

# Reinventing World Trade

TradeCard chairman and CEO Kurt Cavano explains how his company has put together a better – paperless – way to conduct international trade.

BY BRIAN ASMUS

**T**he World Trade Organization estimates that 7% of the value of world trade is just processing paper used in documenting that trade,” notes Kurt Cavano, chairman and CEO of TradeCard Inc. “If the value of global trade is US\$7 trillion to \$8 trillion [annually], then the cost involved – a kind of tax if you will – is US\$500 billion. That is a tremendous opportunity.” His company, an e-commerce network that enables buyers and sellers to initiate, conduct, and settle international trade transactions securely over the Internet, is seeking to make the most of that opportunity.

“Our focus is on eliminating the paper, making the processes easier, and bringing innovative services to our customers,” says Cavano. “When you add in financial services, the size of market goes up even more. It’s a huge market – almost infinite.”

TradeCard was conceived in 1994 by the World Trade Centers Association (WTCA), headquartered in New York and formally established as an independent company in 1999 with US\$50 million in private equity funding from E.M. Warburg Pincus. Cavano joined in January 1999, and a Taipei office began operations the next year. “In my prior life, I spent almost 20 years with American Management Systems, a technology-management company, in its corporate banking division,” he says, introducing his background. “We built systems to help banks help customers in corporate

banking, foreign exchange, cash management, and international trade, among other things. We built the systems that banks used in credit collection. We helped banks improve the process using traditional instruments.”

Then the WTCA came up with the concept for a new system – automating international trade to make the process work more quickly and efficiently. “That meant getting rid of the paper,” says Cavano. “It also required a fundamental mind shift and that’s where it really got fun.”

## Paradigm shift

TradeCard proceeded to try to reinvent the way international trade is done. “We ignored the way it was done in the past,” recalls Cavano, starting from scratch as advocated by reengineering guru Michael Hammer, who advises: “Don’t automate. Obliterate!”

“We came up with a new process,” says Cavano. “The easy part was developing the new technology, which cost US\$30 million to \$40 million to build. The hard part was getting people to think differently about international trade, without paper.” Most companies like to have paper documents. They want something tangible and may also be concerned about security risks.

Answering their concerns, Cavano says: “One of the most important things that we focused on was security reliability.

The data is all encrypted with 128-bit encryption. We use smart cards for access, not just user IDs or passwords. We also made sure our data centers are redundant. You don't want people to be able to hack in, but you also want to make sure that the people who have access can get it 24-7. It has to be reliable, it has to be bulletproof, and it has to be unhackable."

Although TradeCard attracts frequent hacker attacks, "No one has got in yet," boasts Cavano. "We feel very good about it. We have also had a number of major reliability tests like the terrorist attacks on the World Trade Center and the recent blackout in New York. We have nearly 100% uptime."

### Setting the standards

As a pioneer in a whole new environment for conducting trade, TradeCard had to operate without existing industry standards to guide it. Cavano sees two ways to bring about such industry standards. "One is to try to create a standard and wait for everyone to agree to it, then do your business. The other is to do your business and let a standard evolve. We took the latter approach because if we had waited for a standard to evolve, guess what? We'd still be waiting." The Asia-Pacific Economic Cooperation forum (APEC) had originally set a target of putting standards for web-based international trade practices in place by 2005, but the date has now been shifted to 2010, notes Cavano.

Despite the delay, Cavano says he fully supports the APEC efforts. His vice president, Carl Wegner, has been speaking at APEC conferences and participating in the committee meetings working on the new protocols. "We stay in touch with what they're doing and keep them up to speed with what we're doing," he explains. If good ideas emerge on how to improve the system, TradeCard is open to adjusting its standards accordingly.

Among the markets in the Asian region, Cavano says he finds Hong Kong and Taiwan to be "most receptive to change." For Hong Kong and



**SECURING WITH 128-BIT ENCRYPTION** — The smart cards are not only user IDs but also access cards, providing reliable protection that is "unhackable."

PHOTO: TRADECARD

Taiwan, "It's all about doing whatever you need to do to make business happen," he explains. "For me as a high-strung New Yorker, it's wonderful to come here because when we go to meetings, [people] tell me upfront: 'Yes, I want to do it' or 'No, I don't.' There's not a lot of ceremony." In some other countries, such as South Korea and Japan, the communication process tends to be much less straightforward.

In whichever market it is operating in, TradeCard's approach is to let customers try out the new system without forcing them to make all necessary changes at once. Training is key, in Cavano's view. "The reason why we have staff in Hong Kong and Taiwan is language. We want people in Taiwan with connections and the language ability to be able to work with our customers."

### How the system works

Currently almost 50% of TradeCard's business on the export side is with Taiwan (though most of the actual manufacturing is done offshore), while a little over one-third is with Hong Kong, and the rest with Japan and South Korea. "The exporters are

in Asia and the buyers are in Europe and North America," says Cavano. For the users of TradeCard among Taiwan



**TradeCard Chairman and CEO Kurt Cavano estimates that 7% of the value of world trade involves document processing.**

PHOTO: TRADECARD

companies, one of the reasons that the paperless process is a big advantage is that the manufacturing is largely being done in China and Vietnam – countries where it can be a hassle to deal with the traditional types of documentation.

Examples of these documents are letters of credit and bills of lading. TradeCard has worked out trade-finance arrangements with 17 banks, 13 of them located in five Asian countries. “We provide the information, they do the banking,” said Cavano. In Taiwan, TradeCard works with Chinatrust, First Commercial Bank, Bank SinoPac, Shanghai Commercial & Savings Bank, UWCCB, and International Bank of Taipei to offer export financing.

Describing the process step-by-step, Cavano says: “We take the orders electronically from buyers, and pass them through to sellers here in Asia. When the sellers manufacture the goods, we get invoices, packing lists, proof of delivery, and inspection certificates, matching them together electronically. Then, we move money between buyers and sellers and provide financial services through our partners – the banks.”

The entire process is paperless, all organized electronically. By bringing all the steps together on one system, TradeCard is also able to offer more innovative financial services at more competitive prices. “The prices for guarantees of payment and supply-chain finance are all more competitive than if they were done individually because they are aggregated into a larger pool,” says Cavano. “We’re able to negotiate better arrangements because of economies of scale. We like to think that we’re doing for international trade what Mastercard and Visa did for international travel. Remember how hard it was to travel? You had to get travelers checks and all that kind of stuff. Now you can travel anywhere in the world and get money out of an ATM.”

To make the system work even more smoothly, Cavano says he hopes that governments can adopt uniform

international standards for such documents as certificates of origin, quota documents, and customs-related forms. He suggests that this effort would be the best place for APEC to focus on at this stage.

TradeCard, which charges users a fee based on a small percentage of the transaction value, has already handled more than US\$1 billion in trade since its inception.

### Making Taiwan a hub

The TradeCard system has played an important role in facilitating Taiwan companies’ ability to conduct cross-border operations, says Cavano. When the whole trade-management process is electronic, it makes little difference to corporate administration where the factories are located. Cavano cites the example of U.S.-based Wolverine World Wide, the maker of Hush Puppies shoes, placing an order with Golden Chang Industrial Co., a Taiwan company, which then forwards the purchase order electronically to its factories in China or Vietnam. When the products are ready for shipment, the factory sends the packing lists and invoices electronically to Taiwan for approval, then to TradeCard for a compliance check and automatic payment.

“It keeps Golden Chang in Taiwan at the center,” says Cavano. The convenience of the electronic communication enables companies to remain headquartered in Taiwan, no matter where the individual tasks may be performed.

In Golden Chang’s case, its sales office is located near the Chiang Kai-shek International Airport in Taoyuan, the finance department is in downtown Taipei, and the factories are in Dongguan in China and in Vietnam. But information flows back and forth seamlessly among the various units. Previously, orders or documents needed to be sent by mail or courier, and obtaining bank financing might take up to 10 days. Now, completing the whole process can be accomplished in 20 minutes.

### A proactive system

Electronic communication also means immediate access – employees can log on whenever they want. “Everyone in the whole trading chain has access to what’s going on,” says Cavano. But how to prevent unauthorized or contradictory changes in the data? Cavano explains that each organization can set up as many levels of approval as they wish. TradeCard keeps a record of the audit trail – who changed what, when, and how.

Another plus, said Cavano is that the system does not merely wait for information, but it also requests information or sends notices to remind people to carry out certain tasks or pay attention to certain matters. “The system can tell you that something happened, is about to happen, or did not happen,” says Cavano.

“A manager might want to know two days ahead that a shipment is ready or payment is received, or accountants may want confirmation that a payment was made, or perhaps someone may request that the system let them know if something that was supposed to happen did not. This changes the way that people interact. The system gives cues and helps move the process along.”

It can also enable companies to get more work done with fewer workers. In the case of Wolverine, says Cavano, after acquiring a US\$50 million shoe company it was able to accommodate the new business in its back office without adding a single extra person to the staff. And the system is making an ecological contribution by eliminating the need for so many paper documents.

Cavano also expresses pride in TradeCard’s role in fostering globalization, which he regards as substantially raising living standards in many countries, most notably China and Vietnam. “Anyone who thinks that global trade is bad should see the reduction in poverty that has been caused by global trade,” he says. “There are a lot of people in places like southern China and Vietnam today that are pretty happy with what has been done.”