Case Study:
How we.trade Helps Businesses Grow With Digital Smart Contracts Powered by Hyperledger Fabric
Change was afoot at Flattered AB.

The Stockholm-based company behind the popular direct-to-consumer contemporary shoe brand Flattered found success producing two collections a year featuring sustainable and stylish heels, loafers, boots and slippers for women.

But in 2019, Flattered needed to re-examine its trade relationship with its suppliers in Spain. In order for Flattered to secure specialty materials such as chrome-free leather and vegan alternatives that are key to the brand’s eco-friendly mission, the company was required to make upfront payments for all its supplies.

“We used to have to pay our suppliers 30% of the overall costs as soon as we placed an order with them,” says Gustav Lidén, CEO of Flattered. “As our business has expanded, and we have grown our order sizes with the factories, we now make a 100% payment only when the goods are shipped from Spain.”

But with long-lead production cycles that stretch over a year, Flattered faced an unsustainable gap between costs and income, which significantly impacted cash flow at the company. “Liquidity is one of the major bottlenecks that can constrain our ambitions to expand,” says Liden.

Unfortunately, credit was not an option. “With regards to securing credit on the payments, our suppliers have previously been requesting a Letter of Credit from our bank,” says Lidén. “For a company of our size, a Letter of Credit can be a complicated process with transaction fees that are too high for us.”

This is where we.trade steps in. As the world’s first enterprise-grade, blockchain-enabled trade finance platform, we.trade offers a safe and more reliable platform for buyers and sellers to trade globally using distributed ledger technology and smart contracts.

Through a joint venture between seven European banks, we.trade was established as an independent company based in Ireland in 2017. Today the company is owned by 12 banks, technology leader IBM, and global commercial credit and business information provider CRIF with shareholders from institutions such as CaixaBank, Deutsche Bank, Erste Group, HSBC, KBC, Nordea, Rabobank, Santander, Societe Generale, UBS, and UniCredit. In 2019, the company brought we.trade technology to market under a SaaS model and has already onboarded 16 banks across 15 countries to join the platform.

Any company that is a customer of the European consortium of banks which supports the we.trade platform can sign up and begin trading. Flattered — who is a client of Nordea, the leading bank in the Nordic region and a founding member of we.trade — was one of the early adopters to recognize how they could reap the benefits of we.trade to solve their cash flow problems and grow their business.

“Paying upfront for purchase orders in November to make a spring collection of shoes takes lots of liquidity. This can either be paid directly by Flattered or with a bank overdraft
facility,” says Urban Ljungblom who handles trade and working capital development at Nordea. “Now that Flattered is using we.trade, they can place an order and offer the counterparty also using we.trade a bank payment guarantee.”

“we.trade is a very good and effective way for us to connect with a financial instrument that is very well suited to the particular structure of our business,” says Liden. “As upfront payments are such a large part of our operating model, extending payment terms via we.trade with a bank payment guarantee is as convenient for me as a credit line.”

Supporting SMEs

Small and medium-sized enterprises (SMEs) such as Flattered AB represent 90% of the businesses and 50% of the employment worldwide, according to the World Bank. And yet SMEs traditionally do not have access to bank guarantees, invoice financing, or credit insurance to help maintain and scale their businesses. Instead, SME owners are left to navigate a laborious paper-based process to account for their international transactions with no protections against late invoice payments, fraud, or managing pre-payments.

Now with the growing urgency for seamless, transparent, and traceable transactions amid the global pandemic, improving access to trade finance has proven to be more vital for economic recovery and a more effective public health response around the world.

“COVID-19 has dominated 2020 and continues to present challenges throughout 2021. We see a drive towards accelerated digitization of trade and trade finance, where policy changes were introduced to accept digital contracts and signatures. The we.trade platform is the foundation for an organization’s future-proofed digital trade journey,” says Mark Cudden, Chief Technology Officer at we.trade.

The disruption in many services that support traditional trade finance methods has created an added incentive for international trade to go digital. With we.trade, companies can operate with digitized versions of once manual business processes to ensure signatures, contracts, and trade financing agreements can be virtually linked and effortlessly executed.

Turning Competitors into Collaborators with Blockchain

Until the launch of we.trade, the universal solution for open account trading or documentary trading was to use paper. But the slow process led to a lot of replication, with business owners filling out the same documents for different trade partners and leaving themselves more susceptible to forgery and human error.

Luckily there is already a growing number of businesses looking for blockchain-based solutions like we.trade.
A new IBM Institute for Business Value survey of more than 1,000 global organizations found respondents said that accessing new markets is among the top motivating factors to join a blockchain network such as we.trade.

Another motivating factor is the potential revenue bump that comes with blockchain. A recent report from Bain & Company and HSBC forecasts that global trade volumes could increase from the current base of $16 trillion to more than $17 trillion by 2026 through the use of blockchain technology. Additionally, blockchain-based solutions could provide a $2 billion annual revenue lift in documentary trade financing by 2026 for the global banking industry.

The challenge, however, was how to convince competing and disparate stakeholders in the trade finance ecosystem to join the same platform.

It was impossible to entrust all transaction data to one party. So we.trade recruited IBM as its engineering partner to build a solution using Hyperledger Fabric, one of the blockchain platforms hosted by the Linux Foundation.

With Hyperledger Fabric’s modular blockchain architecture, we.trade was able to prioritize privacy and customize its platform with selected features such as transaction isolation among selected parties in the blockchain and off-chain data storage.

“Security, privacy, and confidentiality are very important aspects of the platform architecture,” says Cudden. “We needed to ensure data was only shared on a need-to-share or access basis.”

Cudden adds: “We operate in a heavily regulated industry and we bring what are considered competitors into blockchain ecosystems where collaboration and competition becomes the norm. But this collaboration and competition must be done in a way that adheres to regulatory rules and guidelines while respecting anti-competitive and monopolistic practices.”

The platform also eliminates friction and creates a streamlined end-to-end trade process, a benefit that 64% of respondents in the IBM Institute for Business Value survey said would be one of the top reasons to adopt blockchain technology to digitize trade investments.

“Instead of transmitting paper-based documents or data in electronic form from one party and then duplicating and sending it several times to other parties, with blockchain technology, we can now have one shared database where only the parties related to one single trade transaction have access to the same information,” says Cudden. “It’s all about efficiency, transparency, and digitizing a transaction.”

“we.trade found a way to turn competitors into collaborators,” adds Cudden. “Strong governance helped with convincing others to join. Most importantly, the benefits of working together to realize a shared vision to solve a shared problem were much greater than the fear of technology.”
Another standout feature of Hyperledger Fabric? “It’s open source and open governance,” says Cudden. “We created a business network, based on blockchain, that is open to all participants in the trade and supply chain.”

we.trade also became a Hyperledger member as a way to give back to the Hyperledger community and show its investment in the future development of the framework.

“we.trade is a member of the Hyperledger community where the future and success of the community lies with the passion, commitment, and active participation of all members from all over the world looking to solve problems with creative and innovative solutions, share experiences, distribute knowledge, and create new relationships and bonds,” says Cudden.

“We are Growing the Pie for Everyone”

In Europe, “if you want to issue a letter of credit or to be the beneficiary of the letter of credit, you need to start with a long training session,” explains Cudden.

Now with we.trade, SMEs can secure and finance their trade transactions without having to be an expert in trade finance or blockchain. “we.trade is plug and play and, in fact, it’s very easy,” says Cudden.

The network provides the rulebook based on English trade laws and establishes a common framework for banks and their clients (i.e., trading parties) to conduct business. It also includes features such as automatic transaction settlements, bank guarantees, and financing to encourage trust and easier trade relationships between members.

Through we.trade, companies also receive access to risk mitigation and financing services that are not readily available to them while banks create new revenue-generating services. The entire ecosystem is available in a real-time, user-friendly digital platform that leads to shorter trade cycles and improved working capital.

But the real revolutionary component of we.trade is the ability to issue event-based payments based on conditions agreed upon in smart contracts on the blockchain.

Now SMEs have two options for issuing and ensuring automatic payments on the we.trade platform: One is the exchange of an invoice sent by the seller to the buyer. The other is to add confirmation of delivery, which is done through a third party transporter for which an API and separate interface was developed.

“The automatic triggering of payments based on events simply did not exist before,” says Cudden.

“Existing solutions for clients to secure and finance their trade transactions required going through a long, manual, paper-based process. Now that it is digital, secure, and automatic, it is accessible to businesses,” says Cudden.
we.trade Worldwide

we.trade is in full production and at the customer scaling stage of its journey. With that comes additional requirements to expand in various ways.

Members have requested a dashboard so users can log on and have a single UI that could showcase, for example, highlighting the life cycle of their trades transactions. Another feature on the roadmap is a digital archive of packing lists, invoices, and transport documentation.

And we.trade has set its sights on extending its services to additional banks and clients across Europe as well as expanding the network globally.

“we.trade is evidencing a response to real challenges within trade, where parties come together to deliver on an industry initiative. we.trade is by no way the end station for the future development in this domain, not even the beginning of the end of the journey. This is a live state of the art solution which has moved the development considerably forward.”

— Agnes Joly, Head of Innovation and Strategy – Global Transaction Banking, Société Générale
About we.trade

we.trade Innovation DAC (we.trade) is a joint-venture company owned by 12 banks, technology leader IBM, and global commercial credit and business information provider CRIF. The company was started with nine banks in January 2017 under the project name, Digital Trade Chain, and was officially renamed as we.trade in October 2017. we.trade has developed a digital trade platform based on the Linux Foundation’s Hyperledger Fabric and runs on the IBM Blockchain Platform. The we.trade digital platform delivers reliability, simplicity, and security to global trade transactions across trade finance, insurance, and logistics. Clients can register for we.trade via their banks. CaixaBank, Deutsche Bank, Erste Group, HSBC, KBC, Nordea, Rabobank, Santander, Société Générale, UBS, UniCredit, and IBM are shareholders in we.trade while UniCredit AG in Germany, EuroBank in Greece, CBC in Belgium, and ČSOB, Komerční Banka and Česká Spořitelna in the Czech Republic are licensees.

About Hyperledger

Hyperledger is an open source effort created to advance cross-industry blockchain technologies. It is a global collaboration including leaders in banking, finance, Internet of Things, manufacturing, supply chains, and technology. The Linux Foundation, the nonprofit organization enabling mass innovation through open source, hosts Hyperledger. The Linux Foundation also enables a worldwide developer community to work together and share ideas, infrastructure, and code. To learn more, visit https://www.hyperledger.org/