GLOBAL FORWARDING

BIGGEST, FASTEST SAVINGS

WHITE PAPER

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ACCELERATE YOUR ADVANTAGE®

IN BRIEF

Increasingly complex omnichannel business models are resulting in correspondingly complicated global supply chains. Maximising efficiencies for time and cost in moving freight around the world is mission critical. This paper takes a high-level look at three opportunities for optimisation: cargo consolidation, cargo risk management, and customs management.

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The multichannel retail business model, along with increasing levels of global sourcing, have created staggering opportunities for importers and exporters around the world, whether huge multinationals or small companies shipping globally for the first time.

Long global supply chains present significant new challenges for logistics professionals.

Long global supply chains present significant new challenges for logistics professionals. In fact, the rising costs of supply chain management (i.e., fuel, labor, total landed costs) were cited as the top business pressures for 51% of 191 enterprises that responded to an Aberdeen Group survey of Chief Supply Chain Officers.[1] Rising costs were closely followed by the growing complexity of global operations, such as longer lead times and lead-time variability for increasing numbers of suppliers, partners, carriers, customers, countries, and logistics channels.

Contrary to what many importers and exporters might believe, global freight forwarding can offer relief for these concerns and when people, processes, and technology are leveraged, can even offer competitive advantages.

1 "Analyst Insight: Best Practices in International Freight Forwarding," Aberdeen Group, June 2013.

10 Ways To Find Savings In The Global Forwarding Supply Chain

EASY

1. Align shipping activities to leverage benefits of consolidation services.
2. Minimise financial impact of cargo loss and damage by purchasing marine cargo insurance.
3. Take advantage of transportation providers' TMS to create visibility and take control of the supply chain.

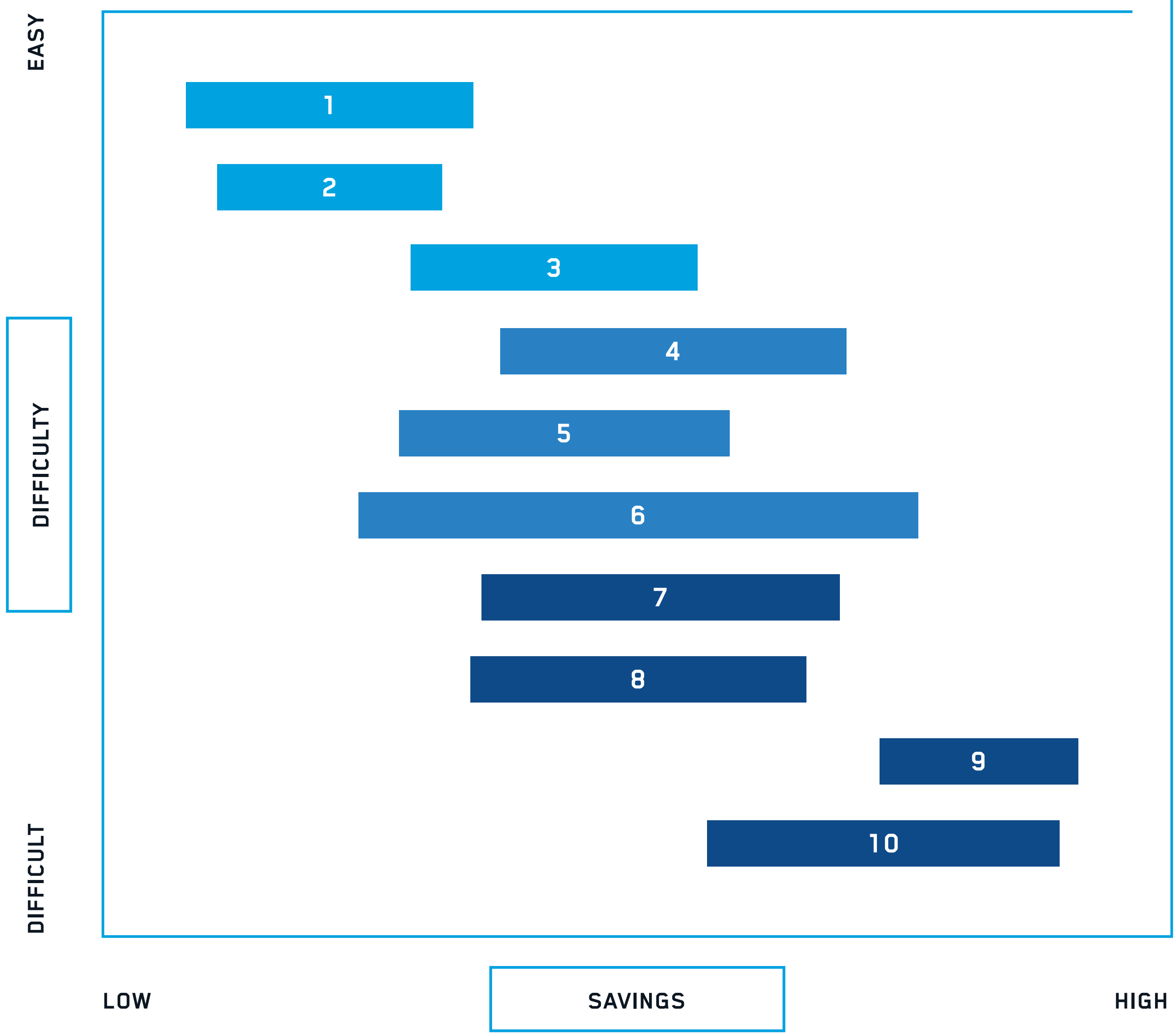
MODERATE

4. Develop strategies to match service modes with inventory planning and sales for forecasting.
5. Create a risk management strategy-identify and understand risk types, probabilities, and potential costs.
6. Integrate to a single transportation provider's TMS to connect with suppliers and carriers globally.

DIFFICULT

7. Effectively use Incoterms® when negotiating with suppliers to impact unit price, cash flow, inventory levels, and logistics costs.
8. Actively engage with a customs professional to deploy best practices in customs management.
9. Leverage transportation provider's business intelligence reporting and analytics to improve supply chain performance.
10. Utilize PO management to control the purchase order lifecycle; go upstream to supplier order fulfillment logistics activities.

Global Forwarding Supply Chain Savings



CARGO CONSOLIDATION

What it is

Few companies can fill an entire ocean or air container with their own freight. Both ocean and air carriers require shippers to work with freight consolidators to accommodate small volume shipping needs. These freight consolidators accept complementary freight from multiple shippers, and consolidate (FAK) containers for ocean shipping or unit load devices (ULD) for air. This results in better freight rates and cargo security measures.

Why it's important

One of the biggest areas for savings in a global supply chain is taking advantage of space. Companies of any size can use consolidation services, but it's particularly useful for those with lean supply chains or those that operate in just in time environments. Using logistics efficiencies from freight forwarders, consolidators, and third party logistics providers (3PLs), these companies choose to move smaller quantities of material more frequently. They make a strategic decision to spend more on shipping so they can spend less on inventory, storage, returns, and other costs.

Ocean versus air

Whether air or ocean consolidation is the right choice for businesses depends on the required service level and transit time. Globally, ocean is the less expensive transportation method. That cost advantage must be carefully weighed against longer transit times, as well as potential delays caused by adverse weather conditions, port strikes, or other issues.

In addition, there are faster and slower ocean options. Some ocean freight goes directly to the port of call. Other shipments can stop at multiple ports of call, which is less expensive, but takes longer and is more prone to unexpected disruption. Working with a reputable freight forwarder can help reduce unexpected supply chain failures and delays, and provide options if disruptions occur.

Air consolidation is a faster, more expensive option than ocean, but here, too, there are faster and slower options that determine the cost. For example, shippers who don't need direct service (next flight out) can choose a slower transit time at more favorable pricing.

Best practices for cargo consolidation

Choose a forwarder with:

- ☐ Sufficient freight volumes to effectively consolidate without delays and to aggressively negotiate rates with ocean and air carriers.
- ☐ Dedicated space allocations for capabilities when they are needed.
- ☐ Work in major markets with high flight capacity.

Consider global transportation options:

- ☐ Those who think of transportation services—ocean, air, and land—in a compartmentalized fashion can miss time and cost saving options that are best aligned with business needs.

CARGO RISK MANAGEMENT

What it is

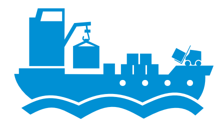
Global shipments are exposed to risk from a wide range of human and natural forces. Yet, global shipments are subject to a unique set of international laws and/or treaties that limit the liability of carriers. Importers and exporters alike should understand the various types of risks their cargo could face and how they can help protect the value of the goods shipped globally.

Why it's important

In 2011, 2012, and 2013, 2,683 containers were lost at sea, according to the World Shipping Council.[3] As the report indicated, even with proper packing, stowage, and securing of containers on a container ship, severe weather and rough seas can cause rare but catastrophic events like ship groundings, structural failures, even collisions, any of which can result in loss of cargo. Theft, counterfeiting, hurricanes, floods, political unrest, labor disputes, documentation errors, or mechanical problems can also delay or ruin delivery of the most perfectly planned global shipment. Protecting the value of products while they are in transit across the globe can have significant impact in protecting the bottom line.

Calculating costs to determine risk exposure

The risk of lost cargo is real. Yet, without a crisis to motivate action, most companies place risk management at the bottom of the priority scale, according to a paper published by the Global Supply Chain Institute at the University of Tennessee. The paper states that only 25% of a typical company's end-to-end supply chain is being assessed in any way for risk.[4] The paper also cites a study done by Risk & Insurance magazine, in which "not one of the 110 respondents rated their company as 'highly effective' at supply chain risk management."[5]



$4 trillion
worth of cargo was carried in approximately 120 million containers by the international liner shipping industry in 2013.[3]

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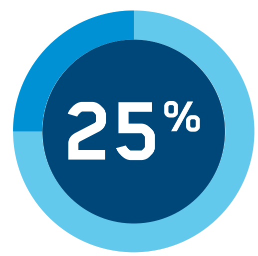

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3 "Survey Results for Containers Lost at Sea–2014 Update," World Shipping Council, 2014.

4 J. Paul Dittmann, PhD, "Managing Risk in the Global Supply Chain," A Report by the Supply Chain Management Faculty at the University of Tennessee, Summer 2014.

5 Ibid.

The most common method used to protect the value of goods from physical damage, theft, or other calamity is the purchase of marine cargo insurance. Surprisingly, the same University of Tennessee paper reports, "Insurance is simply not on the radar screen of supply chain professionals as a risk mitigation approach."[6] Even when insurance becomes a priority, companies often don't understand their exposure.

Gaining understanding can be accomplished by tying euro values to varying types of risk. The challenge is quantifying the potential cost. Companies can brainstorm to gather that information, or can work with a logistics provider that has in-house risk management professionals to help uncover potential liabilities in the supply chain.

Companies can apply subjective probability to calculate possible losses. In other words, they can estimate the chances of a risk event happening and multiply it by the cost if it did happen (see below). Once the euro amount is calculated, the next step is to reduce the expected loss by reducing the probability of the occurrence, or the cost of the occurrence.

Armed with subjective probability estimates, companies can effectively buy the appropriate amount of insurance. While insurance is readily available, it is the responsibility of the shipper or consignee to ensure the coverage purchased best fits their unique exposure.

CALCULATE SUBJECTIVE PROBABILITY:

1%	x	€1M	=	€10K
probability of an event		in cargo value		potential loss

Best practices for cargo risk management

- ☐ Buy the appropriate amount of marine cargo insurance for ocean or air shipments.
- ☐ Ensure the valuation clause for a given shipment defines the maximum amount an insurance company will pay for a loss. Most valuation clauses include the commercial invoice value and any prepaid charges associated with the shipment, such as freight, customs clearance, or duty. This clause can be modified to include other charges or profit margin—if requested and approved by underwriters.
- ☐ Choose an insurance intermediary with experience or specific training in international logistics and transportation insurance.

6 J. Paul Dittmann, PhD, "Managing Risk in the Global Supply Chain," A Report by the Supply Chain Management Faculty at the University of Tennessee, Summer 2014.

CUSTOMS MANAGEMENT

What it is

Most companies choose their customs broker for the long term. That's because the customs broker must truly understand the company and its products. They must also know how to navigate each country's compliance requirements with their own specific set of customs rules, governmental regulations, VAT, duty rate calculations, and payment plans.

Why it's important

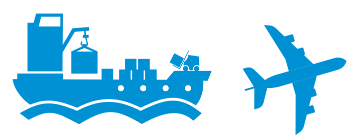
Even simple mistakes, such as an incorrect spelling on a declaration, can result in fines, penalties, or even cargo seizure. What's more, a customs audit could happen to any European importer–especially those classified as top 5,000 importers. If and when a company is audited, an expert in customs can help.

Incoterms®

Incoterms®, or International Commercial Terms, are published by the International Chamber of Commerce. They are the rules that define the responsibilities of sellers and buyers for the delivery of goods under sales contracts, and they establish where the transfer of risk takes place. However, they vary from situation to situation. Knowing the rules that apply to your freight can save you money if you know what to look for.

For example, consider the case of a container being moved across the ocean from Houston to Hamburg that falls overboard. In this situation, who is at risk? The Incoterms® tell the story. If the European buyer purchased the product FOB (free on board), the importer took responsibility for the risk as soon as that freight was loaded onto the vessel in Houston. If that same product were purchased DDP (delivered duty paid), the shipper would be responsible until the product reached the purchaser's door in Hamburg.

FOB: IMPORTER
responsible for risk.



DDP: SHIPPER
responsible for risk.

Free trade agreements

The European Union has free trade agreements with approximately 60 countries outside the European Union. Some of these countries are significant export and import markets for European companies. The European Union is in the process of negotiating free trade agreements with even more important markets, such as the U.S. and Japan. EU free trade agreements either completely abolish duties or significantly reduce duties on goods. However, a European company does not automatically avoid paying duties when the company exports goods or imports goods from a country with which the EU has a free trade agreement. A few conditions have to be fulfilled in order to get the duty savings which the free trade agreements entail. Fulfilling these conditions will enable you to substantially reduce your duty costs.

The below-mentioned four conditions must all be met in order for the importing country not to charge normal (MFN) customs duty rates:

1. The goods must be included in the EU free trade agreement. Normally, almost all goods are included in the EU's more recent free trade agreements.

2. The goods must have origin in the EU or the partner country, i.e. the main part of the goods must be produced either in the EU or in the country with which the EU has a free trade agreement (termed the partner country).

3. The goods must be accompanied by documentation of origin.

4. The goods must be transported directly between the EU and the partner country. However, the goods can also be shipped in transit via a third country or in certain circumstances be stored in a third country under customs control.

Best practices in customs management

- Buyers are not transportation and compliance professionals who understand Incoterms®—they choose suppliers based on favorable pricing. Firms can establish internal structures or education to help buyers understand how Incoterms® impact risk management and pricing.

- Rely on a customs professional to leverage Customs data. They can combine a company's unwieldy historical shipping data into usable trade reports to help organisations learn whether they are taking proper advantage of free trade agreements around the world.

- The European Union has free trade agreements with 60 countries outside Europe. Companies have to meet requirements to save on duties.

GLOBAL TECHNOLOGY CAN TIE IT ALL TOGETHER

As companies large and small continue to expand internationally, they can no longer afford to single-handedly manage the countless details and nuances of global freight forwarding. Shortened lead times, the use of multiple transportation modes and carriers to deliver product efficiently across continents, and an environment fraught with risk requires both worldwide and regional management of cargo flows.

Many companies rely on a transportation management system (TMS), hoping to keep their fingers on the pulse of their global supply chain providers. However, TMS products were developed initially to track domestic or regional truck shipments and to automate tedious, low-value processes performed by an enterprise's transportation staff. Today, few TMSs can enable global visibility to every shipment, or can interconnect disparate systems on multiple continents to provide the level of visibility to show where products are at any given point in time.

A truly global supply chain network has a single TMS architecture that spans all continents. Global visibility enables an organisation to clearly see its entire supply chain. Utilisation reports for multiple services and modes (air, ocean, rail, and road) on all continents confers specific strategic advantages:

- Continuous improvement to supply chain logistics in real time
- Access to business intelligence, crossing all freight and spend categories to strategically understand the impact of decisions
- Access to a centralised network of multiple providers–without integrating individually with each provider

Organisations can work with a logistics provider that offers a full suite of services, manages service performance, consistently communicates performance metrics, and offers strategic optimisation to gain distinct advantages in their marketplace.

A case in point: purchase order management

- Purchase order management (POM) within a TMS delivers end to end visibility throughout the purchase order (PO) life cycle. POM enables the company or its provider to manage shipment windows, work with overseas vendors to coordinate bookings, manage exceptions, collect and distribute documents, and provide reporting at the shipment and PO/line item level.

- POM options include PO tracking and visibility, reporting, online booking, document management, check and verification process, vendor self-service, vendor management, exception management, and PO and shipment analytics.

5 Questions to Ask a Potential Global Freight Forwarder

IS THE TMS TRULY GLOBAL?

There should be one system architecture that works across regions and covers all types of transportation.

CAN THEY PROVIDE CAPACITY OPTIONS?

They should ship goods by ocean, air, rail, and land, choosing the option that best aligns with the business need. Ask about their consolidator programs to optimise spend, routings, and transit time performance.

DO YOU HAVE “BOOTS ON THE GROUND” IN KEY GEOGRAPHIC REGIONS?

Your global freight forwarder should think globally, act locally. That is, they should know global transportation, but also have deep knowledge of the local population, infrastructure, languages, politics, economy, customs, currencies, tax laws, and tariffs for each country your shipping routes touch.

CAN THEY HELP ASSESS CARGO RISK?

They must adequately assess and mitigate cargo risk to help the company protect the bottom line.

DO THEY OFFER CUSTOMS ADVICE?

They should leverage customs information and programs to the company’s advantage.

ABOUT US

At C.H. Robinson, we see things differently. We believe in accelerating global trade to drive the world's economy. Using the strengths of our people, processes, and technology, we help our customers work smarter, not harder. As one of the world's largest third party logistics providers (3PL), we provide a broad portfolio of logistics services, fresh produce sourcing, and managed services through our global network. In addition, the company, our Foundation, and our employees contribute annually to a variety of organisations.

For more information, resources, and our blogs,
visit www.chrobinson.com

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