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Supply Chain News: WalMart Joins Kohl's in Offering Factoring Program to Apparel Suppliers

More than 1000 Invited to Join "Supplier Alliance Program" – will Other Retailers also Jump In? Can Approach Make Sense Outside of Retail?

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WalMart announced last week it was starting a new program that would partially extend its credit rating to more than 1000 of its apparel suppliers to enable them to "factor" their receivables from WalMart at two of the nation's largest banks.

Since the financial crisis hit, large companies have looked at a variety of strategies to help key suppliers through the tough times, whether that is changing payment terms, providing direct financing, or other techniques. The approach WalMart and Kohl's are taking is a new twist.

Consumer goods manufacturers are major users of "factoring" strategies, in which a company either sells its receivables to a third party at a discount or uses those receivables as collateral for a short term loan. In either case, the goal is to receive the cash faster. Many small and mid-sized suppliers are unable to manage the cash flow challenges of slow payment cycles by customers, as are typical in retail, and sell the receivables to well-capitalized banks or others firms that can handle the payment timing.

In the consumer goods to retail supply chain, that process took something of a hit this year when CIT Group, a major provider of factoring and lending services to consumer goods manufacturers, fell into financial trouble and just recently filed for bankruptcy. While the company will survive after restructuring, many of its activities in the market have been curtailed, leaving some manufacturers without a reliable source of funds.

In July, CIT Group had said that if it failed outright, it would also put some 760 manufacturers at risk of failure due to cash flow issues.

One competitive worry would be that the vendors of retailers with those programs would become more dependent on those retailers, and giving them preferential treatment or supply if product availability was constrained.

With that as the backdrop, WalMart sent a letter last week to some 1000 suppliers announcing a new program in partnership with mega-banks Wells Fargo and Citigroup. Called the "Supplier Alliance Program," it enables eligible suppliers to receive payment for their orders by one of the two bank in 10 to 15 days within WalMart's receipt of the goods, compared with the more typical 60 to 90 days a vendor would get paid by the retailer.

Some have reported that WalMart has extended its credit rating to suppliers to enable them to get better rates on the financing. WalMart later clarified that by saying that "We're not underwriting, and we're not extending our (credit) rating," in a statement to Reuters.

However, it is assumed WalMart worked out somewhat favorable rates for the vendors at the banks based on the volume potential, and WalMart's own strong financial position, which ensures the banks that the vendors will get paid, reducing their risk on the loans. Vendors show a WalMart PO to start the process, and a receipt notification to trigger the loan.

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WalMart, however, is not the first retailer to launch such a program this year. This summer, Kohl's sent its suppliers a letter promoting a "reduced" 3.5% annual percentage rate of interest through its Supply Chain Finance program. The program, in partnership with a financial institution, also enables suppliers get paid early once their invoices are approved for payment. The suppliers sell their invoices to Bank of America at an interest rate based on Kohl's credit rating.

Kohl's says that it offered the program to 41% of its suppliers, and so far 11% have signed up.

WalMart spokesman **John Simley** said it is the first time WalMart has offered such a financing option, and that it is available only to clothing suppliers, with no plans for now to extend it to other suppliers. Many apparel manufacturers are small and medium-sized companies.

"It has been very well received," Simley said. "It works out very well because it provides us with greater surety in our supply chain — that the products we order, we will get."

Experts suggest other retailers with strong credit ratings could launch similar programs. One competitive worry would be that the vendors of retailers with those programs would become more dependent on those retailers, and giving them preferential treatment or supply if product availability was constrained.