Family Dollar Builds Good Value in its Global Supply Chain

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Introductions

Family Dollar

• Fortune 300 company
• Discount retailer: merchandise under $10
• 7,800+ stores in 45 states
• Headquartered in Matthews, North Carolina

Vision: To be the best small-format convenience and value retailer serving the needs of families in our neighborhoods
Introductions

Wells Fargo International

• 2,000+ Wholesale team members outside U.S.
• 34 countries outside U.S., including 10 branches serving clients in 125 countries
• 2,000+ financial institutions in global partner network

Vision: We want to satisfy all our customers’ financial needs and help them succeed financially
Global supply chain challenges

- Secure and easily accessible multi-party supply chain
- Assigning document privileges to third-party providers in different geographies
- Managing various time zones, languages and data standards
- Navigating import and export regulations and timelines

Source: SPS Commerce: Driving Infinite Growth Across the International Supply Chain with SPS Commerce
Why improve global supply chains?

There’s a correlation between a company’s financial success and the depth and sophistication of their supply chain.

- Council of Supply Chain Management Professional website

12X greater profit

For companies using sophisticated supply chain methods

"Why supply chains matter more than ever for technology companies."
Bain & Company, 2011

More companies already trading globally

90% Export
84% Import

but need a supply chain to match

"Globalization and global trade drive renewed focus on supply chain visibility."
Aberdeen Group, Sept. 2011

Source: SPS Commerce: Driving Infinite Growth Across the International Supply Chain with SPS Commerce
Family Dollar’s challenge

• Gross margin pressures on profitability

• Raise prices?
  – Contrary to “value pricing” business model

• Can we …
  – increase margins?
  – and keep costs low?
  – and increase Treasury operations efficiency?
Where to improve margins?

Global Sourcing

Product purchases

- U.S.: 69%
- Overseas: 31%

Majority of overseas merchandise purchased through "agents" who markup sourcing and logistics services.

Private brands sourced overseas:
Another key area of opportunity for increasing sales and profitability.
Global Sourcing strategy

• Move to a more direct “Buy-Sell” model

• Expand private brand merchandise offering

Projected sourcing shift (Percent of annual purchases*)

*Purchases at retail
Global Sourcing strategy (cont’d)

- Broaden geographic reach to lower cost countries
- Establish new sourcing relationships
Global Sourcing: top strategic initiative

Aggressive timeframe (three years) to accomplish:

<table>
<thead>
<tr>
<th>Build out Global Sourcing capabilities and organization</th>
<th>Implement Buy-Sell model</th>
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<tbody>
<tr>
<td>• Establish offices/teams in key sourcing markets</td>
<td>• Set up own trading company</td>
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<tr>
<td>- Build strong supplier relationships</td>
<td>• Build infrastructure to support new model</td>
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<td>- Expand supplier network</td>
<td>• Establish international treasury processes</td>
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<td>• Develop stronger processes to integrate sourcing with category management</td>
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Treasury’s role in the Plan

Define roles & responsibilities of finance team members
- US Treasury team
- Local country finance support team

Develop cash management plan
- Supplier payment terms
- Payment terms between Family Dollar and Tar Heel Trading subsidiary
- Cash build-up

Develop cash management procedures and controls
- Daily / Monthly cash positioning & forecast
- Account reconciliation
- Investment management

Implement A/P payment solution
- Automate supplier payments
- Local expenses
Right partners critical to success

Success dependent on adopting new technology and integrating new global sourcing processes with key vendors and trading partners.

- **TradeStone**: Single platform for physical and financial supply chain integration
- **Yusen Logistics**: Freight forwarder and consolidator
- **Oracle**: ERP system (Inventory, GL, AR, AP)
- **Wells Fargo**: Letter of credit trade transaction processing
Implementation

Determined how quickly to implement TradeStone’s industry model

EDI Integration with suppliers
• Establishing EDI standards

Payment practices and supplier needs in Asia
• Maintain focus of overseas staff on core mission
• Eliminate work on multiple partner systems
• Automate information flow between partner banks through direct integrations
Implementation challenges

- Aggressive timeframe / rapid implementation
- 80% solution
- Dealing with hundreds of L/C templates
Procure-to-pay automated supply chain workflow

Issue PO ➔ Issue L/C ➔ Receive advised L/C ➔ Examine documents ➔ Approve payments ➔ Make payment ➔ Receive payment ➔ Update GL

1. L/C issuance
2. L/C confirmation
3. Discrepancy advice
4. Invoice detail
4.5. Invoice detail
5. Payment confirmation
Lessons learned

Standardize L/C models
• Create roles and conditions for batching POs
• Understand all data elements

Identify key solution elements
• PO line items – DNA of the solution
• Key data relationships – always consider many-to-many relationships first

Document detailed requirements
• Painful, but very necessary/valuable exercise

Communicate
• Need all disciplines involved, but one central point of contact

Laugh!
Where we stand today

✓ Establish Tar Heel trading company
✓ Ramp up global sourcing organization
✓ Implement TradeStone and Oracle platforms
✓ Transition suppliers to Tar Heel
✓ Issue L/Cs using new integration process

Ongoing initiatives:

• Broaden geographic reach to lower cost countries
• Expand sourcing of private brands
Key takeaways

• Have a realistic vision
• Be quick and nimble
• Secure senior leadership support
• Get key stakeholders on board
• Pick your partners carefully
• Design the strategy
• Focus on cash processes
Questions