SUPPLY CHAIN TACTICS

Timing is Everything: Managing Cash Flow with Duty Timing

The financial mechanics of global trade that matter more than the tariff rate.

supply chain · global manufacturing · cash flow · customs

> The newsletter for operational leaders who prefer managing cash cycles over merely reacting to tariffs.

Diagnosis: The Duty Cash Flow Trap

Many leaders in the manufacturing space treat customs and duties like a fixed tax—a line item that is decided at the border and then paid, period. They spend their energy negotiating for lower tariff rates or hunting for specific exemptions to shave off a few percentage points of the cost per unit. While those negotiations are important, they often miss the bigger picture because of what I call **The Rate Obsession**.

Managing duty is not just about lowering the price of entry; it is an exercise in timing your liabilities against your receivables.

When you focus only on the rate, you're looking at a snapshot. When you look at timing, you are looking at the movie—the entire lifecycle of the part from the dock to the finished product and finally into the customer's hands. If you pay the full duty amount the moment a container hits your yard, but it takes three months to process that material through production and get paid by your customer, you have essentially gifted the government an interest-free loan on your working capital.

The problem isn't just that duties are expensive; it’s that paying them too early creates a massive drag on your cash flow. In many cases, the cost of "waiting" to pay is far lower than the opportunity cost of tying up money in the warehouse before you have actually sold the product. We need to stop viewing duty as a static fee and start managing it as a dynamic part of our inventory cycle.

The Anatomy of Timing Failure

Most companies fall into this trap because they assume that "standard" is the only way to operate. They follow the default path because the alternative requires more intentional design in their supply chain. When you rely on standard, immediate customs processing, you are essentially choosing a high-friction lane for your capital.

You might see it as just "the way things work," but that's simply a lack of specialized tools in your toolkit. This leads to what I call **The Liquidity Leak**. You aren't losing money because the goods are bad or the process is slow; you’re losing the *utility* of your cash because it’s sitting in a government account instead of circulating in your operations.

To see the difference between the comfortable path and the operational reality, look at how we often frame these costs:

The Comfortable Rationalization	The Operational Reality
"We pay duty as soon as it clears customs so we don't have issues with the authorities."	"We are intentionally choosing to tie up working capital because we haven't mapped our production lead times against our payment obligations."
"The tariff rate is high, so we need a better exemption."	"Our current process forces us to pay the full amount upfront regardless of when the item actually enters the 'sold' phase of our cycle."
"It’s too complicated to set up special filing programs; let's just do it the standard way."	"We are accepting an invisible cost—the interest and opportunity lost on capital that sits idle for 90+ days before a sale occurs."

Why Companies Get Stuck Paying Upfront

There is rarely a villain in this story. Your logistics team isn't being lazy, and your finance team isn't being reckless. They are operating within the constraints of the information they have. Most organizations get stuck paying upfront because it is the "path of least resistance."

Unless someone specifically asks the question—*“Do we actually have to pay this right now?”*—the default answer from a broker or an automated system will always be "Yes." This happens for three reasons:

First, there is a **Fear of Non-Compliance**. It feels safer to pay everything immediately than to risk a hold at the border. In reality, using established programs like FTZs or periodic filings isn't "dodging" the law; it’s utilizing the legal mechanisms designed for manufacturing.

Second, there is a **Lack of Integration**. Often, the people handling the customs paperwork don't know how long it takes to move a part through the shop floor. They see a container and think about today; they aren't thinking about the three months of lead time required to get that part into a finished machine.

Third, there is the **Complexity Barrier**. Setting up these systems requires an initial investment of time and coordination. Many managers choose "easy" because they haven't been shown how much more "effective" the alternative actually is. It’s not a lack of will; it's a lack of specific strategy in the procurement process.

The Three Levers of Financial Flexibility

We don't have to accept the default as our only option. There are three primary mechanisms—tools you can grab off the shelf—to change when and how duty is paid. Each one serves a different part of the manufacturing cycle.

1. Free Trade Zones (FTZ) Think of an FTZ as a "waiting room" for your goods. When products enter an FTZ, they are technically not yet "entered" into the domestic economy in a way that triggers immediate duty. This allows you to move, store, and even work on parts without paying duties until the moment they leave the zone for final sale or assembly. It decouples the physical arrival of goods from the financial obligation of the tax.

2. Periodic Filing (and Deferred Entry) Instead of paying every time a truck crosses the border, periodic filing allows you to aggregate your entries and pay on a set schedule—monthly or quarterly. This is about batching. Just as it’s more efficient to run a production cycle in large batches rather than one-off pieces, it is more financially sound to manage your duty payments in predictable cycles that align with your accounting periods rather than the unpredictable timing of shipping arrivals.

3. Temporary Importation Under Bond (TIB) This is the "just-in-time" tool for manufacturing. If you are bringing in parts specifically for a project, assembly, or repair—and those items will eventually leave the country or be exported—you can often defer duty entirely through TIB programs. It ensures that you only pay on what stays, and you don't have to pay it until the final disposition of the goods is determined.

Action Plan: Structuring Your Duty Cycle

To move from "paying by default" to "managing for cash flow," you need a systematic audit of your current intake. Don’t try to overhaul everything at once; start where the volume is highest or the lead times are longest.

Follow these steps to restructure your duty cycle:

1. **Identify High-Impact SKUs:** Map out your top 20% of components by value and volume. These are the items where a "payment delay" has the largest impact on your bottom line.
2. **Map the Lead Time Gap:** For those high-impact items, calculate the number of days between "Port Arrival" and "Invoice Paid." If that gap is more than 30 days, you have a candidate for a

duty deferral strategy.

3. **Audit Your Broker’s Capabilities:** Ask your customs broker specifically about FTZ eligibility and periodic filing options. Don't ask if they *can* do it; ask what their current clients are using to manage cash flow.
4. **Select the Correct Lever:**
   - Use **FTZs** for high-volume, staple components that stay in your inventory for long periods.
   - Use **Periodic Filing** to smooth out the "lumpy" costs of frequent, smaller shipments.
   - Use **TIBs** for specialized equipment or parts used in specific, time-bound projects.
5. **Integrate with Finance:** Share these targets with your finance team. They need to know that duty isn't a constant hit; it’s a managed liability that can be timed to match the revenue cycle of the goods.

Immediate Operational Takeaways

You don't have to overhaul your entire global supply chain by Monday morning, but you should start pulling the right levers this week:

- **Audit One High-Value Line:** Pick one major component and map its journey from port arrival to final sale. Identify exactly how many days of "dead time" occur where duty is paid but no revenue has been realized.
- **Request a "Duty Strategy" Briefing:** Call your customs broker and ask for a 15-minute overview of FTZ and Periodic Filing options specifically for your region.
- **Evaluate Your Warehouse Space:** If you have significant storage space, determine if it qualifies as or could be part of an FTZ zone to defer payments on bulk arrivals.
- **Review Contract Terms:** Check your next three purchase orders with overseas suppliers; see if any can be restructured to take advantage of deferred entry terms.

Stop paying for the "right" to have parts in your building today when you don't need to sell them until next month. Manage the timing, not just the rate.

Call to Action

Where is the biggest surprise cost in your current supply chain? Share this newsletter with a colleague who needs an honest diagnosis of their cash flow.

Newsletter replies: newsletter@sixsigmakaizen.com · X: @kaizen_6sigma

Stay curious, stay improving,

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References: The SCXchange: Timing is everything: How strategic duty management creates financial flexibility

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