

# OPEN ACCOUNT TRADE: STREAMLINING THE GLOBAL SUPPLY CHAIN

*By streamlining processes for both importers and suppliers, simplifying and automating documentation review and reducing the cost of working capital across the global supply chain, open account trade can result in greatly improved efficiency and considerable savings in time and costs.*

**A**s the number of companies participating in cross-border trade continues to increase, so in parallel does the need for risk mitigation, efficient document processing and financing. In addition to the extraordinary expansion of global trade — volume has doubled in the past ten years and quadrupled in the last 20 — the trade marketplace has undergone a dynamic shift in transaction formats from both ends of the supply chain, affecting importers and vendors alike. Specifically, there

is a noticeable transition from traditional letter of credit (LC) to open account trade, allowing savings and enhanced efficiency throughout the purchasing cycle.

Today, for example, more than 40% of companies worldwide trade with eight or more geographies, many with hundreds — sometimes thousands — of individual suppliers. This characteristic of the marketplace, with its subsequent expansion of trade volumes, reinforces the popularity of open account trade



Claudia Slacik, Global Head of Citigroup Trade Services and Finance

## CITIGROUP'S ENHANCED OPEN ACCOUNT TRADE: THE PREMIER TECHNOLOGY PLATFORM FOR OPEN ACCOUNT TRADE

Technology has greatly improved the speed, accuracy and security of global trade open account transactions. Citigroup's enhanced open account trade platform facilitates processing and relieves the administrative burden for clients making the transition from letters of credit to open account trade. As they make the switch, many importer clients are re-insourcing the processing that was formerly outsourced to banks. By using this system, the importer can outsource the accounts

payable function back to the bank.

"We not only facilitate payment for our clients' open account trade purchases, we also transform and streamline the entire reconciliation processes with trade partners located virtually anywhere in the world," says Maureen M. Sullivan, Director, Trade Services and Finance and global open account trade product manager. "Since we process a very high volume of trade transactions daily, we handle the straight-through-processing of

trade transactions in a cost effective way."

Citigroup's open account trade platform accepts various types of electronic messages from the importer, delivers them to the appropriate vendor or warehouses them for subsequent document matching. It then receives documents in either electronic or paper-based format, depending on what the exporter can provide, completes the required comparison of trade documentation in a low-cost environment and sends a response back to the

importer using an electronic message. This allows for international sourcing that looks and feels like a domestic transaction, including seamless integration with a client's ERP system.

"By automating these activities," says Citigroup's Sullivan, "our Enhanced Open Account Trade operating platform improves the accuracy, speed, visibility and transparency of the overall transaction process — resulting in bottom-line benefits to importers and suppliers across the global supply chain."

## RISING DEMAND FOR VENDOR FINANCING WORLDWIDE

To increase liquidity across the global supply chain — and to improve transparency throughout the purchasing cycle — vendor financing is becoming an increasingly popular funding technique. Vendor financing consists of two components: pre-shipment financing and post-shipment financing.

Pre-shipment financing is considerably more complex. Among other attributes, it requires that the trade bank have:

- in-depth, on-the-ground knowledge of the local market,
- extensive business experience with the vendor,
- market-based insight on the vendor's ability to produce and deliver the goods.

Based on the vendor's track record, the bank can then make a clear, independent judgment on providing the pre-export financing.

As for post-shipment financing, sponsored accounts receivable finance provides companies of all sizes with a financing and risk mitigation option for their post-shipment domestic and cross-border trade transactions. This solution responds to a variety of supplier needs, including:

- accelerated cash conversion cycle
- improved working capital efficiency
- optimized balance sheet
- mitigated buyer credit risk

"A sponsored account receivable finance program," says Keith Karako, global trade finance head, "also allows suppliers to increase open account sales by leveraging Citigroup's risk mitigating structures — making it one of the most efficient ways for businesses to get the cash they need for day-to-day operations."

because it is most advantageous to industries with a one-to-many relationship between buyer and sellers.

Within domestic markets, open account trade has always existed. Until recently, however, major barriers such as a lack of transparency and apprehension about cross-border exposure have limited international open account trade. Significant advances in technology and increased access to financial knowledge across the supply chain are diminishing these concerns considerably. "Without question," says Claudia Slacik, Global Head of Citigroup Trade Services and Finance, "the global trade business is experiencing remarkable growth, with increased activity from new entrants as well as veterans in the marketplace. Around the world, we've seen a marked increase in the number of open account trade transactions among our clients and the number of product inquiries we're receiving from our major corporate accounts."

The transition is most apparent in the United States and Europe where intense competitive pressures are forcing participants throughout the supply chain to improve their efficiency and drive down costs. In

these markets, the largest importers no longer want to rely on time-consuming and labor intensive commercial letters of credit. Instead they are seeking transaction interfaces to take advantage of the data contained within their ERP systems and to promote straight-through processing.

As companies migrate from letters of credit to open account trade, they can optimize the benefits of the transition by partnering with a global bank that can support end-to-end supply chains with end-to-end financing and financial processing solutions. Citigroup, with a market-leading network spanning 104 trade-capable branches in 72 countries, has the largest footprint in global trade. Says Global Head of Trade Slacik: "We have an unmatched combination of global reach, highly talented trade professionals in local markets around the world and comprehensive portfolio of trade services and finance products. And we're committed to providing innovative solutions — like open account trade — to our clients around the world so they can streamline processes across the global supply chain, and support their success."

For more information about open account trade or other global trade services at Citigroup, please contact:

### North America

Stuart D. Roberts  
+1 415 627 6429

### Asia Pacific

Carl Stocking  
+65 6328 5761

### Latin America

Roberto Uhart  
+1 305 329 4558

### Europe, Middle East, Africa

Nigel Bottril  
+44 20 7508 1319

