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MASTERING GLOBAL TRADE at Fonterra

How the World's Leading Dairy Exporter Revamped Its Customs Management and Trade Documentation Processes to Reduce Compliance Risk and Increase Productivity

by Lauren Bonneau, Managing Editor

Imagine that your global business exports goods to over 3,500 customers in 140 different countries. Now imagine that this business represents a staggering 30% of the world's trade of your industry's products, and even more astounding, 25% of your country's total exports. In a situation such as this, the software platform that manages your global trade processes — and their associated revenue — has to handle a significant volume of transactional data. If this system were to fail, your business would run out of storage space to hold your products within weeks. Having a dependable, scalable, and stable solution for global trade is a critical success factor for your business.

This scenario isn't fictional. It's a real-world example of a unique challenge that a leading international dairy exporter, Fonterra, recently experienced. Owned by 11,000 New Zealand dairy farmers, Fonterra is a co-operative that exports 95% of its products to 140 countries — meaning that, of all the dairy goods it manufactures, only 5% are consumed within its domestic market. To help manage its large volume of exports and their associated risks, Fonterra turned to the SAP BusinessObjects Global Trade Services solution.

"It's impressive to think that one solution, SAP BusinessObjects Global Trade Services, is responsible for managing 25% of New Zealand's wealth in terms of income from exports. The volume going through this platform is quite significant in both dollar and transactional terms,"

says Clyde Fletcher, Documentation Center Manager at Fonterra. "But we don't just rely on New Zealand. We procure our products from multiple countries to try to spread the risk. We also export out of Australia, the United States, Latin America, Europe, and Asia."

Taking Stock of Risks Associated with Exporting

Fonterra handles more than just physically exporting goods. The company prepares all the trade documents for the exports and then sends them to its customers to facilitate the import. For example, in a typical export transaction from New Zealand to the United States, first you need to send the importer an Import Security Filing (ISF) advice document followed by an export declaration to New Zealand Customs to get the goods out of the country. Next, a commercial invoice and packing list are required, and you may also need to submit a certificate of origin or a health certificate. Finally, you need a transport document — for example, a bill of lading, a seaway bill, or an airway bill. And this process is just for one export to the US. Another transaction might require 15 different documents, and these could be in multiple languages or need to be approved by different agencies, such as a chamber of commerce, inspection agency, consulate, or embassy.

As a company that exports such a large volume of products, Fonterra has to take great care in mitigating trade compliance risks, such as commercial risk (ensuring proper documentation of sales contracts with customers), meeting country-specific export and import regulations, market access requirements, post 9/11 security requirements, and trade sanctions.

"In today's environment, if you get a container number or seal number wrong, that can impose quite a financial penalty on the exporter," Fletcher says. "If production and expiration dates on your product stamps or labels don't match what your documentation reads, you could be subject to a fine or your product could even be confiscated and destroyed for documentation errors."

Processing trade documents with incorrect or inaccurate data opens your business up to a host of compliance risks. For example, Rekha Baptista, Manager of GTS Projects at Fonterra, says, "If you have fewer quantities of products declared on your documents than you have in your containers at the importing customs authority, you could be accused of smuggling."

Moving to a Newer, More Stable Global Platform

To properly manage all of these risks and regulations, Fonterra wanted one global platform for its entire export documentation. The company found its solution with the SAP BusinessObjects Global Trade Services application. "Fonterra wanted a global platform for two primary reasons: One was to increase our productivity to handle the huge volume of transactions that's increasing year over year, and the second reason was to reduce trade compliance risks," Fletcher says.

"We looked for a platform that could best meet our needs with minimal development and that had the tools for the future — the workflows, process tools, and building blocks we could use to move ahead," he adds. "And we wanted that platform to be strategic in the sense that we could use it for import transactions on a global scale as well."

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Clyde Fletcher
Documentation Center Manager, Fonterra

According to Fletcher, while Fonterra's previous software for global trade was a good solution, it required replacement because it wasn't on a stable platform for the 21st century, nor was it capable of meeting the company's goals of increasing productivity and reducing compliance risks.

Using SAP BusinessObjects Global Trade Services, Fonterra exports goods from three countries — New Zealand, the US, and Australia — to 140 countries, so there is a tremendous amount of master data that its global trade application has to manage, including:

- What documents are required for which product, Incoterm, payment term, country, and customer combination
- Who the issuers of those documents are
- What the content of those documents should be
- How the documents are to be signed and dispatched to the customer (for example, manually or electronically authenticated, emailed, couriered, or uploaded to an FTP site, and so on)

SAP BusinessObjects Global Trade Services has the ability to handle all of that master data and therefore automate the document selection process. The application's rules-based compliance engine mitigates risk earlier on in the transaction.

"SAP BusinessObjects Global Trade Services is such a broad product that many different SAP customers use the solution differently," Fletcher says. "But I would say the majority of customers predominantly use it in its compliance role versus its documentation role — whereas we use it for both."

Baptista concurs: "With this application, most companies are focusing on compliance management or license management. Our primary focus is the customs management area, which is the module where the trade documentation is generated."

ACHIEVING **6 KEY BENEFITS** WITH SAP BUSINESSOBJECTS GLOBAL TRADE SERVICES

Fonterra developed a framework of key strategies to enable its documentation center to move forward on one global platform. Following these strategies, the company is achieving six key benefits.

1 Increased productivity. In the first year of operating SAP BusinessObjects Global Trade Services, Fonterra experienced a 25% productivity increase. "We've mapped out some more development enhancements, and we're reasonably confident that, after four years of using the application, we will achieve a 100% productivity increase," says Fletcher.

2 Reduced risk. Fonterra sees that SAP BusinessObjects Global Trade Services has improved the visibility of its compliance issues. "This application is quite pivotal for reducing risk when exporting from one country to another," says Fletcher. "People no longer have to look at systems and processes, trying to figure out what documents are required from the commercial contracts, what data is on the documents, and how to get the documents to the customer. All of that is automated."

3 A move to electronic documents. Fonterra wants to move away from paper-based documentation and process all trade documents electronically, such that SAP BusinessObjects Global Trade Services can automatically upload data to and from multiple source systems, banks, carriers, chambers, embassies, health departments, and customs offices. Currently, Fonterra is considering doing an electronic bills of lading project, which will enable banks and customers to take title of the goods electronically.

"To do all this, we need to be able to send data across borders electronically," Fletcher says, adding that this electronic exchange is contingent on the customer and the regulatory environment receiving the data. "In order to process electronic documents, you have to work with service providers, commercial and governmental," he says. "In time, all customers will accept electronic documents — as technology, legislation, and people progress," he says.

4 One unified platform. As a result of deploying SAP BusinessObjects Global Trade Services to the US, Australia, and New Zealand, Fonterra is doing 80% of its export business through the application. "We believe we can deploy this global platform to the remaining 20% of the business so that the entire Fonterra global trade operations are on one platform," says Fletcher. When Fonterra finishes its rollouts of the application, 100% of its export transactions will be managed with SAP BusinessObjects Global Trade Services.

5 Centrally managed processes. Fonterra divides all of its export transactions into two colors: red and green. Green-lane workers generally work with simple transactions, while red-lane workers process more complex transactions for countries that require more data-rich documents, which often involve foreign language documents or documentary credits. SAP BusinessObjects Global Trade Services manages processes for both red-laners and green-laners and has enabled Fonterra to centralize red-lane processing. This means that all complex transactions are done in New Zealand, and all green-lane transactions are decentralized in Australia, New Zealand, and the US.

"The solution is capable of centralization and decentralization, and this unique feature provides great flexibility," says Fletcher. "We're creating a centralized center of excellence in New Zealand where SAP BusinessObjects Global Trade Services users go for best-practice ideas, technical knowledge relating to global trade documentation, or system support. This center of excellence drives uniform standards and processes across all the users. It's supported centrally, but the discipline built into the solution also allows this support to be done remotely."

6 More efficient workers. The automation that SAP BusinessObjects Global Trade Services provides has enabled Fonterra's documentation center staff to use what's called "desktop management," in which the majority of its workflow — including which documents go to whom, when they need to be processed, and what stage of production they're at — is completed through a desktop computer, not on paper. Green-laners use very little paper, whereas red-laners tend to use a lot more.

"The difference between the red and green is quite sharp. For example, with the green lane, it is 70% straight-through processing — meaning there's minimal human involvement in the transaction — and with the red lane, it's 40% straight-through processing, and the remainder is partially automated or completely manual," Fletcher says. "But with the new global platform, the red-laners are using a lot less paper than they previously needed to manage their work. By 2020, our aim is to automate the green lane 100% and automate the red lane at least 80%."

When the application pulls information for the trade documents, the source data comes from Fonterra's SAP ERP and JD Edwards back-end systems. Baptista says that this seamless integration is a huge benefit. "With our previous software, we used a middleware application to receive data from our source systems, and often we had a lot of delays in the interface," Baptista says. "SAP BusinessObjects Global Trade Services directly connects into SAP ERP so the data flow happens much more smoothly and in a timely manner. It's real time."

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Rekha Baptista
Manager of GTS Projects, Fonterra

Rolling Out the Application

Fonterra's first deployment of SAP BusinessObjects Global Trade Services went live in December 2008 with a pilot project in the US, which represents 5% of the volume of exports running through the application. In May 2009, Fonterra went live with New Zealand, which represents 90% of the application's export transactions. The remaining 5% is Australia, which went live in July 2009.

"Even though we only deployed the export side of the application in three locations, we've captured 80% of our export volume for international transactions because those locations represent a clear majority of our export business," says Fletcher. "So we're using SAP BusinessObjects Global Trade Services for export transactions with a strategic eye on rolling out the platform to 100% of our export markets."

Baptista adds that because the export deployments have been so successful, Fonterra is already looking to use the application for import transactions as well. "Our import deployments are also a project we're looking to complete in the next two or three years," she says.

Reaping the Benefits

According to Fletcher, Fonterra's users love the new system. In the US and Australia, these users include a handful of trade documentation and customs compliance workers. In New Zealand, another 50 users use the application more regularly, including team leaders and trade specialist support staff who are involved in testing, improvements, and incident management.

"It used to take a number of months to train employees to use the previous solution when they joined Fonterra in the documentation center," Fletcher says. "Now, we're able to train our staff a lot quicker. It takes inside of two weeks for them to learn the processes and get going by themselves — and the output is high."

Where to Look for Help

Fonterra became one of the founding members of an executive product influence council that SAP established last year to focus on SAP BusinessObjects Global Trade Services specifically. Both Fletcher and Baptista recommend that those involved in or considering implementing the solution participate in this council to learn as much as possible. "People can underestimate what's involved in a project like this in terms of resources, understanding of the business, and understanding of the product," Fletcher says.

For those customers who choose to look to outside resources for help with their implementation, Baptista suggests that they look carefully. "Be sure to find a consultant with a good knowledge of the application, together with a good understanding of trade documentation," she says. ■

At a Glance

Fonterra

Headquarters: Auckland, New Zealand

Industry: Dairy manufacturing

Revenue: NZ$16 billion

Employees: 15,600

Company details:

- Co-operative owned by 11,000 New Zealand dairy farmers
- Serves 3,500 customers in 140 countries, including large enterprises like Mead Johnson and Kraft Foods
- Represents 30% of international dairy trade and 25% of New Zealand's exports
- Exports 95% of the dairy products it produces

SAP solutions:

- SAP ERP
- SAP CRM
- SAP SRM
- SAP BusinessObjects Global Trade Services