

Sports footwear maker Sewon cuts discrepancies from 30 to 2 percent with same-day resolution

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Ms. E.S. Kim, Assistant Manager, Sewon Company

Sewon Company Ltd. of Busan, South Korea, is one of the largest and longest-established contract manufacturers of sports footwear for a leading global brand name. Sewon exclusively produces over US\$100 million worth of products annually for its buyer. Founded in 1979, Sewon serves global markets in both hemispheres, which guarantees a steady year-round demand for its products.

Sewon's head office and its Product Creation Center are located in Busan, Korea, and it has two manufacturing plants in Qingdao, in the Shandong province of China. The company has many suppliers, mostly located in Asia, for raw materials, components and accessories for sport shoes, and for the advanced machinery used in the design and production processes.

For every product made by Sewon, the company receives a design concept from its customer. Sewon analyzes the design concept, and creates a detailed pattern and a manufacturing process that are able to achieve its customer's quality and price requirements for that particular shoe. A wide range of technologies are utilized in the process, including materials research, CAD design, modeling software for tool engineering and extensive product testing and quality control systems.

Manufacturing facilities

Sewon's factory in Qingdao, China, has over 9,000 employees, and uses all kinds of sports footwear manufacturing equipment for processes such as stitching and stockfitting – to adhere the midsole to the outsole and final assembly operations.

Most shipments leave in 40 foot containers, bound for the customer's worldwide customer service centers, but a portion of consignments are dispatched directly to retailers in many markets, including the USA. Occasionally, individual pairs of sports shoes may be sent to athletes, movie stars or celebrities direct from the factory, to fulfill promotional



Sewon's Headquarters in Busan, South Korea requirements.

Faster order completion through better discrepancy management

Following an initiative from its customer, with which it worked in close collaboration, Sewon Company made the decision to automate its financial supply chain. TradeCard's Financial Supply Chain Management service was adopted in September 2003.

One objective in automating documentation and the payments operation was to reduce the customer's credit line associated with Letters of Credit (LCs). Although Sewon paid the bank fees for paper LCs issued, this process added cost to the supply chain for both partners.

To cut costs, Sewon's customer is adopting TradeCard in many countries as a matter of policy, in order to give its suppliers the opportunity to drop



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Challenges

- Sewon's contract buyer wanted open account trading, not Letters of Credit (LCs)
- Management needed better visibility and control of the order-to-payment process
- Finance officers wanted to reduce the credit line for Letters of Credit
- Need to reduce Letter of Credit charges for purchase order amendments
- Desire to reduce delays and cost resulting from the 30% discrepancies rate

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"With TradeCard, it takes only one person to prepare the payment documents. One person now handles about 300 sets of shipment documents per month and has time to complete other tasks as well."

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LCs in favor of open account trading. Suppliers have the option of using payment guarantees available on the automated system through Coface, one of the world's leading export finance providers, or CIT Commercial Services, one of the United States's leading providers of factoring. However, even without making use of TradeCard's payment assurance service, Sewon saw immediate process improvements and cost-savings by using TradeCard. When traders use LCs, the bank checks all the documents associated with each consignment, but when open account is used, this task usually falls on both the vendor and the buyer. The TradeCard platform performs automated document checking in both cases, with LCs and with open account transactions, reducing the number of discrepancies.

For Sewon, the TradeCard platform automatically checks all documents in electronic form and immediately creates a discrepancy report, cutting administrative labor, while speeding compliance and virtually eliminating human error, says Ms. E.S. Kim, Assistant Manager, Sewon Company Ltd. "Our buyer is happy because we detect discrepancies early and can drive the order completion forward. When we used LCs, they were discrepant over thirty percent of the time. Although this is relatively low compared to the average LC discrepancy rate, we felt it was still too high. Now, discrepancies are close to two percent."

Because discrepancy reports are issued immediately after online compliance, they can even be resolved the same day with the buyer's local office in the USA. With paper LCs, it can take up to two weeks to get a discrepancy report, and then track down why some items do not comply with the PO terms.

Ms Kim continues: "TradeCard also allows us to do updates and amendments on the purchase orders twice a week, instead of once every two weeks when we used Letters of Credit, because amendments are free. In the past, we had to worry about LC amendment costs."

High-level overview of status of all orders in an instant

Another aim of Sewon in adopting electronic transactions was to introduce greater transparency into the order-to-payment process through the ability to store all transaction data electronically and run a variety of reports. "The reporting function on TradeCard gives me a high-level overview of the

status of all orders in an instant," says Ms. Kim: "It helps me see potential delays and problems and empowers me to take remedial action. This is something that could just not be done before. In the past, we had to pull data from different locations for this purpose and had to consolidate it first before getting any meaningful results."

Among the most useful TradeCard reports used by Sewon are Payments Seller Confirmed, which lets Sewon know when funds will arrive, and Payments Seller Pending, which indicates what discrepancies have been resolved and on what date payment will be made. Other reports available on the system include Orders Outstanding, Products Shipped and Payment Days per Order. Another report analyses the Processing Time per step of each transaction, which can reveal any bottlenecks in the way that staff handle transactions processing.

No hard- or software investment needed

It only took about a month to introduce online transactions to Sewon from registration to training and first shipment. Since TradeCard is a membership organization, the financial checks for applicants include inspection of paid-up capital, and credit rating. Joining TradeCard did not require any significant departures from Sewon's existing financial practices, said Ms. Kim: "We didn't need to make any change to existing systems to adopt TradeCard. No new hardware or software, and we needed only half a day's training. I suppose we could have changed from LCs to paperless operation in a couple of days, if we had wanted. In fact, our staff familiarized themselves carefully, and it still took just a few weeks."

Automatic shipping document creation from invoice to ASN

The customer first sends purchase orders (POs) to the TradeCard system in electronic format, where Sewon can view them. Other documents, starting from confirmation of PO, and including all shipping documents, followed by invoices and payments advice, are populated from the data in the PO.

For Sewon, the products included in any specific PO are frequently delivered in partial consignments and each pair of sports shoes, each carton and each

Solutions

- TradeCard's Financial Supply Chain Management service adopted
- Sewon automated its financial supply chain without significant change to its financial practices - no new hardware or software were needed
- The electronic system required only half a day's training and was implemented within a month
- Sewon's contract buyer uses the same TradeCard system

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"The reduction in processing costs achievable through TradeCard is approximately 70%."

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container, are bar coded, enabling them to be scanned as they go through the distribution chain. The bar code system automatically transmits a file to the TradeCard system containing data scanned from each consignment.

The data from the original PO, plus data from scanned consignment labels, are used to automatically generate the shipping documents, such as invoices, manifests, customs declarations, insurance and advanced shipping notices (ASNs). Product details scanned in individual consignments will also be deducted from the relevant purchase order, so that when a PO has been fulfilled, the documentary evidence used for compliance is 100% accurate and based on the goods dispatched and received at the customer's premises.

With TradeCard, it takes only one person to prepare the payment documents, instead of the two or more needed when all documents were paper-based. One person now handles and completes about 300 sets of shipment documents per month and has time to complete other tasks as well.

Transaction costs cut by 50%

By adopting TradeCard, says Ms. Kim, the total reduction in transaction cost on each consignment shipped is approximately 50%, comprising mainly the direct reduction in bank fees for paper LCs, which are saved by online compliance and payment assurance through TradeCard partners.

A second saving was made by the use of electronic documents as a substitute for generating, handling, printing, approving and processing paper documents. Ms. Kim estimates that the reduction in processing costs achievable through electronic transactions is approximately 70%.

Complete transaction visibility from anywhere in the world

Real-time visibility of online transactions helps both Sewon and its buyer, because financial staff has an instant view of each transaction, starting from the PO, progressing through partial consignments, to invoices and payments, and including summaries on items such as DSO (Days Sales Outstanding),



TaeHo Lee, CEO, Sewon Company Ltd

transactions pending with each client, credit lines, and all other significant variables.

Sewon's senior management, based at the Busan headquarters, benefits from the visibility made possible through TradeCard, said Ms. Kim:

"Previously, details of current transactions or the credit position had to be computed from paper documents. Now, TradeCard reports can be accessed online from any laptop, so managers can view them directly, and be instantly informed of the current financial situation."

"Just-in-time working capital management"

By using online transactions and electronic documents, it is much easier for management to control the payments cycle. Sewon and its buyer are able to determine the payment day by mutual agreement, independently of delivery, compliance, or other stages in the transaction cycle. In the past, using LCs, the financial staff had to get shipment information from the factory to prepare a daily financing plan, and it could be changed suddenly. By using TradeCard, they can make a daily financing plan accurately without factory information, because TradeCard provides accurate credit amounts and a schedule, two days before the credit value date.

The predictable nature of electronic transactions has made trade finance easier to manage, says Ms. Kim: "We know the precise day on which we are going to get paid much earlier. That makes cash flow prediction easier and more accurate. That in turn helps us dealing with the bank over credit lines and cuts credit costs in the long run. For us this has been one of the most important improvements that TradeCard has brought us."

Results

- Letters of Credit dropped in favor of open account trading with payment guarantees
- Transaction costs down 50%, through online compliance and payments assurance
- Document processing costs down 70% by replacing paper
- Predictable payment days mean cheaper trade credit
- Process efficiencies as well as cost savings from automation
- Discrepancies cut from 30 to 2 percent, speeding orders

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About TradeCard, Inc.

TradeCard, the leading provider of on-demand financial supply chain products, is revolutionizing global trade with a web-based platform that automates the financial processes in supply chains that have been plagued with decades-old paper-based solutions. By using TradeCard, buyers and sellers can manage their transactions with complete visibility to initial orders through final settlement.

TradeCard's global network of partners provides additional automated services on the platform including supply chain financing, credit protection, money movement and inspection. In addition to process improvements, customers realize immediate cost savings, optimized cash flow, reduced reliance on credit lines and improved supply chain relationships. Headquartered in New York City, TradeCard Inc. has offices in San Francisco, Hong Kong, Brussels, Taipei, Seoul, Tokyo and Shenzhen.

TradeCard is a registered trademark in the United States and elsewhere throughout the world.

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