

# The Rutgers Business School Payment Practices Index for the U.S. Retail Industry

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## *Abstract*

*The Center for Market Advantage presents the Rutgers Business School Payment Practices Index for the U.S. retail industry. The Payment Practices Index surveys vendors that provide goods and services to U.S. retailers and reflects the experience that these vendors have with the payment practices of their clients. In the 2017 RBS Payment Practices Index of the U.S. Retailers, Dollar Tree, Whole Foods Market, and Family Dollar Stores received the highest ratings while Bed Bath & Beyond, Sears, and Ahold Delhaize were rated the lowest.*

Over the past nine months, the Center for Market Advantage at Rutgers Business School (RBS) has undertaken the study of payment practices in the U.S. retail industry. In this article, we present the methodology and the results of the 2017 RBS Payment Practices Index.

## **Background**

Supply chain financing is becoming an important consideration for firms. Until recently, the field of supply chain management was primarily concerned with sourcing, making, and delivering. Nowadays, for many firms, maintaining a strong cash flow is big challenge and funding is a priority.<sup>1</sup> Thus, firms are looking to their supply base beyond sourcing partnerships, towards funding.<sup>2</sup> Wall Street expects firms to carefully consider their financials and especially to carefully manage cash flows, which means senior

managers are increasingly focused on working capital management. Meanwhile, many small and medium sized enterprises and non-investment-grade firms find it difficult to finance their working capital requirements. Yet, small and medium sized firms constitute a large portion of the supply base for larger companies. Although large companies generally have investment-grade ratings, enjoy easier access to capital and get more favorable financial terms, they still find the idea of raising additional capital by utilizing their supply chains very attractive.

Nowadays, it is increasingly common practice in several industries to increase the length of the firm's payment terms. Traditionally, the norm was 2/10 net 30, meaning the full payment was due 30 days after receipt of the invoice, with a two percent early-pay discount for payments within 10 days. Numerous companies have moved significantly beyond that, with payment terms reaching 120 days and more.<sup>3</sup> Within the retail industry we see a shift towards longer payment terms, although there are still a number of retailers paying in 30 or 45 days. This lengthening of the payment terms has obvious advantages for buyers as it expands accounts payables and increases cash on hand. However, it can put great stress on suppliers if not managed carefully. Additionally, some large firms are working on shortening the accounts receivable cycle. They tend to do this at the same time that buying firms are working to extend their payables, which creates tension between the buying firms and their suppliers.

Given these recent trends, we undertook the development of a measure that captures the vendor's satisfaction with the payment practices that firms employ towards their suppliers. While we are considering expanding the Payment Practices Index to other contexts in the future, our first study focuses on the U.S. retail industry. According to PricewaterhouseCoopers LLP, the retail industry is the largest employer in U.S., accounting for 29 million jobs and contributing \$2.6 trillion to the national GDP.<sup>4</sup> As large retailers are streamlining their supply chains, their suppliers have increased difficulty in financing their operations. This difficulty of obtaining funding can have severe implications on profitability, cash flow, and working capital. Cash flow difficulties can even lead to bankruptcies and supply disruptions.<sup>5</sup>

### **Methodology and Results**

The RBS Payment Practices Index is comprised of 7 questions capturing different facets of payment practices on a five point Likert type scale, ranging from extremely dissatisfied to extremely satisfied:

- length of payment terms
- track record (or history) of on-time payments
- invoice adjustments (reserves, charges, and holds)

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- visibility of approved invoices
- payment dispute resolution
- offering of alternative funding options
- overall satisfaction with retailer's payment process

Our sample consists of 630 respondents providing information regarding their experience with the payment practices of their clients. The respondents represent suppliers of U.S. retailers, come from a variety of industries, and are knowledgeable of the procurement and payment practices of their retailing clients.

We included the 50 largest retailers in U.S. in the study.<sup>6</sup> It should be noted that restaurants and wireless service providers are outside the scope of this study and were not included in our initial list of retailers. We were not able to achieve a satisfactory sample size for four retailers (Seven Eleven, Health Mart Systems, L Brands, and Bi-Lo). These four retailers were excluded from the final rankings, resulting in an index that includes 46 of the top 50 retailers in U.S.

The RBS Payment Practices Index takes values from 100 to 0, where 100 denotes the highest vendor satisfaction with payment practices that a retailer can achieve if all respondents were extremely satisfied with all facets of its payment practices, and 0 denotes the lowest.

In the 2017 RBS Payment Practices Index of the U.S. Retailers, Dollar Tree, Whole Foods Market, and Family Dollar Stores received the highest ratings while Bed Bath & Beyond, Sears, and Ahold Delhaize have the lowest scores. The index scores and the ranking of all 46 retailers can be seen in Table 1.

**Table 1.** 2017 RBS Payment Practices Index and Rankings for U.S. Retailers

Rank	Retailer	Index
1	Dollar Tree	89.063
2	Whole Foods Market	82.146
3	Family Dollar Stores	82.143
4	Hy-Vee	79.722
5	H-E-B Grocery	78.571
6	Publix Super Markets	78.247
7	Costco	78.054
8	Ross Stores	77.556
9	Supervalu	75.649
10	Sherwin-Williams	75.000
11	Wegmans Food Market	74.206
12	Aldi	73.539

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Rank	Retailer	Index
13	Ace Hardware	72.269
14	Staples	68.687
15	Trader Joe's	68.214
16	TJX	67.471
17	J.C. Penney Co.	67.397
18	BJ's Wholesale Club	66.964
19	CVS Caremark	65.363
20	O'Reilly Automotive	65.306
21	Gap	64.935
22	WakeFern / ShopRite	64.286
23	Rite Aid	63.992
24	Albertsons	63.903
25	Dick's Sporting Goods	63.333
26	Nordstrom	63.031
27	Amazon.com	62.168
28	Meijer	61.429
29	Target	61.310
30	The Home Depot	60.464
31	Dollar General	60.357
32	Wal-Mart Stores	60.295
33	Walgreen	58.481
34	Best Buy	56.349
35	Menard	56.303
36	The Kroger Co.	56.201
37	Safeway	55.238
38	Giant Eagle	54.911
39	Lowe's Companies	53.231
40	Kohl's	52.798
41	Toys "R" Us	51.939
42	AutoZone	51.339
43	Macy's	50.466
44	Ahold Delhaize (Stop & Shop)	50.000
45	Sears Holdings	45.220
46	Bed Bath & Beyond	42.437

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### Authors

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### Endnotes

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