

# Global Trade Services

## Mastering the Challenges of Globalization

by Andreas Müller and Marc Gilomen

“Global trade leaders are succeeding in automating and controlling this complex environment, driving out cost, time and risk from their business.”

New Strategies for Global Trade Management, Aberdeen Group

# Table of Contents

<b>Executive Summary</b>	<b>3</b>
<b>Challenges of Global Trade</b>	<b>4</b>
<b>How SAP Technology can Help</b>	<b>8</b>
<b>SAP Alone is Not the Solution</b>	<b>1</b>
<b>Conclusion</b>	<b>13</b>



## Executive Summary

Today's companies increasingly buy, sell and outsource around the world. The opportunities are immense. But without proper workflow and effective IT, leveraging these opportunities is far from easy.

Why? Because the increasing level of complexity associated with moving goods across borders has made global trade business difficult and risky. New trade agreements are being put in place in one part of the world, for instance, as protectionism increases in another.

Companies are forced to comply with ever-expanding and increasingly automated regulatory filings, including those for security and customs. If you fail to manage this complex environment properly, you could face higher costs and greater risk in an already pressured supply chain – and that can put you at a significant competitive disadvantage.

Lodestone enables your company to face these challenges and get your organization prepared for the future by holistically handling your international trade tasks and risks.

We provide you with a globally integrated approach to international trade, covering all local customs and export compliance aspects. This includes an accurate and efficient solution to control and comply with all applicable national and international regulations.

## Challenges of Global Trade

Companies which trade at a global level need to be aware of – and comply with – legal regulations, and must adapt to customs changes, communicating electronically with customers, suppliers, logistics partners and customs authorities. Furthermore, they need to be aware of customs procedures in order to proactively benefit from customs concessions, and not to get trapped by restrictions.

Addressing the global trade properly will not only minimize the risk for companies to get sanctioned but will also increase the competitiveness by taking advantage of the benefits that are offered in that area.

There are three global trading subjects on which proper assessment and adequate IT structure can bring a competitive advantage over other companies.

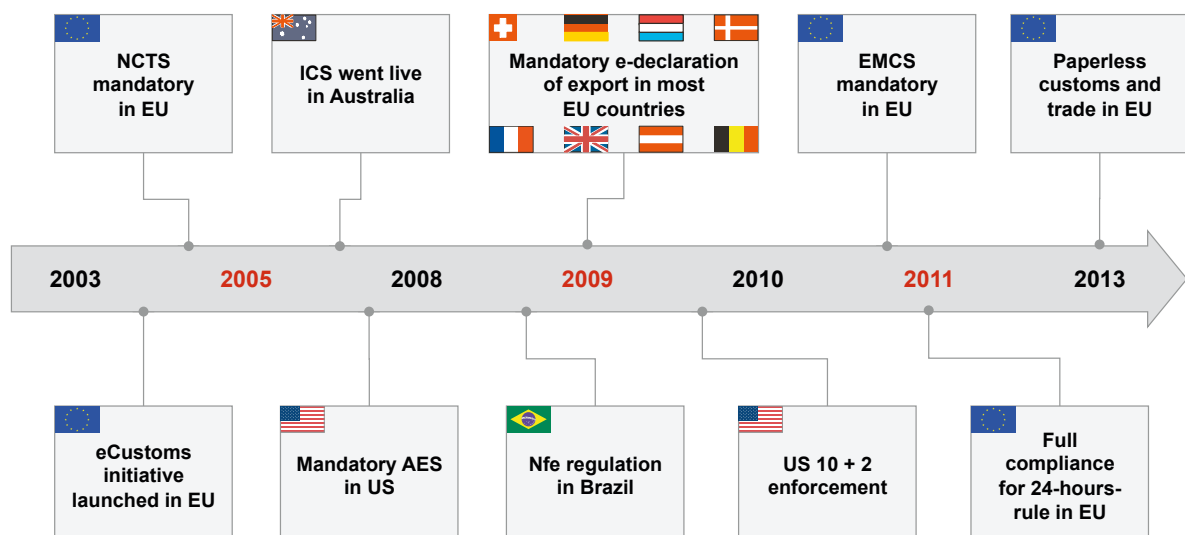
- **Customs management:** A proper handling and monitoring of import and export processes is an essential part of most companies' daily business. Inefficiency and errors in that area generate great unknown and unmonitored costs in many companies which can very simply be addressed and put out of the way.
- **Processing under customs control:** Companies can avoid paying import duties on goods that are to enter another customs territory for a given time by taking advantage of tax suspension using inward or outward processing or putting the goods into a bonded warehouse.
- **Profitability management:** Take advantage of the commercial benefits given by customs decreasing or suspending import taxes and with this lower the market price of a product. This, by benefiting from preferential trade agreement import tax reduction. Furthermore, food industries can benefit from grants from the EU or Switzerland when exporting goods under the Common Agricultural Policy (CAP).
- **Compliance:** Important in order to ensure that the company does not break any law and as a result gets trapped into sanctions. This includes SPL (Sanctioned Party List) screening and export/import license handling.

Most companies outsource the creation of the import or export declarations to the carrier. These costs are usually very high and usually hidden in the transportation forfeit. The alternative is to introduce an integrated tool which will automatically transform your logistics documents into the appropriate form, add the missing data, and communicate automatically with customs. This enables efficient communication and flawless monitoring which will drastically reduce transportation bills.

## Customs management

As cross-border traffic and the sharing of information increases, customs authorities are tending to migrate to paperless communication in order to reduce costs and enable better sharing of information. By doing this, they force companies to connect to their systems via technologies such as EDI. This implies that importing and exporting companies are forced to have a validated system in order to communicate with customs.

The following diagram illustrates the evolution from paper to paperless form in the western countries' customs offices. The increased will to transparently exchange information between countries (especially in the same community) and to reducing internal costs, have forced countries to introduce the electronic declaration. Even though 2009 seems to have been the peak in terms of integration, many more countries will follow and soon no customs will accept the paper or simplified form of the declaration.



Creating import and export declarations is the first and most basic required step for global trading, and most companies are familiar with what has to be done. But there are many other customs procedures of which companies should take advantage of, since they provide financial advantages as described in the sections below.

## Processing under customs control

Most companies import and export their goods using definitive import / export procedures even when the goods are not meant to stay in the country they where just imported to. This implies that import duties, which are not refundable, were paid even though that would not have been necessary. As such, losses brought on by taxes for goods that stay in a certain customs territory for only a given timeframe can easily be addressed. Customs offers many ways to lower or even avoid customs duties. To benefit from these, one must make use of customs-controlled processes such as:

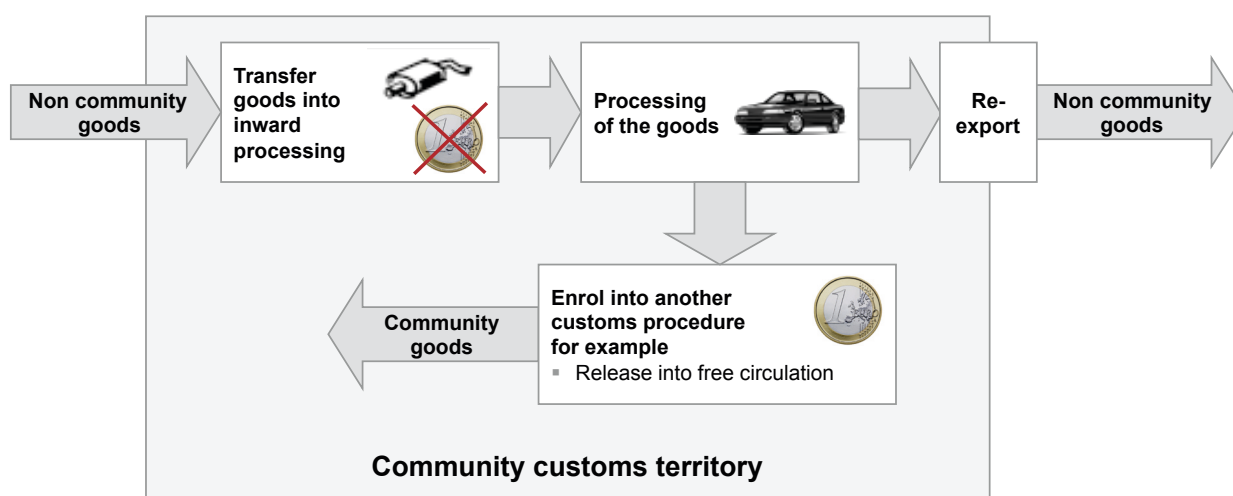
- Inward / outward process relief
- Storage in a bonded warehouse

These customs procedures are to be used for goods that enter a customs territory for a certain time and then leave it again. The difference between the two is that the goods in inward / outward relief are meant to be either reworked or built into another item and then shipped out of the territory again, as explained in detail in the section below.

### Inward / Outward Processing Relief

In- and outward processing relief enables companies to bring a foreign product into their company for value-adding further processing, and then re-export it – without needing to pay import duties, as explained in the diagram below.

#### Inward Process Relief



### Bonded Warehouse

A bonded warehouse enables companies to store goods coming from abroad without having to pay any import duties and VAT until the goods are sold on the local market. There are two major advantages of the bonded warehouse: first, it enables companies to free-up capital that would otherwise be tied up in customs fees payable on unsold goods; and second, their use avoids the need for companies to be obliged to pay import duties for goods that are simply transiting through a warehouse, and that will ultimately be shipped abroad again.

In addition, bonded warehouses enable the owner of goods to avoid losses due to inflation from the time the goods enter the country to the time they are sold, and they minimize the risk of paying taxes for products that may not be sold at all.

The challenge is to monitor and differentiate between goods for which duties have been paid, and those for which duties have not been paid. Furthermore, in a sales context, those specific goods with unpaid duties are those that should be exported, while it is those items where the duty has been paid that are selected for sale in the local market.

## Profitability management

For several years, the optimizing of the supply chain has been in the foreground of companies in order to increase profitability, but many have neglected the potential savings that can be achieved by taking advantage of customs-related tax reduction, or even restitution. The present chapter describes the possibilities offered by customs authorities to reduce the import tax for goods that are to be permanently imported to another customs union by taking advantage of trade preference agreements. In some cases, the export of agricultural goods can even give the right to receive money from the exporting countries' authorities.

## Trade preference

Trade preference agreements enable customers or affiliates to import goods with reduced tax and duties being payable. Examples are the bilateral agreements of the European Union, the European Free Trade Association (EFTA) or the North American Free Trade Agreement (NAFTA). As such, they allow companies to offer more competitive end-consumer pricing.

But to enable their customers to fully benefit from those opportunities, companies have to demonstrate that their exports are in fact eligible for preferential treatment. This represents a significant challenge, since it requires up-to-date declarations from multiple suppliers and a complex calculation to determine the 'origin' of the goods from a trade perspective. The complexity of the trade preference rules and the size of a product's bill of materials, together with the high amount of suppliers for each part of the product, make trade preference very difficult to manage without proper and simple tools. In addition to that, failure in calculation can result in sanctions and high penalties.

## Restitutions

In order to increase the export of some agricultural goods, Switzerland and the European Union provide grants to incentivize companies to export these products as part of the Common Agricultural Policy (CAP). As the refunded sums can quickly go into six digit figures, any company that exports agricultural goods in raw or reworked form should pay special attention to these regulations.

In order to claim these refunds, companies must track the amount of agricultural goods contained in exported products and apply for the appropriate licenses at the right time. This might seem a simple task, even to be handled manually, but the monitoring and reordering of these licenses, including of all the amounts of CAP components in the production bill of material or recipe, can quickly become very complex.

As described in the sections above, customs can bring many benefits in terms of process optimizations and commercial benefits. Companies that further want to optimize their supply chain need to extend their focus and include customs-related topics in strategic decisions.

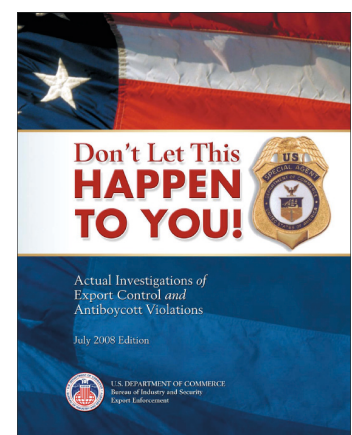
But not only is there an optimization potential, there are also a big amount of rules and obligations related to the global trading of goods. Companies have to make sure to comply with the legal regulations of the countries, which sometimes are not even directly concerned in the sales or purchase process. The following section explains why compliance is getting more and more important and what risks companies that do not address this issue incur.

## Compliance

Companies are not always aware that export controls may apply to their goods. Indeed, even civilian products can be subject to such controls and require a license. More confusingly still, non-U.S. companies may have to comply with some U.S. export regulations, especially in cases involving the re-export of U.S.-sourced goods – such as technology or software – even when these serve as a component of a non-U.S. product.

In addition, companies need to check for compliance with possible embargoes, and observe the relevant prohibitions against individuals, companies or organizations listed on "denied parties", "sanctioned parties" or "black list" prohibitions.

In short, failure to consider export regulation compliance and / or trading with any party listed under such a prohibition may entail significant penalties – as well as the risk of being named on a denied party list.



[www.bis.doc.gov/  
complianceand enforcement/  
dontletthishappentoyou-2008.pdf](http://www.bis.doc.gov/complianceand enforcement/dontletthishappentoyou-2008.pdf)



To avoid the penal, administrative and economic consequences of export non-compliance along with the damage to their reputation, companies need the right technology with the latest up-to-date information in order to:

- Check and manage import & export licenses
- Monitor Sanctioned Party Lists (SPL)
- Comply with embargo regulations

## Summary

The chapters above describe the potential advantages that can help an importing and exporting company to cut down costs and, with that, optimize the supply chain efficiency and margin.

Furthermore, it describes constraints linked to it and the potential risks of not properly addressing cross-boarder trade issues. Having recognized and understood these risks and opportunities, one then needs proper tools to manage the related tasks in an efficient integrated and perennial manner. Companies therefore need a tool that adapts to the fast-changing requirements of international trade, but does not require new integration to the static environment of the ERP system.

## How SAP Technology can Help

In order to profit from these customs advantages – and to be able to comply with fast-changing legal and compliance requirements – companies must be able to monitor and manipulate their trade data with regards to prevailing customs guidelines. In short, companies must ensure that their system is adapted to today's foreign trade requirements, and that it constantly adapts to changes in regulations.

SAP Global Trade Services (SAP GTS) not only automates trade processes, but also enables companies to manage large numbers of business partners and high volumes of documents – while also helping to ensure compliance with changing legal regulations. It further facilitates global trade by providing the required tools to respond to governments' trade modernization initiatives, by for example including technology to enable electronic communication with customs authorities.

In short, SAP GTS helps you to avoid costly delays in your import and export processes, respond quickly to global business opportunities, and mitigate financial and compliance risks.

### SAP GTS fulfils the requirements

As a foreign trade solution, SAP GTS enables companies to handle the increasing demands and challenges in trans-border goods traffic. This chapter summarizes the functionalities included in the SAP GTS solution, which address all of the business issues explained above.

**SAP GTS Customs Management** enables the electronic exchange of customs documents with the customs authorities for import, export and transit processes. It also contains advanced bonded warehouse and inward and outward processing management, together with the appropriate electronic communication to customs authorities.

**SAP GTS Preference Handling** supports the monitoring and optimizing of value flows in international trade. It monitors and manages requests for long-term vendor declarations, computes the eligibility for preference for each sales transaction, and marks it accordingly. It also enables companies to consider preferential origin issues in their purchasing strategies.

**SAP GTS Restitution Claim** handles the complex gathering of amounts of products eligible for restitution in the export process, assigns it to a license in order to provide the necessary data, and handles the appropriate reporting to the relevant authorities. Furthermore, it helps companies to apply for new licenses at the correct time in order to avoid any loss of claim.

**SAP GTS Letter of Credit** provides support for calculating and handling financial commitments such as letters of credit and bank guarantees, thus enabling companies to handle multiple letter of credit processes in inbound and outbound flows.

**SAP GTS Compliance Management** facilitates compliance checks against applicable regulations and statutory requirements. Goods import and export processes are monitored, with export and import control functionalities combined with boycott and embargo lists.

### Benefits and value of the solution

Due to new laws and business requirements, most customs systems are a growing and evolving solution. SAP GTS is the only one that offers a steady integration point to the ERP. Upgrades of the GTS solution do not involve any changes in the ERP system or in the interface between it and GTS. The integration, which is the biggest part of the work in a customs solution implementation, remains unaffected by the upgrades that need to be done to GTS.

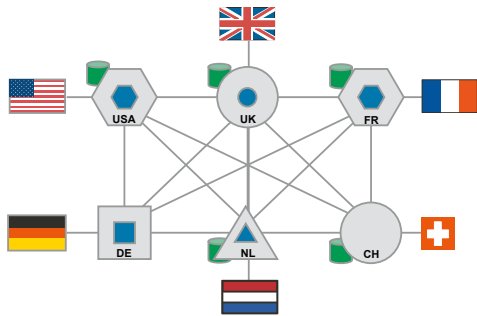
Furthermore, due to the large variety of customers using GTS, almost all industrial sectors are covered and new legislations that may apply to a specific branch are taken into consideration and the solution enhanced to comply with it.

In contrast to most other customs solutions, SAP GTS offers a global solution which covers the global trade requirements of most countries, and is not a one country specific solution. This means, that once it has been set up to work with the ERP system, it can easily be rolled out with minimum effort, in order to cope with all other affiliate's global trade issues. Furthermore, the aim of companies is to address local customs issues centrally in order to build a pool of customs competences. SAP GTS allows companies to do so, as all ERP systems can be connected to the GTS as a central platform that can handle the customs topics of all countries.



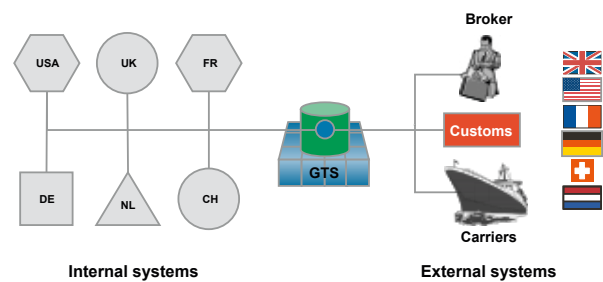
### Yesterday – single solution per county

- **Multi** installations of trading- and customs systems, different programming language and operating systems / databases
- Data distributed in many **different systems**
- **No centralized** tracking of foreign trade data possible
- **Different processes** results of different systems
- **Higher IT costs**



### Today – central customs system

- **One** centralized SAP GTS implementation
- **Holistic data availability** over the whole company (Tariffs, SPL lists, contracts)
- **Continuous** enhancements and adaptations according to new customs demands for all counties
- **Compliant processes** for the whole company with consistent processes
- **One** interface to a certified adaptor (SEEBURGER)
- **Lower IT costs**



## Support content

- Adaptation to new schemes (NCTS, Atlas, Delta, E-Dec, etc.)
- General error solving
- Adaptation to potential new demands and challenges from customs authorities
- Support package upgrades for GTS
- SAP Global Trade Service is the leading solution in the market for foreign trade platforms

## SAP GTS as an integrated solution for global trade processes

Global trade and its agreements and regulations have become an important focus of many countries, and it keeps growing. With that, the rate of new regulations that one company has to comply with keeps growing, and companies need to make sure that the tool they choose to address these maintains that pace. Most providers have recognized that, in order to remain compliant, the customs tool needs to adapt frequently, and therefore needs many upgrades. But most of the tools need to be connected to the ERP via a manually built interface.

However, because of the following reasons, it is crucial that the chosen tool is not interfaced, but integrated to your ERP system:

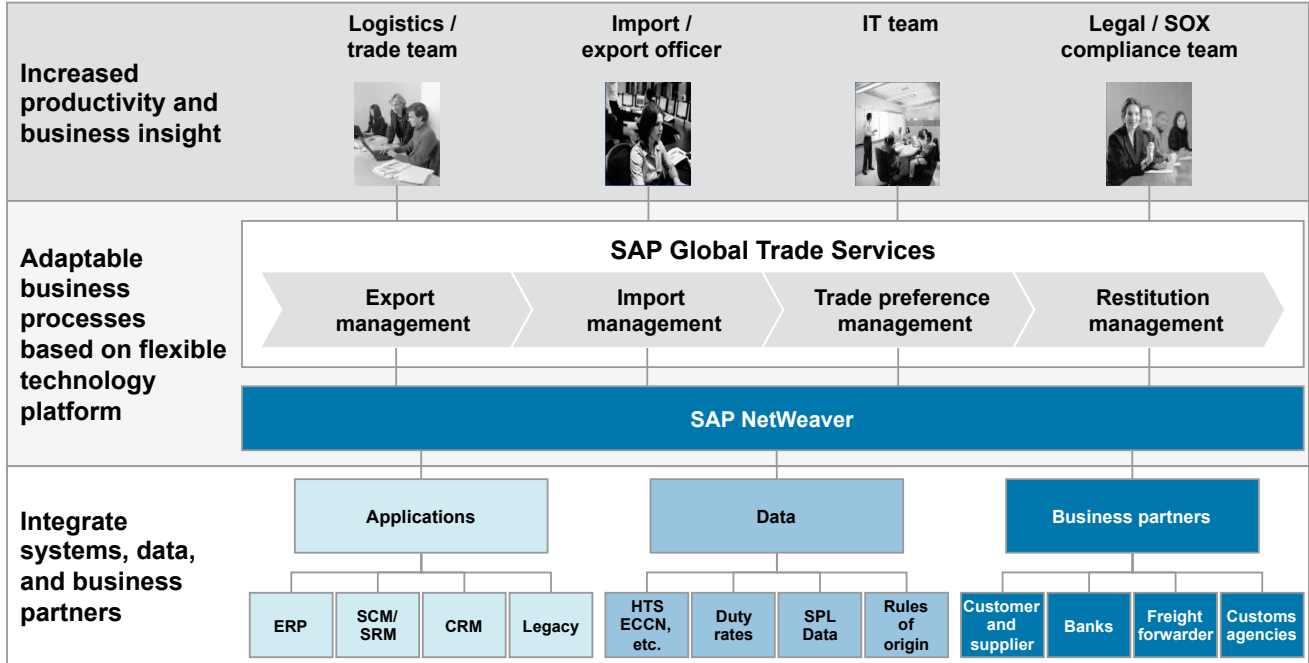
- National and international laws require compliance with denied party lists or embargoes
- Items such as dual-use products and ITAR goods need export permissions
- International just-in-time supply chains require fast and cost-effective customs handling
- Reduction of financial risk through inbuilt letter of credit capabilities
- Inbuilt preference agreements capabilities linked to other relevant business systems
- Inbuilt capabilities with respect to CAP restitution, again linked to other relevant business systems
- The ability to drive process efficiencies through integration, automation and standardization
- Cutting the costs, time and risks associated with compliance and international trade laws

“Global trade leaders are succeeding in automating and controlling this complex environment, driving out cost, time and risk from their business.”

## Technical integration

SAP GTS is based on SAP NetWeaver technology and can be connected to both SAP and non-SAP feeder systems.

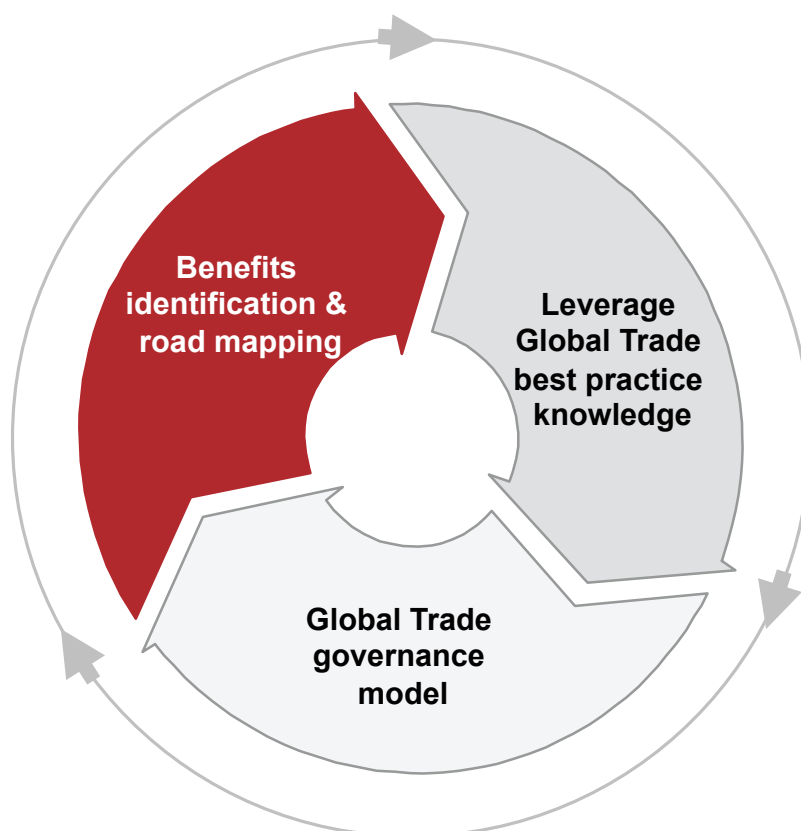
All modules of SAP GTS are fully integrated with other relevant SAP modules and can gather and process data so that logistics, customs, IT and compliance teams have all the data and management tools they need.



Even though SAP GTS is an integrated tool, some implementation work needs to be done in order to integrate the ERP, that was adapted to the business' needs and to the GTS solution. Furthermore, the company's specific requirements with regards to the global trade need to be considered in the building of the GTS solution. For that, a company must choose an integrator that brings both knowledge of global trade, SD, MM and, of course, technical SAP GTS knowledge.

## SAP Alone is Not the Solution

A solid foundation ensures that your SAP technology will deliver maximum impact. However, IT systems alone are not the solution.



### Benefits identification and the technology “road map”

When contemplating the adoption of a global trade solution, organizations must first analyze their current situation, and define their business priorities going forward. Only then will a full understanding of the attainable benefits be possible. Questions to ask regarding any proposed global trade solution include:

- Does it facilitate the differentiation of sites, systems, major import and export hubs, and major distribution centers?
- Does it leverage the current SAP landscape within the business, and does it support the organization’s technology road map?
- Does it meet the latest regulatory requirements and will it continue to do so?
- Will it increase the efficiency of the organization?
- Will it help free-up working capital and boost margins through restitutions and other “clawbacks”?

Beyond building a business case for investment approval, this activity provides the business with fundamental insights into the global trade process, promotes a change in current thinking, and provides a reference point for stakeholders throughout the life cycle of the project.

The business case must clearly identify the benefits of any proposed solution, and must establish related performance measures. Importantly, in establishing these performance measures, the organization creates the basis for monitoring continuous improvement.

Finally, it will be likely – in any organization of size – that the business case and associated project cannot be delivered in one phase, as the transformational change may be too dramatic. A project plan clearly highlighting the benefits of a phased realization will be critical to the success of a project throughout the implementation.

## Leverage global trade best practice knowledge

The project's initial activities need to be carefully planned. As the different sites and systems involved will have different imperatives, there are very rarely "off-the-shelf" solutions available for the integration of global trade management into existing business and system processes.

Therefore, a proof-of-concept phase is generally the preferred approach. One should not confuse a "prototyping" approach with a "proof-of-concept" approach.

A prototype is often a system prepared with master data by technical experts, with the associated user presentation tending to focus on isolated aspects of information processing or automation. The result? Business people struggle to understand the process, and fail to see its intended best practices.

A proof-of-concept, on the other hand, starts from a holistic view of the global trade solution. End-to-end processes are presented by demonstrating pre-configured solutions of the corresponding modules supported by a presentation to clarify any missing (or custom-built) software components.

This approach increases business "buy-in", and allows technical development departments to understand and realize the integrative impact the solution places on the existing system landscape.

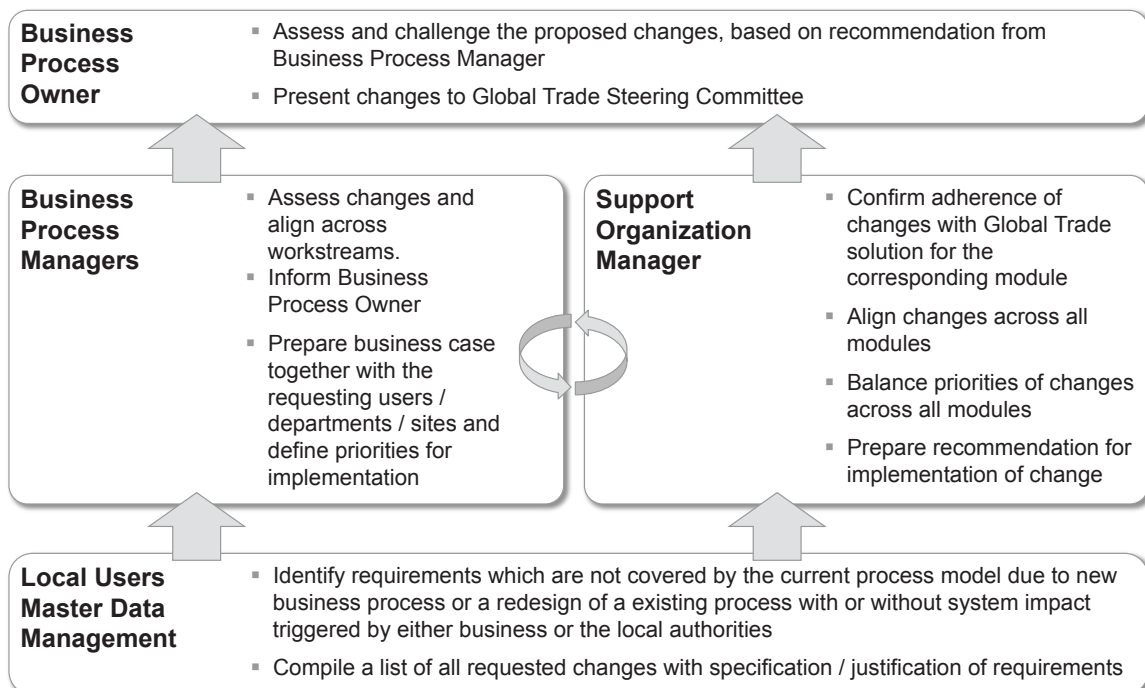
The reinforcement and understanding of global trade best practices needs to be a coordinated effort throughout the project, especially during the process definition phase. People must also be clear on the best practice concepts of a "globally harmonized" and "integrated system" environment, which in the very largest organizations might potentially cover dozens of ERP systems, as well as their corresponding transactional and master data volumes. A thorough understanding of the new process and its benefits will help to ensure a successful implementation, as well as increasing the prospects for user acceptance.

## Global trade governance model

The implementation of a new global trade solution may – depending on the approach taken – have a significant impact on current business governance models and processes related to global trade management.

It is imperative that these new processes are formalized as written procedures, including clearly-defined roles and responsibilities. This information must then be clearly communicated to the organization, and accompanied by training to highlight new responsibilities and procedures.

The planning and execution of learning activities integrated with these design tasks is critical to both the project and the end-user community that is transitioning into the new global trade vision. Organizations' needs will differ, but an appropriate governance model for an implemented global trade solution could look as follows:





## Conclusion



Global trade solutions are essential for any modern business seeking to combine trade law compliance with the smooth enactment of international trade transactions. In our view, any company already using SAP as an enterprise platform will benefit from implementing SAP GTS because the integration is done through a SAP standard plug-in which ensures flawless cohabitation of the systems, as well as minimum setup and maintenance effort.

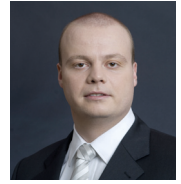
SAP GTS is an all-in-one solution that will enable companies to single-handedly address all global trade related issues and high efficiency for all affiliates centrally.



## Authors

### Andreas Müller, Director, Switzerland

Andreas has 10 years of consulting experience for multinational companies, mainly in the area of life sciences. He is an experienced project manager and integration manager, specialized in sales and distribution, and global trade-related topics. He has significant expertise in system integration as part of SAP GTS implementations, as well as ERP-related third party integration. Andreas is managing the Global Trade Initiative within Lodestone Management Consultants.



### Marc Gilomen, Senior Consultant, Switzerland

Marc has profound knowledge of both foreign trade and SAP GTS, which he has implemented in various industries (machinery, automotive, construction, retail, chemical, pharmaceutical – in both discrete and batch processing). He brings experience in both the business of international trade and the application of SAP GTS to the fields of preference and restitution handling, compliance, customs, procedures under customs control and Intrastat.





## About Lodestone

Lodestone Management Consulting was founded in Switzerland in 2005 and is headquartered in Zurich. Lodestone is a global management consultancy, committed to developing strategies that enable companies to thrive in today's complex business environment. Lodestone has a proven track record in designing and delivering solutions to global life sciences companies. Lodestone has developed significant experience and expertise in global trade management, from strategy to implementation, mainly within the life science sector, but also the automotive and industrial sectors.

