

Global Sourcing; More Control in your Import Supply Chain: Still buying CIF?

A substantial amount of goods are imported into the UK every year. With more companies deciding to outsource manufacturing, then this trend continues to grow. Indeed importing is already the norm for many companies, especially those involved in handling FMCG.

Importing involves a more distant supplier with extended transit lead times. As lead times are one of the critical components when deciding how much to order from suppliers, then knowledge and control of this lead time is necessary.

However, what often happens is that many UK buyers decide to import on CIF or C&F terms and therefore, their organisation leaves to the supplier, the organisation of the transit. Effectively therefore the associated lead time is also externalised. Importing companies will then often spend time expediting and checking where the goods are / when they will arrive etc.

Delays in transit times can also cause potential product shortages, with many impacts, for example, customer service levels and not satisfying customer requirements. With regular repeat orders, then any delayed transit times will inevitably add to increasing stock holding, as the buying company will have to hold stocks, to protect against the uncertainty of the suppliers lead time.

Benefits of changing to EXW/FOB terms

It is however possible to better control the imports by switching to Ex Works (EXW) or Free on Board (FOB) terms.

By doing this the following benefits will be realised:

- Control and knowledge of exactly what is happening; management needs to recall here that the management cycle not only involves planning, organising, directing but also controlling.
- Visibility and knowledge of exactly where the products are during the transit; as simply, the transit it is now in your control.
- Cheaper freight costs as you are now directly paying them; importers and buyers need to really believe, that suppliers are more than likely to have a margin on the actual freight costs they have paid. Even where the

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freight costs are shown as a separate item above the FOB price, then you will rarely find that anyone has checked on the validity of these charges.

How to change

Starting out

A useful place to start is to understand some of the aspects of total supply chain management, for example:

- What are your costs of holding inventory?
- What supply lead time is required
- What part of the supply lead time, is the transit lead time?
- What would be the effects of reliable and consistent on time in full receipts and how does this compare to your current situation?

Answers to these questions are always revealing and show often, how the internal structure is fragmented and unorganised to undertake effective importing.

Answers will also provide the basis for accessing the benefits of changing.

The next steps

- Ask for the suppliers EXW price.
- Negotiate freight terms, possibly by going out to tender
- Check on the track/trace system to be used. This can be a simple key point reporting with spreadsheet recording, or, an instant on demand access to a carriers system.
- Assess the risk of changing, for example, possibly extra management costs, insurance covers and freight variation rate exposures. It is important to ensure a like for like comparison with the current methods as many of the current costs may well be hidden.
- Compare and contrast
- If deciding to change, and effectively changing the buying strategy, then please ensure that the internal structure supports the changes.

What others have done

There is much evidence to support that the changes detailed above are worthwhile.

A major food retailer had spending of £1200 million on imports via third party wholesalers and £500 million on direct imports. For example, home and

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leisure products were ordered through UK agents who arranged everything to DDP. Meanwhile, beers, wines and spirits were bought EXW works or FOB with freight arranged through various forwarders. A change in management identified that they had:

- no systems
- no cost visibility
- no economy of scale
- poor product availability
- an internal fragmented structure; for example, Trading on product selection, negotiations, selection of suppliers, and ordering; Finance on letters of credit, payments; Logistics on order quantity and phasing into supply chain

The company tendered and then outsourced to one forwarder but maintained and determined carrier selection when appropriate. The reported results were:

- Freight costs fell by 8 per cent
- Duty charges reduced by 10 per cent
- Fuller visibility of supply chain
- Reduced stock levels
- Centralised the previous fragmented internal control as a new structure followed the new strategy

A major clothes retailer with nearly 200 stores had 70% of products imported, mainly from Far East. They identified that they had the following problems:

- No accurate data therefore no visibility
- Orders arrive "unexpectedly"
- 40% time spent of phoning/checking
- Paid high demurrage/rent port costs
- Restricted on buying currency forward
- Poor QC

The solution was to:

- Change from C&F to FOB and use one UK forwarder
- Set up a simple database tracking on transfer points. PO, confirmed, tariff heading, cargo booked, authorise shipment, confirm shipment, documents banked, documents received, arrival time, clearance time, arrival at DC., QC checked, released/available.

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- Integrated all their internal systems

The benefits reported were:

- Lower demurrage costs
- Improved warehouse efficiency due to scheduled arrival's
- Improved finance due to forward currency buying
- Quicker customs clearances
- Better product availability

A supplier of branded and own label cleaning products to major retailers

Cost-cutting initiatives had become a way of life in the face of major supply chain challenges. The company's supply chain manager noted that: "In the past four or five years we have had to work hard at controlling our costs at a time when there have been no price increases from our customers".

The operation therefore changed to buying products ex-works. The challenge of bringing in consignments cost-effectively is made more difficult by the low-value nature of the products, many of which are very light and use up large quantities of space. The companies' continued success is seen as directly related to its freight cost management and arrangements.

Stuart Emmett is a freelance independent trainer and consultant who trades under the name of Learn and Change - Stuart believes that in times of change, it is only those who consciously learn, that will inherit, a successful future.

Stuart has operational and strategic experience in varied commercial service industries - gained in the UK and Nigeria - and is particularly interested in the "people issues" of management processes, as well as logistics and supply-chain management.

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