

Asia Edition

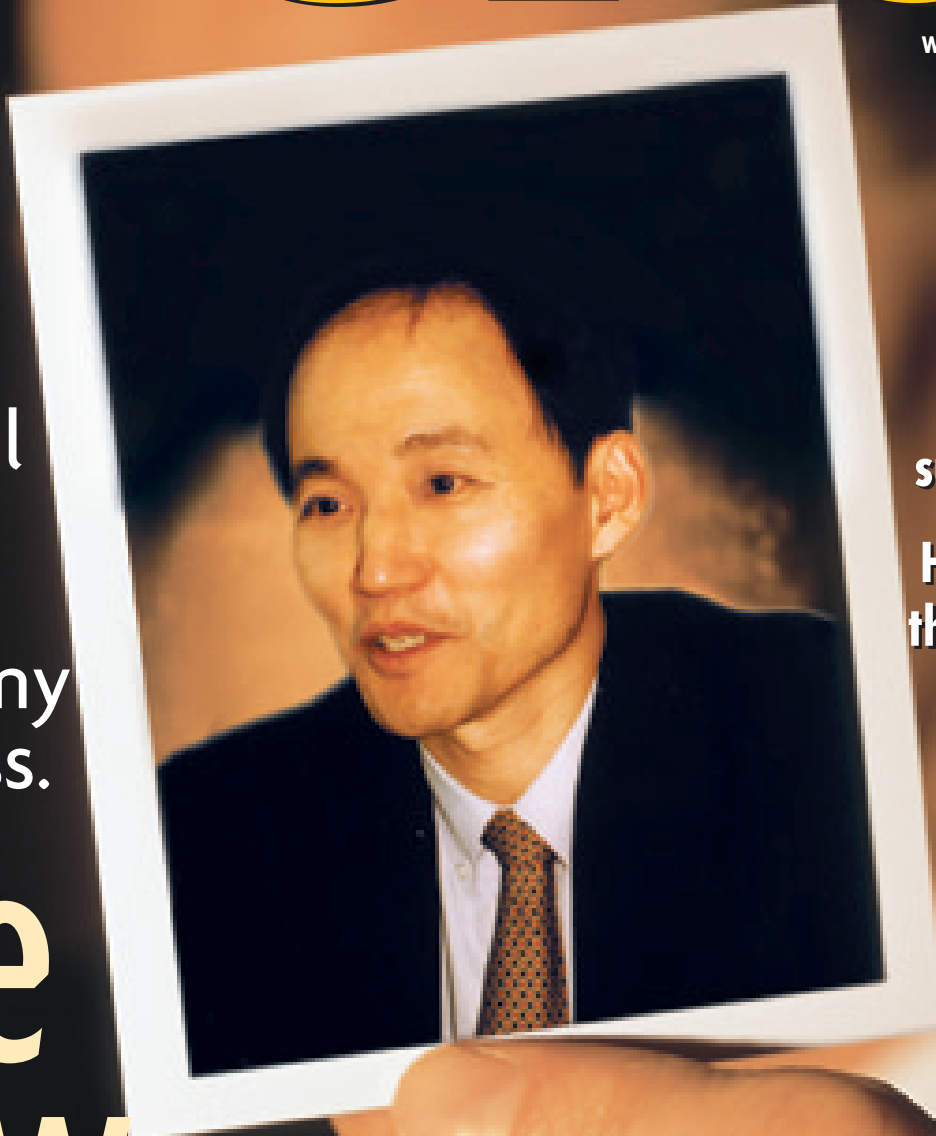
July/August 2001

eCFO

www.cfoasia.com

Putting
a digital
spin on
an old
economy
business.

the
new
YOU



Lim Young Hak,
Samsung Corporation

**Focus on
TradeCard:
Flexing the
Financial
supply chain**

**Here Comes
the Wireless
Workforce**

**Steps to
e-Security**

Liqui

“The treasury, accounting and purchasing teams were all involved in the design of the system,” says Richard Gultinan of Caltex.

“Everyone had an interest in how well it would work.”

dity on the Line

If analyst predictions are right, half of Asia's web-based electronic procurement exchanges will be merged or go bust by the end of the year. Richard Gultinan, the Singapore-based CFO of oil giant Caltex, is not at all surprised. "The Internet provides

CFOs find that even the best on-line procurement and logistics systems mean little if they don't reengineer the financial supply chain as well.

transparency and perfect information," he observes, "which should lead to lower prices. Not only was that not our experience, suppliers are also asked to pay a huge transaction fee on top of that – often way out of kilter with industry margins."

Far from saving money, Gultinan says that it was costing Caltex *more* to buy and sell on-line. The expected savings were wiped out by mounting foreign exchange risk and the expense of coping with myriad tax regimes. What's more, Caltex has thousands of suppliers, and yet the process of supplier selection was not always transparent. This made it tough for managers to identify their best suppliers and to decide where they should concentrate their spending.

B Y E L I Z A B E T H F R Y

THIS JARRED with Gultinan's idea of how the web should work. But that's not all: Gultinan believes the main threat to e-marketplaces is that they "don't lock the payments in." Indeed, though many corporate functions – procurement, logistics and order management – have moved on-line rapidly, the process of sending, reviewing and paying invoices is still mired in uncertainty – not to mention enough paper to deforest the region.

A report by the US-based Association for Financial Professionals gives three reasons why electronic transaction settlement has been slow to take off: payments systems are not integrated with the accounting systems that hold the relevant accounts receivable/accounts payable (AR/AP) information; integrated payments and remittance information cannot be sent and received; and links between payments and financing, and risk management providers are cumbersome or non-existent.

Jittery banks and uncertainty over the role to be played by non-bank financial clearing houses don't help. While it is simple enough to manage cash positions and make electronic payments through the existing treasury management services of banks, these services are less useful for total working capital and risk management across the full quote-to-pay cycle. The upshot: a 'disconnect' between the gains of the information-logistics revolution and the lagging state of financial working capital tied up in the procurement cycle.

Big Savings

According to Killen & Associates, a US-based consultancy, the typical company with US\$1 billion in sales spends US\$32 million a year for working capital that could be eliminated with faster collections. Killen says that improved Internet-based billing and cash management could save the world's 30,000 largest companies two-thirds of their sell-side transaction costs, or US\$89 billion a year.

That shouldn't be so hard to do, says Bernard De Groeve, founder of New York

and Amsterdam-based Miradiant, an on-line AR/AP information management and financial settlement network. "More than enough information exchange and processing capability is in place to make radical improvements achievable," De Groeve says. "The technology is becoming available to streamline AR/AP processes, link the flow of funds to the flow of transaction data, and – by creating greater visibility to future cashflows – give businesses access to an array of financing

tem captures transaction data and feeds it into Caltex's existing back-end systems from German ERP specialist SAP. Settlement technology was provided by JP Morgan Chase, although the system is 'open', which means suppliers can use their own banks.

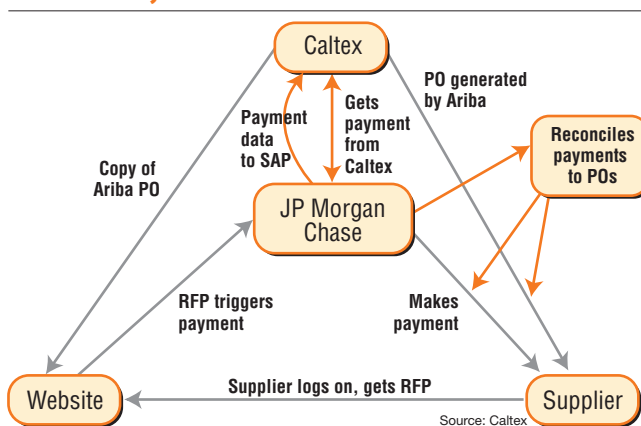
From the time an order is made, until payment, manual intervention is not needed. ePay handles cross-border currency conversion, and tax reporting, withholding and remittance. This means a Caltex facility in the Philippines can order and pay for equipment sourced in Korea using one system. The savings are dramatic: items that previously cost US\$145 to US\$160 to transact and ship, now cost just over US\$5. More importantly, says Gultinan, matching the procure-to-pay and quote-to-cash cycles puts the finance function much closer to the "action", and in a much better position to manage cash and credit, and liquidity risk. "Because all the orders, payments and terms are in the one

system, I can know on a daily and even hourly basis what my cash position is – on a country by country basis, a currency basis – indeed any basis I want," he says. "This gives me a cash forecasting ability I never had before."

Cash On the Run

Call it "just-in-time working capital", says Richard de Moll, Cap Gemini Ernst & Young's New York-based B2B financial solutions leader. De Moll says Fortune 500 companies spend about US\$20 billion a year on "unnecessary" working capital, because they can't get a proper grip on receivables – they need to run a pointless and expensive "float" to compensate. By optimizing the financial supply chain, these businesses can cut their working capital needs by as much as 35 to 40 percent, he says. Under a system like Caltex's, CFOs know when to expect their receivables, and when invoices should be paid. They have a much clearer idea of how to fund working capital. "It's an opportunity to reduce borrowing

Caltex's e-Payment Flow



options," he says. The real stumbling block, he adds, is a misalignment of power and focus, which makes the buyer side in B2B transactions – the side that has driven efficiencies in physical working capital – far less motivated to adopt the same mechanisms to attack financial working capital.

Caltex has plenty of buying power, but that didn't weaken CFO Gultinan's resolve to bridge the yawning chasm between the material and financial supply chains in his company. With transactions across some 60 countries in Asia, Africa and the Middle East to worry about, Gultinan and Mike Mahon, the oil company's general manager of international procurement, tackled the problem head on. They have integrated the company's entire buying and selling process, from order entry to payment, using a platform based on supply chain and e-market software from US-based vendor Ariba. The software uses electronic catalogues from suppliers, which Caltex employees can access from their web browsers. Known internally as "ePay", the sys-

costs, foreign exchange costs, bank charges and credit lines,” de Moll says.

The benefits don't stop there. Glitches caused by inconsistent field formats within purchase orders and invoices or mismatched quantities – which normally delay payments and bog down the supply chain – are predictable and fixable. Instead of seven days to fill a purchase order it now takes two. Guiltinan says Caltex can get a jump on its competitors by paying suppliers quicker, often in return for a discount. He expects that once suppliers have seen evidence that ePay is simple and transparent, they will dig deeper into their pockets to come up with the best prices for heavy equipment – a brutally tough market for buyers and the heftiest chunk of Caltex's cash outflow.

“For the first time, we can manage different payment terms for different suppliers,” says Mahon. Even better, the oil heavyweight has been able to extricate a legion of intermediaries from the purchasing process. Of course, getting closer to preferred suppliers meant tackling onerous compliance issues that might make them reluctant to work with Caltex. “There are all kinds of tax issues, and we



“For the first time, we can manage different payment terms for different suppliers,” says Caltex's Mahon.

could not expect vendors to sign up unless we could offer a way to increase compliance,” Mahon says.

Guiltinan says mindset matters just as much as technology. Functional barriers between treasury and procurement must come down – he says the finance team at Caltex stopped marching to the beat of its own drum long ago. “The treasury, accounting and purchasing teams were all involved in designing the system because everyone had an interest in how well it would work,” Guiltinan says. Certainly, experience at collaboration helped with the move to ePay. Two years ago, Caltex set up a shared service center for payables in Manila; around the same time it also built a regional treasury center in Singapore. Guiltinan saw the benefits of standardizing payables and receivables

in heavily regulated markets with different tax regimes, where each operation had developed its own set of back office accounting rules.

The ePay system takes the shared services concept to a new level. All up, Guiltinan estimates ePay will slash as much as 20 percent from the company's annual spend. Oil and gas analysts reckon this means savings of US\$80 million to US\$160 million.

Tyranny of Distance

Caltex's efforts put the company at the front line – and not just in Asia. De Moll says US companies are just starting to match invoices and payments on-line. Electronic data interchange (EDI) systems do the job, but they are expensive and leave most organizations out in the

cold. The technology requires all parties to construct point-to-point connections, which can get unwieldy.

As CFO of a small company, US\$27 million-in-sales toy import group The International Playthings, Michael Varda felt EDI was too complicated for his needs. But because his New Jersey-based operation imports toys from 18 vendors in Asia, he wanted an “EDI-ish” system to improve his financial dealings, mostly involving letters of credit, with these far-flung suppliers. Distance was driving a wedge in relations with his business partners, causing problems that could take a long time to straighten out.

Six months ago Varda hooked up with New York-based TradeCard, which launched its platform for financial supply chain services in April 2000. While Caltex's system is built on an “open” tech-

nology platform – meaning all Caltex suppliers can use it, regardless of their IT systems and bank – TradeCard is open only to members. Horses for courses, Varda says. TradeCard offers a letter of credit type service at a fraction of the cost of the traditional bank approach, and provides him with much desired security because the system locks in purchase order quantities, terms and conditions, delivery date and pricing. Varda likes the fact he is notified by email after each transaction – he says he feels like he has an electronic agent working on his behalf. “Banks don’t really check what’s on the purchase order versus what’s on the invoice. It’s too time consuming,” he says.

Now, a problem with an order acceptance is resolved on-line. “Before, I would know that a shipment had been processed, but not details such as how quickly,” Varda explains. “It’s far less expensive for us, and our Asian vendors can still take it to a bank and finance against it.” Further value-add from the CFO’s perspective: “I don’t tie up credit lines with my bank. Previously, I had to pay

up-front fees on letters of credit.”

For TradeCard to work, Varda had to persuade his suppliers in Asia to try the new system. He tested the waters with his largest trading partner, Hong Kong-based Tomy Toys. Initial hiccups included slower Internet speed and the fact that the seller pays the transactional charges. Varda recalls: “Obviously, Tomy wasn’t happy with that – until we pointed out that wherever terms and conditions of a letter of credit change then they are subject to violation fees from their bank. It really all comes out even in the wash.”

Customer Intelligence

Working capital reduction is not a big issue for Varda. “Since people buy toys all year around and pay us at Christmas, we keep balances at a minimum,” he explains. “But we do need to know when the big transactions are going to be coming in.” TradeCard keeps Varda in the loop because the finance department now has direct contact with customer data – valuable insight that used to be the do-

main of the company’s sales division.

Overall, Varda believes the new technology saves him US\$20,000 a year – plus a lot of time spent chasing errors. Good news for Varda has been bad news for his bank – TradeCard cuts it out of the payment loop. The CFO estimates the financial institution has lost about US\$5,000 worth of business from him – not a huge amount in the overall scheme of things, but a sum that snowballs. Varda met with several banks, and while they were keen to provide him with on-line letters of credit and e-billing, he says they would have charged “big time” for the service. Also, Varda appreciates that TradeCard allows him to adjust payment periods and terms on a case-by-case basis – something the banks would not offer in their e-billing scenarios. He feels that banks are not taking the threat of emerging procure-to-pay systems like TradeCard seriously – at their peril.

Indeed, TradeCard is gaining support on this side of the Pacific as well. Like Varda, dissatisfaction with the status quo made a TradeCard advocate of Seungseok Lee, head of business planning at SK Global. The Korean conglomerate, which deals in everything from energy to information technology, has been using an EDI system developed by the Korean government, which connects banks with companies. Lee says that while the system is convenient, his company outgrew it. The issue that most irked him: in Korea, banks charge a fixed exchange commission of ten to 12 days interest, starting from negotiation date to the collected date (known as the floating period). Lee thought he could cut that period by half – and cut a swag of tedious documentation work at the same time.

The archaic letter of credit led to discrepancies and disputes. Lee estimates that by replacing that system with TradeCard, he will save about US\$100,000 for every US\$100 million worth of trade transactions. “Once a bill of lading is prepared, we can negotiate the documents and collect the proceeds prior to the actual payment date from buyer’s bank,” Lee says. “We receive payment information when goods are actually shipped from the buyer, so cashflow estimation is miles easier.”

Electronic Billing

Pay It Forward?

The market for electronic bill presentment and payment (EBPP) is heating up – sort of. Richard de Moll, a consultant with Cap Gemini Ernst & Young, and formerly a member of General Electric’s finance team in the US, predicts systems such as that offered by TradeCard (www.tradecard.com) will have an even bigger impact on corporate operations than electronic resource planning (ERP) software has done. While ERP systems, emerging enterprise application integration (EAI), supply chain management software and digital exchanges all serve to strengthen B2B ties, they have not offered a complete fix. These systems were not built to straddle the entire financial supply chain, from the time a customer places an order until the seller is paid. So, while it is commonplace to make an order, receive a delivery, and issue an invoice inside a day, one thing hasn’t changed for decades – a seller still waits weeks, or even months, for payment.

What’s more, CFOs have been unable to extract information from trading partners in such a way that neither party had to alter the structure or format of their data. The data they could extract has not been sufficiently ‘real-time’ to forecast receivables, and help reduce working capital. De Moll says Internet-compatible EBPP technology – by electronically matching invoice and payment, and settling disputes using web languages such as XML – will cause a fundamental shift in the way finance divisions access information and manage their cash.

Killen & Associates, a US consultancy, predicts that by 2005, about 70 percent of of the world’s 2,000 largest companies will be using “optimized financial supply chain solutions”, and that by 2010 all of them will. Killen says banks will have to hustle to maintain their role in the business of helping companies issue bills and collect payments. Non-bank vendors such as eTime Capital (www.etimecapital.com), iMerchants (www.imerchants.com), iPlanet (www.iplanet.com), and Viewlocity (www.viewlocity.com) are out to make sure that they don’t.

Elizabeth Fry

These stories of savings are no fiction. Joe Sweeney, an analyst with Gartner Group in Hong Kong, says the average cost for a letter of credit between two banks in Asia is US\$1,500 dollars per transaction. "TradeCard has automated so much of the matching, they can reduce that to US\$50 dollars," Sweeney says. The approach makes sense on several levels. For instance, by aggregating many services, systems like TradeCard can buy currency much more cheaply than if companies buy individually from a bank; bank fees and processing fees are reduced accordingly. Sweeney believes the banks are in shock – he describes them as the "net losers" of an integrated procure-to-pay system. "Eliminating letters of credit could render entire departments of bank staff redundant," he says.

Jimmy Yap, Asia-Pacific head of global cash management for Deutsche Bank in Singapore, feels the accusation that banks charge too much for electronic settlement is a little unfair. "In Asia, the clearing function takes longer when dealing outside Hong Kong and Singapore,"



Photo: Wendy Chan

**“We used to get boxes of paper for just one invoice, so you imagine how long it took to check,” CCN’s Teow says.
“Now, an enormous amount of data is at our fingertips.”**

Yap says. “Companies ask us for electronic billing but want to pay the same fees as yesterday. Banks charge more because they tie up revenue in a float.”

Even though he has a vested interest in the future of a non-bank approach, even De Groeve concedes traditional players have a part to play. “Banks can be and must be valuable partners, but their key strengths are as trust agents, liquidity providers and settlement executors,” he says. “They simply do not have a deep understanding of the purchase-to-pay cycle as their corporate customers live it.”

Bank Neutral

Of course, companies and banks are finding ways to make the best use of their respective strengths – Caltex’s relationship with JP Morgan Chase is evidence

of that. Singapore-based Cargo Community Network (CCN) has found a happy medium too.

CCN provides e-commerce and EDI services to the airfreight industry, allowing cargo agents and ground handlers to do business on-line with airlines serving the region. CCN started operating a cargo community system in 1992. When Teow Boon Ling, the company’s IT director, wanted to upgrade his technology in 2000, he knew he didn’t want an off-the-shelf system. Jointly owned by Singapore Airlines, Trade Development Board Holdings and the Singapore Air Cargo Agents Association, CCN had the volumes, and therefore the clout, to get exactly what it wanted.

What it wanted, above all, was to be “bank neutral”. While Deutsche Bank provides a clearing system for transac-

tions, CCN members do not have to change banks in order to participate. Deutsche’s Yap observes: “The reality is that people are willing to try something new, but they will not accept any obligation to change banks. And why should they? Many banks think their customers should be banking only with them. They need to change their philosophy.”

Integrating the payments and materials cycles is already paying big dividends. Previously, the process of sending invoices to the collection of payments took eight to 20 days. Now, it takes just one or two. “We used to get boxes of paper for just one invoice, so you imagine how long it took to check,” Teow says. “Now, an enormous amount of data is at our fingertips.”

Elizabeth Fry is a contributing editor at CFO Asia, based in Sydney.

Does saving **50** to **100** basis points
of your top-line revenue
sound interesting?



Wonder how you get that?



TradeCard[®]:
We automate the financial supply chain.



www.tradecard.com
info@tradecard.com



To view our product demo, visit our website at www.tradecard.com