



Global Trade Management

How can companies grow in an increasingly complex global trade environment?

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About the methodology

Between August and September 2017, Deloitte AG conducted a survey of 55 CFOs of Swiss consumer business and industrial companies about the challenges and opportunities they are facing in the current global trade environment and how Global Trade Management (GTM) can enable growth for their businesses. The CFOs are all familiar with global trade issues and regularly participate in the Deloitte CFO Survey in Switzerland.

In addition, face-to-face interviews were conducted with global trade experts from Switzerland Global Enterprise, the German-Swiss Chamber of Commerce, GF Piping Systems, ABB and other Swiss companies to validate the survey results. Statements made by representatives of Swiss companies that did not wish to be named or to have statements attributed to them have been anonymised.

Foreword

Welcome to *Global Trade Management as a growth enabler*, which examines the future growth prospects for Swiss consumer business and industrial companies in an increasing complex global trade environment. This paper builds on the results of our 2015 study, *Growth opportunities – Strategies for Swiss manufacturing companies*, which identified a range of growth strategies.

In that initial study, we identified a range of growth strategies including customer engagement, going global, new services, innovation, M&A and operational excellence. Growth enablers such as GTM for example, are key to their success, not only because they are linked directly to these strategies, but also enhance and accelerate them.

Companies that follow a 'going global' strategy for growth are faced with many opportunities – as well as risks – in the current global trade environment. While they can benefit from liberalising trade reforms and a large number of Free Trade Agreements, they can also be affected by new protectionist measures or discriminatory interventions by countries. Companies need to develop new skills and utilise technology to navigate this increasingly complex global trade environment and achieve future growth.

Based on a survey of Swiss CFOs with knowledge of global trade issues and face-to-face interviews with global trade experts from the Swiss government and private sector, we analysed key trade related issues for Swiss companies and also identified success factors such as the need for an adequate organisational structure, simplified processes, the right people and appropriate technology platforms.

We would like to thank everyone who agreed to be interviewed or who participated in our survey for their invaluable contributions. We hope this paper will stimulate discussion within your company and welcome your feedback.



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Summary and key findings



40%

think that protectionism and trade reforms of other countries have had a negative impact on the financial success of their company.

Negative impact of protectionism

Protectionism seems to be on the increase, raising new challenges for Swiss companies. The number of the Swiss CFOs surveyed who see a negative financial impact on their businesses has increased to 40% from 27% in 2016. However, there have always been periods of increased protectionism, so companies with global exposure need to learn to deal with these challenges and focus on growth opportunities in new markets.



85%

think the global trade environment will become increasingly complex in the next three years.

Increased complexity of global trade

With increased globalisation, the complexity of global trade has increased as well. Only 15% of the Swiss CFOs surveyed say the global trade environment will remain the same and no one thought it will become less complex. Companies need to monitor regulatory changes, new liberalising measures or trade barriers to succeed in a competitive global environment.



74%

say that FTAs reduce complexity with their main trading partners.

Utilise the benefits of FTAs

Even though a large majority of the companies surveyed welcome the benefits of Free Trade Agreements (FTA), there is still potential to take better advantage of these agreements. Higher administrative expenses, small cost savings and lack of know-how are seen as the main reasons why FTAs are not fully utilised, especially among small and medium-sized companies.



50%

do not use a GTM system or solution for any aspect of their import and export activities.

Greater scope for GTM system or solution

Of the 50% of Swiss companies that have a GTM system or partial solution in place, 27% utilise it very little, while only 19% utilise it somewhat and 4% to a great extent. Large companies with greater global exposure tend to have more elaborate systems and solutions in place than small and medium-sized companies that often lack human or financial resources. However, there is still the potential for many companies to use GTM as a key growth enabler.

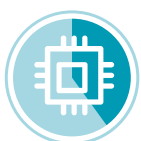


51%

think that harmonised requirements between countries in the context of GTM will best support the growth of their company.

More harmonised requirements to support growth

Swiss companies have identified harmonised requirements between countries as a key external lever to support growth. Companies with strong global exposure and footprints in many countries often face highly complex regulatory environments. More harmonisation with fewer trade barriers would simplify processes, optimise supply chain planning and save overall costs.



40%

think that more technology/automated systems in GTM will best support their company's growth.

More technology in support of growth

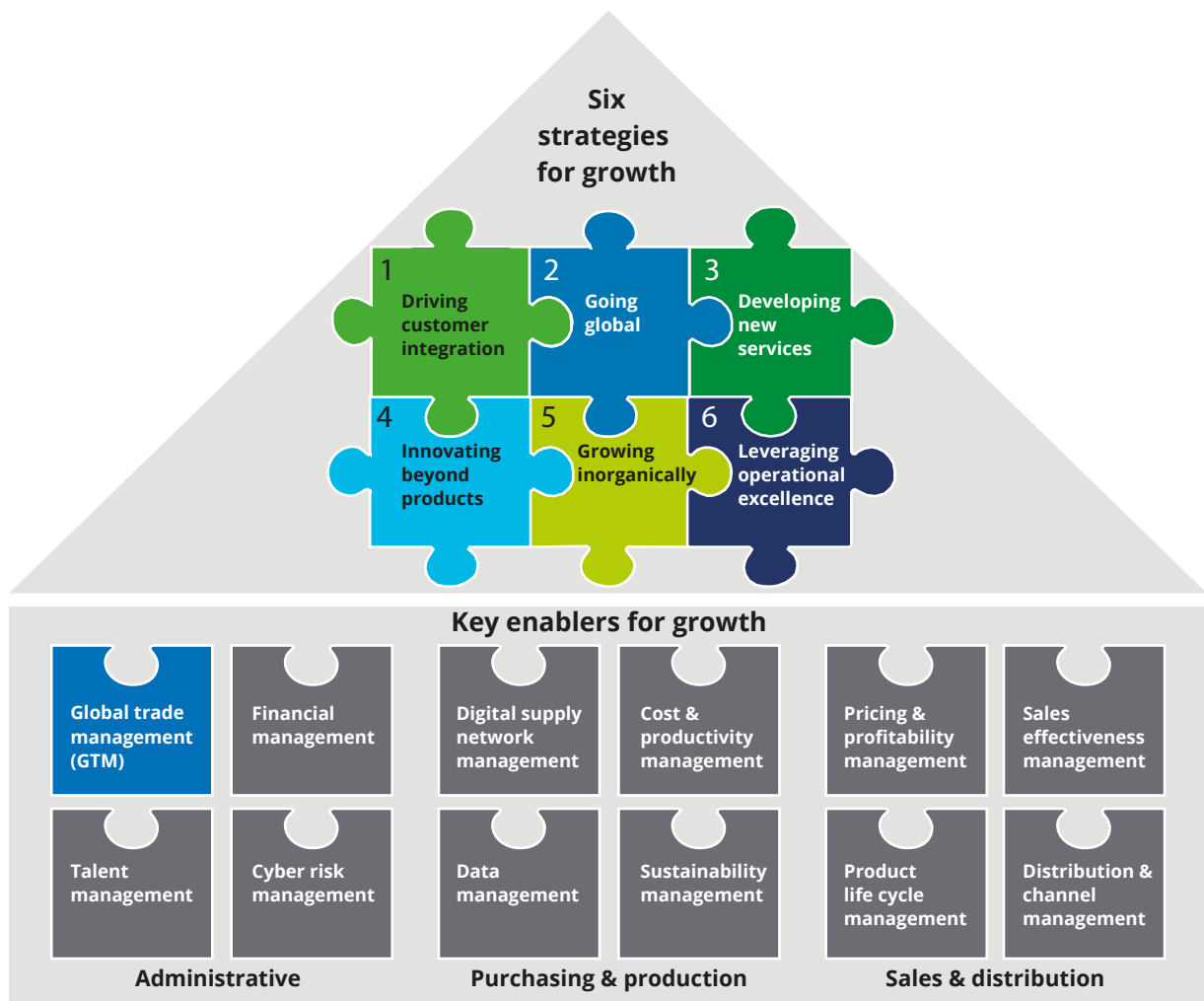
Survey participants identified new technology as a key internal lever to support growth further. Companies can become far more efficient through automation and digitalisation and many process steps in GTM can be automated and become faster. Companies will also become more transparent with improved technology and will have to spend more time and resources for example on short notice audits by customs authorities that focus on consistent monitoring and stricter implementation of existing regulations.

1. Strategies and enablers for growth

Driving customer integration, going global, developing new services, innovating beyond products, growing inorganically and leveraging operational excellence have been identified in the Deloitte study *Growth opportunities – Strategies for Swiss manufacturing companies* as key **strategies for growth** for Swiss companies in the current economic climate and for the future (see Chart 1).

In addition to these six strategies that can help companies increase growth, there are additional **key enablers for growth** that are equally important. They complement and enhance these strategies and can be applied across the whole value chain, from purchasing and production, through to sales and distribution.

Chart 1. Strategies and enablers for growth



Focusing on **Global Trade Management as a growth enabler** is essential for companies that follow a ‘going global’ strategy and want to grow further in an increasingly complex global trade environment. However, modern GTM systems and solutions can also enable and enhance other strategies for growth, for example by supporting customer integration and feeding into operational excellence as the basis for growth.

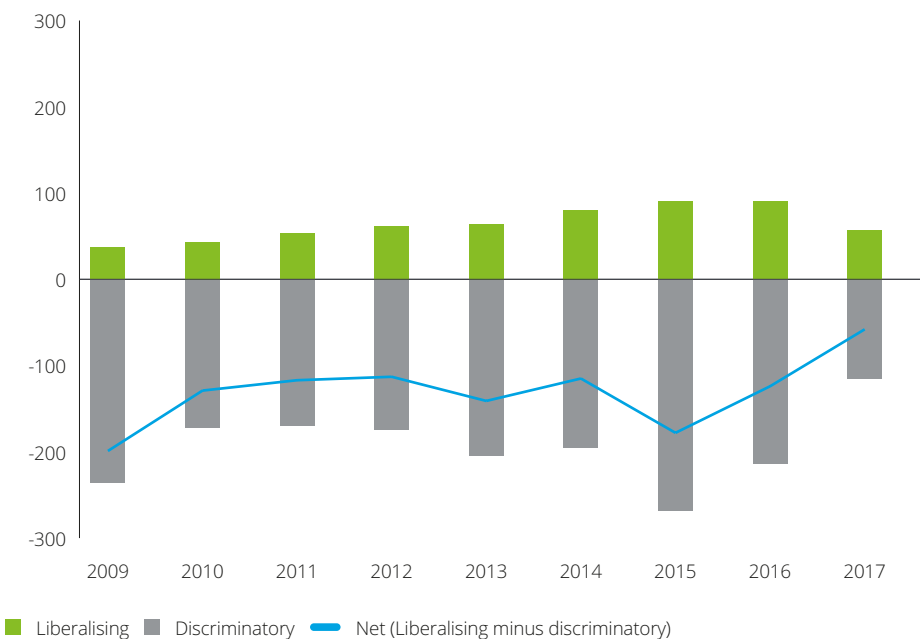
2. Global trade environment development

2.1 Challenges of protectionism and complexity

Protectionism is once again in the spotlight in light of recent initiatives such as 'America First', 'Buy China' and 'Make in India'. The public perceives such measures as increasing protectionism thus raising new challenges. 40% of the Swiss CFOs surveyed think that protectionist measures of other countries negatively affected the financial success of their company. Asked the same question at the end of 2016, only 27% indicated a negative effect.

Independent observers of the commercial environment also note a high level of protectionism over the last few years. For example, since the Global Trade Alert initiative was launched in 2009, there has been an increase in **discriminatory measures** likely to impact Switzerland and fewer **liberalising measures** in most years (see Chart 2).

Chart 2. Trade measures of foreign countries affecting Switzerland
(2009-17, number of new liberalising and discriminatory interventions)



Source: Global Trade Alert

From a historical perspective however, there have always been periods of increased protectionism, where countries have implemented initiatives aimed directly at strengthening local industries.

Swiss companies with global exposure need to learn to deal with these challenges and focus on growth opportunities in new markets. In an increasingly globalised world, trade, too, has become increasingly complex.



40%

think that protectionism and trade reforms of other countries have had a negative impact on the financial success of their company.

“Protectionist tendencies are becoming more acceptable, but the risk that protectionism spirals out of control remains latent.”

Ralf J. Bopp
CEO, German-Swiss Chamber of Commerce

“The global trade environment has become more complex from a Swiss perspective. While on the one hand, new protectionist measures in important target markets entail risks, on the other hand, the global increase in the number of markets with a growing middle class has created a variety of opportunities.”

Alberto Silini
Head of Contingency, Switzerland Global Enterprise

It is therefore not surprising that 85% of the respondents think that the global trade environment will become increasingly complex in the next three years, with only 15% saying it will stay the same and none of the respondents thinking it will become less complex.

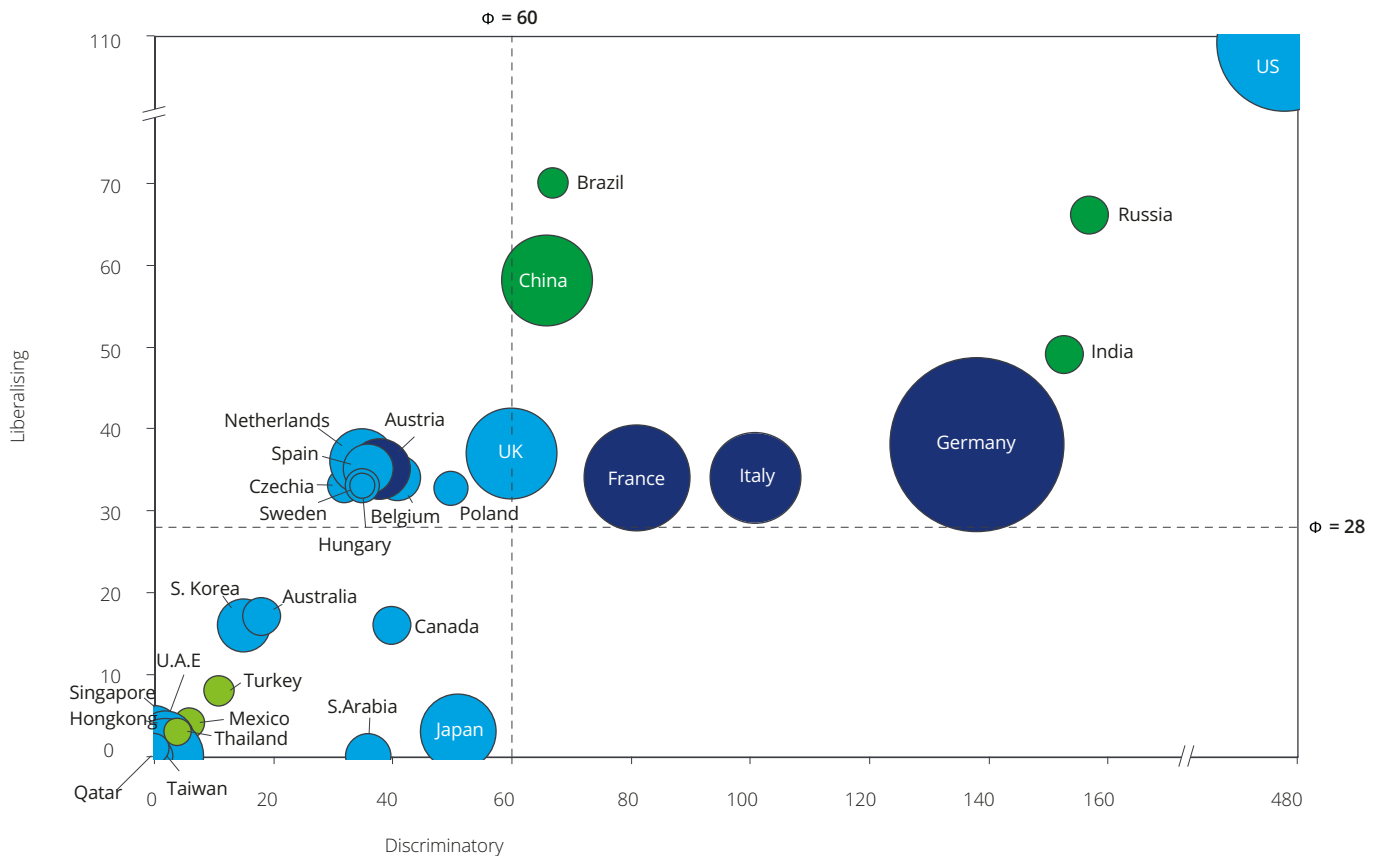
Looking at Switzerland's top 30 export markets, Swiss companies have to understand and deal with on average 60 discriminatory measures that could pose risks and 28 liberalising measures that could provide export opportunities (see Chart 3). For the top two Swiss export markets, **Germany** and the **US**, since 2009 there have been 138 and 478 discriminatory measures respectively potentially affecting Swiss companies (liberalising measures: 38 for Germany and 109 for the US).

The increasing complexity of the global trade environment for Swiss companies is also illustrated by the fact that three out of four **neighbouring countries** that are key export markets as well as all the **BRIC countries** have above average liberalising and discriminatory measures in place.

“Competition is generally seen as something positive, as long as it is not impacting local industries negatively. In all countries there are lobbyists who try to create advantages for their sectors.”

Ralf J. Bopp
CEO, German-Swiss Chamber of Commerce

Chart 3. Interventions by top 30 Swiss export markets affecting Switzerland
(2009-17, number of liberalising and discriminatory interventions, 2016 exports in CHF millions)




● Neighbouring countries ● High income countries ● BRIC countries ● Upper middle income countries

Note: Only consumer and industrial product export figures.

Source: Global Trade Alert; Federal Customs Administration

Companies need to monitor the changing regulatory environment to detect not only potential risks, but also new opportunities at an early stage.



85%

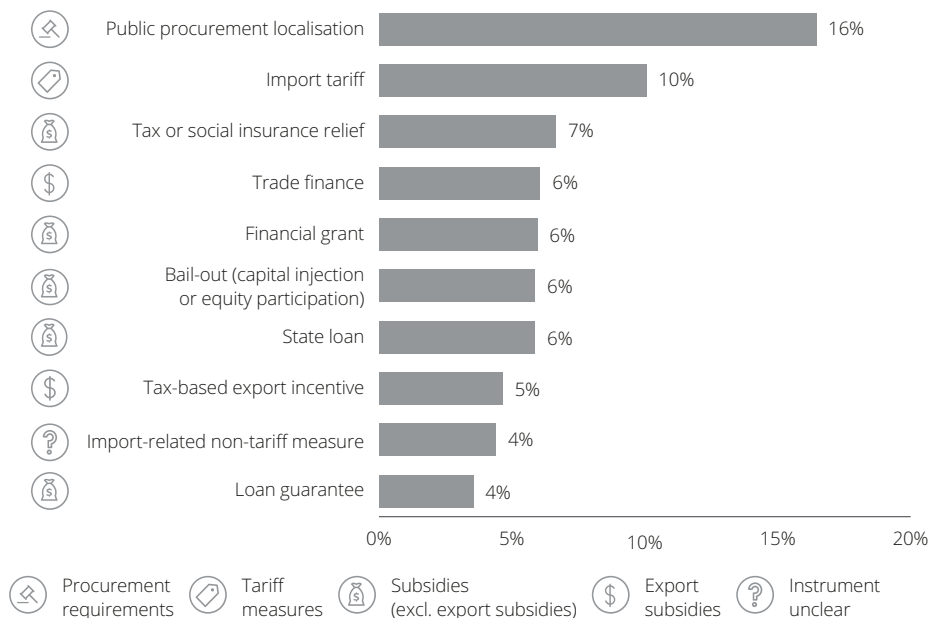
think the global trade environment will become increasingly complex in the next three years.

Looking in more detail at the top discriminatory interventions of foreign countries that have affected Switzerland since 2009, the majority of instruments relate to procurement requirements, tariff measures or subsidies (see Chart 4).

The need for **public procurement localisation** (16% of all discriminatory interventions) is by far the number one measure that Swiss companies have to deal with when going global, followed by **import tariffs** (10%).

Tax or social insurance relief (7%), **trade finance**, a **financial grant**, **bail-out** or **state loan** (each 6%) complete the top seven and represent one-third of all discriminatory measures affecting Switzerland.

Chart 4. Discriminatory interventions affecting Switzerland
(2009-17, intervention and instrument types, top 10, in %)



Source: Global Trade Alert

Both Swiss as well as foreign authorities provide information about countries new protectionist or liberalising measures. However, many companies do not avail themselves of such helpful information, as according to many trade and customs experts. The onus clearly rests on companies to keep themselves updated about regulatory changes and new developments.

“Besides the classic protectionist measures, like subsidies, customs tariff increases or localisation rules, Swiss businesses will have to increasingly deal with restrictions of their digital platforms in many key markets in the future.”

Alberto Silini

Head of Consultancy, Switzerland Global Enterprise

“Protectionism has not necessarily increased, but the hot spots have shifted – currently away from China and toward the US. If you do not have a niche product, you should participate in the global market and learn to deal with protectionist measures to secure your market in the long term.”


Steve Kunzelmann

Head of Supply Chain Services, GF Piping Systems Ltd.

2.2 Opportunities for free trade and liberalising interventions

Besides the EFTA (European Free Trade Agreement) with Iceland, Liechtenstein and Norway, and the FTA with the EU, in the last five decades Switzerland has created a broad network of almost 30 FTAs with almost 40 partner countries outside the EU. In addition, 10 FTAs are currently being negotiated (see Chart 5).

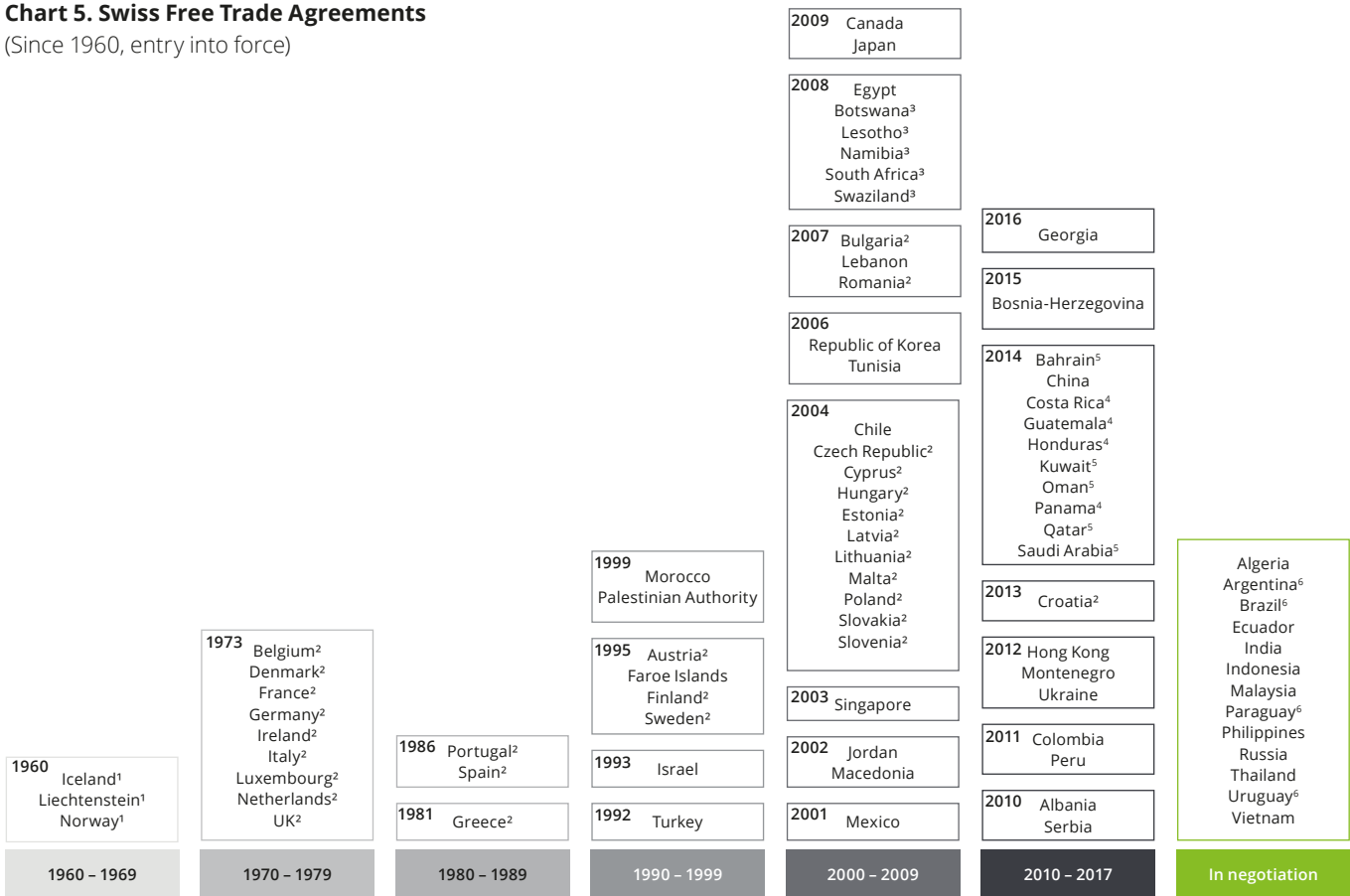
Through these agreements, Swiss companies enjoy more stable, regulated and non-discriminatory market access to these countries compared to outside competitors. 74% of respondents say that FTAs reduce the complexity with their main trading partners, with only 8% viewing complexity as increasing (neutral: 18%).



74%
say that FTAs reduce complexity with their main trading partners.

Chart 5. Swiss Free Trade Agreements

(Since 1960, entry into force)



Note: ¹ EFTA (European Free Trade Association) convention; ² European Community (EC)/European Union (EU); ³ South African Custom Union (SACU); ⁴ Central American States; ⁵ Cooperation Council for the Arab States of the Gulf (GCC); ⁶ The MERCOSUR States.

Source: State Secretariat of Economic Affairs SECO

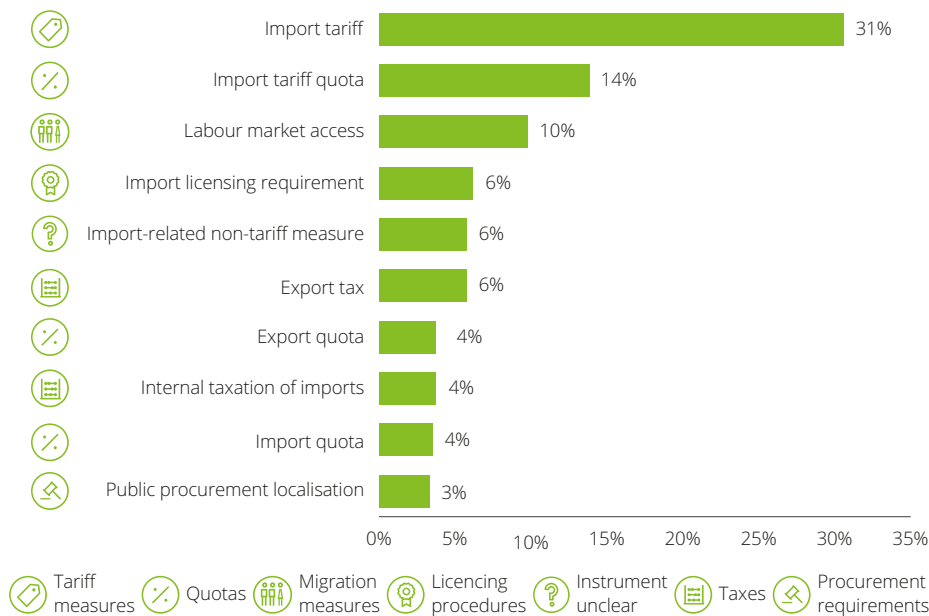
While overall the advantages of FTAs for many Swiss companies are clear, the benefits need to be put slightly into perspective, when taking company size and availability of resources into account: unlike large companies, small and medium-sized companies do not often have the resources and/or skills to utilise such agreements.

In addition, many trade and customs experts stress that what looks like reducing complexity at first, can become quite technical on the implementation side. Taking full advantage of FTAs can itself be a very complex process.

Many Swiss companies often mention higher administrative expenses (e.g. provision of documents, data adjustments for customs format, certificate of origin) or small cost savings (e.g. because of already low customs tariffs, small trade volumes) as the main reasons why FTAs are not useful for them. Otherwise, reduction of customs tariff and import quota, more legal security, standards for clear trading rules and directives, protection of intellectual property and implementation of uniform technical norms and certificates (e.g. ISO, IEC) are mentioned as main reasons why FTAs are useful.

Looking in more detail at the top liberalising interventions of foreign countries affecting Switzerland since 2009, the majority of instruments are either related to tariffs, quotas, migration, licensing or taxes (see Chart 6).

Chart 6. Liberalising interventions affecting Switzerland
(2009-17, intervention and instrument types, top 10, in %)



Source: Global Trade Alert

Import tariffs (31% of all liberalising interventions) are clearly the number one measure that Swiss companies can take advantage off when going global, followed by **import tariff quotas** (14%).

Labour market access (10%), **import licensing requirement** (6%), **import-related non-tariff measure** (6%) and **export tax** (6%) complete the top six liberalising interventions affecting Switzerland.

“The main advantages of Free Trade Agreements, if used properly, are manufacturing and sourcing cost reduction, maintaining quality standards and speeding up the delivery chain. On the negative side, there are often complexities associated with determining the country of preferential origin.”

Emilia Hautala

Senior Customs and Trade Specialist, ABB

“We actively leverage all Free Trade Agreements in Europe, Switzerland and the US. Utilising FTAs optimally is an important competitive factor, without which the entering of a market with local providers would often not be possible.”

Steve Kunzelmann

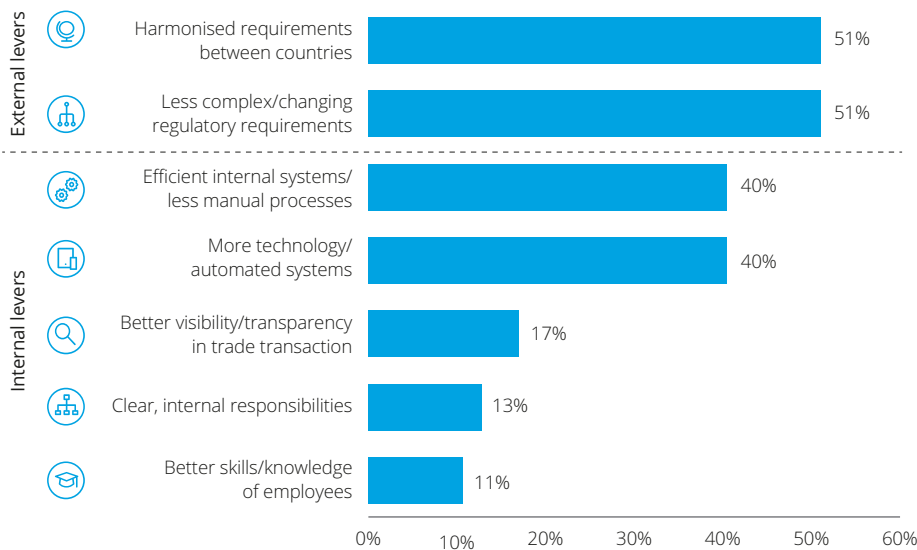
Head of Supply Chain Services, GF Piping Systems Ltd.

3. GTM: Growth potential, best practices and benefits

Global Trade Management has the potential to enable growth. Through GTM, companies can, for example, reduce risks, navigate barriers, improve screening, increase efficiencies, manage cost and guarantee supply chain security – and therefore enhance and accelerate market growth.

51% of respondents identified **harmonised requirements** between countries and **less complex/changing regulatory requirements** as the two most important levers with regard to GTM that can best support their company’s growth (see Chart 7). The greater the global exposure of companies, the more complex the regulatory environment they can face. More harmonisation with fewer trade barriers would increase planning security, simplify processes and save costs.

Chart 7. Survey result: GTM and growth
(Q3 2017)



Question: Which levers with regard to Global Trade Management (GTM) can support best the growth of your company? (Please choose up to three).

Source: Deloitte CFO Survey


In addition to the two external levers, 40% of the respondents think that internal levers such as **process efficiency** and more **technology and automated systems** are equally suited to support growth. Companies will become far more efficient and transparent through automation and digitalisation. Indeed, many process steps in GTM, which are still being done manually today, can be simplified and sped up in the future.

Almost one-fifth of respondents (17%) think that **transparency in trade transactions** is a growth enabler – and slightly more than one-tenth see a need for talent elements like **clear responsibilities** (13%) and **better skills and knowledge** (11%) as essential to support growth through GTM.

It is however surprising that half of all the Swiss companies surveyed do not have a GTM system or solution in place for any aspect of their import and export activities. Of the remaining 50% that have a GTM system or solution in place to some extent, 27% utilise it very little, 19% utilise it somewhat and only 4% to a great extent. Generally, large companies with greater global exposure tend to have more elaborate GTM systems and solutions than small and medium-sized companies.

“Even though Switzerland sits in the midst of Europe, its relationship with the EU is not necessarily regulated for the long term. This creates ongoing uncertainty for businesses.”

Ralf J. Bopp
CEO, German-Swiss Chamber of Commerce



50%

do not use a GTM system or solution for any aspect of their import and export activities.

“The classification process can prove difficult in Global Trade Management and is often political and outdated, when it should be more technical and recent. Smart devices (with software) for example are currently not properly reflected in customs systems.”

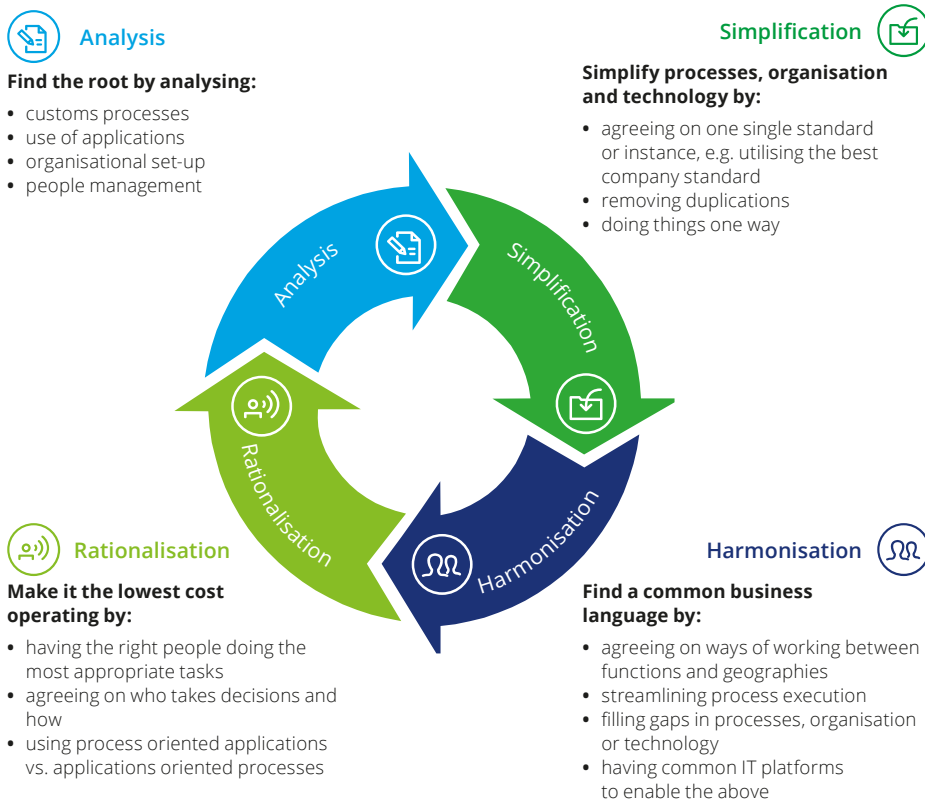
Emilia Hautala
Senior Customs and Trade Specialist, ABB

Companies can face many challenges in global trade, ranging from an increased business dynamic and increased number of FTAs to changing trade sanctions, product related embargoes and a fragmented logistics execution across 3PLs, customs and freight forwarders. In addition, companies must deal with various internal IT solutions for customs processes as well as customs authorities' improved IT capabilities and control measures.

These challenges can cause problems with increasing regulatory requirements, short notice customs audits and internal audit findings. They can also provide opportunities. For example companies can take advantage of FTAs, increase their flexibility with the help of partners, extend the potential for sales into new markets and utilise enterprise data for supply chain optimisation.

To solve the problem before it gets too expensive and to cope especially with the challenges of compliance, companies need to conduct ongoing **analysis, simplification, harmonisation** and **rationalisation** in their GTM processes (see Chart 8).

Chart 8. GTM best practices



To achieve best practice in Global Trade Management companies need to undertake root cause analysis, simplify processes and technology, and focus on business language and cost consciousness.

Having the right people with the right skills in place is key. However, many respondents pointed out that it is often very difficult to find the right talent with expertise in customs matters, FTAs and export activity because specially tailored education and training programmes rarely exist.

“Global Trade Management has always been very complex and this has not increased per se. However, audits have increased, due to improved technology at customs authorities which allows for more consistent monitoring and stricter implementation of existing regulations.”

Steve Kunzelmann

Head of Supply Chain Services, GF Piping Systems Ltd.

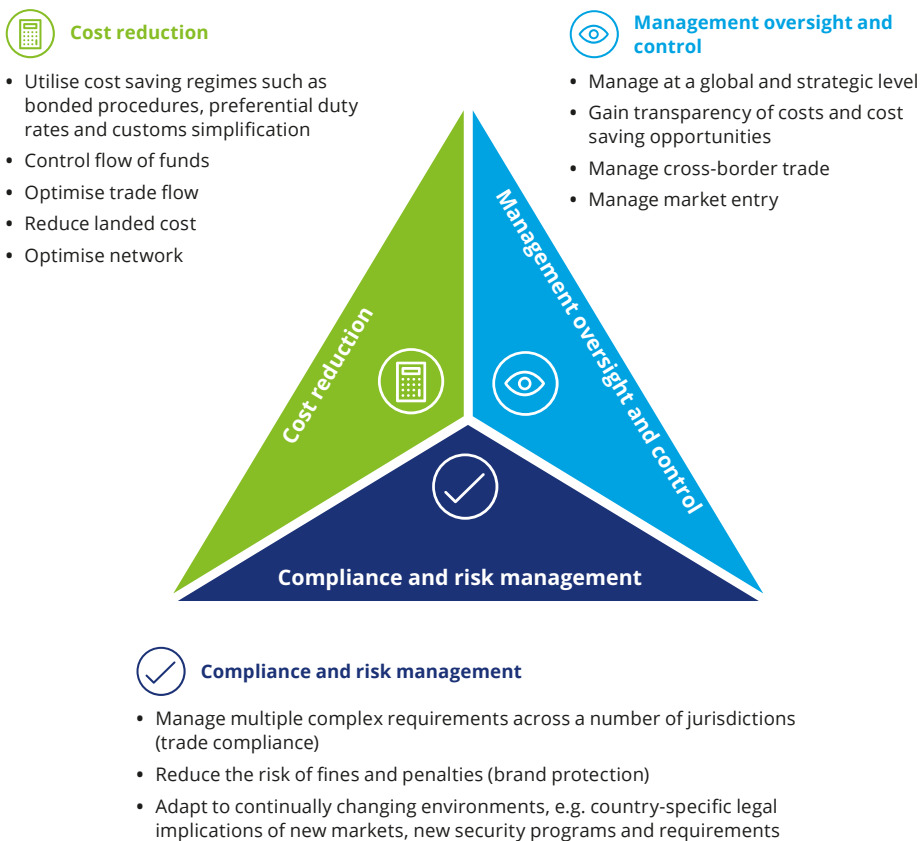
“The requirements for the position of a global trade manager have increased a lot in recent years and it is difficult to find the right people. Many companies have therefore to train their own people.”

Emilia Hautala

Senior Customs and Trade Specialist, ABB

The potential benefits of GTM include **cost reduction, management oversight and control**, and **risk management and compliance** (see Chart 9).

Chart 9. Benefits of GTM



“Swiss SMEs show great interest in Free Trade Agreements, but do not always utilise them fully. This is in part due to the fact that they underestimate the concrete advantages of FTAs, equate them with high administrative efforts and lack know-how for practical implementation.”

Alberto Silini

Head of Consultancy, Switzerland Global Enterprise

“The European Commission pushes electronic solutions that should make life easier on paper. However this is not always the case. For example, the new European Customs Code does not reflect business processes such as warranties or return-deliveries of European manufacturing goods which creates complications.”

Emilia Hautala

Senior Customs and Trade Specialist, ABB

A 360-degree compliance control will help companies to manage increasing global trade complexity, comply with various import and export regulations, and prepare for government audits. An optimised data organisation will increase a company’s ability to properly manage, plan, control and report international costs and customs duties. Improving existing business processes and the systems they are based on will further ensure cross-functional communication and cooperation. As a result, a company will be more flexible to change supply chain processes and transaction structures.

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Further reading

Consumer & Industrial Products Switzerland



White paper manufacturing



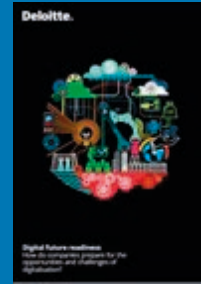
Innovation reinvented



Industry 4.0



Growth opportunities



Future digital readiness

Global trade and customs



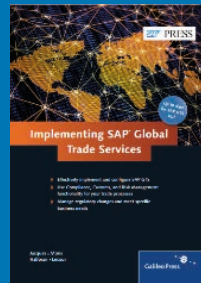
GTM services Switzerland



GTM benchmarking survey



SAP GTS (Global Trade Services) EMEA CoE



Implementing SAP GTS



Transfer pricing and customs valuation country guide



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