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Retail Vendor
PERFORMANCE MANAGEMENT BULLETIN

Vendor Compliance in an Omnichannel World

Dan Gilmore, Editor, SCDigest

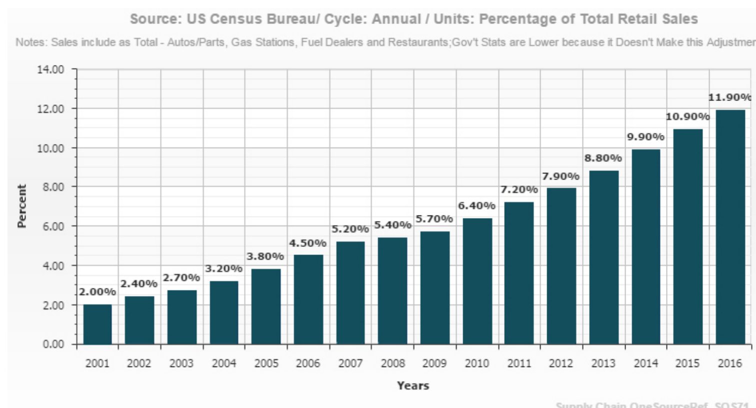
We all know the rapid growth of ecommerce in retail, but the numbers are still rather staggering, rising 15% or so year-over-year, quarter after quarter.

According to the Commerce Dept., ecommerce sales were about 8.1% of total retail sales last year, up from 7.3% in 2015 - but those total retail numbers include sales of cars, gas stations, restaurants and a few other categories that are not really relevant for comparison.

So, *SCDigest* computes the numbers based on a formula in which we take total retail and subtract out those non-relevant categories. Using that formula, ecommerce sales were a much higher 11.9% of total US retail sales in 2016, up strongly from 10.9% in 2015, as shown in the figure to the right. Of course, that share is much higher in some product categories, such as electronics and apparel.

Little discussed is the impact of this sea change on retail vendor compliance. I see a number of ways that compliance must evolve to best manage an omnichannel world:

US E-Commerce Sales as Percent of Total Applicable Retail Sales



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Industry News Round Up

Walmart Sales Growth Has Really Slowed

For the past several years, *SCDigest* has done an annual analysis of "Walmart and Amazon by the numbers," taking a look at a variety of metrics across what quite arguably are the two most important retailers in the world.

The full analysis can be found on *SCDigest's* web site (www.scdigest.com/firstthoughts/17-03-23.php?cid=12139), but here we will take a look at just one chart, tracking the growth of Walmart's US sales since 2002.

While Walmart is an incredible giant, its growth has slowed dramatically in recent years. As can be seen in the chart on page 3, Walmart's US sales (Walmart stores + Sam's Club) grew very rapidly in the beginning years of the 2000s, primarily by adding new superstores carrying groceries at a rapid pace into new markets.

But that growth soon decelerated, and in the recession year of 2009 started a pattern of very low growth that is not much above inflation on average, meaning real growth is almost flat or up

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Compliance Networks Corner:

Retailers Are Driving Improved ASN Performance at Vendors

Dr. Brian Gibson, Auburn University

The retail industry is in the midst of a cataclysmic shift with new channels and aggressive competition. In just over two decades of ecommerce activity, Amazon has become a $136 billion beast that forever changed consumers' shopping habits. In contrast, venerable names in retailing have struggled to remain relevant to shoppers with some going out of business and others forced to shrink their store networks.

Many experts talk about speed to market as the means to combat online competitors. Speed is important but there is an even more important factor to consider – accuracy. Without accuracy, prioritizing speed can generate errors that become returns, shortages that inhibit sales, and dissatisfaction that drives customer defection.

To profitably serve the buy anywhere-fulfill anywhere-deliver anywhere demands of today's consumer, a retailer needs a precise read on stock levels at every location in its network.

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Vendor Compliance in an Omnichannel World (continued)

Be Prepared to Monitor Vendor Drop Shipments:

An increasing number of retailers are using vendor drop shipment programs to reduce inventory levels and meet customer service needs. Have your compliance rules and monitoring programs been extended to embrace vendor drop shipments?

No doubt there is some trickiness here, as some aspects of compliance may be invisible to the retailer, as the order is sent from the vendor directly to the end consumer. But there are a whole array of performance factors (packing/packaging, packing slip format and contents, electronic communications of shipping data to major parcel carriers for tracking, returns handling and more) that needs to be tracked.

And just as retailers monitor vendor performance in areas such as on-time delivery to retail DCs and order fill rates, retailers now need to track vendor drop ship performance in terms of on-time delivery to consumers and meeting delivery commitments, fill rates and more.

A simple web search, for example, finds Nordstrom's has a complete compliance document specifically for vendor drop shipments. Compliance Networks is currently working with retailers to extend compliance processes to drop shippers.

How Will Third Party DCs be Handled?

How will vendor compliance be extended to handle vendor shipments to these outsourced facilities? Vendor performance is just as important if not more important at these facilities as at in-house operations. Why perhaps even more important? Because while the costs of vendor failure (e.g., incorrect price ticketing) can be at times a bit of a soft cost at a traditional DC, you can be sure a fulfillment center run by a third party will charge for every nickel of work that needs done to address vendor issues.

Third party operators need the same processes and tools an in-house DC has to address compliance.

The Importance of Recouping the Costs of Vendor Performance Failures:

That means automated systems that are built for such scale and accuracy – and detailed vendor communications about the failures to encourage prompt payment. Robust vendor compliance can play a small but important role in a retailer's financial results.

Is your vendor compliance program and technology omnichannel ready?

Compliance Networks Corner: (continued)

For example, the buy online, pickup in store and fulfill from store strategies only work if there is visibility to inventory levels and correct information.

Despite heavy investment in technology and process improvement to improve inventory accuracy and visibility, problems remain. Many retailers have in-store inventory accuracy levels hovering around the 80% level or lower at the item level. These mismatches between in-store physical inventory counts and system-based virtual inventory quantities generate fulfillment problems and customer service failures.

One tried-and-true method for improving inventory accuracy and flow is the use of advanced shipping notifications (ASNs). These timely, cost-effective messages transmit detailed shipment information to a customer or consignee in advance of delivery, designating the contents and nature of the shipment. Having the right information from the start allows retailers to manage their supply chains in a proactive, knowledge-driven fashion.

To gain insight into ASN use by retailers and their product suppliers, Auburn University's Center for Supply Chain Innovation has partnered with Compliance Networks, Retail Value Chain Federation, and Supply Chain Digest on a multi-year study. Since 2010, we have periodically looked at ASN deployment, accuracy levels, and benefits. In our most recent 2016 study, we added carton content integrity metrics and the perspective of suppliers to the analysis.

The good news from our analysis is that ASN use and accuracy levels are improving and perfection is no longer a fantasy. In 2011, 78% of survey participants indicated that they used ASNs. That percentage rose to 83% in the 2016 study. ASN compliance also improved, with a higher percentage of retailers indicating that supplier ASNs are appropriately documented, transmitted in a usable format, and shared in a timely fashion.

Importantly, our retailer case study continued to trend in a positive direction. Audits performed by this retailer showed that the overall carton content integrity level achieved reached 98.6% in 2016. Perfect supplier performance also improved. The percentage of suppliers achieving 100% accuracy in ASN versus carton contents audits increased from 11% in 2011 to 20% in 2016. While there is a long way to go, this increase is very encouraging.

These improvements in ASN information availability and inventory integrity facilitate speed to market. Suppliers' goods can be cross-docked with minimal delay for inspection, creating rapid distribution center flow-through. Accurate suppliers also encounter far fewer chargebacks for shortages, incorrect merchandise, and paperwork errors.

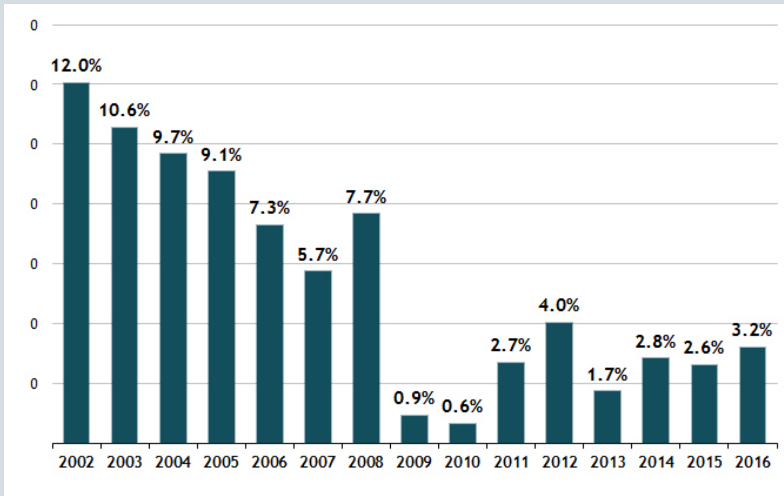
Retailers also garner tangible benefits. ASN availability facilitates faster receiving processes with less time spent on audits. These fulfillment delay reductions and carton content integrity promotes greater on-shelf availability and in-store accuracy levels. Having an exact read on stock at every location allows retailers to ship orders from stores with larger inventory pools. This avoids markdowns and minimizes stockouts at low inventory locations.

Exactly how are retailers and suppliers achieving these performance improvements and benefits? In the next monthly update, we will discuss practical solutions and future directions for ASN accuracy and carton content integrity.

Industry News Round Up (continued)

a percent or so at best. US sales reached $365.2 billion last year, about double the $188 billion the company had in 2002, but the pace of that growth has obviously slowed substantially down. The Cumulative Average Growth Rate (CAGR) has averaged an impressive 5.8% since 2002, but has slowed to 2.3% since 2010.

Walmart Annual U.S. Sales Growth as Percentage



Not shown here, but surprisingly, international growth continues to plateau, despite an awful lot of attention and investment there. Walmart international sales last year were $116.1 billion, down from $123.4 billion in fiscal 2016, though the rising dollar is a factor in that decline. Still, international is clearly not the Walmart growth engine once imagined.

Will Dick's Sporting Goods win by Cutting Vendors and SKUs?

Ed Stack, CEO of Dick's Sporting Goods, announced that the company has established "a new merchandising and vendor matrix" that will result in closer relationships with some suppliers while pulling back from dealings with others. In the end, implementation of the plan will mean up to 20% of the chain's vendors will be cut before the end of the year.

Strategic vendors, grouped into "Segment A", will be companies that "will invest significantly in our business both online and in-store and we will invest significantly in their business," said Stack in a presentation to Wall Street analysts.

"Segment B" vendors will be those that Dick's has "a transactional relationship with" while "Segment C" vendors will have their products discontinued.

Dick's CEO was asked about the timing of the move in light of the changing competitive landscape. Ten sporting goods chains have filed for bankruptcy since 2015, according to USA Today. The Sports Authority, the second largest chain in the category, liquidated in 2016. Dick's acquired 114 million shopper files and 25 million e-mail addresses from The Sports Authority last year along with its brand name and e-commerce domain.

"We felt that it was really the right time to review, really, an in-depth review of everything that we do in the business," said Stack. "As we looked at this, we felt that it was the right time to consolidate our vendors and we will continue to have a good, better, best strategy that isn't really going to change."

Stack said Dick's doesn't "expect to give up any sales or margin rate" due to its vendor consolidation. He said the action will be spread across categories and enable the chain to "showcase our private brands more and drive that business, which we've indicated we expect to be approximately $1 billion this year."

Comparable sales, including online and stores, for the Dick's chain along with the Field & Stream, Golf Galaxy and Golfsmith businesses grew five percent for the company in the fourth quarter. Dick's omnichannel comps increased 5.3% as traffic improved 2.9% and the average ticket rose 2.4%.

Number of Warehouse Workers Continues Significant Rise

The demands of ecommerce fulfillment and other factors are leading to growing demand for workers in warehouse and distribution centers, in what is a powerful multi-year trend.

According to the US Bureau of Labor Statistics, there were 957,000 warehouse workers in January, up almost 10,000 from the December number even as the peak season for distribution activity came to an end.

Over the past year (January to January), the number of warehouse jobs in the US is up about 71,000, or 8%.

But that is simply the continuation of a multi-year trend.

In January of 2007, there were 657,000 warehouse workers, meaning there has been an increase of 300,000 warehouse jobs over that time period, or growth of about 46%.

That is finally starting to put upward pressure on wages. Nationally, however, the BLS finds the average hourly wage for non-supervisory warehouse workers in December was $16.08. That was up from $15.74 in December of 2015, for an increase of about 2.2% in one year. In some areas, DC jobs are being advertised at over $18 per hour.

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