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POWERING GLOBAL TRADE®

WHITE PAPER

6 Global Supply Chain Trends to Watch in 2018

INTRODUCTION

Global trade continues to accelerate both in volumes and complexity, with the WTO's most recent trade forecast revised to show improved growth in world merchandise trade volume. Just look at the numbers from Alibaba and their most recent Singles Day, where products were purchased from 192 countries. The number of tons shipped by ocean containers has multiplied many times over in recent years—almost 17 times—from 102 million tons in 1980, to 1,720 million tons in 2016![1]

After years of stagnation, trade has been soaring this year as an upturn across major global economies picks up momentum and raises hopes that retail is ready to improve. Political unrest, numerous additions, a myriad of and ever-increasing regulatory requirements has added another layer of distress.

As we flip the calendar to 2018, companies with global supply chains should keep their eyes and ears open for these primary concerns. (These are listed in no order of precedence or severity.)

1 https://www.statista.com/topics/1367/container-shipping/

1 RETAIL SUPPLY CHAINS NEED FLEXIBILITY IN ORDER NOT TO BREAK.

We have seen the retail industry bear the brunt of a changing consumer dynamic for the past few years. But the shifts that overturned the industry in 2017 certainly showed during the holiday season. The place of e-commerce in shaping today's retail landscape is no longer in dispute, if it ever was. The tidal wave of store closures that started in 2016 and crested in 2017 took down both old icons and newcomers alike. While part of this could be attributed to the global economic climate, a large portion of the impact came from e-commerce replacing traditional sales channels.

According to RetailNext Inc, the number of shoppers in US stores on Thanksgiving and Black Friday fell 4 percent from last year,[2] while Adobe Analytics reports online sales over $5.03 billion, a 16.9 percent increase over the prior year.[3] This reflects a fundamental change in consumer buying, thus requiring supply chains to adapt by more closely managing the flow of goods for both online and brick-and-mortar fulfillment. The surging e-commerce sales channel has proven itself and is here to stay, and not just for the holiday rush. New concerns come along with it, though – ensuring delays don't occur at the factory or during shipment, accurate cross-border documentation to streamline clearance, and stocking the shelves with the high-quality, innovative, and cost-competitive products that consumers want.

How well these online sales channels are managed and maintained as part of the global supply chain can make or break a company. As 2017 closes out and companies look towards 2018, capturing a larger share of the online global marketplace must be more than just a footnote for those looking to remain competitive. Extensive planning is needed to address the risks identified with expanding online sales; mitigating those risks requires finding the right technology solution to help your organization grow.

2 https://www.statista.com/topics/1367/container-shipping/
3 http://news.adobe.com/press-release/experience-cloud/adobe-data-shows-cyber-monday-largest-online-sales-day-history-659

2

EUROPE AND ASIA ARE CHURNING OUT TRADE AGREEMENTS, WHILE THE UNITED STATES RETAINS ITS STAUNCH DEMEANOR AT THE TABLE.

Amidst the unsettled backdrop of global protectionism that has overshadowed the advancement of trade policies in the Western Hemisphere, it is clear that the European Union has made bold strides in a "forward" direction. The number of new free trade agreements (FTAs) enacted by the EU has been substantial in the past two years.

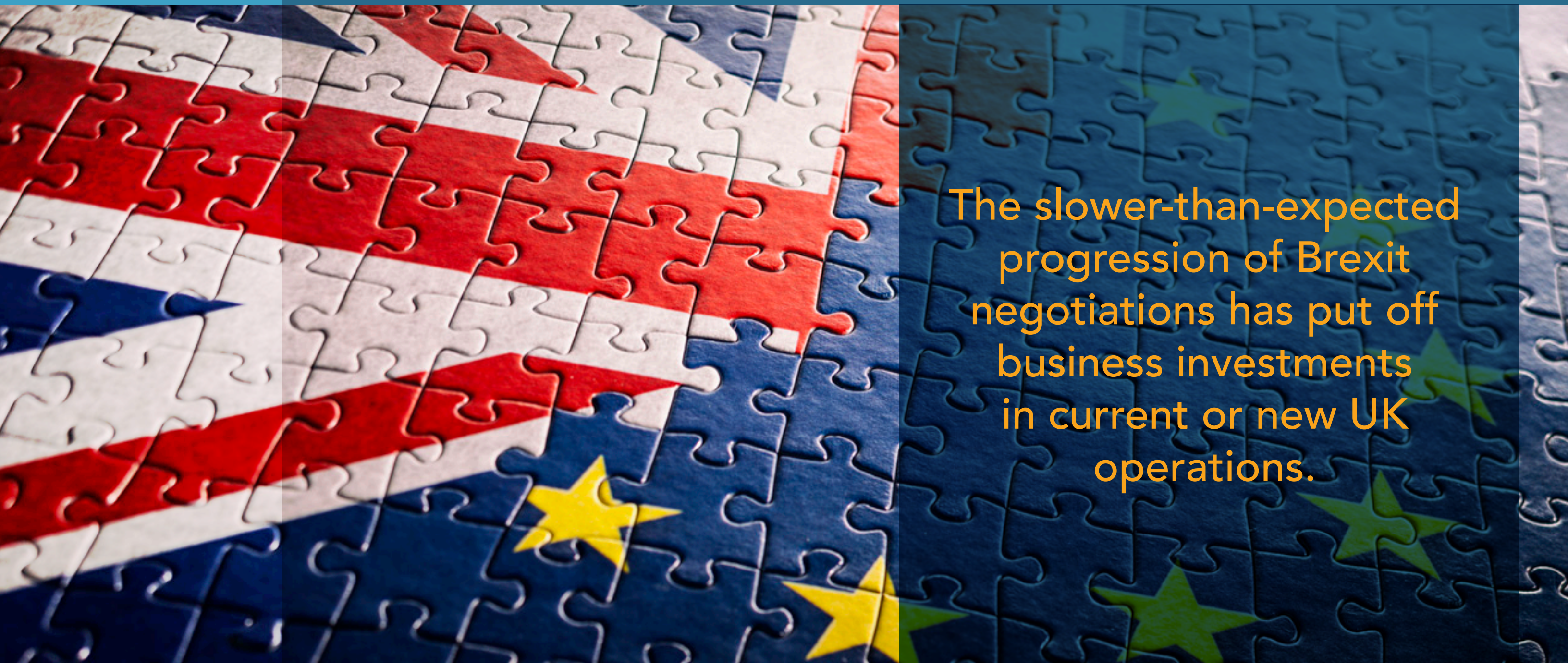
FTAs are helping European businesses compete more successfully and export more to countries and regions outside of the EU. They also give better access to raw materials and vital components from around the world. This increase in trade then grows the job market and economy, and gives consumers a wider choice of products at lower prices. It's obvious the EU views FTAs as beneficial – the EU-South Korea FTA has immensely pushed two-way trade. The EU also enjoys increased trade benefits from FTAs with Japan, Vietnam, Singapore, a host of non-EU states in Europe, and states in Africa and Latin America. The EU-Canada FTA (CETA), which was ratified this year, has been provisionally applied.[4] The newly proposed India-EU FTA has potential to create jobs in India while opening discussions between member nations on other topics like anti-terrorism strategies. Everyone trading with the EU should be ready to harvest the opportunities offered by these FTAs through increased trade, creating jobs and growth, and finding new business opportunities.

Of course, in the US we are seeing little to no action on the trade agreement front. On January 23, 2017, President Donald Trump signed an executive order to renegotiate NAFTA. The fifth round of negotiations wrapped up in November and, although progress was made in various chapters, there is still a lot of work to be done. In his closing statement, Lighthizer indicated that the US, Mexico, and Canada "found mutual agreement on many important issues". But reports aren't as positive and show little movement in any direction. One thing remains clear throughout this entire process - Canada and Mexico are not willing to agree to the United States' sunset provision that would require the three countries to re-affirm their commitment to NAFTA every five years. Companies that use NAFTA for duty-free trade should be watching the proceedings with caution, and making contingency plans in case the negotiations alter the regulations. Aside from NAFTA, the Trump Administration is still not showing any forward activity towards new bilateral trade agreements with other nations.

While they can mean a positive turn for global business, FTAs also come with challenges, including increased compliance demands and overall changes in trade regulations. Using a best-of-breed technology solution can help open up new markets for your company by simplifying the compliance and qualification processes. With new FTAs on the horizon, just passed, or re-structuring, global trade compliance becomes the key to the opportunities ahead.

4 http://ec.europa.eu/trade/policy/in-focus/ceta/

3 BRITAIN'S EXIT FROM THE EU IS ALREADY CAUSING DISRUPTION.



The uncertainty over Britain's departure from the EU has already impacted manufacturers, retailers and suppliers. A November 2017 survey conducted by The Chartered Institute of Procurement & Supply (CIPS) revealed that 63 percent of the participating EU companies planned to move some of their supply chain out of the UK as a result of the decision to leave the single market and customs union. One in five UK businesses also report difficulty securing new contracts that extend into 2019.[5]

The Guardian reports a slowdown in manufacturing growth amidst fears over trade shifts resulting from Brexit. The slower-than-expected progression of Brexit negotiations has put off business investments in current or new UK operations. Recent readings on economic growth showed investment by companies to be flat in the second quarter. Supply chain executives are voicing concerns about tariff and quota changes, hoping to keep trade open and flowing as it does today. For manufacturing to remain strong, the raw material imports from Asia need to remain duty and tariff free, as they are currently in the customs union. Costs could go up without the trade advantages, leading to higher export costs from the UK. And then there is Ireland, a major manufacturing hub that might not follow the rest of the UK into divorce. With so much to lose, they are already building-out new markets, re-orienteering their supply chains, and considering new distribution channels.

At Amber Road, we are following Brexit developments as they unfold and considering the implications of what Brexit might mean for our customers. Though the next two years will be a period of considerable uncertainty, we will be continuously conducting impact assessments and ensuring our software runs smoothly for all our valued customers. With our large staff of in-house trade compliance specialists around the world, Amber Road will continue tracking changes regarding UK's exit process, changes to the customs law, and shall notify our customers immediately through our Global Knowledge® updates.

5 https://www.theguardian.com/politics/2017/nov/06/eu-firms-warn-of-deserting-uk-suppliers-after-brexit

4 CHINA CONTINUES TO DOMINATE GLOBAL MANUFACTURING AND TRADE.

China's position on the world stage as the leading manufacturing country is even more unyielding, despite President Trump's attempt to stage a personal trade war with the nation. Overall trade has been growing despite the trade tensions: US imports from China rose 6.6 percent in September, though the US trade deficit has also been rising. The Trump Administration continues to add stress to the US relationship with China, even going as far as petitioning the WTO to reject China's request to be treated as a "market economy." This status could potentially lower trading partner tariffs and save China billions of dollars in exports.

But China isn't crouching in the corner, instead the government is making huge strides in the opposite direction and broadening their footprint in other parts of the world. Late in November, Chinese leaders held meetings with 16 Eastern European countries, leaving behind a promise to invest $3 billion in the region to support manufacturing infrastructure. Even before the "16+1" Summit, roughly $15 billion in investment by Chinese companies, backed by state banks, had been promised to the region since 2012, according to one estimate. Part of China's "One Belt, One Road" policy, the funds will bolster commercial and political ties with more than 64 countries between Asia and Europe.[6] For Europe's poorer eastern countries, the promised investment could help to upgrade dilapidated railways, motorways and energy plants.

China is also doing more to grow its burgeoning middle class by cutting import tariffs on consumer products, including fashion apparel. The strategy cuts import duties on 187 products by about 45-50 percent, making imports from Europe and other nations accessible to Chinese buyers.[7]

Despite these leaps forward, conducting international trade in China can be difficult and complex. China's General and Processing Trade regulatory challenges can vary by region and are challenging to navigate. While the central government provides a framework for importers and exporters to conduct business, challenges result when regional and local governments implement various controls. Regulations can change instantly, extending lead times and increasing variability within a company's supply chain. Companies should look to leverage a web-based on-demand solution that is deployed rapidly and cost-effectively. It provides timely regulatory updates to ensure uninterrupted import and export operations as China makes frequent regulatory changes to support economic growth.

6 https://www.ft.com/content/1c3338fe-d461-11e7-8c9a-d9c0a5c8d5c9
7 https://www.reuters.com/article/us-china-trade-tariffs/china-cuts-import-tariffs-on-food-drugs-and-apparel-idUSKBN1DO0T3

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5 KEEPING GOODS MOVING IS TOUGHER THAN IT LOOKS, AND PRICIER.

In a recent interview, Kevin Holian, vice president of global operations at New Balance Inc., said, "Logistics is a little bit like plumbing in your house. As long as it's working well…you don't tend to worry about it or care about it. But the moment that stops working properly, it escalates to probably become perhaps the most important issue in your home and certainly in your business." Keeping goods moving (particularly to fill the new retail e-supply chain) is full of uncertainty and variability. Regardless of the mode – ocean, air, small parcel, ground or even rail—most logisticians are spending their time managing the exceptions. And what most need is the agility to be able to react to the obstacles in the way.

The shipping capacity crunch is not a new topic, but the end of 2017 is shaping up to reveal an unprecedented crunch, reports Chris Brady of *Logistics Viewpoints*. An active hurricane season, the forthcoming implementation deadline for electronic logging devices (ELD) and record-shattering projections for the holiday shipping season reflect some of the top factors affecting the current state shipping capacity crunch. Moreover, according to Dustin Braden of the Journal of Commerce (JOC), the driver shortage is worsening in tandem. To successfully mitigate the potential setbacks from shipping capacity crunch, your organization needs to understand more about its current and projected driving forces.

The overly-active 2017 hurricane season in the US damaged both freight containers and trucks. In Houston, the trucking industry is barely back to life months after the water has receded. We are already seeing higher-than-normal annual increases in shipping rates, much of it blamed on the exacting home delivery promises made by e-commerce marketplaces and demanded by consumers. UPS announced plans to raise ground and air rates approximately 4.9 percent beginning December 24, and FedEx announced a similar general rate increase to take effect in January. J.B. Hunt Transportation Services has advised clients that rates could rise more than 10 percent within the next two months alone. With higher rates comes tighter capacity as more carriers and shippers attempt to consolidate freight and eliminate deadhead. In addition, if the capacity crunch comes to a head, carriers may raise rates again, an increase most shippers aren't prepared for.

Shippers' expectations are also increasing, triggering carriers and brokers to implement more sophisticated technology tools for shipment visibility and tracking. Every additional feature adds cost to the bottom line, but advances the industry by establishing new standards. GTM tools that provide the most current, detailed to the SKU level, and last mile tracking, take on an important role in the future of shipment visibility.

6

CXOS ARE CHALLENGED TO BE IN THE PRESENT, BUT LOOK TO THE FUTURE.

In the face of ongoing market turmoil, digital disruption, and other forms of business turbulence, one of the top qualities among first-rate leaders is competence to build a resilient organization. Great leaders understand that the importance of cost, quality, speed, and innovation can't be understated. No matter how fast a product moves from concept to consumer, if the cost is too high, the quality is lacking, or if it's not truly innovative, the bottom line will suffer. In order to truly increase speed without compromising on other equally-important factors, a company must become both more efficient and more agile. While there are a few different methods to accomplish this, digitization is the only answer worth exploring.

There are five major factors which influence supply chain operations – cost, risk, speed, innovation, and agility. It is easier to comprehend how innovation, cost, risk and speed impact the bottom line. But where is the balance between these? With more speed and less risk, once I achieve the right balance, will this give my supply chain a competitive advantage for a profitable, smooth sailing supply chain? It's the job of senior management to balance out their specific functional areas.

- Chief Operating Officers need to minimize operational costs, automate and improve productivity. To do this, they need to remove manual processes and improve visibility.
- Sourcing and product development leaders need to deliver innovative and competitive products to increase revenue and reduce time to market. This is best achieved by collaborating early in the product lifecycle with suppliers who can provide input to the design specs.
- Chief Risk Officers have to mitigate risk by ensuring suppliers, products and shipments are in compliance with multi-national regulations at a minimal cost. As regulations around cross-border transactions continue to increase, compliance costs continue to spiral upwards.

In the past year, we've seen the focus move away from concerns over cost and ever-cheaper supply countries, and refocus instead on digitalization, speed-to-market, emerging innovation in supply chains and what companies can do to remain competitive in a rapidly evolving marketplace.

THE 2018 STRATEGY.

Against this backdrop, how do you and your colleagues address the challenges in 2018? What are the top priorities and how do you tackle them? Today, every business is a digital business and the impact of digital strategies on supply chain management are of particular importance. For businesses around the globe, 2018 will be shaped by the success rate of digital transformation efforts.

Many companies have realized that going digital is the only solution to break traditional supply management chains and move boldly into the future. Digital technology will create a significant improvement in business outcomes, as long as businesses reinvent their supply chain strategies while concurrently reimagining their supply chains in the digital sphere.

According to a McKinsey report, only about 40 percent of businesses were digitized in 2016. New industry dynamics are driving supply chains to new levels, with digital transformations occurring across manufacturing sectors and into supply chains at every level.

While it will take time for companies to become "fully digitized," many sectors have passed the halfway point in their transformations. The New Year offers opportunities to continue making changes. More than ever before, now is the time to digitize or die.

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About the Author

Gary M. Barraco is the Global Product Marketing Director at Amber Road, where he is responsible for developing strategic product marketing direction and presenting the Amber Road brand and solutions worldwide. As the platform evangelist, Gary develops and launches customer insights, go-to-market plans, product messaging and content, as well as field marketing tactics which establish Amber Road's solutions as a standard in the Global Trade Management space.

Previously, Gary was VP, Industry Development for ecVision for 9 years prior to its acquisition by Amber Road. He has 20 years of active military service where his primary specialty was providing marketing support to Army National Guard recruiting and retention operations in New Jersey.

Gary received a BS from the State University of New York and is currently pursuing a Master's degree at Moravian College. He is co-chair of the US Fashion Industry Association Education & Training Committee, and member of American Apparel and Footwear Association, Footwear Distributors Retailers Association, Outdoor Industry Association, Council of Supply Chain Management Professionals, and American Association of Exporters and Importers, where he serves on various committees and planning groups.

ABOUT AMBER ROAD

Amber Road's (NYSE: AMBR) mission is to dramatically transform the way companies conduct global trade. As a leading provider of cloud-based global trade management (GTM) software, trade content and training, we help companies all over the world create value through their global supply chain by improving margins, achieving greater agility and lowering risk. We do this by creating a digital model of the global supply chain that enables collaboration between buyers, sellers and logistics companies. We replace manual and outdated processes with comprehensive automation for global trade activities, including sourcing, supplier management, production tracking, transportation management, supply chain visibility, import and export compliance, and duty management. We provide rich data analytics to uncover areas for optimization and deliver a platform that is responsive and flexible to adapt to the ever-changing nature of global trade.

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