

One Team, One Goal

By John D. Goodrich
November, 2017

Dear John,

I've been working with my procurement teammates to collect trade data from suppliers, but with mixed results. A few of them understand that they have more influence with our vendors and are better positioned at the front end of the supply chain to get responses than I am. They have been supportive in communicating with suppliers to ensure we collect the needed information.

Most of my buyers, however, do not understand the critical role these trade data play on the back end of the supply chain. Even after explaining the importance of country of origin, free trade origination and detailed product, I still get pushback and stonewalling from this group.

And now we are under a NAFTA verification audit from Canadian customs. Even with this urgency, my colleagues seem not to understand how their lack of support puts us at risk of failing this audit.

I am at my wit's end and could use your advice. Have you written any articles on soliciting trade data and how it impacts the requirement of free trade agreements, duty preference programs and other special tariff provisions?

Thanks in advance,
Am Not Defeated... Yet

Dear Andy;

I empathize with your situation. No, I have not written an article as you describe above, until now. Thanks for the great idea.

First, however, let's agree on what we mean by the term trade data. Trade data refers to information necessary for moving goods across international borders. That covers a broad range of business information such as valuation, buyer name, seller name, product description and selling price. Much of these data elements are readily available within our ERP systems but not all. Two of the fundamental data elements needed for crossing international borders are country of origin and classification. Unless you have the cooperation of your suppliers, however, you will not know the country of origin of their goods. You might also be missing product specifications critical to assigning harmonized codes to their goods and materials.

Closely related to country of origin is origination under free trade agreements and duty preference programs such as NAFTA, DR-CAFTA or the Generalized System of Preferences. Whether or not a good qualifies under the arcane rules of these programs is never something that can be assumed. It is only information that you can obtain from the producer of that good. The regulations also require you to maintain an audit trail, meaning the information you receive from the producers must be in writing and often in a specific format.

As you have so eloquently stated in your letter, your procurement staff have the closest relationships with your suppliers and are best situated to request and obtain this information from them. After all, they are already obtaining quotes and product specifications from the vendor base. It only makes sense that they obtain a few more data points from them.

Failing to cooperate with you only causes costly delays at the borders and may preclude you from taking advantage of duty savings under trade agreements and other special duty programs. As an example, a typical duty rate in Canada is 6%. Without being able to substantiate NAFTA, your customers in Canada would find goods to be 6% more expensive than a competitor's goods that qualify under the agreement. That would not be a good thing for a company's long-term prospects in that market.

What you describe is a supply chain that is out of sync, at least with trade compliance. Your procurement colleagues appear to be taking a narrow view of their responsibilities. It seems they are focused solely on the mechanics of procuring the best quality goods and materials, in the optimum quantities at the lowest prices. Of course that is a core procurement responsibility. Their real job, however, is to contribute to your company's goals of optimizing profit margin while remaining cost competitive. That requires a more holistic and strategic view of the supply chain including the role trade compliance and trade data play in it.

A strategic view of the supply chain, for example, might prompt your buyers to pay a little more for a NAFTA originating material as a means of ensuring that the company's manufactured goods also originate and benefit from the duty savings under the agreement.

How do companies synchronize their supply chains with trade compliance to ensure that employees at all levels are taking a big-picture, strategic approach?

One-team-one-goal approach

Best practice companies tie job performance to a single corporate performance measurement. One company, with which I am familiar, measures the speed and cost of delivering a carton of their product onto a retailer's shelf. They measure all costs, even if some of them are the responsibility of the customer. Taking this approach incentivizes employees to identify cost savings at each step in the business, not just within their own. Under such inhibits them from shifting costs and responsibilities to another part of the company.

This approach can extend to supply chain partners. Some companies measure their vendor's performance including cooperation with data requests.

The one-team-one-goal approach does not come easily. It requires management to be supportive and to hold team members accountable for their actions. It also requires team members to step up and to continue to teach their colleagues about how their actions, or lack thereof, may result in consequences elsewhere in the business.

Regulatory imperative approach

When it comes to trade compliance, some things are not optional. If you are going to reap the benefits of international trade you have to pay the price and be committed to playing by the rules. This includes collecting and storing trade data as efficiently and effectively as possibly.

Somehow this does not seem to be an issue for companies when addressing other regulatory matters such as those relating to tax, worker safety or financial controls. Employees across the company have internalized these rules and do not quibble about taking personal responsibility for

them. Best practices companies hold trade compliance to the same standard and assign responsibility for supporting these regulations across the company, not to a single individual or department.

Systemic approach

Much of the above seems fine and dandy at an academic level, but let's face it. We all have too much work to do and too little time with which to do it. Successful companies understand that it can be expedient for employees to cut corners when they are pressed for time. That is why companies implement ERP systems that prevent this from happening.

One of the most common and effective controls is to delay activating a part number or SKU and preventing it from being purchased, manufactured or sold until all product specifications are entered into the system and approved by all appropriate departments in the company. Under such a scenario trade compliance would classify a good before it is available in the system for purchase or for sale.

This process works well even for company's whose ERP systems may not be robust enough to store all trade data. Trade Compliance and other departments can still exercise authority to activate SKUs.

Some companies take a similar approach to vendor management. Departments throughout the company are granted authority to activate a vendor, issue commercial penalties or even suspend them based on whether or not they are responsive to the company's needs.

Tail wagging the dog approach

Andy, what you have described in your company is the tail wagging the dog approach, which is NOT a best practice. Because your supply chain is out of sync, you are put in the unenviable position of having to argue your case to try to get the rest of the company to adopt common and best practices. As the tail (sorry) you have identified the need for more disciplined trade data collection along with the obvious, practical and common solution of having your procurement teammates run point on collecting that information. Unfortunately tails often get stepped on.

As you state, you are not defeated yet. From the above you have likely gleaned a few steps you might take to improve the situation. You might also consider the following:

1. Listen up. I appreciate that you have identified the issue and a reasonable solution. Listen carefully to your procurement colleague's and read between the lines of their resistance. Are they really being the curmudgeonly sticks in the mud you claim or is there possibly a compromise solution?
2. Manage up. Ask your direct manager for assistance. It is not a reasonable expectation that you can single-handedly change organizational behaviour. It is also not reasonable for you to give work instruction to colleagues who are not in your chain of command. If your boss won't help, move up the organization until you get the support you need.
3. Manage out. Enlist the support of other departments who may be adversely affected by the lack of complete trade data. For example, your sales department may be unhappy to learn that you are suspending participation in NAFTA because of a lack of support from your procurement colleagues.

4. Hold formal and regular training sessions. There is usually a lot of turnover in purchasing positions. You can't give up on delivering the same old message over and over.
5. Benchmark best practices outside of your company. If you can demonstrate that a competitor in your industry is getting a leg up on your company, that might be just the incentive needed to move things forward in your company.
6. Take the carrot vs. stick approach and consider turning this into a competition with a gift certificate for the buyer that gets the best cooperation. Everybody gets a \$10 Starbucks gift card for a reasonable effort. Those that fail to participate get a private meeting with the COO.
7. Engage human resources and advise them that you are being asked to perform a job without being provided the proper tools and support. Careful with this one. Never start a fight you aren't willing to finish.
8. Keep up the good fight and celebrate the small wins. It can be frustrating when we encounter resistance from colleagues. Be patient with them and with the process. If you are the persistent trade compliance professional I know you are, you have already made effective changes and you will eventually gain the cooperation you are seeking.

Best of luck to you.
John G.