Supply Chain Management: Risk & Compliance

Your supply chain must be efficient, reliable, and in compliance with all rules and regulations to run smoothly and get your goods where they need to be in a timely manner.

How can you manage risk, compliance and efficiency in your supply chain to run a successful business?

As experienced global supply chain experts, we have created this guide to give you the tools you need to run a productive supply chain that adds value to your business' bottom line.

Managing Risk in Your Supply Chain

Think of shipping cargo like a financial portfolio: It's important to diversify. That's because there are inherent risks when shipping via air and ocean: Delays, damaged cargo, weather events, etc. Cargo insurance, though critical, isn't always enough to protect you and your business.

Predictable Risks

Peak Season: Two to three months before Thanksgiving is peak season for U.S. imports. Everyone is trying to get their goods shipped out so they are in stores before Black Friday and Christmas, which means air and ocean freight space becomes very scarce, and very, very valuable. Steamship lines often have a peak season surcharge (PSS) that can cost hundreds of dollars more per container.

Planning enables you to make the supply chain adjustments that best fit your business. Even businesses that don't follow this typical retail shipping pattern, such as industrial manufacturers, still must recognize its impact. Sometimes a single company can have a noticeable impact on the market. For example, air freight demand and rates typically spike in September to correspond with Apple's highly anticipated iPhone releases.

Holidays: In East Asia, the Chinese New Year (Lunar New Year) holiday shuts down manufacturing for a week or more. This event severely impacts shipping from Mainland China, Hong Kong, Taiwan, Vietnam, Malaysia, Singapore, and beyond. The start of Chinese New Year varies annually from late-January to mid-February.

It's important to know the major holidays and customs in your sourcing countries. So, keep a calendar of major holidays that could impact your cargo.

Labor Unions: The workers of the International Longshore and Warehouse Union (ILWU) and International Longshoremen's Association (ILA) are a critical part of the shipping process in the U.S. and it's important to be aware of their contract negotiations.

When union contracts are close to expiring, and if a new contract hasn't been negotiated, there could be delays in getting your goods off the vessel. Keep up-to-date with what's going on in the unions, so if there is a delay in negotiations or a contract dispute, your goods aren't stuck in port.

You need a plan that covers all the predictable and unpredictable risks, so any issues that can disrupt your supply chain are limited and infrequent.

Unpredictable Risks

Labor Strikes/Protests: Some things you can see coming, but sometimes strikes can be completely unpredictable. If a union in a different industry is protesting, other unions may join in support. They can also join non-union related protests.

Natural disasters: Hurricanes, cyclones, and typhoons are different names for the same weather phenomena, collectively known as tropical cyclones. The names vary depending on where the storm originates. For South East Asia, the season runs from May through November, for the U.S. East Coast and Caribbean it's June to November, and East Asia, the South Pacific and Australia are on watch from November to April.

Unpredictable Industry Events: When Hanjin Shipping Co. of South Korea filed for bankruptcy in 2016, nearly $14 billion in goods were left in limbo out in the sea. Owners were left in the lurch, unable to get their inventory until Hanjin had enough money to pay port and landing fees. While the ultimate bankruptcy of Hanjin wasn't predicted, their financial struggles combined with historically low ocean freight rates were well known. Shippers with Hanjin contracts that relied heavily on the Korean carrier felt the biggest impact after their collapse.

How to Plan Ahead for Both Types of Risks

When it comes to shipping your goods, knowing the risks can help you plan accordingly. It's important to have contingency plans in place.

There are a number of ways that you can plan ahead for all these predictable and unpredictable risks. However, it can be difficult to keep up with industry news, holidays, union contract negotiations and the weather when you have a business to run. Your logistics partner can help as they keep current on events and inform you when something may affect your shipments. Also, in the event of a delay, they'll work with you to keep your supply lines flowing.

Status Quo as a Risk in Your Supply Chain

"The riskiest thing we can do is just maintain the status quo." – Bob Iger, Disney CEO.

When it comes to your business' supply chain, you might find it difficult to implement changes or change the status quo. There may be a collective feeling of "this is how we have always done things." You may not even know what can be changed and if those changes would actually help your business succeed.

How do you know if you need to take a few risks and make changes in your logistics management? Ask yourself these 3 questions:

1. **Is your tracking system working for you?**

   Signs you're due for a change: You spend too much time tracking shipments. You don't know what is in each shipment. You manually track your shipments by calling or emailing your freight forwarder. If you don't have a tracking system, then it's time for an upgrade.

   A modern tracking system can do all this and more for you. It'll give you up-to-date tracking data down to Purchase Order (PO) and SKU level. Imagine what the rest of your supply chain would look like if you had instant access to this information without spending hours tracking it down yourself.

2. **Why are you using your current vendors?**

   It's important to ensure that your vendors are adding value to your business and helping you to be successful. Perform a quick evaluation of your vendors with the following questions:

   - If there is one thing you could change about your vendor, what would that be?
   - How is their communication? Are they proactive? Are they accessible when you need them?
   - What kind of technology do they have?
   - Do they have an account manager that you can talk to and consult with? Do they present ways to help you improve your supply chain?
   - How experienced are they?

   It can be a risk to change vendors or partners, but it can also streamline your processes and save time and resources.

3. Is your tracking system/freight forwarder giving you a competitive advantage?

Your freight forwarder should do more than arrange your shipments: A good freight forwarder anticipates your needs based on what's happening in the market and industry. They can look at your business and make recommendations to improve your supply chain, so you have more time to focus on you other aspects of your department.

A good tracking system can help in more than one area of the business: With a tracking system that lists SKUs along with purchase orders, you can get the information to sales right away. That in turn, gets the customer the information they need much quicker.

Everyone knows that change is hard. It's easier to go with the status quo than take a risk and make a change. But without change, you might find yourself losing out to the more progressive businesses in your industry. It's time to be that leader your logistics department needs and fight the status quo.

Supply Chain Compliance: The Essentials

The easiest way to ensure compliance in every aspect of your supply chain is to partner with the right logistics provider. As experts in shipping and logistics, they will help you manage your supply and comply with all necessary rules and regulations. However, it's a good idea to have a basic understanding of all the compliance terms that may affect your shipments. Our experts have put together a list of essential supply chain compliance terms and definitions.

CBP: This is an acronym for U.S. Customs and Border Protection, often referred to as simply Customs, which falls under the Department of Homeland Security. This government agency enforces the laws and regulations around travel and trade. For supply chain managers, this is the agency that allows your goods into the country as well as collects the corresponding duties and taxes.

Customs Broker: This is a person or firm that helps clients (i.e., you, the importer) meet federal requirements for imported products. Customs brokers submit the necessary forms and payments to get their clients' products cleared through CBP. They are also experts in the various rules, regulations and HTS classification.

Bonds: Known as a customs bond, this is an insurance policy that ensures the government will be paid for the duties and taxes on your imports. There are two main types of customs bonds, single-entry bonds and continuous bonds. As the names suggest, you can either purchase a bond for a single-entry import, or a continuous bond if you are regularly importing goods.

ISF: This abbreviation stands for Importer Security Filing, and is a requirement that came about post-9/11 to help screen cargo before it's headed to the U.S. It's also sometimes referred to as "10+2" due to the ten data elements required of the importer and two from the carrier. The ISF filing must be made by you or your designated filer (often your freight forwarder/customs broker) 24 hours before your products are loaded on a vessel destined for the U.S. This notifies the CBP about the incoming cargo, which gives them time to identify shipments that pose a safety or security risk.

Government Agencies: Depending on what your product is or the material it is made of, you may have to supply paperwork to other government agencies to get your goods into the country.

Just a few of these agencies include:

- **FDA:** The Food and Drug Administration regulates product imports such as foods, beverages, pharmaceuticals, cosmetics, medical devices and related items.
- **EPA:** The Environmental Protection Agency regulates products that affect the environment, such as pesticides, motors, and hazardous waste.
- **DOT:** The Department of Transportation regulates products used in or for transportation, such as motor vehicles or motorcycle helmets.
- **CPSC:** The Consumer Product Safety Commission regulates consumer products, such as lead levels in toys. The CPSC ensures products are safe and often works with the CBP to clear imported goods.
- **FWS:** The U.S. Fish and Wildlife service regulates the import of any wildlife (dead or alive), animal products (such as ivory), fish and plants, and all products made from plants, such as wooden furniture or guitars.

TSA: The Transportation Security Administration does more than just screen people boarding airplanes: It screens cargo too. The TSA applies only to air freight. If you are an "unknown shipper," you can only send product via cargo planes.

MSDS: This an abbreviation for the Material Safety Data Sheet, which is a form you must submit if you are importing any hazardous materials. The form provides information on the physical and chemical properties of a product, how to store it, procedures for spills and leaks, etc. MSDS forms are submitted for a wide-range of products, such as flammable materials like fireworks; certain types of alcohol (e.g., vodka); chemicals; products that could explode under pressure, lithium ion batteries, etc.

This list contains only a small fraction of the many terms used in supply chain management and global logistics. Each is important for ensuring compliance in your supply chain; however, it can be difficult to keep it all straight. Working with an experienced freight forwarder and customs broker will ensure your products are properly classified and the right forms are submitted in a timely fashion.

Looking for the right partner to help you manage risk and compliance in your supply chain? Contact Dedola Global Logistics to learn how we ensure compliance in your supply chain and help you manage risk to run your business successfully.

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