

A little knowledge.

The practical dangers of knowing too much or too little

Many companies are in the midst of, or starting out on, restructuring journeys. “[Rebalancing](#)”, as we refer to it in PwC. Many of these journeys are at least in part triggered by concerns about changes in the international trading landscape, be it geopolitics, pandemics, natural disasters, sustainability and so on and so forth.

Nevertheless, business restructuring tends to be a strategic initiative. Business concerns (such as growing market share, entering new markets, diversifying activities, protecting intellectual property, strengthening customer loyalty) will usually take precedence over operational concerns (such as transaction management, compliance, system implementation), at least in the early stages of the restructuring journey.

Time and again, however, we encounter situations where an operational challenge that is only uncovered at a late(r) stage, usually during implementation, renders the underlying new preferred business model inoperable, either in absolute terms or at least without crossing an organisation's “red lines”. Quite a few of such challenges are customs or trade related. Think for example about the inability of obtaining an import or export licence. Or a requirement of setting up a new entity in-country for import or export purposes which creates an unwanted permanent establishment. Or a disastrous loss of FTA benefits as a result of changes in manufacturing footprint. The list goes on.

It would be reasonable to ponder why organisations end up in such conundrums. There are plenty of reasons available, some better than others. We would argue that most if not all of them boil down into two categories: not enough knowledge, or too much knowledge, both at the outset of the restructuring journey.

The challenge of not enough knowledge is probably the more logical one to think about. It may even feel blatantly obvious: if you don't know the issues that could get in the way, you will not be able to prepare for dealing with them. Practical reality tends to be more nuanced though. Many strategists and senior business leaders will have broad experience. As part of this, they are likely to have come across, and probably successfully dealt with, certain operational trade or customs matters in their past. Often, though, that leads them to conclude one or both of two things: that they understand everything that may come their way and/or that they are equipped to deal with the things that actually do come their way.

Neither of those is necessarily true. As professionals in the field will know, the trade regulatory landscape is both wide and deep. Although many of the regulatory principles are consistent across territories and industries, detailed requirements can

vary significantly. A tobacco company diversifying into vaping products will start coming across questions about refurbished products that it never had to deal with in the past. For example, “Am I allowed to import a defunct heater for repair?”; “Where do I classify a defunct heater?”; and “How do I value the refurbished heater?”. The success of its choice of repair facility may hinge on good answers to those questions. A consumer products company starting out on an e-commerce journey will face equally daunting new questions: “Who can import my B2C sale?”; “How do I manage unpredictable border costs in my online price?”; and “Who is left holding the baby if a shipment gets stuck?”. Their selection of priority markets to enter, and the ability to be competitive in them, may hinge on that.

Equipping the strategists and business leaders with enough wisdom to know that they do not have enough wisdom and need help early on is increasingly a crucial task of an effective trade and customs professional. That should be easy, no?



Well, no. This is where the challenge of too much knowledge rears its ugly head. Many professionals in the field (and probably not just in customs and trade) are so wrapped up in the technical, operational and transactional details of what they do, that they frequently cannot see the wood for the trees. Such lack of business acumen means that they tend to focus on matters that are less, or not at all, relevant at an early stage of business restructuring. Alternatively, they struggle to articulate clearly why they worry about certain matters at that stage and what can and should be done to prevent them becoming a problem later on. As a result, such problems are more likely to occur during implementation, because they are not properly understood and hence underestimated in a feasibility or planning stage. Moreover, the strategists and business leaders may conclude that all such issues can be managed during implementation and need not take up their valuable time early on.

One recent example of this we came across was the assumption that a secondary manufacturing facility should be established in one of a company's largest customer markets. It was understood and assumed that finding a good location for such a facility in a bonded processing zone would be possible in any chosen market. Although that was true to some extent, as it turned out, available incentives for manufacturing for export were much more attractive, and the availability of bonded locations was far less limited, in a different market altogether.

Another example related to an organisation that was also setting up a secondary manufacturing facility and relied heavily for its competitiveness on the use of FTAs. Although manufacturing registration and application for certificates of origin were clearly included in the implementation plan, it turned out that the secondary facility, being marginally different to the existing facility, could not meet the origin requirements, significantly reducing its value and competitiveness.

In both those examples, the people responsible for customs and trade management had raised the technical topics, but had failed to get across their business relevance, instead focusing on (even complaining about!) the amount of effort that would be required to manage them during implementation and beyond. The ability to distil and express their relevant knowledge from their total breadth and depth of knowledge is therefore an equally crucial task of effective trade and customs professionals.

A lack of knowledge, assumed knowledge, or overemphasis on irrelevant detail all have the potential to get in the way of successful business restructuring. Acknowledging that would be a good first step to ensure that a little knowledge does not become a dangerous thing¹.



¹ This is, of course, not the correct quote. Watch out for the next Trade Intelligence to learn more about the correct one.