

2016

GLOBAL SOURCING & TRADE MANAGEMENT



Benchmark Report

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It was in 2005 that New York Time's columnist Thomas Freidman wrote the bestselling book "The World is Flat," chronicling how a series of barriers to global trade were falling away, changing the world forever.

One of the key factors was what Friedman called "supply chaining," where he noted how logistics providers such as UPS and FedEx were able to leverage vast global infrastructures to enable even small companies to tap into global supply markets and customers, which in turn enabled larger companies to source materials and components from these varied suppliers with increasing ease.

In fact, Walmart received almost a full chapter's worth of attention, the theme being the ability of the retailer to flow goods across the globe into its stores with tremendous efficiency, accelerating the need for other retailers and brand companies to get on board with similar global strategies.

In this now flat world, global trade rose at very high rates, often 5-6% annually from the late 1990s until the financial crisis in 2008-09, generally much faster than overall global GDP growth. China's entry into the World Trade Organization (WTO) in 2001 and its low production costs propelled its manufacturing sector to the position of what *The Economist* magazine called "factory of the world," becoming a powerful economic player on the global stage in just a relatively few years.

In recent years, global trade growth has slowed a bit, starting with the great recession but lingering beyond that to an extent. Continuing a recent pattern, the WTO forecasts global trade growth of about 2.8% in 2015, roughly on par with global GDP growth, though it sees a rebound to 3.9% in 2016.

The WTO goes on to say that "By withdrawing protectionist measures, improving market access, avoiding policies which distort competition, and striving to agree to reforms to global trade rules, governments can boost trade and seize the opportunities that it offers for everyone."

As the WTO comments indicate, there are in fact a growing number of agreements that reduce tariff and non-tariff barriers to trade, which should once again accelerate global trade growth, as we discuss in more detail a bit later in this report.

Along the same lines, the consultants at PwC expect global trade volumes to grow substantially over the next 15 years.

“We think the global economy will become even more interconnected in the future,” PwC wrote in a recent report on globalization. “Our analysis shows that the value of global goods trade is expected to grow in real terms from around \$10 trillion in 2013 to around \$18 trillion in 2030. This implied real trade growth of 3.3% per annum will be an important driver of global growth over this period.”



“A telling statistic to note... 95% of potential U.S. customers live outside of the United States.”

Important Trends in Global Trade

Behind that steady growth in global trade are several important trends:

Globalization as a Source of Revenue Growth in Addition to Lower Cost Sourcing: Until the start of the financial slowdown, company globalization strategies were primarily focused on outsourcing and low cost country sourcing. That imperative is of course still a key aspect of globalization, but is now balanced with an often equally strong emphasis on finding top line growth by penetrating faster growing developing economies, as hundreds of millions of people move into the middle class and increase their consumption levels.

A telling statistic to note from the U.S. perspective is that 95% of the U.S.’s potential customers live outside of the United States.

Sourcing Options Spreading Far Beyond China: Rising labor costs and concern about some governmental policies in China are leading companies in many industries to look at other sourcing options to keep costs low and in some cases reduce their supply chain risk from a China-heavy sourcing model. Those options include countries in Southeast Asia such as Vietnam, Cambodia, Thailand, Myanmar and more, Eastern European countries (where, for example, Dell, now assembles laptops), and increasingly Africa. For instance, Ethiopia was recently identified as a top 10 sourcing destination by apparel companies, according to a survey by McKinsey.

Apparel and footwear giant VF Corp., in fact, has taken some unconventional steps to open up sourcing from Africa, teaming with its biggest rival, PVH, to invite some 20 existing suppliers from countries such as China, India and Sri Lanka on a 10-day trip to the continent in 2014, hoping to convince them to open factories in Africa. The suppliers were promised orders if they made such investments, and several of them are moving ahead with Africa plans.

There are a variety of factors behind these moves to expand sourcing options. Those factors include product quality, price, supplier capabilities and capacity, the total trading party network (raw materials, parts supplier, logistics providers), along with changing dynamics resulting from preferential trade agreements, as noted below.



*“The growing number of **free trade agreements** is making it attractive to reassess design and production sourcing strategies with the goal of avoiding high duty rates for import and export.”*

Proliferation of Free Trade Agreements: The growing number of free trade agreements is making it attractive to reassess design and production sourcing strategies with the goal of avoiding high duty rates for import and export. Most prominent is the Trans-Pacific Partnership that when finally adopted will certainly accelerate sourcing expansion over time. As a landmark agreement, TPP will open preferential trade between the US and 11 other countries (and more are already expressing interest in joining) which together account for 40% of the global economy. While approved by representatives from member countries, each individual country’s government still has to ratify the agreement before TPP goes into effect.

The passage of another agreement, the African Growth and Opportunity Act (AGOA), for a period of 10 years rather than the 3-year terms set in the past means that companies can take root in African countries without worry about losing preferential trade in just a few years. AGOA is in the form of a preferential trade program, rather than a true free trade agreement.

Also important is the Transatlantic Trade and Investment Partnership (T-TIP), the ambitious, comprehensive, and high-standard trade and investment agreement being negotiated between the United States and the European Union (EU), the two largest economies in the world. T-TIP should help unlock opportunity for American families, workers, businesses, farmers and ranchers through increased access to European markets for Made in the USA goods and services; promoting US international competitiveness, jobs, and growth.

There are currently more than 500 free and preferential trade agreements around the globe, good for trade, but with the challenge that each pact contains a myriad of rules that governments modify continuously.

Regional Manufacturing Strategies: A growing number of multi-national corporations are adopting so-called regional manufacturing strategies, in which production is spread across several regions of the world to support more local markets. One of the impacts of these strategies is that companies may be facing entirely new sourcing combinations, sourcing in a foreign country from firms in still other nations. This presents challenges to both processes as well as the ability to maintain regulatory compliance.

Increasingly Complex Global Regulations: Companies are faced with an increasingly complex set of regulations for imports, exports, reporting and more. In general, taxes on business are also going up, meaning a highly tax efficient supply chain is a source of competitive advantage. That means being able to have quality information about all duties, tariffs, taxes and other potential non-product costs, as well as leveraging where possible the growing number of Foreign Trade Zones.

Primacy of Visibility: Survey after survey consistently shows that companies seek to increase their level of supply chain visibility, especially in global inbound operations. The benefits, which are increasingly quantifiable, include enhanced product allocation, revenue uplift, reduced inventory costs, better customer service and reduced supply chain risk.

The need for improved visibility comes in no small part from the globalization of supply chains, which bring complex, multi-tiered supply chain operations that must be synchronized across multiple geographies and partners. Only high levels of near real-time visibility can provide that control.

The rise of Omnichannel commerce also impacts the need for supply chain visibility. For example, with detailed visibility to inbound goods retailers can adjust inventory deployment plans as goods arrive at port based on current inventory positions and up to date forecasts across different sales channels.

The aforementioned Free Trade Agreements also drive visibility requirements, with the need to determine country of origin for components in finished products to establish “rule of origin” and qualification. Detail at the bill of material level needs to be provided to classification and logistics teams, making “tariff engineering” a function that is increasingly important.

Empowered Consumers: Technology advancements are driving growth in industry and the consumer is running the show. The shopping experience in an on-line world is changing, with visibility demands reaching far into the supply chain. Whether viewed from a B2B or B2C perspective, electronic commerce has placed demands on global supply chains that weren't even on the radar screen as recently as ten years ago.



“We are entering a new era of globalization... Companies that excel in global execution have a substantial competitive advantage.”

Together, these trends mean we are entering a new era of globalization – let's think about it as perhaps Globalization 3.0. And just as with earlier phases, it is clear that companies that excel in global execution – strategies, processes, agility and visibility – will have a substantial competitive advantage versus rivals.

Benchmarking Global Sourcing Practices

With that backdrop, *SCDigest* recently undertook a major survey to better understand global sourcing practices, processes and technologies.

The survey collected responses from almost 200 supply chain professionals on a variety of topics related to global sourcing, including related Global Trade Management (GTM) processes and technologies.

Indeed, one of the most important recent supply chain software developments is the continued expansion of GTM software to deliver much broader support beyond the traditional competencies in import and export compliance into areas such as supply chain visibility, global transportation management, and sourcing capabilities. We discuss this trend more fully at the end of this report.

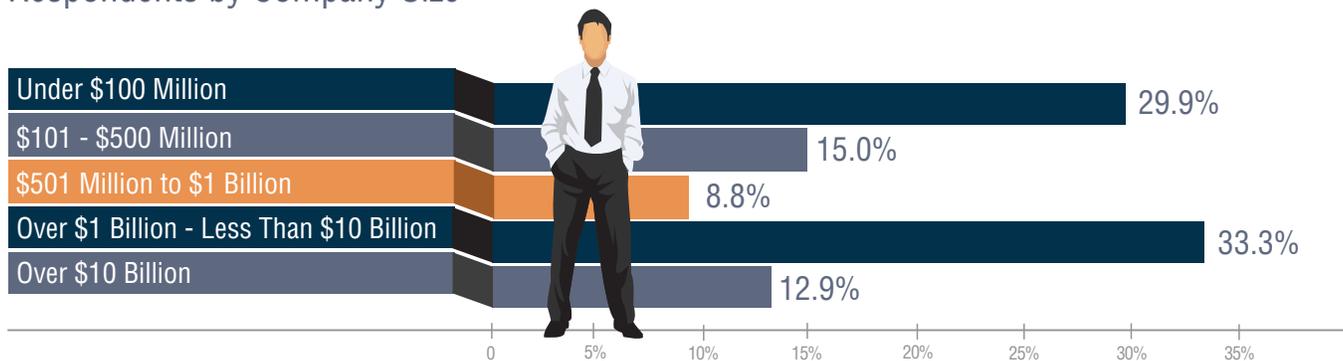
Respondent Demographics

Survey responses came from a wide variety of roles within companies. Twenty-five percent of respondents indicated they were supply chain executives, about 19% came from the procurement/sourcing function, and 17.5% in trade compliance, in addition to a smattering of other roles such as CFO or general supply chain.

From an industry perspective the mix was extremely broad, with representation of almost every sector. The largest single group of respondents came from general industrial manufacturing, at 13.5%, followed by retail (13%), high tech/electronics (11%), and consumer goods at about 8%.

There was an equally broad mix by company size, as shown in the chart nearby, with combined 46% being over \$1 billion in annual sales, 9% between \$500 million and \$1 billion, about 15% from \$100 million to \$499 million, and 30% under \$100 million.

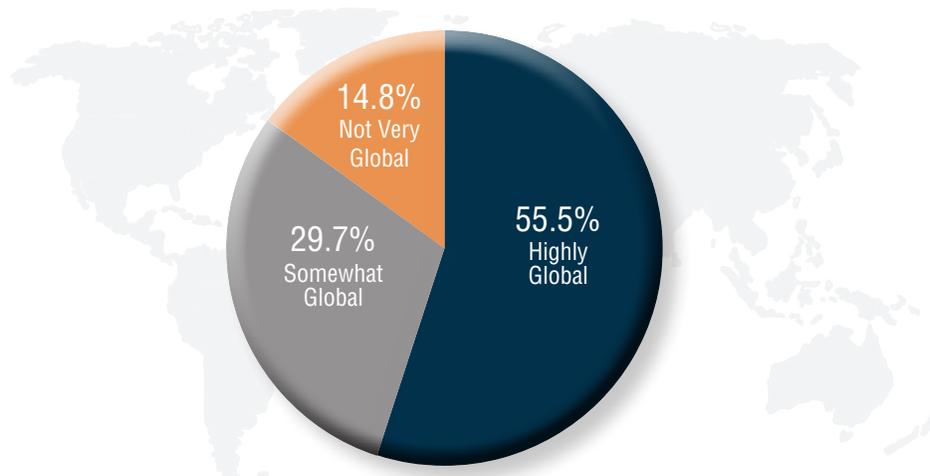
Respondents by Company Size



It is important to note, however, that 33% of respondents indicated they were answering from a division or SBU perspective, meaning some of the smaller companies likely are in fact part of larger organizations.

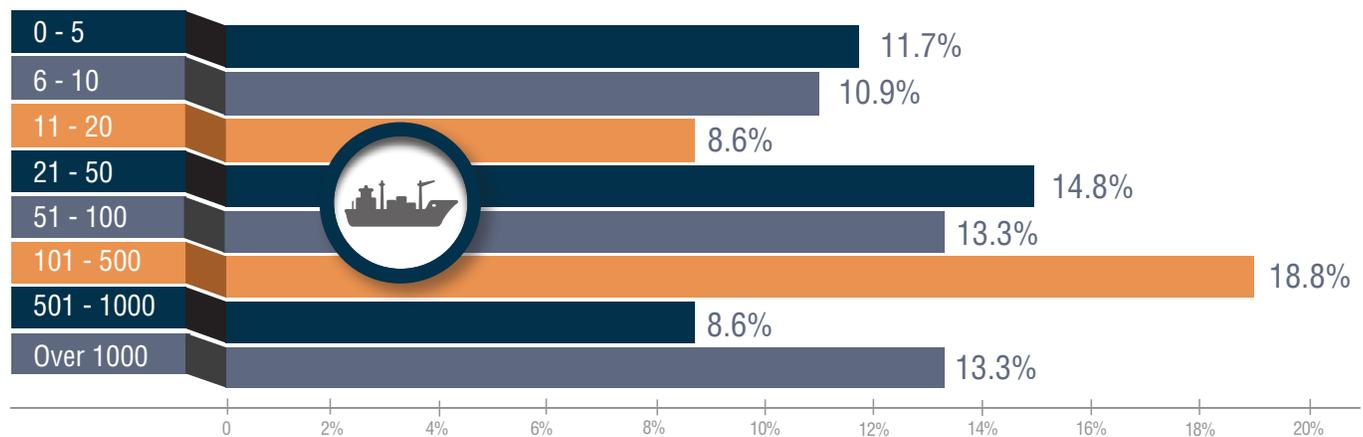
Fifty-six percent of respondents consider their companies to be “highly global,” versus 30% slightly global and almost 15% not very global.

How do Companies Assess their Level of Globalization



There was a very wide range across respondents on how many global suppliers they currently manage, as seen in the chart below. While just more than 22% of respondents managed 10 or fewer offshore suppliers, more than 40% use more than 100 offshore suppliers, and of that group 13% of total respondents have more than 1000 offshore suppliers, a group closely associated with the retail segment of the survey population.

Number of Offshore Suppliers



Survey Data

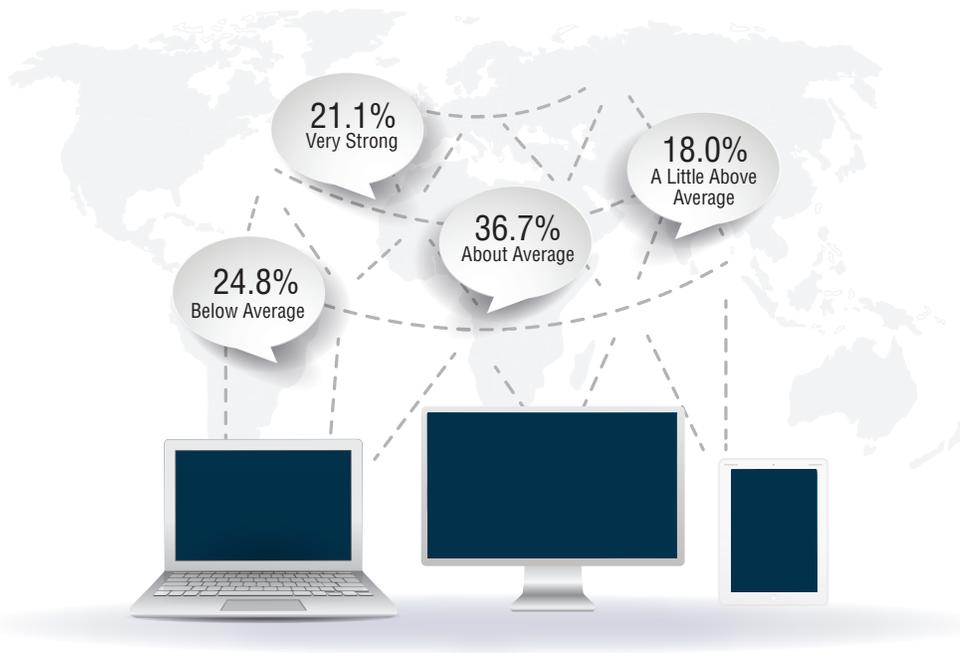
The survey provides a number of interesting insights into where companies are at in terms of global sourcing practices and technology support, along with similar insights for broader GTM issues. Indeed, as noted above, the integration of global sourcing and GTM is an important trend that will be discussed at the end of this report.

As *SCDigest* frequently does in these types of benchmark surveys, we began asking respondents how they would rank themselves in terms of both process and technology support for global sourcing and inbound logistics.

As shown on the next page, even at the process level the majority of respondents say they are average at best, with a combined 62% saying they were either average or below average in these areas in terms of process maturity.

Conversely, about one-fifth of respondents rated themselves as very strong in global sourcing processes.

How Strong in Global Sourcing/Inbound Logistics Processes?



“We are very decentralized in our approach to global sourcing,” one respondent noted in a comment. “There are many opportunities to leverage our scale more effectively.”

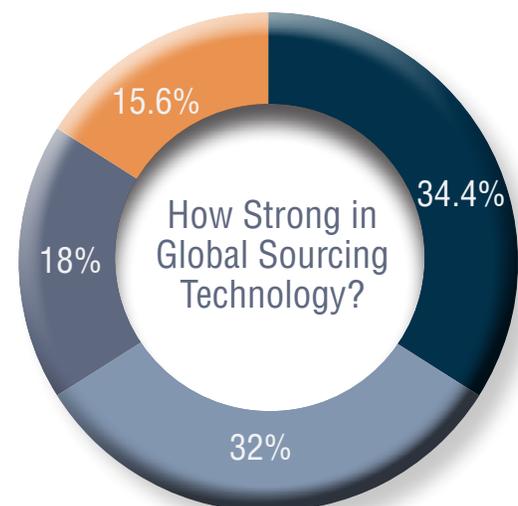
“We have multiple shipments that are not being consolidated, and without effective process and standardization, volumes cannot be managed,” another noted.

As is usually the case, the self-ratings for the level of technology support were much lower, with a combined 66% saying they were average or below average, with just 15.6% saying they were very strong in such technology support.

It has been generally recognized that technology enablement of global sourcing and GTM processes has been behind for most companies versus the growth they have seen in global trade, so this result is far from surprising, and confirmed by other responses later in this report.

“We continue investing in IT solutions trying to gain more global visibility,” one respondent noted, one of several who indicated a key focus was improved visibility.

“We are out of date, inefficient, and very manual,” another respondent noted, obviously scoring his company’s technology support very low.



How do companies see the level of global sourcing playing out over the next few years? As the predictions noted in the first section of the report support, almost 50% of respondents expect the number of global suppliers they use to increase by more than 10% over the next few years.

Just 14% expect the number of their global suppliers to shrink by 10% or more, while 38% expect their number of global suppliers to remain about the same.

Whether there really is a reshoring move of production back to the US or not, it appears the vast majority of companies believe that they will either increase the number of global suppliers they use or keep them about the same. We will note here that the expansion of viable low cost countries for sourcing in such areas as Southeast Asia and increasingly Africa would likely lead to an increase in global sourcing, as there are simply a growing number of choices available, each with their own advantages and disadvantages.

For example, one reason why apparel brand companies and retailers are increasingly looking at Africa as a sourcing option is that in addition to very low labor costs, most countries in Africa can produce raw materials such as cotton, enabling consolidation of finished good and materials sourcing, something most Southeast Asia countries cannot provide.

What are the key factors companies juggle when making global sourcing decisions? The reality of course is that many factors play into those decisions, but we were interested to see, as shown in the graphic below, that unit price was actually only third ranked on the list, with an average score of 5.9 on a 1 to 7 scale, with 1 being the least important and 7 the highest importance.

That was behind product quality (6.4) and consistency of performance (6.1). This makes perfect sense, in that a company's brand and customer service matter more than price and margin, at least in the short term.

Rating of Factors in Global Sourcing Decisions

Product Quality	6.4
Consistency of Performance	6.1
Unit Price	5.9
Total Landed Cost	5.8
Lead Times	5.7
Capacity & Agility to Respond to Demand Changes	5.6
Financial Stability	5.3
Health, Safety, Working Conditions & Security Audit Results	5.2
Geopolitical Risk in the Country	4.8
Sustainability Factors	4.6
Location in Proximity to Raw Material Suppliers	4.2
Located in a Country or Region Designated for FTA	4.2
Location in Proximity to Ports	4.2

Expected Changes in Global Sourcing



47.4%

Number of offshore/global suppliers will **grow** by more than 10%



14.0%

Number of offshore/global suppliers will **decrease** by more than 10%



38.6%

Number of offshore/global suppliers will **stay about the same**

In fact, every factor we asked respondents to rank scored above the mid-point of a 4.0 level, indicating all of them play an important role in sourcing decisions, though proximity to ports, being in a country that is part of a Free Trade Agreement (FTA) and location close to raw material/parts suppliers came in at virtual dead heat for the lowest score.

Total landed cost, a more sophisticated approach to price, scored just behind price/cost with a score of 5.8. We'll note we continue to talk with companies that look primarily at purchase price instead of total landed cost, including one medical devices company that recently told *SCDigest* that it looks for per unit costs to be at least 30% below domestic prices to account for all the other costs associated with going offshore, but it does not fully detail total landed costs, including impact on inventory levels and other difficult to calculate elements.

Total landed costs is a critically important topic we will explore in more detail at the end of this report.

The survey indicates there is certainly room for improvement in this area. As shown nearby, about 24% said their current total landed cost calculation is highly accurate, a number we are confident is well above where it would have been even 3-5 years ago.

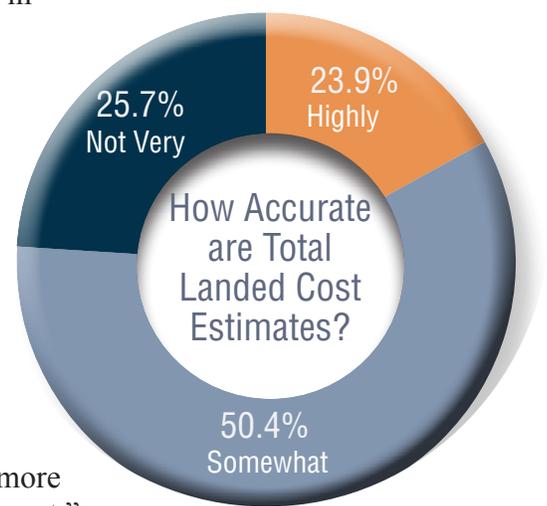
Meanwhile, almost half of respondents (50.4%) indicated their total landed costs were somewhat accurate, while almost 26% said their total landed costs calculations were not very accurate.

"Total landed costs are getting better. Sourcing is becoming more aware of trade and logistics factors that may impact landed cost," a manufacturing respondent noted.

Another said at her company "Manual processes are used, and while direct dollar costs are captured pretty accurately, allocation to individual items is very unsophisticated."

We thought this following comment was especially interesting.

"We are using two to four different models to find an average for us in decision making," one respondent noted. A four model average? Maybe we need a RealClearPolitics average for total landed cost.



*"...about 24% [of respondents] said their current total landed cost calculation is **highly accurate**, a number we are confident is well above where it would have been even 3-5 years ago."*

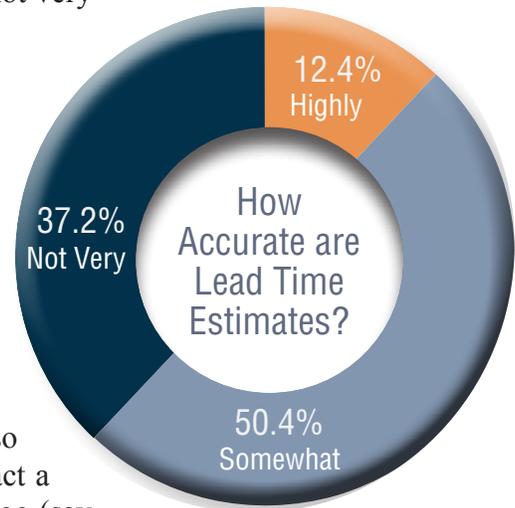
There was a similar story with regards to estimating actual lead times from PO to delivery. Here again, over 50% of respondents say their estimates are somewhat accurate, but these self-ratings were less positive than those for total landed costs, with just 12.4% saying their estimates are highly accurate, and 37% say their lead time estimates are not very accurate for global deliveries.

“Lumpy flow of goods challenges capacity constraints at several points in the supply chain,” one respondent observed. “We have extra time built into lead time to account for systematically created congestion.”

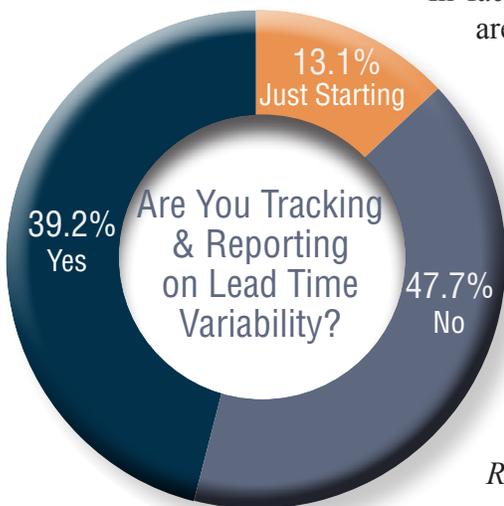
“We continue struggling with overseas lead times, impacted by carriers’ availability,” another respondent noted.

Of course, a lot can happen between when a global PO is issued and when a container is delivered to its final destination, so calculation of what is often called cumulative lead time is in fact a substantial challenge. Most importers we know will offer a range (say 22-25 days) from the time an order leaves an offshore factory headed to a port, but the lead time from PO to finished production can be even more highly variable.

What becomes crucial then is visibility to the status of that shipment, and tracking the actual level of lead time variance over time.



In fact, the survey data showed that less than half of companies (39.2%) are currently tracking and reporting on lead time variability, versus 47% that are not performing such tracking and 13% that say they are just starting.



SCDigest wonders if even this doesn’t overstate the case a bit. Over the past few years a number of supply chain academics have reported being thwarted in projects to analyze global lead time variability because of the difficulty in obtaining accurate data from shippers. That included an ultimately successful project at MIT, which said in the end it was able to get data from just a handful of companies, and that getting the data took much longer than the actual analysis once the data was finally received. (See *MIT Research Puts Some Real Data Behind Ocean Shipping Variability*.)

We next asked respondents how important Free Trade Agreements were in making sourcing decisions.

Consistent with the results from a previous question, just 13% indicated FTAs were very important, versus 27% who characterized FTAs as important. 44% said FTAs were somewhat important, and 15% or so not important.

These results bring up a couple of important questions. First, the survey was conducted before the Trans-Pacific Partnership saw its first level approval before Congressional ratification, let alone implementation. It is logical given its likely impact that a higher percent of companies will see the benefits of FTAs once TPP really gets moving.

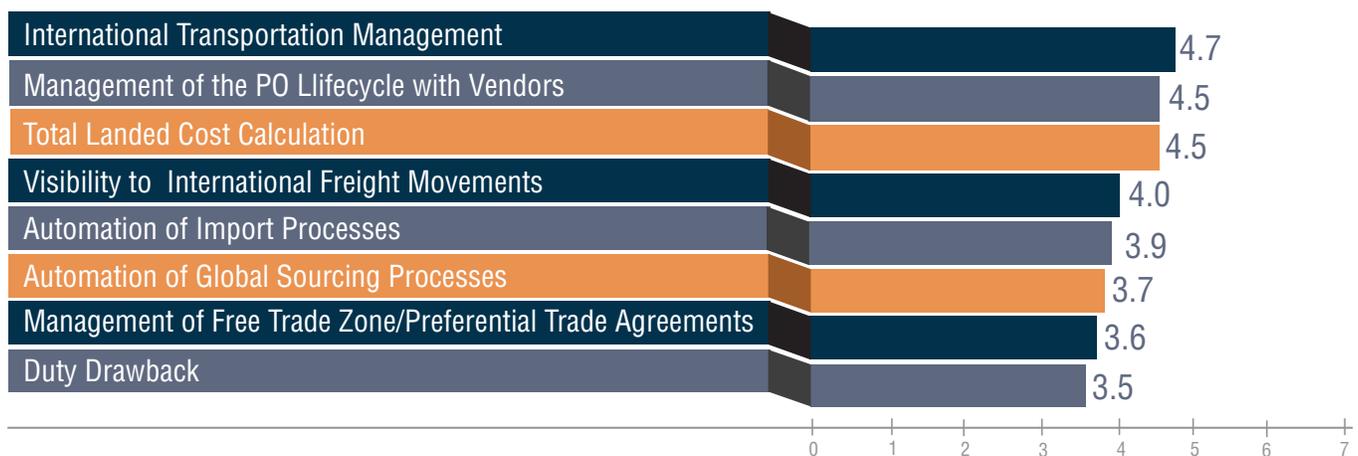
Second, some companies simply do not take advantage of current FTAs, such as NAFTA, because the effort needed to qualify an item as an originating product can seem overly burdensome. This is certainly an area in which GTM technology can play a key role, and FTAs should absolutely be considered when calculating total landed cost. To do otherwise is simply leaving money on the table.

We next moved back to the area of technology support for global sourcing and GTM, asking respondents to rate their capabilities across a number of areas on the same 1 to 7 scale, with 1 being low capabilities and 7 very high ones.

Somewhat surprising to us, the top ranked capability was global transportation management, with an average score of 4.7. That was followed by management of the PO Lifecycle with vendors and total landed cost calculation, both with scores of 4.5.

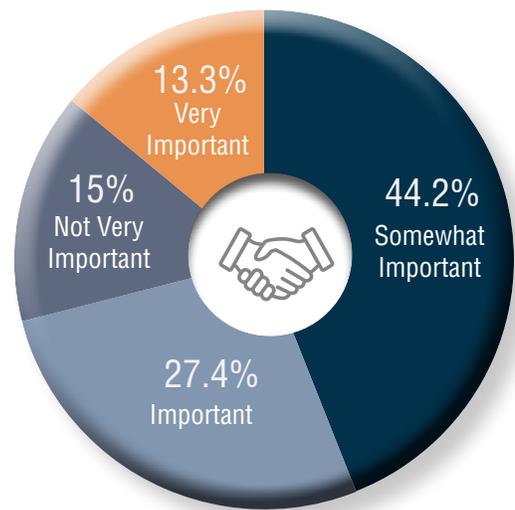
At the other end of the spectrum was duty drawback calculation, with a score 3.5, and management of Foreign Trade Zone/Preferential Trade Agreements, at 3.6.

How Strong in Global Trade Technology Support by Area?



We do wonder whether part of the high score for global transportation management was from the use of third parties for global transport execution.

Importance of Free Trade Agreements in Sourcing Decisions



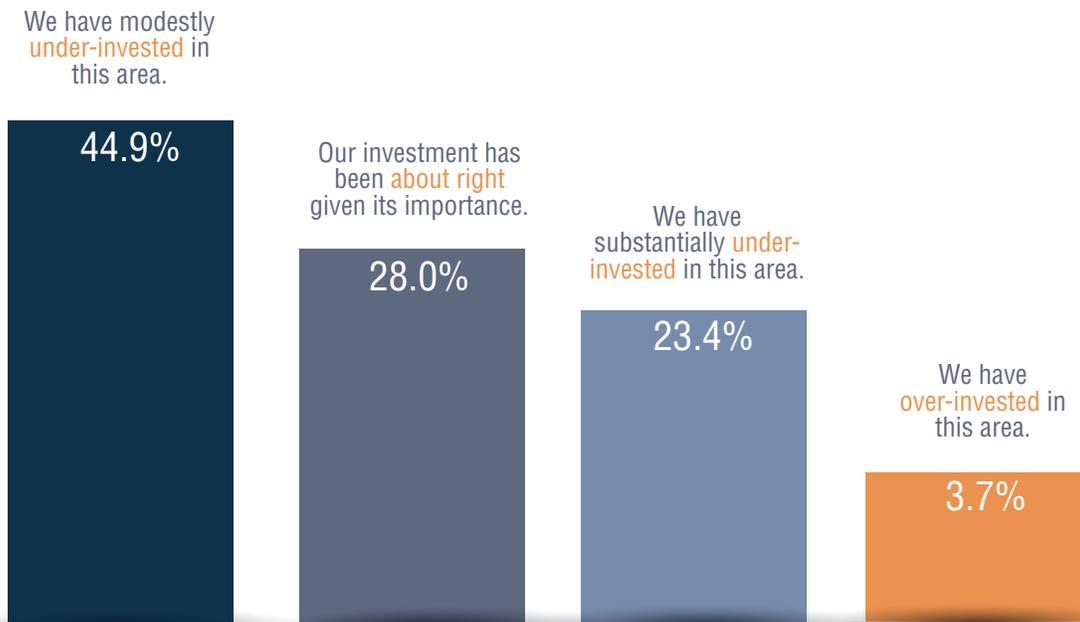
Half of the eight capabilities were ranked at or above the midpoint score of 4.0, and the scores in general can be fairly characterized as low on average compared to the average capability studies *SCDigest* has performed in the past, with no capability coming in with an average score of 5 or above. This certainly indicates that a high percentage of companies scored themselves relatively low on these capabilities.

Also worth noting is something of a contradiction in the data here. In previous responses, people ranked unit cost and landed costs at a 5.9 and 5.8 priority in terms of choosing global suppliers, but here they state that FTZ and/or Trade Preference Programs as just 3.6. The contradiction is that trade preference programs have had a major impact on reducing landed costs for the last 40 years, starting with the Generalized System of Preferences (GSP) in 1976.

We next asked respondents about their level of investment in global sourcing process and technology. In retrospect, we wish we would have split this question up between process and technology, but regardless, respondents all told felt their company's investments in these areas were not sufficient to keep up with demands.

Twenty-eight percent of respondents said they felt their level of investment in these areas has been about right, versus 45% that felt their companies had slightly under-invested. Twenty-three percent believe there has been substantial under-investment in these areas, versus just 3.7% that believe there has been too much investment.

Level of Investment in Global Trade Technology



“Rapid growth has left us in need of ‘catching up’ in these areas,” one respondent noted. “Supply chain concept relatively new at the company, I am new to the role here and focusing on elevating our supply chain performance.”



Another respondent commented that “We invested in GTM technology early on, and are just now starting to get really good at it. *It is a competitive advantage.*”

Another respondent commented that “We invested in GTM technology early on, and are just now starting to get really good at it. It is a competitive advantage.”

While this data indicated there is significant room for improvement in a high percentage of companies, there is no question this data also shows much improvement from the levels of perceived investment we would have surely seen 3-5 years ago.

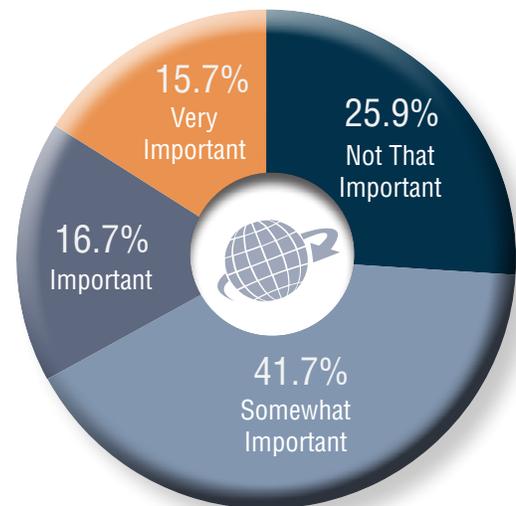
In a bit of a change of pace, we also asked companies how important consumer perceptions of the country of origin are to the company’s brands/products. A combined 32% said the origin country is very important or important, versus 42% that said it is somewhat important and 26% indicating country of origin is not that important.

Not surprisingly, retailers and consumer goods companies tended to rate the importance much higher versus more industrial companies, which may import parts or components for final assembly for which the country of origin is invisible in the end product.

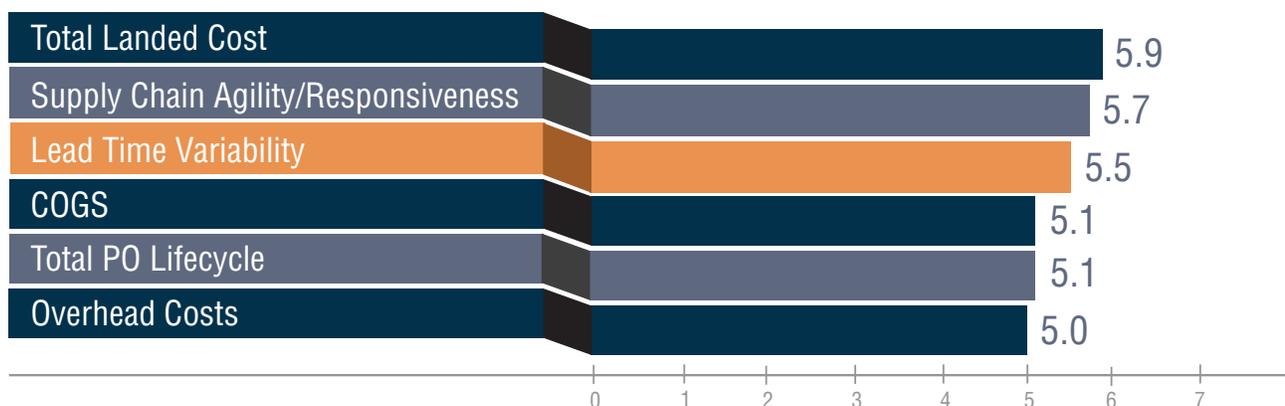
Even for retailers and brand companies, country of origin in our view seems to be a largely fading consumer consideration. In many product categories such as electronics, consumers just expect that a given product was assembled in China or elsewhere in Asia.

Finally, we asked respondents to rate the potential improvements from upgrading their capabilities in global sourcing and GTM across several benefit areas.

Importance of Country or Origin to Your Customers



Best Opportunities from Investment in GTM Technology



Here, lower total landed cost came in as the top potential benefit, with an average score of 5.9 on the same 1 to 7 scale, followed by achieving greater supply chain visibility and reducing lead time variability. But all six benefits areas listed score an average of 5 or greater, well over the 4.0 mid-point, showing strong support for the benefits improved GTM support can deliver.

Summarizing the Data

SCDigest believes that the data shows that companies are in the midst of a transition. Not long ago, a relatively few number of companies were leaders in global sourcing and GTM process and technology. Most companies were laggards in such capabilities.

The data in this current study, on the other hand, shows a growing number of companies might be said to be reaching mid-level capabilities in process, though often lagging in supporting GTM technologies.

The largest single response to the question about overall global sourcing/GTM process effectiveness was “about average,” for example, at 36%, but with regard to technology effectiveness, the largest single response was “below average” at 34%.

Respondents seem to be bullish overall on the prospects for increased globalization. While we are clearly past the fast growth go-go days of the early to mid-2000s, almost half of companies expect their number of offshore suppliers to rise by 10% or more over the next three years. We did not ask but would reasonably assume most companies export growth to rise sharply over the next 5 years.

An increasing number of sourcing alternatives, from Southeast Asia to the African continent, accelerated by the new Trans-Pacific Partnership, would seem likely to increase the use of global sourcing by simply improving the number of viable sourcing alternatives at a company’s disposal.

Wherever they are at currently, companies are clearly bullish on the potential of achieving strong results from improving global sourcing and GTM processes and technology.

Respondents rated the benefits from improvements in global sourcing very high (5 or more average score on a 1 to 7 scale) across all six results areas provided in the survey, led by the highest scores for reduced total landed costs and increased supply chain agility.

With this data as a backdrop, we next look at a couple of key trends in global sourcing and GTM practice and technology.



SCDigest believes the data shows that companies are in the midst of a transition... not long ago, **few companies were leaders in global sourcing and GTM process and technology.** Most companies were laggards in such capabilities.

Integration of Global Sourcing, Logistics and Finance

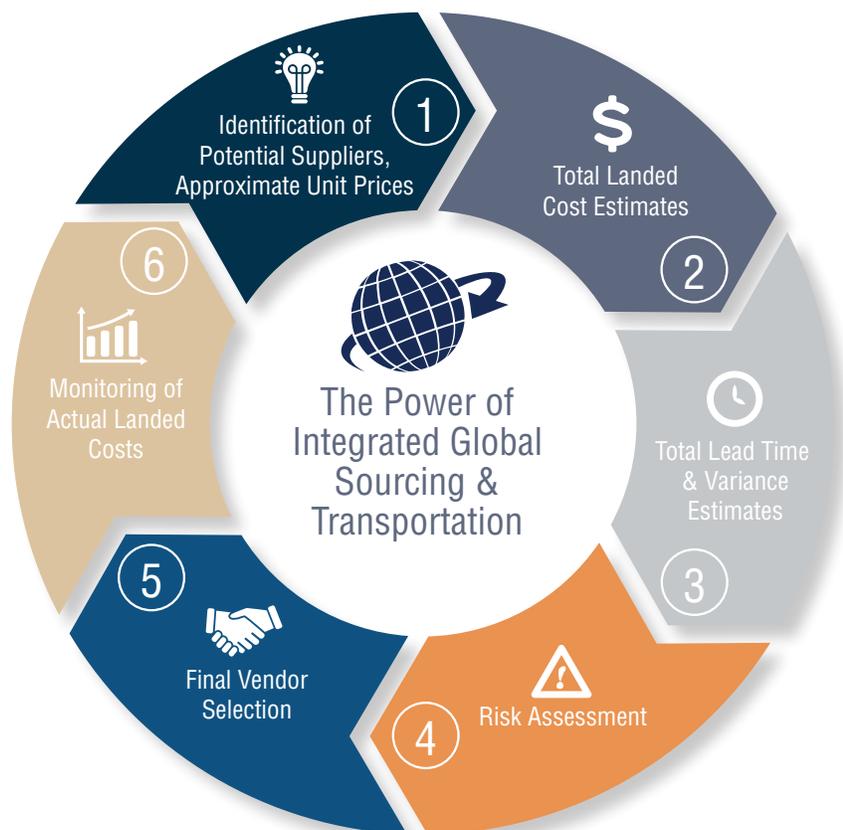
There are significant opportunities for many companies to integrate at a much deeper level supply chain and related functions that have operated somewhat autonomously in many companies in the past.

The most natural partnering is between the global sourcing and global logistic functions.

Leading companies understand the significant impact that sourcing decisions ultimately have on logistics costs. Among the areas where sourcing decisions have such an effect include:

- **Product design:** For example, can the product be easily dissembled to use a smaller box?
- **Product packaging:** How much air is being shipped? Do contract manufacturing vendors have strong packaging engineering skills?
- **Sourcing country/region:** What are the consolidation opportunities with freight from other suppliers in the area? Do we have enough freight volumes to ensure full container shipping? Do we even have a real capability to source from that region, or must new capabilities be built/acquired? What is the state of local logistics infrastructure and capabilities?
- **Security issues:** Will the company have to spend additional dollars to provide extra security measures in a given location?

In the end, companies must use an iterative process that start with the identification of potential suppliers and estimates of core unit pricing, as shown in the graphic below. Those options must then be analyzed in the context of total landed costs to present the true economic picture.



After that initial step, risk factors must be considered, as the lowest total landed cost may not be the most attractive. Risks include both local factors (e.g., political and regulatory) as well as supplier-specific factors (financial stability, capacity, etc.).

An emerging best practice is for logistics managers to be embedded in teams and meetings of the global sourcing organization. At one major retailer, this involves senior managers from logistics participating in all global sourcing leadership meetings, while mid-level logistics managers participate in operational sourcing meetings.

It is also essential to remember that in fact, total landed costs are dynamic, not static. After sourcing decisions are made based on estimated total landed costs, reality hits: changes in shipping rates, bunker fuel costs, currency values, execution efficiency and more. So of course it is critical that actual total landed costs be tracked and compared to estimates, enabling companies to be able to explain and perhaps mitigate unfavorable variances over time. Smart companies also then use this information to refine future total landed cost estimates.

Finally, the opportunities here are leading some companies to rethink organizational structures to better capture the obvious synergies. Home goods retailer Crate and Barrel, for example, a few years ago brought global logistics, trade compliance and supply chain finance into a single umbrella structure, greatly enhancing overall effectiveness and end-to-end decision-making.

Add global sourcing to that mix, whether in the actual organizational structure or in a matrix-style fashion, and the substantial improvements in total results are clearly possible.

Visibility Takes Center Stage

There has been a huge increase in the focus on improving supply chain visibility, and no more so than for global inbound freight movements.

In this regard, there are two important market changes:

1. **Continued improvements** in the core technologies, leveraging the Cloud and advanced integration tools
2. **A growing understanding** about how improved visibility drives cost savings and ROI.

In the early days of visibility technology a decade ago, the qualitative benefits were usually fairly obvious – improved customer service, greater agility to react to problems and opportunities, etc. But where the hard ROI came from was sometimes less clear – a barrier to visibility technology adoption.

But a combination of hard work by visibility technology vendors to quantify their value and the actual experience of adopters has recently shed much light on the financial value of improved visibility.



A very simple model of how improved supply chain visibility can improve operations and drive value can be summarized by companies gaining the capability to answer these questions:

- **Where is our stuff?** A detailed, real-time view of inventory positions enables companies to better see and thus control inventories.
- **Why isn't our inventory moving?** Visibility can identify when and why freight isn't moving, leading to actions which reduce variability and thus overall inventory levels.
- **How can we move it better?** Visibility can identify inefficiencies that will reduce total transportation costs, such as by finding additional opportunities for freight consolidation.
- **How can we impact network behaviors?** The first three opportunities are in effect under transportation's own control. But after achieving improvements in these areas, companies can use the resulting insight to look for opportunities to reduce total supply chain costs by working with areas such as sourcing or manufacturing on a better total approach.

Taking the above a step further, supply chain visibility tools, when used correctly, help companies to improve their Sales & Operations Planning activities. Because S&OP comes down to matching supply with actual demand, visibility upstream can help Beneficial Cargo Owners to increase orders when sales are good and back off, or even cancel PO's, when sales of a product aren't what was forecasted.

Another benefit of supply chain visibility (especially in retail) is the enablement of postponement strategies. By combing point of sale information with supply chain visibility, companies can postpone domestic distribution decisions (i.e. what stores get what products), until the very last minute, most likely at a deconsolidation center in places like Long Beach or Savannah.

The net of all this is that the returns from investments in supply chain visibility are much more quantifiable today than in the past. While every company needs to work through the ROI equation for itself, the return is clearly there for a growing number of companies, as adoption continues at a solid pace.

Changing GTM Provider Landscape

In the last few years, the offerings of leading Global Trade Management providers have changed substantially, setting up some interesting dynamics in the marketplace and new decisions for potential users.

From the development of the category in the late 1990s through much of the 2000s, the focus on GTM was on the nuts and bolts of automating import and export processes, along with systems to monitor and enforce compliance in such areas as product classification, Restricted Party Screening and more.



*"In the last few years, the offerings of leading Global Trade Management providers **have changed substantially**, setting up some interesting dynamics in the marketplace and new decisions for potential users."*

These traditional solutions were heavily driven by *content*, the labor intensive process of monitoring and updating changes to these rules country by country, day by day. Indeed, at the high end the battle was often over which GTM provider had more content than the next, while ERP providers tended to provide GTM frameworks while relying on third party providers to deliver the actual content.

But in the last few years, leading GTM solution providers have expanded through development or acquisition into several new areas. Most prominent of those include:

- Global Sourcing and Vendor Collaboration
- Global Transportation Management
- End-to-End Supply Chain Visibility

A recent example of this is GTM leader Amber Road acquiring global sourcing provider ecVision in early 2015.

This is a very interesting development that positions GTM providers as an important fourth center of gravity in terms of supply chain software, joining traditional supply chain planning, supply chain execution/logistics and procurement solution blocks.

Before this footprint expansion, GTM was often viewed as a niche category that sort of stood off by itself to address the unique issues of import/export and trade compliance, again heavily focused on content.

But as we discussed above, the reality is that traditional GTM process almost always intersect with sourcing and logistics workflows, and that visibility is needed across the entire PO lifecycle, from material and product design through final delivery. This level of collaboration and visibility supports the current and future direction of global trade and extended supply chain management. The future will see traditional product development, sourcing, commercialization, and supplier collaboration integrated with logistics, management and supply chain visibility.

Many companies are now re-looking at end-to-end processes. The synergies between traditional GTM and these newer areas are clear, as leaders work to fully integrate these new platforms, many of which rely heavily on Cloud-based deployments.

With these new GTM suites now bumping in to solutions in other spaces, notably supply chain execution and procurement, companies need to map current and future processes to understand technology requirements and what combination of vendors and solutions are best suited for the job.

We will just note that global really is different than domestic, and those unique requirements must be kept strongly front and center in the analysis.





“...we seem to be entering what we could call the globalization 3.0 era. The stakes will be high – it’s time to make sure your company is well positioned to compete and win.”

Closing Thoughts

Globalization has simply become the way we do business as we move through the second decade of the 21st century.

The ability to effectively navigate both import and export processes, including accompanying logistic activities, is certainly now for many companies a key determinant of supply chain and overall business expense.

In many ways, global sourcing and trade management processes and especially technology support are behind those developed for domestic sourcing and logistics activities, though this is an area of increased focus, as companies more fully understand the impact to the bottom line from improving their games in these areas.

Improved visibility remains a key objective for today’s global supply chains, and granular and near real-time visibility is almost essential to performing at high levels today. But companies are also looking to further automate global sourcing and logistics processes, improve collaboration, and make more integrated decisions across procurement, logistics, and finance. Of course, they must do so while remaining compliant with an ever growing list of regulatory requirements and taking advantage of Free Trade Agreements and other such opportunities as they present themselves.

The move by some GTM providers to now offer highly integrated solution sets across multiple touch points in the end-to-end global supply chain is an interesting and welcome development, and certainly changes the dynamics of how companies will consider their supply chain solution technology portfolios.

As we said at the beginning, we seem to be entering what we could call the globalization 3.0 era. The stakes will be high – it’s time to make sure your company is well positioned to compete and win.

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About the Sponsor



Amber Road's (NYSE: AMBR) mission is to improve the way companies manage their international supply chains and conduct global trade.

As a leading provider of cloud based global trade management (GTM) solutions, we automate the global supply chain across sourcing, logistics, cross-border trade, and regulatory compliance activities to dramatically improve operating efficiencies and financial performance. This includes collaborating with suppliers on development, sourcing and quality assurance; executing import and export compliance checks and generating international shipping documentation; booking international carriers and tracking goods as they move around the world; and minimizing the associated duties through preferential trade agreements and foreign trade zones.

Our solution combines enterprise-class software, trade content sourced from government agencies and transportation providers in 145 countries, and a global supply chain network connecting our customers with their trading partners, including suppliers, testing/auditing firms, freight forwarders, customs brokers and transportation carriers. We deliver our GTM solution using a Software-as-a-Service (SaaS) model and leverage a highly flexible technology framework to quickly and efficiently meet our customers' unique requirements around the world.

For more information, please visit www.AmberRoad.com, email Solutions@AmberRoad.com or call 201-935-8588.