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New opportunities with open account trade programme

Companies can solve many trading problems by switching to an open account trade programme that works in tandem with their letter of credit structure and EDI systems, according to *Maureen Sullivan*, Vice-President, Citigroup Global Transaction Services, and business head for trade services in North America.

"Desperately seeking alternative to letters of credit with flexible payment processing."

Not your usual personals ad, but it certainly sounds like a request that would be made by today's large retailers. From the 1,000-store discount chain, sourcing from hundreds of vendors in Asia, to the European boutiques on Rodeo Drive, reliance on a single method of payment for international transactions has become increasingly unpopular. In the words of a senior logistics manager: "There is no question that we need to streamline our operation and reduce the paperwork associated with letters of credit."

And from the owners of a successful chain of bridal stores: "In a nutshell, we need to find more than one way to manage our international buying activities."

In both cases, the companies solved their problems by switching to an open account trade programme that works in tandem with their letter of credit structure and EDI systems – and they found exactly what they were desperately seeking.

Why open account trade payments?

Whether you are buying from 12 or 1,200 vendors, asking the following questions can help determine if an open account trade programme is right for you:

Does your company have established relationships with quality vendors? If that's the case, then open account trade processing may be an ideal solution. Even if your vendor mix requires both letter of credit and open account trade relationships,



implementation of an open account trade programme can provide tangible benefits for both buyer and seller. Buyers are able to decrease banking and internal processing costs, and reduce working capital. Sellers are also able to decrease internal costs, and their savings per transaction can be significant – as much as 80% in some instances. By successfully reducing costs on each link of the payment chain not only will you benefit, but your customers will as well.

Have you made a significant outlay for EDI technology and want to leverage the investment? Whether the payment method is open account trade or letter of credit, EDI technology can process both payment methods.

Although open account trade is an ideal payment solution for buyers who have established relationships with their sellers, this payment method is primarily for long-term relationships with well-capitalised vendors. Accordingly, newer or smaller vendors may continue to use letters of credit and migrate to open account trade at a later date dependent upon the comfort level and need of both parties.

The benefits of open account trade processing

A streamlined payment process – payment is effected upon receipt of instructions to pay, not upon receipt of documents conforming to the terms and conditions of a letter of credit.

Reduced dependence on trade credit lines – as you expand your open account trade programme to more and more vendors, trade credit lines can be efficiently reallocated.

Better basis for price negotiation – resulting from the accelerated receipt of payments and the substantial savings vendors realise from switching to the programme.

Internal processing efficiencies – continue to evolve and improve as the open account trade programme is rolled out to the vendor population.

Room for both payment methods – as the

open account trade programme operates within the same integrated payment platform as the letter of credit.

Putting the open account trade programme to work

A pilot programme would consist of identifying a limited number of vendors that would yield the largest dollar volume of purchases and selecting the countries that are representative of the vendor population. A sampling of 20 or 30 vendors in as few as four countries – for instance Guatemala, Hong Kong, Taiwan and the US – could be the first phase of a pilot programme. When fully implemented, the programme would comprise a much greater proportion of the company’s import volume.

For example, a leading retailer, with upwards of 10,000 transactions per year in their programme, anticipates that the company and its vendors will realise cost savings of US\$3.5 million in the first full year of operation. In the words of a senior treasury officer, "With our open account trade programme we get savings on every level; first by reducing the volume of paperwork, second, by reducing the need to utilise our credit lines and third by decreasing our costs for reconciling and settling thousands of international purchase orders. Furthermore, because we can implement over our existing letter of credit processes, there is no need to reinvent and relearn our internal processes."

Optimising your banking relationship

The move from letter of credit to open account trade relationship is a complex undertaking that can affect both the company and its vendors. For this reason, the programme is initiated by the importer, who should look to their bank for expert assistance and guidance on structuring and implementing the programme. Keep in mind that the ability to ensure a speedy adoption, for both the company and its vendors, will have a direct effect on your profitability. Additionally, it’s beneficial to work with a bank with an on-the-ground presence in the countries where the program operates. Vendors look to these banking resources to assist with the transactions and as a possible source of financing in the absence of the letter of credit.

The sooner your open account trade programme is in the pilot stage, the sooner you will see the benefits. Finally, while reduced costs are important, remember you’re starting a long-term relationship; so



be sure the package is wrapped in world-class service delivery with a provider who has a historic commitment to providing trade services.

Looking forward

Regardless of the mechanisms used for conducting international trade, the critical aspects of document handling and provision of information will continue to be the universal requirements for any international payment service. Both areas have great potential for redesign using current and developing technology.

And although technology will continue to play a significant role in expediting document preparation, merely facilitating document preparation or information flow does not provide a true value-added service. There is an equally critical need to have the information verified, consolidated and relayed in a useable format. The ability of your bank to function as an information consolidator is a pivotal consideration in the future of your company. So, for those "desperately seeking an alternative to letters of credit with flexible payment processing," your search is over.



Maureen Sullivan, Vice-President, Citigroup Global Transaction Services, is the business head for trade services in North America.

She can be reached at Maureen.Sullivan@citigroup.com or on +1 312 876 3297.

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