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Making Global Supply Chains Work

Streamlining Global Financial Transactions at Wolverine

Three years ago, footwear company Wolverine World Wide decided that it was time for the letter of credit (LC) to go. But how could a company that was sourcing 28 million pairs of shoes around the world kiss the LC goodbye?

Wolverine, founded in 1883, is based in Rockford, Mich. Last year the company had $889 million in revenues. Wolverine sources about 25 million pairs of shoes in the Far East each year, along with 3 million pairs elsewhere, and it imports about half the total, or 14 million pairs annually, into the United States. Notably, the company handles all its own logistics for all its imports, including ocean and consolidation/ deconsolidation, in addition to handling all its customs brokerage in-house. The responsibility for keeping all those shoes moving falls to Philip V. Roy, director of international administration with Wolverine. Roy covers not only the company's logistics and customs operations, but also vendor payments and administration of Wolverine's handful of global offices.

About three years ago, as the company was examining its business processes for opportunities to gain new efficiencies, Wolverine realized that the letter of credit had perhaps outlived its usefulness as a tool for dealing with the company's suppliers in the Far East. After all, some 90 to 95 percent of the shoes coming in from that region were produced by just 20 vendors. "Quite frankly," Roy explains, "we had developed long-term relationships with these vendors that made the LC obsolete, except for post-export financing on the part of the vendor when they need that. For us, the LC did not serve any real business purpose." Moreover, the LC's were costly because of the substantial amount of manual processing necessary to prepare the documents and because of the bank fees, at times running to hundreds of thousands of dollars annually, associated with the letters of credit.

Playing the Trade Card

With all that in mind, Roy went looking for a way to streamline Wolverine's payment process and shift its primary trading relations to open account terms. A local representative of Comerica Bank introduced Wolverine to TradeCard, which offers solutions to automate trade transactions from procurement through payment. In short order, after some customization work on TradeCard's part to meet Wolverine's interface and process requirements, the footwear company began a two-month pilot of the solution with its largest Far East trading partner, which accounted for about 20 percent of the shoes that Wolverine sourced.

Under the pilot, 15 days before the shoes left the factory, Wolverine uploaded purchase order details from its ERP system into TradeCard's online system using an EDI 850 document. The factory, having already confirmed the order previously, would come online to reconfirm the details of the purchase order, and then both parties sat tight until the shipment was made. At that time, the factory would come online again, file a commercial invoice and a summarized packing slip through the system. Then Wolverine's consolidation outfit, Maersk Logistics, would come online and file an electronic forwarders' certificate of receipt. Wolverine's own inspectors in the Far East would access the online system and give the shipment a pass/fail. The TradeCard system also would check for compliance and spit out any discrepancies. (Wolverine has since graduated to a buyer-approved payment process, whereby Wolverine performs the compliance check and uses TradeCard to generate the wire transfers to the vendors via J.P. Morgan.)

After the two-month pilot, Wolverine concluded that the TradeCard system was, indeed, a substantial improvement over the LCs, and the company opted to deploy the solution out to its 19 remaining suppliers in the Far East. Supplier adoption was not a major issue, says Roy, who personally traveled to Asia to conduct seminars to demonstrate the benefits of the system for the suppliers. "LCs are very, very expensive from both sides of the equation, for the buyer and the seller," Roy says. "And so the sell to the vendor was fairly easy in terms of the lower cost." In addition, TradeCard formed alliances with the suppliers' banks, which agreed to lend the suppliers money on a post-export finance basis as long as credit insurance was purchased, at the time through Coface. And finally, the solution is Web-based, so the suppliers and other stakeholders need only a PC with an Internet connection to access the system.

Savvier Business

Currently, Wolverine is putting more than $300 million through the TradeCard system, covering, according to Roy's estimate, about 22.5 million pairs of shoes. The company's savings have been both hard — trading a triple-digit LC fee for a double-digit transaction fee through TradeCard, handling increased business while not having to add staff to process the greater number of financial transactions — and soft, with Wolverine finding that its trade finance processes simply run more smoothly now.

With as much as 95 percent of the company's business already running through TradeCard, Roy says that Wolverine is not likely to bring the remaining 75 or so suppliers that make up the remainder of its business onto the TradeCard system because they are niche producers, agents or factories in countries, such as Brazil, where for various reasons Wolverine prefers to continue operating under the letter of credit.

Overall, Roy says that using the online system not only has helped Wolverine grow its business while holding the line on administrative costs but also made the company more agile. "It's allowed us to be a little savvier in terms of doing business in today's environment, quicker, more efficient," he concludes.

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