A GRAND ENTRANCE?

Li Ning's Emergence as a Global, Chinese Brand

Henkel
Customs Broker Rationalisation

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This case is based on field research data. It is written to provide material for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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The business school that thinks and lives in the future
Henkel: Customs Broker Rationalisation

This case explains the customs broker rationalisation programme for European operations of the German multinational conglomerate Henkel AG & Co. KGaA since 2015. Henkel is a manufacturer of adhesive, beauty care, laundry and home care products with 170 production sites in 57 countries and sales in over 150 countries. The case shows how the company’s Global Customs Management and Export Compliance project team in Amsterdam designed and launched the programme, and invited customs broker candidate firms for a final selection in summer 2016. What should the evaluation criteria be for selecting the right broker?

Introduction

In Summer 2016, an important recommendation was about to be made by Head of the Global Customs Management and Export Control project unit (hereafter “the Compliance team”) of the multinational conglomerate Henkel AG & Co. KGaA (Henkel). He wanted his management superiors to significantly change the company’s approach towards global trade management.

The Compliance team, part of the Finance Tax Group in Henkel’s headquarters in Dusseldorf, Germany, is located in the newly established Henkel Global Supply Chain B.V. (HGSC) in Amsterdam, Netherlands to support HGSC’s customs compliance. At the beginning of 2015, the Compliance team conceptualised and embarked on a customs broker rationalisation project for the “Europe 30” countries in which HGSC had tax registration – the European Union’s 28 member states, plus Switzerland and Norway – to reduce the number of its customs brokers from 160 to 1. Due to the time pressure exerted by the Global Governance Board, the team had to pick one out of the three best candidates quickly, so that they could implement the transition in Autumn 2016. Henkel’s top management and other regions were attentively observing the evolution in Europe.

Henkel

Henkel, founded in 1876, had flourished into a global manufacturer of adhesive, beauty care, and laundry and home care products, with 170 production sites in 57 countries and sales in over 150 countries by 2016. Headquartered in Germany, the company then had over 200 subsidiaries, employing about 50,000 people worldwide. Although the company is listed on the Frankfurt Stock Exchange, the founding family Henkel maintains control of the company through active involvement in the shareholder committee and supervisory board.

1 Customs brokers are service providers who specialise in performing formal activities to arrange clearance of goods by customs for import, transit and export.
The company’s sales, operating profits (EBIT) and net income in 2015 were 18,089, 2,645 and 1,968 million euros respectively. Its numerous brands (Exhibit 1) included Loctite, Technomelt, Teroson, Pritt and Pattex from the adhesive technologies business unit; Schwarzkopf, Syoss, Dial, Taft and Fa from the beauty care business unit; and Persil, Purex, Pril and Bref from the laundry and home care business unit. Its top 3 brands (Persil, Schwarzkopf and Loctite) and top 10 brands contributed about 1/3 and 3/5, respectively, of its total sales.

Exhibit 1. Henkel’s products

Henkel Global Supply Chain B.V.

Danish topman Kasper Rorsted, who became Henkel’s nonfamily CEO in 2008, joined the company as executive vice president of human resources, purchasing, information technology, and infrastructure services in 2005. Since then, he had been driving the company to ambitiously improve performance in different ways, such as enhancing cost efficiencies through process standardisation and automation. Thus, to consolidate, standardise and digitise sourcing, production and logistics activities (Exhibit 2) across all business units and corporate functions around the world, Henkel initiated a strategic ONE!GSC project. At the end of 2014 the company invested hundreds of millions of euros to set up HGSC in Amsterdam to implement the project with 180 employees. At the end of 2015 it established a second hub in Singapore. The expected benefits of the ONE!GSC project included savings in sourcing and logistics, better monitoring of customs compliance, speedier delivery to customers, reduction in inventory, and faster reaction to changes in demand around the globe.

Exhibit 2. The Value Chain

Before the set-up of HGSC, local business units commissioned freight forwarders and customs brokers, and arranged logistics in their own country. Offering centralised support to local business units, HGSC then formed Global Trade Management (GTM) units in various regions to take over logistics to streamline the cross-border movement of goods. The Amsterdam-based unit maintained a network with other GTM units in the United States, the Middle East, North Africa and Asia-Pacific.

Customs compliance was a complicated and tedious function, which involved customs-related documentation, data verification, and payment of duties and taxes under heavy time pressure.
and within tight budgetary constraints. The Compliance team was assigned to assist HGSC to control brokers and the related costs (Exhibit 3).

Exhibit 3. Compliance team’s internal relations

Conceptualisation of the Customs Broker Rationalisation Programme

Compliance with customs laws and regulations is a must. In many countries, it is inevitable to use customs brokers for local compliance because they have the licenses issued by the authorities, and speak the local language. Besides, customs brokers are specialists in compliance, offering services such as preparation and submission of declaration documents, calculation and payment of duties and taxes, and communication with customs authorities.

When Henkel’s local business units commissioned customs brokers in their own country, they would keep paper documents of customs declarations. After HGSC took over the logistics, the use and maintenance of electronic documents increased. But still, the Compliance team did not have quick and easy access to details of customs declarations for any sophisticated analyses.

Henkel had hundreds of customs brokers around the world. Some of these brokers were multi-task service providers, such as freight forwarders.

Customs Broker Rationalisation in the US

Following other multinational companies, Henkel decided to rationalise customs brokers in the US. It reduced the number of customs brokers from about 30 to two: one key broker and a secondary broker for special requirements. This broker rationalisation project had three purposes: tightening control of broker performance, reducing costs, and digitising the information flow between Henkel, brokers and authorities to reduce manual data entries and papers, and hence to increase data accuracy and enable analysis. As a result, the company formed a closer working relationship with the 2 brokers, and achieved cost savings of up to 50%. In addition, because the US government deploys the Automated Commercial Environment (ACE)² software system to retain all customs declaration information, HGSC could then have a full historical

² ACE is the Single Window, or primary system, through which the global trading community reports imports and exports and the US government determines admissibility. It is intended to streamline manual processes, eliminate paper, and allow international traders to comply with US customs laws and regulations more easily and efficiently.
overview of its exposure to customs duties and taxes, and continue to build up its global trade database.

Optimisation of Customs Broker Configuration in Europe

HGSC used 160 customs brokers in the “Europe 30” countries. This fragmentation of customs brokers had several drawbacks. Firstly, the service quality of brokers varied, which might delay clearance or damage the company’s trustworthiness as perceived by customs authorities. It would be complicated and time-consuming for the Compliance team to monitor so many of them. Secondly, it was expensive. Not only did spreading the total volume among so many brokers prohibit the opportunity to negotiate a lower brokerage fee, but also the mix of pure customs brokers and multi-task service providers made it difficult to compare and standardise the brokerage fee. Thirdly, transparency was a challenge. The Compliance team was given the responsibility to verify information sent by customs brokers to various customs authorities. However, unlike the Customs Authority in the US, those in Europe had not yet made historical information fully available to traders via their portals. Hence, the team did not have a clear picture of the flow of goods among various countries and the volume through different transportation means—air, sea and road.

The Compliance team knew that they should rationalise customs brokers in Europe. But the critical question that they faced was about configuration. The team finally decided to have one broker for all “Europe 30” countries for synergy, presenting a single face to deal with the logistics team of HGSC. In addition, the Compliance team wished to partner with a neutral customs broker that did not simultaneously offer other services—such as transport and storage—to HGSC, believing that this clear-cut nature would ease the replacement of existing customs brokers.

An important operational consequence of this decision was to transfer the volume from existing brokers to that of a single customs broker, and to ask freight forwarders to work with the broker, i.e. sending an arrival notice to the broker, and to exclude customs formalities in their future quotations. HGSC did not have any plan to rationalise the freight forwarders or other service providers. It was yet unclear how these freight forwarders would respond to the change of operating procedures and the loss of the customs business.

Digitalisation

Customs authorities in Europe were also moving from paper to electronic documentation. Each customs authority used a different software system, although they were working towards a common platform across Europe. Many brokers had set up an IT connection with the local customs authorities.

Henkel’s IT department used SAP software. Its Shared Service Centre (SSC) maintained the data. To digitise the global supply chain, HGSC also employed SAP’s Global Trade Services (GTS) module for providing local business units with centralised support for trade-related processes. It offers potential benefits such as reducing time and costs of compliance, increasing transparency, and helping the resolution of issues that might impede clearance on time. For instance, the module allows users to trace the location of the goods on the move, and track their contents information. Having said that, the Compliance team had not yet fully migrated elementary data related to customs declarations, i.e. purchasing order information, to the GTS module.

Under the project named Poseidon (Exhibit 4), the Compliance team was planning to connect SAP’s GTS module to the software system of the to-be-chosen customs broker. In such Electronic Data Interchange (EDI) connection, the Compliance team could base on purchasing order information in the system to directly provide the broker with all the necessary details for customs clearance. Via the customs broker, the team could also immediately receive the confirmation and amount of duties and taxes sent by the local customs authority. Such direct connection could enhance the above benefits of SAP’s GTS module. For instance, it could greatly reduce the broker’s time and workload for declaration. In addition, it would make accurate
Exhibit 4. Poseidon Project: Expected EDI connection with the to-be-chosen customs brokers

Thus, the Compliance team envisioned that the to-be-chosen broker should have the appropriate IT infrastructure to connect to its SAP’s GTS. More importantly, the team favoured a broker having a centralised system that had already been connected to as many local customs authorities as possible. Otherwise, Henkel’s IT department had to establish multiple EDI connections with local systems managed by the broker.

Broker Solicitation and Selection

The Compliance team reached out to their colleagues and acquaintances to come up with a list of 10 large customs brokers, most of which had worked with Henkel’s business units in certain countries while a couple of them were new to the company. The team invited these brokers to participate in a tendering procedure. Three brokers turned the company down right away, saying that they would not be able to fulfil the requirements, particularly the IT connectivity. Henkel finally received five bids, including a “not-so-serious” one.

Out of these five candidates, the team chose the three best ones and invited them to come to their office to make a presentation. For the evaluation, the Compliance team first identified 7 complementary criteria for a scoring system (Exhibit 5).
Then, the Compliance team had to develop a list of questions under each criterion so that they could give points to each candidate. For example,

- **Control Tower**: Would the broker representatives speak Dutch?
- **Implementation Plan**: Would there be a dedicated person from the broker side to manage the implementation with the Compliance team?
- **Reliability**: Did the broker over claim their competencies and commitment?

Finally, they needed to choose the questions that would deserve additional weights. Henkel had a lot of expectations of the to-be-chosen customs brokers. The team knew that the scoring system was critical to the broker selection, which was essential to their future customs compliance activities. They had to finalise the questionnaire quickly.

### Questions

1. What are the advantages and disadvantages of customs broker rationalisation?

2. In your opinion, what should the optimal broker configuration for Henkel in Europe be? Why?

3. In your opinion, what should the evaluation criteria for selecting the customs broker for Henkel be? If you were the Compliance team leader, what questions would you ask the broker candidates and to which of them would you assign additional weights?