

FIVE THINGS THAT EVERY COMPANY NEEDS TO KNOW ABOUT IMPORTING

THE MERCADO INSTITUTE OF
INTERNATIONAL TRADE

OCTOBER 23, 2019

mercado



6-INSTALLMENT WEBINAR SERIES: OBJECTIVE

- Help importers and their supply chain partners to be more competitive in their trade endeavors
 - Heighten ***awareness*** of the strategic, tactical and financial considerations inherent to the import process
 - Broaden ***perspective*** on the multi-functional and multi-player nature of importing



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- **11/6/19: Plan: The Role of Demand Planning in Import Supply Chains**
- **11/20/19: Buy: Essential Clauses to Include in Your International Purchase Agreement and Purchase Order**
- **12/4/19: Bonus Webinar: Incoterms® 2020 Rules**
- **12/18/19: Move: The ABC's of International Shipping & Customs Compliance**
- **1/8/20: Buy & Move: Five Ways to Reduce Import Costs**

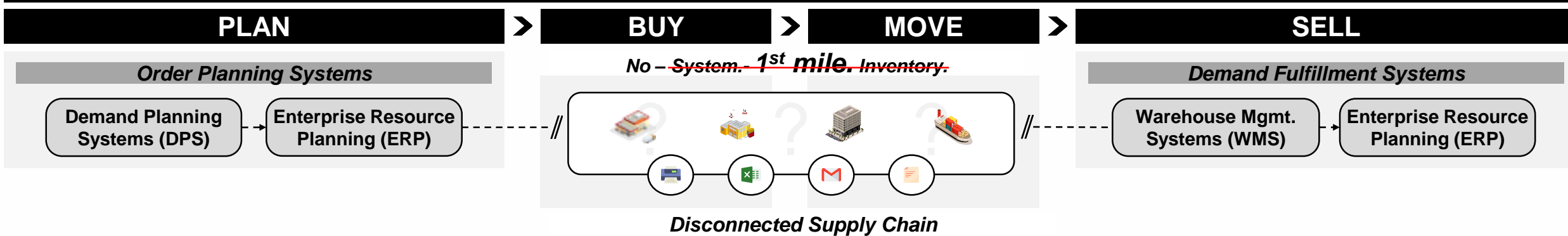
TODAY'S AGENDA

- Introduction to Mercado Labs
- Five key (functional) areas of import supply chains
- Five things (and a few more 😊) that every company needs to know about the import supply chain
 - Plan
 - Buy
 - Move
 - Sell
 - Compliance



THE MISSING LINK IN YOUR GLOBAL SUPPLY CHAIN

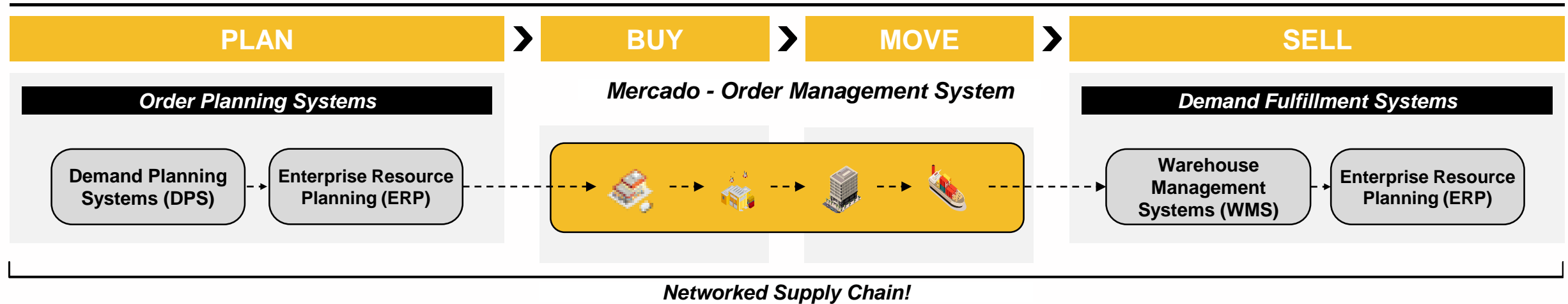
CURRENT STATE – Importers have systems to plan and sell products, however no system to manage product supply.



Digitize your First Mile, Transform your Global Supply Chain

BRING ORDER TO YOUR IMPORTS

MERCADO PLATFORM -



Affordable. Easy to Implement. Easy to Use.

TRANSFORM YOUR GLOBAL SUPPLY CHAIN



- Who needs Mercado?
 - Importers and your supply chain ecosystem
- Why do you need Mercado?
 - Increase sales
 - Decrease landed cost
 - Compress cumulative lead-time
 - Optimize inventory levels



A QUICK CLARIFICATION



- Sourcing is a strategic function that establishes the policies and tactics for finding, evaluating, selecting, and negotiating with suppliers
- Purchasing is more operational in that it focuses on the acquisition of raw materials, work in process and/or finished goods to meet forecasted or actual demand
- Both are part of the Plan and Buy functions of import supply chains



FIVE THINGS TO KNOW ABOUT IMPORT SUPPLY CHAINS: SOURCING (PLAN)

- A key part of Sourcing is the negotiation of unit price with the overseas supplier (e.g. men's all cotton white t-shirts made in the Dominican Republic)
- In many cases, importers focus on unit price (cost for an item at the factory) vs. landed cost
- **Landed cost is the total expense associated with purchasing a product and getting it to its distribution point in the U.S. (1)**
 - Unit price
 - Transportation (pro-rated)
 - Customs duties, taxes, and fees



FIVE THINGS TO KNOW ABOUT IMPORT SUPPLY CHAINS: SOURCING (PLAN)

- A product's landed cost drives resale price, gross profit, and gross margin
- Calculating an item's true landed cost is not as easy as it might sound
 - Different unit of measure for different aspects of the import process (dollars, cubic meters, percentages, et al.)
 - The need to pro-rate transportation expense on an item-specific basis
 - Lack of detailed information



FIVE THINGS TO KNOW ABOUT IMPORT SUPPLY CHAINS: SOURCING (PLAN)

- One best practice for determining landed cost is to have a clear understanding of the Incoterms® Rule between the vendor and the importer
- Another best practice is to create and maintain a “Product Master” file that lists all details associated with every imported item
 - Product description
 - Vendor(s) and country of origin
 - Current unit price and currency
 - HTS number
 - Carton dims, weight & master pack quantity



FIVE THINGS TO KNOW ABOUT IMPORT SUPPLY CHAINS: PURCHASING (BUY)

- Purchasing is responsible for fulfilling inventory needs per a forecast or actual demand
- At an operational level, it is the **purchase order that drives the entire import process (2)**
 - Consider it the “Genesis Document”
- The placing of purchase orders throughout a budget year is all about quantities and timing
- The time that transpires from the moment a P.O. is placed until goods are received is known as **“Cumulative Lead Time”**



FIVE THINGS TO KNOW ABOUT IMPORT SUPPLY CHAINS: PURCHASING (BUY)

- Virtually every document and all subsequent operational activities are based on the quality of information found in the P.O. (“Documentation Trail”)
 - Commercial invoice & packing list
 - Forwarder’s Cargo Receipt
 - Importer Security Filing (ISF)
 - Bill of lading or airway bill
 - Advance Ship Notice
 - Customs entry



FIVE THINGS TO KNOW ABOUT IMPORT SUPPLY CHAINS: PURCHASING (BUY)

- Fields in a well prepared P.O. must include:
 - Full name(s) vendor & importer
 - Product description (consistent with HTS verbiage)
 - Quantities and unit of measure
 - Unit price and currency
 - Discounts
 - Incoterms® Rule
 - Payment terms
 - Last cancellation date
 - Last ship date



FIVE THINGS TO KNOW ABOUT IMPORT SUPPLY CHAINS: TRADE FINANCE (BUY)

- For importers, trade finance deals with the payment terms between the supplier and importer
- In order to best negotiate payment terms with a vendor, it's important to understand the vendor's production model
 - Build to Stock
 - Build to Order
- In Asia, **the majority of vendors sell on a Build to Order basis (3)**



FIVE THINGS TO KNOW ABOUT IMPORT SUPPLY CHAINS: TRADE FINANCE (BUY)

- This means the vendor carries no inventory and won't lift a finger until they receive a P.O. and a down payment
 - That's the part that importers must negotiate
- Vendors use the down payment to go out and get raw materials to produce the importer's goods
- When goods are produced and delivered to a forwarder, a key document in the "Documentation Trail" is the Forwarder's Cargo Receipt (FCR)



FIVE THINGS TO KNOW ABOUT IMPORT SUPPLY CHAINS: TRADE FINANCE (BUY)



- Depending on the negotiation of terms and the size of the PO, the FCR can serve as a trigger for payment
 - Once goods are received at origin by the forwarder or at a carrier’s “CY” (Container Yard)
- At this point, the importer’s relationship with the origin forwarder is very important because they’re the one issuing the FCR (themselves or through the ocean carrier)



FIVE THINGS TO KNOW ABOUT IMPORT SUPPLY CHAINS: INBOUND LOGISTICS (MOVE)

- Depending on the country of origin, inbound logistics can consist of air freight, ocean freight, truck, rail, or a combination thereof (intermodal)
- Apart from getting goods where they need to go, inbound logistics impacts two very important supply chain variables
 - Landed Cost
 - Cumulative Lead Time



FIVE THINGS TO KNOW ABOUT IMPORT SUPPLY CHAINS: INBOUND LOGISTICS (MOVE)

- For purposes of inbound shipping, the division of costs between the vendor and the U.S. importer is determined by the chosen Incoterms® Rule
- Many importers prefer Incoterms that make them responsible for inbound transportation (EXW, FCA, FOB)
 - Control and direct access to cost information



FIVE THINGS TO KNOW ABOUT IMPORT SUPPLY CHAINS: INBOUND LOGISTICS (MOVE)

- Inbound logistics represents a significant percentage of Cumulative Lead Time
- ***It is impossible to time the placement of PO's without exact knowledge of transportation lead times (4)***
- Importers must work closely with their vendors, ocean carriers, freight forwarders, and customs brokers to ascertain transportation lead times



FIVE THINGS TO KNOW ABOUT IMPORT SUPPLY CHAINS: CUSTOMS COMPLIANCE (MOVE)

- At an operational level, “Customs Compliance” deals with the preparation and presentation of required information to U.S. CBP
 - Importer Security Filing
 - Customs Entries
- The preparation of an entry determines the amount of duties, MPF, and HMF payable
 - Duties, Merchandise Processing Fee, and Harbor Maintenance Fees can represent a significant percentage of overall Landed Cost



FIVE THINGS TO KNOW ABOUT IMPORT SUPPLY CHAINS: CUSTOMS COMPLIANCE (MOVE)

- **Compliance requirements and duties owed are driven (mainly) by three things (5)**
 - **Classification of the product**
 - **Value of the goods**
 - **Country of origin of the goods**
- The accuracy of an entry is driven by the information found on three documents
 - Commercial invoice, packing list, and the transport document (ocean bill of lading, airway bill, etc.)



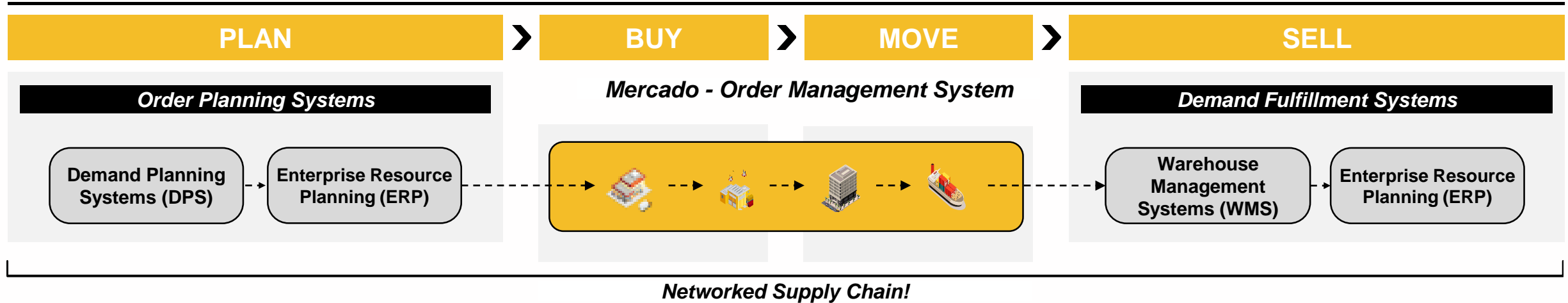
PLAN. BUY. MOVE. **SELL.** TYING IT ALL TOGETHER WITH SALES & OPERATIONS PLANNING (S&OP)

- Tactically, a great deal of supply chain management deals with making adjustments between forecasted sales and actual demand
 - Adjusting to **variances** between what we predicted was going to happen and what's really going on in the marketplace
- Sales & Operations Planning (S&OP) is an ongoing business activity across all supply chain functions that identifies and accounts for variances in a sales forecast



TYING IT ALL TOGETHER WITH S&OP

MERCADO PLATFORM -



Affordable. Easy to Implement. Easy to Use.

SALES & OPERATIONS PLANNING: OBJECTIVES & OUTCOMES



- Enhanced sensitivity to demand signals
- More accurate forecasts
 - Demand-based adjustments
- Faster response to purchasing adjustments
 - Ability to make changes “on the fly”



SALES & OPERATIONS PLANNING: OBJECTIVES & OUTCOMES



- Increase sales
 - Existing products
 - New product launches
- Greater control over product-specific landed costs and profit margins
- Tighter inventory management
 - No lost sales
 - Minimal obsolete inventory



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THANK YOU!



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