Open Harbor™

A STRATEGY FOR IMPROVING FREIGHT FORWARDING SERVICES

A BUSINESS WHITE PAPER BY OPEN HARBOR

Open Harbor™

Table of Contents

Executive Summary

In today's highly competitive, global marketplace, the Freight Forwarding industry is facing radical change. The total volume of global trade, according to a McKinsey study, is expected to increase 12-fold between 1997 and 2027, from 28 trillion to 91 trillion US dollars. This unprecedented growth in cross-border trade will be driven by liberalized trade policies, global out-sourcing, and international mergers and acquisitions.

The challenge of coordinating flows of sourced materials and finished products from a multitude of suppliers is increasingly daunting for exporters, importers and their traditional allies: the freight forwarders.

In their search for competitive advantage, companies are re-evaluating global logistics processes, and focusing on how best to deliver products and services across complex networks of suppliers, manufacturers and intermediaries.
They expect continuous performance improvements from their service providers, accompanied by steadily declining prices. In particular, they want to gain global visibility across their supply chains, and improved collaboration among trade partners.

What's more, shippers are becoming increasingly knowledgeable about global trade. With Internet-based technologies, they can now carry out services once exclusively provided by freight forwarders, such as booking vessel space, or issuing trade documents.

To help these global companies reach their goals, freight forwarders need to find new ways of leveraging their core competencies – such as their in-depth knowledge of global trade processes and information flows -- to better participate in supply chain integration efforts.

The success of freight forwarders will hinge upon the ability to manage the exploding flows of data associated with physical shipments. To achieve these levels of efficiency, they will need a flexible information infrastructure that simplifies interactions with customers, streamlines transactions with carriers and third-party providers, and supports an array of custom-tailored services such as customs brokerage, trade consulting and logistics information services.

A STRATEGIC SOLUTION FOR FREIGHT FORWARDERS

As the first and only suite of integrated global trade services, the Open Harbor Solution empowers freight forwarders to raise profit margins, generate revenue from new services, and lock in existing customer relationships.

Based on the industry's most comprehensive database of real-time trade content, this web-services infrastructure allows freight forwarders to integrate their internal systems. The Open Harbor solution also provides a seamless interface with trading partners' systems to reduce operating costs and improve customer service responsiveness.

This flexible architecture optimizes information flows across entire global supply chains. It also streamlines the processes associated with a wide range of import/export functions -- from product classification and compliance screening to trade documentation and customs clearance.

Based on open standards, the Open Harbor Solution quickly integrates with other systems, streamlining the flows of data between customers and trade partners. The result is a unique opportunity to strengthen the freight forwarders' position in the marketplace, diversify their revenue base by providing customized services, and achieve a distinct competitive advantage.

A Growth Industry in Transition

As companies expand into foreign markets, the freight forwarding industry continues to grow at a fast pace. Bears Stearns estimates that its worldwide revenue exceeds US $200 Billion per year, and that it will grow at a cumulative average growth rate of 10 to 15% annually.[1]

After two decades of cost cutting and process improvements, companies recognize that one of last remaining areas where they can achieve substantial productivity gains is the performance of global supply chains. Indeed, experts estimate that coordinating the supply of incoming and outgoing goods on a global scale can account for up to 28% of the overall Cost of Goods Sold.[2] A trend of this magnitude is turning logistics into a strategic weapon, best summed up by David Woodward of Eastman Kodak: "Logistics is finally being recognized as a value-added service that can grow the top and bottom lines instead of being viewed as a cost center."

As the number of products traded grows exponentially, and as their life cycles get shorter, coordinating their distribution becomes more difficult. To cope with this challenge, shippers will continue to depend on third-party logistics providers. Yet, they want these partners to become increasingly compatible and responsive to their needs. Specifically, they're asking for competencies, such as the ability to contribute to shipment visibility, and to collaborate with other participants in the supply chain.

To improve quality, reduce costs and share innovation, customers also seek to reduce their supplier base. As they consolidate relationships to build deeper, more proactive partnerships, they will look for players who can help them manage supply chains in an integrated manner.

To address all these requirements, it is crucial that freight forwarders connect and contribute to their customers' global information pipelines. At the same time, they must have flexible information systems capable of supporting value-added services, such as customs brokerage and warehousing, in addition to traditional forwarding activities.

MANAGING COMPLEXITY

As companies introduce an increasing variety of new products and services, they encounter a number of challenges in managing their supply chains:

- *Supply Chain Complexity* – The use of manufacturing techniques, such as just-in-time (JIT), Kanban, built-to-order (BTO), and zero inventory results in more frequent, smaller and

---

[1] Bear Stearn Report, 2000
[2] Gartner Research estimates

complex shipments, causing logistics costs to skyrocket to 28% of the Cost of Goods Sold. These techniques also place relentless emphasis on timely delivery of goods.

- *Stringent Compliance Requirements* – The events or 9/11 are placing increasing emphasis on international trade compliance. More than ever, freight forwarders and their customers are scrutinized, particularly when moving dual-purpose goods.[3] Governments increasingly demand electronic data transfers between shippers, service providers and government regulatory agencies, requiring costly investments in information technology. Freight forwarders can be a powerful driver of change in international compliance, by helping exporters and importers put the necessary internal controls and processes in place. It is critical to ensure that functions, such as traffic, taxation, purchasing, and finance comply with changing customs regulations.

- *A Premium on Information* – Real-time access to global transaction data can prove invaluable to international shippers. Information about trade rules and transactions often resides on many different systems and processes across global supply chains, causing delays in the delivery of goods. A freight forwarder's ability to integrate such content and make it accessible to customers and trade partners around the world represents a significant source of value.

To meet these challenges, innovative information infrastructures can provide freight forwarders with the flexibility they need to support a wide array of customers, products and shipment modes. The use of XML-based software and services, for example, can vastly improve access to transaction data and enhance collaboration across global supply chains.

FORCES OF CHANGE

The freight forwarding industry is undergoing a series of transformations, marked by a wave of mergers, advances in technology, and competitive pressure from third-party logistics providers.

As third-party logistics providers diversify their activities to respond to customer needs, the traditional distinctions between forwarding and logistics services are blurring. Indeed, an individual freight forwarder's competitive set can now include multiple supply chain participants -- including carriers, customers, integrators, as well as fellow international freight forwarders.

This intensifying competition is putting pressure on profit margins. Depressed freight rates have eroded commissions from carriers. What's more, many shippers won't allow forwarders to increase fees on traditional services, such generating export documents. This situation can only change with a totally new perception of the value of freight forwarding services.

---

[3] Goods that have more than one potential use, such as computers, video chips, and chemicals. These harmless goods can be utilized for military purposes by rogue regimes and terrorist organizations.

Open Harbor™

In today's global environment, International freight forwarders can strive for competitive advantage in numerous ways. Freight forwarding is at its core an information business. There is inherent value in the ability to capture, process and distribute the vast amounts of data that accompany global shipments. Since forwarders work with many carriers, they can deliver information-based services on a wider range of transport modes and service options than asset-based competitors, such as integrated carriers.

Emerging technologies, such as web-based global trade services, provide a unique opportunity to add value to freight forwarders' services. Freight forwarders can more easily leverage real-time trade content, collaborate with members of global supply chains, and integrate with customers' systems to lock in long-term relationships. A flexible IT infrastructure can help create competitive differentiation by supporting a variety of tailored services – no matter how simple or complicated the needs of customers.

The forwarders who will thrive in global markets will leverage flexible information systems to handle the myriad procedures and practices associated with different types of shipments. These systems will also support the information-based and unbundled services increasingly required by customers, as well as their associated billing functions.

Critical success factors in performing these activities, will include the following IT capabilities:

- *Access to up-to-date trade data:* In-depth knowledge of country rules and regulations provides freight forwarders with a unique advantage in the value chain. To become a true information partner, however, the ability to control the collection, processing and distribution of this data is crucial.
- *Real-time supply chain visibility:* Shippers want the ability to monitor transaction data associated with each shipment. They also want supply chain partners to access consistent, up-to-the-minute transaction information from their forwarder's system. Such inter-organizational systems are critical to yield lower costs and higher on-time performance.
- *Collaboration technology:* Linking freight forwarders' processes to customers' systems is the best line of defense against supplier consolidation. The key is to implement an integrated networked environment capable of supporting electronic collaboration between business partners and customers. Such an environment must also allow the exchange of data across disparate systems, including most legacy systems, such as ERP systems.

Web-based services, such as the Open Harbor solution, deliver such flexibility. Even small forwarders can now benefit from IT capabilities that can differentiate them at lower cost, and offer comparable value to their larger competitors.

The Open Harbor Solution

As the first integrated suite of global services, the Open Harbor Solution enables freight forwarders to maximize their core competencies, and provide increased efficiencies across global value chains.

This innovative solution gives freight forwarders access to the industry's most powerful database of real-time "any-to-any country"[4] global trade content. It also provides a unified view of this content across supply chains, integrates global trade processes and allows trade partners, such as contract manufacturers, third-party logistics providers and customs brokers, to collaborate in a continuous workflow.

Supply chain partners can connect directly to the freight forwarder's trade data by using a simple browser. The result is vastly improved integration and coordination of customers' supply chains, creating a sustainable competitive advantage.

VALUE-ADDED SERVICES

By leveraging Open Harbor's Solution, freight forwarders can efficiently

1. *Classify products* from a desktop anywhere in the world
2. *Centrally manage product classification data* in a Global Product Catalog, and eliminate the need to re-classify each product for every shipment
3. *Check restricted transaction parties* in real-time
4. *Verify shipment compliance* with export and import regulations online, allowing trade experts to focus on exceptions for increased efficiency
5. *Calculate landed cost*, including all associated transport, duties, taxes and added charges
6. *Produce consistent and professional documentation* for international shipments, including instant identification of document requirements and transmission of these documents **before** a shipment leaves the dock, reducing preparation time and transportation delays.

These capabilities are a prime source of added value. They help create tighter customer relationships and generate new revenue from information-based services.

---

[4] Content to allow customers to conduct business from any nation to any nation. Currently, the solution allows for a 60 by 60 capability, representing 98% of global trade.

LEVERAGING REAL-TIME CONTENT

The Open Harbor Solution gives freight forwarders access to the industry's most comprehensive database of global trade information.

This real-time content[5] – encompassing over 8 million trade rules – is sourced directly from each government's sanctioned trade authority. It undergoes rigorous analysis by in-house compliance and trade experts before it is uploaded into the Open Harbor system. What's more, this database is maintained daily via continuous updates from 60 countries representing 98% of global trade, ensuring the highest level of accuracy.

This powerful content repository drives a wide range of integrated global trade services, tying people, content and processes together. It empowers freight forwarders to streamline transaction processes, expedite compliance with country-specific regulations, and make global supply chains more efficient.

STREAMLINED PROCESSES

Open Harbor's integrated platform, powered by a unified view of real-time trade content, provides extraordinary cost savings and efficiencies. It streamlines what were once manual logistics processes:

1. *quote processes*, including analysis of transactions for regulatory compliance and export licensing determination, as well as landed cost calculations, and recommendations for routes and carriers.
2. *Fulfilment processes*, such as the production of trade documents, tracing global transactions, and customs clearance.

The ability to deliver shipping instructions electronically to international carriers *before* shipment arrival also reduces operation costs and enhances customer service. Two additional features boost freight forwarder efficiency:

Exception-based management: the system's trade rules automate the processing of a majority of shipments while flagging exceptions for account managers and/or compliance experts. This allows freight forwarders to focus on managing exceptions and larger trade issues.

A built-in feed-back loop: freight forwarders can benefit from real-time feedback from a customs officer in an importing country, should a local subjective decision change what was originally processed for a particular product. This allows the freight forwarder to prepare better estimates and deal with potential problems more proactively as opposed to simply reacting to local needs.

---

[5] Real-time content is trade content that countries and their governing bodies publish in order to carry out trade with their countries.

A TYPICAL ORDER CYCLE

Depending on the forwarder's preferences, the processing of an order or shipment could flow through the system in the following manner:

- An order inters the Open Harbor system, possibly from an ERP system.
- The product catalog is automatically referenced for country of origin, classifications, rules, etc.
- Landed cost is automatically calculated and compliance (import & export) is checked.
- If the order meets compliance requirements, it proceeds unimpeded. If it does not comply with regulations, the forwarder's compliance expert or account manager is notified.
- The appropriate trade documents are automatically generated and can be accessed by all members of freight forwarders information and service chain. The system can generate the manifest and distribute it to all appropriate parties.
- The product ships.
- Customs is cleared (export and import) and the shipment arrives at its destination.

Throughout this process, all relevant information is captured and archived for future reference for the freight forwarder on behalf of its customers.

BUILT-IN FLEXIBILITY

Delivered via a web services platform, the Open Harbor Solution supports full integration of global trade services. All supply chain partners need to access a particular application is a simple internet browser.

This web services delivery approach can bring down the total cost of providing global trade services by as much as 30 – 50%[6], due to lower maintenance labor costs and instant availability of content upgrades. As a result, small forwarders who couldn't afford EDI services can now cost-effectively use the internet to conduct business with trading partners.

A set of adapters links internal and external supply chain systems with a variety of ERP, WMS[7], SCM[8], as well as specialized government systems. What's more, an adaptive workflow engine speeds up system implementation by allowing easy mapping of the Open Harbor Solution to customer and supply chain partners' processes.

This flexible infrastructure can rapidly adapt to changing customer needs. Its ability to link disparate transaction processes and support value-added services is currently saving some of Open Harbor's customers in excess of US$10 million annually.

---

[6] Eye For Transport report on Freight Industry, 2002
[7] Warehouse Management Systems
[8] Supply Chain Management Systems

Freight forwarders using the Open Harbor solution can reap unprecedented benefits. Access to real-time content, a collaborative view of this content across global supply chains, as well as automated trade processes, can boost productivity and efficiency:

3. *Reduced Transaction Processing Costs:* A unified, collaborative view of transactions worldwide allows seamless communication between internal divisions and external partners, eliminating risks of errors.
4. *Time Savings:* Delivery of the most current trade content to the desktop eliminates inefficiencies and risks of errors, and speeds global trade processes.
5. *Increased Revenue:* Forwarders can easily implement value-added services to improve customer service while generating increased revenue.
6. *Risk Mitigation:* By streamlining compliance with federal and international conventions, forwarders can lower risks of errors, transportation delays and shipment rejections.

Conclusion

The International Freight Forwarders who will prosper in years to come will base their operations on flexible information systems. Web-based services, in particular, can considerably strengthen their position in global markets. They allow forwarders to expand their traditional role beyond moving goods from point A to point B, and to become full-fledged information partners.

Based on the most powerful database of real-time trade content, the Open Harbor solution drives two critical relationships for forwarders: streamlined interactions with customers, as well as automated transactions with carriers and third-party providers.

The result is a unique opportunity for forwarders to lower operational costs, generate revenues from new services, and vastly improve customer service across global value chains.