# MITIGATING RISK AND RELEASING CASH FLOWS WITH TRACK AND TRACE TECHNOLOGY

*Abstract: By keeping the integrity of a cargo using today's tracking technologies to open visibility, shippers can reduce their risks and release credit.*

In a global market where visibility and security go hand in hand, especially since 9/11 we need to explore how successful risk and collateral management with RFID (Radio Frequency Identification) gives not only high security but also transforms the normal approach to global trade and supply chain management. In this context we should see inventory in transit or cargo as an asset moving between vendor and receiver. While "in transit", or before a party is paid, this cargo remains always in one place, either on the balance sheet of the vendor or receiver. You may think this a small point but the cost of carrying inventory on a balance sheet is close to 26% of its invoice value. Multiply that by the period between production and payment and you realize just how much of your cash-flow is being used unproductively. Financiers and banks have all created various solutions to address this problem usually resulting with expeditious payment arbitraging the risk against its client's balance sheet.

First lets look at risks on export cargoes, what are they? They are numerous but are lead by, risk of non-payment, receiver defaulting, vessel delayed, cargo short-shipped, quantity and quality, cargo loss (general average) etc. All of these present a clear risk to a business resulting in loss of earnings, loss of customer even bankruptcy.

Almost from time immemorial basic trade carried risk. Before cash there was a simple bartering system, still in use today but generally replaced by the convenience and advantages of money. In international terms involving cross border transactions, security of payment became a worrying issue and the letter of credit evolved. In simple terms, a letter of credit is an undertaking by a bank to make a payment to a named beneficiary within a specified time, against the presentation of documents which comply strictly with the terms of the letter of credit. It offers security to both parties and leverages both the balance sheet of vendor and receiver. This also means that in the event of a problem the banks have recourse on either the vendor or receiver. This is good news for the banks but what if there is a problem defined in the above risks? Who pays? Not the banks but the party deemed to be at risk, either the vendor or receiver.

To try and partially mitigate these risks carriers have developed "Track and Trace" to firstly tell them where their containers are and second as a tool of visibility for their clients. This tracking is extensively used by vendors, receivers and carrier alike but what of the financial parties to these transactions. The question is, if lack of payment is a key risk, what about the financiers and banks? What visibility do they have? They only have the visibility of the documentation relating to the letter of credit.

Traditionally, vendors, receivers, trade finance providers, insurance providers and logistic service providers all independently access the same information in relation to the movement of goods. They use the information for different reasons but essentially as a means to offer visibility and security. We as EZD argue that by combining the information in real time thus allowing visibility of both the logistic movement and subsequent receivable payment or cash movement we produce financial grade traceability. This allows the banks and financiers to re-address how they approach trade finance and particularly inventory in transit.

In other words, we have pioneered, with the banks, a logistic and financial track and trace product that proactively manages both the visibility of cargo from A to B together with the flow of funds from B to A. By proactive we mean a predictive event managed process that allows an immediate reactive response to any escalation during a transit period. Part of the process is a pre-production and pre-shipment inspection offering quality and quantity security. Another part is to gain security of the B/L (Bill of Lading) by paying the freight upfront which takes the lien away from the carrier. Finally the process is underwritten by a transaction and credit insurance wrap giving the financiers and banks real-time visibility and security. Harness this with RFID technology and you have possibly the most secure, visible means of moving cargo from production to settlement.

This very security allows the banks to reconsider their lending protocol and embrace the position now presented to them. As EZD has the B/L and the banks have absolute visibility they are able to focus and support the key benefit that EZD delivers. That is to pay customers receivables at production of the B/L by forwarding the funds necessary via EZD without recourse allowing the vendor or receiver to free the balance sheet of the inventory in transit. The very tightening up of the process with event managed tracking, RFID, transactional/credit insurance and fund management allows, for example, the banks to re-assess the risks involved and react to the real risk they now face. The real risk is now an inter-bank debt between the collecting bank and funding bank. In financial circles this is almost no risk because both parties would be co-correspondents and will have a mutual agreement on trade transactions.

So how does this work in real life. Let's examine two transactions from the largest trade routes, east to west. First a vendor, A, (exporter in this case) say in Hong Kong, selling to a receiver B based in New York on a CIF Cost Insurance and Freight) basis. In normal circumstances A will finance the manufacturing and logistics so, from L/C (Letter of Credit) presentation to delivery and point of payment we are looking at probably 90 days. With the EZD process the respective trading parties A & B will have been vetted and pre-production inspection undertaken. Shortly afterwards the process requests RFID application and simultaneously pre-shipment inspection is also executed. The financial ability of B is confirmed and funding agreed. As soon as the inventory is shipped giving us the original B/L we forward 70% of the inventory value without recourse to A and the collecting bank collect the residue on contract agreement. The key is banks, insurance, A&B et al have visibility and, because the cash acceleration is without recourse, A can free the balance sheet without impinging current banking covenants. So, A, the exporter in this case has cash for the inventory and can free up the balance sheet for future business.

Now look at the importers perspective. If the importer B is buying from China on a FOB (free on board) basis his responsibility is for receivable payment and freight. There is also, probably, a hefty upfront payment from 30% upwards payable prior to production to the Chinese manufacturer. In such a competitive buyers marketplace securing appropriate suppliers in long-term relationships is both risky and costly, particularly when upfront payments are necessary. With the EZD process, the buyer B can use the security released to offer the vendor an, up-front payment without using its balance sheet. With RFID, pre-shipment inspection, pre-production analysis B can sell with security to its customers but also explore preferential terms or new negotiations with suppliers A. Also consider the point that when many manufacturers in this region receive a letter of credit they discount it to gain immediate cash-flow incurring yet more costs with no reduction of risk.

In conclusion, by merging finance and predictive event management with real time visibility (RFID) the risks of financial and logistic dysfunction are mitigated to a point that allows immediate cash acceleration without recourse. All of this is achieved by deconstructing the current information flows between banks, insurance, shippers, vendors and receivers and reconstructing them to deliver a product which encourages and enhances international trade.

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