

Supply Chain Finance

NEW WAYS TO ENHANCE CUSTOMER RELATIONSHIPS

ABOUT THE AUTHOR & CGI

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CGI is one of the largest independent information technology and business process services firms in the world. CGI's trade portfolio includes Proponix™, a hosted, web-based trade finance platform that provides access to trade services technology as a service, enabling reduced costs and enhanced customer service.

CGI is currently enhancing the Proponix platform to include SCF capabilities, including PO/invoice data management, bank-assisted open account, open account payment, export/seller finance and buyer-side finance.

AS BUSINESSES CONTINUE TO GO GLOBAL, THEY ARE LOOKING FOR CREATIVE WAYS TO OPTIMIZE THE MANAGEMENT OF THEIR SUPPLY CHAINS. INCREASINGLY, THEY'RE LOOKING TO TRADE BANKS TO ASSIST THEM IN THIS PROCESS.

Global trade banks are moving fast to position themselves within this market by offering supply chain finance (SCF) solutions that help customers increase visibility, efficiency, cost optimization, liquidity and predictability across their supply chains. Banks can transform themselves from institutions that offer only letters of credit (LC) and collection services—meeting a fraction of their customers' trade needs—to partners that provide SCF products and services across their customer's entire supply chain, including:

PO/invoice data management. Documents such as purchase orders (POs) and invoices are the foundation of trade and are a necessity for SCF solutions.

- *Downloading and linking POs/invoices to open account and trade finance instruments*—Banks must provide the ability to download and link PO and invoice data to open account and import trade finance instruments.
- *Invoice matching*—Invoice data can be matched against the PO to determine if there are any mismatches.
- *PO tracking*—As a result of invoice matching, the bank can track the status of POs and their remaining balances and report the results to the customer.

Bank-assisted open account. This is a new hybrid product that eliminates exposure fees associated with LCs, yet provides some of its benefits. Typically, it is based on POs and issued like a LC, with the buyers' payment terms clearly defined.

Open account payment. Open account payments are similar to straight trade payments, but are initiated when the bank receives invoices from the buyer with instructions to pay on the due date. From payment initiation to the invoice due date, the underlying invoices are eligible for export financing.

Export/seller finance. The usual order-to-pay trade cycle places the financial burden squarely on the shoulders of the seller. It is the seller that must prepare and ship orders, and then wait for payment, which drives the demand for export financing services.

- *Export trade finance*—The export bank can provide pre, at or post shipment financing to the seller, depending upon where in the order-to-pay lifecycle financing is provided.
- *Open account/import trade finance*— In this situation, the buyer's bank agrees to finance the seller directly. The bank can offer financing on POs or invoices linked to open account instruments or import trade finance instruments.
- *Open account*— Traditionally buyers have preferred to extend payment terms for as long as possible. Meanwhile, suppliers typically face higher interest rates and limited access to short-term financing compared to that enjoyed by buyers. Ultimately, this results in the seller incorporating the cost of financing into their pricing - meaning higher overall cost for buyers. *Buyer-backed seller finance* solves this dilemma, by giving the buyer longer payment terms and lower prices, the seller cheaper and more reliable financing, and the bank new revenues.

Buyer-side finance. In buyer-side financing, the bank provides financing to fund the buyer's obligations under an open account or an import trade finance or other instrument.

By incorporating these strategies, trade banks are poised to transform themselves into valued partners across their customers' entire supply chain—boosting customer retention rates and dramatically enhancing customer relationships.