The Impact of Digitalization on Customs Service Providers

An outlook into the future
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developments in the market for customs services</td>
<td>04</td>
</tr>
<tr>
<td>The current role of the customs service provider</td>
<td>05</td>
</tr>
<tr>
<td>Status of digitalization in customs</td>
<td>09</td>
</tr>
<tr>
<td>The influence of digitalization on customer demand</td>
<td>10</td>
</tr>
<tr>
<td>Moving towards the customs service provider of the future</td>
<td>12</td>
</tr>
<tr>
<td>Process automation</td>
<td>14</td>
</tr>
<tr>
<td>Connectivity and systems integration</td>
<td>14</td>
</tr>
<tr>
<td>Integrated supply chain solutions</td>
<td>14</td>
</tr>
<tr>
<td>Specialized customs services</td>
<td>15</td>
</tr>
<tr>
<td>Contracted services</td>
<td>15</td>
</tr>
<tr>
<td>Conclusion</td>
<td>16</td>
</tr>
<tr>
<td>References</td>
<td>17</td>
</tr>
<tr>
<td>Contacts</td>
<td>18</td>
</tr>
</tbody>
</table>
Developments in the market for customs services

A lot of effort has gone into optimizing and digitalizing supply chains, yet the customs process has remained largely untouched. Often considered a quite bureaucratic and complex undertaking, the role of the customs service provider has emerged in response. They operate either as standalone private-sector entities or as a division of large logistics companies offering customs services as an additional feature. Customs service providers primarily act as an intermediary between businesses and customs officials.

The way the customer and service providers interact is often as bureaucratic as the processes and procedures of the authorities themselves.

Several years ago, authorities in Singapore and the US were the first to pursue a digital transformation in the customs area. The systems, processes and procedures they have implemented vary considerably, but the target is essentially the same: introducing digital solutions to make their services more efficient and customer-oriented.

At the same time, digitalization continues to advance along the entire logistic chain. Transport management systems are becoming increasingly powerful and user-friendly, with more and more processes being offered online. As companies gain experience with digitalization in their everyday business, the more they will demand improvements in their interactions with customs service providers.

This raises the question how relevant customs service providers will be in the global supply chains of tomorrow and how their business models need to change in order to remain competitive in this market. The following paper provides a detailed analysis of the various possibilities available to customs service providers in the future.

Customs clearance can play a significant role in reliable delivery and cost of ownership, and yet many companies are still hesitant to establish customs services in-house. Thanks to advances in digitalization, now is the time to give this issue the attention it deserves.
Impact of digitalization on customs service providers | Future of Customs Service Providers

Fig. 1 – Interaction between the parties involved

Customer
- Provides information to the customs service provider to create customs documents
- Assumes liability for the accuracy of the information vis-à-vis customs officials
- Pays customs disbursements (duties & taxes) and service fees to customs service provider

Customs Authority
- Receives, validates and approves customs documents
- Conducts physical inspections of the goods on the basis of the customs declaration
- Requests additional information in the event of questions or discrepancies
- Calculates and collects disbursements

Customs Service Provider
- Reviews information provided by the customer
- Creates and submits customs declaration
- Interacts with customs authorities
- Represents the customer in the event of discrepancies and questions
- Pays customs disbursements (duties & taxes) on behalf of the customer
The current role of the customs service provider

In essence, customs service providers support customers in declaring goods correctly to the customs authorities. They authorize these service providers to act as their delegate towards customs authorities and to pay their customs charges in exchange for a fee. There are two major types of customs service providers: contracted forwarders and independent customs agents.

However, the more parties that are involved in the process, the more complex the information handling can be – which is why we have focused on the most elementary process possible in this paper. The legal responsibility for correctly declaring customs rests solely with the customer, and the type and scope of the services provided vary depending on the nature of the relationship between service provider and customer. As its main activity, service providers prepare and submit the customs declaration as well as other relevant documents. They are also the main point of contact if the customs authorities require further information, e.g., on tariff classifications. Once the declaration and the goods are released, the customs service provider issues the customs documents required to transport the goods across the border. Customs service providers often operate offices in the immediate vicinity of the border, which is an enormous advantage for customers. If a discrepancy between goods and documents arises later, they can make the necessary adjustments at short notice. Customs service providers usually interact directly with customs officials without the need for the customer to be physically present. For legal reasons, some countries require the customs declarant to have a fiscal representation in the country of the respective customs authority. In other cases, only certified customs brokers can declare customs.

A survey conducted by AEB reveals that around 75 percent of companies use customs service providers, but they do so to a very differing extent.

Fig. 2 – 27 percent of companies prefer to use customs service providers

<table>
<thead>
<tr>
<th>Process</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only directly with customs</td>
<td>24.5%</td>
</tr>
<tr>
<td>Primarily with customs</td>
<td>48.7%</td>
</tr>
<tr>
<td>Mainly with customs service providers</td>
<td>19.7%</td>
</tr>
<tr>
<td>Only with customs service providers</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

There are several reasons companies use these services. For one, they often lack both the qualified personnel and the necessary expertise to make declarations on their own. Using these services helps companies reduce their costs and clear customs much faster and more efficiently.

As we said earlier, there are two main types of customs service providers on today’s market. There are customs agents on the one hand, which are extremely specialized service providers. And then there are freight forwarders and logistics service providers on the other hand, which usually offer customs services as well. Two-thirds of the companies responding to the above-mentioned survey say they prefer to work with the specialist department of their freight forwarder.

Notably, the majority of survey respondents communicate with the service providers mainly via e-mail and telephone. Only 26 percent of the respondents have established data interfaces. This is especially interesting, because the information needed to clear customs is readily available in the customer’s ERP system. This would significantly reduce the effort required to submit information via conventional distribution channels, where there is also the risk of media disruption, transmission errors and the need to duplicate entries.3

This suboptimal process is not only the result of a lack of digitalization among customs officials and logistics companies, but also the inefficient links between the parties involved. As companies introduce new transport systems and platforms that facilitate data exchange and reconfigure their interfaces, this is likely to change dramatically in coming years and produce considerable efficiency gains.

\[\text{Fig. 3 – Reasons to work with customs service providers}\]

<table>
<thead>
<tr>
<th>Trigger for use of customs service provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of internal resources</td>
</tr>
<tr>
<td>47.0%</td>
</tr>
</tbody>
</table>

\[\text{Fig. 4 – Type of customs service provider in use}\]

<table>
<thead>
<tr>
<th>Types of customs service providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forwarders with customs services</td>
</tr>
<tr>
<td>65.9%</td>
</tr>
</tbody>
</table>

\[\text{Fig. 5 – Communication channels in use}\]

<table>
<thead>
<tr>
<th>Primary communication channels between customer and service provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Email/Phone</td>
</tr>
<tr>
<td>63.0%</td>
</tr>
</tbody>
</table>

---

Status of digitalization in customs

The image of customs is currently undergoing a massive change. More and more countries are digitalizing their customs systems, both processes and procedures in equal measure. Where forms were once filled in, submitted and stamped by hand, the process has now moved online. For example, FedEx already offers digital customs declaration documents that can be filled in on the website, with additional documents available to download on demand. If questions or discrepancies arise, forwarders can investigate the matter while the goods are already in transit and avoid negatively impacting lead times.

At the same time, we are also seeing a cultural change take place in customs service providers. The focus used to be primarily on recording imported and exported goods as accurately as possible, but today it is all about collecting the correct taxes and duties as well as effectively detecting illegal activities in an effort to reduce transactional costs. This opens up entirely new possibilities in the design of the customer experience. With less information and detail required in the declarations, the process becomes significantly less complex. Digital channels can also help customers avoid errors and link customers directly to the customs systems. This would allow customers to submit the data relevant for a declaration directly to customs authorities and calculate the duties with no additional effort. The customs process itself is simplified at the same time. Listing goods in a central electronic register allows users to standardize the operations required for customs procedures and still retain all the respective advantages. This translates into a further reduction in complexity and in the time needed to make a declaration, which has a positive effect on regulatory costs for the economy.

Since 2009, companies in Germany execute their customs declarations via "ATLAS". The main advantage of this software system is the ability for applicants to track the status of declarations in process. Additional enhancements are currently being introduced in "ATLAS" and in the customs systems overall to improve and simplify communications and interactions between declarants and customs authorities.

---

1 Eidgenössische Zollverwaltung EZV.
2 Generalzolldirektion.
3 FedEx 2020.
4 Generalzolldirektion; Deutscher Bundestag 2018.
The influence of digitalization on customer demand

During the recent past, companies have invested a lot in digitalization. This has completely changed perceptions and the customer experience in a variety of industries. In logistics and supply chain management, for example, the level of transparency is unprecedented. Some providers allow customers to track a shipment almost in real time and on a virtual map for the last mile delivery of a parcel. This gives the consignee a better idea of when the shipment will arrive so that they can better utilize their time. These kinds of experiences also impact customer expectations with regard to transparency in the customs clearance process. In the past, it was enough to inform customers once customs has released the shipment and created the necessary documents. Today, customers are accustomed to much faster lead times. How rapidly customs declarations are processed is a huge differentiator among competitors in this field. In other words, it is essential for customs service providers to be able to react much quicker than in the past.

The more flexibility logistics companies have, the better they can also optimize the available space they have for cargo. This is particularly vital as shipment volumes increase due to the globalization of supply chains and e-commerce. At the same time, we are seeing the number of truck drivers decrease worldwide, making road haulage capacity an increasingly scarce commodity. The new levels of transparency enabled by digitalization and systems integration will allow companies to efficiently plan and prioritize their business processes along the entire supply chain. This is also true for the area of customs clearance. If the authorities have to inspect the declared goods, it could significantly impact how long the customs clearance process and the onward transport take. There needs to be a more seamless and frequent exchange of information between all parties involved.

Customs clearance relies on laws and encoded information, which makes it very well suited for digitalization. According to the AEB study, respondents rate digitalization in this area to be a high to medium priority.

Fig. 6 - Priority of customs digitalization

---

9 DPD Deutschland GmbH.
10 Arvis, et al.
About 33 percent of the respondents have already implemented initial measures. As shipment volumes increase, exports are viewed more critically than imports in this context. The main goal of digitalization for companies on the German market is to centralize the customs clearance process, increase the transparency of decentralized processes and improve communications with customs officials. Export shipments are the priority here, as these are usually easier to declare and involve less paperwork than imports. The companies in the survey expect their personnel costs relating to customs clearance to decrease as a result or to rely entirely on in-house staff to handle existing volumes.\(^{11}\)

Despite the obvious advantages of digitalization, digital transformation is no trivial matter. Companies do not always have the necessary knowledge or the financial resources to complete the transformation. For 27 percent of the AEB respondents, a lack of access to new technologies such as ERP systems is slowing down the digitalization process.\(^{12}\) We can see that these systems are a challenge in various areas of logistics. The legacy systems in place are often outdated and unable to meet the customers’ requirements in terms of transparency and connectivity in an effective way. Companies will inevitably have to upgrade their ERP systems, and it is therefore only a matter of time before we can overcome this obstacle.

---

\(^{11}\) Larson, et al. 2018.
\(^{13}\) Larson, et al. 2018.
Moving towards the customs service provider of the future

The trend towards digitalization and customer orientation in customs will ultimately lead to a simplification of procedures and regulations and the ability of even inexperienced companies to master the process. As a result, we can expect a reduction in the time and effort involved in preparing customs declarations and a drive towards in-house customs processing in the future.

At the same time, current systems are not able to satisfy all of the customer demands for data interfaces and supply chain transparency. Customs service providers would therefore be well advised to evaluate their business model with a critical eye if they want to remain competitive in the future. In the following, I will elaborate on the most feasible options for customs service providers based on their relative complexity and the time it takes to implement.
Fig. 8 – Conventional customs clearance process

**Customer**

- Submission of shipment and commercial information via telephone/e-mail

**Customs Service Provider**

- (Manual) creation of customs declaration in customs system (e.g., ATLAS)
- Electronic submission of customs declaration to customs authorities
- Inconsistencies and questions addressed via the channel chosen by the customs authorities
- Payment of disbursements on behalf of customer to customs authorities via customs account
- Distribution of documents to customer and collection of disbursements and service fee

**Customs Authority**

- Validation of the customs declaration within the customs system upon receipt
- Clarification of inconsistencies and questions via customs system or other channel (e.g., by phone)
- Approval of declaration in customs system (incl. disbursements collection and document distribution)
- Decision on physical inspection of goods by customs authorities

Payment of customs disbursements and service fees to customs service provider via invoice
Process automation
The simplest and fastest solution to achieve efficiency gains for customs service providers is to introduce high-tech process automation. These solutions are particularly advisable when there is no way to transfer electronic data between the parties involved. Customers and customs service providers exchange most of the information required for customs declarations via e-mail and telephone at the moment. Due to media disruption, customs service providers will likely have to enter the data manually in the ERP system. This makes the process inefficient and increases the risk of transmission errors. Using process automation, however, the system automatically identifies the information received, analyzes it directly at the source (e.g., e-mail) and processes it based on clear rules defined directly by customs officials. The customs service provider’s system can then perform basic processes such as data entry or customs declarations automatically. In order to determine a company’s automation potential, the decisive factors are the current level of automation and the extent to which the processes are standardized. We can expect data provided by customers via e-mail to vary in format, but a web interface will help standardize incoming data and scale the automation solution.

A standardized form (digital or analog) is used for the customs declarations, which means that the target format never changes and can easily be automated and scaled. In our experience, companies can achieve a 15 percent to 20 percent increase in efficiency through process automation, though it will vary for each customer. Some customers may even receive a discount on the service, if they actively participate in facilitating a higher level of process standardization. This would be advisable particularly if it comes with a reduction in the effort required for independent customs declarations. Alternatively, companies can use capacity gains to address very specific topics, offering improved or additional services to the customers.

Connectivity and systems integration
Today’s customers already expect customs service providers to offer electronic data interchange (EDI). In fact, logistics companies have used data interfaces for more than a decade. The advantages of EDI are obvious: It is easier to transfer data from the customer to the service provider and easier to use this data in the service provider’s ERP system. This eliminates the risk of error during data transfer and makes the customs declaration process much more efficient. Not only does this solution satisfy the customer’s demands, but it also results in efficiency gains for the customs service provider. Data transfer between the two systems requires a system interface, the purpose of which must be defined in advance. In the easiest case, customers provide the customs data required for a specific shipment. An interface that allows data and updates to be exchanged between both sides is technically more complex, but significantly more valuable. This allows any status updates during the customs declaration to be exchanged and processed in real time. Customers can use this information as a basis to control the operative process and more easily avoid violations of customs law, such as the early opening of cargo holds.

The customs service provider’s system can be integrated into the customer’s own ERP system as well. In this case, the service provider works directly on the customer’s system. This has the advantage that there is no need to set up and maintain an interface to the service provider and is particularly suitable if the customer only uses one service provider for customs processing. Generally speaking, companies need to evaluate on a case-by-case basis which solution has more advantages for their situation.

Integrated supply chain solutions
It can be time-consuming and cost-intensive to develop a custom data interface. As the information required for a customs declaration is standardized, the interface deployed on the customer side can be used to share data directly with customs officials. Customers may not have to keep using a service provider at all. Developing more comprehensive and value adding services would help to avoid the risk of losing business as a result.

In this case, it is not only essential to know the needs of the customers but also to anticipate them. Customs service providers need short and agile development cycles to offer new services right when the customer needs it. The current demands of customers is a good example of this. Today’s companies face the challenge of increasing efficiency, transparency and speed. And though information on the status of a customs declaration is only one element along the supply chain, the systems in place are not always able to meet even this requirement. In order to use data in a meaningful way, e.g., to prioritize processes, they will require additional information such as the booked time slot at the unloading point.

In order for this information to arrive at the customer’s site, they will not only need state-of-the-art systems but also numerous interfaces to various parties along the supply chain. Creating and maintaining interfaces with all stakeholders in the supply chain may affect which business partners qualify and therefore have a negative impact on competitiveness.

Companies that supply a wide range of logistics services stand to benefit from this challenge. Because of their role, these companies interact daily with a wide variety of supply chain participants acting in changing roles as shippers, consignees or service providers. The efficiency gains resulting from automated information exchange beyond the customs declaration are exponentially higher for the logistics providers and more sustainable compared to the customer on its own. At the same
time, more and more data, e.g., collected via sensors, is generated on the service provider side, which can be highly relevant for the customer. This creates a new level of transparency along the supply chain.\footnote{17}{Meola 2016.} Taken to its logical consequence, service providers need to develop and offer even more comprehensive logistics control tower solutions that also take into account information collected while monitoring customs declarations. Customs service providers in large logistics companies have an advantage, as they have access to a more extensive and, above all, global ecosystem. This strengthens their market position significantly.

In the near future, we expect a new market standard to emerge, making it difficult for companies without access to data from a comprehensive ecosystem to survive on the market.

### Specialized customs services

The AEB survey found that around 18 percent of customers mainly handle customs clearances on their own, because the customs service provider lacks the required expertise.\footnote{18}{Larson, et al. 2018.} This is particularly interesting, as specialist consulting is usually required for only the most complex cases. At the same time, we can assume that the more complex the clearance issues, the more time and effort required.

If customs service providers succeed in achieving cost and speed advantages for their customers, they would have an opportunity to attract an entirely new customer base. The challenge is often not only the correct handling of customs documents, but also the organization and coordination of the necessary permits. Especially in very exotic cases, e.g., hazardous goods such as garbage, drugs or weapons, it is time-consuming for companies to stay up to date on the latest changes in legislation. If customs service providers can leverage the efficiency mentioned above, they have more capacity available to build additional expertise.

The significant added expenditure for this type of customs clearance and the outsize benefits for the customer justifies offering this type of service at a higher cost. And there is another advantage of specializing in certain areas of expertise: as the customs process becomes less complex, the volume of jobs for conventional customs clearances is likely to go down, opening up additional capacity for more specialized services. Customs service providers can continuously expand their range of services to include tasks that are more demanding. Customs authorities are not likely to succeed in simplifying the most complex cases to such an extent that companies can handle them without intensive training and effort. It is therefore beneficial and recommended for service providers to supplement their services with specific specialist expertise.

### Contracted services

Our experience with customers shows that they often lack the necessary expertise in the field of foreign trade. Even if customs officials continue to work on improving the customer experience, it seems unlikely that it will satisfy all of a company’s demands for expert knowledge. European customs officials are currently offering mainly online training workshops.\footnote{19}{European Union.} This does not adequately address the specific needs and questions of customers, particularly when the ability to reach customs officials on the phone or through other channels depends strongly on the country and branch.

Customs service providers can close this gap by offering consulting services that are tailored specifically to the customers’ needs in scope and content. In addition to classroom trainings on specific customer challenges, they could also provide selective assistance on specific questions. Consultants from the customs service provider could, for example, accompany the customer when they apply for the tariff classification of a new product or, similarly, when they raise an issue with a customer service agent. The extent of the cooperation and the associated fees can be very flexible, depending on the design of the service profile. From a consumption-based approach to a monthly retainer, everything is on the table. In our experience, some service providers are already providing services like this, but they are often doing so free of charge. It seems advisable for today’s customs service providers to expand and formalize their existing offerings.
Conclusion

Generally speaking, customs remains a complex and constantly evolving process, and the digital transformation in logistics is still in its early stages. Automation can significantly increase efficiency in the short term, but the electronic exchange of data would provide a more durable and efficient solution. We expect this to become the standard for interaction with customs service providers and to make working with them a much more interesting prospect. In this phase, digital transformation pioneers stand to gain a competitive edge, which may potentially lead to market consolidation. The remaining companies can strengthen their position by developing new and above all value-added services. In addition to integrated supply chain solutions, specialized customs services and contracted services will be among the future success factors.

In conclusion, customs service providers are likely to remain relevant in the future. We expect specialist companies to continue to play a role between customs authorities and customers. The preparation of customs declarations and the interaction with customs officials will be at the focus of their activities for years to come. This is mainly due to the fact that not all companies will be able to perform customs clearance without specialist support, regardless of the improvements customs officials introduce in the user experience. Not only do they lack trained specialists in this area, but they also prefer to keep the focus on their core business. Over time, however, digitalization will significantly increase the efficiency and the speed of customs processing – values that are sure to become even more important in the future. The role of the customs service provider may indeed remain the same, but we believe they will have to significantly increase their degree of specialization and the scope of services to meet the customer demand.
References


Contacts

Tillman Hentschel
Sector Lead
Transportation, Hospitality & Services
Tel: +49 (0)69 97137 208
thentschel@deloitte.de

Tobias Koppe
Senior Manager
Transportation, Hospitality & Services
Tel: +49 (0)69 97137 490
tkoppe@deloitte.de

Pia Störbrock
Consultant
Transportation, Hospitality & Services
Tel: +49 (0)89 29036 6202
pstoerbrock@deloitte.de

Authors
Kai Krotki
This communication contains general information only not suitable for addressing the particular circumstances of any individual case and is not intended to be used as a basis for commercial decisions or decisions of any other kind. None of Deloitte GmbH Wirtschaftsprüfungsgesellschaft or Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte network”) is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/de/UeberUns for a more detailed description of DTTL and its member firms.

Deloitte provides audit, risk advisory, tax, financial advisory and consulting services to public and private clients spanning multiple industries; legal advisory services in Germany are provided by Deloitte Legal. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte’s approximately 312,000 professionals are committed to making an impact that matters.

Issue 10/2020