

# Open account trade: how cross-border companies can benefit

*The numbers are remarkable: global trade volume has doubled in the last decade, and quadrupled in the last two. Today more than 40% of companies worldwide trade with eight or more countries/regions, many with hundreds of individual suppliers. By Erik Wanberg, North America Regional Trade Product Head at Citi.*

One result of the explosive growth in global trade is a dramatic shift in transaction formats in the international trade marketplace, affecting both ends of the supply chain. Specifically, there's been a noticeable and ongoing transition from traditional letters of credit to open account trade.

Open account trade has been proven to offer savings and enhanced efficiency throughout the purchasing cycle, particularly for companies with a one-to-many relationship between themselves and their overseas suppliers.

It's easy to see why open account is regarded as a

win-win for buyers and sellers. As buyers move their overseas suppliers from LCs to open account (or lengthen their existing open account terms), electronic disbursement services are reducing buy-side transaction processing and vendor management expenses. Open account trade enables the financial supply chain to work more in sync with the physical supply chain. By providing greatly improved visibility and transparency, it helps promote liquidity for all stakeholders in the purchasing cycle.

The longer payment terms of open account can be detrimental to a supplier's working capital needs. However, emerging financing programmes are giving suppliers a liquidity management tool that frees up borrowing capacity while increasing their cash flow, reducing accounts receivable and reducing days sales outstanding.

## Clearing traditional hurdles

Until recently, international open account trade had been limited by some rather daunting hurdles, including a lack of transparency and apprehension about cross-border exposure. However, a significant improvement in technology — and with it, increased visibility into the financial supply chain — have minimized these concerns, making global business not only manageable but profitable.

Today's buyers and sellers fully recognize the efficiency benefits of open account trade. And they are moving quickly to make it the dominant payment method in their cross-border supply chain management. Open account is only expected to become even more prevalent, thanks to its ability to streamline processes by eliminating the multiple parties ►



Erik Wanberg, North America Regional Trade Product Head at Citi.

## Trade services focus – open account trading

► involved in the flows, while reducing the amount of documentation required in global trade transactions.

### The need for a global financial partner

With the dramatic increase in buyers and suppliers participating in international trade, there is a corresponding need for risk mitigation on a global scale. While open account trading is less complex than traditional letters of credit, this simplicity brings with it increased operational and credit risk, since there is less protection built into the process than traditional LCs offer.

In addition, open account trading requires a greater degree of trust. To capitalize on its efficiencies, as well as substantially reduce the time- and labor-intensive tasks like reconciliation, a strong, trusting relationship must exist between buyers and suppliers.

The greater technical capability, deeper market knowledge and stronger client relationships required by global open account trading can be intimidating for buy-side companies. As a result, they are asking their financial partners to help protect the viability of their supply chain. This has been especially noteworthy in light of recent credit uncertainties worldwide – and the potential supply chain interruptions that could result.

In turn, financial institutions are offering ways to accommodate their buy-side clients. Global banks are creating an end-to-end link between corporate buyers in, say, the UK or US, and suppliers in Asia and other parts of the world. They're developing new open account platforms to facilitate straight-through processing and reduce operational costs for their multinational clients. They're automating procure-to-pay workflow. They're extending payment terms and helping clients reduce the cost of goods sold. And they're focusing on revenue growth in extended markets via outsourced credit/risk management.

### Global supply chain leadership

A leading financial institution in the cross-border commerce arena is Citi, which has a powerful reputation in the supply chain finance arena. As one of the world's largest financial institutions, Citi helps companies take advantage of open account opportunities in the global financial supply chain.

It isn't difficult to see why the bank has earned such a sterling industry reputation. Its comprehensive portfolio of innovative trade services and financial products help clients manage risks and optimize cash flows across the global supply chain.

Citi streamlines and enhances cross-border transactions between trading partners virtually anywhere. Its open account trade process engages both ends of the supply chain by deploying unique, renowned advantages: the largest footprint in global trade, end-to-end operational expertise, robust technology infrastructure, and a market-leading branch network spanning 104 trade-capable branches in 72 countries.

### An open account Web portal

The open account space requires buyers and suppliers to interact efficiently, even instantaneously, across thousands of miles. That requirement lends itself to an electronic 'portal' for efficient flows.

Some companies have developed and/or participate in closed online trading exchanges. Most, however, lack the ability to access these exchanges, and are instead calling upon their financial partners to provide one.

One way to access such a portal into the open account arena is via a transaction-based platform such as CitiDirect.® This award-winning, web-based module enables buyers and sellers to streamline the process of cross-border purchase order and invoice management.

### Enhanced open account trade

Another Citi solution for the rapidly growing open account arena is enhanced open account trade. This operating platform facilitates processing and relieves the administrative burden for companies making the transition from LCs to open account trade. Enhanced open account trade not only facilitates payments for open account purchases, it also transforms and streamlines the entire reconciliation process. Finance executives benefit from Citi's knowledge of local trade practices, regulations and market risks.

Citi's enhanced open account trade solution is one of the global trade marketplace's most robust platforms of integrated services to support transaction processing, communication and reporting and liquidity enhancements for open account transactions. It greatly improves the accuracy, speed, visibility and liquidity in the overall transaction process, resulting in bottom-line benefits to both buyers and suppliers across the global supply chain.

With enhanced open account trade, trade participants across the global supply chain, importers and exporters alike, can complete cross-border transactions much more efficiently – and at a fraction of the cost of using a letter of credit.

### Facilitating cross-border commerce

As market leaders in global trade recognize the tremendous competitive opportunities of integrating their physical and financial supply chains, they're calling upon global financial partners to help them take advantage of the speed and efficiency of open account trading. Many are aligning with Citi to provide a comprehensive array of products – including open account solutions – to facilitate cross-border commerce.

A vast, market-leading branch network. End-to-end operational expertise. And a robust technology infrastructure. It's a powerful combination for cross-border companies who are looking for a suite of trade financing solutions. And it's a combination that can be leveraged via a partnership with Citi. ■

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