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THE NEWSMAGAZINE FOR RETAIL EXECUTIVES

Blazing New Trails With Global Suppliers

By Connie Robbins Gentry

(February 1, 2009) Patagonia is recognized worldwide as the original trailblazer in environmentally sound and ethically responsible business practices. Specializing in premium private-label outdoor clothing, travel and technical gear, footwear, casual apparel and accessories, the Ventura, Calif.-based retailer and wholesaler was founded on green principles and social reform—long before either was in vogue.

Indeed, Patagonia's mission statement—"Make the best product, do no unnecessary harm, use business to inspire and implement solutions to the environmental crisis"—exemplifies the core values that govern its global-sourcing initiatives.

With more than 80 factories around the world and suppliers in the United States, Mexico, Colombia, Costa Rica, China, Thailand, Vietnam, the Philippines, India, Israel, Turkey and Morocco, Patagonia truly has global impact on the sourcing side. The same holds true for its retail operations, which include more than 40 freestanding stores in North and South America, Europe and Japan. The company, which also sells via the Internet and catalogs, had annual revenues of more than \$300 million in its last fiscal year.

Given the current economic crisis, environmental and sustainability efforts may seem like less pressing concerns. However, Patagonia has found a way to improve its financial model while adhering to its fundamental commitments.

At the annual NRF convention last month in New York City, Patagonia's corporate controller, Kyle McIntosh, shared the improvements and benefits his company has realized by transitioning global trading partners from traditional letters of credit, which are issued through financial institutions to provide security that international transactions will execute as planned, to open-account processes, which establish transparency between buyers and sellers from purchase order to payment reconciliation.

Similar to most retailers that source globally, Patagonia historically relied on letters of credit (LC) to enable transactions with its worldwide suppliers. In 2005, bank fees associated with processing LCs exceeded \$300,000, and the entire process was labor-intensive, requiring 2.5 full-time employees as well as an excessive volume of e-mails between Patagonia and suppliers.

"The initial creation of LCs and any amendments was manual, and there was significant time required for reviews and approvals," explained McIntosh.

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Overall, the letter-of-credit process was fraught with inefficiencies, which led to delayed payments that in turn affected Patagonia's financial standing and resulted in a reduction of available credit.

"We decided to move away from LCs to reduce costs and create a real-time vendor platform," McIntosh said, "but we were concerned about vendor acceptance of a non-bank solution."

What Patagonia discovered was that many of its suppliers already worked with TradeCard, the application service provider selected to implement and manage its open-account solution.

Transitioning from LCs to open accounts required very little training, and TradeCard, headquartered in New York City, had local offices around the world that trained suppliers enabling the implementation of automated processes to be completed in eight weeks. Another concern, the timeliness of payments, also proved to be a moot point, and average payment times were actually reduced by more than 10 days.

The move from LCs to open accounts resulted in significant financial gains. Patagonia saved \$100,000 in the first year and reduced its staff by one full-time employee while simultaneously processing higher volumes.

The company also has realized long-term operational efficiencies. For instance, suppliers are required to approve all purchase orders under the open-account system, which helps eliminate price discrepancies and reinforces commitments to the expected delivery dates.

Similarly, vendor invoices are based on the retailer's purchase-order information, which also reduces errors and helps expedite transaction processing.

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