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Retail Vendor
PERFORMANCE MANAGEMENT BULLETIN

A Look Back at the Value of Retail Vendor Compliance

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Several years ago, *SCDigest's* research arm – *Chief Supply Chain Officer Insights* – did a survey on the value of retail vendor compliance, using a survey population of just over 20 customers of vendor compliance software provider Compliance Networks.

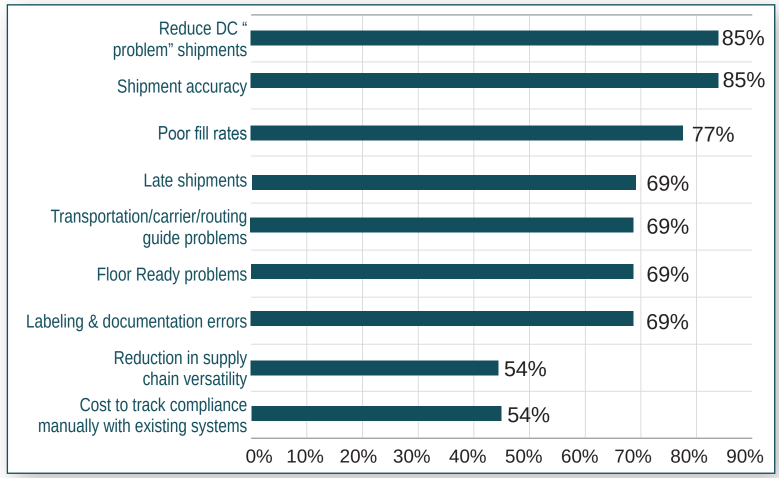
We may repeat that survey soon, but it is worth taking a look back on those results from a few years ago, as we are confident the insights from that research are just as valid today as they were then.

About two-thirds of retail respondents were in the soft goods sector (department stores, specialty apparel), and one-third from various hard goods retailers.

As part of the results, respondents were presented with a series of potential problems, and asked which of these were important issues to their companies when they adopted compliance optimization software.

- continued pg. 2 -

What Problems Were You Trying to Solve with Compliance Optimization Software?



Industry News Round Up

Walmart Pressuring Vendors to Reduce CO_2 Emissions

Retail giant Walmart has made significant progress in reducing its own CO_2 emissions, but says to really have an impact it must drive more change in its extended supply chain.

That means putting pressure on thousands of suppliers to reduce their CO_2 emissions too.

"We've made progress in our own operations, but this is taking us deeper into our supply chain," said **Laura Phillips**, Walmart's senior VP for sustainability. "We need our top suppliers to take more action."

Walmart is calling the initiative Project Gigaton because that's how many metric tons of CO_2 it wants eliminate from its total supply chain by 2030. A gigaton is equal to one billion metric tons. If achieved, that would be equivalent to taking more than 211 million passenger vehicles off the road for a year, Walmart said.

Walmart has identified six areas where suppliers can focus their clean energy efforts: agriculture, waste, packaging, deforestation, and product use and design.

Walmart is telling suppliers they will save money as they reduce their CO_2 emissions.

- continued pg. 3 -

Compliance Networks Corner:

Retail Margin Risk:

5 Critical Supply Chain Steps to Ensure Merchandise Plan Execution

Every year, retailers spend hundreds of millions of dollars to create the "perfect" merchandising plan. Industry demographics are measured and focus groups created in an attempt to define the desired customer. Once the perfect customer and corresponding products are identified, sophisticated forecasting, planning and allocation systems are utilized to construct complex merchandise plans to achieve specific margin objectives.

Unfortunately the results, particularly during promotional or seasonal events, often become missed margin opportunities combined with damage to the retailer's valuable brand because of out-of-stocks (OOS) at the shelf – and now increasingly on-line as well.

While in-store execution issues often lead to OOS, the culprit is just as often supply chain performance, and that is especially true for on-line out-of-stocks. In truth, the retailer's margin was in jeopardy from the beginning due to unforeseen but predictable supply chain risk factors.

It is also important to remember that like products, margin has a shelf life. In the past, the consumer was often patient if a product was not on the shelf, mainly due to the fact their options were limited. Those

- continued pg. 2 -

A Look Back at the Value of Retail Vendor Compliance (continued)

As can be seen from the figure on page 1, improving shipment accuracy and the related category of reducing DC "problem shipments" topped the list, each cited by 85% of respondents. ("Problem shipments" is a term often used in retail to describe a receipt that is just difficult to process for any of a number of reasons, or the shipment sits in the DC awaiting direction from somewhere else in the organization, such as IT or merchandising.) Those top two responses were followed by "poor fill rates," cited by 77% of respondents.

We also note that 54% of respondents cited "cost to track compliance manually/ with existing systems" as a problem to be solved with a new compliance optimization solution. While that was tied for the low spot with ASN/EDI problems, it implies more than half the respondents either had built an internal system that just could not keep up or needed too much maintenance, or else the company had looked at building a compliance tool internally and found it would be too expensive or take too long.

We also asked retailers to rate their level of improvement using compliance software along a number of different supply chain/logistics processes on a scale of 1-5, with 1 being a very high level of improvement, 5 being a low level, and by definition a score of 3 being an average or normal level of improvement.

We took the scores from each recipient, added them together, and divided by the number of respondents to get an average for each area.

Naturally enough, the linked categories of improved adherence to compliance guidelines - in the end the core mission of compliance software - and improvement in chargeback "revenue," which is the key lever for driving vendor compliance, scored the highest, with identical averages of 1.8 across the full population, well above the midpoint.

There are two sides to this coin. One respondent in a side comment noted that "It isn't at all about the chargeback, it's about perfecting retail logistics." But another said, "We simply were not able to identify all the violations we were experiencing with our internal systems, and now with this software we can."

Reduction in the number of problem shipments and improvement in the inbound flow of goods also scored high, with improvements in supply chain visibility and in reducing variability scoring a bit above the midpoint.

There was a lot more in the research, but the overall message was clear: retail vendor compliance solutions deliver a wide range of important operational and financial benefits, with a strong ROI.

I am sure that is as true today if not more so, given the added pressures of ecommerce and highly competitive retail environment, as it was when the study was first completed.

Compliance Networks Corner: 5 Critical Supply Chain Steps (continued)

days are of course long gone in the face of hyper-retail competition and the products a consumer wants always being a just a click away.

Five Critical Steps Supply Chain Steps to Drive Better Merchandise Plan Execution

Where does the supply chain executive start in their quest to influence margin performance? While opinions will vary about where the best place to start is, most will agree the desired outcome is a more predictable and consistent supply chain. In the presence of variability, there will be high safety stocks to mitigate lost sales from OOS. By eliminating vendor-induced variability and providing merchant teams with actual vendor performance related information, retailers can drive down their overall safety stock and improve profitability.

The following are five steps supply chain executives can take to improve merchandise plan execution:

Step One – Focus on On-time Deliveries and Fill Rate (increase sales): The velocity and cadence of promotional events in the retail industry is greater than ever before. Ensuring orders are complete and on-time are critical to most merchants and are fundamental in reducing margin risk – and smart vendor compliance programs have a proven ability to do just that.

Step Two – Monitor and Reduce the Purchase Order Lifecycle (reduce supply chain days): Retailers should continuously monitor the purchase order lifecycle for supply chain improvement opportunities. A shorter and/ or more predictable purchase order lifecycle is clearly more responsive to demand signals, less prone to out of stocks and requires less working capital to fund. Vendor compliance tools can provide this visibility and analytics.

Step Three – Monitor ASN Accuracy Religiously: Poor ASN accuracy can doom inventory integrity, leading to poor merchandise plan execution. While it's important to audit vendors for accuracy, it is also important to focus valuable audit resources on the lower performing vendors versus the higher performing vendors. A vendor compliance tool can drive this audit segmentation.

Step Four – Monitor Transportation Performance: Ensure vendors are adhering to the routing guide for transportation requirements. The selection of a wrong mode or carrier can result in additional supply chain days, while multiple shipments during the same week can accelerate transportation expenses.

Step Five – Over Communicate with Your Vendor Trading Partners: Provide vendors 24/7 access to key performance data. Immediately alert vendors to past supply chain failures, or if possible, alert them to upcoming execution opportunities. Over communicating performance data to key trading partners will result in visibility for all parties involved.

Summary

The value of merchandise plan execution is critical to any retailer's margin objectives. By systematically identifying and eliminating supply chain performance related issues, retailers can mitigate those events that put margin at risk. In an economy where working capital still remains constrained, the supply chain professionals who can run a predictable and consistent supply chain, influence margin performance, and increase operating cash flow will be quite valuable indeed.

Industry News Round Up (continued)

In 2009 Walmart released what is called its Sustainability Index, in which suppliers and products - mostly through self-grading - are scored on their sustainability, based on a framework tailored for different product categories. The approach was developed in conjunction with an organization called The Sustainability Consortium, which led the development of the category-specific assessment systems.

Some 1300 Walmart suppliers are said to be subject to the index, and over the years Walmart has put systems in place to better ensure its buyers are considering index scores when making procurement decisions.

In 2015, Walmart began highlighting companies that scored on the index as "sustainability leaders," dedicating a new section of its website to explaining the designation. More than 3,000 products are marked with the "Sustainability Leaders" badge on the Walmart site, though the company has not shared much information on how if at all that impacts consumer buying behavior.

So how does this new program change things?

"What's new is that we are convening our partners in a way that's going to create a great moment of accountability and action. We've been working on pieces of this, but we haven't packaged it all together into one program that made it easy for others to interact with us, and we haven't shared it all," Phillips said.

"We are initially working with 250 of our top global suppliers, working across multiple product categories like food, personal care products, toys, electronics and apparel," Phillips also said.

Walmart expects its vendors to voluntarily join its Project Gigaton efforts. How will vendor that don't jump in the boat be handled? That isn't yet clear, but we can assume there will be consequences.

Store Closings Continue – but Not all Due to eCommerce

With previous announcements earlier in the year by Macy's, JCPenney, Sears, American Apparel and more, recently women's apparel chain Bebe Stores said it would close its remaining 170 shops and sell only on-line, while teen retailer Rue21 announced plans to close about 400 of its 1,100 locations.

Through April 6, closings have been announced for 2,880 retail locations this year, including hundreds of locations being shut by national chains such as Payless ShoeSource and Radio Shack. That is more than twice as many closings as announced during the same period last year, according to analysis by investment firm Credit Suisse.

Based on historical patterns, Credit Suisse further estimates retailers will close more than 8,600 locations this year in total, which would exceed the number of closings during the deep 2008 recession.

The impact of ecommerce is certainly a factor here, but perhaps surprisingly not the only one. Some of the current closing are the result of retailers adding outlets and selling space in the late 1980s and 1990s far beyond the growth in consumers.

"Thousands of new doors opened and rents soared," Richard Hayne, CEO of Urban Outfitters, told analysts last month. "This created a bubble, and like housing, that bubble has now burst."

Indeed, retail sector analysts have been warning for many years that the US was "over-stored."

"A pair of men's dress pants costs less today than they did a decade ago," Manny Chirico, CEO of Calvin Klein and Tommy Hilfiger parent PVH Inc., observed in a recent interview. Adding to the impact of too many stores of course has also come ecommerce in terms of adding another powerful factor in keeping prices - and margins - low.

Dangerous Games with Vendors for Financially Struggling Retailers

With the wave of retail store closings and bankruptcies, vendors are getting increasingly nervous about shipping goods to many retailers – which can accelerate a troubled retailer's downward spiral.

"Vendors are getting extraordinarily nervous," recently said Hilldun Corp. CEO Gary Wassner, whose firm finances fashion suppliers.

For example, Bloomberg reports that many vendors are demanding payment terms from wobbling Sears Holdings of as little as one week.

A group of suppliers to Payless Shoes, which recently filed for Chapter 11 bankruptcy protection, sought help from the Chinese government when they said they weren't getting paid by the retail shoe giant even before its bankruptcy filing.

Struggling retailers can slow payments to vendors to conserve cash, but it's a dangerous game.

"Lack of faith -- and canceled shipments -- from vendors and [receivables] factors has precipitated numerous retail bankruptcies," said Christa Hart, a consultant at FTI Consulting.

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SEE INSIDE...

For current trends & events in Retail Vendor Management...

- A Look Back at the Value of Retail Vendor Compliance
- Retail Margin Risk: 5 Critical Supply Chain Steps to Ensure Merchandise Plan Execution
- Industry News Round Up