

## Going Global, Virtually

Rite Aid takes steps to make the **financial supply chain** transparent

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In an effort to squeeze every nickel out of the supply chain, retailers have deployed web-enabled planning and optimization applications and implemented collaborative tools that provide a broad view of their network of partners. Ironically, with all the attention focused on front-end supply chain process efficiencies, the back end — the financial piece of global trade — remains stuck in the past. Most retail companies continue to rely on letters of credit to pay for goods, a paper-heavy process that has been “cutting edge” since the 15th century.

Not Rite Aid.

Jerry Cardinale, senior vice president of category management at the Camp Hill, Pa.-based drug store chain, recently switched to an Internet-based platform to manage transactions with 200 vendors in Asia that supply the company with seasonal goods. The system, known as TradeCard, automates financial supply chain transactions from the procurement of goods to the completion of payment.

Using this platform provides increased visibility for Rite Aid’s buying, finance and

compliance departments, enabling them to optimize purchasing and manufacturing operations.

“It eliminates a lot of the fees around the letter of credit on both sides,” Cardinale says. “This platform does what the banks used to do when we requested a letter of credit. TradeCard makes sure that the shipments qualify according to the parameters we’ve laid out. The difference with TradeCard is that it’s electronic. That cuts paper-processing time and allows information and payment to be transferred between us and our

### KEY CAPABILITIES OF TRADECARD

**Global connectivity** with trading partners via a web browser.

Real time document access and transaction **visibility**.

With trade documents managed and stored electronically, a **paperless trading** environment is created.

Participants are alerted as each step of a transaction takes place, simplifying **event management**.

The shared visibility of transactions facilitates **integrated financial services**.

vendors more quickly, and with complete visibility of the transaction.”

For retailers operating on thin margins, automating the financial supply chain has the potential to deliver real savings. According to a report by GartnerG2, the cost of processing trade documents is more than 5 percent of the total annual value of world commerce. Typically, the process can take as long as two weeks while the buyer’s bank and the seller’s bank coordinate to exchange financial documents — that’s an eternity for companies committed to just-in-time manufacturing and inventory management.

If retail companies can reduce the amount of time that their cash remains on hold awaiting documentation and approval by banks, they can increase their cash position and reduce financing costs. They also may be able to speed up the manufacture of goods, allowing them to tighten the supply chain another



Rite Aid uses TradeCard to automate financial supply chain transactions.

notch. The concept has led experts to add a new phrase to retailers' lexicon — just-in-time financing.

### Global visibility

Rite Aid is a newcomer to the growing list of retail companies, including big names such as JCPenney and Dick's Sporting Goods, that are using TradeCard's browser-based platform to link buyers and sellers electronically. Working with some 18 financial institutions, TradeCard guarantees transactions and handles financing for trading partners.

One of the chief reasons why the system is gaining traction in the industry is the visibility it provides. Since the entire process is automated, buyers and sellers can view and update all related financial documents electronically. Kurt Cavano, CEO of TradeCard, likens the system to a clear tube with data passing in and out.

"What most companies have now is analogous to a green garden hose," Cavano says. "Turning the spigot is like sending a PO; the problem is you can't see the data, and you don't know where it is until it comes out the other end." By using TradeCard, buyers "can see what's going on all along the way and manage the various financial events in a timely fashion.

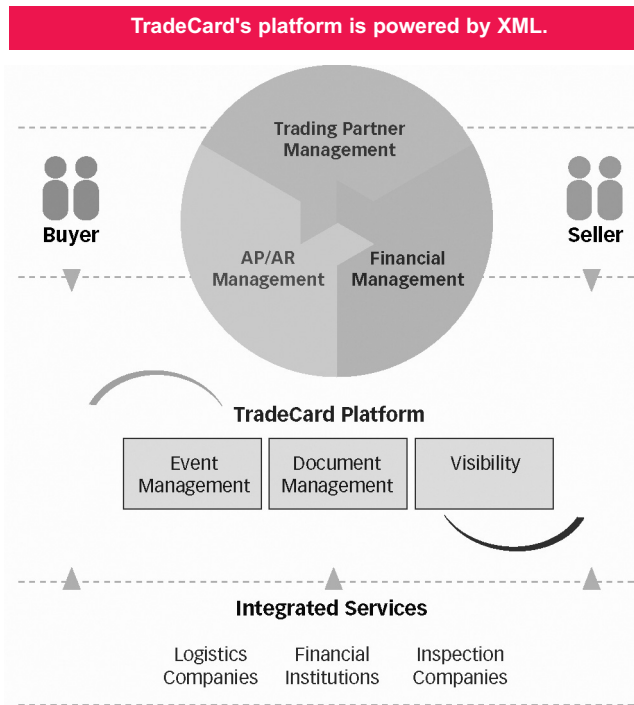
It's a much more efficient means of managing trade transactions."

Through TradeCard, for example, retailers can be made aware of incoming payables far earlier than was possible with a paper-based system or with manual processes. By running reports on this information, buyers can reduce working capital and cut down on short-term borrowing. Suppliers get similar benefits on the receivables end. In another instance, retail customers might use TradeCard to offer early payment discounts or to negotiate discrepancies with trading partners using an on-line document.

Cavano, the company's self-proclaimed chief evangelist officer, started working on the TradeCard platform in 1999 and launched an early commercial version of the system in 2000. But it wasn't until the latter part of 2002 that the system began winning retail converts. Over the last two years,

Cavano claims that the company has experienced triple-digit growth and now has more than 900 customers.

"It comes down to optimizing cash flow for both buyers and sellers and taking some of the complexity out of global trade," says Cavano. "TradeCard assimilates its services into a client's financial processes, everything from patented document matching and discrepancy resolution to visible receivables."



### How it works

Since TradeCard operates in a secure hosted environment, there is no new hardware or software to install. For companies that prefer to integrate TradeCard into legacy systems, the platform can be configured to exchange documents with existing systems in any format. Either way, Cavano claims that the installation is quick (averaging 45 days) and does not represent a large investment.

The system is powered by XML, which provides the tools for translating and integrating data from disparate systems. TradeCard uses digital signatures to authenticate electronic data and to verify that a specific user has created an electronic document.

Cardinale, who began using the TradeCard platform just last month, says that the first wave of products purchased using this method will arrive in Rite Aid stores in time for summer selling. Previously, the

purchase of seasonal goods began with buyers issuing a PO to a supplier in Asia and opening a letter of credit with the bank — a process that required compiling a stack of documents.

The retailer's bank then sent the letter of credit to the manufacturer's bank — a process taking up to one week. The manufacturer's bank reviewed the documents and qualified the shipment before releasing the money to the vendor — eating up as much as two additional weeks. During that timeframe, the funds had already left the retailer's account but had not been applied to pay for the products.

"Using TradeCard allows us to eliminate a lot of the fees around letters of credit or amending a letter of credit when there's a change to the PO because there is no LC," Cardinale says. "And, since we're not funding the purchase as early, there are savings to be realized there as well."

Implementing TradeCard did not require a large capital investment for the drug chain, nor does it place a financial burden on the vendors with whom they partner on the other side of the globe. "On a typical letter of credit transaction, the vendors are paying their share of fees, too," Cardinale says.

"Using TradeCard provides them with the same potential cost savings and the same visibility we have on our end. We're looking at this as a win/win for us and our vendors."

Cardinale has yet to explore one aspect of TradeCard that has proven to be quite timely. It seems retail companies and/or their auditors can log into TradeCard to compile reports on various aspects of global transactions that were previously difficult to track. These reports can be used to manage Sarbanes-Oxley compliance surrounding international transactions.

**STORES**

