



FTZ Cost Savings Surpass Duty Drawback

I.M. Better Company*—Medical Testing Equipment Importer

Situation

I.M. Better (IMB) imports medical testing equipment from WunderLich Industries in Frankfurt, Germany. This equipment is tested, repackaged and labeled for distribution throughout North America.

- Half of the company's \$80 million of imports are shipped outside the U.S.
- The duty rate on these shipments is 4%.
- By filing for duty drawback, IMB recovers 99% of paid duty.
- IMB experienced Country of Origin marking problems.
- IMB is paying duty drawback administrative costs at a rate of 15¢ on the dollar.

Analysis and Opportunity

IMB learned it was situated within the boundaries of a Foreign Trade Zone (FTZ) and began an analysis of the benefits the company may enjoy by participating in the FTZ. The analysis revealed:

- By using the Zone, IMB would never have to pay the \$1.6 million that it must recover under drawback procedures.
- The administrative costs (15% of recovered money) of drawback far exceeded the costs of maintaining an FTZ.
- Although IMB participated in an accelerated duty drawback program and was recovering duty payments, it was approximately three months before payments were recovered from U.S. Customs. An average inventory turn for IMB is also three months, which meant at least a half-year's return was lost through delay of the duty drawback program.
- With an ROI at approximately 10%, the company lost \$80,000 while duty drawback was being processed.
- By using the Zone, IMB was able to inspect imported goods prior to Customs entry. IMB was able to correct any marking problems and paid duty only on non-defective goods.
- IMB did not pay duties a second time when their customers returned any IMB products of foreign origin.
- Subject to U.S. Customs supervision and security requirements IMB was able to attract suppliers and secure lower insurance premiums.

Results

By participating in the Foreign Trade Zone, without factoring in the lower administrative costs, IMB gained a one-time savings of \$200,000. Additionally, IMB saved \$85,000 per year in interest on imports, reduced their cost of inventory and eliminated duty paid on damaged or defective goods.

Use the GMAFTZC Savings Calculator to help you determine how the FTZ can improve your company's profits.

*The names have been changed to protect the proprietary nature of the business.

