

## credit column

Matthew Carr

# FCIB's I.C.E. Conference Zeros in on the Hot Topics

**W**ith the dollar continuing its devaluation, the boom in international business and exporting has maintained its record-breaking pace. Last year, U.S. exports increased 12.3% to a record level \$1.48 trillion. There appears to be no slowdown and the surging trend is expected to continue as U.S. exports to world markets have already nearly doubled from 2002 to 2007.

To discuss doing business in the global arena, this year's International Credit Executives (I.C.E.) conference returned once again to The Drake Hotel in Chicago, IL. Demonstrating the prevalence of international trade concerns, managers and international business professionals trekked to the event from as far away as Cotonou, Benin and the Netherlands. The conference kicked off with speaker Roger Axtell, CIT Commercial Services International, presenting "How to Take Advantage of the New Global Markets," in which he discussed cultural differences that international credit managers need to be aware of, as well as the importance of getting involved in international trade. "It's been proven over and over again that U.S. companies grow faster and earn more when they export," said Axtell. "The sad thing about this is that the U.S. Department of Commerce estimates that there are 200,000 small- and medium-sized companies not involved in exporting who could be involved in exporting. The reason they don't do it is because they are afraid of it."

Axtell's presentation focused on understanding and being conscious of cultural and societal differences when doing business abroad. Gestures, body language, behavior and even gift giving can result in unintended insults. According to Axtell, much of the problems and confusion that are encountered in international partnerships simply comes from the way doing business is viewed. "There are two basic forms of business being



done overseas," explained Axtell. "That is companies that are deal-focused and companies that are relationship-focused. Most of us in America talk that time is money, get into the market, don't waste a lot of time, get the order, get out and move on to the next place. That's a deal-focused culture. And that's the United States, central Europe and several other countries. Much of the rest of the world—the Far East, Latin America and the Middle East—is relationship-focused. They want to get to know you. They want to build up a rapport, a feeling of integrity. They want to know what's behind you. And they want to take time."

Because of the relationship-focused art of business, Axtell said that Internet will not do away with the need more credit managers to travel abroad and meet customers face-to-face. As witnessed by subsequent presentations, the success of international business is dependent on knowing the partners with whom a credit professional is working.

### BRIC House

"BRIC" was coined several years ago by Goldman Sachs. The investment bank made the prediction that the

economies of Brazil, Russia, India and China will become some of the richest in the world by 2050, with some of those surpassing the U.S. around 2043. Financially, BRIC has become a prominent focal point. These four countries represent 42% of the world's population and support a combined GDP approaching \$15.5 trillion. "The world's economic balance is shifting from the rich, industrialized countries and more toward these emerging markets," explained Tina Sorrels, CICP, director of credit, AJC International, Inc.

First on the BRIC list is Brazil, which is benefiting from considerable oil reserves and has the highest GDP of any country in Latin America. The country has a very strong and well-developed banking system, with the central banks predicting reserves of \$945 billion by the end of the year. Further proving its viability as a new market, Brazil has brought inflation under control, which has been a long-term problem, and has emerged as a creditor for the first time in its history. Which is an impressive and important feat, according to Joao Luiz A. Galvao, director and head of structured trade and export finance, Latin America, Deutsche Bank, who recommended that when doing business in Brazil it is imperative to have someone in-country who knows the businesses being dealt with.



Once, nearly universally feared, post-Communist Russia is in the midst of trying to re-establish itself as one of the world's great powers. Per capita income is up 15% as record oil and gas prices have greatly enhanced Russia's position on the world stage. It is sitting on oil reserves of approximately 70 billion barrels and has the world's largest natural gas reserves at an estimated 1,700 trillion cubic feet. Worldwide high energy prices have filled Russian pockets with excess cash to fuel its economy. Unfortunately, inflation is anticipated to surpass the projected 7.8% and go as high as 12%. And food prices are dramatically increasing, as with the rest of the world, because of the increased cost of grain to feed livestock.

"There are several things you really need to focus on if you are granting credit or contemplating granting credit in Russia," recommended Sorrels. "Definitely check out your customer, I can't accentuate that enough. You really need to know who you are dealing with and you need to know all about the company structure. It's not unusual in Russia for a company to have eight different company names. But you really need to know as much as you possibly can about each of those different com-

panies. You really need to know if the one you're invoicing is just a flat paper company for import license purposes or do they actually have access; are they all legitimate companies?"

Sorrels explained that credit managers may sell to one company in the group, but often another will send the money. Nonetheless, she said the iron is hot in Russia as it treads forward into the international marketplace. "Free trade is really still in the beginning stages. When you think long term and about how Russia has been ruled and how business has been done there, they are really still learning," said Sorrels. "But there is endless opportunity in this marketplace. I would suggest you enter or increase your volume into Russia. But I would definitely say be careful, be smart, read all the fine print and all the details."



Next in the BRIC discussion was the world's largest democracy, India, which also has the 12th largest economy in the world and the third largest in Asia. Notably, the credit industry in the country is in the midst of changing from a "Wild West" type of scenario and a bureaucrat's paradise into a more positive environment. "Not too many years ago in India, the debt collection process was pretty basic and archaic," said Richard Clark, director global credit, Ingersoll Rand Co. "And it wouldn't be unusual to have a runner that ran from business to business to business to collect cash, collect checks, or perhaps even barter for a payment in the form of livestock or goods and commodities. If they debtor couldn't pay, they could literally get a club out and really get pretty aggressive in the debt collection process." He added, "I don't want to say India is an easy place to do business. But from where it was 10, 15 years ago to where it is today, it's getting much easier and better to do business."

Economic growth in India has been outstanding the last few years, averaging around 9%. Like the United States, it is a net importer, with imports expected to surpass \$212 billion this year. On top of that, India is well positioned from a foreign debt standpoint, with about 11 months of foreign exchange reserves to cover imports. But some of the challenges of doing business in India are that GNP per capita is very low, just over \$1,000, and during difficult economic times, trade payments have been pushed out to 240 days, or at least 60 days past terms. There also continues to be a reliance on fining companies for minute, nit-picky mistakes when dealing with banks.

"Many banks in India hire discrepancy specialists," warned Clark. "When you present your L/C to a bank, they will comb through that L/C trying to find a discrepancy; a missed comma, a missed dotted 'i', a misspelling of a name. What they're after is they'll delay the payment and they'll fund their expenses through discrepancy chargebacks to you."

Far from being least on the list, China has emerged as a powerhouse in just the last few years. The world's most populated country has rushed headfirst into free markets, which has resulted in a variety of ups and downs, as most credit profes-

sionals working in the country can attest to. “The current environment in China is incomplete, but it is developing,” advised Tim Thomann, Silverback Associates. “There are virtually no reporting standards, but the credit reporting and credit markets are developing quickly. There is a lack of reliable information as there are currently over 3,000 credit reporting agencies in China. This explains why it’s damaged and the varying level of information that is within the marketplace.”

Economic growth in the country is still expected to hover around the double digits this year, and the government has recognized the dire need for credit professionals to ensure its place in the international arena. The Chinese government is focusing on training 50,000 credit professionals per year and is working on developing a strong banking system. “The demand for information will force the market to grow rapidly and consolidate to a more global standard. I would anticipate that this will probably happen over the next two to three years,” said Thomann, who added that many business decisions in China are still based on trust and referrals. “I would compare the culture that is there today to the United States probably pre-1950s.”



From a credit standpoint, the most significant recent change in China is that more and more companies are doing business on open accounts. Thomann said that his company has seen open accountant sales in the chemical sector rise from less than 5% to 40% in the last two to three years.

### Leveraging and Efficiency

Beyond foreign markets, I.C.E. attendees were also treated to presentations on using a variety of technology and available software products that could improve efficiency in the order-to-cash process. Gaining a comprehensive understanding the capabilities and applicability of these products has become an increasingly vital area of knowledge for credit professionals and can literally save millions. Speakers shared their experiences with different applications and discussed in-length how certain programs aided their processes, including delivering decisions in real time.

Another hard fact is that most credit professional deal with more than just one bank. Jacob Katsman, CEO, GlobalTrade Corporation, delved into this and also spoke about trade finance, trade chains, documentary credits, documentary collections, multi-bank platforms and proprietary bank systems. He discussed many of the problems in dealing with several banks at once and how to improve transparency, particularly in light of the passage of Sarbanes-Oxley.

### Learning to Share and World Wrap-up

A growing concern in the credit industry has been the ongoing string of technological advancements threatening to automate and replace the jobs of some credit department members entirely. Pressing on the other side, especially now with the looming threat of recession, is the popular belief that out-

sourcing can used as a cost-savings mechanism and has even been hailed as “recession proof.” But I.C.E. attendees were given the opportunity to benefit from the insights of speakers Mary Duhig, director, Aon Trade Credit Group, Thomas Doaty, general credit manager, PPG Industries, David LaFiosca, global treasury manager, Eli Lilly & Co., and Gene Perry, division credit manager, Crouse-Hinds Division, Cooper Industries, who each gave presentations on how they used shared service centers to re-engineer credit processes and policies. Of course, the transitions were not made without a few bumps in the road.

“When you talk about shared services, no one wants to hear it,” stated Doaty. “It’s extremely difficult to tell them you want to standardize anything because they want to remind you how different they all are.” Shared service is creating a centralized hub in the corporate structure to handle a service which is likely being distributed throughout a variety of locations. For a multinational corporation, it is almost crucial that a shared



service center be created. The idea is that it can be more effective, reduces headcount and is cheaper than third-party outsourcing. Since the early 1990s, there has been a move toward shared services, and according to the English Institute of Chartered Accountants, more than 30% of Fortune 500 companies have implemented a shared service center and are reporting cost savings in their general accounting functions of up to 46%.

“We have tried outsourcing and it failed,” admitted Perry, who said that his company moved from a decentralized model to a centralized one to take advantage of growth opportunities in emerging markets. He advised that, “if you move forward with shared services, you have to move slowly.”

As always, no FCIB conference would be complete without the informative World Markets in Review by Dr. Hans Belcsák, president, S.J. Rundt & Associates and the International Round Table Forum, which again had a primary focus on Latin America, Asia and the Middle East. ●

*Matthew Carr can be reached at mattc@nacm.org.*

*This is reprinted from Business Credit magazine, a publication of the National Association of Credit Management. This article may not be forwarded electronically or reproduced in any way without written permission from the Editor of Business Credit magazine.*