

Electronic Funds Transfer In the Beer Industry White Paper

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INTRODUCTION

Technology is reshaping the way that consumers and businesses conduct their financial operations, including transmitting information and handling financial transactions. Banks and financial service companies have adopted new technologies to improve their financial offerings – such as electronic banking and payment methods for goods and services. Indeed, eCommerce is now bringing these enhancements to the Internet. As the Internet continues to transform commercial transactions as we have known them, the “method-of-payment” is one bothersome concept that will take on an increasingly significant role in the relationship between seller and buyer. The underlying goal of the automated environment is to wring out costs inherent in the business processes so that retailers and distributors can experience joint savings. Retailers are currently offered payment choices, but Electronic Funds Transfer (EFT) is one choice that includes both efficiency and cost reduction.

EFT is the electronic transfer of funds between a buyer, seller and his/her respective financial institution. EFT allows parties to move money from one account to another account, replacing traditional check writing and cash collection procedures. EFT services have been available for two decades, but with the increased interest in Internet business, more and more consumers and businesses have begun to utilize them.

In the settlement between parties, EFT transactions usually function via an internal bank transfer from one party’s account to another or via the U.S. Federal Reserve Board’s Automated Clearing House (ACH) network. The Federal Reserve created the ACH system to protect and secure the use of electronic transactions, and to allow parties to maintain bank accounts with any affiliated financial institution that is a member of the National Automated Clearing House Association (NACHA). The network is regulated by the Federal Reserve and is also governed by operating rules adopted by NACHA. The ACH network has become the largest electronic payments system in the country. EFT and ACH are often used interchangeably.

During the past decade, a number of states have passed laws regulating the use of EFT for licensed beverage transactions. While differences exist from state to state, where permitted, EFT is increasingly used by beer distributors to handle transactions with retailers.

An EFT payment system appeals to distributors for various reasons. Although each distributor's operation may be different, an electronic funds transfer is still likely to deliver value in many ways. For some distributors, value may be the more efficient use of their personnel and for others; value may be the realized dollar-labor savings. Additional benefits will be described throughout this document. No matter which benefit applies, distributors will undoubtedly enjoy the convenience and the security inherent in EFT transactions. Wholesale and retail trading partners already engaged in EFT transactions have found the process to be convenient and an excellent way for distributors to collect payments.

This White Paper is intended to present the basics about EFT. It is structured to provide beer distributors with general information from which to make decisions about if, when and how to implement EFT. This document has been prepared by the Beer Industry Electronic Commerce Coalition (BIECC), which is solely responsible for its content:

- BIECC does not endorse any specific method of operation or any individual business that may provide services described.
- BIECC encourages individual distributors to check with knowledgeable counsel and other representatives in the state or states in which their company operates, to make sure that any specific EFT implementation complies with all applicable laws.
- BIECC strongly suggests that each distributor:
 - ◆ contact their suppliers to receive guidelines and recommendations and sources of information;
 - ◆ discuss the concepts and requirements for EFT with their Route Accounting Software (RAS) Vendors to ensure that all requirements for the implementation process are realistic; and
 - ◆ check with their financial institution to ensure that appropriate banking procedures are available and in place.

GENERAL EFT INFORMATION

EFT involves the electronic exchange of money. Fund transfers may be initiated by either trading partner, with the most common exchanges involving the use of secure, financially capable, third-party providers sending information over a Value Added Network (VAN) or over the Internet.

In the past, many beer distributors have been reluctant to try EFT — believing it is easier to deal with checks, money orders or cash. However, as financial institutions and others have offered electronic banking services, distributors have become aware that EFT is available and, over the past few years, a number of distributors and retailers have incorporated EFT into their business plans in those states where it is permitted.

How EFT Typically Works in Credit and Credit Prohibition States

Regardless of your company’s payment terms, at the time of delivery, the retailer verifies and signs the distributor’s invoice or delivery ticket and the distributor leaves a hardcopy invoice with the retailer. After the distributor reconciles the invoices for the day, what happens next differs from state to state. This information is explained in more detail in “Various Methods for Conducting EFT” beginning on page 5. Electronic payment methods are regulated by a credit prohibition state’s respective Alcohol Beverage Control.

In Credit Prohibition States:

- In some states, the distributor initiates the money transfer directly through their electronic commerce process, once a delivery is made and an invoice is given to the retailer.
- In other credit prohibition states, once the distributor provides an electronic or paper invoice to a retailer, the retailer then initiates the funds transfer from its bank to the distributor’s bank.
- In still other states, a third-party provider may also initiate the transfer of funds between the distributor and retailer bank accounts.

- In most cases, the money transfers are processed through the Automated Clearing House, resulting in available funds within the next business day.
- Typically, in credit prohibition states, the transfer of funds must occur within a specified time frame as required by state law or regulation.

In Credit States: When EFT transactions are characterized as “credit,” they are not required to occur within 24 hours. Each state will generally provide the specific terms by which the parties must abide; however, there may be a variety of options available under the applicable state regulations. For example, a retailer may have the ability to pay all regulated items electronically on a specified due date. A third-party provider may even guarantee the payment date to provide better cash management for the distributor. This option automates a retailer’s manual process and guarantees that payments are made on schedule, in accordance with applicable state regulations.

REMEMBER TO CHECK WITH YOUR STATE ASSOCIATION TO ENSURE THAT YOU ARE COMPLIANT WITH APPROPRIATE LAWS AND REGULATIONS.

Distributor Benefits

1. Saves time and money:

- Potential savings are directly proportional to the number of customers who select EFT as a payment option;
- Drivers no longer need to wait for checks to be signed or cash to be counted;
- An average time savings is 15 minutes per delivery stop, allowing drivers productive use of their time;
- Reduces back-tracking and double stops on routes so as to make delivery when a check signer is available;
- Reduces the risk of robbery by eliminating the amount of cash carried by drivers (therefore, potentially reducing insurance costs);
- Eliminates customary procedures for processing cash payments;
- Reduces driver check-in time during reconciliation/settlement;
- Reduces the time spent keying data and correcting errors; and
- Eliminates lost checks and money orders.

2. Rapid exchange of invoice payment data:

- Payment occurs exactly on the specified due date, which provides funds-in-hands on settlement day rather than a delay of several days – float is reduced by up to three days;
- Improved cash flow – no more “check is in the mail” excuses; and
- Payments can only be made on specified dates and for specified amounts.

3. Other benefits:

- Current technology allows the distributor to offer the same EFT features to all customers, regardless of their size; and
- Faster notice of non-sufficient funds.

Retailer Benefits

1. Saves time and money:

- Store managers and staff can focus less time on deliveries and more time on their customers;
- No longer must retailers maintain extra cash or checks on hand for regulated deliveries; and
- Drivers (and trucks) are in and out of the stores more quickly.

2. Rapid exchange of invoice payment data:

- Corporate accounting centers and stores are able to maintain delivery data electronically, including settlement information;
- Data can be utilized for bank reconciliation; and
- Allows retailers with multiple locations to track payments for deliveries through one central source.

3. Simplified Reconciliation:

- Electronic processing of invoice data and payment information makes it possible to automatically post data directly to accounting systems;
- Retailers do not need to have any special electronic commerce capabilities, all they need is a bank account; and
- Improves consistency of information since a retailer can receive updated information from the bank on payments, rather than trying to reconcile cash register to payments to vendors.

VARIOUS METHODS FOR CONDUCTING EFT

Below, we have described three different scenarios, each of which represents a way of conducting EFT that exists today. Obviously, due to the technical nature of this process, other forms or methods of EFT may already exist or may come into play in the future. Neither NBWA nor the BIECC endorses any specific EFT solution – these examples are provided as illustrations and for the purpose of explaining how the key EFT concepts operate under specific applications.

1. Services Provided Through a Local/National Bank

Today, almost every bank (local, regional or national) offers some form of EFT services. A bank specialist will typically provide EFT software, training and support. A fee will likely be charged. Information about this process is best obtained directly from a bank representative.

It is important to understand that if a distributor uses bank-provided software, the distributor is still responsible to make sure his or her route accounting system (RAS) has the appropriate interface to work with the bank software in order to maximize efficiencies and realize savings. EFT is a widely used procedure and commonly available as an extra module with most RAS packages.

The bank provided software is most often installed on the distributor's computer and works in combination with the distributor's RAS system to collect the information needed to create the proper files necessary for the EFT transactions. Transaction files created on the distributor's RAS system are mapped to a standard electronic document and transmitted electronically to the bank system, notifying the bank system from which retailers' accounts to withdraw money, the amounts to be withdrawn and when to make the withdrawals. This information is sent electronically from the bank to the ACH and the transactions are completed according to the directed schedule. State laws dictate the terms for sale of licensed beverages, cash or credit, which typically define the number of days allowed to affect the transfer of funds. Remember, EFT payments must comply with each state's regulations.

At the same time the money is transferred from the retailers' accounts, it is deposited in the distributor's bank account and the distributor is notified electronically via the bank computer system. The distributor's RAS system will use the bank information to show that the retailer has paid his or her bill and any account receivable records will be adjusted to reflect the correct information.

2. Brewer-Facilitated Option

At present, only one brewer, Anheuser-Busch, has worked with a third party company to develop and introduce a functioning EFT program for its distributors. Anheuser-Busch distributors can contract with this third party company for EFT services. It is possible that other brewers will follow this lead, although it appears that for the time being, the remaining brewers have chosen to offer informational assistance to their distributors in the use of other commercially available options.

In a typical situation, the distributor's route accounting system captures enrolled e-payment customers' invoice data during end-of-day data processing and creates a computer file which passes through a third-party value added network (VAN) before being received by a servicing bank (also known as an intermediary bank). The servicing bank processes the file and forwards to individual retailer banks the instructions for settling the invoice transaction balance due. Once received, the distributor's accounts receivable system is updated to settle the delivery.

To set-up and design the service for retailers, a distributor would work with their brewery electronic commerce team and their route accounting software vendor to link the technology necessary to successfully implement the process. The distributor may rely on well-established

methods from these parties, and simply must commit to the one-time investment in software modules designed to make the solution a “turn key” one. Once in place, the distributor is ready to rollout the new value-added service to any willing trading partner.

The advantage to this approach is the efficiency gained through the use of non-proprietary, business standard eCommerce. To illustrate the process, a delivery person, typically using a handheld computer, prepares either a paper or electronic invoice for receipt by the retailer. The transaction data is captured in the handheld computer, and uploaded to the distributor’s route accounting system for review by the distributor’s office staff. Upon distributor acceptance, the data is currently forwarded to Electronic Data Systems (EDS), a value added network which facilitates the translation of electronic information between business partners. EDS places the data received into the distributor’s “mailbox”, for pickup by the current intermediary bank, the Bank of America (BOA). The Bank of America takes the invoice data, and directs it to retailer’s banks, requesting payment for the transaction. Once funds have been collected, BOA deposits them into the distributor’s local bank account, and a computer file is received into the distributor’s route accounting system, clearing the transaction balance due from the accounts receivable system. This process clearly offers the seamless business to business integration eCommerce retailers value.

An NBWA member distributor, using the Anheuser-Busch BudNET® electronic commerce module, reported that his company’s EFT delivery volume in January 2001 was 720 deliveries involving 127 customers. This diverse customer base has been developed over several years and is truly experiencing the benefits previously described in this section. As an example of the mutual economic benefit trading partners can achieve, using a conservative estimate of 15 minutes per driver stop, this scenario equates to slightly more than one full-time employee per month, or the equivalent over 12 months of another employee on the payroll. If one were to add that to the approximately 20 total minutes saved each day by the drivers and 20 minutes saved by an office not having to count money, etc., that equates to an additional 14 man hours of savings monthly. According to Randy Krug of Dale Lee Distributing Company in Cedar Rapids, Iowa, “I’ve often told others EFT is just like any other product on our trucks; we must promote its *‘appeal’* in order to gain *volume.*”

A distributor should obtain brewery solution information and retailer “Sell-In” information from his or her brewer. A distributor should not start working with a retailer until they fully understand the capabilities of their software. These eCommerce partners charge on-going fees for their electronic services.

3. Services from Third-Party Providers

In all states (excluding Massachusetts) and the District of Columbia, state approved third-party providers may transfer money and data electronically for regulated retailers and distributors of beer. Many retailers, ranging from one or two store convenience store operators to the major retailers, use a third-party provider to handle their EFT transactions. A third-party provider may furnish EDI compatible data and/or detailed customized reports to the retailer. The cost to the retailer is determined by what services and detailed reports they have negotiated with the third-party provider. One such service provider is Fintech.

Third-party providers usually charge distributors a one-time set-up fee, an annual maintenance and support fee and a transaction fee per invoice dependent on the number of invoices sent. Distributors should obtain appropriate information from these vendors, and they should contact their brewer to obtain information from other distributors who have used this type of provider.

How It Typically Works – At the time of delivery, the retailer verifies and signs the distributor’s invoice or delivery ticket. Whenever possible, the delivery driver should make the necessary modifications to the invoices (out of stock, breakage, etc.) and provide the retailer a revised invoice. Both the retailer and the delivery driver retain a paper copy for their records. Once the retailer has signed the distributor’s invoice at delivery, it becomes an irrevocable commitment to pay (and the distributor will initiate payment in accordance with the regulations). After the distributor reconciles the invoices for the day, then those invoices for retailers using a third-party EFT payment provider are electronically sent to the third-party for payment processing.

In Credit Prohibition States: The third-party provider initiates the transferring of funds by submitting fund transfer directives to the Federal Reserve. This directive results in a simultaneous debit and credit from the retailer's bank account to the distributor's bank account. It is important to note that the third-party provider should never take title to funds. Since the third-party provider processes all invoice transactions through the Federal Reserve System, available funds are transferred within the state regulated time frame.

In Credit States: A retailer has the ability to pay all regulated items electronically on a specified due date in every credit state except for Massachusetts. Use of a qualified third-party provider can be a more reliable way to assure the timeliness of a payment on the payment date than by using the U.S. mail, which is less reliable. More prompt payments provide better cash management for the distributor and remove the potential of retailers getting onto a no-sale list. This option automates a retailer’s manual process and guarantees that payments are made on schedule according to state regulations.

The Process:

1. A distributor may have to install software to communicate with a third-party provider (that software is usually offered by the third party for a fee). However, it is desired that communication with the third-party provider utilize the Internet to reduce transmission costs and eliminate the need for specific communication software.
2. Distributors who already have Route Accounting System software can also use it to move data between their business systems and their third-party provider. Otherwise, such software may need to be installed. When evaluating a third-party provider it is desired that they have a method for you to submit your invoices even if you are having problems with your Route Accounting software (manual entry).
3. All software and data formats should be fully tested before taking on the first retail partner.

4. The distributor completes the appropriate file maintenance in his or her business system to identify their customer as an EFT account.
5. Generally, the third-party provider establishes a “live” date with a retailer and the distributor.
6. As of the “live” date, drivers are instructed not to collect currency, checks, money orders or other negotiable instruments from the account (in a credit prohibition state). Look for a third-party provider that furnishes best practices that can be given to drivers that make this process much more efficient.
7. When the driver has completed the delivery and the retailer has signed the invoice, an irrevocable commitment to pay has been established for that invoice.
8. After reconciling the invoices for the day, the distributor will electronically extract from the business system all of the invoices delivered to EFT retailers.
9. Those invoices are then sent electronically to the third-party.
10. This step is what initiates a request for payment to the third-party provider to collect the funds from the retailers on the distributor’s behalf. Therefore, invoices should be sent to the third-party provider as soon as they are reconciled.
11. The third-party provider sends back a report to the distributor acknowledging receipt of these invoices.
12. The next day, the distributor receives a bank report that reflects the sum total of the deposit expected. The files received from the third-party provider should be used to reconcile the distributor’s bank account.
13. Once the process is established for the first trading partner, adding more retailers to the process is quick and easy. The more retail locations added to this automated system, the more efficient the distributor system will become; and larger savings will be realized.

ESTABLISHING EFT FOR YOUR BUSINESS

As discussed above, EFT is not legal in some states. Accordingly, there are a few simple rules and procedures that you need to follow if you are contemplating establishing EFT with a retailer. BIECC believes that if you follow this checklist, you can successfully implement EFT in your business in an efficient manner.

Initiating EFT for Your Business:

1. Check with your State Regulatory Agency, state associations and legal counsel to find out if EFT is legal in your state.
2. You should ensure which electronic payment methods have been approved by your State Liquor Board/Commission – pay particular attention to how your state defines “Credit.”
3. Contact your supplier representative who is most familiar with electronic commerce and ask for his or her guidance and support.

4. Communicate with and seek feedback from your Independent Software Vendors (ISVs) or Route Accounting Software (RAS) Vendors regarding their electronic commerce capabilities.
5. Regardless of how you intend to provide invoices to your customers, make sure that invoices will be generated according to state regulations.
6. Evaluate available EFT solutions and complete necessary work required prior to startup.
7. Complete proper forms with your bank depending on option selected.
8. Meet with your retailers to understand the various needs and details involved on their end of the business, and sell through the concept.
9. Set-up and conduct pilot tests with at least one retailer before trying to bring everybody on-line at the same time.
10. Set production dates for revising the system and adding other retailers.
11. Initiate full electronic transactions – “Go Live.”
12. Continue to “sell” concept to additional retailers by:
 - a. Obtaining “sell-in” information from your brewer or third-party provider;
 - b. Working with existing retailers to build case studies showing positive results that can be shared with other retailers;
 - c. Working with your EFT bank and EFT software provider to add new retailers to the program; and
 - d. Arranging for testing with retailer before bringing a new retailer on line.

Fairness Guidelines for Establishing EFT

You may want to consider the following thoughts/principles when establishing EFT with your retailers:

1. Be sure to use a written EFT agreement, which should contain all the terms and conditions for conducting EFT with a retailer;
2. BIECC recommends that any EFT agreement between trading partners should be voluntary;
3. BIECC supports the idea that each trading partner should bear its own costs for the transaction unless otherwise provided for by state statute or regulation.

Along with exchanging funds, distributors may also exchange data about the purchase, including an invoice, with the purchaser, without using paper. This process, known as Electronic

Data Interchange (EDI), also handles the notification when money is being transferred between accounts by EFT. EDI is itself a standard using set message formats for delivering data. That data can be delivered using value-added networks (VANs) or the internet. The current standards for EFT/EDI used by the beer industry (called the "Uniform Communication Standard" or the UCS Guidelines) have been developed and are maintained by the GS1-US. A more detailed discussion of these technologies is being prepared in a separate White Paper on EDI by the BIECC.

CONCLUSION

It is clear that an EFT payment system appeals to distributors for various reasons. Although each distributor's operation is different, the use of electronic funds transfers are likely to deliver value in many ways. For some distributors, value will come in the form of more efficient use of personnel and in others; value may be realized through dollar-labor savings. A number of other benefits have been described throughout this document. No matter which benefit applies, distributors can undoubtedly enjoy the convenience and the security inherent in EFT transactions. Distributors and retailers already engaging in EFT transactions find the process to be convenient and easy. In sum, EFT is an excellent way for beer distributors to collect payments.

GLOSSARY OF TERMS:

ACH Network

Automated Clearing House Network, a payment system to process large volumes of individual payments electronically and is one of the largest payments system in the country. It is a highly reliable and efficient nationwide batch-oriented electronic funds transfer system governed by the NACHA OPERATING RULES which provide for the interbank clearing of electronic payments for participating depository financial institutions. The American Clearing House Association, Federal Reserve, Electronic Payments Network and Visa act as ACH Operators, central clearing facilities through which financial institutions transmit or receive ACH entries. In 1998, nearly 5.3 billion ACH transactions were processed with a total value of more than \$16 trillion.

BIECC

Beer Industry Electronic Commerce Coalition, a working group of brewers and distributors created in February of 1994 by Anheuser-Busch, Coors, Miller, Stroh and NBWA to advance the issue of electronic commerce. The coalition educates brewers, distributors and retailers about the benefits of electronic commerce, promotes ANSI X-12 standards and monitors regulatory concerns as they affect the three-tier system.

BOA

Bank of America, the first nationwide, coast-to-coast bank serving the financial needs of individuals, businesses, government agencies and financial institutions in communities throughout America and around the world.

BudNET®

BudNET®, a wide area network designed by Anheuser-Busch, Inc. to seamlessly communicate throughout the 3-tier system using non-proprietary, accepted electronic commerce standards.

Credit Prohibition State

By law, credit prohibition states prohibit the extension of credit by those parties licensed to sell to a licensed retailer for the purchase of malt beverage products.

Some credit prohibition states do have limited exceptions to their laws. It is important to check with your state associations and legal counsel to ensure that you are compliant with your state laws and regulations.

Credit State

Generally speaking, statutes in a credit state allow for the extension of credit for a stipulated number of days from a distributor to a retailer for the purchase of malt beverage products.

Once again, each state's laws vary, so please consult your state association and legal counsel to ensure that you are compliant with your states laws and regulations.

EDI

Electronic Data Interchange, the computer-to-computer exchange of business information in a standard public format.

EDS

Electronic Data Systems, a value added network which facilitates the translation of electronic information between business partners.

EFT

Electronic Funds Transfer, the electronic (paperless) transfer of funds between a business and its financial institution, or between two individual entities' accounts. EFT allows parties to move money from one account to another account, replacing traditional billing and collection procedures. This electronic process is variously known by such terms as funds sweep, wire transfer, direct debit, direct credit, direct deposit or automated payment.

ISV

Independent Service Vendor, a method for invoicing, pricing of product, sales tracking and customer reporting.

NACHA

National Automated Clearing House Association, provides benefits to its members and other payments system stakeholders in the development, promotion and use of electronic solutions to improve the payments system.

NBWA

National Beer Wholesalers Association, a trade association founded in 1938 for the nation's beer distributors. The purpose of NBWA is to provide leadership which enhances the independent beer wholesale industry; to advocate before government and the public; to encourage the responsible consumption of beer; and to provide programs and services that will benefit it's members.

RAS

Route Accounting System, a method for invoicing, pricing of product, sales tracking and customer reporting (same as ISV).

UCS

Uniform Communication Standard, a subset of the national EDI standard that is widely used to communicate electronically with trading partners in the grocery industry.

VAN

Value Added Network, a third-party network that transfers data electronically and securely. One form of such networking is the provision of an electronic mailbox for use among trading partners.



Members of the Beer Industry Electronic Commerce Coalition (BIECC) have prepared this document. The BIECC, established in 1994, is a working group that is managed by NBWA. Coalition participants are active members and meet on a regular basis. The mission of the BIECC is to maximize the beer industry's role and common interest pertaining to the implementation and utilization of electronic commerce within the three-tier system. The coalition educates brewers, distributors and retailers about the benefits of electronic commerce, promotes standards and monitors regulatory concerns as they affect the three-tier system.

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