

Moving Money

Rite Aid deploys Web-based platform to economize international payments

By **Connie Robbins Gentry**

An ironic kink in the global supply chain is that cash flow, or lack thereof, represents one of the most onerous hidden costs. The transaction of finances has been an infrequent focus for operational improvements, possibly because there were no clear opportunities for making the routine process more efficient.

However, as more retailers expanded procurement globally, cash-flow bottlenecks became more apparent. Financial transactions are more complex in a global supply chain than when they are contained within domestic borders. Global transactions typically require a letter-of-credit (LC), in which the retailer's money becomes committed early in the process, but neither the retailer nor the vendor can touch the funds until all the appropriate documents are filed to verify that a shipment has been completed. The big winners in this transactional impasse are the financial institutions that sit holding the money and that also collect fees from both retailer and vendor.

No retailer likes to leave its precious cash sitting in a nonproductive state. But that is precisely what happens in a traditional LC world, where retailers are often left grappling with cash-flow issues because

transactions are funded prior to when they occur.

Improved cash flow was just one of the reasons that Camp Hill, Pa.-based Rite Aid decided late in 2004 to implement a Web-based financial platform for transacting payments to its international vendors. The retailer selected a solution from New York City-based TradeCard.

"Another aspect that was very attractive to us was the added visibility we got using the TradeCard financial platform," said Jerry Cardinale, senior VP of category management for Rite Aid. "In the past, the whole financial transaction piece of importing was fractured. At any given time, we could only see a part of what was going on.

With TradeCard, everything is visible to our offices as well as to our freight forwarders and vendors. Everyone can see when the product moves and when shipments have been certified, and Rite Aid can time its payments accordingly.

"This way, we have certainty of what we are paying for and we don't tie up the funds before they are needed," continued

Cardinale.

The new system has also helped with forecasting financial planning, enabling Rite Aid to see when payments should move.

"Most importantly, our money is more available to us and the payments are moving through the platform for only a short time," he added.

Although the migration to an online financial platform would reduce bank fees for vendors as well, there was also some concern that international suppliers might be reluctant to accept the new processes,



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primarily because vendors liked the security offered by the previous system. The irrevocable commitment of funds in an LC dynamic guarantees payment to vendors. However, the TradeCard platform provides vendors with the option of purchasing payment insurance, which essentially offers the same level of comfort for suppliers.

Rite Aid met the challenge head on, hosting a meeting in Asia with its entire import supplier base of more than 300 vendors to get a sense for how the change would be received. "We approached it with a united front; our buyers were there along with TradeCard representatives, who did a very good job of communicating how the platform worked and answering any question in any language voiced," noted Cardinale.

Following the meeting, Rite Aid decided to roll out the new process in two phases that complemented the retailer's purchasing patterns. Rite Aid's import suppliers are naturally divided into seasonal groups: One for Christmas, winter and Valentine's Day merchandise, the other for summer, back-to-school and Halloween merchandise. The implementation began in October 2004, with vendors signed into the program in the order that their transactions would occur.

"Over the past year, we've completed both cycles, so most of our international vendors have been signed into the platform," said Cardinale. "Vendors do change from year to year and we will add new suppliers to the platform as they come on board."

On-line transactions started in January 2005, and now virtually all of Rite Aid's global payments are made via the new system.

"With money moving efficiently through the supply chain, there is more time to focus on sourcing products instead of administrative processes," said Cardinale. ■

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Surprise Ending

Transportation partner helps N.J. retailer sell nationwide

The odds that a person living in San Francisco would purchase a plasma-screen TV from a retailer in New Jersey seem pretty slim. Although Internet shopping allows one to shop the world from a desktop, large items, or products in the try-before-you-buy category, seem to be less likely candidates for e-commerce.

Certainly New Jersey retailer 6th Avenue Electronics did not anticipate growing its customer base nationwide when it launched an on-line store. The objective for the

Web site was to serve as a backup to the retailer's nine bricks-and-mortar store locations, all within the Garden State. Surprisingly, orders started coming in from around the country.

"When we first started selling on the Internet, we had not advertised outside New Jersey and had done nothing to promote the Web site, largely because fulfillment of orders outside this region was a really big concern for us," stated Roy Temiz, director of e-commerce at 6th Avenue Electronics.

Finding a reliable transportation provider that could deliver cross-country in a timely, efficient manner, and most importantly without causing any damage to the product, proved to be a difficult process.

Orders for goods that weigh less than 125 lbs. are shipped via DHL or UPS, but the larger, high-cost, fragile items pose a greater challenge.

The retailer was particularly surprised by the number of large-screen televisions being purchased from its Web site, but was not surprised by how much breakage and damage occurred with cross-country


shipments. In November 2004, 6th Avenue Electronics entered into a partnership with ICAT Logistics (Linthicum, Md.) to handle the transportation and delivery

of these popular but problematic products.

"There has been minimal damage since we began using ICAT exclusively for long-distance deliveries of large, delicate electronics," said Temiz. "If we receive an on-line order in the morning, the product will ship with ICAT in the afternoon and typically delivers in one to three days, or at most five days if it has to go across the country."

Finding the right transportation partner has enabled the retailer to transform its Web site from a local service tool

to a national sales advantage. In 2005, over 90% of on-line orders were for delivery outside New Jersey and on-line sales accounted for 10% of 6th Avenue Electronics' \$150 million in revenues. ■



More than 90% of 6th Avenue Electronic's on-line sales are for delivery outside the retailer's home state.

6th Avenue Electronics

Headquarters: Springfield, N.J.

Annual sales: \$150 million

Number of stores: Nine

Areas of operation: New Jersey via stores; Continental United States via Web site