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**Blinco Systems Inc.**

Creating Value From  
**Global Commerce Management**  
People, Process and Enablers

*A 3rdwave White Paper*

[www.blinco.com](http://www.blinco.com)





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## EXECUTIVE SUMMARY

The information isn't new: the world is globalizing at an incredible rate. Companies are going global because the risk of not doing so greatly outweighs the comfort that staying domestic brings. According to a WTO report issued in October 2004, "Despite the rise in oil prices the volume of world trade is likely to grow by 8.5% in real terms by the end of 2004." The liberalization of trade, the reduction of tariffs, the elimination of quotas, the continued rise in China as an industrial force, the rise in outsourcing as a cost reduction opportunity, all create an environment that is full of opportunity and fraught with hazards.

Those companies that manage their global commerce opportunities strategically and efficiently will be the winners in the global economy. The global environment is much less forgiving than its domestic counterpart. Being adaptive to changes in the economic, political, social and security environments is critical for survival in an increasingly competitive global environment.

The ability to effectively manage global commerce will be a key strategic competitive differentiator. Global Commerce Management ("GCM") is what is required by companies to win in this tougher, more competitive environment.

GCM is the ability to manage both Asset and Non-asset-based manufacturing, sourcing and distribution across international boundaries to meet the demand requirements of an organization's customers.

"You shortchange yourself as a company if you fail to incorporate global trade information across the enterprise."  
Adrian Gonzales – ARC Advisory Group, May 2003

"Enterprises were particularly challenged to identify and qualify foreign sources, collaborate with offshore suppliers, and formalize sourcing strategies across sites and geographies. The study also suggests that companies do not have sufficient information and tools to calculate and manage landed costs effectively."

*Balancing Supply Cost, Performance, and Risks in an Uncertain Economy*  
The Global Sourcing Benchmark Report June 2003

The world of global commerce is inherently many times more complex than domestic business. Creating an effective and efficient corporate global commerce capability blends the "right" people, process and enablers to support the synchronization of activities at every level of the supply network. Easily said; this is highly difficult to execute well.

GCM requires the ability to manage complex supply chain networks across multiple geographies, locations and logistics modes. To be effective, GCM requires that people,

processes, and enablers work in harmony to overcome constraints imposed by disparate political regimes, cultural barriers, time zone differences, extended physical locations, customs and security concerns, foreign currencies, and multiple modes of transportation. To be successful in the global economy requires a highly integrated and synchronized supporting information and transaction environment. Mismanaging any one of the processes or constraints results in sub-optimized organizational performance, financial objectives and returns to stakeholders. Excelling in the global economy delivers exceptional operational and financial returns and competitive advantage.

GCM is the paradigm for achieving superior results in supply chain execution that supports the organization's strategic goals. GCM is not new – although many companies, just beginning to play seriously in the global economy may find the process new and challenging. As the world globalizes, the ability to manage the global environment effectively and efficiently is a powerful competitive advantage.

## GLOBAL COMMERCE MANAGEMENT (GCM)

GCM is a new paradigm for managing the complex global product environment. It acknowledges that there are three concurrent supply chains that operate in parallel: the physical, the financial and the informational. Each supply chain must be managed effectively in order for the organization to optimize the placement of product across its global supply chain to meet demand while taking into account the multiplicity of supply side factors. GCM provides the environment that integrates people and processes, synchronizes information so that it is available on demand by all authorized users, creates visibility, and supports operating and financial execution.

To unlock the incredible competitive advantages hidden in the global trading environment requires an understanding of and appreciation for its inherent complexities. It requires an understanding of how all the links in the supply chain fit together. GCM is the solution that provides the framework for the integration and synchronization of the information and supporting business rules. The links that must be managed in a GCM environment include:

- Global Sourcing
  - Supplier Management – supplier capacity, risk and compliance assessment, and management.
  - Product Lifecycle Management – from product design through trial/sampling approval.
  - Request for Quotation Management – managing the quote – managing response activities, calculating estimated landed costs for purchase support, insuring compliance from authorized suppliers and service providers.
  - Purchase Management – the ability to create purchase orders or inherit them from corporate legacy or ERP systems, enhance them for global commerce, and insure supplier production compliance against critical production milestones.
- Global Logistics
  - Shipment Planning – organizing and planning shipments against purchase orders for either imports or exports, multiple purchase order consolidation.
  - Shipment Execution – management of the booking process with carriers, 3PLs, freight forwarders and the tracking of shipment milestones against critical shipment dates.
  - Import Management – tracking shipments through customs process, management of documentation to insure customs compliance, support for filing directly with customs or through customs brokers, and the ability to meet all regulatory import requirements.
  - Export Management – the management of carrier contracts, carrier bookings, documentation management, execution, compliance, and filing with all regulatory agencies both domestically and internationally.
  - Warehouse Receipt control – visibility into and control over inbound shipments to owned and 3<sup>rd</sup> party warehouse facilities.
- Global Product Management
  - Inventory Control – management of inventory in all warehouses across the organization’s global distribution network.

- Product Management – visibility into product status at every level of the supply chain, internal and external, owned and consigned. Includes all product in-transit, products on order, work in process, raw materials and components, waste and scrap.
- Global Financial Management
  - Cash Planning – flexibility to manage Letters of Credit, prepayments, wire transfers, term payments.
  - Payment Control – the capability to effectively triple match expected financial obligations with actual payment demands.
  - Landed Cost management – full visibility into real profitability and cost analysis against all suppliers and service providers in the global supply chain.

To execute an effective GCM program requires empowering the organization's suppliers, service providers and employees responsible for seemingly separate activities, with the ability to execute their responsibilities in a planned and predictable manner. GCM's foundation is the information enablers that provide integrated and synchronized information on-demand in user-friendly formats.

The achievables of a comprehensive GCM solution are to:

1. Remove raw material, work in process, and finished product from the entire supply chain.
2. Make optimum purchasing decisions based on accurate total delivered cost management, supplier and service provider service level capabilities, legislative and commercial compliance constraints.
3. Reduce General and Administrative expenses due to increased efficiencies across the entire global sourcing and logistics pipeline.

This article provides a framework for achieving effective GCM. It will outline what is required to build a successful GCM environment. The paper presents how the critical elements of people, process and enablers are the cornerstones for successful GCM and what the challenges are to building a successful environment.

At the end of the article, we quantify what achievables are possible for companies that successfully implement a comprehensive GCM program. These achievables are not theoretical, they are being delivered today. The end result is a solid GCM solution that supports the people and the processes, both internal and external to the company, that surround global commerce.

The move to globalization is virtually unstoppable. The cost benefits greatly outweigh the risks when GCM is effectively executed. Managing GCM effectively delivers immense strategic competitive advantage. Failure to manage GCM well puts organizations at risk.

## **BUILDING A COMPREHENSIVE GCM CAPABILITY**

The difference between the domestic and global supply chains can be compared to the difference between a simple 50-piece puzzle or one with 1,000 pieces. If all the puzzle pieces do not fit correctly, then the puzzle remains incomplete. Constructing an effective and efficient global supply chain is rooted in

understanding how all the intricate activities and supporting processes fit together.

The complexity of GCM is often unappreciated and underestimated when constructing the supply chain. To use the puzzle analogy, assembling the smaller puzzle can often be figured out without a master picture. However, it is significantly more difficult, frustrating and often unsuccessful to try to construct a large puzzle without a clear idea of what the final picture will look like. Visioning the end result makes it much easier to understand how all the pieces fit together.

The greatest challenges to building a comprehensive GCM strategy are the:

1. Lack of senior management understanding of the global supply chain, scope, complexity, and the enormous financial potential locked within.
2. Skills required by the people to develop and execute a comprehensive GCM strategy.
3. Integration, synchronization and coordination of the underlying collective and individual experiences across all the functional areas of GCM to support the strategic and tactical requirements of global sourcing.

As companies move more deeply into and depend more upon global commerce as a strategic cornerstone of their business, it is essential to have a clear blueprint of what pieces are required and how they are to fit together to complete the global supply chain puzzle. Understanding the people issues and processes of each partner in the global supply chain and how each fits together to create the big picture is important in the optimal design of your supply chain.

GCM is vital to companies that source globally. It requires a strategic vision. Like all strategic initiatives, it requires commitment from senior management and their on-going support. Without support from the top of the organization, the benefits of GCM will be marginal.

### **The People**

The skills required in GCM are often skills that have not been developed within the current structures of the organization. These skills are dependent on experiences, understanding and knowledge of the global commerce environment. In most organizations, these skills have not been essential or cultivated.

The sheer number and complexity of tasks in GCM compared to the domestic environment requires knowledge, appreciation and experience of cultures, regulatory compliance, global logistics, trade terms, foreign exchange, and different payment terms. These skills are required but most often lacking within the organization and very difficult to acquire from without.

Gaining people with the necessary GCM skills is the second greatest challenge that American organizations face in developing a comprehensive GCM capability (second only to senior management commitment). Most American companies have not had the need, until recently, to source globally. They have not built the human resource base and skill-sets required to create and execute a full GCM strategy. This lack of skills is not only at the organizational level but exists at the national level. Because of the explosion of globalization over the past decade, these skills are not only in short supply in America but indeed around the world.

Clearly, companies will play in the global market with or without the requisite skills because it is not an option. The benefits of lower total cost outweigh the risks. Wal-Mart, Dell and Home Depot, with their focus on the consumer and lowest everyday pricing, are constantly pressuring suppliers to lower prices while

maintaining or increasing service levels. In most cases, this translates into the need to source products and services at the lowest price while insuring the highest fulfillment and service levels.

Understanding what constitutes the lowest price and how to achieve it effectively and efficiently, is the challenge that companies clearly face. Without knowing how to achieve total lowest cost, companies will be at a competitive disadvantage. Therefore, companies that employ people with the greatest skills and understanding of the global environment will position themselves to win big in an increasingly competitive world.

The greatest “people” challenge in most organizations start with the lack of appreciation of the financial and strategic value of the global supply chain at the most senior levels. GCM crosses and impacts all functional boundaries of the organization and therefore demands a broader corporate view. Its success depends on the vision, direction and support of C-level management. C-level support is essential not only in supporting the concept of GCM but is critical at the implementation stage to insure that the right resources are in place to deliver the objectives of the GCM program. (For insight into the financial achievables of GCM go to page 16 and 17)

#### **Global Suppliers, Service Providers and Customers:**

The lack of understanding of the cultural and economic environment that divides suppliers and customers is often at the root of most of the problems that exist in building an effective global commerce environment and in supporting global supply chain capabilities.

One of the most critical elements of building effective GCM is having an understanding of and appreciation for the different cultures of their suppliers. Firms must recognize that commercial, personal and professional practices we understand to be the norm are often not the standard in the countries where their suppliers reside. In our somewhat homogenous market, we work within a more structured business environment governed by laws and similar business practices. Yet, misunderstandings and disputes still occur.

In other cultures, business rules, work ethics and financial motivation are often different from what we are familiar with. Owners, managers and workers in Bangladesh have completely different needs and business practices from those in Taiwan, South Africa, Latin America, Europe or the United States. The complexity of human interaction is geometrically more complex in the global commerce environment than in our domestic environment.

*Anecdote: A large American company doing business in a developing country wanted the supplier to provide them with electronic data feeds so that they would be more efficient in processing the incoming information. The information was important, and the timeliness and accuracy was necessary to help them make better business decisions. They approached their supplier and requested that they put in place computers and EDI capability to provide them with this information.*

*The supplier refused, much to chagrin of its American customer. At that time, the hardware, software and associated costs did not*

*provide any significant benefit to the supplier. The customer, whose total benefits far exceeded the costs to implement the technology, could not understand this. The customer felt it was the supplier's obligation to "provide them with better service." The supplier felt the costs were not justified for the benefits it would ultimately bring them.*

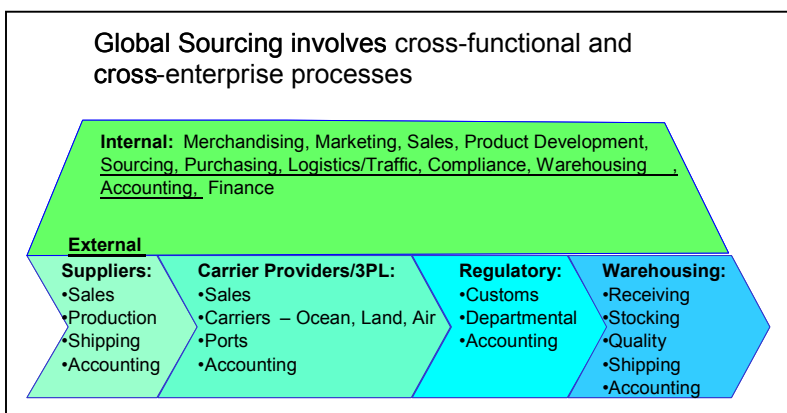
*The result was that the status quo remained in effect. If the customer had understood that the cost/benefit to the supplier wasn't an incentive to implement the solution, it might have been able to come up with a cost effective solution to solve its problem.*

People issues are not systems issues. The opportunities for misunderstanding the intent and meaning of actions and words is magnified by not understanding the influences of origin and culture on the ultimate behavior of the people we deal with. Failure to understand and manage the people issues in the global context, results in friction and reduced effectiveness in achieving the overall global supply chain objectives.

### Internal People Resources:

Building a strong GCM team is a cornerstone to execute effective and profitable global commerce. It is through each individual team player that communications with the global suppliers, service providers and customers takes place. Their ability to understand the business, cultural and ethical environment of their counterparts is important to affecting good-to-great global commerce.

Building a collaborative internal CGM team is critical to successful global commerce. It is the team that creates the ability to capitalize and optimize the global supply chain.



I use the term “team” because the ability to effectively execute global commerce requires all members to work together to execute plans and strategies in a highly complex environment with multiple and highly inter-related processes. Global commerce requires all members have an appreciation for the way their work affects their teammates’ ability to effectively execute their work. The ability to work together and understand the

potential cost of failed execution and how to correct it at any given moment is fundamental to strong global commerce execution.

Global commerce, either sourcing or selling, is a cross-functional team effort. No one individual or group within the global commerce team can be cocooned from its teammates’ activities or its external environment. Activity at one stage of the global commerce process has upstream or downstream results on another. Getting everyone on the team on the same page of the playbook at the same time is critical to smooth

execution. Effective GCM saves or makes the organization money and affects its profitability and, ultimately, determines its value.

A typical global commerce structure often includes three to ten different departments within a company or division: Design, Sourcing, Purchasing, Import Logistics, Customs and Compliance, Domestic Logistics, Distribution Center Receiving, Regulatory Compliance Control (Legal), Accounting and Finance. The size and type of business often determines the structure of the global commerce team. Depending on the size of the organization, jobs within the departments may again be subdivided into specific activities.

Each of the above activities must be executed in global commerce. Each activity impacts the other. Failure at one level of execution has consequences for the successful execution of the whole. Communicating with team members is important in order to minimize mistakes that have significant impact on other constituencies in manufacturing, distribution, sales and finance.

Building the right team is essential to executing good-to-great global commerce execution.

*Reality check: There is lots of talk about team building and collaboration within and outside the organization, but the reality is that very few companies have successfully implemented or executed such a strategy. People, for the most part, are still siloed within their work activities with very little capability to share information with others or view information from others that they need to effectively do their work.*

*Complicating the organizational structure is that most often people or departments within the company are not managed by service levels agreements (SLA) to their related constituencies. The lack of measurable SLAs on internal people and departments results in people not fully understanding or appreciating the importance of their work in relation to others.*

*Team building requires that everyone have access to and the ability to share information. In order to be productive, team players, people need broader visibility of the whole than their current systems provide.*

Due to of the complexity of the global supply chain and vast amounts of information generated around the effective management of a purchase or sale and the logistics' execution, GCM teams must be able to have visibility into what is about to happen or indeed, more importantly, what will not or has not happened as planned. Lack of information to support the work processes impairs effective GCM. Although individual players might not be in proximity to one another, all members of the GCM team — Design, Sourcing, Purchasing, Import Logistics, Customs and Compliance, Domestic Logistics, Finance — must have information in a timely fashion to facilitate their work.

It is the ability to work harmoniously for a common objective that defines the team. The effectiveness of the team is dependent on how well the

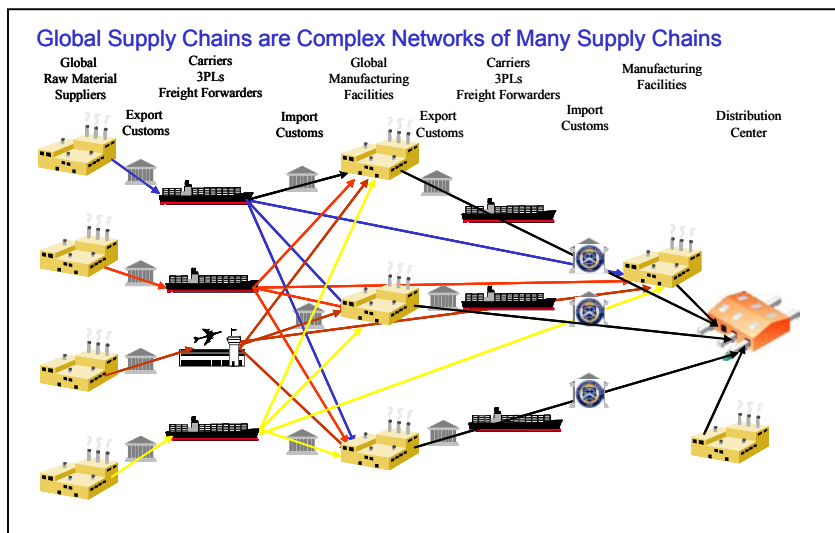
“people” work together to meet the objectives efficiently, at lowest optimal cost and with lowest threshold of organizational dissonance.

## The Process

The global commerce environment is highly complex and requires monitoring and visibility into activities and execution as events occur. Global commerce complexity is not only defined by the number of events that must occur to successfully complete a product’s life cycle from concept and design to final delivery to the manufacturing facility and final consumer. Product life cycle complexity is magnified by the complexity of compliance issues (business, government and environmental), documentation requirements, foreign currency requirements, and logistics.

Layered on top of the functional complexity are the elements of “time” and “distance.” Everything in the GCM space takes longer to happen. The ability to affect change within the environment is proportional to the distance between source and destination. Distance is measured along several dimensions – physical, time and culture. The greater the distance as measured along these dimensions, the less control the organization can bring to bear on events within the supply chain.

The physical supply chain is a well-defined linear space. Everything within it happens sequentially. Handoffs of physical things and supporting documentation and financial flows are clearly defined and measurable. Developed over time, standards have evolved to support the physical flow of goods through the supply chain.



However, a company does not have one supply chain. It has multiple supply chains creating multiple supply chain networks. The supply network can be simple to highly complex. In a simplistic state the supply chain network involves purchasing finished products and moving them to final customer and consumer. In its complex state, supply chain networks involve products moving from raw materials, through component and semi-finished product assembly, to finished products. From each state,

the products move through multiple distribution channels for final delivery to manufacturing facilities, customers and the consumer.

What makes CGM so challenging is the number of events that must be executed and managed. The ability to know what is happening across all supply chain networks and taking action against events that are not executed as planned creates the opportunity for competitive advantage.

s products move through each stage of the global supply chain, there are greater than 25 possible activities that might occur, and upwards of 25 documents that may be required to support each move. Adding to the physical and documentary complexity are numerous regulatory issues that require compliance in both the country of export and import.

*Example: A fully integrated asset-based, high quality apparel manufacturer has come under increasing and potentially life threatening competition from imported lower cost competition. Over the years, it has invested very heavily in its brands which are the source of its competitive advantage. It is not only competing against other brand manufacturers, but has aggressive competition from “no-name” knock-offs and retail house brands. Its products are highly date sensitive and must be sold within narrow windows of opportunity. Because its products are “fashion-driven,” it must be able to respond quickly to the changing preferences in consumer demand. It has multiple seasons for its products, and these are becoming of increasingly shorter duration.*

*The management understands that it is a strategic imperative to move a percentage of its production off-shore, but it wants to insure that it maintains control over the quality of its products from the raw materials state through to delivery of the finished item to the final retail consumer. It has several manufacturing and distribution concerns that it faces as it builds its global sourcing and distribution networks:*

- *It wants to maintain control over the inputs of its raw material sourcing while outsourcing the manufacturing requirements to non-corporate mills around the world.*
- *It needs to insure that the input components, as they move from raw material through fabric development to the cut and sew stage, are closely monitored to insure that they control the outcomes at all stages of the process.*
- *It needs to insure that the design of its “manufacturing” network is flexible and can respond quickly to changes in demand while insuring on-time delivery to its channels. The final network will probably be a hybrid of company-owned and non-asset based, loosely controlled manufacturing and distribution facilities.*
- *The final items must be priced competitively to meet the ever-hostile competitive environment. This requires a new costing model that takes into account the ability to control costs across both the company-owned and non-asset based facilities.*

These are but some of the concerns that it must deal with in creating its new GCM network. Management recognizes that as it creates this new paradigm it must give up some level of control. It also recognizes that giving up manufacturing control means the potential loss of control over the final deliverables to its distribution network. Added to its distribution concerns are its heightened worries that its design and materials could be pirated and counterfeited, creating another source of competition.

So what does management envision for its GCM network? It envisions a highly flexible network of non-asset based and company-owned facilities that are able to respond quickly to the ever-changing needs of its consumer market. It envisions very competitive costs that will optimize, if not maximize, its profitability. It envisions a lean supply chain that substantially reduces total product across the entire distribution network by better positioning supply to meet rapidly changing consumer demand.

It needs to:

- Control the quality all its raw material and components at all levels of the manufacturing and distribution chain.
- Insure that no specially designed and created material and components fall into the hands of counterfeiters.
- Control the manufacturing of its products through its network to meet the demands of its markets around the world.

After much analysis, the management group decides it requires a global network that supports the purchasing of its raw cotton in one of four countries, moving it to textile mills for fabrication in three other possible countries, for furtherance to fabrication facilities, for cut and sew assembly in one of three countries for final distribution to one of 56 countries around the world. At each stage of a product's development the company must monitor the development of the product to insure that it is being manufactured, to company specifications, to meet deadlines for final distribution in its consumer distribution channels.

Most importantly, the management team has decided that in order to meet its over-riding dual criteria of efficient supply chain fulfillment and lowest optimal cost, it requires a delivery network that includes both owned and non-asset-based facilities. It clearly recognizes that in going to this network design, it will lose a significant degree of direct control and needs to put into place mechanisms to manage and control the processes across many geographies, cultures and differing organizational structures. The level of sophistication across the new supply chain network will be extreme - from highly sophisticated raw material suppliers and textile mills to low tech manufacturing facilities. The level of communications will be highly varied, and the network will be required to accept everything from current state XML and EDI messaging to low tech Fax messaging.

Since the management team has opted to control the entire process from raw materials to finished product distribution, it knows it must be efficient in managing its internal and external processes in order to truly optimize the lowest final cost for its products and delivery capabilities within the final distribution geography.

#### **Processes to manage:**

##### **Vendor Selection**

- Geographic location
- Capacity constraints
- Risk assessment – reliability, cost of doing business, security
- Supplier regulatory compliance
- Commercial terms and conditions
- Communications

### **Sourcing**

- Request for Quotation – budgeted total delivered cost
- Specification requirements
- Sampling and testing
- Approval execution

### **Purchasing**

- Ordering
- Shipment planning and scheduling
- Quota and origin compliance – linked to country origin and or final destination
- Estimated total landed cost
- Commercial terms and conditions
- Payment terms and conditions – Letters of Credit, bank transfers, open terms
- Quality control
- Quantity regulatory compliance
- Product compliance
- Documentation control – commercial, regulatory, shipping, insurance.

### **Global Shipping – Import and Export**

- Method of transportation
- Carrier selection – geographic capabilities, capacity constraints, service reliability, cost, transit time
- Carrier contract management – terms and conditions, contract fulfillment, service monitoring (according to SLAs)
- Bills of Lading – Ocean or House Bills of Lading – cargo identification, quantity
- Export documentation control and execution

### **Customs and Regulatory Control**

- Documentation management and submission
- Customs clearance
- Duty and local tax remittance
- Government department regulatory clearance or rejection control
- Duty drawback management and execution

### **Inbound Distribution**

- Arrange carriers from point of entry (POE)
  - To interim distribution facility (deconsolidation point)
    - Receipting
    - Lot control
    - Consolidation and shipment configuration
    - Lading
  - To final distribution or manufacturing point

### **Banking**

- Payment settlement
- Letter of Credit and Wire Transfer control
- Line of credit/Cash planning and execution
- Foreign Currency management

### **Accounting and Finance**

- Invoice auditing and payment
- Cash flow management

- Accounts receivable management
- Total delivered cost management and analysis

In most organizations, these functional areas operate in silos. People and information are not integrated and efficiency and effectiveness are seriously compromised. If proper supporting systems are not in place, the amount of information to manage, and the number of tasks to perform is staggering.

Exhibit 1

<b>Four key factors creating sub-optimal GCM fulfillment</b>	
1	<p><b>Lack of integrated information structure:</b></p> <p>Corporate information systems are often not fully integrated, even when large ERP solutions have been implemented. The disparate IT environment that exists in almost every organization means that integration of information from enablers and point solutions is virtually impossible to achieve and maintain.</p>
2	<p><b>Lack of global data repository:</b></p> <p>Each of the enablers makes the erroneous assumption that the information they capture and provide to the organization will be captured into other corporate legacy or ERP solutions. The corporate systems are generally deficient in their data design to support the capture of all the data elements that surround global negotiations, purchasing, logistics, importing, compliance and costs.</p>
3	<p><b>Lack of information synchronization:</b></p> <p>Most information that people require to affect and or complete their work is not created by them. It is created by other participants executing process and providing the information related to the execution of those tasks. Most often the information is required by several operators and managers across functional departments within and external to the organization. Synchronizing information and making it available in (near) real-time is critical to achieving the benefits that the information and technology enablers profess to deliver.</p> <p>Synchronization of information is vital to allow operators to execute their work functions effectively and eliminate process redundancy. Without synchronization of information across the organization, operators lose effectiveness and efficiency. The benefits of the enablers is diminished because the information needed to support the work, decision-making and processes is not normalized and ready to be shared by all parties.</p>
4	<p><b>Inability to serve information on demand to users across the entire supply chain:</b></p> <p>Information is rapidly becoming the life-blood of any organization. Today, physically moving product through a supply chain is relatively easy. Everyone can get product from point A to Z. Physical and documentary handoffs among supply chain partners are standardized. Managing the physical flow of product is not a significant challenge.</p> <p>Managing the movement of product effectively and efficiently is the challenge. Today, most operators and managers see their world through the lens of information. It is information that reflects the physical world.</p> <p>Getting accurate information on demand is important in insuring supply chain execution and control.</p>

**THE ENABLERS**

Today, there are different enablers that can simplify the complexity of GCM. The enablers have been around for several years and have matured in the functionality and services they provide. However, with all the capability that these current enablers profess to deliver, they have yet to live up to their expected potential.

Current enablers range from services that provide complete outsourced capabilities for non-core global supply chain activities through Lead Logistics Providers (LLP), 4PLs, 3PLs, freight forwarders, customs brokers, agents and combinations of the above.

Other enablers in the form of ASPs provide point solutions for Global Trade Management (GTM) compliance and regulatory control, Global Transportation Management Services (TMS) carrier management, tracking and alert management, Customs Management (Customs clearance and compliance), and



Sourcing (pre-purchase management).

Software enablers can be licensed or subscribed to. The software solutions provide supporting capabilities for internal operators charged with the sourcing, purchasing, logistics, compliance or warehousing functions. These enablers, in turn, have supporting functionality for their specific capabilities. Track and trace with workflow and exception-based alerting, estimated landed cost calculators, global documentation preparation and tracking, and payment terms settlement capabilities (Letters of Credit, wire transfers, etc.).

Clearly, there is a lot of functionality developed and deployed to support global commerce. Yet, has it delivered meaningful value? The answer is almost always “yes” for those companies that have implemented a solution. But the reality is still that the enablers have delivered much less than promised and significantly less than expected. Sub-optimal performance in GCM is a direct result of the inability of most solutions to integrate the processes and information needed into the enterprise applications. The information exists in disparate systems and is rarely, if ever, synchronized and made available in useable formats across the organization.

Failing to address the four factors that lead to sub-optimal GCM (Exhibit 1) results in:

- Lack of sufficient information.
- Lack of normalized information.
- Lack of cross-functional access to and use of information.
- More inaccurate data.
- Sub-optimal supply chain visibility.
- Reduced efficiency.
- Poorer decisions affecting supply.
- Lower customer service.
- Higher total delivered cost.
- Loss of strategic advantage.
- Reduced shareholder value.

The ability to manage the position and flow of product across the global supply chain requires enablers that actively and accurately convey this information to where it is needed, when it is needed and in user-friendly formats.

Exhibit 2

<p><b>The Critical Enabler</b></p> <ol style="list-style-type: none"> <li>1. Gathers and normalizes information from disparate sources in a common global data repository.</li> <li>2. Supports operator's work execution with process flow by serving information where and when it is needed 24/7/365.</li> <li>3. Provides accurate audit trails for all GCM transactions for total product life-cycle tracking.</li> <li>4. Provides 100% global supply chain visibility.</li> <li>5. Supports corporate compliance – global commerce, financial, regulatory, security.</li> </ol> <p><b>Integration + Synchronization + Visibility = Execution</b></p>
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Integration, synchronization, normalized data – these are not new issues. Yet these three issues continue to be the Achilles' heel of most GCM solutions. For decades, the goal for most information systems has been to create an integrated environment where information will be readily accessible to all authorized users when and how they need it. Like the perfect order, the perfect business information system delivers the right information, to the right people, at the right time, at the lowest cost.

Lack of integration, synchronization and normalization of information is the major obstacle to delivering good GCM execution and the significant expected and potential

future results. Focusing on these three key elements as the fulcrum of the solution is critical.

The current enablers, suppliers, government agencies, independent information sources, service providers or point solutions play a crucial role in GCM. However, these disparate enablers rarely integrate to each other or the ERP or legacy systems of their client. Traditional ERP and legacy systems do not provide the common global data repository that supports these critical needs. None provides a complete view of the supply chain and the status of activities that support execution.

The critical enabler for GCM is the application that provides a complete, 360° view of the world (Exhibit 2). The critical GCM enabler is able to gather the information from these disparate sources of information, normalize that information within a common shared global data repository, and serve it to its user community in a meaningful way.

### **THE ACHIEVABLES**

At the beginning of the article, we discussed the achievable that are possible with a great GCM strategy. Below, we discuss what is possible to achieve if the right people, processes and enablers are in place to execute GCM. All three components, people, process and enablers, are critical to achieve even modest results. With the best in class GCM environment in place, exceptional results are possible.

- 1 The removal of raw material, work in process, and finished product from the entire supply chain.

At every stage of a global supply chain there is an opportunity to remove up to 50% of inventory from the chain. This is a bold claim, but one that is possible with the right design of human resources, business process and technology enablers. GCM is about commanding and controlling all participants and activities across the supply chain to insure that there is optimal predictability of action against defined events. It is about having a comprehensive monitoring capability that insures that the thousands of concurrent events that are planned are managed effectively. GCM reduces the possibility of critical events not happening or having advanced notification when schedules cannot be met. GCM reduces or eliminates uncertainty and surprises from unfulfilled supply chain execution.

- 2 Optimum purchasing decisions based on accurate total delivered cost management, supplier and service provider service level capabilities, legislative and commercial compliance constraints.

Global Cost of Goods can be reduced by a marginal 0.5% to a significant 3% of the total delivered cost. Optimizing purchasing decisions requires the ability to have accurate total delivered cost management across the entire supply chain regardless of origin or destination. It requires the ability to manage sourcing by looking at the constraints imposed on the supply and logistics providers by region, transportation mode and lane, and customs duty and VAT charges, time to market, among other factors.



GCM provides the ability to manage the direct sourcing and importing of globally sourced product effectively and efficiently and greatly reducing the costs associated with 3<sup>rd</sup> party whole packaged goods suppliers.

- 3 Reduced General and Administrative expenses due to increased efficiency across the entire global sourcing and logistics pipeline.

Efficient GCM streamlines the processes associated with sourcing and importing products from off-shore. At the margins, efficient GCM provides a highly effective and efficient infrastructure for capturing, processing and serving information in an effective manner. Integrated and synchronized GCM enablers eliminate data redundancy, increase timeliness and accuracy of information, and will reduce meeting requirements across the global sourcing and logistics groups.

Savings of 20% in the sourcing and logistics' groups would be a nominal gain. Companies have achieved 100% to 300% gains in administrative expenses with a comprehensive GCM solution.

*Scenario: A consumer goods company has recently moved a significant percentage of the products it sources off-shore to take advantage of the lower costs of production and labor. It has a combination of company-owned manufacturing facilities and 3<sup>rd</sup> party contractors providing its products. It currently has an ERP system that was designed to support its old paradigm of domestic manufacturing and has augmented this capability by utilizing 3<sup>rd</sup> party ASPs to augment its current import group.*

*In 2004, its revenues were \$1,000,000,000. Its total landed cost of goods into its U.S. distribution facilities was \$680,000,000 (68% - includes 3% 3<sup>rd</sup> party sourcing support costs). The general and administrative expenses to execute the global*

Exhibit 3

<b>Current State</b>	
Revenue	\$1,000,000,000
COGs - domestic	360,000,000
COGs - global	320,000,000
SG&A - domestic	210,000,000
G&A - global	50,000,000
Operating Profit	60,000,000
Inventory – domestic 8X	45,000,000
Inventory – global 4X	80,000,000

*sourcing were \$50,000,000. Of that amount, \$12,500,000 was the cost of administering its global sourcing and logistics program. The company turns its inventory at an industry acceptable 8X per year. However, the 47% of COGs sourced globally turns 4X annually, compared to 8X for its domestically manufactured and sourced products (Exhibit 3).*

*The company's management believes that it can gain benefit by better managing its global suppliers and service providers and reduce its cost of goods through better purchase and global logistics' management tools. Management insists that it cannot reduce the levels of customer service and order fulfillment and, indeed, would like to increase these capabilities.*

*Management strikes a cross-functional task force to examine the opportunities for improving the supply chain.*

*After reviewing its current processes and enablers, the cross functional team believes that it can achieve modest gains in*



operations by streamlining their internal procedures “if” they can get a solution that will support their processes and provide visibility into all aspects of the sourcing and inbound logistics’ functions. They believe that with a synchronized view of product across the global supply chain, they will be able to increase inventory turns by an additional turn (a 25% increase in velocity).

The team also looks at their purchasing and logistics’ procedures and believes that with proper costing tools and control over their suppliers and service providers, they can marginally reduce total delivered costs by 1.0%. With better process support and access to supporting information, the team believes that it can improve productivity in its administration of global sourcing and logistics by 15%. More importantly, the team also believes that with markedly improved visibility and execution control processes, they will be able to look at further improvements in delivered landed cost reductions of 2%-3% on the proportion of global purchases.

The senior management requests that the cross-functional team present a financial impact scenario so that they can effectively evaluate the strategic opportunities that exist for the company in the global environment. The senior managers are concerned with the current percentage of the products that the company sources globally and are looking for an objective way to understand the benefits and risks with a GCM approach.

Running the numbers, the benefits are obvious:

Exhibit 4

<b>Future Achievable State</b>		<b>GCM % Benefit</b>	<b>GCM Value Benefit</b>
Revenue	\$1,000,000,000		
COGs – domestic	360,000,000		
<b>COGs – global</b>	<b>320,000,000</b>	<b>1%</b>	<b>\$ 3,200,000</b>
SG&A – domestic	210,000,000		
G&A – global	37,500,000		
<b>G&amp;A Sourcing and Logistics</b>	<b>12,500,000</b>	<b>15%</b>	<b>1,875,000</b>
Operating Profit	60,000,000		
Inventory – domestic 8X	45,000,000		
<b>Inventory – global 4X</b>	<b>80,000,000</b>	<b>5X = 25%</b>	<b>2,400,000*</b>
<b>% Increase in Operating Profit</b>			<b>12.45%</b>
<b>\$ Increase in Operating Profit</b>			<b>\$7,475,000</b>
Effective Tax Rate – 34.5%			\$2,579,000
<b>\$ Increase in After Tax Profit</b>			<b>\$3,896,000</b>

Exhibit 4 - \* reduction to global inventory of \$16,000,000 - cost of carrying inventory calculated at 15% per year.

The positive impact in operating profit is a dramatic 12.45% when the full effect of these marginal improvements takes place (Exhibit 4). Based on a P/E multiple of 15, the increase to shareholder value is a meaningful \$58,440,000.



From a free cash flow perspective, the results are equally impressive even at a 15% discount hurdle rate – effective discounted free cash flow is \$56,228,000 (Exhibit 5).

Exhibit 5

<b>Financial Impact of GCM Free Cash Flow</b>	<b>Savings Annual Pre-tax</b>	<b>Savings Annual Post-tax – 34.5%</b>	<b>NPV @ 15%</b>	<b>NPV @ 10%</b>
COGS after tax NPV 6 years	\$3,200,000	\$2,096,000	\$6,045,000	\$7,127,000
G&A after tax NPV 6 years	1,875,000	1,288,000	3,733,000	4,399,000
INVENTORY NPV – 6 years	16,000,000	16,000,000	46,450,000	54,725,000
<b>TOTAL BENEFITS – Discounted Cash Flow</b>			<b>\$56,228,000</b>	<b>\$66,251,000</b>

Exhibit 5 – The savings from COGS and G&A components of Cash Flow are taxable at the effective corporate tax rate – assumed to be 34.5%. The cash flow generated from reducing inventory is a capital savings and is not taxable. The savings are phased in over three years.

The benefits of implementing an effective GCM program are impressive and are relatively easy to achieve with the proper supporting technology enablers. Importantly, the benefits from a successful GCM program are achieved strictly from better global commerce management that impact the company’s ability to operate purchasing, logistics, compliance and inventory more effectively and efficiently. Purchasing makes more informed purchasing decisions across the entire supply chain with better total delivered cost capabilities, supported by full compliance management. Logistics is able to make more effective route and carrier selections to enhance on-time delivery to meet demand requirements and thereby drive down inventory across the entire supply chain.

### SUMMARY – Maximizing Organizational Value with GCM

GCM has the potential to deliver enormous value to any company involved in global commerce. The challenges to the organization are fundamentally linked to the company’s ability to build the team of internal people, suppliers and service providers and to manage the processes associated with global commerce. In order to build effective GCM, the company’s senior management must understand its strategic value and support its development and implementation. Failure to have strong senior management support will reduce the chances for successful GCM.

The associated skills needed to effectively execute GCM are a scarce commodity. Aside from the routine skills involved in sourcing, purchasing and logistics, people must have the understanding of the different cultural and business environments of their supply chain partners. The people must understand the complexity of global costs and how they translate into a total delivered cost so that they can optimize their sourcing, purchasing and logistics decisions in support of balanced inventory across the entire global supply network. They must understand the impact that managing a remote, relatively inflexible and lengthy supply chain has on the domestic distribution network. Most importantly, they must appreciate how execution failure at any point in the supply chain impacts the organization. The skills and knowledge will continue to be difficult to attain in the future. The global commerce environment is complex

and is becoming more demanding as governments impose rules and restrictions in response to perceived and real security concerns.

Managing the company's partners and navigating the complex procedures and regulations surrounding GCM requires tools that provide accurate and meaningful visibility into the positioning of goods across the global supply chain.

The way to reduce the risks associated in global commerce is to implement an effective GCM capability to support the people with enablers. These enablers must support the company's business processes and rules, and effectively and efficiently improve the ability of people to execute their responsibilities.

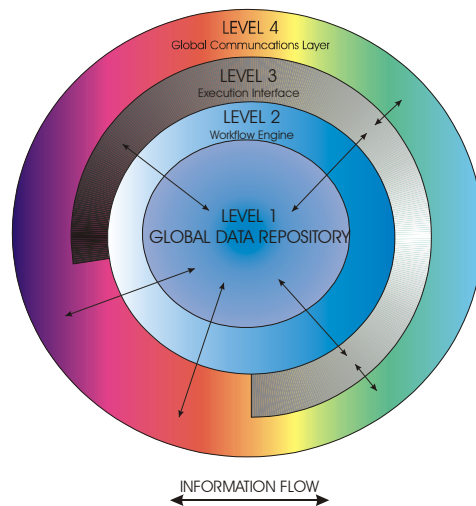
While there are many options for enablers, software solutions and service providers, what is most often missing is the ability to capture, integrate, synchronize and serve the data in a meaningful on-requirement information context in support of the people and the processes.

GCM requires the systems and information enablers that bring together all the elements within the global supply chain and allows the company to manage them effectively. The GCM solution must be integrated, synchronized, responsive and adaptive to deliver the expected benefits. This requires a solution that is designed to capture, normalize and serve data on-demand when, where and how it is needed. Anything less reduces a company's overall GCM capability and the opportunity for strategic operational and financial advantage. Anything less puts the organization at risk of sub-optimizing its performance.

The impact of globalization is increasingly impacting an organization's competitive environment. The ability to execute GCM is not a luxury, it is an imperative. Having a global strategy supported by a comprehensive integrated and synchronized GCM capability will deliver exceptional operational capability and financial value to the organization.

## THE SOLUTION – 3rdwave GCM

3rdwave GCM is a comprehensive Global Commerce Management solution that provides companies with complete execution, visibility and cost management capabilities.



**3rdwave GCM 4-Tier Design**

3rdwave GCM's unique 4-tier design is the only comprehensive integrated execution and workflow solution to fully support global commerce activities:

- Level one is the integrated, synchronized global data repository that captures or generates all required information in support of a global purchase order.
- Level two is the workflow engine that monitors events across the entire global environment and provides alerts and reports on the status of product at each stage of a product's supply-side lifecycle.
- Level three is the fully integrated execution interface that supports operators and managers in carrying out their tasks and responsibilities.



- Level four is the global communication interface that provides for real-time receiving or serving of information to collaborative partners across the entire supply chain.

3rdwave solutions are designed to manage the entire global supply chain, from raw material procurement through final distribution. With 3rdwave GCM, operators, managers and financial officers can be assured of accurate visibility into products, logistics' events, compliance requirements – when and how they environment.

3rdwave is a divisional solution for companies that source products globally and distribute them locally — from anywhere to anywhere. Its unique global data repository captures all relevant product details, in raw or finished state, in various stages of WIP or transformation. Coupled with highly detailed product information, 3rdwave records all logistics information related to international moves across multiple legs and lanes, and provides total visibility when products are in-transit or at rest within its supply chain. 3rdwave GCM also provides a complete audit trail for a product from its origin to its final destination.

It is this ability to easily capture all product and logistics information from source through delivery, from all supply chain participants, store it in the 3rdwave universal database and serve it on-demand that provides the assurance that the supply chain is secure. With collaborative J2EE web services, EDI messaging or old-fashioned, easy-to-use manual entry capabilities, 3rdwave automates the capture of information easily - in real or batch time.

Global sourcing capabilities range from highly sophisticated to very rudimentary. Many overseas suppliers have low production costs and inexpensive labor, and they have not invested in sophisticated electronic data communications solutions. The ability to capture their information manually and efficiently has been engineered into 3rdwave, along with web-based and electronic capture capabilities.

Regardless of the method of information capture, 3rdwave automatically generates accurate and complete user-defined and standard reports, documents and audit trails at the push of a button, and transmits them in any acceptable format for internal and external users. Its unique component-based design supports quick, cost-effective tailoring to add new data fields required against a product or its logistics routings, as the business requires.

The results that 3rdwave clients achieve are:

- 100% visibility of product status across the global supply chain, aggregated by SKU, with drill down capability to specific lot availability.
- Net future positioning of product - time slicing supply and demand requirements into future periods in support of forecasting and planning.
- 100% track and trace of inventory and logistics information across the global supply chain for security monitoring of all participants.
- Event monitoring and exception reporting to insure vendor and service provider execution and compliance.
- Imbedded workflow to insure corrective action for activities in non-compliance.
- Absolute integrity of information required for regulatory filing for any government agency — supports virtually 100% accuracy of filing information.



- Instantaneous generation of filings in a format acceptable to the regulatory department without any increase in manpower.
- The ability to provide suppliers with U.S. Customs and other regulatory agency compliant documentation to meet filing requirements with web-based services or traditional hard copy submissions.
- 100% product origin and logistics' history for compliance audit reporting.

With 3rdwave, importers are virtually assured that all documentation required to meet the strictest government reporting requirements will be met without additional operational cost. Cross-referencing and synchronizing information within 3rdwave assures the highest levels of accuracy in regulatory filings resulting in expediting the clearing goods through customs and other government regulatory agencies.

The direct results our clients have achieved with 3rdwave GCM:

- Reduced total landed cost of goods.
- Increased administrative productivity and control.
- Reduced inventory across the entire global supply chain — a virtual global warehouse (stationary and moving) network with full lot visibility and allocation capabilities.
- Increased accuracy in compliance with Customs and other government regulatory agencies resulting in expedited clearance at point of entry.
- Increased available-to-promise, available-to-ship fill rates (>99.5% has been proven possible).
- Increased customer responsiveness.
- Increased financial control over the global purchase-to-pay cycle.
- Increased Sarbanes-Oxley compliance capability.

Many other features, benefits and results clients have had with 3rdwave are described at [www.blinco.com](http://www.blinco.com).

## **ABOUT BLINCO SYSTEMS INC.**

Since 1988, Blinco Systems Inc. ("BSI") has been a leading developer and solutions provider in Global Commerce Management, synchronized global supply chain execution and consulting services to companies involved in global trade and commerce. BSI's clients range from global sourcing divisions of multi-billion dollar companies to SMEs who participate in global sourcing, purchasing, importing and distribution.

BSI provides 3rdwave GCM solutions that fully support our client's unique business processes. Our solutions insure that our clients execute, manage and control their global environment to deliver the highest levels of available-to-ship/available-to-deliver capabilities at the lowest possible cost and optimal levels of inventory. BSI's consulting services support our clients in their efforts to constantly improve their business processes and gain strategic competitive advantage, reduce costs and increase corporate value.

BSI focuses on successfully developing, delivering and implementing fully integrated solutions that allow our clients to take advantage of their enterprise technology investments and support their ability to totally manage their supply chain and focus on their core competencies.