

Case Study

Making the case for Foreign-Trade Zones

Helly Hansen's decision to establish a Foreign-Trade Zone and the benefits to its business



Introduction

In 2010, Helly Hansen was faced with deciding how their future North American distribution system would work. The leader in outdoor apparel needed to determine the optimum distribution model that would enable them to serve both U.S. and Canadian markets. Their existing operation included warehouses in Auburn, Washington and Vancouver, British Columbia. Helly Hansen's distribution network supplied 12 corporate branded retail stores in addition to their retail partners. The majority of their products were manufactured in Asia and imported to North America.

Helly Hansen conducted a thorough site review analysis and ultimately the decision was made to consolidate distribution activities at their warehouse in Auburn. A key driver in their decision was access to the Foreign-Trade Zone (FTZ) program. The significant cost-savings that Helly Hansen could derive from a zone, as well as the newly streamlined FTZ application process, made the program very attractive. Overall, the FTZ program complemented their distribution network strategy and would enhance their competitiveness.

This paper outlines Helly Hansen's evaluation process, the steps they took to establish a zone and key benefits realized by utilizing the FTZ program.

What is a Foreign-Trade Zone?

Of the many tools available to companies involved in international trade, a Foreign-Trade Zone or FTZ may be the least understood and often the least utilized. While many of the benefits can appear nominal on the surface, companies that take the time to research the program often find out that the benefits add up to substantial costs savings.

FTZs are designated, secure sites considered outside of U.S. Customs territory but physically located in the United States. Established in 1934, the Foreign-Trade Zone program was designed to encourage international trade and U.S. employment. It is administered by the Foreign-Trade Zone Board, based in Washington DC.

There are now 174 active zones across the U.S. benefiting a wide variety of businesses with import and export activities. Companies in retail, automotive, pharmaceutical, petroleum and many other industries take advantage of the program's various costs savings opportunities.

Deferred payment of customs duty is a key benefit of the program since cargo imported into an FTZ is not subject to U.S. duties until it leaves the zone. Other key cost savings include duty avoidance, inverted tariff opportunities, reduced customs processing fees, improved cash flow and more secure and efficient supply chain operations.



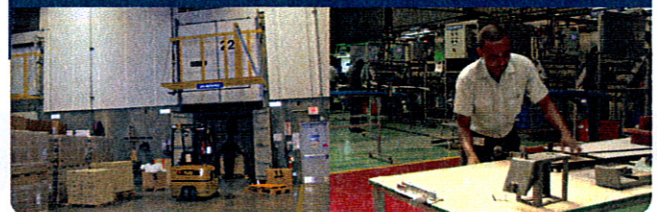
Overview of Helly Hansen

Since its founding in 1877, Helly Hansen has grown from modest roots into a world leader in outdoor apparel. The company specializes in apparel for professionals working in extreme environments. Helly Hansen's founder and namesake was a Norwegian fisherman who independently engineered a water resistant fabric that he used to make coats. Since then, Helly Hansen has been a leader in water-resistant cold weather apparel, ensuring the comfort and warmth of its customers in any condition.

Helly Hansen has developed a strong brand presence in Canada where their products are well-regarded. The U.S. is considered an emerging market for the company and they have been actively pursuing new opportunities to grow that segment of the business.

Foreign-Trade Zones can be...

FTZs can be designated in industrial parks, distribution centers and warehouse facilities. These can be multi-user facilities or specific to one company's site.



Analysis Criteria for Site Selection

Helly Hansen's decision to establish an FTZ was part of an overall site selection process. Their objective was to determine both the optimal location and number of facilities that would best fit their distribution network strategy. Cost and the ability to meet customer requirements were key factors. The company looked at a number of sites both in the U.S. and Canada. Quantitative and qualitative variables that were considered in the analysis included:

- » Inbound/Outbound transportation costs
- » Real estate costs
- » Labor costs
- » Relocation costs
- » Foreign-Trade Zone access
- » Minimizing impacts to customers

Analysis Results – Consolidate in Auburn

Upon completion of their analysis, Helly Hansen determined that a single warehouse location in Auburn, WA was the best fit for their business. Consolidating operations to a single facility offered significant cost savings by eliminating redundant activities. Auburn's proximity to Canada made it a viable option to serve that market by ensuring a fast transit time. Additionally, the operation in Auburn was already established and Helly Hansen felt there would be minimal disruption to their customers.

Access to the FTZ Program was a key variable that made Auburn more attractive than other locations. One reason was the ability to avoid U.S. Customs duties on products brought into a zone from Asia that were later exported. This meant that Helly Hansen could use a U.S. – based location near the Canadian border to service both markets without additional duty-related costs. For products destined to the U.S., deferred duty payment and reduced processing fees offered under the FTZ program added up to significant costs savings opportunities, again favoring Auburn as the preferred location.

Auburn's location in King County meant that it fell under Foreign-Trade Zone #5, which is managed by the Port of Seattle. Helly Hansen was confident that establishing a zone would be an efficient process due in large part to their long-established relationships with both the Port and local Customs and Border Protection (CBP) personnel. They were also aware that the application process for an FTZ had been recently streamlined so that approval would take 30 days or less.

Why Auburn?

- » Proximity to the Port of Seattle
- » FTZ program best fit their business needs
- » Expedited activation of FTZ - access to Alternative Site Framework (ASF) in Port of Seattle Zone #5
- » Collaborative relationship with CBP and Port of Seattle
- » Auburn's close proximity to Canadian border minimized the time-in-transit for Canadian customers.
- » Business already established in King County – minimal disruption to business
- » Total costs plus FTZ resulted in negligible variances with alternate locations

The short distance to the Port of Seattle was another key factor in choosing Auburn. Quick access to their imported containers was an important part of their time-sensitive supply chain, especially in the U.S. Locating near the Port of Seattle assured them not only fast deliveries but also lower transportation costs due to a shorter truck dray.

Implementing the FTZ

Once Helly Hansen decided to consolidate in Auburn they began the process of establishing a Foreign-Trade Zone. They were able to take advantage of the Alternative Site Framework model recently adopted by the Port of Seattle. Under this new model, the time to approve zone status was reduced from 8-12 months to 30 days or less.

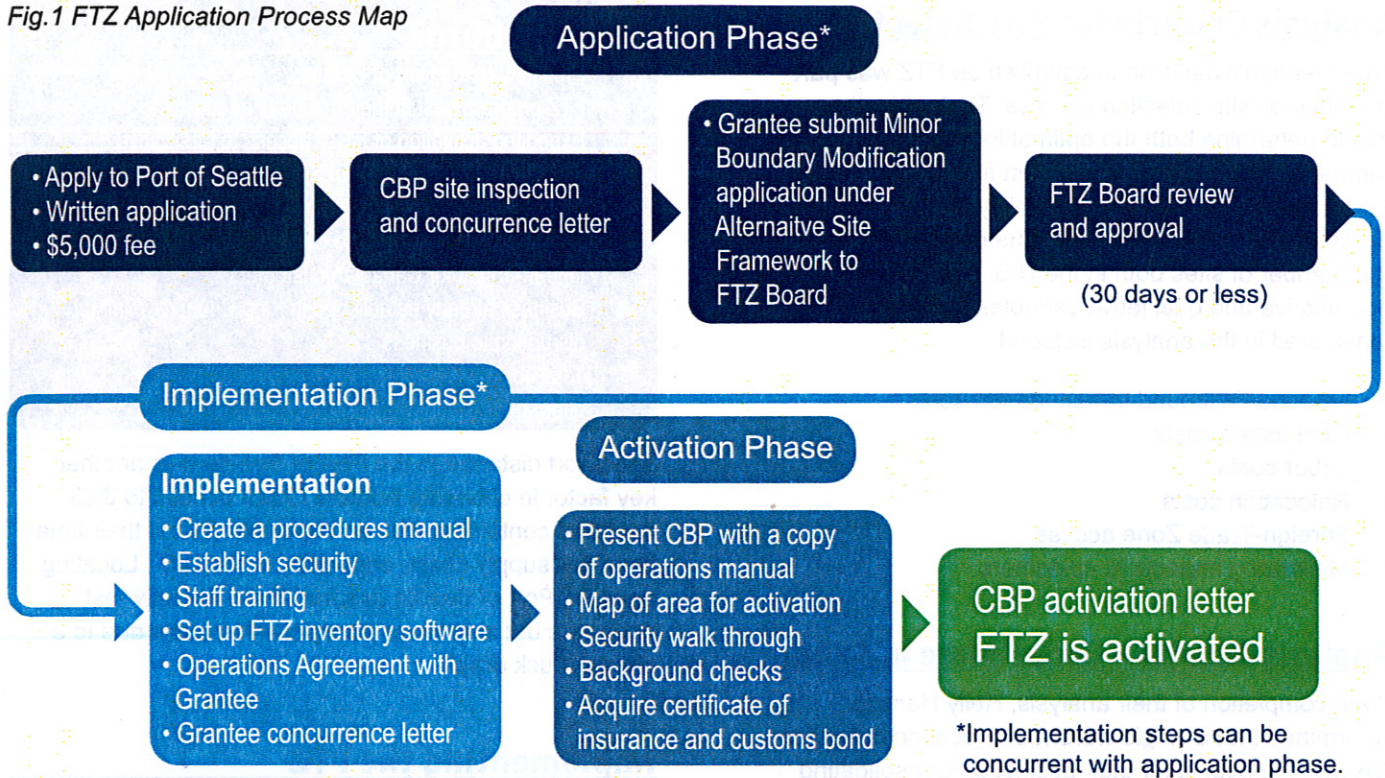
Helly Hansen also had the flexibility to designate their warehouse in Auburn as a zone instead of moving to a common-user facility. This is referred to as a "Usage-Driven" site which means it is established for operations of a single user.

The first step in the process was submitting the initial application for zone status to the Port of Seattle. As Grantee for Zone #5, the Port's approval was required. At the same time, Helly Hansen worked with local CBP personnel to outline their plans for the FTZ. CBP is responsible for enforcing FTZ regulations and applicants must obtain their initial approval to proceed. This approval is given in a concurrence letter.

Once these steps were completed, the Port of Seattle prepared a request for Minor Boundary Modification on behalf of Helly Hansen. This document is specific to the Alternative Site Framework model and it outlines the location of the zone, intended use and site plan of the facility. It is submitted to the FTZ Board for approval.

Access to the FTZ Program was a key variable that made Auburn more attractive.

Fig.1 FTZ Application Process Map



The Port worked with Helly Hansen to gather the necessary information for the boundary modification request. A copy of CBP's concurrence letter was also included. The package was submitted to the FTZ Board in Washington DC for review and was approved in less than 30 days.

Helly Hansen next moved to the implementation phase. This process included developing a procedures manual for zone operations. Inventory management controls and security measures that met CBP specifications were also established. A program specific to FTZs was integrated with their inventory control system. Helly Hansen also secured insurance for the zone and conducted staff training so all were clear on the zone operations and processes. CBP requires background checks for key staff directly involved in the zone and Helly Hansen was also required to post a bond. Finally, Helly Hansen signed an Operations Agreement with the Port of Seattle outlining the roles and responsibilities of each party.

Following the implementation phase, Helly Hansen was ready to activate their Foreign-Trade Zone. They provided CBP with a copy of their procedures manual and map of the proposed area for activation. A security walk through of the warehouse was a completed with Customs personnel to confirm requirements were satisfied. The Port also provided CBP with a concurrence letter affirming its approval to activate the zone. Once these steps were complete, the required bond was posted and background checks finished, CBP signed an activation approval letter allowing Helly Hansen to start using the Foreign-Trade Zone.

To help them with the entire FTZ application and implementation process Helly Hansen elected to use a consultant. The consultant was helpful in covering various details and shortening the implementation timeline. They also decided to hire a full time FTZ Administrator to manage their zone. The anticipated cost savings from the Zone made this a feasible option.

Four months after it was approved, Helly Hansen activated its FTZ in June of 2011. Overall, the application, implementation and activation phases took 7-8 months. While their timeline is considered normal, it can vary based on the operation and complexity of a particular business. (See Figure 1 for a process map)



Realized Benefits of the FTZ

Since activating their Foreign-Trade Zone, the cost savings and operational efficiencies for Helly Hansen have been substantial. They were able to recoup the upfront costs to establish the zone in just 14 months. To date, costs savings have been in the millions of dollars and continue to grow.

Transportation:

Consolidating shipments from various suppliers in Auburn has reduced the amount of less than full trailer load (LTL) shipments and increased the number full trailer loads (FTL). This, combined with the duty avoidance on exported product, has enabled Helly Hansen to realize 40-60% savings in their transportation costs.

Duty deferral, improved cash flow:

Customs duty on products is deferred while in an FTZ. From a cash flow perspective this is significant. Instead of paying duty when the goods arrive, Helly Hansen can deploy that cash elsewhere in the organization. (See figure 2). There is also no time limit on how long product remains in a zone. This allows Helly Hansen additional flexibility on the timing and quantity of their product orders.

Reduced processing fees

Fees related to importing activity have also been reduced. FTZ's allow weekly entries to CBP instead of per shipment. As a result, the processing fee associated with an entry is fixed at \$485 per week or \$25,220 per year. Compared to paying on a per entry basis, this savings can be substantial. For example, a company with 20 entries per week, assuming the maximum of \$485 per entry, would pay \$9700 per week or \$504,400 annually. Weekly entries alone could save over \$400,000 per year.

To date, cost savings have been in the millions of dollars and continue to grow.

Inverted tariffs:

An inverted tariff scenario occurs when individual component items or raw materials have a higher duty rate than the final product. In the FTZ program, companies are allowed to pay the lower duty rate when the final product leaves the zone. Often this occurs with some type of production activity which requires pre-approval by the FTZ Board. With its current business model, Helly Hansen does not utilize this functionality of the FTZ program but has the option to do so in the future.

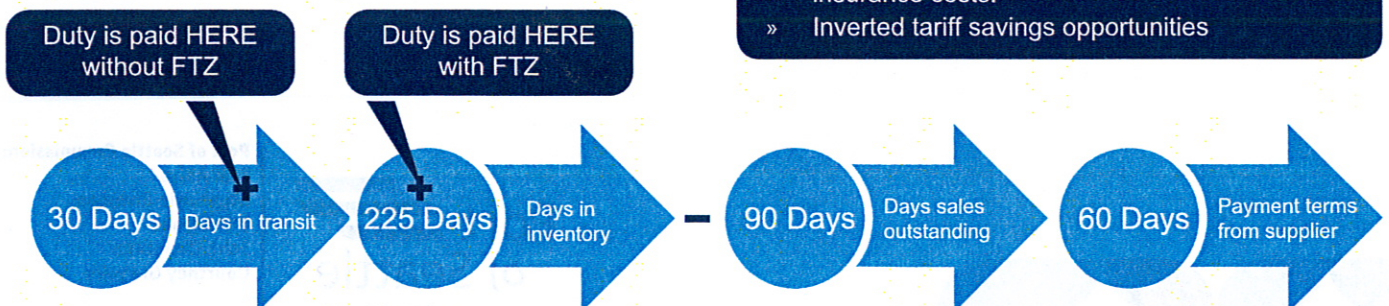
Operational efficiencies

Delivery operations to the Auburn warehouse have been faster and more efficient using the FTZ program. Helly Hansen applied for Direct Delivery with CBP which allows containers to be delivered from the marine terminal without prior approval of the admission from Customs. Their proximity to the Port of Seattle means a short truck dray, further reducing the time to access their imports.

Security and inventory management:

The security requirements of an FTZ operation, while extensive, have improved their inventory management processes and reduced the risk of theft. In fact, the FTZ program is considered a best practice by the Customs-Trade Partnership Against Terrorism (C-TPAT) program. The strength of the security has actually enabled Helly Hansen to reduce its insurance premiums.

Fig.2 Improved cash flow



FTZ Key Benefits

- » Deferral of customs duties helps cash flow and reduces interest costs.
- » Direct Delivery allows quick delivery of goods to the zone.
- » Merchandise Processing Fee capped at \$485/week or \$25,220/year.
- » Elimination of U.S. duty for goods exported to other countries.
- » Improved security reduces theft and lowers insurance costs.
- » Inverted tariff savings opportunities

Is an FTZ right for you?

To find out if an FTZ is right for your business, consider doing a preliminary cost analysis. Reviewing just a few cost components will help determine the potential savings opportunities and whether the amounts are worth pursuing. Since the FTZ program may not work for every company, this is an important first step.

The zone Grantee or a consultant can be a good resource for additional background information about the FTZ program. They can provide analysis tools and specific details for establishing a zone. The local Customs and Border Patrol office is a good resource for guidance on zone operations.

Once the decision is made to proceed with a Foreign-Trade Zone, companies should also consider the following suggestions:

- » Work with a reputable consultant. They can help with the specific steps in the application process and minimize the time to activate.
- » Meet with CBP early on in the process to discuss plans and establish a working relationship. CBP familiarity with the operation can ensure a smooth implementation.
- » Ensure you have the right systems for inventory control.
- » Consider having a full time FTZ administrator.

Additional Resources

Additional information about the FTZ program, benefits and application process can be found at the following sites:

- » <http://ia.ita.doc.gov/ftzpage>
- » www.naftz.org
- » www.CBP.gov

FTZ #5

For information on Zone #5 in King County, please visit the Port of Seattle web site at:

www.portseattle.org/Cargo/Foreign-Trade-Zone

Or contact:

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