JUNE 2017

Retail Vendor
PERFORMANCE MANAGEMENT BULLETIN

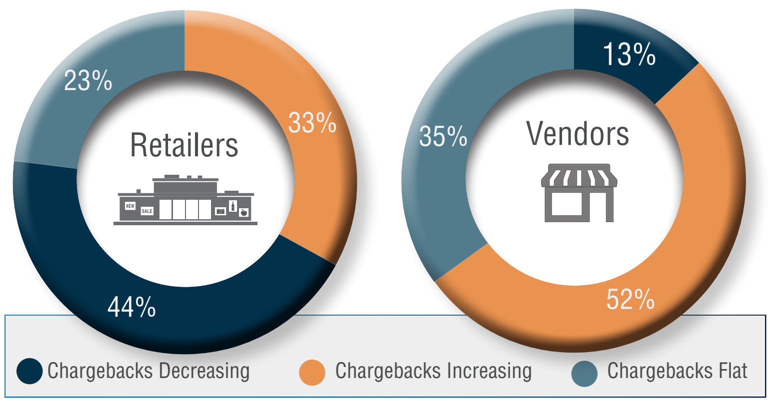
SCDigest to Launch Second Retail-Vendor Survey in July

SCDigest will launch its second bi-annual survey on *"The State of Retailer Vendor Supply Chain Relationships 2018,"* leading to a major benchmark report later in the year. We hope you will participate.

The first survey and report, released in 2015, was based on detailed survey results from 50 retailers and more than 200 manufacturers. The results were not only presented in document form but summarized in an SCDigest on-line "Townhall Meeting" and then later in a keynote presentation at the Fall RVCF conference. The survey this year, as in 2015, will cover a lot of ground, from collaboration to barriers to improved supply chain efficiency to vendor compliance and a lot more.

On that latter topic, after asking both retailers and manufacturers about the current state of chargebacks, we then also asked both sides of the relationship how they thought chargebacks would play out over the next five years, the results of which are shown in the graphic to the right.

What Will Happen Over the Next 5 Years with Regards to Chargebacks?



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Industry News Round Up

Gartner Announces Top 25 Supply Chains for 2017

Gartner was out in late May with its annual top 25 supply chains, continuing the practice initiated a number of years ago by the former AMR Research, which Gartner acquired in 2009.

Only three retailers made this list – number 3 Inditex (parent of Zara and other retail banners), no. 5 H&M, and Walmart at number 18 (assuming you don't count restaurant chains McDonald's and Starbucks as retailers).

The list is calculated in what appears to be an objective fashion, but which really has quite a bit of subjectivity. Greatly simplifying, the factors and weighting used in determining the rankings are as follows:

- Financial Measures in 2016 (return on assets, revenue growth, inventory turns): 40%
- Ratings from Supply Chain Practitioners Recruited by Gartner: 25%
- Ratings from Gartner's own Analysts: 25%
- A Score for Corporate Social Responsibility (based on 3rd party ratings): 10%.

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Compliance Networks Corner:

Decisions, Assumptions, and Retail Vendor Performance

Richard Wilhjelm, Compliance Networks

As someone who has made his share of bad decisions and then some, far be it from me to discount the value of good decision-making. But as conventional wisdom supported by popular business literature would have it, good decision-making is a major key to success. But good decision-making is not the only component to a positive outcome. Good assumptions are just as important as the decision itself, and of even greater importance is the need for a rigorous process to continuously challenge our assumptions going forward. Let me explain.

As the father of 3 daughters living in South Florida, nothing is more harrowing than watching your child pull away in a car. Countless times I have expounded on the virtues of not only good decision-making on the road, but to make good assumptions as well. For example, if you are sitting at a red light and it turns to green is it a good decision to go? Of course

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SCDigest to Launch Second Retail-Vendor Survey in July (continued)

As can be seen, 52% of vendors believed in 2016 that the level of chargebacks would grow over that period versus just 33% of retailers that saw things that way. Meanwhile, a solid 44% of retailers actually believed the level of chargebacks will decline over those 5 years, versus just 13% of vendors.

That clearly indicated two very different perspectives. SCDigest believes it was probably something like this: retailers believe a combination process improvement and the pain of the chargebacks would eventually lead vendors to reduce their compliance violations. Vendors, on the other hand, believe retailers will get more aggressive in this area, and find new ways to trigger deductions.

What insights will the 2017 study produce? We'll know in a few months. It is really the only study of its kind, and produced very interesting an important results. We plan to include more questions about how the rise of ecommerce is impacting retailer-vendor relationships this time as well.

Please take a few minutes to complete the survey if the invitation comes your way.

Our previous Benchmark Report saw responses from over 50 retailers and 200 manufacturers.

Compliance Networks Corner: Decisions, Assumptions, and Retail Vendor Performance (continued)

it is. But is it good to assume all the other drivers are going to stop when their light turns red and proceed without caution? Have you been to South Florida lately?

Keeping with our South Florida theme, another example is the pre-hurricane dance my neighbors and I experience every time a storm approaches: we stand in our front yards and debate whether the hurricane will hit us or not. Inevitably, and predictably, we arrive at "no", because a "yes" answer will involve countless hours in the hot sun putting up and taking down heavy shutters - a perfect example of a self-serving assumption at work.

So, what does this have to do with vendor performance and supply chain improvement? In a word, everything. Poor and self-serving assumptions cloud decision-making in all facets of life. When mistakes are made, it is often attributed to "poor decision-making" while rarely examining the assumptions that led to the poor decision in the first place. Are all assumptions self-serving? No, but it doesn't take many self-serving assumptions to corrupt a decision-making process.

In 2011, Compliance Networks partnered with Auburn University and the Retail Value Chain Federation to present Facilitating Supply Chain & Visibility Accuracy, An Analysis of ASN Benchmarks and Best Practices . The study concluded that 3-7% of ASNs are inaccurate, resulting in potential margin risk for the retailer. If inventory is overstated, the retailer encounters out-of-stock scenarios which, in addition to the lost margin, also result in damage to the brand. If inventory is understated, unnecessary capital and holding costs are required as well as markdowns.

Both scenarios can be avoided if the retailer challenges the assumption that all ASNs are correct. Are these assumptions at times self-serving by the practitioner? Perhaps. We often see retailers relying on past performance (remember what your stockbroker told you), personal relationships with the vendors or even in certain cases the vendor's brand cache. Whatever the case, the process of rigorously measuring vendors' ASN performance is clearly a best practice and yields positive financial results. And in this omni-channel dominated environment, speed, accuracy and inventory integrity are more important than ever.

So, is decision-making overrated? That's one of those silly questions posed in the footer of a TV sports or political show. But in many cases, I believe the answer is "Yes". Hindsight is 20/20: we can look back at things we would have done differently, such as investments, career choices, relationships, business decisions and even vendor performance initiatives. The bigger question going forward is: are we rigorously challenging our assumptions to improve decision-making and drive better, more profitable outcomes?

In 2017 Compliance Networks will again partner with Auburn University and the Retail Value Chain Federation to refresh the 2011 study. Details of the study and how you can participate will be posted here at Supply Chain Digest soon. Stay tuned.

Industry News Round Up (continued)

Gartner's Top 25 Supply Chains for 2017

2017 Rank	Company	2016 Rank	2015 Rank
1	Unilever	1	3
2	McDonald's	2	2
3	Inditex (Zara)	6	5
4	Cisco Systems	7	6
5	H&M	5	7
6	Intel	4	3
7	Nestlé	10	17
8	Nike	11	10
9	Colgate-Polmolive	13	9

2017 Rank	Company	2016 Rank	2015 Rank
10	Starbucks	12	12
11	PepsiCo	15	15
12	3M	14	14
13	Johnson & Johnson	21	21
14	The Coca-Cola Co.	9	11
15	Nokia	N/A	N/A
16	BASF	20	N/A
17	Schneider Electric	18	N/A
18	Walmart	16	13

2017 Rank	Company	2016 Rank	2015 Rank
19	HP Inc.	17	N/A
20	L'Oréal	19	22
21	Kimberly-Clark	24	20
22	BMW	22	N/A
23	Diageo	N/A	N/A
24	Lenovo	25	18
25	Samsung Electronics	8	8

The methodology gives big advantages to certain companies, such as number 2 McDonald's and its 175 inventory turns in 2016, while disadvantaging sectors with low turns or growth, such as department stores and many specialty retailers.

Above is the 2017 list. Apple and Procter & Gamble were placed in the "Supply Chain Masters" category for the second straight year – "a supply chain hall of fame" – and not on the main list.

The Gartner top 25 supply chains - it has many faults, but it is the best we've got.

Will We Really See "Ultrafast" Fashion?

Interesting blog post recently from Paula Rosenblum of RSR Research on so-called "fast fashion" retailers – those able to turn concepts into products on shelves or on-line in a faction of the time it takes traditional apparel retailers – Zara being the most prominent example.

Rosenblum says that "There are even some signs that the fast-fashion market itself is getting saturated, with mutterings over the past year that privately held Forever 21 has been having trouble paying its bills, and some reductions in giant H&M's gross margin and operating income with a concurrent increase in inventory-to-sales ratios, even as it continues opening stores around the world."

She brought that subject up after receiving an email from trading giant Fung Global Retail and Technology, announcing the advent of "ultrafast fashion," - retailers are ostensibly able to produce merchandise in 2-4 weeks, compared to 5 weeks for Zara and [some products of] H&M.

Fung estimates traditional apparel retailers can produce merchandise in 6-9 months – though Rosenbum thinks that estimate is low. The last time RSR ran a benchmark on product development, the time to volume remained 12-18 months, adding that "Actual numbers from H&M's financial statements tell us that only a portion of their product is produced in a true fast-fashion manner."

"If a company can affordably and profitably produce merchandise that people actually want to buy in two-to-four weeks, we're in big trouble as an industry. It's the mother of all disruptors. But I'm not sure it's actually doable," Rosenblum writes.

Why? As with the old adage, retailers can only have two of speed, cost and quality. She believes that ultrafast fashion will face this trade-off – and likely find its costs are very high, assuming they want to produce a quality product quickly. With many operating on-line only, marketing will also be tricky – and likely expensive relative to sales, save a few which get lucky with social media.

But the retail world has changed forever, Rosenblum notes, with "Generation Z" soon entering prime spending years, and their consumer behavior is likely to be far different than the Millennials that preceded them.

"Look for talent in schools, look for technology solutions, and look for closer sources of supply. And most importantly, recognize that constant change is now a fact of life," Rosenblum concludes. "Slow and steady won't win the race, but savvy retailers will."

TJ Maxx Sourcing Practices Questioned

A recent article in the Boston Globe alleges that to keep its selection fresh and on price point, TJX Companies sources from "no-name factories" both domestically and abroad, and those factories have been scrutinized for sweatshop conditions and substantially underpaying workers.

The allegation isn't a new one for TJX. In December, the Department of Labor warned the company that it needs to do better at policing its manufacturers - especially considering many are engaged in subcontracting to factories that are unregulated and often rife with poor labor and safety practices.

TJX has since said its vendor code of conduct requires all vendors, both domestic and abroad, comply with US labor and wage laws.

In order to compete with fast fashion, TJX has had to make some on-trend items closer to home for quicker deliveries, and that's where the Labor Department said the problems exists. In Los Angeles, factories are allegedly producing goods for TJX at pay rates below minimum wage.

TJX has been outperforming most other apparel retailers of late. It sells products in an average of just 25 days – far below the average department store cycle.

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