

Retail Client

International Logistics and Customs

- **Ian Simmonds**
- **12th April 2018**



Client

- International home improvement company with retail stores in 10 countries.
- Combining and centralising global functions and local Operating Companies.
 - Centralising International Logistics and Customs activities.



Strategy

1. AEO

- Use AEO to audit Operating Companies.
- Standardise processes and share 'best practise' across Operating Companies.
- Apply for AEO status for customs simplification (AEOC) and AEO status for security and safety (AEOS).

2. Cost-Effective Logistics

- Map current logistics network for Operating Companies.
- Work with Sourcing teams to map the unified sourced ranges by supplier, manufacturer and location.
- Design new logistics network to optimise shipping volumes for new unified sourced ranges, demand planning, routes and combined Client shipping volumes.
- Develop solutions at origin, such as consolidation and pre-retail services (packaging).
- Remove redundancies.



Strategy

3. Shipping

- Review 2017 shipping activity
- Review 2018 - 2019 business requirements
- Estimate potential volumes 2018 - 2019
- Review market trends and rate movements
- Review Ocean Carrier Financials
- Negotiate the combined shipping volumes 2018 - 2019 for all Operating Companies.

4. BREXIT

- Do not yet have clear direction from government agencies.
- AEO for UK to avoid HM Customs clearance delays at UK ports.
- Direct or indirect shipping with possible use of 'Triangulation'.
- Intrastat – New purchase tax arrangements for UK / EU import/export.



Compliance Challenges

- Challenges come from centralising the purchasing processes for both products and services.
 - Both Customs and Tax authorities will view Client's companies as 'Related'.
 - The arm's length principle endorsed by the Organisation for Economic Cooperation and Development will apply.
 - Buying Offices overseas – Buying Agency Agreements or Transfer Pricing.
 - Buying and selling products and services between Operating Companies - Buying Agency Agreements or Transfer Pricing.
 - Buying Agency Agreements and/or Transfer Pricing will need to be agreed with both Customs and Tax authorities.



Top Level Project Plan

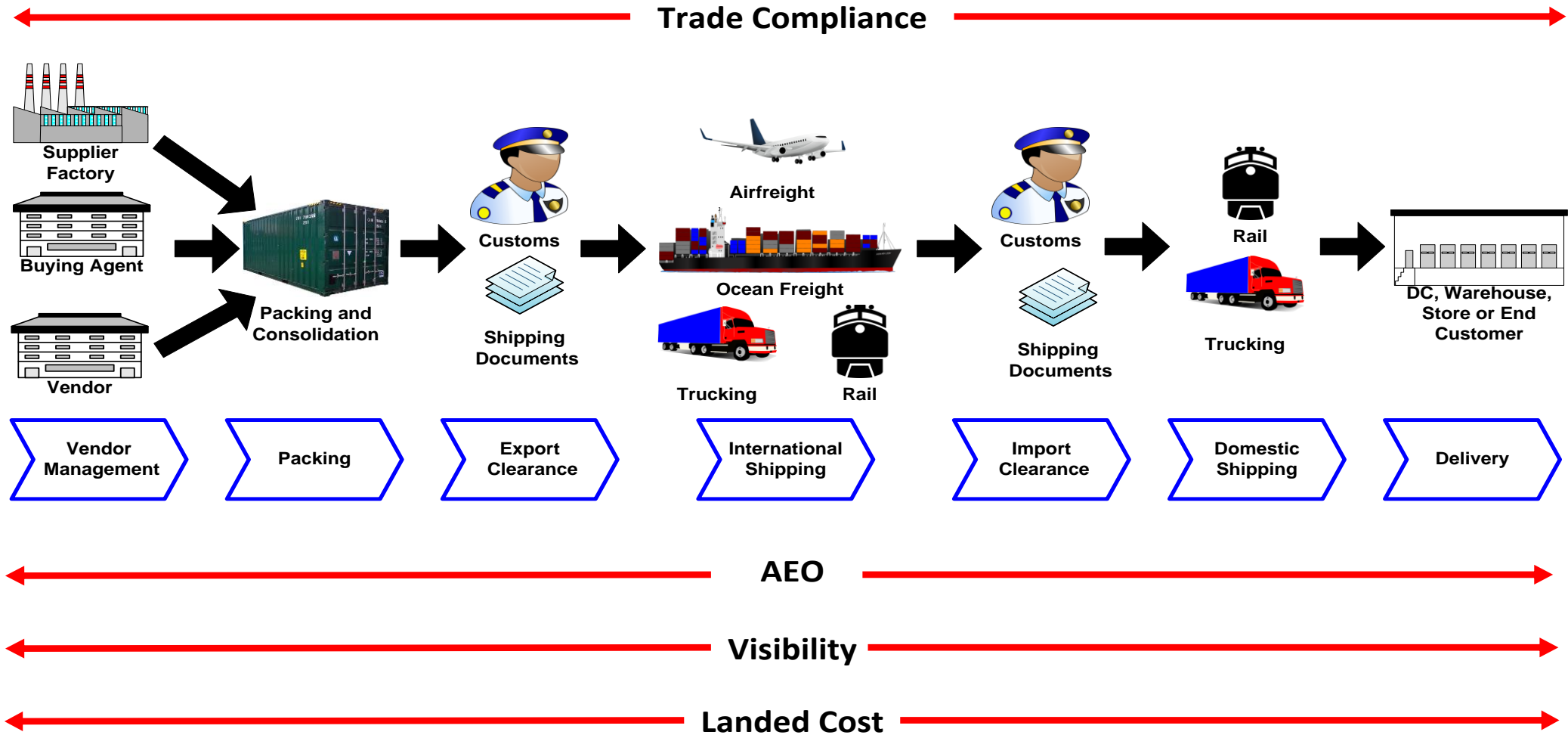
ID	Task Name	Duration	Start	Finish	Predecessors	11 Jun '18							18 Jun '18							25 Jun '18							02 Jul '18						
						F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T
1	AEO	260 days?	Mon 30/04/18	Fri 26/04/19		[Gantt bar for AEO: Mon 30/04/18 to Fri 26/04/19]																											
2	Audit Operating Companies	131 days?	Mon 30/04/18	Mon 29/10/18		[Gantt bar for Audit Operating Companies: Mon 30/04/18 to Mon 29/10/18]																											
3	Implement new process requirements	61 days?	Mon 02/07/18	Mon 24/09/18		[Gantt bar for Implement new process requirements: Mon 02/07/18 to Mon 24/09/18]																											
4	Apply for AEO status	130 days?	Mon 29/10/18	Fri 26/04/19	3	[Gantt bar for Apply for AEO status: Mon 29/10/18 to Fri 26/04/19]																											
5																																	
6																																	
7	Cost-Effective Logistics	240 days?	Mon 30/04/18	Fri 29/03/19		[Gantt bar for Cost-Effective Logistics: Mon 30/04/18 to Fri 29/03/19]																											
8	Map current logistics network	45 days?	Mon 30/04/18	Fri 29/06/18		[Gantt bar for Map current logistics network: Mon 30/04/18 to Fri 29/06/18]																											
9	Unified sourced ranges	86 days?	Mon 02/07/18	Mon 29/10/18	8	[Gantt bar for Unified sourced ranges: Mon 02/07/18 to Mon 29/10/18]																											
10	Design new logistics network	108 days?	Wed 31/10/18	Fri 29/03/19	9	[Gantt bar for Design new logistics network: Wed 31/10/18 to Fri 29/03/19]																											
11	Develop solutions at origin	174 days?	Mon 04/06/18	Thu 31/01/19		[Gantt bar for Develop solutions at origin: Mon 04/06/18 to Thu 31/01/19]																											
12																																	
13																																	
14	Shipping	90 days?	Mon 30/04/18	Fri 31/08/18		[Gantt bar for Shipping: Mon 30/04/18 to Fri 31/08/18]																											
15	Review 2017 shipping activity	45 days?	Mon 30/04/18	Fri 29/06/18		[Gantt bar for Review 2017 shipping activity: Mon 30/04/18 to Fri 29/06/18]																											
16	Review 2018 - 2019 business requirements	21 days?	Mon 11/06/18	Mon 09/07/18		[Gantt bar for Review 2018 - 2019 business requirements: Mon 11/06/18 to Mon 09/07/18]																											
17	Estimate potential volumes 2018 - 2019	1 day?	Mon 30/07/18	Mon 30/07/18	16	[Gantt bar for Estimate potential volumes 2018 - 2019: Mon 30/07/18 to Mon 30/07/18]																											
18	Negotiate combined shipping volumes 2018/	1 day?	Fri 31/08/18	Fri 31/08/18	17	[Gantt bar for Negotiate combined shipping volumes 2018/: Fri 31/08/18 to Fri 31/08/18]																											
19																																	
20																																	
21	BREXIT	260 days?	Mon 30/04/18	Fri 26/04/19		[Gantt bar for BREXIT: Mon 30/04/18 to Fri 26/04/19]																											
22	Audit Operating Companies	131 days?	Mon 30/04/18	Mon 29/10/18		[Gantt bar for Audit Operating Companies: Mon 30/04/18 to Mon 29/10/18]																											
23	Apply for AEO status	130 days?	Mon 29/10/18	Fri 26/04/19		[Gantt bar for Apply for AEO status: Mon 29/10/18 to Fri 26/04/19]																											
24	Triangulation Study	61 days?	Mon 04/06/18	Mon 27/08/18		[Gantt bar for Triangulation Study: Mon 04/06/18 to Mon 27/08/18]																											



Authorised Economic Operator (AEO)



Use AEO To Audit Operating Companies



Why was the status of AEO introduced?

- The introduction of AEO status is the EU's response to the need to secure international supply chains and the introduction of Customs-Trade Partnership Against Terrorism (C-TPAT) in the USA and the development of the Safe framework of standards in the World Customs Organisation (WCO).
 - Applied For C-TPAT in 2009 and I was granted C-TPAT Tier 2 status.
 - In 2013 following revalidations held at U.S. distribution centres, manufacturers in Asia and U.S. businesses, I was granted C-TPAT Tier 3 status, which is the highest security status for importing companies and only achieved by the top 3% of current C-TPAT companies. C-TPAT resulted in a major reduction of marine insurance premiums and reduction in importing costs.
 - Worked with two UK companies to enable AEO approval.



AEO Overview

The Client should apply for AEO status for customs simplification (AEOC) and AEO status for security and safety (AEOS).

- Security and safety (AEOS) - issued to any business that fulfils the criteria of customs compliance, appropriate record keeping standards, financial solvency, and maintains appropriate security and safety standards.
- Customs simplifications (AEOC) - issued to any business that fulfils the criteria of customs compliance, appropriate record keeping standards, financial solvency and practical standards of competence or professional qualifications directly related to the activity carried out.
 - Process Mapping
 - Supplier Manuals
 - Import Manuals
 - Export Manuals
 - AEO Manuals



Appropriate level of compliance

HMRC will examine the Client's record of compliance with customs and tax requirements, including:

- Customs Duty
 - Excise Duty
 - VAT – Including Intrastat for businesses trading in goods with other member states of the European Union.
 - PAYE
 - National Insurance
 - Corporation Tax
-
- Application will be required in each country which maintains Customs records.



Container Security

Container Inspection

7-Point Container Inspection Process:

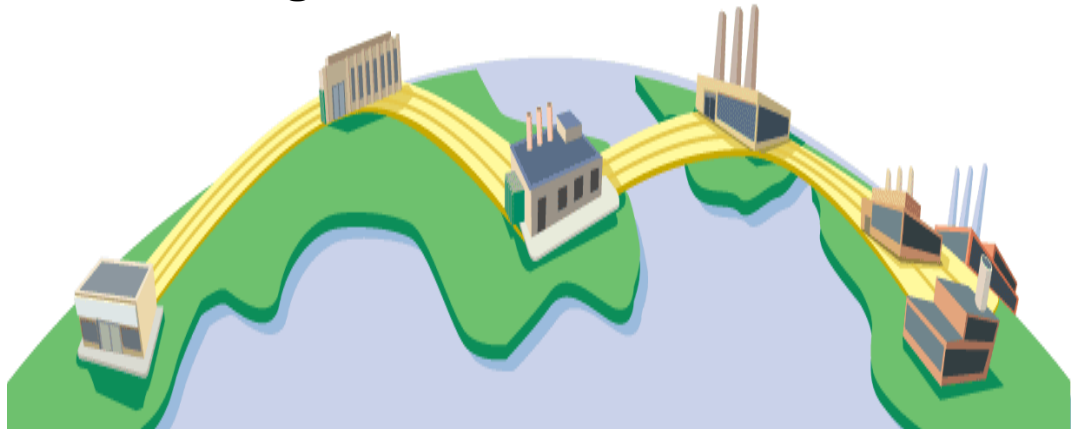


Cost-Effective Logistics



Logistics Network Mapping

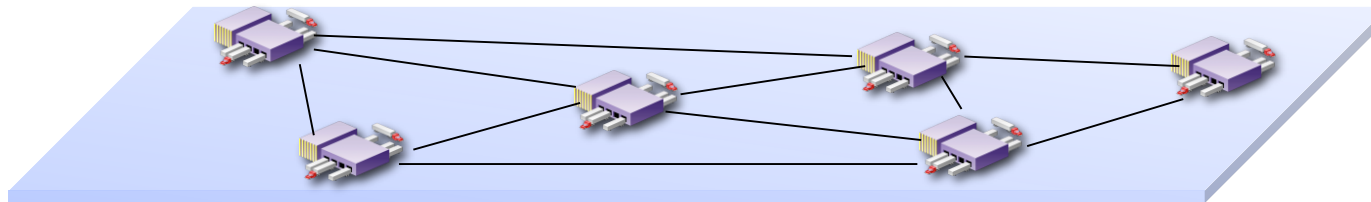
- Supply Chains
- Shipping Routes
- Distribution
- Reverse Logistics



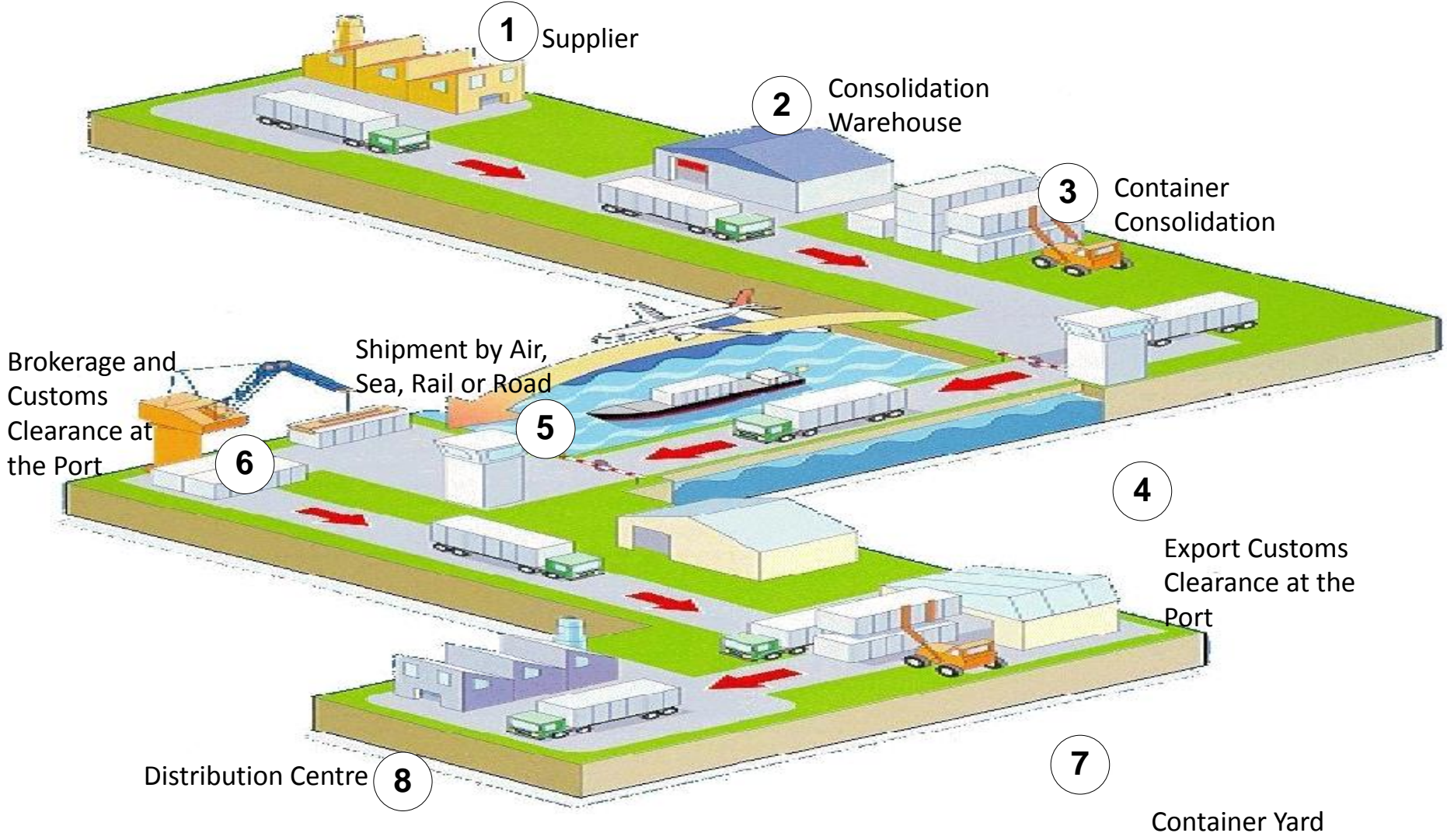
- Supplier Locations
- Consolidation Locations
- Ports
- Vessels



- Receiving Logistics Network



Optimise Global Inbound Supply Chain



Consolidation

- Working in collaboration with Operating Companies, Factories, Suppliers, Buying Offices, Sourcing Agents, Freight Container Stations and Shipping Lines to consolidate international cargo at source, which results in:-
 - **Reduction of shipping costs**
 - **Better utilisation of container space**
 - **Reduced inventory within the business**
 - **Improved Customer Service**
- Consolidation enables:-
 - **Quality control & inspection**
 - **Call-off ordering.**
 - **Value added logistic services within the sourcing country.**
 - **Option for value added warehouse services, such as pick & pack and customised labelling.**
 - **Pre-distribution / retail, such as blister packaging.**
 - **Retail display builds.**
 - **Specialised loading techniques to support innovative receiving and distribution processes at destination.**



Consolidation KPI's

- Not to ship Less Than Container Loads (LCL) without approval.
- No 20ft Containers to be used without approval.
- 45ft, 40ft high Cube and 40ft containers to be used for cargo.
- Containers are to be filled to a minimum of 88% by volume.
- Containers are to be filled to 100% by weight.



Cargo Management

- **Purchase Order Management**
 - Consolidation of demand planning and POs across Client's operating companies.
- **Supplier Compliance**
 - Standardisation across all Client's operating companies – **Supplier Manual**
- **Shipping Schedules and Documentation**
 - Optimisation of trucks / container fills, route planning and compliance.
- **Consolidation and Pre-Retail Services**
 - Consolidate multiple Operating Company orders into full container loads. Retail services, such as blister packaging by brand.
- **Supply Chain Control**
 - End-to-end supply chain visibility of shipments, containers, trucks, orders and items at SKU level.



Other Logistics Actions

- Supplier Freight Unbundling.
- Leverage your size with supply chain partners to provide the most cost effective Shipping, Distribution and Brokerage Services, which improves margins.
- Reduce lead-times and reduce inventory
- Provide Customer Service Improvements
- Bonded Warehouses globally to meet business requirements
- Duty Management
 - Potential duty refunds
 - Financial Control of all import duty and import tax payments



Shipping



Shipping Rate Benchmarking

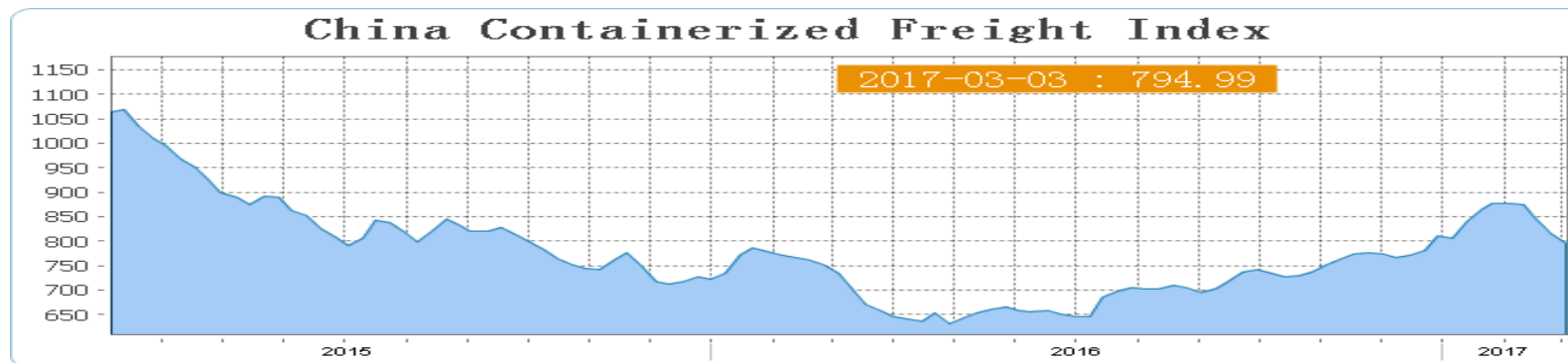
Drewry Benchmarking

Like-for-like weekly and monthly calculated average “buy rates”.

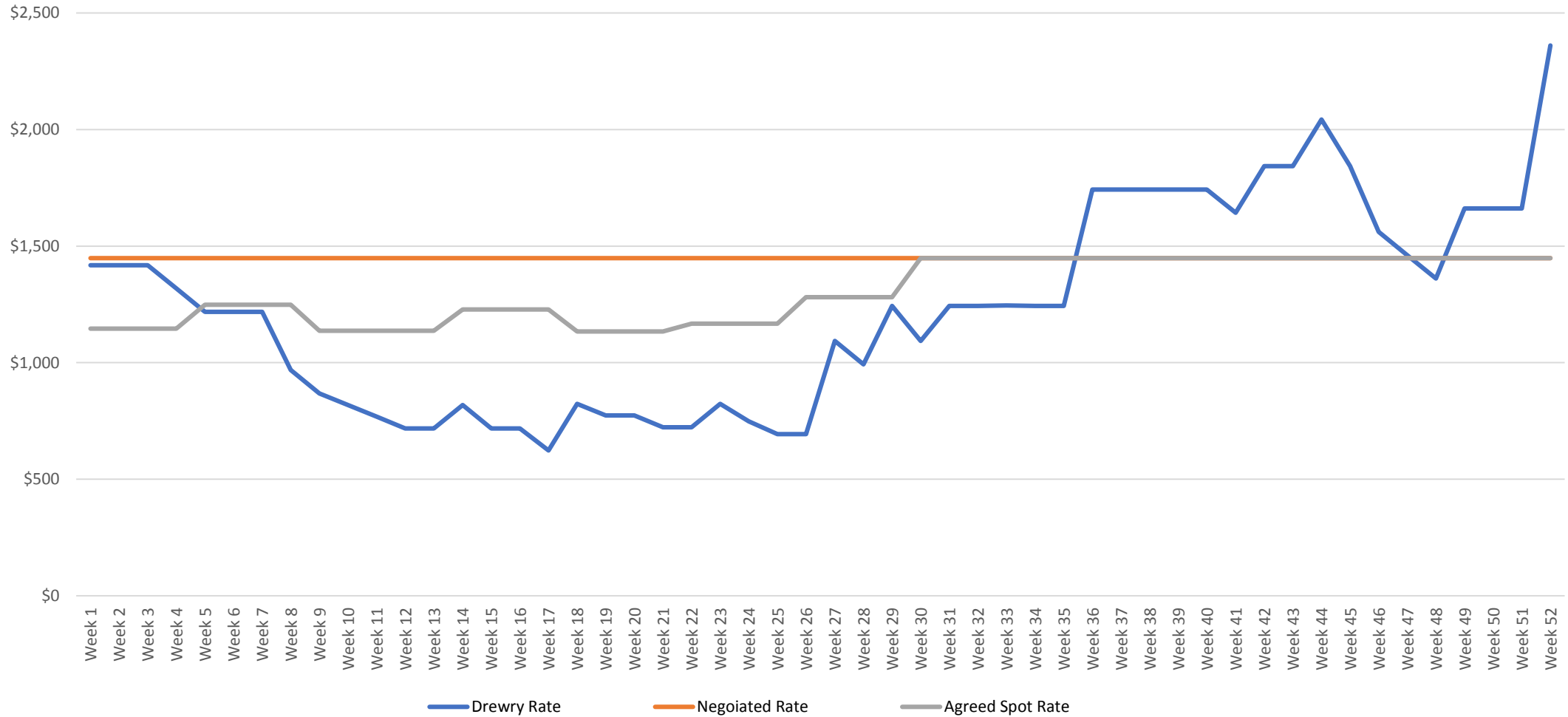
Based on averages of representative rates paid by freight forwarders to ocean carriers.

Shanghai Spot Market Rates - Shanghai Shipping Exchange (SSE)

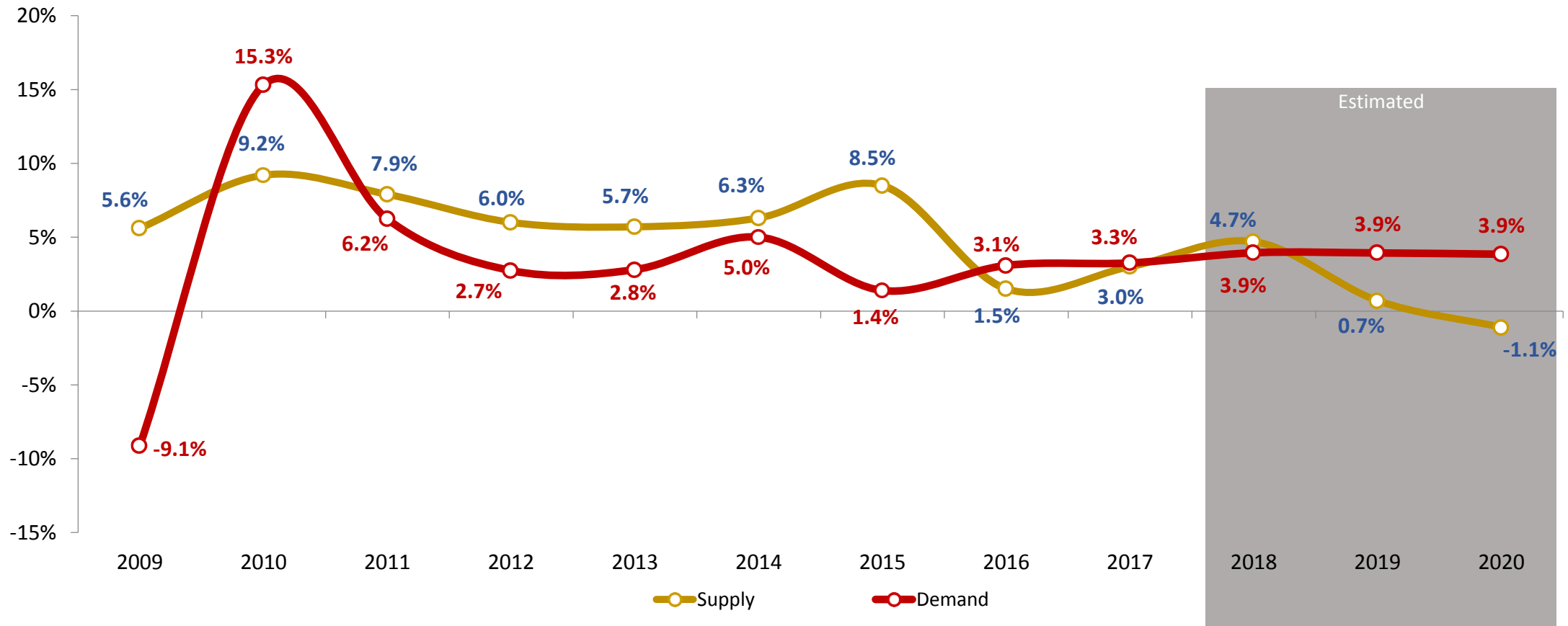
International container liner freight rates are regulated by the market, according to the liner operators operating costs and shipping market supply and demand, as well as international conventions or industry practices.



Spot Rate Example

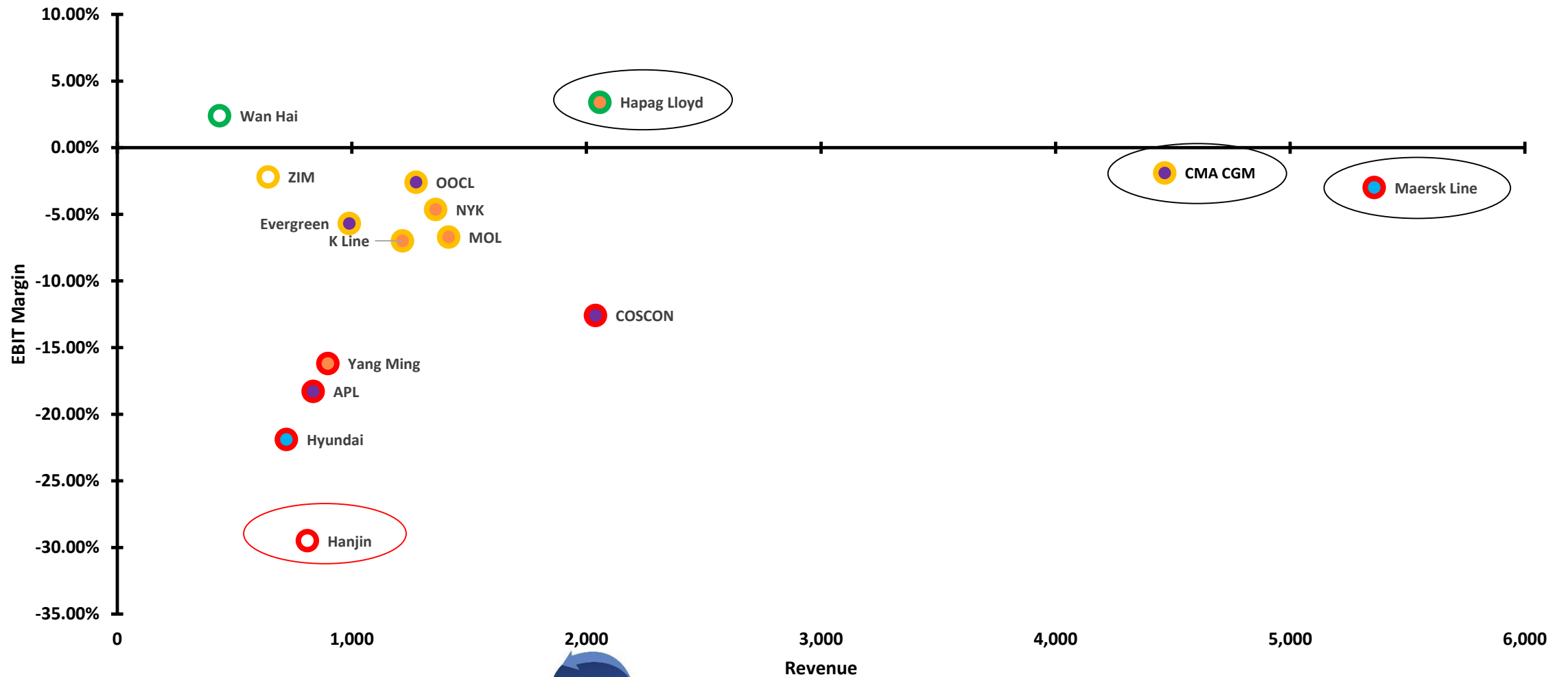


Global Supply and Demand



Carrier Financials

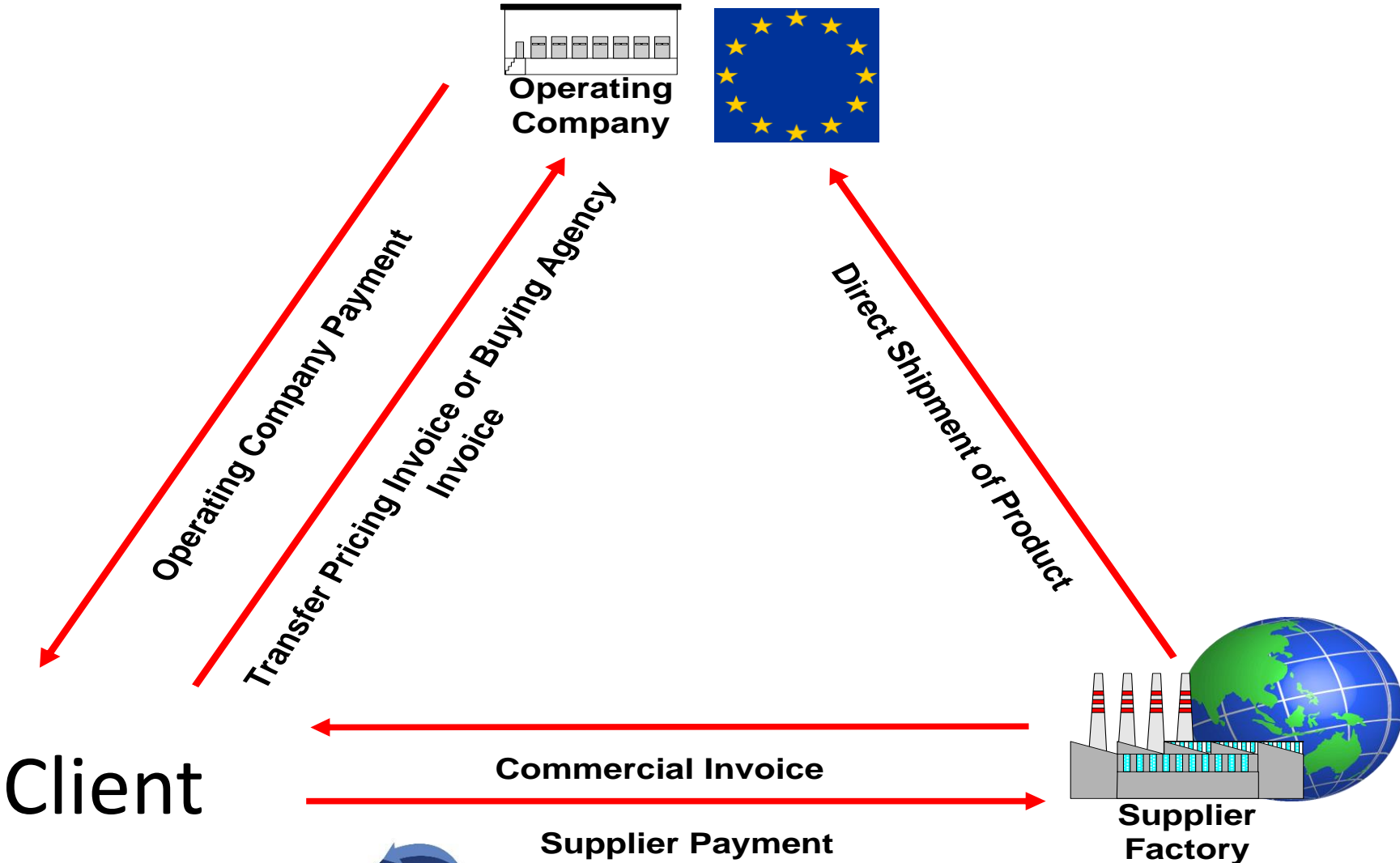
Q3 2016



Brexit



Triangulation



Brexit and AEO

- Eventually HM Revenue and Customs (HMRC) will start to focus controls on supply chains that do not include AEOs and are deemed to be less secure.
- In some cases the right to ‘fast-track’ your shipments through some customs and safety and security procedures.
- Consignments may be fast tracked through customs controls. Holding an AEO security and safety authorisation does not mean that your consignments will be exempt from examination for prohibited or restricted goods or on behalf of other government agencies. However if it is selected for examination, it will receive priority over non AEOs.

