



What Makes a Great E/CTRM? Part 7 – Operations

Donna was already seated in a conference room when Bob arrived. Bob set his cup of coffee down on the conference table and took a seat. Bob had arranged this meeting with Donna to hear her ideas about the Operations team's C/ETRM system requirements. Bob's company was exploring ways to improve efficiency and scale business without scaling costs respectively. If you missed Bob's interview with Sue, the middle office manager, you can find it [here](#).

I'll be honest with you, Bob began. I really don't know much about what your department does. Donna smiled knowingly. I know, she said. Which is why I am very glad for this opportunity to tell you about Operations. You are heading up a C/ETRM system selection project and I want to make sure it does something for my team.

Direct, and to the point, Bob thought. Donna had been in the business long enough to know that Operations tended to draw the short straw. It wasn't that management was unsympathetic about the Operations team's workload. Management simply had priorities where budget dollars went. The Operations team did the best they could with the tools they had. Time was always insufficient.

After taking a moment to collect her thoughts, Donna began explaining. You know traders enter deals, right? If that's analogous to a parade, then Operations team is the street sweepers following behind the parade. Donna's bluntness forced a wry smile from Bob's mouth. Operations deals with the logistical element of physical trading. Ultimately, we make sure that our suppliers' cargos get paid the correct amount on-time. And, we make sure our company's customer pay on-time, too. Bottom line, you get a paycheck because we do our jobs.

Another jab, Bob thought. "And, I'm very glad you do your job well, then," was Bob's politically savvy response. Bob wanted this interview to go well. He wanted Donna's support for whatever system was selected. "Tell me what you need, then, from one of these C/ETRM systems. We will make sure it can do what you need."

Well, as I explained just now, Donna began again, the system needs to calculate invoice amounts correctly. And, that isn't so easy to do because there are lots of data that go into the calculation. We have several assays to record for each cargo. Each assay has a quantity and quality specifications. We have to record all that and use it in the calculation.

Assays. Bob didn't know much about assays. What does an assay look like, Bob inquired? Donna reached into a file folder sitting on the conference table in front of her and pulled out several documents. This one, she said, is a bill of lading. We get this from our supplier, who gets it from the ship's captain after a cargo vessel is loaded. It shows how much was loaded and a quick quality analysis. We use it to estimate the provisional invoice we expect to receive from our supplier.

Provisional invoice? Bob wasn't sure what that was either. Well, a provisional invoice instructs us to pay a supplier something today in order to reduce credit exposure. We won't know the final payment amount until much later, after delivery to a customer. The final invoice gets calculated using the CIQ.

What's a CIQ, Bob asked politely. That's what we call the other kind of assay we get. After a cargo is off-loaded at the delivery location, a more thorough analysis is performed by an agent. The lab analysis usually takes a month or more to get. So, you see, suppliers would have to wait for a cargo to reach its destination, and then at least a month longer, to be paid. Too much credit risk. So, we pay them some amount today, and then true it up later. That payment is called a provisional payment.

So, you must generate several invoices for each cargo, Bob asked again? Yes, answered Donna, for customers, some provisional and some final. And, we also generate several remittance statements to estimate the amount of each invoice a supplier sends us, so we have something to compare each supplier's invoice to, you see.

So, what's the difficult part, Bob said bravely. Donna looked frustrated by this response. So, she responded with some animation. There are a bunch of cargos on the water every day, Donna said pointing out a window at some hypothetical ocean. I must monitor them all and perform some action whenever the time is

right. Any delay in the process is a potential delay to cashflow. And, time is money, right?

Yes, agreed Bob. Time is money. So, if I understand what you are saying, you would like to be notified, or alerted, whenever some action is needed. YES! Donna said, finally getting somewhere. I want to be alerted so that I don't miss something or forget to take some action.

Bob made a hasty note. He was beginning to make some progress with Donna. Do you have a list of things about which you would like to be alerted? Bob followed. Yes, yes, yes. Of course. Donna passed a typed list to Bob, who took a moment to review. These are just some of them, Donna added.

1. Expected LC Issue Dates
2. Invoice Dates
3. Unmatched, loaded cargos without insurance
4. LCs nearing issue date without an opened LC
5. Export LCs within 14 days of expiration
6. Provisional value exceeding LC amount
7. Cargos requiring an LOI
8. Cargos with payments after LC expiration

A number of these appear to relate to LCs. That's Letter of Credit, right? Bob noted. Yes, Donna acknowledged. LCs are an important part of cargo scheduling and management. We won't release a cargo without an LC from our customer. Too much credit exposure. LCs have lots of reporting requirements. In order to draw down on an LC, our documentation must be perfect. If there is a mistake or typo, banks won't release the funds, delaying cash flow, which, as you know, we don't like. So, in addition to calculating invoices correctly, I hope the C/ETRM system has some really nice LC management features, too. And, lots of alerts. That would help me to do my job...Donna gestured with her hands to mean "Big time!"

Bob looked up again after jotting down Donna's wish list. "What else?" Donna thought a moment. Well, I guess, posting journal entries. Can we automate that? Right now, we have this somewhat manual process in our general ledger system. We initiate a payment authorization request for a supplier. Each request is forwarded to accounting. The request format requires us to fill out a journal entry template. Debits and Credits. We try to record the correct account codes as best we know. And, then Accounting double checks them, too. I was hoping for a more automated way of doing things. A way in which we don't really need to learn all those accounting codes, etc. Easier to train new staff, you see. Less mistakes.

Donna's finger shot up, as though she just remembered something important. And, we will need some sort of authorization process if it is automated. Right now, our payment request forms have all these signature boxes. If we automated the process, every journal entry would need to be approved by all these layers of management before journal entries are sent.

Bob noted the requirement and stood up to go. But Donna didn't budge. "Uh, something else, Donna," Bob asked? Well, it just occurred to me, she said, that any time we update data for any cargo, that data should be used to update deal valuations. Bob wasn't sure he understood the point. So, Donna continued. Management looks at reports middle office prepares, yes? Bob nodded. Operations generates invoices and journal entries, which are sent to our financial accounting system, the general ledger, right? Bob nodded again. They aren't going to be the same numbers, see?

She waited until Bob appeared to be following her point. He sat down again. Unless the trading reports that middle office sends to management each day reflect data changes made by Operations, the trading book won't have the right values. Afterwards, management will get their financial accounting reports based on Operations numbers. And, they will ask what happened to the profits showing in the trading book? That's the way it always works. Profits always seem to disappear. Never the other way.

Then, after a whole bunch of meetings, management will realize that the trading book must be reconciled with the financial accounting book in order to understand what happened. And, more than likely, management will expect Operations to perform the reconciliation. More work for me! But, if Operations' data changes can be reflected in the trading book, then there won't be a need for reconciliation.

Bob sensed that this point was more important than he understood at the moment. So, he made another note, then assured Donna that he would make sure that he included all her important points in any information requests made to selected potential vendors. Finally, he thanked Donna for her valuable time and patience, stood up, and left the conference room.

Bob spent the rest of the day summarizing his notes, and then prepared for more interviews the following day. The first meeting scheduled would be with the Credit manager. An account of this meeting will be shared in our next instalment of our story of Bob's adventures in C/ETRM.