

ONESOURCE

[Company Information]

SHIMANO INC.

Mr. Shinya Tanaka
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About the company: Founded in 1921, Shimano started out manufacturing bicycle components. Since then, the company has developed several new technologies and expanded its fishing, rowing, and cycling business internationally. Globally, Shimano holds a leading position in the bicycle components market for sporting competitions. The company has been actively involved in developing a sustainable society under their tagline, "Closer to Nature, Closer to People".

URL: www.shimano.com/jp/

With the Japan-EU Economic Partnership Agreement (EPA) and The Regional Comprehensive Economic Partnership (RCEP) on the horizon, Shimano decided to proactively replace manual processes and avoid the need for additional human resources to meet EPA/FTA requirements. The person previously in charge was transferred, and it triggered a change in the division.

Please tell us about your department and your role.

Tanaka: SHIMANO INC. provides various products mainly engaged in two popular outdoor sports; cycling and fishing. I am a division manager in the bicycle components division within the sales department. Concurrently, I am also the EPA promotion division team leader in charge of EPA/FTA and Sales Management Section Manager.

EPA/FTA

When did you start using the EPA/FTA?

Tanaka: Our bicycle components division began using the EPA after Japan and the Republic of Chile signed the Strategic EPA in 2009. At the time, I was in Europe. In 2010, I returned to Japan and started my current role. I didn't know all the details at the time as I relied entirely on another person responsible for managing EPA compliance. In 2018, when the person in charge of the bicycle component division was transferred, I was compelled to learn everything.

How did you comply with the EPA/FTA previously?

Tanaka: I am not sure about the details, but we manually created a value-added statement sheet and CTC comparison chart with the product cost and selling price information and determined the origin. We only followed this process when our customers or sales partners who purchased our products requested it, not for all of our products, so you can call it passive.

ONESOURCE Free Trade Agreement (FTA) Management

After discussing several other options, we concluded ONESOURCE FTA Management software is the most practical solution.

Please tell us you found out about ONESOURCE FTA Management solution?

Tanaka: The new person in charge of the bicycle component division and I participated in an FTA seminar to learn about the EU-Japan EPA, CPTPP, and RCEP certificate of origin procedures that were to come into effect. First, we consulted with

our manager of the president's office to learn the type of employees we needed. We then evaluated where and what kind of data we had and then created an Excel Macro to calculate the Value-added standards. However, as I mentioned earlier, we felt it was impossible to continue working manually as the EU-Japan EPA and two mega trade deals, the CPTPP and RCEP, were due to come into force. While searching for a comprehensive FTA solution and considering developing the system from scratch, we were introduced to ONESOURCE FTA Management at the seminar in May 2018. Following that, we asked the person in charge from Thomson Reuters to visit us on June 6 and present the solution to us.

Please tell us how you arrived at your decision to select ONESOURCE FTA Management software?

Tanaka: Back then, I felt like I was clutching at straws. We sell most of our products in Europe, so we need to comply with the EU-Japan EPA fully. We sell over 6,000 products in this region, but initially, the rules of origin only applied to 500 of our products; therefore, we gathered it would be an enormous volume of work.

To review the standard cost, we are required to review the rules of origin certification procedure every six months. However, it is impossible to complete the review manually for 6,000 items. Hence, we considered building an internal system to automate the process and add modules to our existing ERP to increase efficiency. In fact, we held discussions with several consulting companies for a detailed solution. However, we could not have built an internal system to implement the EU-Japan EPA in time. The subsequent maintenance would also require time and effort. On the other hand, if we had chosen to add modules to the in-house ERP, the licence fees would have been expensive, and we might have spent most of the EPA/FTA-related tax savings. **After considering everything, including what we learned at the FTA seminar, we believed adopting ONESOURCE FTA Management would be the most logical and effective option.**

When did you start implementing ONESOURCE?

Tanaka: For about a year, I voiced my concerns that the current system needed a change. After the FTA seminar, I was busy establishing the manual work required to comply with the trade agreements, and we also discussed it with multiple consulting companies. The verification and implementation process took about half a year, including a period of evaluation before the full-scale implementation. If we had tried to build our own system from scratch, it would have been impossible to set it up so quickly.

Automate complex costing with BOM analysis

Tell us about how you use ONESOURCE?

Tanaka: First, we extract the selling price and cost information from the BOM (Bill of Materials) and sales support system in ERP and then conduct the preliminary origin procedure with ONESOURCE FTA software to learn if the product is from the origin or not. ONESOURCE software has a BOM analysis engine, so we can easily calculate the cost, even for components with several parts. This is a huge benefit of ONESOURCE. After that, we use an Excel spreadsheet to determine the origin of the items prioritized for the most effective tax deductions. The process is checked by humans and usually takes about one week.

The approved items are then integrated with the sales system, after which we issue a certification of origin and a statement of origin.

You conduct the origin procedure not only with ONESOURCE but also manually. Why is that?

Tanaka: Most of our bicycle components are manufactured entirely in Japan, but for our outsourced products, some subcontractors use overseas factories. Sometimes we also sell some accessory parts purchased from overseas together with components manufactured in Japan. To comply with the rules of origin, the BOM needs to be checked by a human eye. If the origin of the product is not accurate, it will be a compliance violation.

How do you assess the manual work required during the process?

Tanaka: I think it is asking too much of the software to automatically identify whether or not a subcontractor has used an overseas factory. Just by determining the origin preliminarily using ONESOURCE software dramatically improves operational efficiency. The BOM analysis engine allows Excel to extract this information instantly and automatically before being checked visually. Therefore, there is a compartmentalization of what the system does (preliminary origin assessment) and the visual check (confirmation).

Contributing to improved competitiveness

What is the impact and benefit of deploying ONESOURCE?

Tanaka: Things previously impossible to do manually with only an Excel spreadsheet are now possible, and the origin determination process has become easier even when there is a multi-level BOM involved. For example, one of our main products, hydraulic disc brake component, consists of many parts such as bolts and nuts to fix disc brake rotors, the callipers attached to them, control levers, brake hoses that connect these, and many other parts. Depending on our customers and sales partners specifications, we build several models. If we assess the origin of these parts in Excel, we will need a large amount of information on the spreadsheet, and we would

have to create a different spreadsheet for each specification. Furthermore, as the sales of disc brakes are high in volume, we have to factor in the tax reduction benefits from the EPA/FTA. Without ONESOURCE FTA Management, I don't think we would be able to manage it all.

Tell us about the EPA/FTA currently supported, and the tax reduction benefit obtained from them?

Tanaka: We have already used the Japan-Chile, Japan-ASEAN, Japan-Switzerland, Japan-EU, CPTPP, Japan-US, Japan-UK, and RCEP. As the tariff rate on bicycle components are 4.7% in the EU, 4.0% in the United Kingdom, and 45% in Vietnam, I believe the effect of the tax reduction is significant.

Does it have an impact on business competitiveness?

Tanaka: Yes, of course. For instance, a German company with a large trading volume had informed us, "We will purchase from another company if you don't have a certificate of origin". Most of our competitors are Taiwanese companies in bicycle components and not many have signed the EPA/FTA in Taiwan, so providing a certificate of origin gives us a competitive advantage.

What is your future outlook on compliance with other key FTAs such as RCEP?

Tanaka: The RCEP is already well supported by ONESOURCE FTA Management software. We plan to create an in-house system to integrate the result from ONESOURCE as soon as the authority issues the statement of origin form.

As for agreements between multiple countries, the RCEP allows us to determine the origin by cumulation like CPTPP. Therefore, Chinese, and Vietnamese manufacturers can manufacture bicycles using our product and export to Canada, Australia, and South Korea, taking advantage of the FTA. We expect this to further strengthen our international competitiveness.

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