Retail•Vendor
PERFORMANCE MANAGEMENT BULLETIN

The Top Retail Supply Chains?

What companies have the top retail supply chains across sectors such as grocery, mass merchants, and drug and dollar stores?

Well as usual, the analysts at Kantar Retail once again tried to answer that question in late 2016, continuing the annual PoweRankings report that was started many years ago by Cannondale Associates, which Kantar later acquired. This marked the 20th edition of the annual report.

The full study covers a number of company performance measures for both consumer goods manufacturers and retailers, including such areas as brand power, marketing programs, sales teams, overall business fundamentals, and more. Supply chain management is one of the categories included in the survey.

The rankings for this year, as always, were developed through the interesting methodology of asking retailers to rate manufacturers on each of these categories, and manufacturers to rank retailers on a similar set of attributes. Most major CPG companies and retailers take part, with about 80 participant companies in each group.

Both manufacturers and retailers are from the consumer packaged goods, food and beverage areas. That means manufacturers in such categories as apparel/soft goods, electronics, hard goods, etc., are not included.

Similarly, the participating retailers are drawn exclusively from sectors such as mass merchandise, traditional grocery, warehouse clubs, and drug store chains that focus on consumer packaged goods sales, and does not for example include department stores or most specialty retail areas. For the last couple of years, however, Amazon.com has been included in the retail group.

The scores represent the percentage of respondents that place a given manufacturer or retailer as having one of the top three supply chains in the industry.

Industry News Round Up
The Problem with Phantom Inventory in Retail

A guest column recently published in the Wall Street Journal says "phantom inventory" is a big cause of stock outs in the retail supply chain.

What is phantom inventory? It is "goods that show up in management systems as available but in fact are hidden from view because they've been misplaced, often tucked away in a backroom and forgotten," according to a trio of academics: Fredrik Eng Larsson of the Stockholm Business School, Daniel Steeneck of the Air Force Institute of Technology, and James Rice Jr. of MIT's Center for Transportation & Logistics,

In their column, the three authors say that "Even with today's sophisticated inventory management systems, retailers are woefully unaware of just how low on-shelf availability is for many of the products they carry," adding that "Our research, carried out in collaboration with a major consumer goods manufacturer, suggests the problem is significantly worse and costlier than many retailers assume."

How much worse and costly? The authors say that most measurements of known stock-out levels give a misleading impression of how a store or product is performing, with their research showing that for a category of laundry detergents sold by a large retailer, lost sales were almost five times greater

Compliance Networks Corner:
Top Retail Supply Chain News in 2016

It was an interesting year in supply chain generally and in the retail supply chain especially in 2016.

Let's look at some of the top retail supply chain stories in the past year, with a special focus on those that impact vendor performance management:

In January, Sports apparel retailer Finish Line makes news when it says troubles with new Distributed Order Management and Warehouse Management Systems causes it to lose $32 million in sales over the Holiday period. The CEO resigns and the chief supply chain officer was let go shortly thereafter.

In February, there is a report from Bloomberg that Amazon seems to be taking steps to build out an end-to-end global logistics service capability that would compete with major 3PLs and carriers, perhaps not only to move its own freight but those of others. Moves include getting licenses in both US and China to act as a wholesaler for ocean container shipping.

Also in March, reports that Target is doing a deep dive on its SKU counts, in-store logistics processes and more in an

The Top Retail Supply Chains? (continued)

As it has for many years, Walmart again topped the list, with a score of 81% putting its supply chain in the retail top 3, though we'll note that is down from the low 90 percentages Walmart was receiving a few years ago.

There was very little change in the rest of the top 10 – top 12 actually, with a three way tie for 10th place. Walmart was followed by number 2 Kroger, then Costco, Publix, Target, Amazon, Meijer, HEB, and Walgreen's, with Dollar General, CVS, and Wegman's sharing that 10th position.

As usual, the Kantar report included a few comments from manufacturers on specific retailers: "Walmart is collaborative, forward-thinking, and has a total cost lens. Additionally, vendors have visibility to their data, which provides for best in class planning," one manufacturer observed.

Others noted that "Kroger has clear metrics, processes and accountability throughout their supply chain."

"Costco focuses on fewer, bigger, better. There are rare instances of disappointment. The strategy is clear, and there is adequate but tight inventory," said another manufacturer.

Walgreen's made the top 10 this year after being off in 2015. None of last year's top 10 fell off the list of this year's top 12.

By the way, the top ranked CPG supply chain was PepsiCo, followed by General Mills and Coca-Cola.

Compliance Networks Corner: (continued)

attempt to reduce out-of-stocks and inventory levels. Retailer is testing putting more product on the sales floor rather than the stockroom by redesigning shelves, looking at case pack quantities from vendors, and reducing total SKU counts in many categories.

Meanwhile, Target also says it is largely dumping packaged software for forecasting and replenishment to write its own, more suited to needs of omnichannel commerce. Is the traditional DRP-based model dead, SCDigest asks?

In April, Walmart causes 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. Requirements ban use of inkjet printing for case code bar coding, meaning suppliers would have to maintain inventories of cartons specific to each SKU, among other changes.

That same month, news that Target is telling vendors that it will issue a chargeback of as much as 5% of the invoice for shipments that arrive as little as one day late, plus chargebacks of $5,000-$10,000 for suppliers who fail to provide complete and accurate master data for their products.

In June, Walmart brings reporters into Bentonville DC for demonstration of a drone taking physical inventories on continuous basis, flying the aisles and using an imaging system.

In July, news that struggling retailer Kmart is adopting strategy of moving all inventory out to store floor and getting rid of "back room" storage to reduce labor costs from double handling and decrease inventory levels.

In August, Walmart announces it will spend $3.3 billion to acquire ecommerce site Jet.com, as it hopes to supercharge its on-line success. Jet was just founded in 2015 by Marc Lore, who had also started Diapers.com and then worked for a while at Amazon after it acquired Diapers.com. Lore will lead all of Walmart's ecommerce efforts, as former head Neil Ashe resigns.

That sane month, sports apparel giant Nike signs a contract with giant private equity firm Apollo Global Management to create a new generation supply chain, including production facilities, in the Americas. Nike says it hopes change from former Asian-based production strategy will get products to customers more quickly, including more rapid support for a planned increase in customized merchandise.

Also in August, news that Walmart is reducing the "window" for on-time deliveries from vendors from four days to two. The change will go into effect in February, 2017. In addition, the fill rate requirement is being raised from 90% to 95%.

In September, the Wall Street Journal breaks story that despite numerous denials, Amazon really is working on plan to develop its own parcel delivery network for itself and others, competing with UPS and FedEx. The plan is code named "Consume the City," and the story notes that Amazon has also recruited dozens of UPS and FedEx executives and hundreds of other UPS workers over the past few years.

In October, a Macy's executive says the company plans to have 100% of all items in every store RFID tagged by the end of 2017, and that nearly all of those tags will be applied by vendors.

In December, Amazon announces opening of its "Go" store in Seattle, which has no cashiers or traditional point of sale terminals. Store instead uses RFID, sensors and artificial intelligence to track what shoppers buy, in approach that is literally "grab and go," with customers taking products off the shelf and right into shopping bags or backpacks and then out the door, the purchase quickly confirmed via smart phone app.

Industry News Round Up (continued)

than previously assumed, owing to unobserved stock-outs – delivering a substantial hit to sales of the products.

In addition to the lost sales, inaccurate perpetual inventory levels also have a ripple impact across supply chains, the authors say, leading to inaccurate demand forecasts because systems may show products as in stock but unsold when in fact they haven't made it to store shelves at all.

"Such faulty readings mount if the problems are repeated across many stores, triggering flawed sales reports that affect forecasts, production planning, measurement of store performance and automatic replenishment," the authors say.

What causes the phantom inventory? Inventory records can't capture that certain items may have been stolen. Scanning errors, such as scanning the same UPC code for different SKUs say for cans of soup, give false readings of what products have been sold. Inventory sent to the store for a special promotion is often marooned in the backroom because store managers didn't run the promotion or stocked the products in a haphazard way.

We would add issues with ASN accuracy, especially for split cases cartons, where such accuracy – especially in retailers lacking a strong compliance management system - is notoriously problematic.

So what's the answer?

The authors say one approach with a lot of potential is to develop special analytics using machine learning technology. The analytics methods re-create the demand patterns for individual products, and incorporate the demand inventory uncertainty for each stock-keeping unit into forecasts and plans.

"When used in concert with existing solutions, this approach improves forecast accuracy and increases sales by dramatically reducing the number of stock-out events," the authors conclude.

Interesting New Solutions at NRF 2017

SCDigest was at the NRF Big Shows at the Javits Center in New York City in mid-January, and wanted to share a couple of interesting new solutions there.

First, an expanded wide area RFID reading system from Zebra, called **smartsense for retail**. These wide area readers are placed on a store ceiling, and can read RFID tags with a high degree of accuracy in real-time across about 1500 square feet, and can be ganged together to cover larger areas.

What makes this Zebra solution different from other systems is that RFID reading is just one of its capabilities. It can also capture video with embedded cameras and use some ultrasonic technology to track smart phones, among other potential data feeds from one device.

This, Zebra says, can enable richer applications, such as tracking a given specific shopper through his or her smart phone combined with what RFID tagged items he or she has in a shopping cart, leading to all sorts of analytics about shopper behavior. This is innovation for sure, and a very new type of more total system solution from Zebra.

Digimarc was back to NRF with its special technology that can invisibly embed a bar code in a product's packaging. This can not only allow very rapid POS scanning (no need to orient the package to find the bar code), but support other applications.

For example, Bossa Nova Robotics has a robot that walks the store aisles, reading Digimarcs in the packaging and comparing that to the planogram to identify out-of-stocks.

Other companies have brought robotic solutions to market that do the same thing using video imaging – but the Digimarc approach is likely to be faster and offer greater accuracy.

The problem: the solution only works if all the goods on the shelf have Digimarc bar codes in the packaging, presenting a real chicken-and-egg problem.

Grocery Wegman's has been putting Digimarcs in its private label goods packaging.

Amazon Fulfillment Center Rollout Continues On

The on-line giant added 26 FCs worldwide last year, bringing its total distribution facilities of all kinds across the globe to an amazing 361, according to the consultants at MWPVL International, which have been tracking Amazon's network with rigor for years.

But Amazon is hardly slowing down. It has already announced plans for three new 1 million+ square feet DCs in Maryland, Jacksonville and the Dallas so far in 2017.

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