

SUPPORT THE SUPPLY CHAIN



As businesses continue to go global, they are looking for creative ways to optimise supply chain management and, increasingly, looking to trade banks to assist them in this process. CGI's **Kitt Carswell** explains what banks can do to revolutionise customer relationships.

Global trade banks are moving fast to position themselves in the market by offering supply chain finance (SCF) solutions that help customers increase visibility, efficiency, cost optimisation, liquidity and predictability. Banks can transform from institutions that offer letters of credit and collection services – meeting a fraction of their customers' trade needs – to partners that provide SCF services across the entire supply chain. The following services can revolutionise customer relationships.

Purchase order and invoice data management

Purchase orders (PO) and invoices are the lifeblood of commercial trade and their data is foundational for SCF solutions:

- Banks must provide the ability to capture PO and invoice data and incorporate it into a growing array of trade finance, open account and financing solutions and services.
- Reconciliation capabilities are equally important to provide a number of SCF services, whether using Swift's TSU or internal capabilities.
- As a result of PO/invoice reconciliation, the bank can provide value-added tracking and reporting of purchase order utilisations and status.

Bank-assisted open account

This is a hybrid product that eliminates exposure fees associated with letters of credit, yet provides some of its benefits. Typically, it is based on purchase orders and issued like a letter of credit.

Open account payment

Open account payments are similar to straight payments, but are based on "approved for payment" invoice data received from the buyer.

Straight open account

New services offerings are emerging to address the vast majority of global trade, straight open accounts. These solutions and

services seek to give buyers and sellers higher efficiency, better working capital optimisation, payment services and financing.

Sell-side finance

The usual order-to-pay trade cycle places the financial burden on the shoulders of the seller, who must prepare and ship orders, and then wait prolonged periods for payment. This creates a demand for seller financing that can be met by the bank in various ways:

- The seller's bank can provide pre-, at- or post-shipment financing to the seller in the context of export trade finance transactions.
- The seller's bank can also provide receivables financing in various forms.
- In certain situations, the buyer's bank may be willing to finance the seller directly, offering financing on POs or invoices linked to open account instruments.
- Traditionally, buyers push to extend payment terms for as long as possible, while suppliers face higher interest rates and limited access to short-term financing compared to that obtainable by larger buyers. Ultimately, this results in the seller incorporating the cost of financing into their pricing and a higher overall cost for the buyer. Payables financing, also known as buyer-backed seller finance, gives the buyer longer payment terms and lower prices, resulting in cheaper and more reliable financing for the seller and new revenues for the bank.

Buy-side finance

The bank provides financing to fund the buyer's obligations under an open account or 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.

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