

# FREIGHT FORWARDING: TRAVERSING THE RED TAPE

**Moving freight across the U.S./Canadian border can be more problematic than most shippers realize. Our recent research study reveals the myriad complexities of the customs clearance process—and the downfalls of making the trip alone.**

BY PATRICK BURNSON, EXECUTIVE EDITOR

A gentle surge in U.S. manufacturing and more emphasis on “near shoring” indicates that trade with Canada will continue to grow this year, major forwarders say. This is a trend confirmed by economists at the Toronto-based CIBC World Markets who report that Canada will remain the biggest trading partner for the U.S. for years to come.

Demand for U.S. goods is surging, says CIBC, with wholesale trade inventories climbing 1.7 percent to \$52.4 billion this past May—the largest percentage increase since January 2007. “The volume of cross-border growth is impressive,” says CIBC analyst Rob Shotte. “The inventory-to-sales ratio is a measure of the time, in months, required to exhaust inventories if sales were to remain at their current level. Overall, 16 of the 25 wholesale trade industries reported higher inventory levels.”

The impact of the current environment for U.S. shippers has been significant, Shotte adds. U.S. wholesalers in

construction, forestry, mining, industrial machinery, equipment, and supplies posted the biggest inventory gains in dollar terms, followed by agricultural wholesalers when shipping into Canada, CIBC notes in a recent report.

One of the world’s premier trade services companies concurs with this observation. “A combination of forces are at work when examining this uptick,” says Amy Magnus, district manager for A.N. Deringer. “Business has been good, and seems to be getting better. But U.S. exporters trying to go it alone may still find some unexpected barriers and choke points.”

Shippers responding to a cross-border operations survey conducted this past April by *Logistics Management (LM)* were mostly in agreement with Magnus’ observation, noting that shifting from purely domestic operations to international distribution poses unique challenges. “Timing will be especially crucial,” says a logistics manager for a large paper manufacturer responding to the survey. “I assume there will be a learning

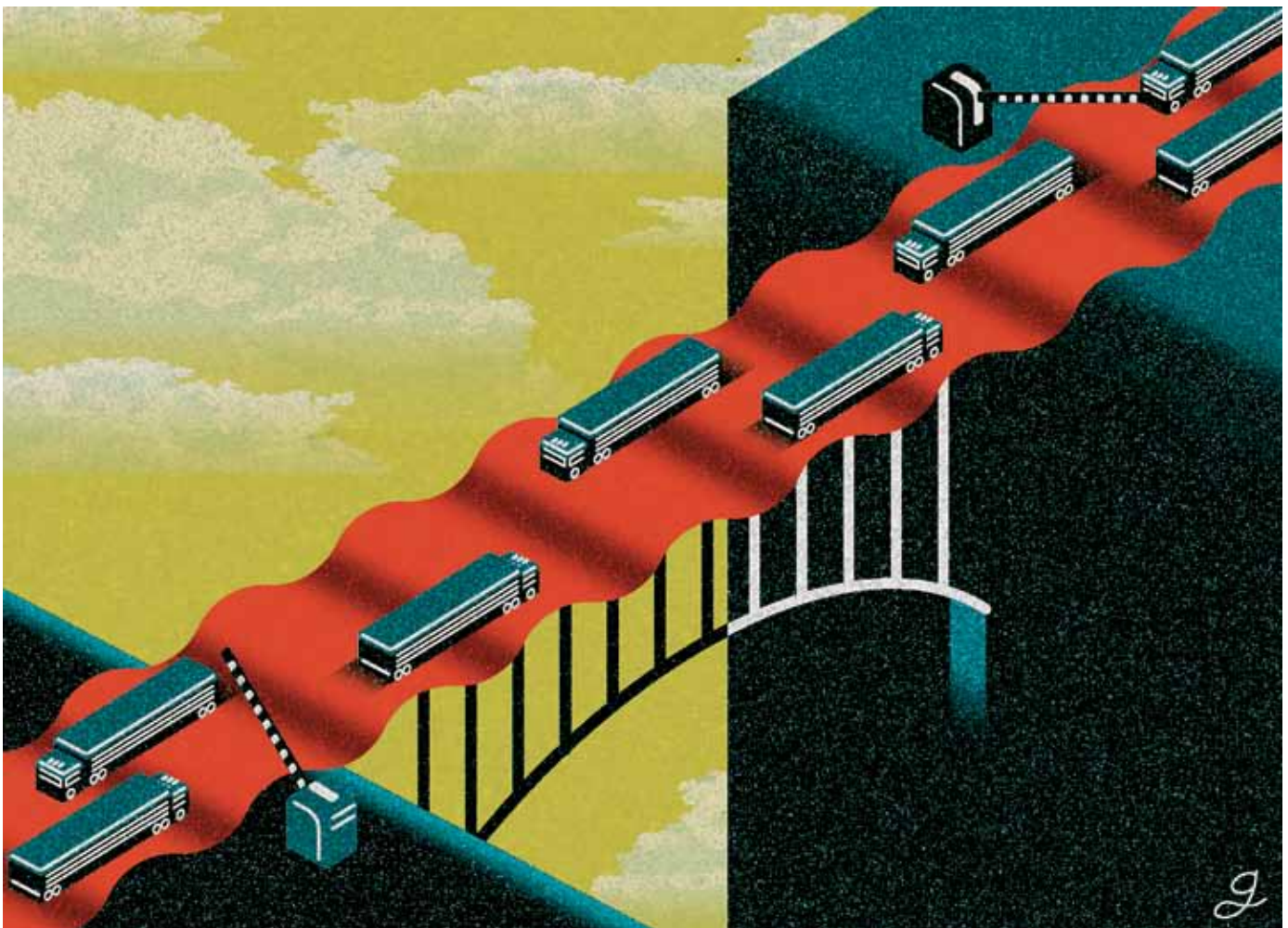
curve unless the forwarders apply their expertise well.”

According to the Magnus, cross-border shipping may seem less daunting to U.S. manufacturers who have yet to explore overseas markets, but they should by no means assume that it’s uncomplicated. “One might succeed with many shipments at first only to discover a major problem with Customs,” she says. “If you want some measure of certainty in this business, it’s best to do it with someone who does it every day.”

Magnus, who also serves as a director with the National Customs Brokers and Freight Forwarders Association (NCBFAA) in Washington, D.C., says that the barriers to entry for U.S. exporters is significant, and shippers who are searching for a forwarder today should go with “someone with a proven track record.”

## RECURRENT NEEDS

The *LM* research project revealed that companies shipping between the U.S. and Canada have recurrent



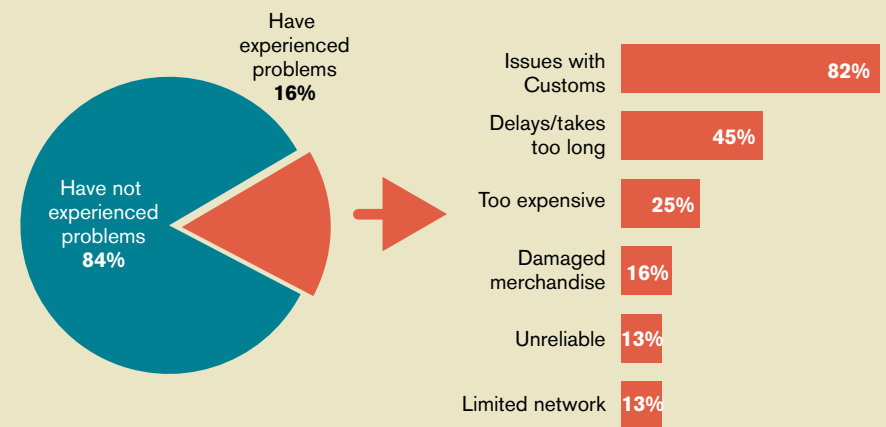
DANIEL GUIDERA

needs, and dispatch across the border regularly. In total, 388 logistics, supply chain and operations managers working in manufacturing, retail, or wholesale responded to the survey. Nearly nine out of 10 (84 percent) respondents say that they ship across the border at least once a month, and more than a half (53 percent) transport more frequently, at least once a week.

Taking into account all shipments made by responding businesses, 7 percent of total loads cross the U.S./Canadian border. Furthermore, say our researchers, for nearly all of these companies, the level of their shipping activity to/from Canada will either increase or remain the same during the next few years. These shippers are also telling us that their cross-border moves will grow by an average of 11 percent in that time frame.

Embedded in these statistics is a telling observation: “Shipments are regularly delivered to either their own warehouses or centers for distribution,” says an *LM* research analyst. “Alternatively, these facilities are often bypassed and ship-

## Problems experienced shipping across the border



Source: Peerless Media Research Group

ments are sent directly to customers.”

And with the devil being in these details, a significant glitch can occur out of nowhere, according to Magnus. “Everything might be going fine for a shipper until one day a Customs agent can’t find the advanced manifest, or he notices that the goods are targeted for

an inspection by the Federal Food and Drug Administration (FDA).

These hang ups can be expensive, and then there’s the added cost of inspection.”

A shipper of wood products told our research team that transparency was a key component of his operations, espe-

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cially since his shipments are prone to FDA delays. His company, which employs up to 250 workers during the peak shipping cycle, would not dream of going it alone. "Increased visibility into the status of our shipments is always something we are looking for," he says. "Our customers require our shipments to be on-time, every time."

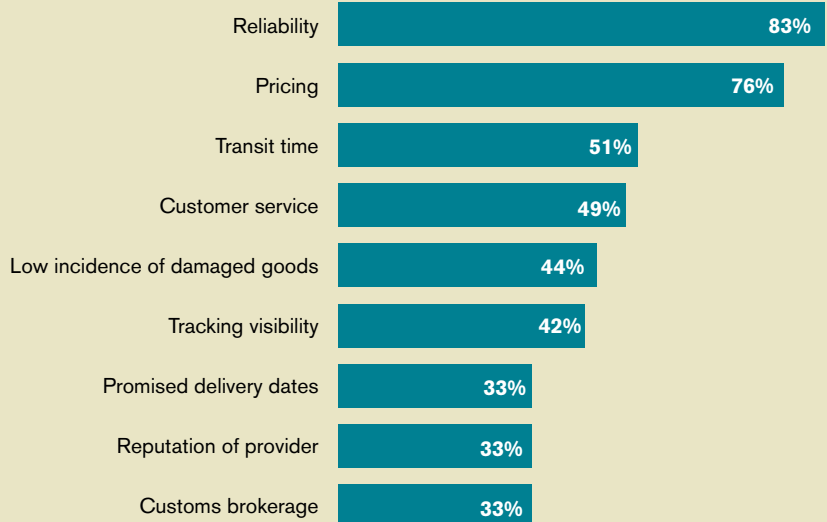
Mary Peglow, a broker/forwarder with Mid-America Overseas, Inc., and president of the Chicago Customs Brokers and Forwarders Association, notes that the FDA is not the only agency paper product shippers must contend with. "Because of the Lacey Act, the USDA (United States Department of Agriculture) is really cracking down on goods moving in both directions," she says.

The Lacey Act combats trafficking of "illegal" wildlife, fish, and plants. The new legislation now makes it unlawful to move certain plants and plant products without an import declaration across the border.

### PAY NOW OR PAY LATER

Fortunately, say our researchers, most U.S. shippers follow the advice given by the NCBFAA. According to our research findings, most manufacturers (79 percent) now use or would consider using a freight forwarding logistics provider to handle their shipping arrangements when it's time to

## Features considered highly important when evaluating freight forwarders



Source: Peerless Media Research Group

cross the border.

Our findings also reveal that it's common for businesses to use the same freight provider to handle their domestic as well as U.S./Canada cargo. In fact, more than a half count on the same carrier for these assignments.

While the benefits of using a third party to organize distribution and shipping needs are realized in process pro-

ficiencies as well as convenience and savings, companies not using freight forwarders are less certain about cost, our research report states. Those not employing third parties also fear losing control over logistics functions or claim to have the expertise in-house to manage logistics tasks.

While the majority of those surveyed claim they have yet to experience border-related complications, roughly one in six companies have, in fact, encountered problems at Customs. Most difficulties experienced result in delays and added shipping costs.

For most who have suffered through troubles at Customs, setbacks are said to occur often, fairly regularly, or at the very least, some of the time. "And some of the time is one time too many," says a responding shipper based in Buffalo, N.Y. "The consequences can be steep, and delays can lead to additional expenses as well as jeopardize service to customers."

According to the *LM* study, lengthy delivery timelines and damaged goods are further problems shippers have experienced in their U.S./Canada shipments. And given these harsh implications, researchers say that shippers may be apt to force forwarders to take rather drastic measures on occasion. For example,

## U.S./Canada: Closer than you think

The U.S. and Canada enjoy an economic partnership unique in the world. The two nations share the world's largest and most comprehensive trading relationship, which supports millions of jobs in each country.

In 2009, total trade between the two countries exceeded \$560 billion. And, according to the U.S. Department of Commerce, the two-way trade that crosses the Ambassador Bridge between Detroit, Mich., and Windsor, Ontario, alone equals all U.S. exports to Japan.

"Canada's importance to the U.S. is not just a border-state phenomenon," says Mitch Sanders, a Department of Commerce information officer. "Canada is the leading export market for 36 of the 50 U.S. states, and ranked in the

top three for another 10 states. In fact, Canada is a larger market for U.S. goods than all 27 countries of the European community combined, whose population is more than 15 times that of Canada."

Canada and the U.S. also have one of the world's largest investment relationships. The U.S. is Canada's largest foreign investor, and Statistics Canada, (the nation's chief statistical agency) reports that at the end of 2009, the stock of U.S. foreign direct investment in Canada was \$289 billion, or about 59 percent of total foreign direct investment in Canada.

U.S. investment is primarily in Canada's mining and smelting industries, petroleum, chemicals, the manufacture of machinery and transportation equipment, and finance.

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manufacturers can demand that individual shipments be tracked and monitored more closely, or suggest that carriers be changed if their shipping methods are not wholly transparent.

### NO BIG SURPRISES

It should come as small surprise, therefore, to learn that the overarching conclusions in the *LM* research study is that U.S. exporters are increasingly reliant upon third-party logistics providers and freight forwarding services to manage their cross-border moves.

Shipments for these businesses span the variety of freight requirements. While the majority is using less than-truckload (LTL) services for their cross-border shipments, more than half of *LM* survey respondents are also depending on truckload (TL) and small package carrier solutions as well.

A spokesperson for Purolator Courier Ltd., Canada's largest overnight courier company, adds that for many shippers, Canadian-based commerce

is more than just another part of their business...it's a critical enterprise. They say that nearly one out of three prepare key business strategies based on their U.S./Canada operations, adding that "it's important that the outcome of these plans yield successful returns."

And the *LM* research study shows that modifications to Canadian warehousing strategies and cross-border shipping philosophies have led shippers to reduce the number of carriers they use, consolidate distribution points, or close Canadian DCs and manufacturing facilities.

Results have also proven favorable for manufacturers and traders who have started shipping direct from the U.S. or have opted for providers with stronger, more widespread distribution networks. Some shippers have also switched to a freight service that offers greater visibility into the transportation chain.

"We have decided to ship the majority of our products to Canada via pool consolidations," says a respondent of agricultural commodities. "This has

resulted in reduced costs and better control over the export/import process."

For responding shippers operating Canadian-based DCs, nearly one-half (45 percent) stock a full product line in these facilities. Furthermore, more than a quarter of these companies (27 percent) operate their own distribution centers in Canada. While nearly 45 percent operate one site, more than a quarter fully maintains three or more locations.

"The advantages and benefits of running a distribution facility in Canada, however, may be unknown to many," reports one of our research analysts. "Six out of 10 have conducted evaluations to understand the costs associated with running a distribution center there, but four out of 10—a surprisingly high percentage—have not conducted these analyses." □

—Patrick Burnson is Executive Editor of Logistics Management