



# Trends in Trade

## e-Outsourcing

BY RON WALRADT, E-BUSINESS TRADE HEAD ASIA-PACIFIC, CITIBANK

Advances in technology and telecommunications are changing the way businesses do trade. Everyone has 24-hour access to global information. The choices exporters and importers (and banks) make about gathering, managing and processing information determine their strategic opportunity cost of capital decisions, and ultimately establish the leading and supporting roles that each will play in trade. In more and more cases, the economics of trade lead buyers and sellers to outsource traditional trade functions such as document preparation to other parties, and the Internet is the ideal medium for executing an outsourcing strategy.

### Facing a challenge

As the reach and access of exporters and importers continues to expand globally and grow in sophistication, international banks are faced with a daunting challenge that only a few such as Citibank can accept, especially in the accelerated world of the Internet. That challenge is commitment. It is the commitment year after year to spend and invest in people, global branch networks, credit underwriting, systems, technology and all of the other expertise and infrastructure that is needed to serve clients across the entire customer value chain. That commitment is daunting because it must be accomplished in a business environment scrutinized by institutional investors, proliferated by non-traditional niche competitors, and marked by high cost barriers to entry.

### Get in or get out?

How are international banks responding to this call for commitment? Many are retreating from trade, opting to pursue other activities where they believe that they have

a core competency or competitive advantage. Others are cutting and pasting strategic alliances, reckoning that the sum of the parts is greater than the whole. Only Citibank and a handful of other international banks are taking the path of global commitment.

Interestingly, we are observing a growing phenomenon among our clients as we move down this strategic path. Not only are they asking us to provide more innovative solutions (e.g., P.O. finance, receivables purchase, web-based LC linkages), but with a focus on increasing shareholder value they are also looking to us to undertake more roles (e.g., order fulfillment and document preparation, cycle time analysis) in their value chains. Directly and indirectly, in other words, a growing number of our customers are outsourcing portions of their traditional information management processes to us, and with the expectation that we deliver outsourcing capabilities via the Internet. This drives further investment on our side that in turn supports a global banking leadership strategy in trade.

### Where has all the paper gone?

With technology, competition, cost of capital and other considerations propelling the outsourcing wave we are witnessing the dematerialization of paper in trade. Papyrus (paper!) may be one of the greatest legacies handed down by ancient Egyptian civilization, but it is rapidly losing its enduring place in the world of modern global trade, giving way to electronic documents whose bits and bites lack the aesthetic simplicity of the pyramids, but resonate loudly with devotees of economic value added modeling and practitioners of just-in-time logistics. Outsourcing is in. Paper is out.

First and foremost, paper is losing favor with



exporters and importers who transact under commercial letters of credit. The demise of paper documents is inevitable as outsourcing offers tantalizing benefits to buyers and sellers to shift and eliminate costs, focus on core competencies, re-deploy resources to higher margin activities, improve productivity, simplify processing functions, and leverage international banking partners investments in research and development.

### Document preparation: The first wave

The most obvious process that we see clients targeting for outsourcing in trade is document preparation. Across Asia from Singapore and Malaysia to Hong Kong and China we are partnering with clients in this first wave of outsourcing. It is happening and it generally encompasses the following web-based features and functionalities:

- A secure Internet channel enabling clients to transmit backend data files directly to Citibank.
- A real time query capability allowing clients to monitor the status of their documents via Citibank's website.
- An inventory of image-based documents providing clients with a viewing capability.
- A repertoire of LC advising and discrepancy notification reporting features.

What are the tangible results of this first wave of web-based document preparation? We have seen clients reduce their document preparation cycle time dramatically. In the case of a long-standing corporate client in Malaysia, cycle time has improved from 17 days to 5 days. We have seen documentary discrepancy rates drop from 90% to below 5%. Perhaps the most exciting benefit we have witnessed has been the increased control that clients have been able to exert over their order fulfillment and sales process as their outsourcing technology and partnership arrangements with Citibank have enabled them to identify and eradicate bottlenecks across their entire trade value chain.

### Making the leap

What are the key decision points that compel exporters and importers to enter into trade outsourcing arrangements with their global international banking

partners and what are the critical ingredients in a successful outsourcing partnership?

We go back to where we started: Commitment. Outsourcing is not a hobby. It requires the dedication of all parties. It is a long-term strategic decision. So it is not for the faint-hearted, the undecided, or the fence-sitters.

Here are some of the critical ingredients that in our working experience underlie a strong trade outsourcing partnership:

**Champions:** Each party must have a passionate outsourcing champion with the responsibility and the authority to compel action.

**Confidentiality:** Outsourcing carries fiduciary responsibilities to maintain confidentiality. Each party's access to information must be restricted and protected on a "need to know basis".

**Global Network:** The international banking provider of trade outsourcing services must have the broadest possible global reach to deliver front-end and back-end capabilities in all of its clients' markets. You're global, so look for end-to-end globality from your international banking partner.

**Technology:** Investments in new technologies is the lifeblood of trade. It is the engine of product innovation and development, processing efficiencies, economies of scale, and staying power. Seek a banking partner who is investing in your future.

**Commitment:** Always we come back to this. Outsourcing must be built to last. Total and complete long-term leadership commitment to the trade business is critical. If your outsourcing partner does not live and breathe trade to the core, then look for another partner.

Making the leap and cracking the hard shell of trade outsourcing is major strategic decision, but once taken it is a decision that bears sweet fruit for the committed. ■

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**For further information, please contact:**

**Ron Walradt**

E-business Trade Head Asia-Pacific, Citibank

Tel: (852) 2868 8483

E-mail: ron.walradt@citicorp.com