

# BENCHMARK REPORT

## Export Compliance Management:

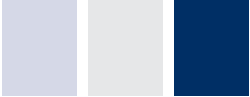
*Best Practices for Managing Export Compliance to Support  
Globalization and Reduce Your Risk Profile*



One Meadowlands Plaza  
East Rutherford, NJ 07073  
(201) 935-8588  
Solutions@ManagementDynamics.com  
www.ManagementDynamics.com

**Management  
Dynamics Inc.**  
POWERING GLOBAL TRADE®

Braumiller  Schulz LLP



Executive Summary ..... 2

Survey Objective and Demographics ..... 3

Survey Findings Point to Multiple Challenges ..... 4

Best Practices: Product Classification ..... 10

Best Practices: Restricted Party Screening ..... 12

Best Practices: Managing Export Transactions ..... 15

Conclusion ..... 20

Given the advantages today's U.S. exchange rate offers and the fact that more companies are looking for ways to increase profits, there has been a rise in the number of U.S. companies adopting exporting strategies.

With this increased opportunity to sell goods overseas, U.S. firms need to be reminded that they are responsible and held accountable to the U.S. Government for providing specific information regarding the export products. Penalties for non-compliance can be severe and result in monetary fines, jail time, or loss of export privileges.

Yet not all companies are aware of the U.S. government's complex export compliance rules and regulations. Others are unsure about the processes and information the government requires. Further, not every company does a full and complete job of reporting the necessary information and meeting the requirements of export compliance, thus putting their firm at risk.

Export compliance can also be tedious and complicated work especially because rules and regulations are constantly changing. For companies that do this job manually and are understaffed, the task can be overwhelming. There are also many risks involved in the process such as misplacing critical documents or underestimating how many resources and people are needed to do the job. Given today's economic and political environment, one can only expect increased enforcement of compliance rules.

Firms can easily avoid many of these issues by using export compliance software to automate the process.

By automating the process with export compliance software, companies find that they can more efficiently manage their compliance responsibilities. The software can help companies save time as well as alleviate the burden of knowing every requirement detail and whether it is up-to-date. This is especially the case with the increasing number of countries to which firms export. A company's compliance program always

increases significantly as it exports to more countries.

There are many other benefits to automating the export process. By not having to be bogged down with researching each rule and regulation associated with each export and country, a company can scale up its export program faster and even take on new international markets. The software simply automates the process rather than having individuals in the company do it on their own. Information can be easily shared with partners, such as the freight forwarder so that he or she can complete shipping documents. In addition, information in the software is continually updated.

Companies that do not automate, and hence do not have the proper licenses or paperwork for export could face delays at the border. Such delays cost a firm both time and money. However, if a firm knows in advance which licenses are needed for certain products and have the proper paperwork, delays can often be avoided.

Automation also becomes an enormous benefit in today's corporate world of business mergers and acquisitions as well as for companies taking on new product lines. Automation provides a "paper trail" and can indicate critical decisions made regarding certain exports and shipments.

After all, compliance is a must and if not done properly, there could be significant penalties and consequences. However, with automation a company can achieve greater compliance, operational efficiency, and cost savings.

This whitepaper profiles export compliance programs across the gamut of large, small, and medium-sized enterprises in a wide sector of industries to reveal key challenges these companies face in managing these programs and determine how software is used in the process. The paper addresses best practices for restricted party screening and managing export transactions.

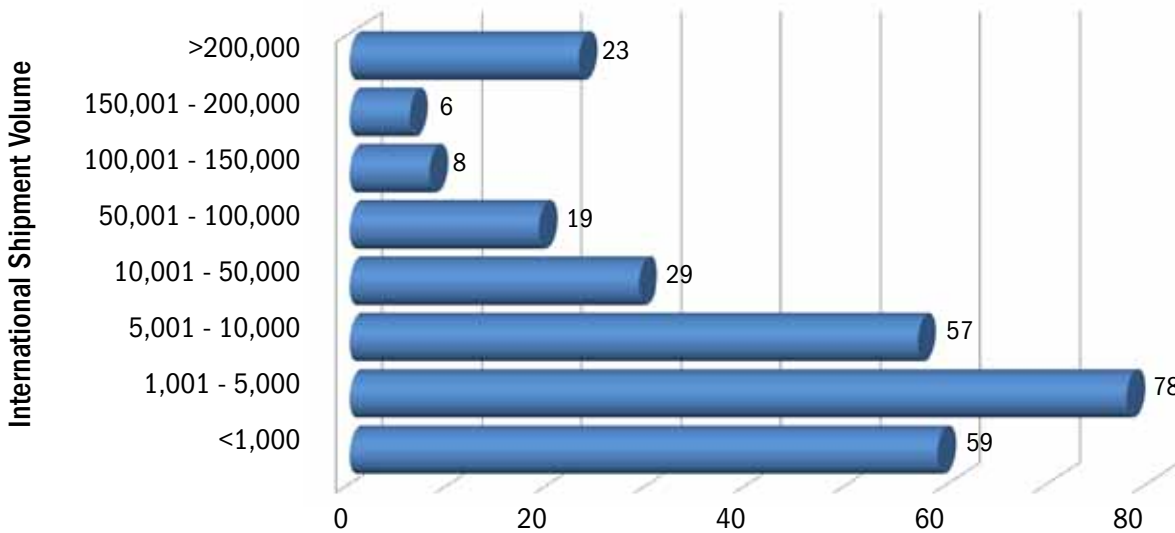
The findings in this whitepaper are the result of a survey conducted in October 2009 in which 300+ companies responded to 40 questions distributed through World Trade magazine, the International Compliance Professionals Association (ICPA), Braumiller Schulz and Management Dynamic databases, and other trade industry networks.

The survey represents a cross-section of industries, with 40% of respondents operating in manufacturing, followed by a significant representation in electronics and aerospace. Other categories from which respondents hail are chemicals, high technology, telecommunications, automotive, technology, oil and gas, retail, apparel, transportation, and communications.

**SCOPE OF STUDY**

Nearly half (45%) of responding companies indicated annual revenues of greater than \$1 billion. A number of mid-market exporters are also represented in the sample. In addition, 20% of respondents manage over 50,000 international shipments annually or approximately 190 shipments per business day.

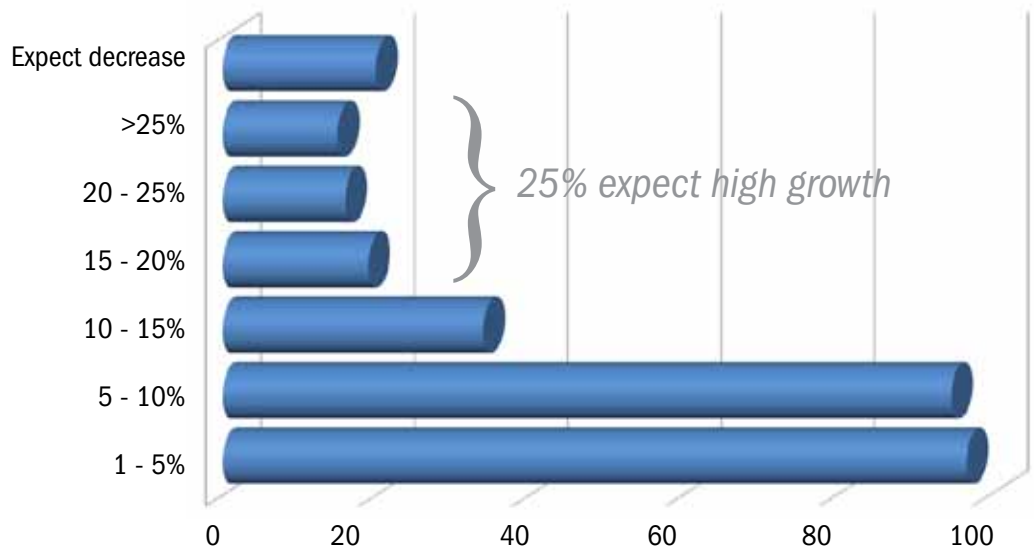
**20% OF RESPONDENTS MANAGE OVER 50,000 INTERNATIONAL SHIPMENTS ANNUALLY**



*Note: 50,000 annual shipments is equivalent to processing over 190 shipments per business day*

Roughly 80% of small and mid size company respondents indicated that they tend to process anywhere from less than 1,000 and up to 10,000 international orders per year. In addition, 25% of all respondents revealed that they expect export volumes to grow by 10% or more in 2010.

**25% OF RESPONDENTS EXPECT EXPORT VOLUMES TO GROW BY 10% OR MORE NEXT YEAR**

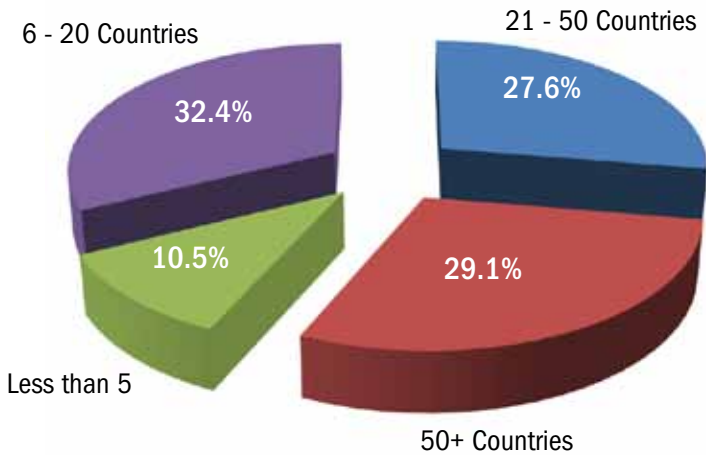


This growth is not surprising given the fact the United States is coming out of a recession and the exchange rate for the U.S. dollar is still very low compared to other currencies.

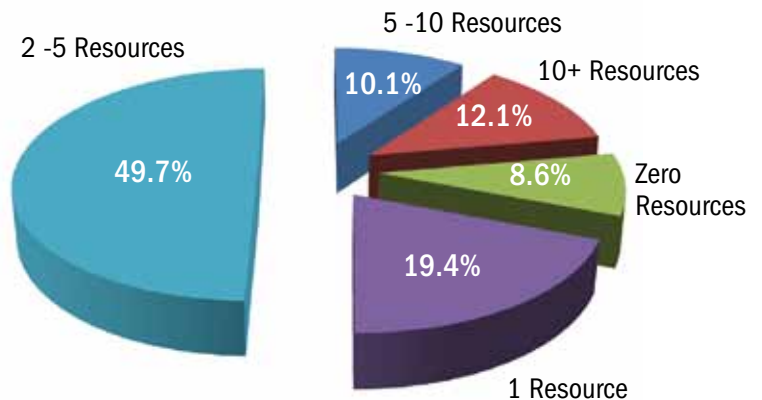
Consequently, U.S. exports are more competitive on the world market. As a result, 1 out of 4 responding companies indicated that they clearly see opportunities to increase their export volumes. However, this puts pressure on a company's export compliance management team since they are dealing with larger volumes of shipments.

On top of that, approximately 29% of respondents revealed that they export to more than 50 countries. While this percentage most likely represents larger companies, the complexity of a company's compliance program always increases significantly as a company exports to more countries.

29% OF RESPONDENTS EXPORT TO MORE THAN 50 COUNTRIES



28% OF RESPONDENTS HAVE ONE OR ZERO FTE'S IN COMPLIANCE



**Key issue:** *how can you effectively mitigate risk with a small team?*

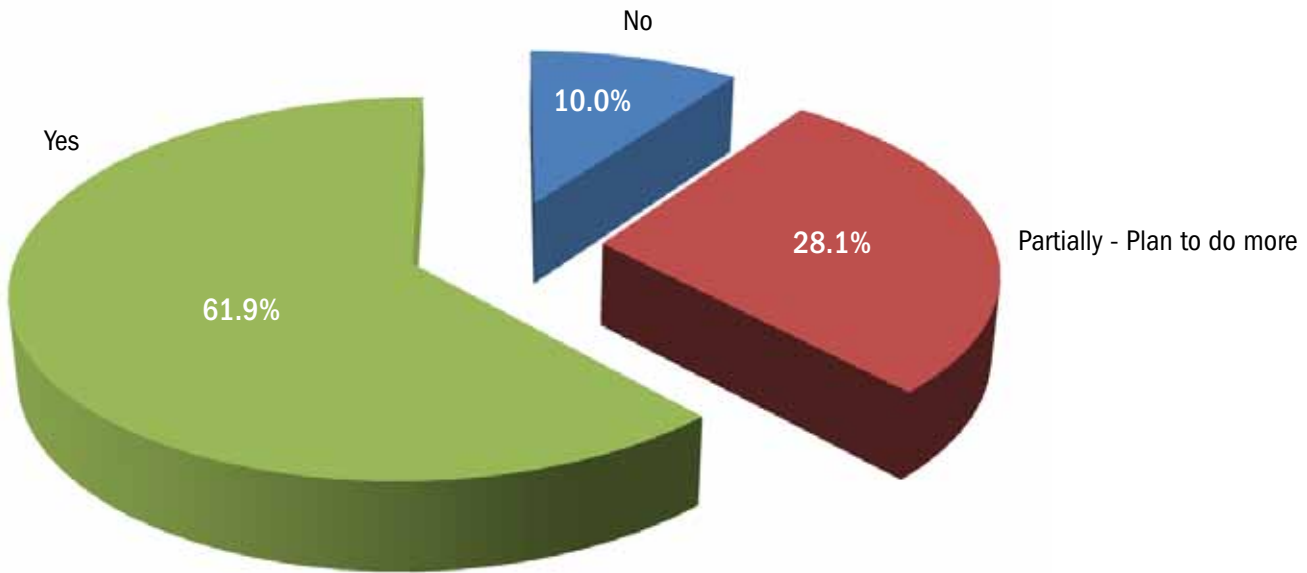
Another important, yet conflicting statistic that came out of the survey is the fact 28% of respondents have one or zero FTE's in compliance. In other words, while many companies have thriving export businesses, their export compliance teams tend to be relatively small. Consequently, this begs the question: How can these companies properly mitigate risk with such a small team?

The fact is, a lot of companies struggle to identify how many people are really needed to manage the export compliance process. Unfortunately, too often companies with very robust export activity try to manage compliance with fewer people than they should given their resources. This may be because companies often underestimate the number of resources needed to ensure that compliance is maximized to protect them while trying to navigate through all of the regulatory requirements and penalties.

**COMPLIANCE PROGRAMS**

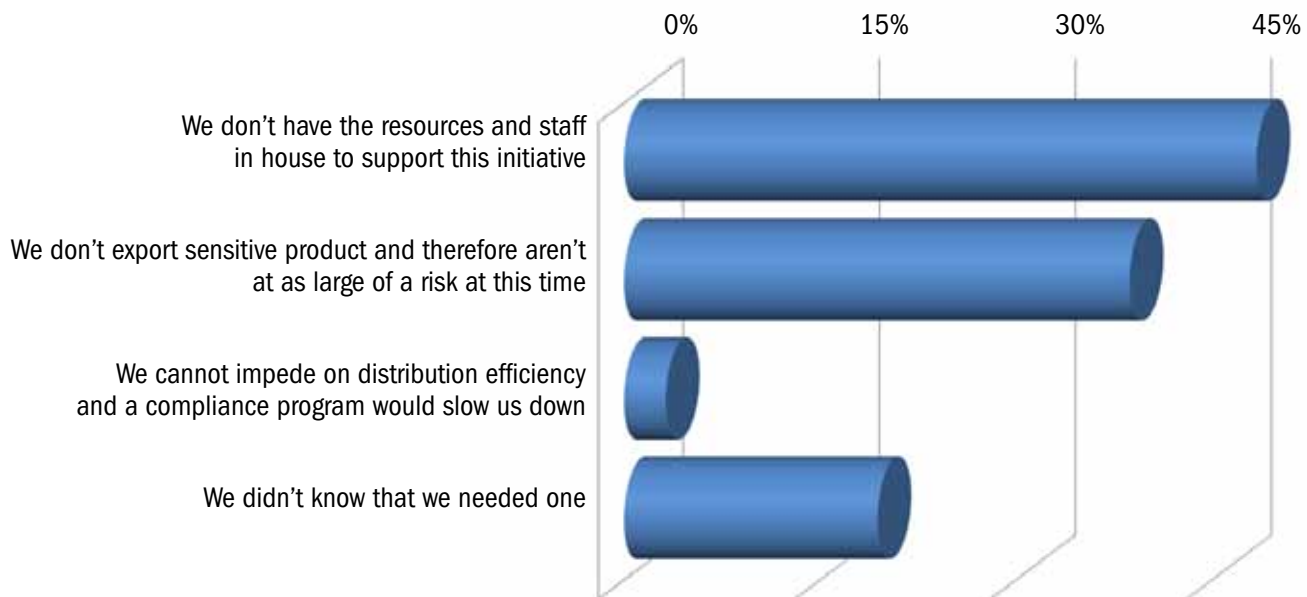
So how many companies have a full compliance program today? Of those companies participating in the survey, 62% indicated they do. And, not surprisingly, 10% reported that they do not. In addition, 28% said they have only a partial program. This could be because more and more small and medium-sized companies are adopting an export strategy as today’s economic climate is making it more attractive. While some of these companies may have introduced export compliance programs, others may not have.

**62% OF RESPONDENTS HAVE A FULL COMPLIANCE PROGRAM**



But even for those companies that have compliance programs in place, there’s the issue of whether their programs are being updated, monitored, and tested. Without those activities, it’s impossible to know if the program is effective or working as intended. Given the complexities of every business and product, companies cannot take a cookie cutter approach to export compliance programs. Companies need to look at their specific needs rather than taking a “one-size-fits all” attitude. There’s more to export compliance than simply having a program in place. It needs to be tailored to a company’s specific business and requirements.

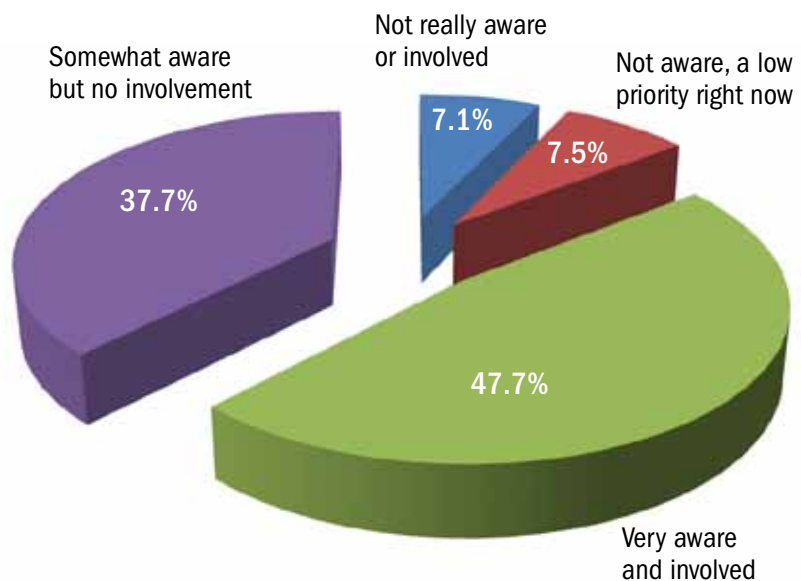
## REASONS WHY COMPANIES DO NOT HAVE A PROGRAM



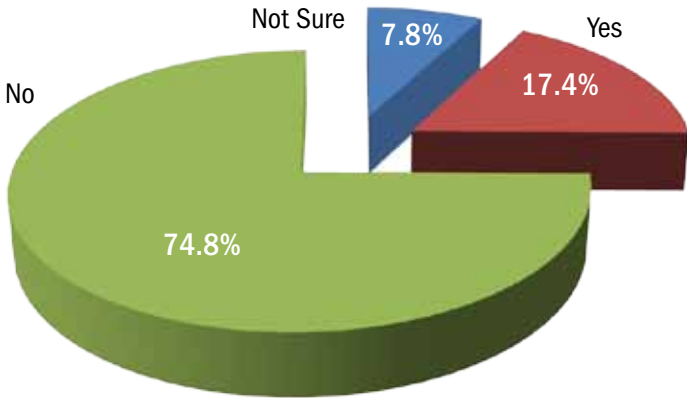
A company may not have an export compliance program for a host of reasons. For one, a not surprising 15% of survey respondents said they were unaware they needed one. The majority of 45% indicated that their company does not have the resources to support the initiative in house. Finally, 32% said they did not believe a program was necessary because they do not export sensitive products, thus assuming they are not at risk. But given the complexities of international trade and world security issues today, this kind of assumption can be dangerous.

Another key aspect of an export compliance program is making certain senior management is involved. Of the survey participants, roughly half reported that senior management is very aware and involved. Still, the other half indicated that senior management is not and were either somewhat aware of export compliance with no involvement (38%) or not really aware or involved and not making it a priority (15%). The bottom line is that if senior management is not aware or supportive of an export compliance program, the task becomes even more challenging when having to make a request for resources to support or set one up. An even more interesting dichotomy are cases where a significant number of respondents indicated their firms were in full compliance, but said upper management was not aware or involved.

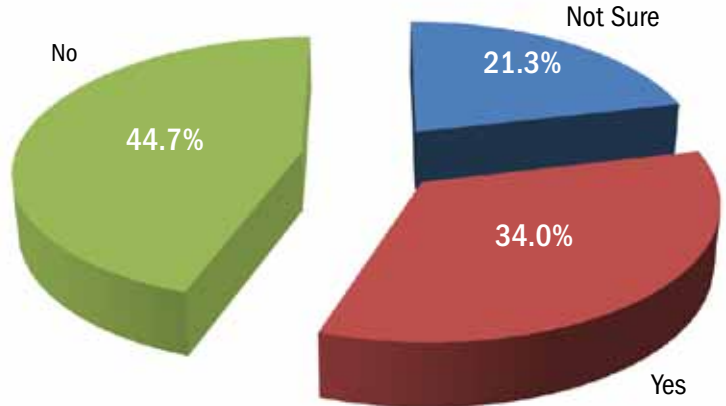
## HOW AWARE OF EXPORT COMPLIANCE ARE YOUR COMPANY STAKEHOLDERS (SENIOR MANAGEMENT)?



**NEARLY 18% OF RESPONDENTS HAVE BEEN FINED OR WARNED BY CBP FOR NON-COMPLIANCE**



**34% OF RESPONDENTS SAY A DENIED PERSON HAS ATTEMPTED TO ENGAGE IN COMMERCE WITH THEIR COMPANY**

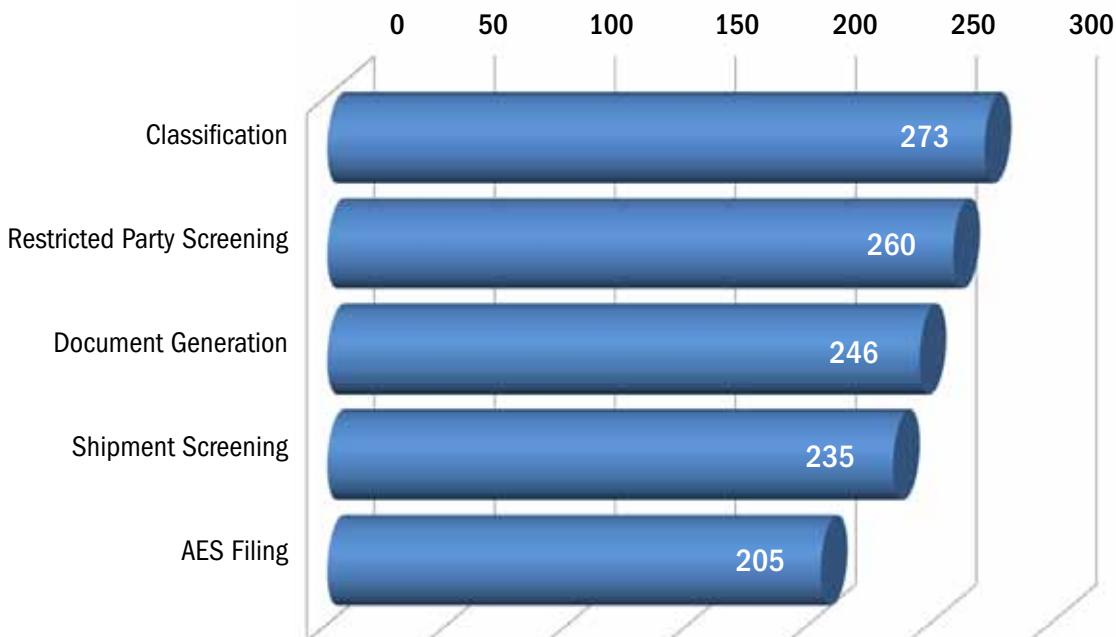


More alarming red flags become evident when identifying risk vulnerability and exposure. In the survey, 18% of respondents revealed that their firms have been fined or warned by U.S. Customs and Border Protection (CBP) for non-compliance. (Such fines often relate to Automated Export System (AES) issues, late filing of AES records, or incorrect information.)

However, it is promising that penalties have gone down over the course of the last year with the mandatory AES filing. Of concern, however, is the survey finding that 34% of respondents said a denied person has attempted to engage in commerce with their company.

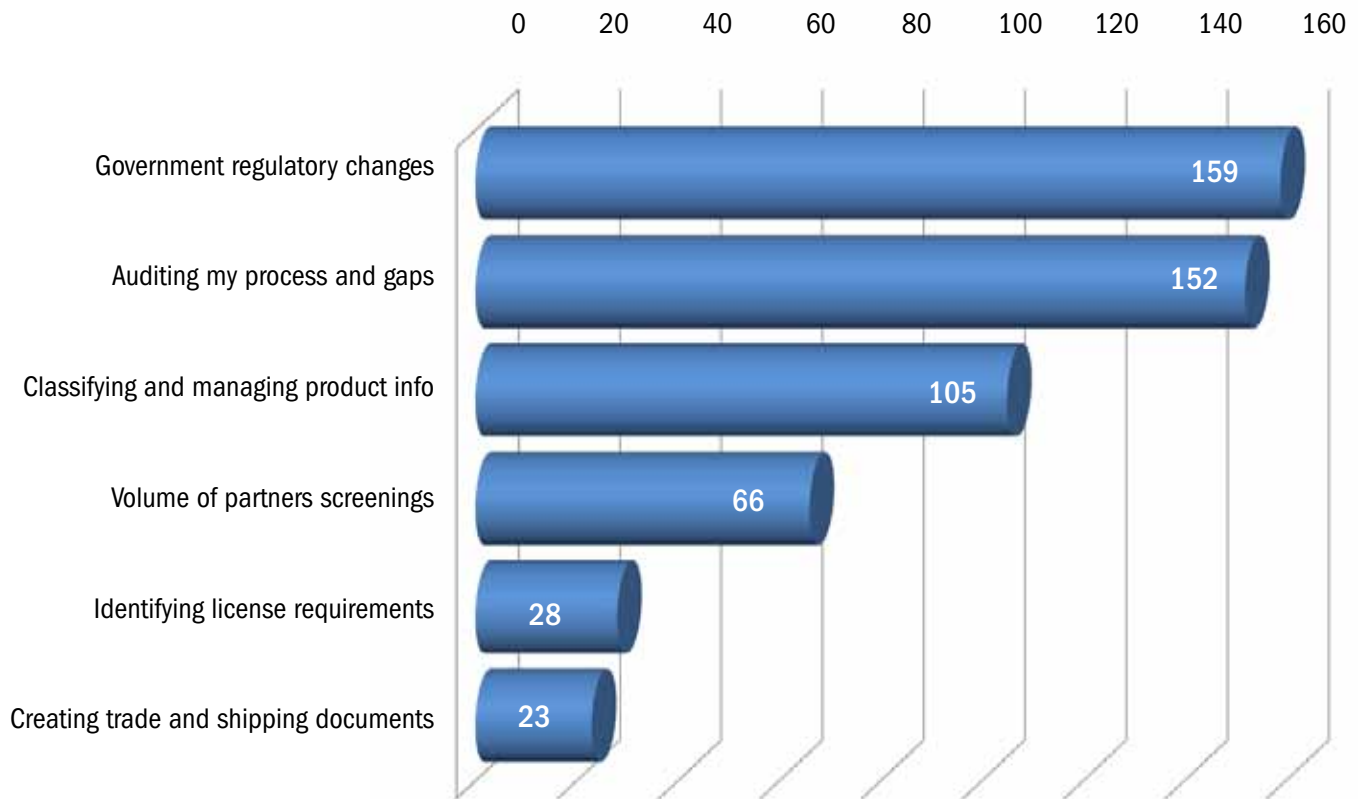
Those companies that have implemented an export compliance program indicated that they regard classification and restricted party screening (RPS) the two top compliance initiatives.

**CLASSIFICATION AND RPS ARE TOP COMPLIANCE PROGRAM INITIATIVES**



Without a doubt export compliance is complicated. For that reason, 60% of survey respondents revealed that their no. 1 challenge is the ever-changing government regulations. Following thereafter was auditing the process and gaps, classifying and managing product information, volume of partners screenings, identifying license requirements, and lastly creating trade and shipping documents.

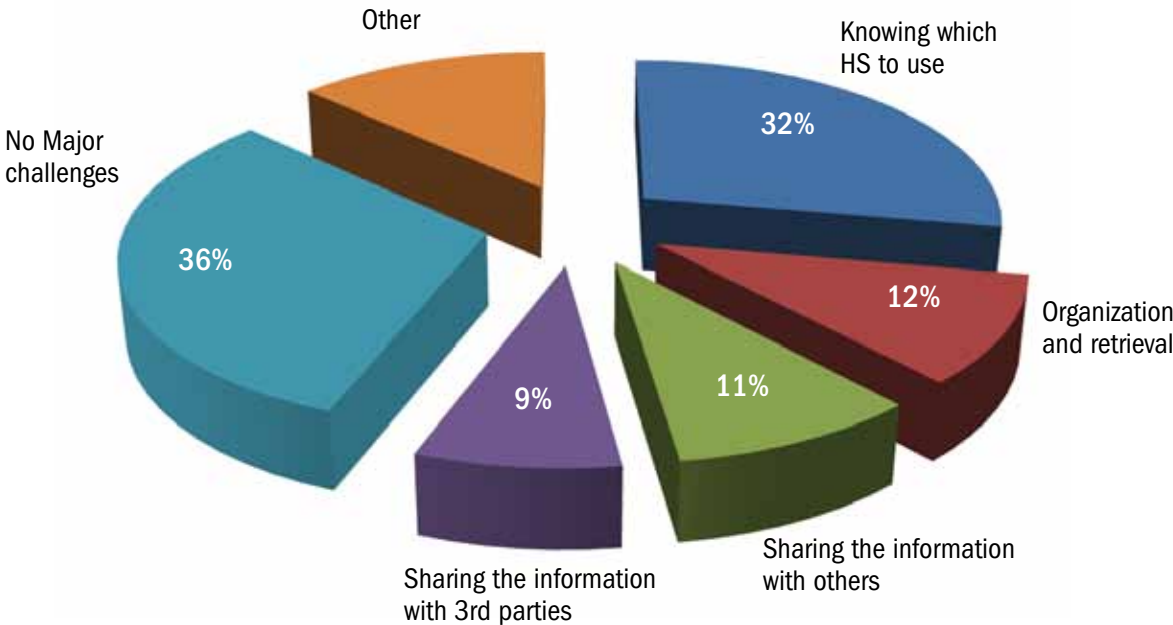
**60% OF RESPONDENTS IDENTIFIED EVER-CHANGING GOVERNMENT REGULATIONS IS BIGGEST CHALLENGE**



**BEST PRACTICES: PRODUCT CLASSIFICATION**

Approximately 32% of companies surveyed indicated that they are challenged by which Harmonized Schedule (HS) number to use, leading to improper classification, fines, or unnecessary duties. This is a particularly large hurdle for companies since there is no correlation between commerce controllers and the harmonized tariff code. The lack of correlation adds to the complexity and burden with which a team is tasked while classifying items. About 12% revealed their challenges center around organizational and retrieval issues. But 11% have problems when sharing the information with others within the company, and 9% of survey respondents indicated they are challenged when it comes to sharing the information with third parties.

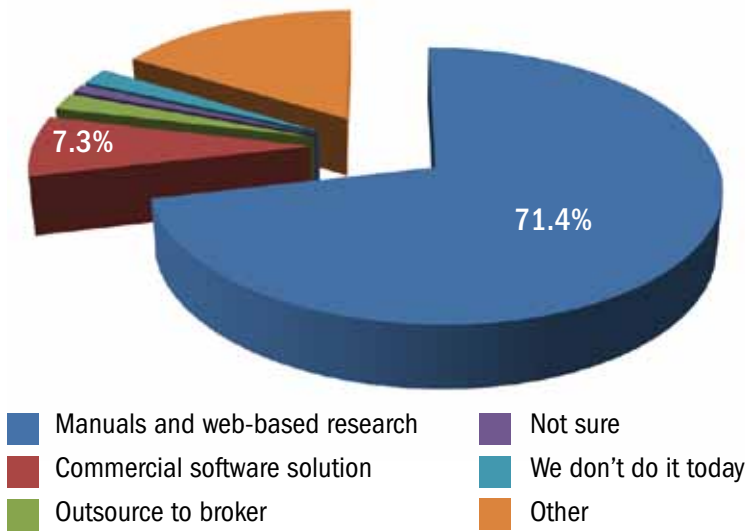
**TOP PRODUCT CLASSIFICATION CHALLENGES**



Regarding the burden and complexity of top product classification challenges, the survey also discovered that 57% of respondents need to keep non-U.S. classification information for their parts. This is important since companies that deal in exporting various parts have to use classifications regarding multiple countries. Some 28 % of the companies need to perform classification for 10 or more countries. Consequently, if a company has to deal with a large global supply chain of managed product classifications across 20-30 or even 50 countries, this increases the burden of managing export compliance.

There are a number of key considerations for managing part classification. These include storing information in a logical fashion such as by organization, country, function or business group for quick retrieval and reporting. The content repositories should also be accessible and easy to find by HS and export control number (ECN). It is also helpful to have an on-line or web-enabled mechanism to leverage collaboration across the organization and with third parties such as business partners, brokers, forwarders and even suppliers. Companies should also have some integration to an ERP or source system to synchronize product data. Larger companies, in particular, often have tens of thousands or hundreds of thousands of products. They especially will need more resource integration to keep product compliance details. Finally, audit functions are needed to record classifications, rulings, and the justification for re-classification.

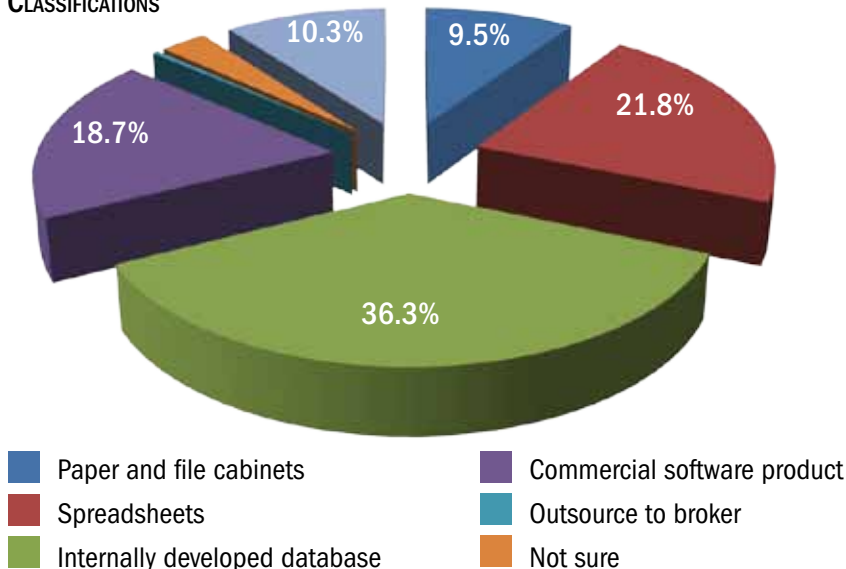
### OVER 70% OF RESPONDENTS USE PAPER MANUALS AND WEBSITES TO CLASSIFY PRODUCTS



Adding to the burden and complexity of top product classification is the fact that over 70% of respondents indicated they use paper manuals and websites to classify products. Some 36% reported that they use internally developed software tools to store product classifications.

*Over 30% of companies use spreadsheets and paper/filing cabinets to store classification details*

### 36% OF RESPONDENTS USE INTERNALLY DEVELOPED SOFTWARE TOOLS TO STORE PRODUCT CLASSIFICATIONS

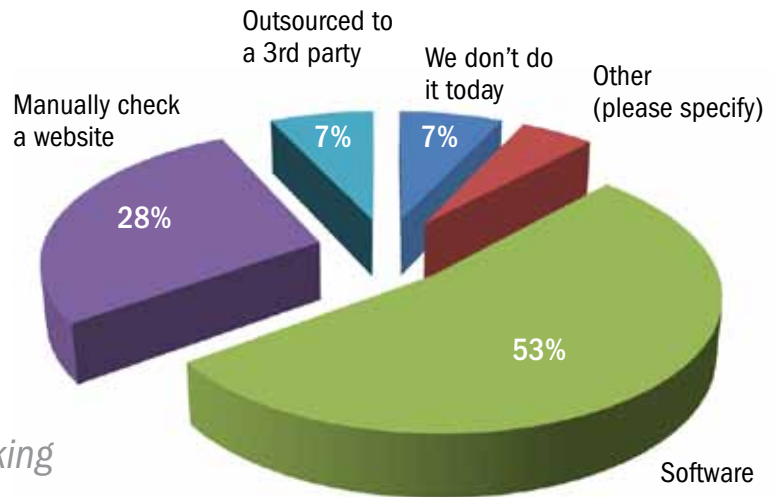


Over 30% of companies reported that they use spreadsheets and paper/filing cabinets to store classification details. That said, it is worth noting that with all of the mergers, spin offs, acquisitions, and restructurings going on in corporate America today, companies that use primarily paper or manual processes to store product classifications are advised to document results of what ever compliance issue they are researching, especially those that involve critical decisions. This way if a new compliance team comes on board, they can pick up where the other team left off.

**BEST PRACTICES: RESTRICTED PARTY SCREENING**

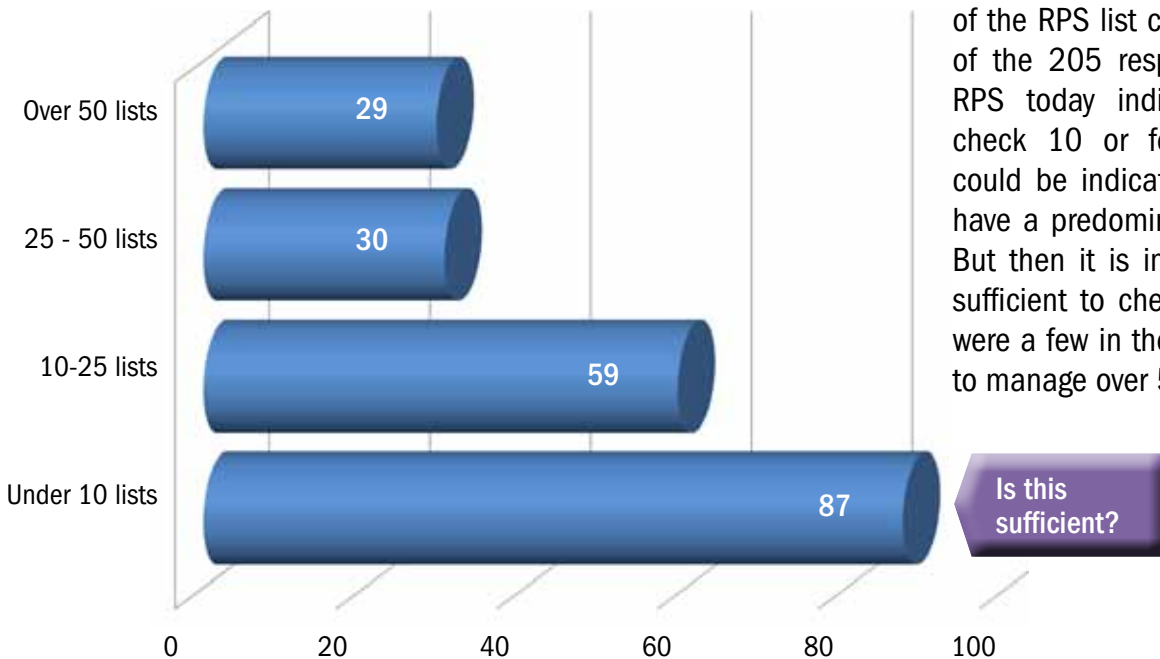
When asked how companies manage restricted party screening, 53% indicated they use software. This percentage is not surprising since multiple government websites are difficult to simultaneously navigate and search for restricted parties. Nevertheless, 28% of the respondents indicated that they still manually check several government websites while 7% do not check at all, and 7% outsource the task to a third party.

**53% OF COMPANIES USE SOFTWARE TO MANAGE RESTRICTED PARTY SCREENING**



*28% perform a manual process of checking several government websites.*

**BREADTH OF RPS LIST CONTENT**

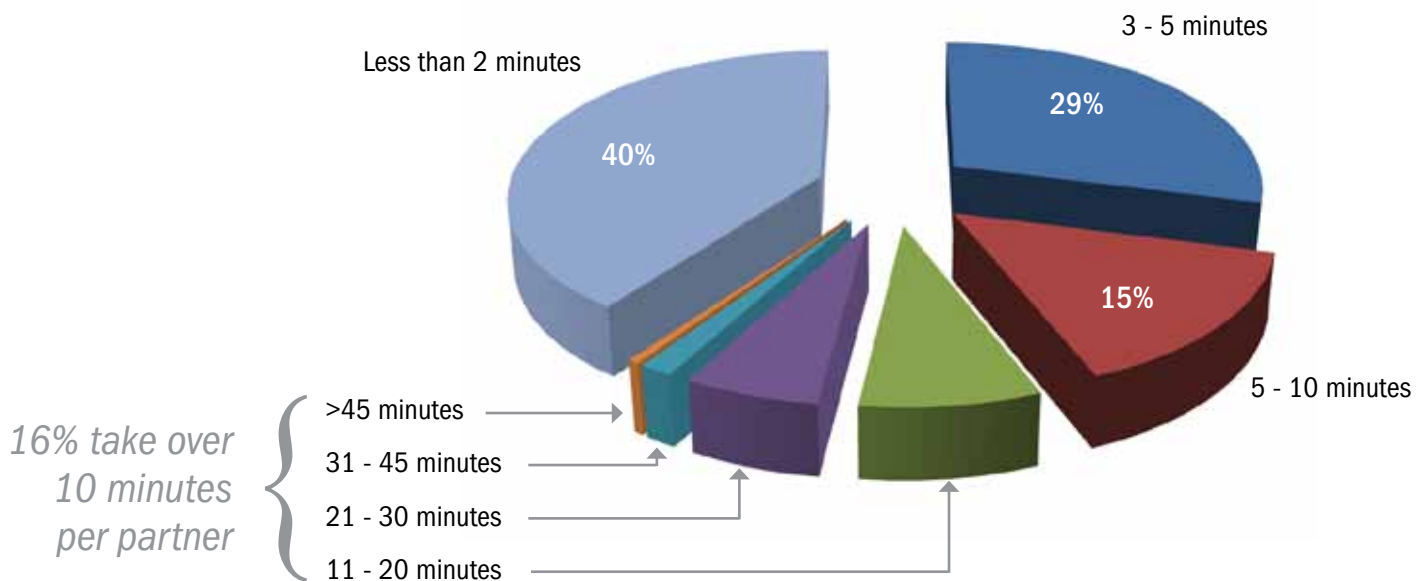


The survey then asked about the breadth of the RPS list content. Surprisingly, 87 of the 205 respondents that perform RPS today indicated that they only check 10 or fewer lists. That figure could be indicative of companies that have a predominately manual process. But then it is important to ask if it is sufficient to check only 10 lists. There were a few in the survey who were able to manage over 50 lists.

**Note:** Results from 205 respondents that perform RPS today

Next the survey looked at how long it takes companies to perform the screening process. In other words, if a company has a small compliance team and its business is growing, how does the company keep up with screening? Screening can become a full time job as the survey indicates that manual processes take greater than 5 minutes to respond to per partner. A key finding showed that 16% of respondents take 10 to 45 minutes per partner, indicating that the process is very burdensome. However, if a company is employing a software solution, it can expect to manage over 10 partners per second. Consequently, a software solution makes sense for large companies or those with a high volume of screening.

**31% OF COMPANIES THAT SCREEN MANUALLY TAKE GREATER THAN 5 MINUTES TO SCREEN ONE PARTNER**

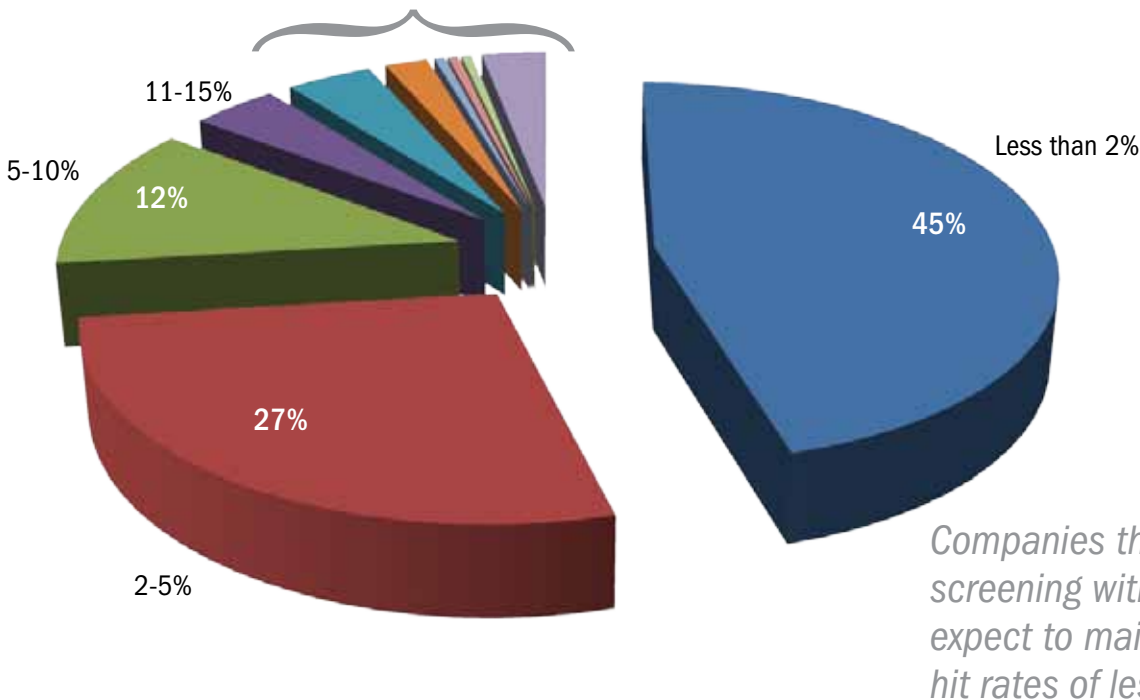


The survey also considered high volume screening operations and how long it takes to screen. A real key issue here is in false positive matches – matches that have to be researched and cleared before one can release the hold. High volume screening operations must pay attention to the rate of false positive hits.

The survey found that 16% of respondents using software experience a false match rate of 15% or greater. This equates to 150 holds a user needs to review per 1,000 screenings. That level of accuracy might be okay for smaller companies not screening as many trade partners, but untenable for larger companies that have to screen thousands of trade partners. On the other hand, the survey also found that 45% of respondents using software experience a less than 2% false positive match. This indicates that if using a good software solution, companies can expect to maintain a false positive hit rate of less than 2%.

### HIGH VOLUME SCREENING OPERATIONS MUST PAY ATTENTION TO THE RATE OF FALSE POSITIVE HITS

16% of respondents using software experience a false match rate of 15% or greater. That's 150 holds a user needs to review per 1,000 screenings.



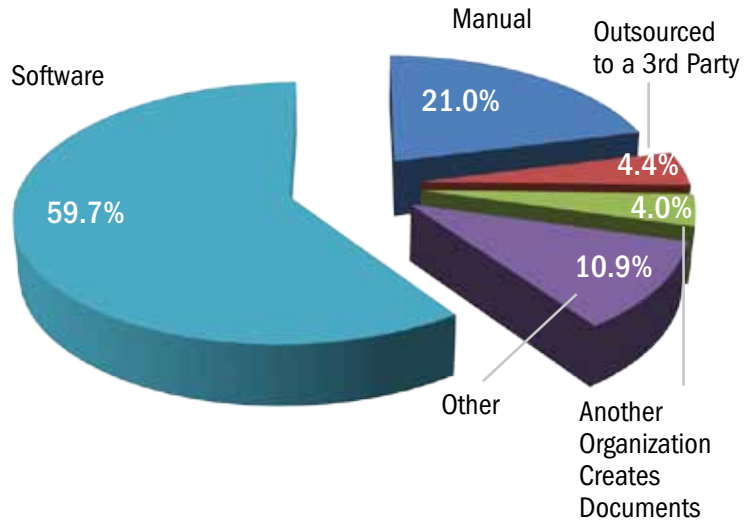
To summarize the number of sub-factors regarding RPS, the survey discovered that many lean companies will screen multiple times. They will screen before consolidation, before pick for the warehouse and before delivery -- as well as multiple places within the order cycle. Consequently, companies should have a solution that they can subscribe to based upon their supply network. Today there are over 100 restricted party lists. It is important to look for a solution that allows them to fine tune algorithms and take control of false positive hits. Companies also need tools to manage the volume of potential hits and assign these by geography and escalate issues if necessary. Companies also must make sure they can research potential hits.

**BEST PRACTICES: MANAGING EXPORT TRANSACTIONS**

From a transaction standpoint, the next question dealt with how a company creates documents when they are ready to ship. Here the survey found that 60% of respondents use software to create documents, but that 80% generate six or fewer documents. Another 21% have a manual process, and 11% have a mix between automated and manual processes.

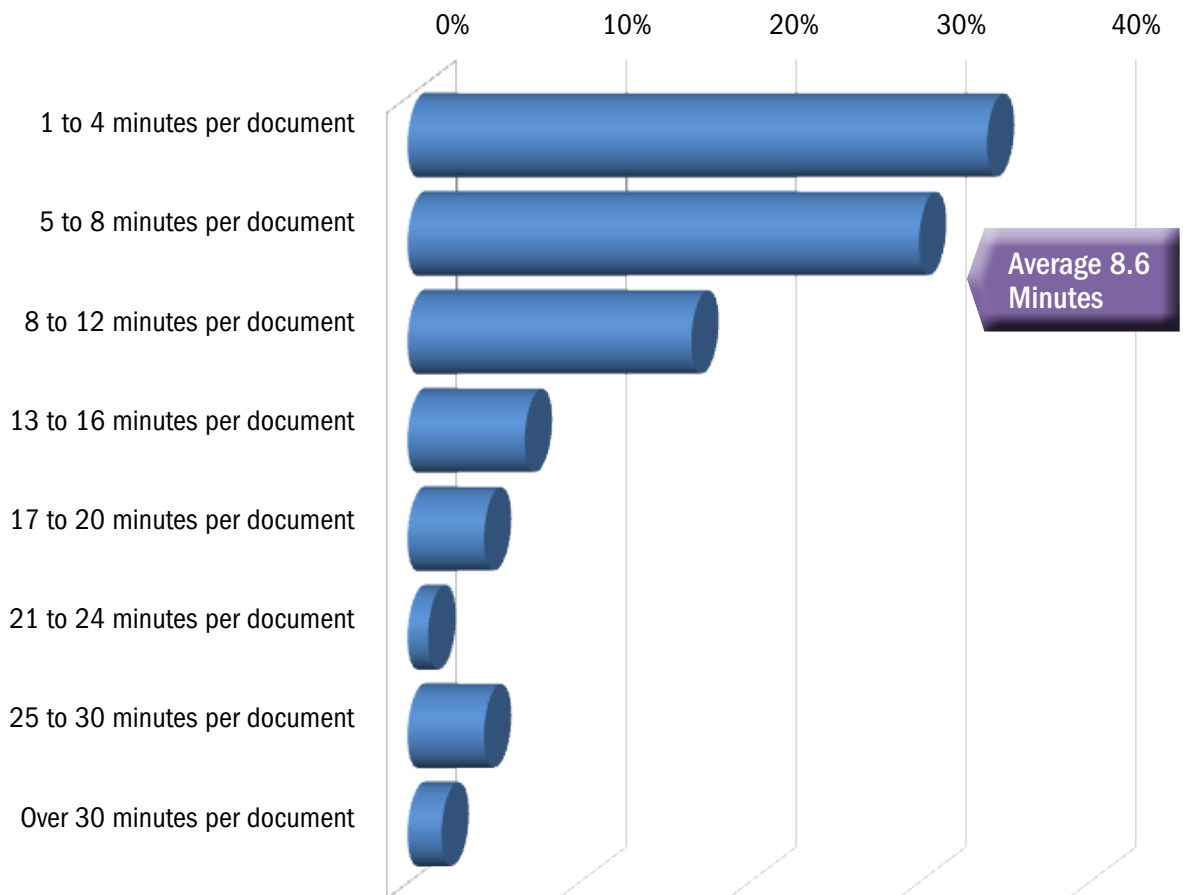
When asked how long it takes to complete a document, respondents indicated a wide range. Around 30% of respondents reported 1 to 4 minutes per document. Some 28% reported 5 to 8 minutes per document. Overall, the survey determined that on average it takes 8.6 minutes to create a document. However, if doing the process manually, it could take 20 minutes or more.

**60% OF RESPONDENTS USE SOFTWARE TO CREATE DOCUMENTS**

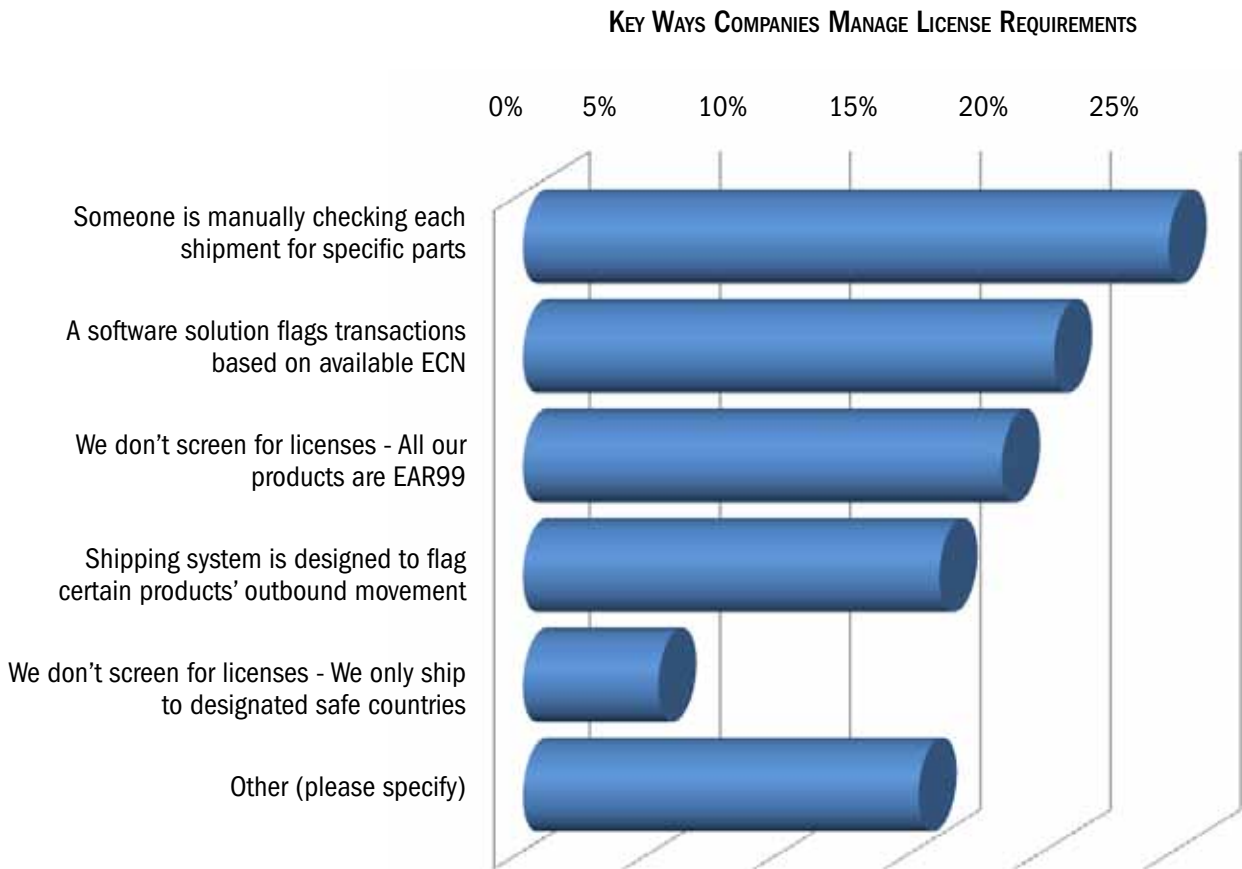


*80% Generate 6 or fewer Documents*

**ON AVERAGE IT TAKES ALMOST 9 MINUTES TO COMPLETE A DOCUMENT**



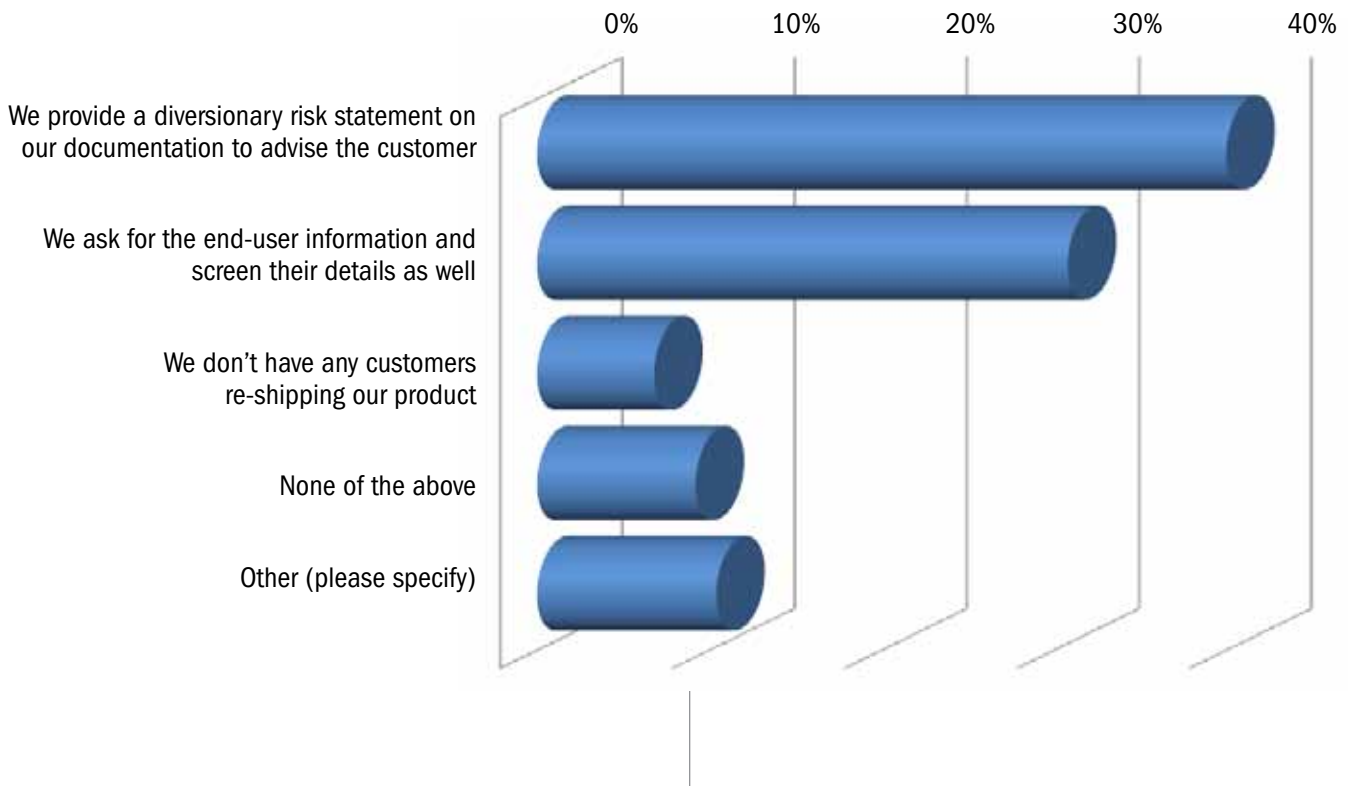
In considering the best practices for managing export transactions, respondents were asked how they manage license requirements today. Here respondents indicated that on the licensing side they tend to implement more of a manual process. Nearly 25% reported that someone is manually checking each shipment for specific parts and determining whether or not a license is required. Approximately 20% said they have a software solution that flags transactions based on available export control numbers (ECN) data. Approximately 16 to 17% reported that they do not screen for licenses at all because their products are EAR99. (It is important to note that if a company is not doing a good job at managing product compliance, something that is EAR99 today may not be EAR99 tomorrow.) The survey also found that roughly 15% of respondents use a shipping system that is designed to flag certain products' outbound movement. It also found that a small 4% do not screen for licenses because these companies ship only to designated safe countries.



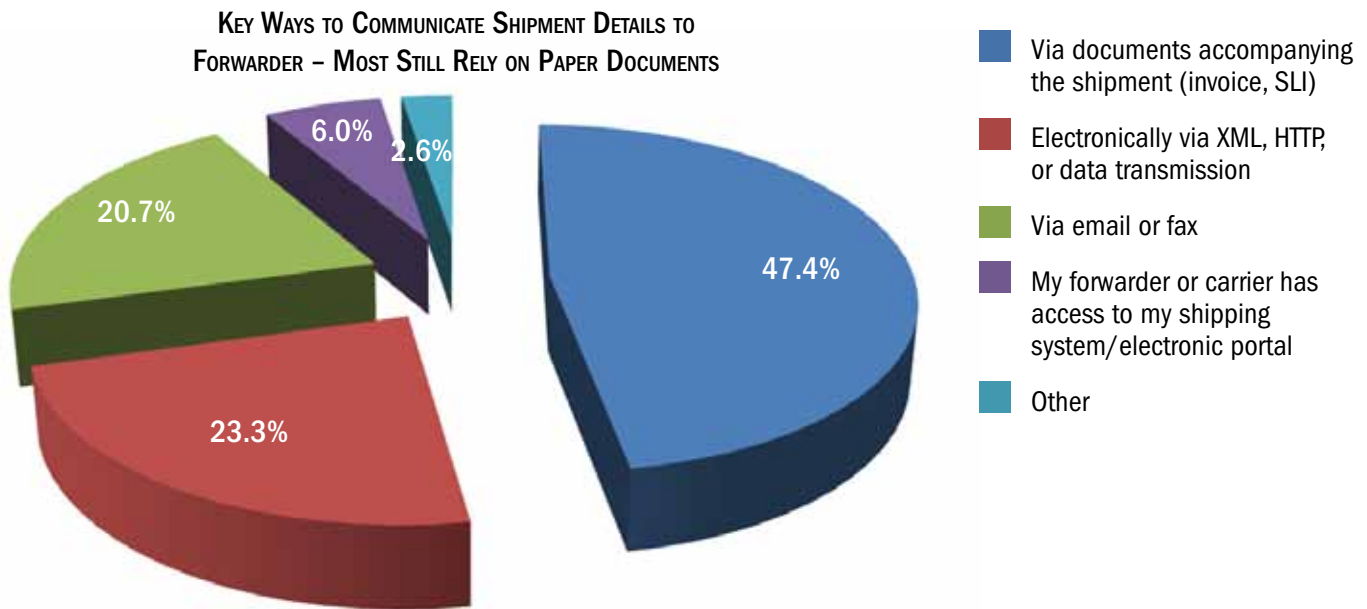
Overall, the management of license requirements is difficult because, depending on the commodity, companies must work closely with the engineers or chemists to determine content. Keeping up with the regulations as well as marrying those with the various changes in the commerce control list can be a complex and daunting task. Meanwhile, the Bureau of Industry and Security (BIS) estimates that nearly a quarter of licensable shipments were diverted from end users who had been identified to another location, or that the end user could not be located or would not cooperate. If a company does have licensable shipments, it is critical to have a good relationship and knowledge of the end user who will receive the goods in question.

Next, the survey attempted to understand the key ways in which customers manage distribution that may be prohibited to another end user. Here 40% of respondents indicated that they provide a diversionary risk statement on their documentation to advise the customer of this fact. Another 30% reported that they ask for the end-user information and screen their details as well. A small minority say they do not have any customers reshipping their product, although it is important to note: How do they really know? Placing a diversionary statement on a shipment is not sufficient to show due diligence. In fact, a company cannot do enough due diligence given potential strict liabilities and violations. (Even if a company does due diligence and the items end up in Iran, for example, then a violation has occurred. There are, however, mitigating factors. If a company tried to prevent a diversion, this that effort will be considered a mitigating factor.)

**KEY WAYS COMPANIES MANAGE DISTRIBUTION TO ANOTHER END-USER THAT MAY BE PROHIBITED**

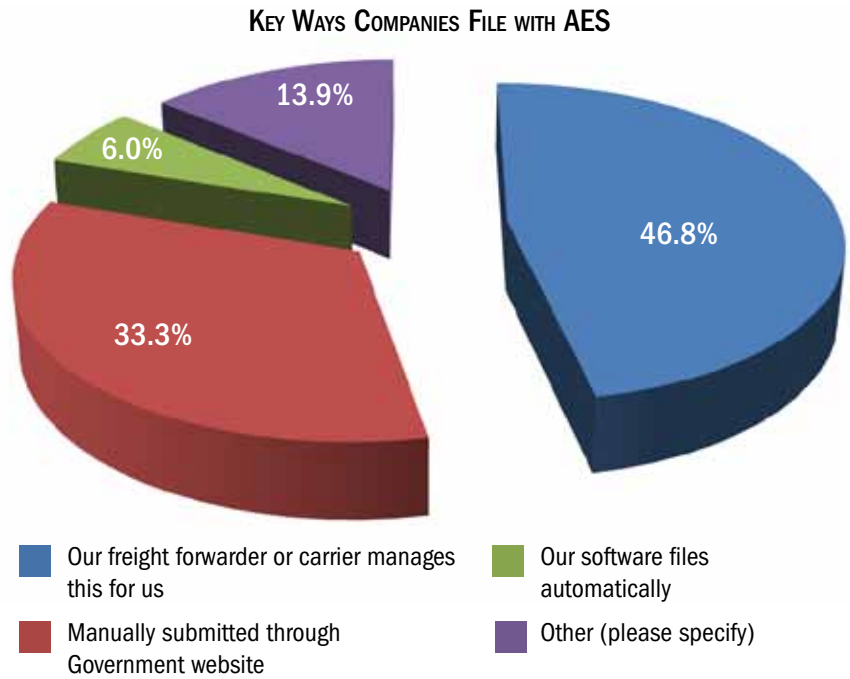


In polling respondents about the key ways in which they communicate shipment details to their forwarders, 47% revealed that they still rely on paper documents. Slightly more than 23% electronically file over the internet; and about 21% communicate by email or fax. Only a small minority (6%) indicated that they have actually opened up their compliance systems to their forwarders, thereby giving them access to the company's shipping system and/or electronic portal.

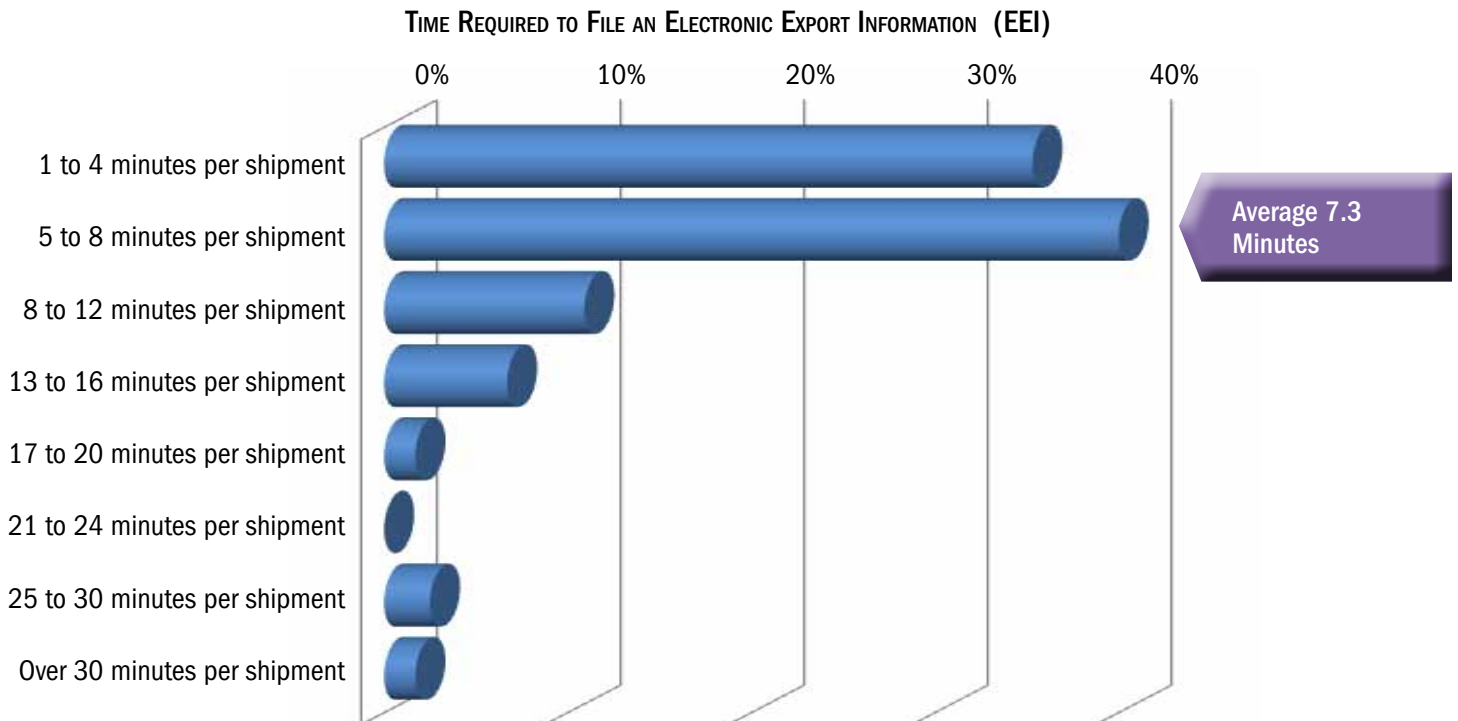


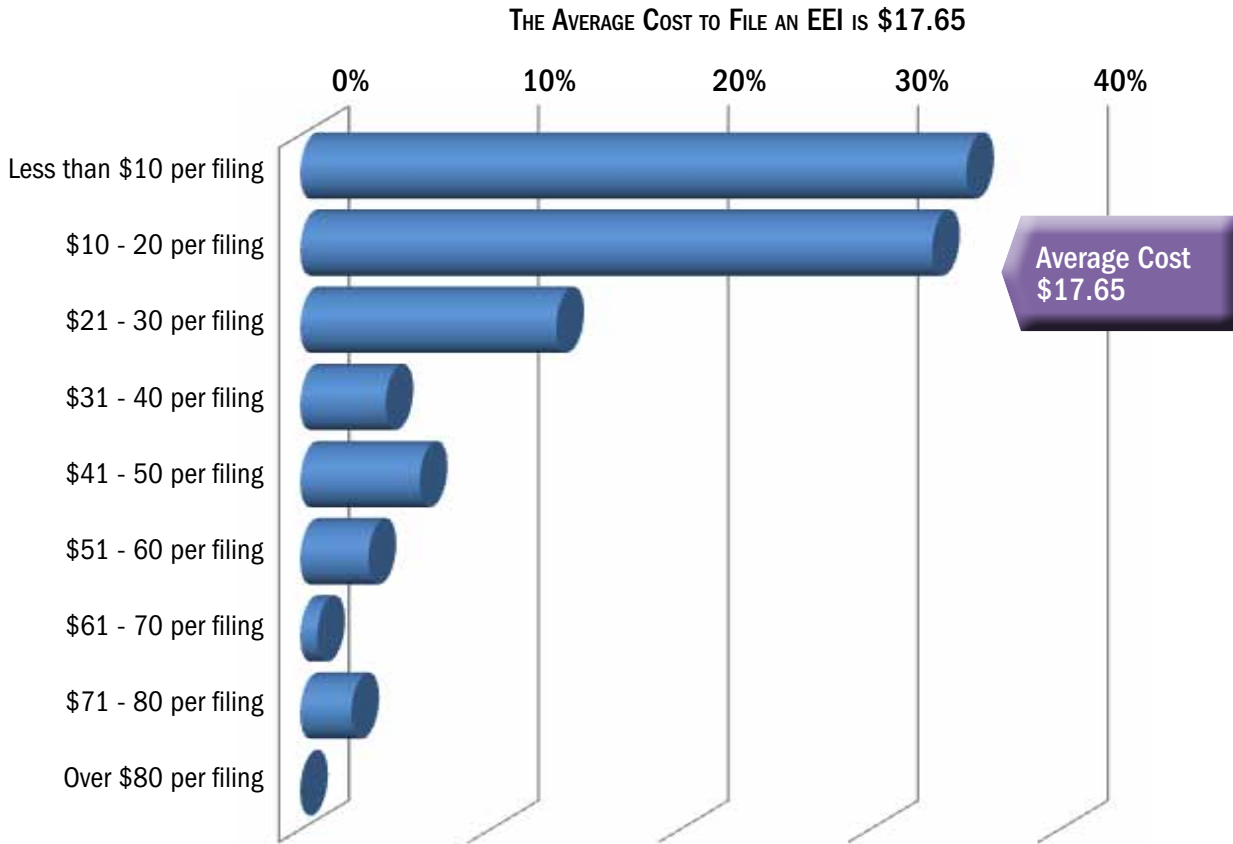
However, if a company is using a manual process to supply documents to a forwarder, there is always the risk that some critical documents could be lost, including the license. If an item is filed without the license, an automatic seizure at the port of export usually occurs. Consequently, it is imperative to properly manage the paper trail to ensure that a shipment is being legally exported. However, if a company invites their trade partners into their web-enabled export compliance systems, these partners are able to capture all information related to the transaction.

Next, the survey sought to understand how companies file with AES. Here 47% of respondents revealed they file by their freight forwarder or carriers. One out of 3, or 33%, reported that they manually submit via a government website. Approximately 6% said they are able to file automatically via their software. Another 14% commented that they do it a variety of ways. Overall, these findings indicate that more and more of the trading community is relies on their forwarders to perform this function as well as an increase in companies implanting export compliance systems to enable direct filing.



In asking how much time was required to file electronic export information (EEI), the majority of respondents indicated that they take an average of 7.3 minutes per shipment. However, the time can range significantly, depending on how much information is at the filers fingertips. In some cases, filing an EEI can take 10 minutes or even over 20 minutes.





There is a cost associated with filing an EEI. Survey results indicated the average cost to be about \$17.65 per filing. However, if a company is able to automate this process and file direct, the savings can be significant – more than justifying the investment in software.

## CONCLUSION

Exports are on the rise, due to an advantageous US exchange rate and new export initiative programs. In fact, 1 in 4 companies surveyed in this report expect sales growth of 15% or more in the next year due to increases in overseas sales. However, not all companies are aware of the legal requirements and security concerns of exporting. Before aiding growth through exports, companies must first check and re-check their export compliance process.

One main problem companies have with their export compliance program is the false assumption that they are not at risk for penalties because they do not export sensitive products. In fact, over one-third of the companies in this study report that a denied person has attempted to engage their company. Even if you are not exporting a sensitive product, an export compliance program is key in preventing your company from unknowingly doing business with denied parties.

Our best practice research has identified that leading companies, even with limited resources, can first implement low-cost restricted party screening software to ensure their business will not be at risk. This way, even if they believe they are not as high of a target, they will still ensure protection against hefty fines and loss of export privileges. As resources become available and exports increase, successful companies can then build upon this as a means to establishing an end-to-end export compliance program.

Another key challenge for exporters is the ever-changing influx of government regulations – they simply cannot keep up with new and changed regulations. This is leading to errors in classification, inaccurate databases, and wasted time managing what should be simple export transactions. Best-in-class companies are electronically managing both the product classification process and the documents associated with export transactions to produce a complete audit trail, without concerns for lost or incomplete documents or handing over control to a freight forwarder or carrier.

## NEXT STEPS TO ENHANCE EXPORT COMPLIANCE

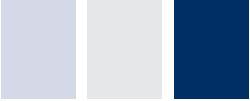
Based on the research, your next steps should first involve a thorough inspection of your companies' export compliance process against these survey results. Are you using the best methods possible for your denied party screening, product classification, and export transaction processes? If not, is your company willing to burden the risks associated with noncompliance?

Next, you must investigate your options to improve your export compliance process. Please click the following links to learn more about potential solutions for automating export compliance processes, including:

- Denied Party Screening
- Product Classification & Export Transaction Management
- End-Use Management
- End-to-End Export Compliance

In selecting your export compliance solution, be sure to consider depth of trade content, accuracy, and speed. These factors may be the difference between a safe, efficient export transaction and unpleasant consequences like delays, fines, and penalties.

When complete, your new and improved export compliance will not only allow you to process and complete exports expediently, but should also result in significant savings and crucial reductions in risk.



Management Dynamics is setting the standard for on-demand Global Trade Management (GTM) solutions for Global 2000 importers and exporters and logistics service providers. Combining an expansive trading partner network, enterprise-class software and specialized trade content resources, we enable you to dramatically improve the performance of your global supply chain.

Since 1990, Management Dynamics has been developing and delivering software and related content and services for GTM. We help our customers transform their business and gain market share by leveraging our industry and technology expertise. Our solutions are currently deployed to over 14,000 users in 70 countries and our customer base includes some of the world's leading retailers, manufacturers and logistics providers. For more information on our Trade Agreement Management solutions, request a brochure.

**Management Dynamics, Inc.**

One Meadowlands Plaza  
East Rutherford, NJ 07073  
201.935.8588

[Solutions@ManagementDynamics.com](mailto:Solutions@ManagementDynamics.com)  
[www.ManagementDynamics.com](http://www.ManagementDynamics.com)