

The End of a Paperwork Nightmare

An alternative to financing international trade with letters of credit helped International Playthings streamline its international supply chain.

BY PETER A. BUXBAUM

Back in the old days, Holly Harrington, director of imports for International Playthings, was faced with a paperwork nightmare every time she had to deal with an international shipment. And she was dealing with many of them.

Based in Parsippany, N.J., the privately held distributor of early-years educational toys sells 750 Tomy, iPlay, and other branded products to retailers that range from mom-and-pop stores to major chains like Toys “R” Us, Zany

Brainy, and Learning Express. Almost all of the products are manufactured by 15 to 20 toymakers in China, Hong Kong, Taiwan, South Korea, and other Asian countries. International Playthings reported \$28 million in revenue last year.

The paperwork problem stemmed from the insistence by Harrington’s vendors on doing business through letters of credit (LOCs). These provide international sellers with a guarantee of payment. But they’re also complex documents reflecting complicated transactions that involve two international banks, freight for-

warders, customs brokers, and others, all of whom must provide precise information before the LOC will be paid. This cumbersome process can lead to shipment delays and extra costs.

“Between the time that it takes to apply, making sure everything is right, and tracking down the necessary documents, LOCs were a hassle,” says Harrington. “Late presentation of documents was a huge problem. The bank usually wants the original bill of lading, and if the customs broker didn’t turn it in, we had to get the steamship line involved. If the container was not released on time, we would incur extra charges, and, meanwhile, we didn’t have our merchandise.”

All of these difficulties led Harrington and International Playthings to turn to a company called TradeCard to automate the com-

At A Glance

User:

International Playthings,
Parsippany, N.J.

Technologies:

Single, Web-based platform
that connects buyers, sellers,
and service providers

Benefits:

- Finance costs to importer reduced to zero
- Significantly reduced finance costs to sellers
- Quicker closing of transactions
- No shipment delays due to problems processing letters of credit
- No investment in hardware or software



pany's international trade finance process.

The Finance Supply Chain

Companies have long endeavored to streamline their supply chains. They've contracted their vendor pool, consolidated transportation and logistics suppliers, and implemented information systems to provide visibility. But a growing number of companies are realizing that financial processes are an important aspect of international supply chains.

Cross-border business is riskier than domestic trade, and international sellers often want extra assurances of payment. Long-term buyer-seller relationships sometimes evolve into "open accounts," which means, quite simply, that the seller sends the buyer a bill and the buyer sends the seller a check within an agreed timeframe. Short of that level of trust, the traditional practice of international trade calls for securing payment through an LOC.

"We'd been doing business with some vendors for 10 years who still wouldn't go for an open account," Harrington says. One reason is that some manufacturers receive free export financing against the LOC from their governments and get paid for the order before the goods are actually manufactured.



of its vendors in Hong Kong. Harrington relates that "at the first meeting, I could see that this was something we had to do. We saw savings on our end and we saw an end to all of the headaches we had with LOCs." That was four years ago.

TradeCard works by connecting buyers, sellers, and service providers on an Internet platform. Buyers send purchase orders into TradeCard; sellers then receive automatic e-mail notices informing them of the pending order. The seller then approves the purchase order or negotiates the terms with the buyer.

After approval by the seller, the purchase order is stored in TradeCard.

"The TradeCard system replaces LOCs as an international trade financial instrument," says Harrington. "Everything required for the vendor to get paid and our shipment to clear customs is stored on TradeCard. Trade document data is populated from our purchase order, so the descriptions always match."

Identification of each shipment with a consistent customs classification is especially important. "Sometimes product descriptions get lost in the translation between here and China," Harrington notes, "and the documents end up with contradictory classification codes. When that happens, the shipment is going to be held up."

TradeCard also allows the parties to negotiate terms on its platform. "Normally our prices are set with our vendors

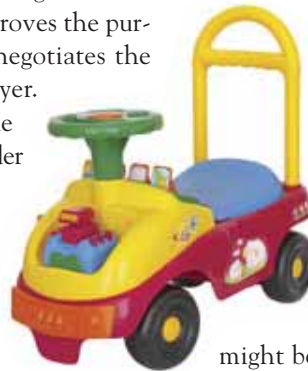
for the year, but if the vendor says he needs to charge an extra dollar this time, we can either accept that or negotiate the price on TradeCard," Harrington explains. "With LOCs, you need to do all of the negotiating up front."

Speeding Up the Process

Once the transaction has been completed, payment instructions are typically triggered automatically and instructions sent to JPMorgan Chase to debit the buyer's account and credit the seller's account. Other banks participating in TradeCard also offer upfront financing so that the seller can be paid immediately, much the same as with LOCs.

Conducting business over the Internet speeds up the international trade process. "A factory might be located in Hong Kong and its finance office in Japan," Harrington explains. "In the past, the finance office was not informed of the order until physical documents reached them. Now they are automatically notified by e-mail so that they can be informed of and review pending orders. Since it's Web based, there is no software or hardware involved, just an Internet connection."

Overall, the transaction and finance processes are completed 7 to 10 days faster with TradeCard than with LOCs, according to Harrington.



Connecting on a Single Platform

International Playthings was introduced to TradeCard through one

Ancillary Benefits

TradeCard represents "a new business model for trade finance," says Laura Preslan, an analyst with AMR Research

Company Information

AMR Research
Boston, Mass.
617-542-6600
www.amrresearch.com

TradeCard
New York, N.Y.
212-405-1800
www.tradecard.com

www.frontlinetoday.com

in Boston. “The company occupies an interesting space because it doesn’t have any direct competitors. There may be a few emerging companies, but basically, TradeCard is competing against the old way of doing business.”

According to Preslan, operating on a hosted platform like TradeCard provides companies with benefits beyond the area of trade finance. “TradeCard matches the flow of goods to the flow of funds,” she says. “You don’t have to go through a bank to manage the flow of inventory and payment. Many companies see value to their procurement and inventory processes.”

TradeCard also helps companies improve their supply chains by providing a service that matches companies with approved freight forwarders. Companies new to international trade can find a freight forwarder integrated with TradeCard through that service. Two of International Playthings’ freight forwarders are TradeCard participants, according to Harrington.

Cost Savings

TradeCard transactions are less expensive than LOCs. Managing LOCs typically consumes 5% to 10% of the trade budget at large organizations, according to Preslan.



Harrington estimates that using TradeCard has saved International Playthings around \$50,000 per year in banking fees and between \$3,000 and \$4,000 per year in extra transportation costs caused by delays. In addition, the company’s import department has been slimmed down from a three-person to a two-person operation. Besides those hard costs, International Playthings has also saved on the time spent tracking documents, rectifying documentary discrepancies, and trying to get shipments released.

Best of all for International Playthings, it incurs no costs by using TradeCard. The company’s vendors pay transaction fees, but these are considerably lower than the banking fees they paid for processing LOCs. A \$100,000 order costs a vendor around \$150 with TradeCard, according to Harrington, whereas LOC fees for the same deal could cost between \$400 and \$500.

Approaching the Vendors

International Playthings currently requires all vendors to participate in TradeCard, but Harrington decided to take things slowly when she first introduced the concept. “I didn’t want to jump in with both feet,” she says. “I opened it up to vendors by saying that this is something they should consider and that we think it will be great but we’re not sure. We had five or six vendors immediately say they would try.” The first to volunteer were those that had experienced held-up LOC payments thanks to documentary discrepancies and presentation problems.

According to Harrington, the vendors realized immediate benefits by using TradeCard, and they all signed up one by one. “Sometimes we encountered opposition from a new vendor if they didn’t know us or TradeCard,” Harrington says. “They were reluctant to disclose financial and credit information. But for the most part, we’ve had no problems getting vendors to sign up. We give TradeCard the names of new potential vendors and they meet with them.” FS

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