CDC Software

Global Trade Management

Improve working capital & streamline global trade.

Abstract

Global Trade Management (GTM) is the practice of streamlining the entire life cycle of a global trade transaction across order, logistics, and settlement activities to significantly improve operating efficiencies and cash flows. The average global trade cycle, order through settlement, is 60-120 days. Reducing this cycle by an average of 12 days can improve your cash flow by 10%.

Global Trade is Complex and Growing Rapidly

Economies of the world are becoming increasingly global in nature. This is being driven by several factors, including:

- Businesses need to grow top-line revenue by finding new customers, regardless of their location.
- Businesses need to lower costs by finding the cheapest sources of supply, regardless of their location.
- Significant changes in government policies are paving the way for freer trade across borders (e.g., the North American Free Trade Agreement, European Economic Union and World Trade Organization).
- The evolution and subsequent maturity of new information technology and technology-based business models.

Ultimately, the extra complexity and risk of global trade translates directly into a worsened cash flow position and increased procurement and logistics costs, because businesses must carry a greater amount of

working capital. First, businesses carry more inventory to accommodate longer order cycles and uncertainty in the global supply chain, and second, businesses carry more accounts receivable because they are less efficient at managing their global financial supply chain.

What is Global Trade Management (GTM)

A Global Trade Management (GTM) solution is characterized by software and services that integrates and synchronizes the end-to-end global trading process. Spanning the services provided by point software solutions and logistics partners, next generation solutions must focus on providing business benefits across the entire international transaction. Enabled by new technologies based on open standards, the integration of legacy systems, and new web-based services, Global Trade Management will open information flows and enable new business strategies.

Enormous Opportunity

Global Trade Management requires the integration of the financial supply chain with the physical supply chain and when implemented successfully will enable corporations to accomplish the following goals on a continuous basis:

- Grow top-line revenue and reduce supply chain costs
- Provide complete visibility into shipments
- Minimize working capital in inventory and accounts receivable
- Comply with required governmental reporting and security mandates
- Measure the efficiency and performance of global trade policies, procedures and trading partners

As much as 40% of a multinational organization's working capital is directly attributable to global trade. Therefore, any meaningful reduction in international trade days sales outstanding (DSOs) or inventory will significantly improve financial performance. The average global trade cycle, order through settlement, is 60-120 days. GTM solutions, for example, can reduce this cycle by an average of 12 days. This can improve cash flows by 10%. For a medium-size enterprise, i.e., $3 billion in sales, this represents a $41 million improvement in cash flow.

Global Trade Management Defined

Global Trade Management - streamlines the entire life cycle of a global trade transaction across order, logistics and settlement activities to significantly improve operating efficiencies and cash flows.

The Global Trade Definition

A global trade transaction encompassing the life cycle of a global buy-sell transaction comprising:

- Participants (sellers, buyers, freight forwarders, banks, etc.)
- Tasks (compliance checks, booking transportation, clearing customs, applying for letters of credit, etc.)
- Documents (sales orders, invoices, packing lists, letters of credit, bills of lading, etc.)

Figure 1. Global Trade Definition

The Global Trade Process

The global trade process spans the breadth of an international transaction from the purchase or sales order to payment initiation. Figure 2 illustrates a simple process summarizing the global import (procureto-pay) and export (order-to-cash) life cycles. To optimally complete the global trade cycle, a business must automate, track and provide visibility into the end-to end process to optimize its supply and/or distribution chains.

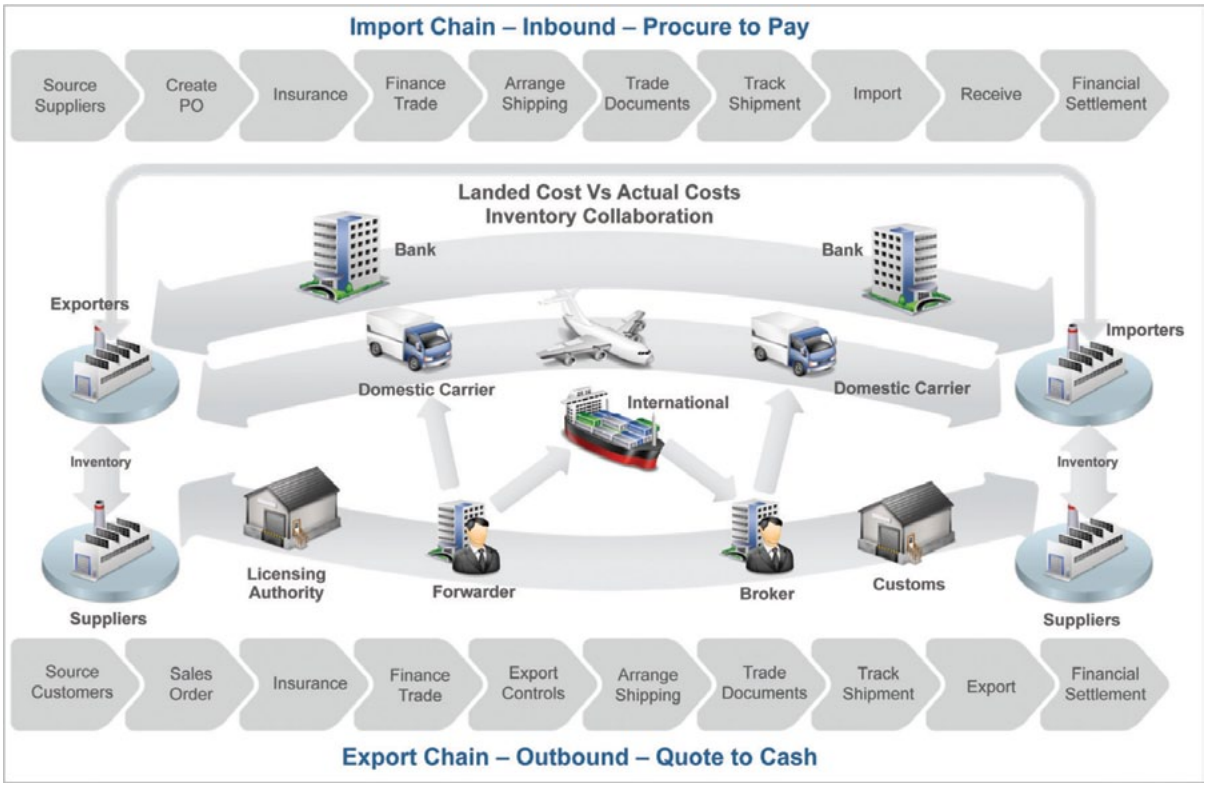


Figure 2. Global Order-to-Cash and Procure-to-Pay Cycle

Across these processes global trade requires managing the flow of Goods, Funds and Information.

The Flow of Goods

Regarding the flow of goods, it is important to manage the processes around such areas as the original order and contract, product information, trade compliance, shipment tracking and landed costs. For example:

- **Order Management** – requires the ability to track the business terms of the order correctly. As an order progresses, it is essential to reconcile all shipment activities against the order to ensure that the process is smooth from a transactional and security perspective.
- **Trade Compliance** – requires the ability to manage import and export compliance processes. The proper management of these processes includes screening trading partners against governmental prohibition lists, determining that commodities can be shipped to the country of destination, managing the activities of outsourced service providers such as brokers and auditing compliance activities to ensure the correct flow of information and the accurate payment of taxes, duty and fees.
- **Product Information** – manages the flow of goods-related information relevant to the physical goods. The flow of goods must manage HTS/ECCN numbers to assist in trade compliance, weights for shipment booking and documents for tracking.

- **Shipment Tracking** – provides visibility into the location of goods throughout the life of the trade. This includes entry and exit from ports, title exchange and proof of delivery. Tracking provides a status report regarding the arrival of goods at their final destination.

The Flow of Funds

Regarding the flow of funds, it is important to manage the way invoices are handled, international payments are made and payments are reconciled. For example:

- **Reconciliation** – global trade requires n-dimensional matching to sort through the vast amount of information required to settle global transactions. Matching must be managed across trading documents, highlighting exceptions at the line-item level.
- **Invoice Management** – manages commercial and customs invoice creation and presentation as well as outstanding invoices.
- **Letter of Credit Management** – manages the flow of letters of credit from their creation through to final presentment. The process needs to synchronize Letter of Credit data with critical supporting documents such as Bills of lading, invoices and packing lists.
- **Dispute Management** – flags issues and manages the resolution flows among multiple trading partners
- **Trade Financing** – requires factoring trade receivables based on multiple trade characteristics such as shipping lanes, currencies, buyer or supplier ratings and trade credit.

The Flow of Information

Regarding the flow of information, it is critical to track and manage information anomalies, documentation and interaction with trading partners to create secure audit trails and settle transactions.

For example:

- **Pro-active Information Alerting** – is required to provide the ability to act on exceptions and information anomalies between trading partners and service providers
- **Document Creation and Management** – is needed to ensure that documents are both accurate and compliant with business agreements and regulations to ensure the swift exchange of title of goods and payments
- **Trading Partner Integration** – manages the flow of information with all trading partners
- **Audit Trails** – provides clear and well documented appraisals of all documentation, processes and partner communications

Across these flows, companies need to deploy tools that support the automation of standard workflow procedures, synchronize and reconcile the exchange of data, automate document generation, provide for exception management and provide for detailed and flexible visibility into orders and shipments while complying with security, compliance and other regulatory requirements.

The Opportunity

The average global trade cycle, order through settlement, is 60-120 days. Inventories can be excessive and DSOs can be high. By optimizing Global Trade Management, companies can:

- Improve their cash cycles
- Reduce their working capital needs by as much as 20%capital needs by as much as 20%
- Reduce financing rates on working capital
- Avoid problems associated with global transaction documentation that cause payment delays
- Extend returns on prior investments into financial and enterprise systems
- Ensure effective compliance with trade regulations

Financial Implications

Corporations are increasingly finding themselves under pressure to perform. CFOs in particular feel the impact of the complexities and labor-intensive nature of managing global trade. The complexity of managing global trade costs the top 30,000 corporations $250 billion. This breaks down into administrative costs, overhead and decreased cash flows caused by increased inventory and longer DSOs. The impact can be summarized as:

- Shipment delays
- High inventory
- Penalties and fines
- High accounts receivable
- Lost sales
- Increased logistics spending
- High AR & DSOs

Claim write-offs and invoice deductions

Information extracted from global supply chains through Global Trade Management technology can provide CFOs with the accurate and timely invoice, letter of credit, dispute management or trade financing data they need to carry out professional cash management planning. For example, through advance access to invoices and invoice replacements CFOs can more quickly respond to new or altered data to plan for the next days' receipts. Funds can be deposited and borrowed as the day closes, based on the new information. In most cases, significant earnings improvements can be achieved as DSOs are reduced.

Today, companies are achieving goals of improving trade cash flow and efficiencies by utilizing GTM solutions. Figure 3 is an example of the benefits achieved by an enterprise from automating some of its global trade processes.

Upscale Retailer	Benefits
Shipment delays because of customs issues	Reduction of duties paid due to greater accuracy of classification of merchandise
Poor visibility into the integrated global order-to-entry process with exception management	Reduced cycle time of 1-2 days due to pre-classification capabilities
Seamless communication and collaboration with all businesspartners	Reduction of inventory carrying cost due to reduced cycle time
Customs and regulatory import compliance	Regulatory non-compliance avoidance
Penalties and fees	Greater visibility to shipments before entry to avoid potential penalties

Figure 3. Upscale Retailer - Return on Capital

Cash Flow Benefits

As much as 40% of a multinational organization's cash flow is directly attributable to global trade. Therefore, any meaningful reduction in international trade DSO will significantly improve a company's financial performance. The average global trade cycles, order through settlement, is 60-120 days. GTM solutions can reduce this cycle by an average of 12 days. This can improve cash flows by 10%. For a medium size enterprise, i.e., $3 billion in sales, this represents a $41 million improvement in cash flow, resulting in a potential 17% increase in quality of earnings.

It is relatively simple to calculate the cash flow opportunity for an organization as shown in Figure 4.

Value of 1 Day AR = (International Product Revenues) / 365

Value of 1 Day Inventory = ((International Product Revenues) * (% COGS)) / 365

Free Cash Flow Opportunity via GTM = 6 * (Value of 1 Day AR) + 6 * (Value of 1 Day Inventory)

Example:

High Tech Manufacturer, $6 Billion Revenues, $4.5 Billion International Product Revenues

Value of 1 Day AR = $4,500,000,000/365 = $12,300,000

Value of 1 Day Inventory = ($4,500,000,000*0.6)/365 = $7,400,000

Value of 12 Days (6 Days AR, 6 Days Inventory) = $118,000,000

Figure 4. Cash Flow Opportunity Quick Estimate

New Requirements for Global Trade Security

After 9/11, supply chain security became a national security priority. Shortly after the attacks, the U.S. government responded to the challenges of securing the flow of goods, information and funds across U.S. borders by rapidly reorganizing itself and reaching out to the private sector to create a joint approach to formulating security policy and regulations. The challenge for government and industry was to secure trade without impeding growth. New laws and initiatives have been created that require a shift away from traditional paper-based trade systems to new electronic formats, and emphasis is being placed on collecting information on trades earlier in the supply chain—effectively "pushing back the borders." These initiatives are summarized in Figure 5. Note that these initiatives are often updated, and new ones may be created on a regular basis.

Initiative	Description
Container Security Initiative (CSI)	A government initiative for stationing U.S. Customs employees and equipment in major foreign ports for pre-screening of containerized freight prior to sailing to U.S. destinations.
CBP's Importer Security Filing, aka, "10+2"	A mandatory requirement that all shipping manifests must be filed with U.S. 24-hours prior to departure from the foreign port of origin for containerized ocean freight.
Free and Secure Trade (FAST)	A security certification for all truck traffic entering the United States from Canada. Carriers with FAST certification will be granted expedited border clearance.
Customs-Trade Partnership Against Terrorism (C-TPAT)	A voluntary certification program for U.S. importers whereby they can obtain expedited customs clearance by documenting and submitting a self-audit to U.S. Customs of international supply chain partners, physical security procedures and escalation procedures.
Sarbanes-Oxley	US congress requires corporations to provide ongoing reports and visibility into the flow of information and funds pertaining to financial processes.
Bioterror Act 2002	Initiated under the FDA, this policy is under review and discussion and may require importers of food products into the United States to disclose product level detail.
Patriot Act of 2002	This Act, signed into law by the President, requires that financial institutions know their customers and, to the greatest extent possible, their customers' customers.

Figure 5. Global Trade Security Summary

It is clear there is a multitude of complex interactions among global trade flows within a secure supply chain. The flow of information supports the tracking and management of goods to enable the secure and compliant flow of funds to and from eligible business partners. These important flows can be evaluated in terms of where they apply to current security initiatives and federal requirements—to provide the big picture for global trade security. This is summarized in Figure 6 on the following page.

Flow of Goods	CTPAT	ISF 10+2	TSA Knon Shipper	Container Security Initiative	Bio Terror Act 2002	FAST	Patriot Act Section 326	Sarbanes Oxley	Product Classification	Pre Entry Facilitation	Entry Audit	Post Entry Management	Quota Management	Denied Party Screening	End Use Screening	License Determination/Management	SED/AES Filing
Order Management	X	X	X		X				X	X	X	X	X	X	X	X	X
Trade Compliance	X	X	X	X	X				X	X	X	X	X	X	X	X	X
Global Product Information	X	X			X				X	X	X	X	X	X	X	X	X
Shipment Tracking		X	X	X		X				X	X	X					
Flow of Funds																	
Invoice Management	X						X			X	X	X		X			
Payment Reconciliation	X											X					
Payment Compliance							X	X				X		X			
International Payment	X						X	X				X		X			
Foreign Exchange							X	X									
Transfer Pricing								X									
Flow of Information																	
Pro-active exception alerting	X	X	X	X	X					X	X	X	X	X	X	X	X
Document Management	X	X	X							X	X					X	X
Trading Partner Integration	X	X	X	X	X	X	X	X		X	X	X					X
Audit Trails	X	X	X	X	X	X		X			X	X	X	X	X	X	X
Information Security	X	X	X	X	X	X	X			X	X						X

Figure 6. Important flows provide the big picture for global trade security.

This matrix provides a summary of how the flows and processes associated with goods, information and funds are directly applicable to current security initiatives and federal requirements for import and export. These flows apply to a broad range of other initiatives and federal requirements. It is important to act in the context of the initiative being evaluated as well others that will impact your organization and those of your customers and partners.

Recommendations

Align strategies with finance and logistics organizations and establish a beachhead with a quick win that starts automating a defined set of processes and provides clear returns in 6-9 months. Figure 7 suggests blueprint projects.

Blueprint Project Scenario	Category	Improvement Potential	Description
Automate a Trade Lane Automate supply or distribution chain for defined trade lane	Inventory AR	Cash Flow 12+ Days	• Automate supply or distribution chain for defined trade lane • Achieve productivity gains through decreased manual effort • Reconcile documents to ensure all documents are in synch before costly penalties and delays are incurred
Export Management Export shipment visibility and trade compliance	Inventory AR	5+ Days Cash Flow	• Screen Parties, End Use, and Determine Licenses • Manage commercial document creation and distribution online • Automate export administration and government fillings (AES)
Imports Management Import shipment visibility and trade compliance	Inventory	4+ Days Cash Flow	• Automate Pre-Entry, Entry and Post Entry Management • Reduction of Duties paid due to content management and product classification • Exception manage shipments and service provider performance
Automate Letters of Credit Eliminate discrepancies while managing Letters of Credit	AR	10+ Days Cash Flow	• Avoid discrepancies on documents through synchronization and reconciliation • Automate document preparation and collections • Manage LC creation, issuance expiry and draws
Global VMI • Real-time inventory • Forecast Demand • Min Max Replenishment	Inventory	12+ Days Cash Flow	• Collaborative sharing of inventory demand, forecast and shipment data • Anticipate and manage potential shortages and schedule changes through event driven alerts • Reduce excessive buffer inventories with ETA information

Automating Global Trade

GTM solutions dramatically reduce the challenges and costs associated with ensuring that the order, shipment and settlement aspects of global trade flow smoothly across the multiple players and systems and regulatory and documentary requirements involved in doing business on a global scale.

Conclusions

Global Trade Management streamlines the entire life cycle of a global trade transaction across order, logistics and settlement activities to significantly improve operating efficiencies and cash flows. Automating these activities provides a clear opportunity to optimize the procure-to-pay and order-tocash cycles for global sourcing and distribution. GTM solutions dramatically reduce the challenges and costs associated with ensuring that the order, shipment and settlement aspects of global trade flow smoothly across the multiple players and systems and regulatory and documentary requirements involved in doing business on a global scale. Connecting and optimizing these processes can achieve significant improvements to an organization's bottom line and cash flow.

Early ventures in GTM are underway in many organizations via shipment visibility, supply chain security, trade compliance and trade financing projects. However, these projects remain piecemeal unless created and managed as part of a broader solution. To be effective, companies must streamline the entire lifecycle of a global trade transaction. The logistics executive or trade finance specialist is often the most familiar with global trade hurdles and can thus be a clear influencer in the deployment of more robust solutions. Only those companies that best leverage the universe of GTM solutions will be positioned to meet their objectives of effectively growing top-line revenue and benefiting from more economical sources of supply through cross-border trade.

About TradeBeam

TradeBeam enables companies to optimize their global supply chain through better collaboration with suppliers, partners and regulatory authorities improving visibility and significantly reducing costs and risks associated with international trade.

By streamlining and automating global trade processes with minimal impact on existing systems and operations, TradeBeam's SaaS-based software solutions help businesses compete more effectively while freeing significant working capital from the supply chain.

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