



WILLIAM G. "JERRY" PECK

Supply-chain security's value proposition

I was recently contacted by a company that expressed an interest in participating in Customs and Border Protection's Customs-Trade Partnership Against Terrorism. To my surprise, however, the company was not looking for assistance in implementing the program but was seeking help in validating whether its participation in C-TPAT made good economic sense.

I hope Customs is reading this, because it should be a refreshing reminder that in the reality of the corporate world, it is the bottom line that rules the day. While we all would love nothing more than to see every trade-dependent company line up to participate in C-TPAT simply because it's the right thing to do, "God, mom and apple pie" will only take you so far.

Instead, the program's total number of participants and overall longevity — which still have nothing to do with the program's actual effectiveness — will be predominantly tied to what it is capable of generating as a financial return on the company's investment, especially given that the program is entirely voluntary.

So how do you create a value proposition for C-TPAT and supply-chain security? How do you measure whether the dollars you are investing in your program are producing direct and/or tangential benefits for your company? Here is an abbreviated summary of some of the key strategies and performance measurements to be considered:

● **Quality control:** Supply-chain security should be treated as part and parcel of a company's existing product quality-control processes, which are designed and implemented to

catch nonconforming materials and finished goods prior to shipping. The negative cost and impact parallels between a commercial product failure and a potential security failure are aligned closely, complete with each capable of producing catastrophic events. Integrating supply-chain security with quality has three important advantages: 1. It supports the Department of Homeland Security's current strategy of "pushing the borders out" by identifying a potentially compromised container at the point of loading and/or export; 2. It can efficiently leverage off of existing product quality-control processes and resources in the field; and 3. The concept is easy to "socialize" and align internally.

● **Consumer and Wall Street support:** Experts on terrorism agree that another attack within the U.S. is simply a matter of time, with most pointing to containerized cargo as a likely delivery system. While one can only speculate on what the economic reaction might be toward the company whose container was the one compromised, the risk alone is often cited as one of the biggest reasons companies choose to participate in C-TPAT.

● **Corporate responsibility:** Introduction of the Sarbanes-Oxley Act, albeit for reasons unrelated to terrorism, has created one of the strongest incentives for participation in C-TPAT, as well as real teeth as a structure for ensuring compliance.

● **Reduced container inspections:** This is certainly one of the easiest metrics to quantify and can produce some of the most tangible cost-saving figures, as a typical container examination can run between \$300 to \$500, not including costs associated with

delays in order-to-cash cycle times and production-carrying costs. However, I've also had a number of C-TPAT participants tell me that their post-C-TPAT examination rate actually increased — a direct contradiction to what Customs has touted as one of the biggest incentives for membership. This would indeed create an embarrassing point to explain had the savings related to reduced examinations been a major selling point to management for participating in C-TPAT. (Customs' explanation: In many cases, the company's inspection "percentage" had indeed dropped, but because of the increase in overall inspections, the net result was higher.)

● **Reduced inventory shrinkage:** While C-TPAT was created specifically to help reduce the threat of a terrorist weapon being introduced to the international supply chain, one of the tangential benefits of an enhanced supply-chain security program should be a measured reduction in the amount of goods being removed from the supply chain.

● **Improved supply-chain visibility:** Obtaining greater awareness of where your goods are can create additional value throughout your supply chain, including better carrier and 3PL performance metrics, improved cross-operational communication, better factory or resale distribution planning, and better overall contingency planning for other more common disruptions to your supply chain.

William G. "Jerry" Peck is president and founder of Global Trade Management Solutions. He can be contacted at (815) 462-1732, or at wjpeck@comcast.net.