

# **FTZ Feasibility Analysis: How to Sell FTZ to Sr. Management**

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# FTZ Feasibility: The Numbers

- FTZs offer many types of savings:
  - DUTY SAVINGS
  - SUPPLY CHAIN VELOCITY SAVINGS
  - CASH FLOW SAVINGS
  - IMPORT FEE REDUCTIONS
  - STATE TAX BENEFITS-TX & AZ
- Determining these level of savings is KEY!
- **Double counting or placing a “cash-flow” benefit into a P&L type statement won’t work either and CFO’s figure this out**
- Learn how to do this, and you will succeed
- Costs are also key to determining the NET FTZ BENEFIT!



# FTZ Feasibility: The Numbers

- First – Gather data for analysis
- Second – Research costs
- Make sure that your numbers are correct, assumptions are correct and formulas are correct
- Present to Management – Financial management to vet through your numbers and assumptions, etc.
- Intangible benefits + Tangible benefits!



## Gather the Data:

- Components for the FTZ Cost Benefits Analysis:
  - Number of Customs Entries per week (or month or year)  
\_\_\_\_\_per \_\_\_\_\_
  - Total import value (rough estimate only) \$\_\_\_\_\_per year
  - Duty rate average, across all imports \_\_\_\_\_%
  - Any exports? yes? no? if yes, what \_\_\_\_%. If yes, do you use Drawback\_\_\_\_\_?
  - Inventory scrap rate (including Return to Vendor) in the warehouse\_\_\_\_\_%
  - Inventory turns per year \_\_\_\_\_
  - Annual growth rate of imports (sales) \_\_\_\_\_%



# Research the Cost Information

- Personnel – One FTZ Manager at \$40,000-\$75,000/year
- Software – (in-house or contract) at \$30,000-\$75,000/year
- Compliance and Management Time - \$10,000-\$20,000/year
- Amortized Up-front Costs of Integrating FTZ into current Accounting or WMS systems - ?
- TOTAL is between \$80,000 up to \$170,000 per year (small to very large, multi-site FTZ operation)

– **DISCLAIMER –THESE ESTIMATES ARE “BEST GUESSES” AND NOT TO OFFEND ANYONE IN THE INDUSTRY!**



# Make Sure You Have Correct Formulas!

## A. DUTY SAVINGS AS A RESULT OF RE-EXPORTS\*

(annual cost, dutiable imports) X (% re-exported) X (weighted average duty rate) X (100% if no drawback in place, FTZ differential if drawback)

## B. DUTY SAVINGS ON REJECT OR SCRAP; MILITARY SALES

(annual cost, dutiable imports) X (% reject or scrap + % sold to military) X (weighted average duty rate)

\*\*\*\*\* Note: re-exports + rejects + military sales = tariff eliminated (TE)

## C. ONE-TIME BENEFIT: "LONG-TERM DUTY DEFERRAL"

[annual cost, dutiable imports X (1 - TE) » inventory turns per year] X (weighted average duty rate)

## D. SAVINGS FROM ONGOING DUTY DEFERRAL

[annual cost, dutiable imports X (1 - TE) » inventory turns per year] X (weighted average duty rate) X (opportunity cost of capital)

## E. MERCHANDISE PROCESSING FEE (MPF) SAVINGS UNDER WEEKLY ENTRY PROCESS

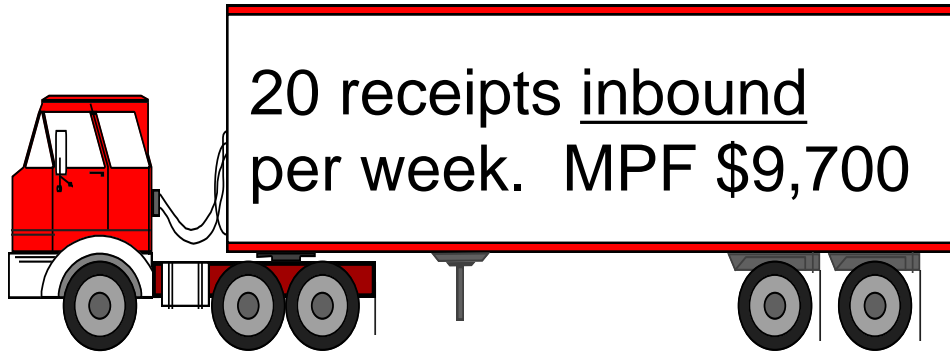
(average "Merchandise Processing Fee" per entry X entries per year) - (52 weeks per year X \$485 maximum MPF per entry)



# Explaining MPF Fee Savings

- CBP charges fees to process paperwork
- Like the PFC you pay on all Flights, the MPF fee is charged per ENTRY
- An entry is equal to 1 Bill of Lading (BL)
- A BL = 1 Container (sometimes 2-3)
- The MPF fees Customs charges are approx \$200 - \$500 **per Entry = \$10,000's per week typically**
- FTZ - Weekly Entry reduces this to 500/WEEK!
- FLASH—MPF raised from 0.21% to 0.3464%





### Shipments into Site

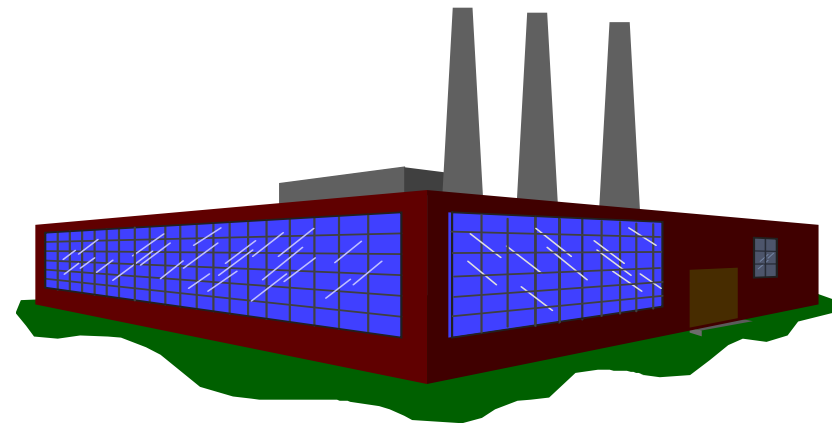
In a single week an FTZ importer can save \$9,200/week in MPF Fees, or

~~\$479,180 per YEAR!~~

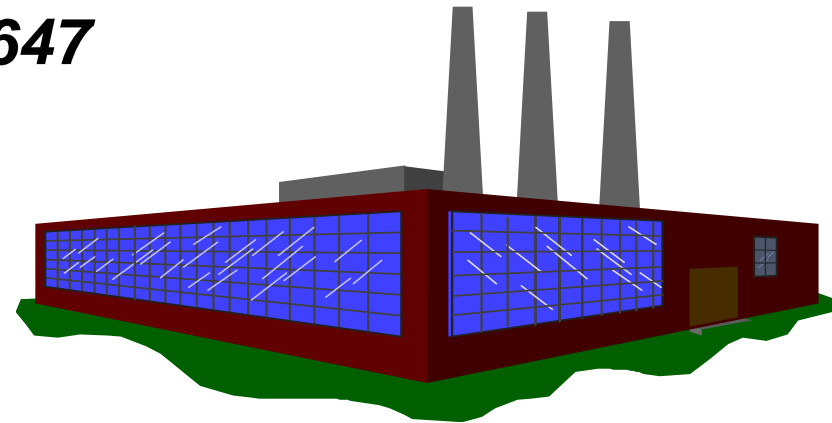
***NOW MPF IS HIGHER! \$790,647***



Shipments into commerce with weekly entry



### Pre-Foreign-Trade Zone



### Foreign-Trade Zone



# Get Finance/CFO to Vet Through the Numbers

- CFO-Finance is going to Un-Stick the FTZ anyway, so bring them in early
- Why? Because they can look at the big picture:
  - Biggest problem is SILOS!! Warehousing doesn't want to add another body + software (expenses) when "Tax" gets the FTZ benefits under their P&L!
  - CFO will see through all that and the remedy is "the Enterprise is getting a huge savings, for a small investment and low ongoing costs!"
- Finance will make sure that all assumptions and benefits are "real" and tangible to the enterprise



# Intangible Benefits + Tangible Benefits!

- **Supply Chain Velocity Benefit** = 1-2 days faster inbound receipt using Direct Delivery. (Verified by B&D, Skechers, many others)
- **Broker Benefits?** Some FTZ Operators become self-filers
- **CTPAT Best Practice** - gets you to Tier 3 faster
- Makes you look at the entire supply chain, looking for **“other ways to save money”** using the FTZ – this has never failed after 35 years of doing FTZ consulting!
- **Eliminate Reconciliation (quantity)** - “floor loaded containers are always accurate and match the BL every time” **NOT!**
- **Brings Divisions within the enterprise closer together - FTZ project requires multi-functional disciplines to work together**



## Example: Distribution Center Electronics

	<b>Non-FTZ</b>	<b>FTZ</b>
Duty	\$7,500,000.00	\$7,500,000.00
MPF	<b>\$346,428.57</b>	<b>\$25,220.00</b>
Inventory Taxes	\$275,000.00	\$0.00
Broker Entry Fees	\$71,428.57	\$ 13,000.00
Broker Admission Fees	\$0.00	\$ 71,000.00
FTZ Admin Fees	<b>\$0.00</b>	<b>\$ 125,000.00</b>
<b>Total Costs</b>	<b><u>\$8,192,857.14</u></b>	<b><u>\$7,734,220.00</u></b>
<b>Client Net FTZ Savings</b>	\$0.00	<b><u>\$458,637.14</u></b>



# Example: Small Manufacturing Company (5% Exports and <\$10 Million Imports of 1 Part)

FTZ Benefits & Expenses By Type	Year 1	Year 2	Year 3	Year 4	Year 5	5-YEAR TOTAL
<b>FTZ Benefits</b>						
Re-Exports <sup>1</sup>	\$12,398	\$14,257	\$15,398	\$16,168	\$16,976	\$75,196
Reject, scrap, & military sales	684	787	850	892	937	4,149
One-time benefit <sup>2</sup>	---					
Ongoing duty deferral	2,553	2,935	3,170	3,329	3,495	15,483
Inverted Tariffs	291,726	335,485	362,324	380,440	399,462	1,769,436
Merchandise Processing Fee savings	7,688	8,841	9,548	10,026	10,527	46,631
<b>Total FTZ Benefits</b>	<b>\$315,048</b>	<b>\$362,305</b>	<b>\$391,290</b>	<b>\$410,854</b>	<b>\$431,397</b>	<b>\$1,910,894</b>
<b>FTZ-RELATED EXPENSES</b>						
Internal FTZ Operation Expenses	\$75,000	\$77,250	\$79,568	\$81,955	\$84,413	\$398,185
Grantee fees	5,000	5,150	5,305	5,464	5,628	26,546
<b>TOTAL FTZ-RELATED EXPENSES</b>	<b>\$80,000</b>	<b>\$82,400</b>	<b>\$84,872</b>	<b>\$87,418</b>	<b>\$90,041</b>	<b>\$424,731</b>
<b>NET FOREIGN-TRADE ZONE BENEFITS</b>	<b>\$235,048</b>	<b>\$279,905</b>	<b>\$306,418</b>	<b>\$323,436</b>	<b>\$341,356</b>	<b>\$1,486,163</b>



# What is the FTZ ROI?

- Investment in a New Zone:
  - Worst case = \$100,000 consulting and \$100,000 fully integrated ABI ready software upgrade
  - Best Case = (non-manufacturing) Fast Track Application/Activation with \$65,000 consulting and \$45,000 software
- Zone savings over 5 years - Better be \$400,000- \$800,000 or more!
- Pay-off in terms of months: Depends based on many factors, but usually within 13-26 WEEKS!!!
- MPF starts paying off Day 1
- **ROI for the “project” (5-year basis) is 200% to 1,000% ROI, or Don’t Do It!**



# NOW You Know that the FTZ is Financially Feasible. What's Next?

- Is it Operationally Feasible?
- Is it Compliance Feasible?
- Is it Stakeholder Feasible?
- Do I really want to perform "Change Management" on my OWN job?
- Am I the one that is "in the way?"
- Your Value Proposition!



# CONCLUSION

- Is the Zone feasible for your company?
  - No: Then drop it and revisit in two years
  - Yes: What are the steps to proceed?
- Who should help you start the process?
- **Is it really just “fill in the blanks?”**
- Is it really only 30 days?
- **Why isn't everybody doing it?**
- Will I get audited more?
- **My Broker said that FTZs are a mess, and don't do it!**



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***QUESTIONS?***

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