

# Moving the money

Logistics technology companies are beginning to integrate their services with financial activities such as payment and credit insurance

BY HELEN ATKINSON

**L**ogistics is the movement of three things — physical goods, information and money. So far, the more traditional logistics companies have focused on moving goods, and the logistics technology companies have helped streamline the flow of information.

But money generally remains the province of accounting departments, which in turn deal with banks. Even when accounting and shipping departments communicate, their processes usually aren't fully integrated.

"All these logistics companies over the last 10 years forgot about the money," said Kurt Cavano, chief executive at TradeCard, a company that facilitates electronic payments. High-tech company Cisco Systems Inc. is a classic case, Cavano said. Some 78% of Cisco's goods are ordered over the Internet, but the company still sends out paper invoices.

TradeCard and several other companies involved in international trade are trying to bring payment settlement into the 21st century.

"After all, when the check clears the bank, that's when the logistics execution occurs," said Kevin Kimery, president of Accuship, a Germantown, Tenn., company that combines online tracking with accounting and reporting services for domestic package shippers.

NextLink, a cross-border trade-management software

company, recently announced it would link its services to those of ABN Amro, Holland's largest bank, which has extensive international operations. The agreement will allow ABN's shipper customers to use NextLink facilities for checking customs compliance and calculation of landed costs.

"It gets us closer to our goal of getting logistics information closer to financial services, which is very much the mission of ABN Amro," said Marta Dapena-Baron, group vice president and global head of e-commerce for global trade at ABN's Chicago office.

But deals such as the one between NextLink and ABN Amro are rare. They go only a small way toward integrating finance with the other elements of logistics. Most logistics companies are taking a cautious approach.



Kurt Cavano

"We are beginning to get involved in the cash cycle," said Oliver Martin, founder and chairman at Qiva, a collaborative supply-chain-planning software company. "But I'd hate to get into being responsible for cargo and for cash at the same time, with trying to collect

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on a letter of credit issued in Saigon when the buyer hasn't paid up."

All the same, improving the link between transport and accounts can be as simple as achieving faster confirmation of delivery of goods — which is usually what triggers actual payment. Qiva and a trucking company are testing a system that allows the trucker to gather proof of delivery electronically instead of by hand-written note. That process has cut the time it takes a shipper to get paid to 36 days from 58 days, Martin said.

TradeCard's latest customer, toy importer International Playthings, emphasizes the need to smarten up the documentation and payment process.

"In Asia alone, we have 18 vendors who send us hundreds of shipments of toys annually using letters of credit — a cumbersome process that often involves frustrating and costly paper chases," said Michael Varda, chief financial officer of International Playthings. "TradeCard gives us the tools we need to streamline and take control of our transactions."

TradeCard launched what it calls a financial supply-chain platform in March, with the ability to match invoices, packing lists and proof of delivery against purchase orders, among other things. Authorization from the shipper allows TradeCard to make payment decisions automatically, based on pre-agreed criteria. The idea is to eliminate the need for buyers, sellers and their banks to exchange paper documents. Even without letters of credit (which are increasingly being replaced by open-credit arrangements), paperwork is a vast, encumbering headache.

"You can get rid of the paper, but you can only do that if you link the physical supply chain with the payment cycle," Cavano said. Unless carriers and logistics providers offer solid, accurate proof of delivery through a reliable electronic medium, the banks are going to continue to wait for paper.

TradeCard, which links buyers, sellers and their banks, now has 41

logistics companies integrated into its system. Cavano said most came on board because their shipper customers forced them to, but that a growing number of logistics companies are independently looking to TradeCard as an add-on service.

"Logistics companies are trying to find a way to have a value proposition that extends way beyond the physical movement of goods," Cavano said. "They don't want to be reduced or marginalized into only the physical movement of goods. Plus, buyers and sellers are saying, 'Hey, I need to have this all brought together into one platform.' They want visibility of physical goods included with the visibility of movement of money."

Linking goods, information and funds is what United Parcel Service wants to do, although it hasn't yet achieved that goal as fully as it would like. UPS Capital, a division of the integrated carrier's holding company, offers various business-to-business services allowing electronic payment to be released or commenced on delivery. The UPS division is working on an EIPP (electronic invoice presentment and payment) service, which will permit electronic invoices to be automatically paid when a tracking number shows final delivery.

Mike Tobin, chief operating officer at UPS Capital, said this is what customers are asking for. A shipper's accounting department already can match a UPS tracking number with electronic invoices online, but the aim is to automate that matching and trigger payment.

Companies trying to automate these processes are going to come up against the inherent complexity of international trade, said Ravi Kalakota, chief executive of E-Business Strate-

gies, an Atlanta consulting firm. He said most payment cycle-automation technologies assume an ideal world in which nothing goes wrong, he said. But he said 70% of all orders in the United States are not fulfilled completely on the first attempt, and that

for international shipments the rate probably is even higher.

"We need a solution that can deal with the messiness of logistics," Kalakota said. "I don't think there's one out there."

Rajiv Uppal, chief executive officer at NextLinX, said that because international trade is complex, banking should be linked with cross-border compliance technologies.

"A shipper might have his own bank in Asia, say, and based on that relationship they are making the shipment and sending the documents," Uppal said. "But because of cultural differences, these companies are not up with the documentation required by Wal-Mart, for instance, or they might ship something that's not in compliance with U.S. Customs requirements, and a shipment can get held up for months."

If logistics information is integrated from the start, both the buyer and seller are working from the same rules, Uppal said. NextLinX is looking for other banks to work with, once the viability of its relationship with ABN Amro is confirmed.

"It will be a very, very powerful thing for sellers," Uppal said.

Bolero.net, based in London, is working to standardize electronic logistics transactions, including payment, on an open web-based platform. Bolero is a partnership of SWIFT, the Society for Worldwide Interbank Financial Telecommunication, and the TT Club, the marine liability insurer. The venture has attract-



Rajiv Uppal



Pano Anthos

ed the support of powerful companies, including seven out of the world's top 10 banks; major trading houses such as Mitsui and Marubeni; and carriers such as "K" Line, Evergreen and China Ocean Shipping Co. But so far Bolero has not become directly involved in the electronic clearance of payments.

One way or another, there must be a partnership with the banks or with payment platforms such as TradeCard, said John Urban, chief executive of GT Nexus, the company set up by major ocean carriers to build a web portal aimed at automating shipper transactions.

"Shippers are becoming increasingly interested in developing more complete solutions," Urban said. "The question is how do we get the funds to move now that we've got all the information to support the process? Our strategy is to develop partnerships with companies that focus on the financial settlement end of things."

Not all shippers are eager to put payment into the hands of logistics providers or their partners, though. Al Giunchi, director of distribution logistics at Hartz Mountain Group in Secaucus, N.J., acknowledged that the payment side of the logistics cycle has been neglected by one-stop logistics service providers, but he said he's not sure many corporations would welcome a change.

"Cash is very sacred to a corporation," Giunchi said. "I don't think they would want an outside party to handle anything other than freight payments."

And some argue that the movement of goods and information is not yet smoothed out sufficiently for payment to be a proper target.

Pano Anthos, executive vice president at Clear-Cross, a company specializing in cross-border trade-management software, said most U.S. exporters sell their goods free-on-board. Under an FOB sale, title is transferred at the loading port, and there isn't a complex payment trail that needs automating or streamlining.

"The question is, what are the payment terms and when does the invoice clock start running?" Anthos said.

He acknowledged that imports present a trickier set of payment issues, but said that overall, "there are bigger problems to solve right now."

Daniel Boccara, president and chief executive of credit risk insurer Coface North America, said many

shippers are still reluctant to fully automate payments. "There are still some sorts of documents that people want as a physical document in paper form," Boccara said. "Some people still want to print something out and have it signed. With electronic signatures and authentications, all these things are changing. But it takes time to adjust."