

Retail Vendor

PERFORMANCE MANAGEMENT BULLETIN

Greg Holder on Vendor Compliance and eCommerce

Dan Gilmore, Editor, SCDigest

Supply Chain Digest Editor Dan Gilmore recently spent some time with Greg Holder, CEO of Compliance Networks, on issues related to vendor compliance and ecommerce. Highlights are below.

Gilmore: *One of the key issues here I think is the vendor drop shipping that has become so prominent. What are the vendor compliance issues here?*

Holder: There are really two things. First, if you think about the typical retailer you would normally shop at, many are pursuing what they call the “endless aisle,” where they are offering things not carried in their stores or not even carried in their ecommerce fulfillment centers.

The first thing a retailer is concerned about when drop shipping from a vendor is the impact on their brand. An example of that is if something goes wrong, then it’s likely it’s the retailer the customer is going to be upset with, not the vendor.

The next thing from a retailer’s perspective will be concerns about the timing of the shipment. With drop shipping the retailer is now blind, so they are losing control of that shipment and they need to be able to manage any exceptions that occur.

So when there is an ecommerce order that needs to be drop shipped, then an EDI 850 purchase order is sent to the vendor, awaiting a response with an EDI 855 transaction, which is the purchase order acknowledgement, generally in two to four hours.

Beyond that, within a day they want that product shipped, and that involves another EDI transaction, which is an 856 or what is typically know as an ASN, but with some details that might be different than for a standard advanced ship notice sent to a distribution center, in this case asking for a tracking ID. You can think of it as like a FedEx or UPS tracking number.

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Industry News Round Up

Walmart, Sainsbury’s Both Demand Big Savings from Vendors

For slightly different reasons, giant grocery retailers on both sides of the Atlantic are looking for savings from their supply bases.



First, in late March, Reuters reported that Walmart held a summit near its headquarters in Arkansas with many of its vendors, including Johnson & Johnson, Unilever and Kraft Heinz, to demand they reduce the costs they charge the retailer by as much as 15%.

Vendors which attended the summit told Reuters that during its presentation, Walmart said it expected suppliers to help the company beat rivals on head-to-head pricing 80% of the time.

To meet the demands, vendors said they would have to cut their wholesale prices or make other cost adjustments to shave the required 15% off the net price.

The strategy comes after Walmart commissioned a study to find the right price point against Germany-based discount grocery chain Aldi and domestic rival Kroger, according to Fortune.

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Compliance Networks Corner:

Driving Vendor ASN Performance

Dr. Brian Gibson, Auburn University

In the March 2017 *Retail Performance Management Bulletin*, we discussed the roles of ASN performance and carton content accuracy in facilitating inventory availability for the “now economy.” That article (*Retailers are Driving Improved ASN Performance at Vendors*) tackled the issues of why ASN accuracy is critical. This time, we focus on how ASN performance improvements are being achieved.

These important issues were addressed through expert interviews and surveys in the most recent ASN study led by the Center for Supply Chain Innovation at Auburn University. We talked to a dozen leading suppliers and retailers about best-in-class practices for improving ASN performance.

The table on the next page highlights the retailers’ desired supplier capabilities. Though most suppliers have not fully developed these advanced levels of expertise, some are leading the pack. Discussed below are two best-in-class processes for ensuring retailer satisfaction, inventory accuracy, and chargeback reduction.

Best Practice 1: The smartest move that suppliers can make is to combine the use of scan-and-pack processes with post order picking paperwork creation. With scan-and-pack, the supplier’s distribution

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Greg Holder on Vendor Compliance and eCommerce (continued)

And then finally there is the invoice, the retailer generally wants that within a day. So the cycle is a whole lot more compressed, and in any of those events they want to know about exceptions and if customer service needs to get involved.

So where we would normally see an inbound vendor compliance program at the retail DC, if it is being shipped by a supplier, the real controls are all those EDI transactions.

Gilmore: *This is very interesting to me. I think you still might want to track something akin to fill rates here, maybe based on PO acceptance or when the order actually shipped or something like that. That's very different than measuring fill rate based on a full truck coming into a DC. I assume even though this is being handled by the vendor, you can still track and measure all this electronically?*

Holder: Absolutely. So if you look at the 855 purchase order, that is at the item level, so if someone orders five and the vendor acknowledges they can only ship four, that's the first trigger as an exception and means they have to be on the phone to communicate with the customer about another unit or item to replace that.

Of course, we would expect the 855 and the ASN and the invoice all to match, but of course we know that isn't always the case, and we need to track that.

Gilmore: *OK, second topic: retailers have traditionally managed their own fulfillment, but with ecommerce it seems a growing number are using third-parties to manage this. How does vendor compliance work when a retailer uses a 3PL?*

Holder: I am going to disagree with you a bit by saying I am seeing a trend of retailers moving away from third parties and managing their own efulfillment.

But beyond that, the process is pretty much the same. Even if the 3PL has its own WMS or other distribution systems, we make our compliance system available to the 3PLs over the Cloud, including tablets for shipment audits, and we tie into the EDI and other transactions in the same way.

Gilmore: *Finally, it's challenging times for many retailers today, in part due to ecommerce, with much pressure on the bottom line. It also seems to me by having a robust vendor compliance program you can help that financial scenario in part by making sure you recover costs from vendor performance failures.*

Holder: In general, you are correct, but most retailers are managed by merchants, and many of them are leery of the chargeback process. So we hear the same objections that we heard 20 years ago about the challenges of issuing chargebacks to offset a retailer's costs, and they will often say things like "We really need certain vendors, so we don't want to create issues by generating chargebacks."

But you still need to hold those vendors accountable for delivering what they agreed to in the purchase order. There are costs that a retailer incurs when something is not right about a shipment. Those costs need to be recovered, in a fair and objective way, and as you said that's more important than ever today given the financial environment. Vendor compliance systems enable that process for retailers. 

Compliance Networks Corner: Driving Vendor ASN Performance (continued)

center associates scan each item's bar code label as they pick and fill the carton for a retailer order.

An apparel executive explains this best practice: "We scan and pack out all cartons in all of our buildings. That's how we ensure our accuracy. The scans are recorded and then when you're done packing the carton, the carton label is produced. The carton number is associated with the scan of all the pieces that were put into that carton. We build the ASN from this information when the truck leaves our building."

By delaying ASN creation until after the order is complete, potential misinformation errors are avoided.

Best Practice 2: Sampling is used to speed the flow of goods and reduce inspection costs without sacrificing audit integrity. Rather than count the contents of every case, retailers randomly select cases from an inbound shipment for comparison to the ASN documentation. Suppliers perform similar sampling audits with their offshore manufacturing facilities at their US distribution facilities. Many also perform audits of their distribution employees to ensure order picking and shipping accuracy.

Sampling lets the retailers and suppliers draw conclusions about the performance of their upstream supply chain partners. As long as randomization is ensured, the samples provide virtually identical performance characteristics relative to those of the overall order.

"We take the first 10% of the cartons and we check every unit against the ASN," explains a retail executive. "If there's even one error, then we check every carton on the purchase order. If we get through 10% without finding an error, then the remaining 90% flow through and we'll do an assumed receipt based off of the ASN."

Leading companies create programs that base sample frequency and size on past performance. All orders from new suppliers are audited until they achieve an acceptable level of performance. As consistent performance is achieved and trust is built, the supplier status level increases and the audit scope is reduced. When a supplier performs flawlessly, the sampling activity is eliminated or greatly streamlined.

The full ASN report will be published in September. 

ASN Accuracy Capabilities	Pct. of Respondents
Our top suppliers create ASNs AFTER the fulfillment of an order	65.6%
Our top suppliers have well-defined SOPs to promote inventory accuracy	59.4%
Our top suppliers have dedicated teams that focus on ASNs and inventory accuracy	56.3%
Our top suppliers use scan-and-pack techniques	56.3%

Industry News Round Up (continued)

Despite its low cost image, Walmart prices have been as much as 20% higher than Aldi's on many grocery staples, analysis by Wolfe Research found - but more recent spot check by Reuters, after Walmart started dropping prices, found Walmart consistently offered lower prices.

"Once every three or four years, Walmart tells you to take the money you're spending on marketing initiatives and invest it in lower prices," said Jason Goldberg, the head of commerce practice at marketing firm Sapient-RazorFish. "They sweep all the chips off the table and drill you down on price."

Vendors also said Walmart has told them it intends to maintain margins on average and lose money on some goods as part of its pricing plan. Walmart told vendors it will absorb some of the losses initially so suppliers can adjust to the new pricing demand.

Meanwhile in the UK, grocery giant Sainsbury's is embarking what in the end is likely a similar strategy, but in its case the initiative is being driven by falling profits. Q1 profits at Sainsbury's fell 8.2%, which the company largely attributed to rising costs.

"After more than two years of deflation, food and fuel prices started to rise towards the end of our financial year, driven by the devaluation of the pound sterling and commodity price increases," the retailer said.

As a result, company CEO Mike Coupe said Sainsbury would work with suppliers to "mitigate costs within our supply chain," adding that Sainsbury's would "reduce the impact of cost price increases on our customers by making sure that we limit the impact on the retail prices that we sell."

Part of that will involve working with its suppliers to help them become more efficient - and naturally Sainsbury's will expect lower prices from those vendors as a result.

Sears CEO Battles with Suppliers as Shares Continue Downward Spiral

Sears CEO **Eddie Lampert** recently blasted some suppliers in an unusual blog post, accusing them of taking advantage of Sears' problems to embarrass it in the press and extort better payment conditions.



"There have been examples of parties we do business with trying to take advantage of negative rumors about Sears to make themselves a better

deal," Lampert wrote in a blog. "In such a case, we will not simply roll over and be taken advantage of."

In a subsequent post, Lampert took specific aim at one vendor, a subsidiary of China-based Techtronic Industries that plans to sue Sears over the terms of their supply agreement. Lampert, a hedge fund manager, said One World Technologies, which makes power tools for Sears' Craftsman brand, threatened to end the contract unless Sears agrees to "what we believe are unreasonable demands." Lampert said the company would take whatever legal action is required.

One World Technologies has been paid more than \$868 million since 2007, Lampert said. He noted that Sears Holdings buys more than \$13 billion a year in goods and services from all of its vendors combined and "we have always met our payment obligations."

Soon after the post was published, Sears filed suit against One World in District Court in Cook County, Illinois, where Sears is headquartered.

Sears, however, has racked up a cumulative \$10 billion in losses since 2012, avoiding a cash crunch only with loans from Lampert, cost cuts, and the sale or spin-off of key assets like the Craftsman brand, Lands' End clothing business and hundreds of its best stores.

Amazon Courting Major Consumer Goods Brands to Sell Direct

Some of the world's biggest brands have been invited to Amazon's Seattle headquarters to hear about how they should start shipping products directly to on-line shoppers and bypass retail chains.



Executives from General Mills, Mondelez International and other packaged-goods companies will attend the three-day gathering.

But brands should be wary, says experts. Amazon can use algorithms, user reviews and sheer scale to kill the price premium that brands currently command.

"Can Amazon be stopped before it hollows out the entire retail sector," Bloomberg asks. "Will it face regulation - or even be broken up-before it does the kind of damage to retail that Facebook has already done to public discourse?"

"If you are a brand or a retailer, it's worth staying tuned," Bloomberg writes.

“...in late March, Reuters reported that Walmart held a summit near its headquarters in Arkansas with many of its vendors, including Johnson & Johnson, Unilever and Kraft Heinz, to demand they reduce the costs they charge the retailer by as much as 15%...

[According to vendors that attended the summit] Walmart said it will expect suppliers to help the company beat rivals on head-to-head pricing 80% of the time. **”**

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