

# Reforming financial supply chains

Electronic trade solutions seeking to align financial and physical supply chains are expanding, with a host of new partnerships, customers and services on offer.

## Turloch Mooney in Hong Kong

While physical supply chains have developed in leaps and bounds over the past decade, the documents and payment processes that accompany them have lagged far behind. Businesses have benefited strongly from reengineering production and delivery processes to reduce inventories while so-called financial supply chains have remained largely untouched.

Recognising the need to reform financial supply chains, a number of online services to simplify and automate trade finance documentation have sprung up in recent years. Outfits such as Bolero.net, DC-Pro and CCEWeb all offer services that simplify or automate to some degree the business processes and data that accompany the movement of goods.

Few online service providers offer as comprehensive a solution as TradeCard. Founded just over five years ago by the New York based World Trade Center Group — a non-profit body set up to promote international trade — TradeCard automates the entire trade documentation process, allowing buyers and sellers to initiate, conduct and settle trade transactions online.

"TradeCard uses the Internet to take cost and inconvenience out of international trade settlements," explains the company's head of Alliance management in Asia, Elke Chan. "We basically take what is traditionally a very paper based process and move it online."

To use the system, buyers and sellers first need to register as TradeCard members. Following registration, a buyer can initiate a transaction by creating an electronic purchase order (PO) within the TradeCard network containing all the data usually found in a standard PO, from products to quantity to shipping details.

TradeCard then sends an email notifying the seller that a PO has been created. This is followed by an online negotiation process between buyer and seller until the PO is approved by both parties. A contract is then created and after shipping, TradeCard checks all documents electronically to ensure the goods were delivered as ordered.

If everything is in order, the buyer's account is debited and the seller's credited, with the full transaction guaranteed by Coface, a Paris-based export credit insurer.

This is the simple version. TradeCard also offers a range of other optional trade related services including trade finance, cargo insurance and

logistics, all of which are provided by best-of-brand partners in respective areas.

### Advantages through optimisation

Both buyer and seller can benefit strongly from optimising the financial supply chain.

Improved working capital management is the primary gain on both sides. This is achieved in a number of areas including the reduction of outstanding payment for sales by a minimum of 20%, reducing bank lines and related commitment fees and reducing fees from paper-based financial products.

Direct savings on fees can be quite substantial. A typical US\$50,000 import transaction, for instance, costs the buyer and seller a combined \$1,000 to \$1,500 in banking fees while TradeCard only charges \$150 for each transaction under \$100,000.

Since TradeCard relies heavily on partnerships with banks to provide many of its services, it seems logical to wonder why a bank would choose to support a network that will ultimately reduce its income from trade-related banking fees.

"Letters of credit and other processes are so labour intensive that most banks don't make money on them anyway," explains Ms Chan. "So we can really offer value to banks as well by taking away the expensive part of managing documentation or letters of credit operations."

In any case, she adds, the shipper community is moving away from letters of credit because of the expense and inconvenience associated with dealing with them. And as

Average costs of current financial settlement processes

	Letters of Credit	Documentary Collection	Open Account with Credit Insurance	Open Account without Credit Insurance
% of International Trade Transactions	20-25%	10-15%	30-35%	30-35%
Characteristics	<ul style="list-style-type: none"> <li>Paper based transaction</li> <li>Compliance based on stringent documentation requirements</li> <li>Credit risk is assumed by a bank</li> </ul>	<ul style="list-style-type: none"> <li>Paper based transaction</li> <li>Compliance based on buyer's acceptance of goods, bank facilitates transfer of documents only</li> <li>High amount of risk is assumed by the seller</li> </ul>	<ul style="list-style-type: none"> <li>Paper based transaction</li> <li>Requires high level of trust between buyer and seller</li> <li>Compliance based on buyer's acceptance of goods</li> <li>Insurance mitigates risk but limitations: on coverage may exist</li> </ul>	<ul style="list-style-type: none"> <li>Paper based transaction</li> <li>Requires high level of trust between buyer and seller</li> <li>Compliance based on buyer's acceptance of goods</li> <li>Uninsured extension of credit</li> </ul>
Average Fees Paid by Buyer and Seller (1)	US\$1,000 US\$1,500*	US\$250 US\$500*	US\$50 US\$200 plus variable cost of insurance premium	US\$50 US\$200*
Payment Guarantee	Full, if documents are in compliance	None	Full, but may have insurance coverage limitations	None
Documentary Compliance Check	<ul style="list-style-type: none"> <li>Time consuming</li> <li>Conducted by bank</li> </ul>	<ul style="list-style-type: none"> <li>Time consuming</li> <li>Conducted by buyer</li> </ul>	<ul style="list-style-type: none"> <li>Simple procedures</li> <li>Conducted by buyer</li> </ul>	<ul style="list-style-type: none"> <li>Simple procedures</li> <li>Conducted by buyer</li> </ul>

(1) Based on an average international trade transaction for manufactured goods of US\$50,000.

\* Does not include administration, systems cost and time value of money associated with these paper-based processes.

MeetWorldTrade has over 20,000 registered buyers



awareness of the uselessness of paper in the Internet age becomes more widespread, many banks are interested in offering their clients paperless services as part of a wider marketing effort.

### Risk management

Risk management is another area where TradeCard can benefit its customers. As well as allowing instant access to credit rating and risk management products, the system provides increased visibility into reasons for payment delays.

A recent independent benchmarking study of 150 large enterprises by Cap Gemini Ernst & Young found that automation of the financial supply chain through TradeCard in conjunction with targeted business process realignments, could save companies from 50 to 100 basis points of top-line revenue.

The study said these savings would result from improvements to working capital, risk management and business process costs, including the labour and fees related to purchasing, invoicing, accounts receivable, accounts payable, treasury and cash management.

Starting slightly earlier in the trade process while offering similar points of value to its customers is the San Francisco-based trading network MeetWorldTrade.com.

MeetWorldTrade.com differs from TradeCard in that it has created a giant online marketplace where buyers can go and find a supplier suitable for their needs.

"We've developed a fully integrated end-to-end platform where a buyer somewhere in the world can access one of our suppliers in China or other emerging markets, negotiate and conclude a deal, all in a desktop environment," says William O'Meara, the company's vice president with responsibility for Trade Development.

Evolving from a web design and hosting company set up in China two years ago, MeetWorldTrade employs a large workforce on the ground to support its online services. "We realised that in order to achieve our aim of becoming a full trade service provider, we needed a human layer," explains Mr O'Meara.

Well over six hundred people are employed by the company in China, half of whom are devoted to facilitating and promoting trade within the system, while the remainder sell e-commerce packages to suppliers in China. The company also conducts workshops and tutorials to educate local suppliers about e-commerce and the benefits for trade.

"We're going out to suppliers that have lived in relative obscurity and we're saying, 'buy our product and we'll put you on a searchable database where you'll be discovered'. Buyers can then come on board, find what they need, and literally with the click of a mouse, take care of all intermediary business processes quickly and simply," says Mr O'Meara.

Right now, buyers pay a registration fee to use the service but the eventual plan is to levy a charge per transaction as well.

Declining to reveal how many daily transactions currently take place on the site, Mr O'Meara said MeetWorldTrade has over 20,000 registered buyers and deals with "upwards of four to five hundred solid enquiries per week."

### Security concerns

One of the main deterrents for shippers wishing to avail of these new services is concern over security, a seemingly perennial problem with online business solutions.

"We're very aware that people have concerns over security and have taken a number of measures to allay these," says TradeCard's Ms Chan.

TradeCard requires all buyers and sellers to be registered members. Part of the registration process involves background checks on companies to prove they are legitimate businesses, along with credit evaluations.

MeetWorldTrade has a similar registration process. For suppliers, verification is made that they are legal entities in their respective countries and addresses and telephone number are checked. Companies are also required to have Internet access and a certain level of export experience.

MeetWorldTrade also works closely with SGS, a Swiss-based third party inspection company. In addition to inspecting individual shipments, SGS also provides a vendor rating service in which it issues seals of approval to companies based on a range of historical data.

At the moment, for both these trading networks, expansion in terms of both geographical coverage and range of services is very much the order of the day.

TradeCard is currently available in five countries: the US, Britain, Taiwan, Korea and Hong Kong. The company is currently in discussions regarding the establishment of some business relationships in mainland China which are expected to materialise by the end of this year.

New alliance partners and customers are coming on board rapidly. On the logistics side, the company recently announced alliances with Fritz Logistics and the Taiwan-based full service freight forwarder Dimerco.

Its largest recent addition to its customer list was Wolverine World Wide Inc, a global marketer of branded footwear such as Hush Puppies, CAT and Merrell Performance Footwear. Wolverine joins a number of major international TradeCard customers including the giant US-based consumer electronics group Radio Shack and Korea's SK Group. Since its first live transaction in November 1999, TradeCard has transacted shipments exceeding US\$12m in value.

Evident in its recent name change from MeetChina.com, MeetWorldTrade's rapid expansion outside of its original market is taking place through partnerships with best-in-class brands and existing e-commerce companies. Agreements have so far been signed in Korea, Indonesia, India, Thailand, Vietnam and the Philippines.

