

Sounding off

Barry Williams asks why the corporate and shipping industries cannot work together for their mutual benefit.

Early in October 2006, several thousand members of the global banking and finance community got together in Sydney, Australia, for the industry's annual expo SIBOS. The forum seeks to unite financial services, communications and new technologies to improve standards and interoperability in all areas of payment, securities, treasury and trade.

Why mention it? Increasingly, the banks are waking up to the fact that global trade is accelerating around them and that traditional fee structures no longer keep pace with the volume of transactions. The value now lies in developing new services to pitch to their most profitable retail and manufacturing clients, in terms of managing working capital across global logistics, supply chain and compliance operations.

'Trade services' – the term applied to the way banks handle financial transactions between the buyer and seller – are very much under scrutiny. But here's the rub. As the last link in the import/export process, corporate banking services remain virtually dominated by paper – and the cause of serious supply chain friction, as a result.

Companies have invested millions in automating a range of front- and back-end processes, as well as interfacing their IT systems with those of external suppliers, transport and logistics partners, and customers. But as soon as they approach the financial supply chain, they hit paper.

According to a recent study by Aberdeen Group, 60% of international settlement processes involve old technologies (phone, fax, email) that don't add to the value chain. For a billion-dollar US company consistently tied up in crossborder bottlenecks or slow payment cycles, that could mean a perpetual gap of up to USD40 million in working capital.

Why is this situation tolerated? Historically, banks have built proprietary systems that have locked in customers, often investing significant amounts of money and time over years, or even decades.

And then there is the issue of mistrust. The biggest obstacle to closing the gap between physical and financial supply chains is the 'us and them' syndrome. Corporates still don't think that the banks are ready and willing to share data in a timely and convenient way between multiple parties involved in a transac-



tion. And the banks don't think that corporates are interested in standards.

In reality, people tend to spend their careers in one camp or the other, with insufficient cross-fertilisation to truly understand the challenges the other side faces.

Globalisation and trading complexity are contributory factors. Most corporates use multiple banks, which results in headaches that stem from dealing with individual bank portals, Word documents, faxes and emails. The same applies to export letters of credit and guarantees, where there are also multiple lines of communication, and where production can be held up waiting for confirmation orders.

Put simply, corporate patience is running out. Evidence suggests that if banks do not provide meaningful services to support the reality of a more complex and risky globalised supply chain, they will be left behind, while other non-traditional, more flexible, finance providers take a greater share of the market.

Clearly, there is a huge opportunity for banks to automate international settlement procedures, as well as develop more value-added trade services for the supply chain. This is backed up by research studies that highlight 'improving the global trade process' as one of the top corporate priorities for companies in 2006-07. The leading trade services banks are starting to respond, with a spending estimate of USD3 billion in software and systems for expanded and automated trade-related services next year.

And it's worth the investment. According to Aberdeen's study, companies that used their bank's trading services found savings of tens of millions of dollars annually through pre-shipment financing for multiple countries and accelerated payment and receivables cycles.

Delivering that kind of a return is also a sure-fire way to retain and build customer loyalty, as well as minimising exposure to risk. Most large companies aren't interested in taking a piecemeal approach to global trade management. And, as the percentage of business operations labelled 'international' grows from perhaps 5% five years


ago to 40% now, cfo's and treasury departments are increasingly influential in many areas of procurement. So the priority is to consolidate the end-to-end circle of physical and financial supply chain, gain visibility to cash-related events, and enforce better financial reporting and controls.

Here, as in other spheres of international trade, technology can be an enabler. Systems exist that offer banks the ability to act as a 'global trade hub'. These connect the prospective importer or exporter, customs broker, transport and logistics intermediary through a secure online portal. This central point of integration enables companies to improve forecast planning, manage inventory levels and automate other business processes for transportation and regulatory compliance.

It's not a difficult argument to present. Banks that have these systems on board can say to their clients: 'You take a USD1 billion line of credit for financing, and I'll manage your customs clearance for you.'

For small- and medium-sized enterprises and global corporates alike, a single-source trade management proposition is both operationally and commercially attractive.

So, what's the hold-up? Fundamentally, there is no dissent on either the corporate or banking side about the mutual benefit of bringing together the two halves of the supply chain, but the lack of understanding between banks and corporates, the siloed nature of each, and the perceived danger of trying to do too many things at once are significant barriers to progress.

Banks need to recognise that global trade is growing at least three times as fast as GDP, and this demands a new approach to trade services – based on a collaborative mindset and the application of new technologies. Equally, retail and manufacturing companies looking to convert hard-won operational savings from low-cost sourcing and demand-driven production strategies into balance sheet profits need to work more proactively with their banking partners to gain better visibility, accuracy and financial rigour across their global supply chain. 

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