Getting Financing on Your Customer's Good Name

Designer Perry Ellis handles nearly all of its payment processing on a cloud-based platform that both increases efficiency and lessens risk.

The physical supply chain, in which materials are assembled, fashioned into products, and brought to market, has a financial shadow — the payment chain — that is every bit as complex. Keeping money flowing through the payment chain is just as important as keeping goods flowing through the supply chain, and hitches can be just as disruptive. Yet the payment chain is much less likely to be automated.

Traditional mechanisms for financing and payment, such as letters of credit, are still widely used in international trade even though they are time-consuming, cumbersome, costly and risky; so are telegraphic transfer (T/T) payments, which are somewhat faster and simpler but present a different set of risks.

Increasingly, however, purchasers and suppliers are turning to an automated platform whose transparency not only makes the payment process more efficient but reduces the overall risk to buyers, suppliers and financers. One example is the TradeCard platform where participants in transactions can readily view not only the details of a current transaction but the entire financial history between the parties involved. With this visibility, financers can make faster, better decisions, and the reduced risk allows them to offer financing options they could not otherwise offer. While beneficial at any time, these options can be particularly advantageous at a time when costs are rising across the supply chain on everything from cotton to petroleum. Receiving early payment for a shipment of goods, for example, can make the difference to a manufacturer when it comes to being able to purchase the next round of fiber or fabric in a timely fashion.

TradeCard, which is developed and operated by TradeCard Inc., supports a network of more than 7,000 buyers, suppliers, and service providers such as banks and freight forwarders. Each buyer specifies its own processing rules — such as which documents are required to approve an invoice and when invoices should be paid.

Streamlining the process

Rick Gatian, senior vice president of finance for designer Perry Ellis International, says his company, which began using TradeCard about five years ago, encourages all of its vendors to submit invoices through the platform; most of the vendors are now using it. All of Perry Ellis's financial processes from purchase order through payment are reflected on the platform, giving vendors immediate visibility into any P.O. changes or deductions made to an invoice.

"The main benefit is the automation," Gatian says. "It's much simpler; there's a streamlining of the process. … Today, we handle all purchases in the platform and interface them into the financial records. Somebody doesn't have to sit and enter the payments manually." This streamlining also reduces the probability of error, Gatian adds. For example, the system checks invoices for completeness, accuracy and consistency before even presenting them for payment.

Consistency is another benefit for buyers; Gatian says that enforcing standard payment terms with vendors has become much simpler. Buyers have the flexibility to set the payment terms they want — if they choose, they can even finance their vendors by paying early at discounted rates.

Though some of Perry Ellis's vendors were skeptical at first about altering time-honored financial processes, Gatian says that once they learned to use the platform, they changed their minds. Denym, a manufacturer of full packaged jeans for Perry Ellis and other brands, is one such vendor. Since converting to the platform two years ago, this supplier has benefited from both efficiencies and its ability to mitigate risk.

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VENDOR VIEWPOINT

Interview with Kurt Cavano, Chairman and CEO of TradeCard

Apparel: The story goes that Christopher Columbus had a tough time getting financing for his voyage because people believed the earth was flat, and expected he'd drop right off the edge with their investment. Today, financing movement of goods across the globe still poses a big challenge even though successful arrival at its destination is largely anticipated. When it comes to securing credit, what are the biggest stumbling blocks for apparel retailers and manufacturers?
CAVANO: Well if you happen to be a brand or retailer of size in the "new world," as it were, you most likely have pretty good access to credit right now. Small brands and retailers are more challenged because of their size but the big guys are pretty well off credit wise. The challenge all of the brands and retailers have though is credit for their suppliers out in their supply chain. Vendors in countries like India and Bangladesh (where Christopher Columbus thought he was headed) are very challenged when it comes to access to credit. Unfortunately that high cost of credit comes back in the form of higher cost of goods.

A: How have rising prices on everything from cotton to corn to petroleum affected the financial pipeline, and how can companies counteract some of these hard costs by seeking savings elsewhere in the supply chain?
CAVANO: It comes down to the old adage: focus on what you can control. Commodity prices are headed up and you can't control that. Very few companies are large enough to effectively use financial hedging strategies and they are not risk free. What every company can do, though, is look at their supply chain to see where they have room to cut costs. Allow your suppliers to take advantage of your financial strength by offering early payment programs. Cut out layers in your supply chain by shipping goods direct to store. Stay close to your source to reduce domestic inventory — this means doing more customization and other services overseas. Conduct a paper assessment to identify where paper exists, and change how you transact. Find a more efficient way to communicate and collaborate with your network of trading partners

A: Many apparel retailers source product from a large number of factories, spread across many countries and often varying greatly in their level of sophistication. From a financial perspective, this can pose significant management challenges. Can you share your top five tips for making your financial strategy successful and efficient across your vendor network?
CAVANO: First you need to evaluate whether you are working with the right vendors. Are they not only good at making what you want but are they stable, credit worthy companies. This is frequently overlooked and many companies were burned by this in 2008/2009. Second, from a technology point of view, you need to get all of your vendors onto the same platform. Without that, it is almost impossible to manage. Third, make sure you are making credit available in the supply chain by giving access to some form of guarantee. Fourth, set up an early payment program with reasonable rates. Finally, pay your vendors as agreed. Credit is expensive in some countries, it is really expensive if vendors need to scramble for short-term credit.

A. The topic of this month's sourcing feature is "getting financing on your customer's good name." Can you explain what that means to you?
CAVANO: When financial institutions have visibility into the transaction as well as the history between the buyer and seller, it opens up new financing opportunities and helps suppliers get better access to financing — things such as event-triggered financing, and early-payment programs that allow suppliers to be paid earlier in exchange for a small discount on the invoice.

A. Is there any one specific pending trade agreement or piece of legislation on the horizon that you think will move forward and significantly alter global financial transactions, and if so, how should companies prepare for any resulting changes?
CAVANO: I think the biggest thing on the horizon is not a trade agreement but the turmoil in the Middle East. This has the potential to be as disruptive as the financial problems of 2008 and 2009.

A: Indeed, these are extremely unpredictable times. You mentioned previously that companies need to focus on what they can control. Like rising commodity prices, disruptions resulting from a tumultuous Middle East or a post-tsunami/nuclear Japan do not fall into this category. Is there any way to factor this type of volatility into your supply chain to minimize the damage from such unpredictable events?
CAVANO: Raw materials management is key to being prepared for unexpected events and problems. Approximately 60 percent to 70 percent of garment costs come from raw materials. As raw material costs rise, brands and retailers take a huge hit. Finding a cheaper place to source isn't as effective as locking in prices and collaborating with mills and suppliers to manage the purchase of raw materials. Today we're seeing mills asking small suppliers to pay right away for their materials and very often the small shops don't have cash to do it. The answer is to insert the brand or retailer directly into the transaction triangle to enable the supplier to leverage the buyer's deeper pockets. When this occurs, it opens the door for brands and retailers to do things like reserve materials at the mill for the entire supply base and negotiate price and terms. Reserving materials six to nine months in advance, locking in prices and drawing down on reservations over time is a great way to bring some stability to this volatile part of the apparel business.

Vendor Viewpoint is a regular Apparel advertorial feature.

"Nothing can get lost"

Eduardo Dominguez, Denym's financial controller, says his company — which has headquarters in Houston and factories in Mexico — may be a long distance from Perry Ellis's Miami headquarters, "but with TradeCard, we are just a few inches from the computer to make all our transactions. … At the beginning, I was afraid it was going to be more complicated than the usual paperwork, but in a few days I understood it, and it's better than the way we used to work."

Dominguez says the platform is easy to put information into and easy to get information out of. When he submits an invoice, the system prepopulates it with information already on the database, prompts him for additional information and documentation (quality assurance certification, bill of lading, and so forth), and then packages the entire transaction in the format specified by Perry Ellis. "Nothing can get lost," Dominguez says. "All the documents are in order." The system then checks the invoice against the purchase order and evaluates it to determine whether it complies with the rules set by Perry Ellis. Once the invoice passes the compliance tests, it is presented to the buyer for payment.

Finding information about a particular transaction is simple because all parties keep the database updated. Frantic telephone calls and e-mails have become a relic of the past. Dominguez says, "Before TradeCard, I didn't know anything about my transactions. [If there was a question about a payment] I had to talk with somebody. Now, I don't have to contact anyone — I just log in and I have all the information, 24/7."

To analyze the company's receivables, Dominguez can easily create his own reports that tell him everything he needs to know and — even better, from his point of view — don't burden him with extraneous information. He comments, "If you have a lot of information, it's the same as having no information."

Earlier financing, better terms

For Denym, the change has also brought another, very important benefit: earlier financing on better terms. To begin with, because financing is integrated seamlessly into the settlement process, Dominguez can request financing simply by checking a box when he submits an invoice — a "one-click" approach that is very different from managing an entirely separate process.

"The name of the game is money, and when you get your money before you expect it, it's priceless," says Eduardo Dominguez, financial controller, Denym.

He can also specify when he wants to receive financing. Normally, financers extend credit after the buyer has authorized payment — usually a week or more after the invoice is submitted. But because the platform is event driven, it allows for financing at any stage of the process from purchase order through settlement, and financers that use the platform can choose to offer multiple financing options.

Denym has chosen to obtain financing with transfer of title, which means it can receive payment for goods within 48 hours of shipping them. The financing is extended by RTS Financial, a commercial finance company that has made creative use of the platform's support of flexible financing options.

Dominguez says, "In this industry, because we have a long lead time, we have to finance all the fabric, thread and so forth over 45 or 50 days of production. Then if you add 30 days [Denym has 30 days' credit with Perry Ellis], it could be 80 or 90 days before we got paid. Now we can reduce that by 28 days. The name of the game is money, and when you get your money before you expect it, it's priceless."

Although financing on title transfer is available outside of the platform, Dominguez says the price is prohibitive. That's not surprising; any financing company that extends credit on an invoice before payment is authorized takes the risk that the buyer will never authorize the payment.

Why is this type of credit affordable when it is extended through the TradeCard platform?

The financer can confirm that the current invoice is real, that it matches a valid purchase order, and that it complies with the buyer's requirements. It can also see whether the buyer and seller have a history of working together, and whether the buyer has paid the seller's previous invoices on time and has issued subsequent purchase orders to the seller. Finally, once the financer advances payment to the seller, it can record this event on the platform, and TradeCard's rule-based processing makes sure the buyer's payment is sent to the financer rather than the seller.

Having visibility into all of this information mitigates the financer's risk considerably, allowing it to offer better terms.

Justin Goheen, director of business development for RTS Financial, confirms, "The advance rates and pricing are much more attractive with TradeCard than without it." He explains, "The ability to collect the appropriate paper and confirm the validity of a transaction is our biggest challenge. TradeCard assembles and goes through the authentication and validation of all the documents we typically use. … Each entity can send [its documents] up independently into the collection area in real time, with digital signatures and validation processes that cut down on errors. If there are discrepancies, the buyers and sellers are informed and can work through them quickly."

He adds that visibility into the entire history of transactions between a buyer and seller saves the financer from having to perform a lengthy due-diligence process. "It makes us a lot more comfortable," he says — and when financers are comfortable, the wheels of commerce turn faster. ■

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