

# [Palate-able delights: new modes of trade finance](https://assignbuster.com/palate-able-delights-new-modes-of-trade-finance/)

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Consideration was to be given to the applicability of non-traditional online and offline moment and tradefinancemethods (such as those offered by Papal and UPS), open account terms and more stringent, traditional finance methods such as documentary letters of credit. After careful analysis of the circumstances in the case, it is recommended that PAD adopt a flexible payment system adopting a combination of methods. This is dues (due) to the variability In customers It plans to serve, ranging from small, retail orders to orders up to $150, 000.

Specifically, for orders up (to) or less than $2, 000 PAD should employ a flexible, online method such as that offered by Papal, or the services offered by UPS, which include insurance, collections and financing solutions. For larger orders, a documentary collection method of payment provides PAD with the flexibility it needs in order to sell the goods to an alternate customer should a dispute arise before the products perish, while providing the customer with much less complexity and expense relative to a documentary letter of credit.

## Introduction and Case Summary

The purpose of this report, commissioned by Mr. Jim Dick, Is to analyses the case 'New Modes of Trade Finance' and answer all discussion questions attached. The case in question describes the situation of Palate-Able Delights (PAD), a niche retailer of high-endfoodproducts such as caviar, truffles and French champagnes, who (which) is In the process of assessing several markets for export of their numerous, highly perishable products. PAD Is attempting to determine Its best suited (best- suited) methods of payment, and is intrigued by non-traditional, online payment options such as Papal.

However, impacting on the decision process are a number of important considerations. These are:

* While largely focused on small, retail sales, PAD Is also considering larger orders of up to $150, 000 In value.
* PAD Is aware of the trend towards open account terms, and Is Interested In the benefits of conducting transactions on such terms.
* Explicitly stated by PAD's SCOFF is that the trade finance solutions offered by UPS be assessed.
* Given the perishable nature of PAD's products, speed of settlement must be Incorporated into the evaluation, as do the various cash flow and financing issues affecting both PAD and Its customers.

Firstly, the nature of PAD's product, being highly perishable, means that both PAD and its customers face a unique risk which calls for a substantial level of importance placed on transit insurance, such as that offered by UPS Capital or Export Development Canada, to mitigate the risk of loss from product spoilage as a result of detrimental shipping issues (such as delays, mishandling, etc. Given PAD's high margins and position in a luxury, niche market, the cost of insurance is one that should be absorbed in exchange for the requisite security. In terms of trade payment, the risk of non-payment is significant, given a potential order size of up to $150, 000. Important here, however, are the substantially varied sizes of customer PAD plans to serve. From the relatively small (single consumer, perhaps) to the very large (up to $150, 000).

This suggests that differing payment systems and, hence, levels of security and costs are warranted. Furthermore, along with the level of broad-based risk (I. E. Country, commercial and foreign exchange - where these are significant, high security methods such as L/CSS or confirmed L/CSS may be necessary, he costs of which should undoubtedly be absorbed), the type of payment system is dependent on the level of demand for PAD's product in a given market, and its objectives for that market.

Although PAD is interested in trading on open account terms - by far the riskiest for exporters (FIT, 2008), presumably for the potential of greater sales, the risks are somewhat difficult to Justify. Specifically, PAD's a niche business offering high-end, gourmet products - not a commodity-type product attempting to enter a saturated market. As such, while open terms, given their reverence, may be necessary in markets where competition is high and entry to them is deemed strategically significant, PAD likely commands some level of market pull (demand) in most markets.

This suggests that PAD's assumption of the substantial risks associated with open account terms is somewhat unnecessary and, given its high margins and assumed ability to absorb some additional costs, it should opt for a greater level of security. This is especially so for small, perhaps one-time customers, with order values of say, under $2, 000. Here, non-traditional payment systems such as Papal or credit card facilities are more appropriate than the employ and time-consuming traditional payment types. Furthermore, these methods would typically involve payment-in-advance, providing PAD with a high level of security.

Alternatively, the services provided by non-bank providers such as UPS Capital, and their Receivables Management Services, which provides credit insurance and collection services amongst others (UPS, 2010), may be appropriate for established, credible accounts who require a more flexible payment method. For large orders, however, the scale of risk increases - especially for those up to $150, 000. Here, the security provided by traditional payment types - most appropriately a documents against payment method - and the subsequent absorption of their costs would be recommended.

In all, PAD should absorb some incremental costs in exchange for added security. However, traditional trade payment and financing systems may not always provide the best way to garner this security, as ten practically AT sun mentors varies according to ten size AT P orders, the market it's selling in, and the relationship with the customer. In response to the latter component of the question, a confirmed documentary letter of credit after review of PAD's needs is not the best option. Confirmed Documentary Letters of Credit are expensive and time consuming and thus not effective when dealing with the purchasing and shipment of perishable foods. The use of Documentary Collections is more tailored to the needs of PAD as the documents arrive with the product. This means that if there is a disagreement or PAD's customer does not provide payment the documents are already with the product and quick resale is possible cutting down the spoilage of goods and ultimately profit.

* How well suited is Papal, or some variation of online payment solutions to the PAD business model?

PAD can offer an all-in-one online service which can be easy, fast and reliable to customers to improve its business. Papal is one such option PAD can use to improve its business online. Papal is customer friendly, with ease of access providing customers with various account types with multiple log-INS and, also, most importantly it's secure. It accepts almost all the major credit cards as well as debit cards which allow customers to make payments for small orders online relatively easily.

Papal is the cheapest option available in terms of a Business Merchant account - for customers outside of the states there is no membership fee (residents of U. S pay $1. 90 or 2. 9% of the order depending on the company's purchase).. With regards to PAD 's customers, Papal can be time-consuming as it requires the customers to verify funds deposited by Papal into their account. Even though Papal is secure, it involves risks of fraud which, while generally not affecting the customer (as they are covered by Papal and can be reimbursed up to $2, 000), may affect PAD via the losses associated with fraud.

Merchant/ Business accounts are provided by banks which allow the acceptance of credit cards, debit cards or any other form of online payments. The payment is received and updated immediately through automated systems once the order is placed, confirmed and completed. This allows PAD to have direct access and control over the payment processing system and also by using a trade platform to manage open accounts in a manner that provides better payment visibility to suppliers. Also, the use of debit cards can be encouraged as they're easy for customers to use, and possibly less expensive than credit cards.

Through this, PAD will gain more direct control over the payment processing system. Although, this additional control means that they will have to deal with credit card fraud directly as well as maintain the functionality of the website as a whole which ay not be possible depending on the understanding and experience employees have dealing with online payment methods. From the customers point of view there are less steps needed when making purchases online as well as there is no need to set up a customer account (unless for business specific reasons stated by PAD).