might take place can provide early warning for any delay before it turns into a crisis. Best-in-Class companies are more likely than All Others (76% vs. 34%) to have this layered early warning modeling in place. This modeling is partner to having online visibility into the status of expected global events (i.e., customs, document status, leaving port on time, and monitoring in-transit conditions.). Online, global event status can also provide triggers for potential issues with management alerts for exceptions.

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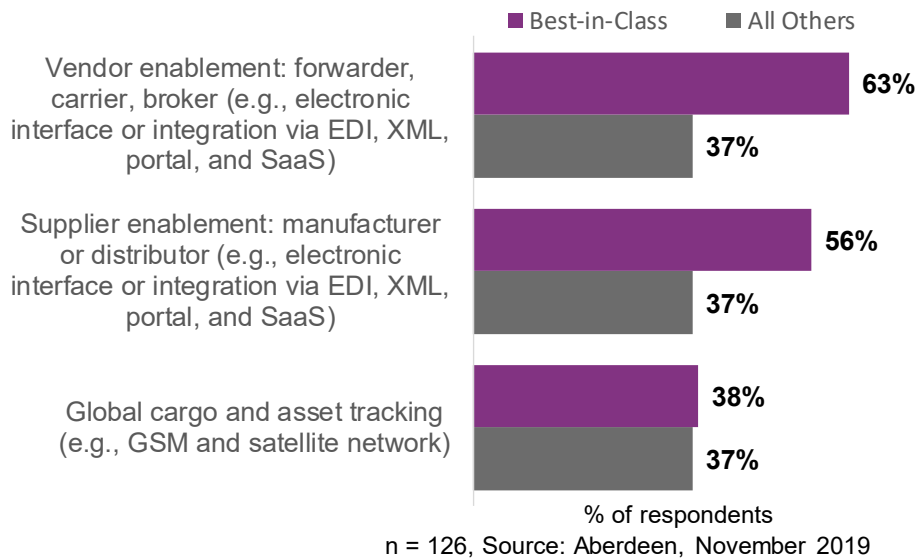
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## Partner Collaboration and Connectivity

Having communication and collaboration with partners internationally can help to avoid many potential delays, as well as provide remedies for problems that occur. Figure 7 shows what that means in terms of communication capabilities and the breadth of options that are likely to be needed internationally.

**Figure 7: Partner Enablement**



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**Price might not always be the most critical factor. Reliability and dependability may be more important to manage and control shipments, particularly in geographies that are new or problematic, historically.**

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For both suppliers and transportation partners, the enablement side is extremely important because of the many forms that might be necessary to interact with partners. Internationally, the variance in capabilities that companies might encounter requires several forms of communication and data management to make things happen. Price might not always be the most critical factor. Reliability and dependability may be more vital to manage and control shipments, particularly in geographies that are new or problematic, historically. Having a unified platform is a strategic advantage that can enable better and faster collaboration between partners and suppliers to more rapidly identify issues and respond to threats.

Cargo and asset tracking is another level of complexity that has become an issue in recent years. Knowing location is the only way a company can take any action if a problem should arise. When bankruptcies occurred in the container shipping industry, products were stranded on the water for

weeks and months, pending resolution of the liabilities. Without cargo and asset tracking, merely locating the shipment becomes a factor.

### Upstream GTM Process Capabilities

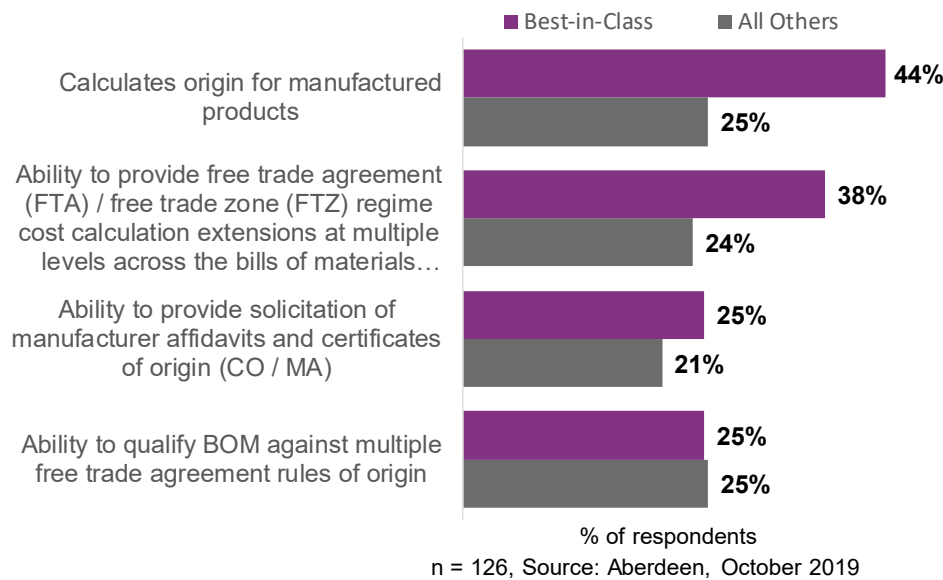
In addition to having the fundamentals in place, Best-in-Class companies have invested in the capabilities that will keep them ahead of the game, often referred to as *upstream GTM*. The goal is to orchestrate the design, sourcing, supplier development in conjunction with any favorable country of origin, and preferential agreements that improve the total landed cost / quality and / or viability of the product. Knowing about preferential trade agreements is key to sourcing intelligently on an international level. Country and export licenses and certificates-of-origin must accompany shipments; the Best-in-Class are 2x as likely to have this in place. The value of having the tools in place is to address and model these options before the sourcing decision, rather than chasing information after the fact only to realize better options were available. Qualifying a bill-of-material (BOM) against multiple, free-trade agreements and country of origin provides the information on potential options

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**Figure 8: Upstream GTM Capabilities**

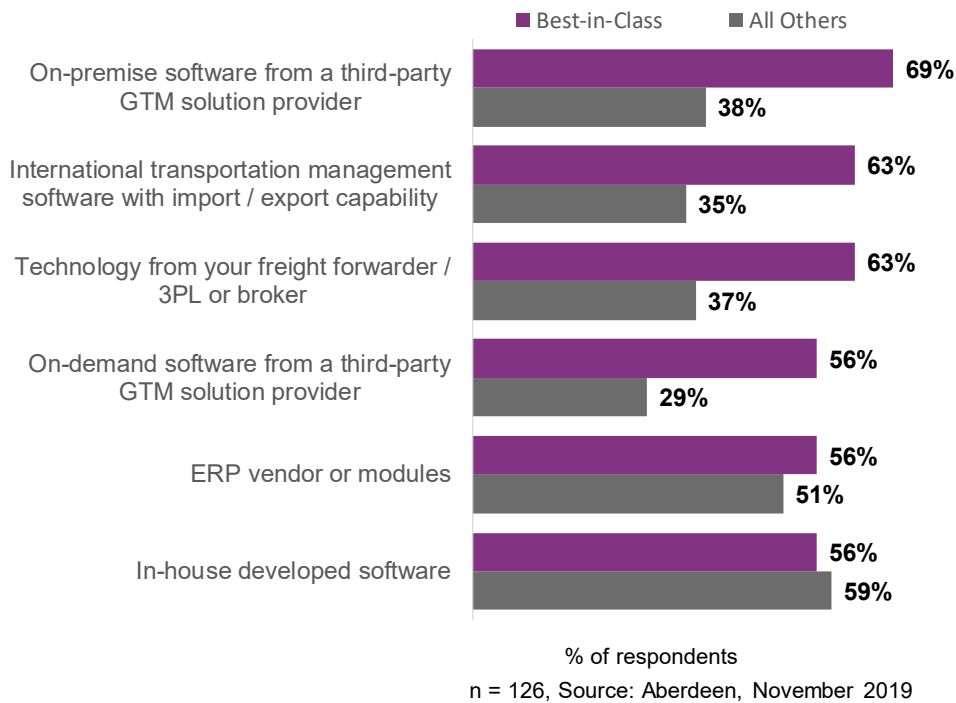


Knowing what's possible through free trade agreements, and exploring their impact, can pay big dividends on cost reduction efforts. Tariff shopping might be worth the effort as part of the upstream GTM workflow, where modeling and scenarios can be used to analyze the differences and advantages across various tariff agreements more quickly.

## Technology Adoption

Some of the challenges that companies still need to overcome may stem from the level of past technology investments. Figure 9 shows the technology adoption for GTM solutions by maturity class.

**Figure 9: GTM Technology Adoption**



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**Changes will occur under Brexit, USMCA, and US / China trade agreements. Company will follow various paths depending on the maturity of their supply chain planning, modeling and GTM capabilities.**

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In-house / home-grown technology solutions exceed 56% for all companies, which might be a potential barrier to change and may have happened because GTM solutions were not readily available. Companies who engaged in international trade had to develop their own solutions or rely on their trading partners.

The investment in technology for the Best-in-Class is significantly higher than that of the competition and is consistent with their actions to go paperless, improve productivity, and increase their competitive edge.

## Managing GTM in a Challenging Environment

Changes will occur under Brexit, USMCA, and US / China trade agreements. Companies will follow various paths depending on the maturity of their supply chain planning, modeling, and GTM capabilities.

To get GTM capabilities up-to-speed, follow these steps:

- ▶ Incorporate global trade as part of your end-to-end supply chain model. The ability to react and respond to changes should be at your fingertips.
- ▶ Actively model your GTM cost profiles for duties, tariffs, taxes, landed cost, delivered cost, and all duty drawback. Calculations should be available in real-time as changes occur. Stay on top of your cost projections.
- ▶ Invest in or partner for access to GTM content information for proper classification and updates as they occur.
- ▶ Invest in upstream GTM capabilities that anticipate changes by proactively evaluating the compliance costs in sourcing decisions and modeling alternatives.

What actions can you take when trade results are unfavorable and your company finds itself on the wrong side of the tariff? Here are the near, intermediate, and longer term steps to follow:

- ▶ **Short term** for single or sole-sourced products
  - Duty drawback: Recapture duties paid when a product is received, then exported to another country or if a product is scrapped.
  - Use costing updates and modeling to find any short-term alternatives for classification or make buy options to lower costs that have been unattractive in the past but are favorable, now.
- ▶ **Intermediate term** for single or sole sources
  - Restructure sourcing / manufacturing to leverage tariffs from other countries for single-sourced items.
  - Resource viable alternatives (when available) for single-sourced items.
  - Sole source: Seek help from existing suppliers to establish production in an alternative country to retain them as a sole source - using upstream GTM capabilities for most favorable structure
- ▶ **Longer term**
  - Engage upstream GTM capabilities for product sourcing and design, preferential trade agreements, country-of-origin options, and free-trade zone (FTZ) opportunities while investigating alternatives with the existing source.

- Evaluate possible product design to restructure the BOM in order to leverage favorable GTM options.

## Summary and Key Takeaways

With the upcoming decisions on Brexit, USMCA, and US / China Trade Agreements, Global Trade Management is top of mind for supply chain professionals. All companies engaged in international trade will be impacted in some way and need to prepare proactively to model and investigate options on all single- and sole-sourced products. Global supply chain models should be ready to react and respond as required.

Many companies find themselves behind when it comes to establishing critical GTM capabilities. However, as reflected in their performance metrics on service and costs, Best-in-Class companies are significantly ahead of the competition.

In addition to basic classification for shipments, upstream GTM can be leveraged to achieve lower costs at the sourcing level. These options should be incorporated into the monitoring and tracking abilities to include all elements needed to manage complete international visibility.

Cost calculations that allow companies to understand where they always stand financially are a critical component of visibility. Best-in-Class companies have a sizeable advantage.

Aberdeen recommends that all companies concerned with managing and / or upgrading their GTM processes follow the lead established by the Best-in-Class: Invest in a GTM solution or partner with trading partners to fill gaps immediately. Be prepared to plan, monitor, and respond.



## Related Research

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*Global Trade Technology Adoption: Is Your Organization Ready for the Pending Changes?, (April 2017)*

*The New GTM: Connecting Decisions with Downstream Execution, (July 2016)*

*Leveraging Global Trade Management (GTM) for Frictionless eCommerce, (March 2016)*

*Supply Chain Visibility: Know Sooner, Act Now, (December 2016)*



## About Aberdeen

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Since 1988, Aberdeen has published research that helps businesses worldwide to improve their performance. Our analysts derive fact-based, vendor-neutral insights from a proprietary analytical framework, which identifies Best-in-Class organizations from primary research conducted with industry practitioners. The resulting research content is used by hundreds of thousands of business professionals to drive smarter decision-making and improve business strategies. Aberdeen is headquartered in Waltham, Massachusetts, USA.

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