chain reaction

Whether you want to automate trade finance or connect with all your suppliers across the board, you need the support of the right software and systems, says Lesley Meall

Evolution is a slow process. Eventually, all of the different processes in your physical and financial supply chains will become integrated. All of the participants in your supply network will be able to collaborate electronically – with ease and simplicity – despite being geographically and technologically disparate. The redundancies between the documents needed to ship goods and those needed to finance goods will be eliminated. All of the transactions and processes that can be automated will have been and paper-based processes will be a thing of the past.

Clearly, achieving this is going to take some time, not least because of the organisational disconnect between physical and financial supply chains. But over the past five or six years, banks, software vendors and other third-party providers have introduced products and services that support integration, spurred on by factors such as increasingly long and complex global supply chains, rising production costs in China and other offshore locations, and the economic uncertainty and credit availability issues that seem to be entrenched across Europe and beyond.

"RBS customers can already monitor the procure-to-pay and order-to-cash cycles at the same time as their cash and liquidity management data in one integrated system," says John Lyons, head of change management, global transaction services at Royal Bank of Scotland Group. By bringing trade and cash management closer together, proprietary bank offerings such as this can help treasurers to take a more holistic view of financial risk management and working capital management across the organisation (as can non-bank software and services – on which more, later).

Many banks are investing in platforms that can offer customers a range of trade and supply chain finance, factoring, payment services and electronic transaction capabilities – with varying degrees of automation and integration. The web-based Trade Channel platform, from JPMorgan, for example, provides end-to-end visibility into clients' global trade activities to help treasurers focus on the supply chain and its impact on working capital – with features that range from a customisable client dashboard to multi-language capabilities that even extend to simplified Chinese.

Multi-bank trade finance systems

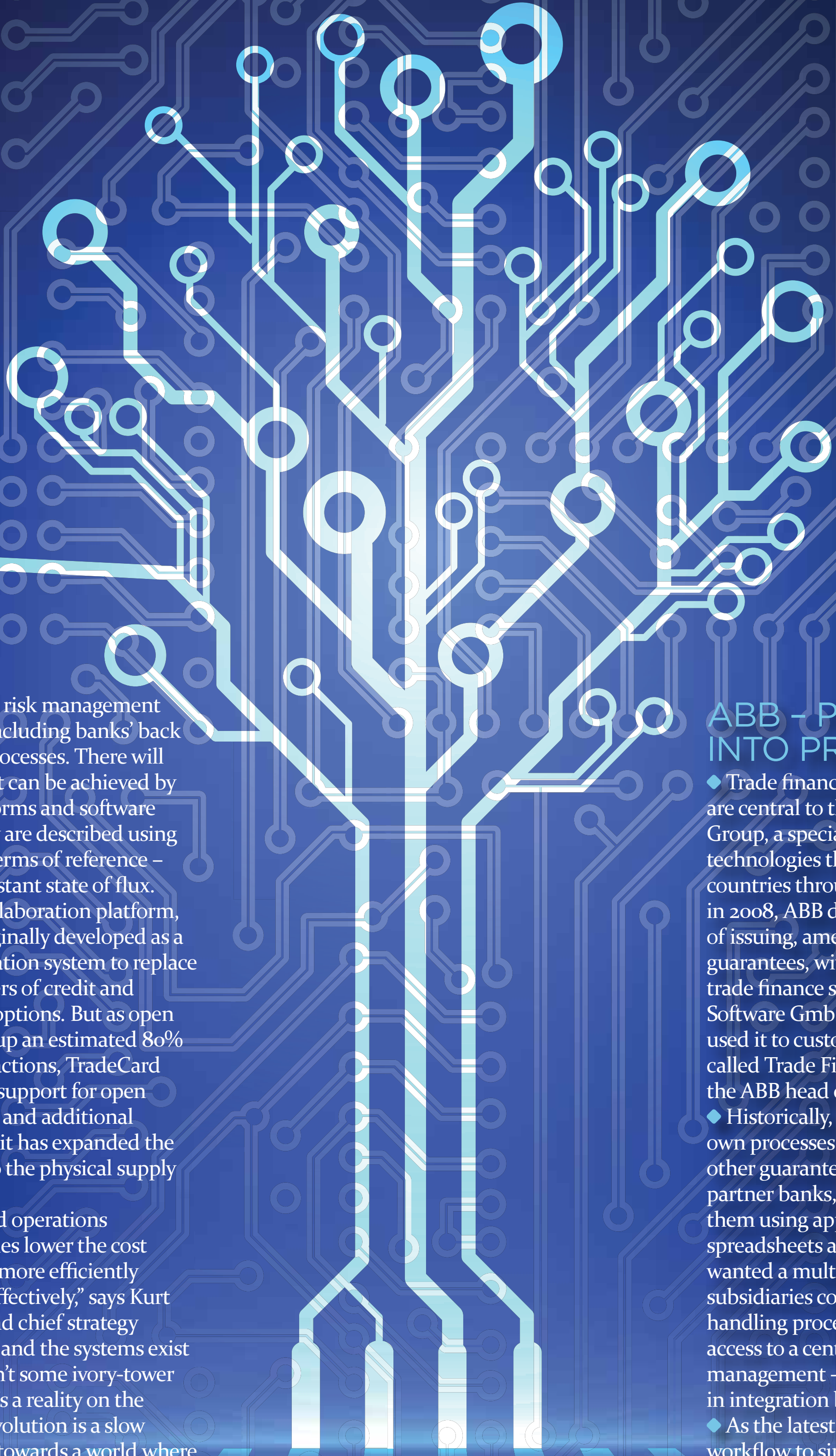
"Treasurers are demanding IT systems that support them throughout their daily activities and responsibilities, not only in terms of automating manual operations, but, more importantly, in terms of providing them with timely and integrated information along the value chain," says Enrico Camerinelli, an analyst with business research firm the Aite Group. But because treasurers want to avoid being trapped on a proprietary bank platform, web-centred multi-bank systems based on globally accepted communications platforms, protocols and rules (such as SWIFT, UCP and ISO 20022) are popular.

With access to the right software and systems you can optimise cash flow, squeeze the maximum liquidity out of the supply chain and minimise your dependence on external funding. But all of this demands an understanding of, and visibility into, the end-to-end financial chain. This is so you can see where and how commercial transactions are made and how much management information is available on them. It is also so you can decide on whether or not their overall impact on the balance sheet can be reduced via techniques such as invoice discounting or receivables discounting (forfaiting).

As well as helping you to avoid bank tie-in, the trade finance platforms and product portfolios offered by technology providers such as Bolero, GSX Trading Grid, Misys, TradeCard, Surecomp and QuestaWeb are (arguably) better than proprietary bank-centric solutions are at supporting the levels of automation and process integration. By helping treasury to bring core functions such as cash and liquidity management together with trade and supply chain finance, they can help businesses to benefit from:

- Anytime access to global visibility and multi-bank/multi-party consolidation;
- Quality information that can reduce discrepancies and enable automated straight-through processing for documentary instruments and for open account transactions;
- A reduction in administration, operational costs and fees;
- Real-time risk management;
- Optimised inventory financing;
- Reduced time to cash; and
- Effective management and use of credit lines.

The range of functionality (and the flexibility) offered varies across providers and products, as does the ease with which these can be integrated with various



treasury, accounting, risk management and other systems, including banks' back office systems and processes. There will be a variation in what can be achieved by single systems, platforms and software tools even when they are described using the same or similar terms of reference – and they are in a constant state of flux.

The TradeCard collaboration platform, for example, was originally developed as a trade finance automation system to replace the execution of letters of credit and supported financial options. But as open account now makes up an estimated 80% of global trade transactions, TradeCard subsequently added support for open account transactions and additional funding options and it has expanded the visibility it offers into the physical supply chain, too.

"When finance and operations collaborate, companies lower the cost of goods, use capital more efficiently and compete more effectively," says Kurt Cavano, chairman and chief strategy officer of TradeCard, and the systems exist to support this: "It isn't some ivory-tower academic concept, it's a reality on the ground today." But evolution is a slow process: the journey towards a world where all processes in the end-to-end trading cycle are automated and integrated is not a short one (see ABB – putting theory into practice, right), and most organisations start by addressing the processes that cause them most pain."

Lesley Meall is a freelance journalist specialising in finance and technology

Banks are investing in platforms that can offer a range of trade and supply chain finance

ABB – PUTTING THEORY INTO PRACTICE

Trade finance instruments and project finance are central to the Asea Brown Boveri (ABB) Group, a specialist in power and automation technologies that operates in around 100 countries through 300 subsidiaries. So back in 2008, ABB decided to optimise the process of issuing, amending and releasing bank guarantees, with a pilot project using COR-TF trade finance software from Dialog Orientierte Software GmbH (now part of Surecomp). "We used it to customise our own in-house system called Trade Finance Link," says Peter Gisler, the ABB head of export and trade finance.

Historically, each ABB subsidiary had its own processes for handling letters of credit and other guarantees, and dealing locally with their partner banks, and they communicated with them using approaches based around paper, spreadsheets and standalone systems. ABB wanted a multi-bank system that would give subsidiaries control of their own guarantee-handling processes and also provide real-time access to a centralised overview and limit management – which it now has thanks to built-in integration between COR-TF and Bolero.

As the latest version of COR-TF uses advanced workflow to simplify and streamline processes for end users, even non-finance people are getting involved in the guarantee-handling process. "Workflow opens the system up to project managers who can communicate with their colleagues in finance to facilitate guarantee handling," says Gisler. "Until recently, most users were finance personnel at the local level, such as the CFO and finance department staffers." And he expects the system to be used by over 1,000 ABB people in 80 countries by the end of 2013.