

Retail Vendor

PERFORMANCE MANAGEMENT BULLETIN

Managing Vendor Compliance - By the Book

We're not sure if there has really been a book before Norman Katz's new "*Successful Supplier Chain Vendor Compliance*" on this topic, so maybe it's about time. A 2007 work titled "*The Vendor Compliance Handbook*" by Secul and Aponte is really about starting up an apparel company, and that's about the only other thing close we can find.

Katz is well qualified to put such a book together. Currently he is head of his own consulting company, Katzscan Inc., started after he worked for a couple of consumer goods companies where he was heavily involved in compliance systems. He now does related work for both retailers and vendors. He has also been very active in standards groups relative to compliance, notably VICS (now part of GS1), for which a few years ago he led the development of a series of six education courses on compliance that could

enable a vendor manager to be "certified" in compliance management.

He is also a world class EDI expert, and has written a book on preventing supply chain fraud.



This new book is simply a detailed primer for retailers and to a lesser extent vendors in terms of compliance program development (retailers) and how to meet retailer requirements (vendors). The insights for retailers really could be applied to any company looking to pursue or enhance vendor compliance, but the core audience in terms of program development is clearly retailers.

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Industry News Round Up

Walmart Causes Furor with New Bar Code Requirements



Retail giant Walmart has caused quite a stir in its vendor community, after recently

releasing new standards for carton marking that have the potential to add huge costs to its suppliers.

Largely out of the blue, Walmart sent letters and supporting materials to vendors in February and March, stating that the changes would "improve receiving, stocking, inventory management and on shelf availability while reducing shrink and labor hours in our stores."

To that end, the letter further states that the following are "non-negotiable requirements to be implemented immediately" on all four sides of each carton:

- 14 Digit Case GTIN - Lithograph Printed (Flexo-Graphic). Ink Jet is not in compliance
- Brand and Sub-brand if applicable
- Department Number

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Compliance Networks Corner:

Vendor Compliance vs. Vendor Performance: What's the Difference?

We often hear the terms used synonymously to describe a common desired outcome, "make my vendors better" or "change vendor behavior". Though the desired outcomes may be similar for both terms, the approaches are significantly different.

Let us first take a look at the formal definitions for both and see how they compare and contrast. Both definitions come to us courtesy of businessdictionary.com and have been edited for the sake of brevity.

Compliance: Certification or confirmation that the doer of an action or the manufacturer or supplier of a product meets the requirements of accepted practices or the terms of a contract.

That is fairly straight forward definition. In layman's term it could be said to mean simply, "ship me as and when I asked you to."

Performance: The accomplishment of a given task measured against preset known standards of accuracy, completeness, cost and speed.

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New Research on Retailer-Vendor Supply Chain Relationships (continued)


Early on, Katz observes that “The development of a vendor compliance program is an introspective perspective into an enterprise’s operations, technology, and policies with regards to its own capabilities and its viewpoint of its vendors.”

Katz is a strong proponent of vendor compliance and chargebacks, but believes many retailers do not develop and administer these programs optimally and sometimes fairly.

“With all the resources that some multi-billion dollar enterprises have I remain discouraged and disappointed that so little exertion, such juvenile effort, goes into supply chain vendor compliance,” Katz writes. He says that a variety of operational and financial benefits

“are all within reach [to retailers] by simply doing a better job at vendor compliance.”

One chapter *SCDigest* found interesting was on the legal basis for compliance and especially chargebacks/deductions. Turns out that the long history of the Uniform Commercial Code leads to the legality of such programs – though the laws of some states appear to bar deductions that exceed their true cost to the retailer. These statutes, however, are rarely if ever enforced.

There is a lot more in this informative book. We will share other highlights in the May version of the *RVPM Bulletin*. 



Compliance Networks Corner: (continued from page 1)

Vendor Compliance vs. Vendor Performance: What’s the Difference?

Both terms have a ring of “just get the job done”. But upon closer inspection, performance implies the difference between accomplished vs. expected, while compliance is focused on did we accomplish the expected.

While similar in nature, the mindset the retail enterprise takes has a profound impact on its income statement. And contained within the definition of performance is the key component every senior supply chain executive seems to be looking for - speed.

Enterprise Mindset

How a retailer views this question is important. Does it view the vendor management process to be tactical or strategic? In our view, compliance is somewhat tactical in nature, as it looks backwards. Did the vendor use the right label, carton, and carrier, and ship the right product at the right time? If not here comes the chargeback. The retailer waits for the next purchase order and begins the review process all over again.

This is necessary – but is it sufficient? Performance, on the other hand, is more strategic in nature, as it uses all available information to look forward. It takes a holistic view of the overall purchase order lifecycle and relentlessly looks for opportunities to shrink and optimize it. Once one opportunity is attained, it’s time to look for the next one, and so on.

Does the retailer with the performance mindset still utilize chargebacks? By all means yes, as they are an extremely effective lever for retail profitability. But in addition to compliance, the

performance mindset gives the retailer additional elements: visibility and control.

How does your organization look at the compliance vs performance debate? Here are some of the key questions to consider:

Is vendor performance part of the company’s overall strategic plan or is it “handled” by a room full of people adjacent to the freight office?


What level of management in the enterprise is directly responsible for vendor performance, VP, Director or Manager?

Who has access to performance data? Supply chain only? Or is it shared with merchants and vendors?

What is the IT commitment to vendor performance? Are significant resources devoted to it, or is it managed in Access or Excel? Was it a strategic project for IT or did the supply chain have to create its own system in order to get the job done?

What is the level of partnership with strategic vendors? Does the vendor performance team continually interact with your vendors to identify opportunities to reduce supply chain days and waste, or is it centered almost solely on chargeback resolution?

Is the effort called vendor compliance or vendor performance?

Vendor compliance management is necessary, but vendor performance management is strategic. 

Industry News Round Up (continued)

- Case Pack QTY and Space for Writing Manual Adjustments by Store Associates
- Temperature Rhetoric
- “Single Stock, PDQ Capable or Case Cut Capable” must be indicated on TOP FLAP of case
- All 4 sides require item information. Black Ink.
- Lot-Code
- Sell-By Date - Legible, Large Font. Short Side
- Online Item File must reflect what is printed on the Master Case, including 14 Digit Case GTIN

Contrary to a general belief by many in the industry, Walmart has never required - in fact cannot use - serialized carton labeling employing GSI128 (formerly UCC128) bar code standards. That is in large part because GSI128 labeling really only provides value if tied to an advance ship notice (ASN) that details the contents of each case linked to the unique serial numbers on the carton shipping label. But Walmart has never required such ASNs.

Instead, Walmart has relied on the GS1 case code, basically like a UPC code but at a carton not item level, encoded using the interleaved 2 of 5 bar code symbology. In general, at its distribution centers, Walmart applies its own serialized bar code on incoming cases, some manually, some using automated print and apply, which then drives each carton’s movement through the miles of conveyor and sortation systems before it winds up either on a truck heading for a store or into DC inventory.

Walmart hoped to leapfrog the GS128 labeling paradigm with its carton-level RFID mandate announced in 2003, which would have provided unique case level identification. But that program collapsed.

So Walmart has instead required use of the GTIN case code for a couple of decades or more. What is changing in these requirements now are two important things:

First, that the GIN case code be achieved using flexo-graphic printing. In summary, this means that this bar code must be pre-printed by the carton supplier. That in turn means that a Walmart vendor would therefore have to maintain a separate inventory of empty cartons for each and every SKU.

That is very different than the practice used by most companies today, which print the case code using an “on-demand” approach, typically an inkjet printer, but also sometimes by applying a label. This enables these companies to maintain a reduced set of carton inventories that are then customized for each SKU as it is coming off the production or packing line.

Historically, there have been sometimes been issues with case codes printed by inkjet in terms of quality, and if you look in a

grocery store it usually doesn’t take too long to find a carton that has a case code that looks like it is slanting one way or the other, a result caused by mis-calibration of the equipment. However, even these codes are often readable with today’s improved scanning technology.



But bar codes printed on white labels actually have superior readability than bar codes printed on the darker corrugate material.

Furthermore, “A number of observers I spoke to want to know where Walmart gets off saying that ink-jet-printed bar codes are unreliable when both ANSI and UCC councils thoroughly analyzed their use for an extended period of time and pronounced them reliable,” wrote **Pat Reynolds** of Packaging World magazine. “The same observers are quick to point out that if indeed ink-jet-printed bar codes are not as consistently legible as Walmart wants them to be, there’s a much less draconian solution available: Require CPG companies to scan 100% of the ink-jet bar codes they print on their packaging lines and use readily available controls technology to immediately reject any case that is not up to par.”

Many suppliers are said to be in quite a lather over this.

“We will have to build a whole new warehouse just to hold all these cartons,” one supplier complained on a recent webinar held by Walmart to explain the changes, according to another supplier who was on-line for the event but described to SCDigest what transpired.

In addition to the bar code printing requirement, the other problem for Walmart vendors is that the rest of the marking requirements - which can be printed with on-demand technologies - now have to be printed on all four sides, rather than just one or two as is generally the practice now.

That will mean that Walmart vendors likely will have to reconfigure their manufacturing lines with “bump-and-turn” stations. Not only will there be an investment in equipment and systems to make the change, it will slow down the flow of cartons say to a palletizer, perhaps significantly so, increasing vendor production costs.

It is not completely clear what is driving this. The best guess is that Walmart is having some bar code scan issues in its DCs. It is also likely this move is designed to assist Walmart store personal to find merchandise for the floor in its backrooms – an issue the company has been battling for several years.

Will vendors comply? That remains to be seen. While defying a Walmart mandate may seem risky, that is in fact the path most vendors took with regard to the RFID mandate in the mid-2000s - and that turned out to be the smart move, as Walmart never did enforce the mandate, and the program was dropped not long afterwards.



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