

Going Paperless

Preparing for the good times with efficient online trade transactions: The case of TAL Apparel.

Hong Kong's incomparable reputation as a great trading city may have taken a knock in the present recession, but as the saying goes: "When the going gets tough, the tough get going," and despite the belt tightening, our pioneering spirit is still at work.

Enterprising managers are now preparing for the next era of business expansion, and that means focusing on two key areas. Firstly, we must maintain R&D expenditure by continuing to satisfy and exceed customer expectations on quality and price. Secondly, we must make every effort to increase the efficiency of our operational systems.

At this particular time, the crucial area for profitable investment in new systems is in the B2B supply chain. For years, Hong Kong's trading companies have shouldered a huge cost burden associated with their global trading transactions, in the form of paper trade documents, L/C fees, huge amounts of data entry, data errors between trade partners, delayed payments, and a lack of visibility on the status of trade transactions associated with export consignments.

Reducing transaction costs

Efforts to reduce these costs have been going on since the 1970s, when EDI (electronic data interchange) was introduced to take some of the documents online. EDI has pointed the way forward, but it requires each trading company to install special software to translate its documents, which are transmitted on an expensive, dedicated network. A lot of management effort is required to negotiate and utilise special message formats.

During the dotcom era, efforts focused on online exchanges that could execute EDI on a cheaper basis, but most of the vendors were too small and inexperienced to attract big customers. Other systems were designed by banks, but these were limited in functionality, and were tied too closely to each bank's customers to form the basis of a standard trading system.

The learning curve, however, has paid off. It is now possible for any Hong Kong company, together with all its supply chain partners -- customers, suppliers, banks, insurance companies and logistics vendors -- to join an online trading community that cuts the cost of trade transactions, at little upfront cost, and with complete security.

Most trading companies want an end-to-end solution starting from procurement and request-to-quote, through the purchase order, shipping documents, invoices, compliance, and settlement. And the whole online process has to be visible to the trading partners, from any Internet PC.

TAL Apparel goes online

One Hong Kong company that recently took its buying and selling transactions online is TAL Apparel Limited, a world-leader in global garment manufacturing and a long-standing member of the Hong Kong General Chamber of Commerce.

TAL Apparel has long leveraged technology to gain an advantage in business.

Continual investment in R&D has resulted in innovations that include patents for non-iron, non-wrinkle shirts, and the De-Odorant technology, which protects textiles against bacteria and fungi.

In 2002, TAL Apparel adopted an online system from TradeCard to automate buying and selling transactions with its supply chain partners. Any purchase order can be negotiated online, and once this document has been entered into the system, most of the data in it can be reused without re-keying in subsequent documents, such as invoices and statements, payment authorization, shipping documents, insurance, and inspection reports.

The new system incorporates an online compliance engine that can be substituted for paper-based bank L/Cs, and this paperless system is used for more than half the dollar volume of L/C purchases -- all but the smallest suppliers use it. This cuts transaction costs, and the main reason is not the saving of bank charges, but the elimination of paper documents, explained Ruth Kan, Financial Controller at TAL.

"Typically, there are ten pages of documents for each L/C and often amendments add another four to five pages. We have estimated that a full set of documents for a transaction may cost US\$250 to prepare and process," she said.

For international trade, TAL now has access to multiple providers of credit coverage, including a major Hong Kong bank with which it has a long-standing relationship, and which can now issue electronic L/Cs. Paper has been eliminated from the L/C process, but TAL still benefits from the L/C credit line provided by its main bank. The bank also benefits, because it now has access to a substantial online trading community, just as the number of global online trade transactions is skyrocketing.

Online benefits

"Our suppliers are happy that, whatever country they are in, they have instant visibility into the progress of each transaction," Ms Kan said, adding that the online system makes payments faster. "Using bank L/Cs, payment takes four weeks, but online payments take two weeks. For SMEs (Small and Medium-Sized Enterprises) and small suppliers, it is very important to get paid quickly and to turn the money around faster. Most of our largest suppliers have adopted the online system and are benefiting. If our buyers adopt the system, we get paid faster, too."

Dr Harry Lee, Managing Director, TAL Apparel Limited, said an Internet based system is more cost-effective than the alternatives. "Previously with some of our U.S. customers such as JC Penney, we used EDI over an expensive private network. Since mid-2002, JC Penney has been using TradeCard, which runs on the web, and this could lower costs significantly," he said.

As well as providing greater efficiency, working online makes management easier.

"Putting the transactions online is only the first step. The next question is how we use the reports and data generated by the system to analyze the business and discover underlying trends and obtain detailed costs," Dr Lee said. "As all our documents go electronic, this benefit will be even greater. The online system also enables us to communicate with our buyers more effectively, especially in case of problems or delays."

TAL's recently acquired ERP system from Intenia -- a major strategic investment --

will be linked with TradeCard to provide seamless communication between TAL and its trade partners on the financial supply chain, and more complete automation of transactions. The ERP system will be able to break down orders received from buyers and convert them into multiple raw material orders to suppliers. It is hoped to convert all documents, including invoices, packing lists and bills of lading, into online documents and to integrate them with the Intenia ERP system within a year.

Online transaction compliance is much cheaper than the paper L/C bank charge of about US\$150 of issuing fees, Ms Kan said. "When we can fully link this to our ERP system, the savings will be even more significant in other areas," she says.

When trading partners go online, they benefit from using standard systems, Dr Lee said. "TradeCard is the trade transaction management platform of the future that could even form part of the e-government initiative in Hong Kong."

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