

# THE WALL STREET JOURNAL.

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## BUSINESS

# Wal-Mart Looks to Bolster Suppliers

By **VANESSA O'CONNELL**

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Wal-Mart Stores Inc. is seeking to leverage its scale and its AA credit rating to offer about 1,000 suppliers an alternative to their traditional means of financing deliveries to the retailer.

The move could give the world's largest retailer by revenue more power over its suppliers in the wake of the bankruptcy filing by lender CIT Group Inc.

Wal-Mart informed its suppliers in a Nov. 2 letter of its new "Supplier Alliance Program," in which eligible suppliers can get payment for their orders in 10 to 15 days within its receipt of goods, compared with the more typical 60 to 90 days.

Under the program, suppliers can sell their Wal-Mart invoices to the retailer's partner banks, including Wells Fargo & Co. and Citigroup Inc., according to the letter, at interest rates based partly on Wal-Mart's credit rating. In traditional factoring, lenders give manufacturers cash for their receivables and collect payments on those invoices.

Wal-Mart's move comes after CIT, a lender to nearly a million small and midsize businesses, filed for Chapter 11 bankruptcy protection. CIT's factoring unit finances nearly 2,000 manufacturers and importers. A spokesman declined to comment on the Wal-Mart program but said it continues "to do business as usual." It has said it expects to exit from Chapter 11 by year-end.

Wal-Mart, of Bentonville, Ark., said the move was aimed at improving the stability of its supply of merchandise, not replace existing relationships. "We know that many of our suppliers are dependent upon factoring and financing companies that are reportedly in financial distress," Theresa C. Mercado, Wal-Mart's senior director for product extension, said in its letter, which was sent to a group of about 1,000 of its suppliers, primarily apparel manufacturers. In all, Wal-Mart has about 60,000 suppliers.

But some lenders say they are concerned nonetheless. "It is somewhat of a threat" to traditional factors, said Michael Stanley, a managing director at factor Rosenthal & Rosenthal. "Some vendors are going to say, 'Hey, I have to sell my soul to the retailer here. I don't think I want to do that. I'd rather get my own financing,'" he said. Mr. Stanley predicted the Wal-Mart-sponsored program would probably appeal to suppliers in a weak financial condition or those that were forced to use CIT and couldn't find another factor to finance them.

A few retailers have begun experimenting with supply chain finance programs as alternatives to traditional factoring. In July, Kohl's Corp. sent its suppliers a letter promoting a "reduced" 3.5% annual percentage rate of interest through its Supply Chain Finance program. The program, developed by PrimeRevenue, lets suppliers get paid early once their invoices are approved for payment, it said. The suppliers sell their invoices to Bank of America at an interest rate based on Kohl's credit rating.

Kohl's, based in Menomonee Falls, Wisc., offered the program to 41% of its suppliers, and so far 11% have signed on, said Kohl's spokeswoman Vicki Shamion. "This is not about CIT, but rather a proactive opportunity" for Kohl's and its supplier partners, she said.

Suppliers might be more inclined to give certain retailers "preferential treatment" because of such programs, said Pratap Mukharji, a partner with consultant Bain & Company. It's possible the arrangement could influence "how a supplier would look at a Wal-Mart, especially if, in a difficult economy, this program lets a supplier stay in business or make more money," Mr. Mukharji added.

Many retailers fear that once the economy recovers, their suppliers may struggle to fulfill the increase in shopper demand for certain products because they may not have access to the increased working capital needed to boost production. "The lack of visibility that retailers have into the true economic condition of some of their smaller suppliers is a big concern," Mr. Mukharji said.

Wal-Mart says it hopes the program will result in a more stable supplier base and more predictable supply of merchandise. Wal-Mart spokesman John Simley said its AA rating should result in "more attractive" interest rates for many of its suppliers than they could otherwise get. At Fitch Ratings, for instance, Wal-Mart is currently the highest-rated retailer, with a AA rating, while Kohl's is rated BBB+, a Fitch spokeswoman said.

"This isn't about CIT," Mr. Simley said. "It's about the factoring environment generally."

**Write to Vanessa O'Connell at [vanessa.o'connell@wsj.com](mailto:vanessa.o'connell@wsj.com)**

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