

U.S. Guitar Manufacturer Hits a Sour Note with U.S./Canadian Customs Compliance

A top U.S. guitar manufacturer faced higher-than-expected costs in shipping to Canada, along with unexpected Customs issues.

Introduction

While most U.S. businesses expect that expanding to the Canadian market will include at least some degree of frustration with border clearance processes, one Pennsylvania-based guitar manufacturer was not prepared for either the scope of problems it encountered, or the difficulty in trying to resolve them.

The guitar manufacturer, recognized worldwide for its stunning designs, tremendous sound and attention to detail, was thrilled when the timing seemed right to expand to the Canadian market. The company always knew there was strong interest among Canadian musicians for its products, but had generally restricted shipping capabilities to the U.S. Once the Canadian expansion was underway, it wasn't long before the manufacturer realized it had failed to anticipate the impact that the customs compliance process would have on access to the Canadian market. Specifically problematic were the requirements of U.S. Fish and Wildlife Service (FWS) and the Canada Border Services Agency (CBSA). Certain products are not allowed to leave the U.S. because of export restrictions on specific natural materials used to make high-end guitars, and FWS imposed exorbitant inspection fees on each guitar. Shipments were not allowed to enter Canada without proper documentation, and the manufacturer was not allowed to charge Canadian customers all taxes at time of purchase, or to clear goods into Canada. This meant that the manufacturer's customers (a) faced an unexpected invoice at time of delivery for additional sales taxes and brokerage fees; and (b) had to personally become

involved in the importation process by traveling to the appropriate customs facility to complete paperwork and retrieve their guitars.

If the customs headache wasn't enough to deflate the manufacturer's enthusiasm for the Canadian market, the in-transit damage sustained by a high number of guitars might have convinced it to rethink its strategy.

Instead, the manufacturer called Purolator International. Purolator is a leading provider of logistics services for shipments traveling between the United States and Canada. And while the misfortunes and difficulties encountered by the guitar manufacturer probably seemed insurmountable, they are precisely the types of issues Purolator resolves on a regular basis.

With regard to the manufacturer's issues with customs and border clearance, Purolator immediately took charge and assigned a team of trade specialists to determine applicable regulatory mandates, and to establish a process for efficiently satisfying those requirements. Purolator was able to intervene with the Fish and Wildlife Service, and arrange a more efficient and less costly review process for export-bound guitars. Finally, Purolator was able to help the manufacturer take advantage of U.S. and Canadian trade programs designed to facilitate trade and encourage exports to Canada.

Smarter pallet loading addressed damage sustained by guitars during transit.

Beyond ensuring a hassle free border clearance process, Purolator initiated an overhaul of the way products were shipped to Canada. For one thing, pallet loading was revised so that shipping labels

now point outwards. This allowed for scanning of each shipment while maintaining pallet integrity into Canada. Once Purolator implemented this seemingly easy fix, damage reports all but evaporated.

Today, the guitar manufacturer enjoys a thriving Canadian clientele, and no longer frets about the nuances of the U.S./Canada border clearance process. With Purolator on its team, customs compliance is hassle free and highly efficient, as is the rest of its Canadian supply chain.

As a Canadian Non-Resident Importer, the U.S. Manufacturer can act like a Canadian Business

The manufacturer was at a tremendous disadvantage, since it was unable to collect Canadian sales taxes up front or clear shipments through CBSA. Customers were disheartened, often annoyed, to find they still owed taxes and brokerage fees on items they thought they had already paid for. And customers were tremendously inconvenienced by having to become involved in the clearance process.

Purolator recognized an opportunity to rectify this situation, namely through CBSA's "Non-Resident Importer" (NRI) program. Once approved as a NRI, a U.S. business is able to operate in much the same way as a Canadian business. Taxes can be collected at time of purchase thereby eliminating the unpleasant risk of unexpected invoices at time of delivery. And U.S. businesses are allowed to serve as "importers of record," meaning they are able to navigate the customs compliance process, and do not need to involve their customers.

With its NRI status, the manufacturer now enjoys unfettered access to the Canadian market, and can better meet customers' expectations. Canadian customers were confused by the onerous process of obtaining products from this company. Now, dealing with this manufacturer mirrors interactions with local Canadian companies.

Purolator Succeeds in Persuading Government Agency to Reclassify Guitar Exports needs.

Equally bothersome to the manufacturer, was the tremendous difficulty it experienced in obtaining export approval from the U.S. Fish and Wildlife Service (FWS). The manufacturer was aware when it decided to export to Canada, that certain types of wood and agricultural products are prohibited from export. Specific regulations are outlined in the international Convention on International Trade in Endangered Species (CITES), to which both the United States and Canada are signatories.

Any product containing materials covered by CITES must obtain an export permit to prove eligibility for export. For U.S. businesses, this means a review by FWS. While this review process was not unexpected, what did come as a surprise was the agency's assessment of a \$130 processing fee for each guitar it examined, rather than \$130 for each shipment processed.

Purolator used its extensive experience with U.S. and Canadian customs processes to intervene on the manufacturer's behalf. Purolator made the case that a shipment of guitars should be treated as a single entity, and therefore charged a single examination fee. After initial pushback from the agency, Purolator was finally able to prevail, and the manufacturer saw an immediate and dramatic drop in compliance fees.

Consolidation and Fee Restructuring Add Efficiency, Reduce Costs

When Purolator first came on board, it undertook a thorough review of the manufacturer's business practices. Everything was examined, from its existing supply chain and logistics strategy, to its business objectives and short-term goals. From there, Purolator was able to build a highly customized logistics solution that addressed the manufacturer's unique needs.

For example, Purolator initiated a consolidation best practice, whereby smaller shipments are now combined into a single larger unit, thereby able to

achieve more favorable transportation rates, as well as efficiency in crossing the border. Previously, shipments would arrive in staggered fashion at the border, and each shipment would wait for processing. Now, a consolidated shipment is cleared as a single unit. Once in Canada, shipments are de-consolidated and enter Purolator's extensive Canadian distribution network.

Shipment consolidation allows smaller packages to cross the border as a single unit.

Purolator also discovered an inconsistency in prior billing practices. The manufacturer's previous logistics partner imposed a fee for each customer, usually a music store, to which a delivery was made. Purolator, on the other hand, assessed a single fee on the entire shipment, rather than dividing the shipment into more costly sub-units. The manufacturer was unaware of the previous rate structure, and was very grateful for Purolator's fair and reasonable approach.

Purolator Succeeds in Persuading Government Agency to Reclassify Guitar Exports

Purolator was able to completely overhaul this manufacturer's customs compliance process. What had been a tortuous experience, for customers as well as the manufacturer, became hassle free and essentially a non-issue. Canadian consumers were able to receive delivery of their merchandise, and the manufacturer was able to extricate itself from the unpleasant compliance process. Equally important, Purolator implemented processing changes that, almost overnight, eliminated the high incidence of products damaged during transit. In fact, since partnering with Purolator, no damage reports have been filed.