

September 2011

Broker productivity analyzed

It seems only natural to think the bigger the customs broker the more import entries they can efficiently process.

However, that's not actually the case. A recent survey of 140 industry executives by Kewill found productivity, or the number of monthly customs entries per full-time customs employee, peaked with mid-sized broker operations, and dropped off significantly for larger operations.

In its survey, which Kewill discussed in detail during an Aug. 11 *American Shipper* webinar, "Best Practices in Customs and Freight Forwarding Management," mid-sized operations were defined as having 25 to 60 full-time customs employees, whereas the largest firms have more than 200 staff dedicated to this activity. Small firms generally had 10 or fewer dedicated employees.

The industry average in the study was 79 monthly customs entries per employee. Each customs staff at small firms process 73 entries per month and mid-sized brokers reach upwards of 113 entries filed per employee. "The biggest customs shops represented some of the weakest performers — averaging less than 50 monthly customs entries per employee," the Kewill survey found.

"There are several theories that may explain this incongruity," said the Chelmsford, Mass.-based supply chain systems applications developer in its *Customs Brokerage and Freight Forwarding Survey — Analysis and Best Practices Recommendations*. "Perhaps the biggest customs brokers take on more complex transactions which take longer to complete." (Listen to the webinar recording at www.AmericanShipper.com/freightforwarding or at Kewill's Web site, www.kewill.com.)

Transaction complexity, the study noted, can be affected by a number of variables, including:

- Number of commercial invoices and/or line items.
- Number of air waybills or ocean bills of lading.
- Requirements to deal with other government agency clearances beyond just Customs and Border Protection's Automated Broker Interface.
- Other services such as coordinating delivery of freight to the final destination.

"Another theory is that mid-sized customs shops are more likely to specialize in market segments where they can build expertise and efficiency, such as apparel, toys or consumer electronics. Or perhaps larger customs operations rely more on lower paid and less trained human labor rather than productivity enhancing software systems," Kewill said. "Or it could be that mid-sized customs operations are just 'leaner and meaner,' having learned to become super-efficient to compete against bigger rivals."

To further define what's actually taking place among the various sizes of brokers, Kewill broke down entry productivity by transport mode — air, ocean and road.

“The smallest customs shops are mostly focused on more complex ocean entries, so this could explain their lower productivity as a group,” Kewill found in its survey. “The mid-sized customs shops do a greater percentage of their work for air modes and also have higher concentrations of road modes, which have much higher productivity ... productivity begins to dip for customs teams with 60-200 employees, since this group again focuses on ocean entries.”

The Kewill survey remains somewhat inconclusive as to why customs shops with more than 200 team members lose out on efficiency. However, “it could be that the largest customs brokers are more likely to utilize human resources versus more efficient IT resources in their operations — a problem that could be resolved by investing in an advanced customs system,” the company said.

Another interesting aspect of the survey is its measurement of customs entry rejection rates among brokers. Kewill estimates 61 percent of the survey respondents have a less than 1 percent rejection rate, with 23 percent experiencing rejections in the 1 percent to 2 percent range. About 5 percent of broker respondents faced entry rejection rates above 2 percent.

The biggest surprise among the surveyed brokers is that 11 percent claim not to measure rejection rates at all.

“With all of the improvements in customs compliance systems over the years, we at Kewill found it surprising that so many customs brokers tolerate high rejection rates, with all its corresponding costs, re-work, risks and potential penalties,” the company said.

The Kewill survey attempts to calculate costs of high rejection rates using the example of a broker performing 50,000 entries a year. Citing data from a 2007 CBP-Trade Support Network study that estimated \$150 of time and work needed to fix a rejected customs entry, the money lost to the broker would range from \$150,000 to \$375,000 for a 2 percent to 5 percent rejection rate. Kewill further warns this calculation doesn't take into account “any downsides due to lost customer goodwill, supply chain delays, or penalties.”

Kewill then tied this survey finding back to its analysis on customs shop sizes and efficiency.

“One can see a clear pattern of rising rejection rates as the customs team size increases,” the survey noted. “For small operations of less than 10 customs professionals, 75 percent of survey respondents say they had a rejection rate of less than 1 percent and only 15 percent with rejection rates in the 1 to 5 percent range.

Teams of 10 to 200 employees had higher rejection rates with more than 30 percent of respondents in the 1 to 5 percent range for each group. Again, teams of over 200 customs employees suffered the worst performance overall, with only 33 percent reporting under 1 percent rejection rates and a whopping 44 percent in the 1 to 5 percent range. Alarming, this group reported 22 percent of respondents who do not measure rejection rates at all.”

Kewill’s survey further attempts to tie broker-based entry rejection rates to transport mode of imports.

“Perhaps due to their complexity, ocean and air mode transactions have higher error rates,” the report said. “For both ocean and air dominant groups, 4 percent of survey respondents report customs rejection rates in the ‘danger range’ of 2 to 5-plus percent of transactions. In contrast, none of the customs brokers who do most of their entries for road shipments reported rejection rates in this danger range.”

While Kewill obviously has software to sell — its broker customers clear an estimated 25 percent of U.S. imports through its customs systems — the survey serves notice that improvements can still be made in the customs entry process no matter the broker operation’s size. The goal for all brokers should be to handle entries only once, said Alan Gold, Kewill’s vice president of marketing and business development, during the *American Shipper* webinar.

For Kewill, which surveys brokers and forwarders annually on technical topics, the results help the company better understand management weaknesses in the supply chain and improve its systems applications, said Celeste Catano, principal business analyst. — **Chris Gillis**