

# Retail Vendor

## PERFORMANCE MANAGEMENT BULLETIN

### SCDigest Launches Second Benchmark Study on Retail-Vendor Supply Chain Relationships

#### *It's back!*

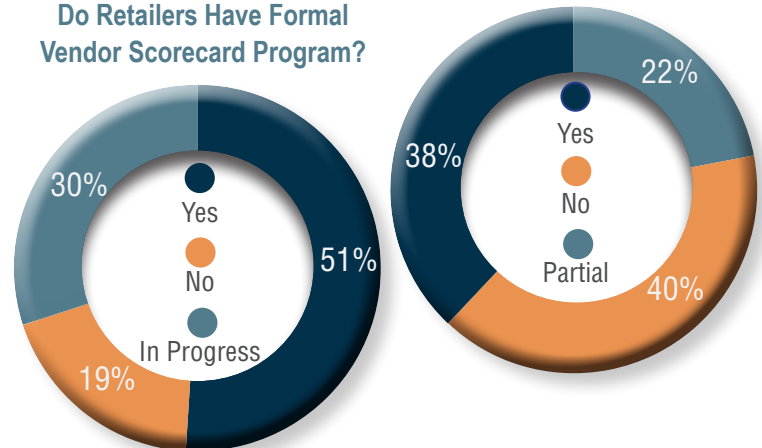
In 2015, *SCDigest* launched a landmark report on the state of supply chain relationships between retailers and vendors. We wanted to answers such questions as: What is the real status of retailer and vendor/supplier relations today? Is it getting better and more collaborative - or heading the other way? What are the real barriers to supply chain collaboration? What are the trends in chargebacks, deductions and requirements? Is the focus on improving supply chain performance - or something else?

We believe these are all questions that have rarely been answered in previous research.

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Do Retailers Have On-Line Portal for Vendor Performance?

Do Retailers Have Formal Vendor Scorecard Program?



### Industry News Round Up

#### Walmart Getting Tough on Vendors to Reduce Variability



Walmart is again tightening up on rules and fines for vendor shipments in terms of hitting delivery windows and fill rates. That news from an article on *Bloomberg.com*, based on its review of a powerpoint presentation recently presented to Walmart vendors.

Soon, vendors will be receive a 3% chargeback on the value of goods shipped by vendors to Walmart which arrive late or are incomplete.

That with tighten requirements for deliveries, which now must hit a 95% threshold for being on-time and in-full, often referred to as OTIF, under a Walmart program of that name.

The *Bloomberg* report is a little confusing and in some places contradictory, but *SCDigest* believes it is directionally accurate, as Walmart continues to try to drive vendor performance to improve financial results and compete with Amazon.

Walmart says in the presentation that the new rules should drive \$1 billion in additional sales for the company by improving in-stock positions. The new rules begin in August, and the

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### Compliance Networks Corner:

#### It Really Is About Fully Managing the PO Lifecycle

A big part of ensuring on-time/complete performance is measuring and understanding the retail purchase order lifecycle and anticipating risks before they occur.

Chronologically speaking, the purchase order lifecycle (POL) is the amount of time it takes a retailer to create and receive a purchase order. While the calculation appears simple, the ramifications are significant from both an operational and financial perspective. The POL isn't just a calculation, it's a book that tells the story of a retailer's supply chain's performance.

Taken individually, each purchase order describes an event and a timeframe. Purchase order #123 took 23 days and we received 7 widgets. Taken collectively, the purchase orders create a consistent pattern of performance that can be leveraged to make future buying, operational and financial decisions.

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

Now, not only will we see the data for 2017, we can also compare it to the 2015 results to see trends and direction in a variety of key issues.

An example of the kind of data generated from the first study is shown in the chart on Page 1, showing how retailers are measuring vendor performance and communicating those results.

In 2015, we had responses from about 200 manufacturers and 50 retailers, and we hope to meet or exceed those numbers in 2017 – but we need your help.

New this year are a few questions about how ecommerce is impacting retail vendor management. We also plan to create an index based on two years' worth of survey data so we can see whether these critical supply chain relationships are improving – or not.


Again this year, RVCF is supporting the research, promoting the survey to its member retailers and manufacturers. The results

will also be presented at RCVF's Fall conference in Scottsdale, AZ November 5-8, 2017.

There is nothing like this study, and it will be another important addition to supply chain knowledge in the consumer goods to retail sector.

Survey respondents will receive a free summary of the results – and of course your answers will be kept completely anonymous – we guarantee it.

To participate in this important survey, visit *SCDigest's* home page ([www.scdigest.com](http://www.scdigest.com)) and look under Latest Supply Chain Research section.

The survey will be open through the end of August, with the report expected in early October. 

***To participate in the 2017 survey, visit SCDigest's home page ([scdigest.com](http://scdigest.com)) and look under the Latest Supply Chain Research section. The survey will be open through August 31, 2017.***



## Compliance Networks Corner: It Really Is About Fully Managing the PO Lifecycle (continued)

Vendor ABC was on-time 98.9% of the time and had a fill rate of 96% during our peak season - information that can be used to mitigate vendor risk. Understanding your vendors' past results is crucial to predicting their future performance.

However, while the value of measuring purchase orders in aggregate to create the PO lifecycle may be apparent, how and what data elements to capture may not. What data elements are needed to develop these metrics? Avoid measuring performance based simply on the data that is readily available. The right analytic tools can identify relationships in the data and spot emerging trends that may not be clear in a standard report.


Obviously, the more we can capture, the more clear our picture of our vendor's overall performance becomes. Common elements in PO life cycle reports include PO create date, start date, stop date, ASN date, pick up date, ship date, arrival date, troubles (shipments) and audits, just to name a few. If retailers capture and aggregate this information, they can identify vendor performance patterns (and opportunities) such as average create to start, average create to stop, average create to ASN, average pick up to arrival and average arrival to first receipt. Once we see the vendor's overall performance we can easily identify the areas of opportunity and reduce the overall PO Lifecycle.

### Generating Value

As a supply chain professional you may be asking yourself, why should I measure the purchase order lifecycle? It sounds tedious, time consuming and I have 10 other "high value" projects sitting on my desk. The answer is simple - "that's where the money is."

Retailers invest significant sums of money in safety stock or additional supply chain days to ensure merchandise is available at the shelf. Much of this safety stock could be eliminated if the retailer had a detailed understanding of their purchase order lifecycle.

By understanding the individual elements of the purchase order lifecycle and the time required to complete them, the retailer can leverage the information to reduce supply chain days. Compliance Networks recently worked with one retailer that was able to take two weeks of inventory out of its supply chain by better understanding his purchase order lifecycle.

By identifying and then reducing the purchase order lifecycle, retailers can significantly impact their organization's overall performance. Financial benefits a retailer can expect to receive include a reduction in overall working capital, a reduction in DC expenses and inventory carrying costs, and an increase in return on invested capital (ROIC). 

### Industry News Round Up (continued)

company said they will require full-truckload suppliers of fast-turning items -- groceries, paper towels - to "deliver what we ordered 100% in full, on the must-arrive-by date 75% of the time."

Items that are late or missing during a one-month period will incur a fine of 3% of their value. Early shipments get dinged, too, because they create overstocks. "Variability is the No. 1 killer of the supply chain," Kendall Trainor, a Walmart manager, said in a presentation to vendors earlier this year.

Target stores similarly took moves with vendors to reduce variability in on-time and fill rates in mid-2016.

Meanwhile, before all that, Satish Jindel, president of SJ Consulting Group and ShipMatrix, caused a stir in late June when he told attendees at the SMC3 conference in Palm Beach that Walmart is sending veiled messages to trucking companies that carry its freight that if they do business with Amazon too, they may not want to work with them anymore. The comments were picked up by a variety of media, from logistics sites to investor-oriented ones.

Walmart has strongly denied it is using such tactics.

Describing the battle royal between Walmart and Amazon as a retail "cold war" at the conference, Jindel later told the *New York Post* that "I know that Walmart has expressed its views to truckload carriers."

"Walmart would prefer to do business with carriers that are not doing business with Amazon," in part due to concerns about their ability to handle high volumes of deliveries during peak times, Jindel said.

Jindel added that Walmart began having these conversations with carriers over the past 30 days or so, and that he has talked directly with some of those carriers.

"These developments, if true, are likely to have significant implications for US transportation companies as Amazon and Walmart remain two of the largest users of truckload capacity," wrote Deutsche Bank industry analyst Amit Mehrotra in a research note based on the news.

A Walmart spokesman denied the company has had discussions with trucking companies about high-peak delivery times or about Amazon, adding "it would be illegal for us to tell them who they can do business with."

Walmart also sent an email to *Heavy Duty Trucking* magazine that "This report is false."

### Another Factor in Retail Sales Woes

Most observers blame the growth of ecommerce generally and Amazon specifically as the source of top and bottom line challenges at traditional retailers – but that is hardly the only factor.

Put simply, U.S. consumer spending habits are changing dramatically. The chart below from a recent report by Deloitte, based on US Bureau of Labor Statistics data, tells the tale: the percent of income spent by US consumers on "goods" is falling sharply, while spending on services continues to rise.

"More and more, the data suggest that consumers are choosing experiences over physical product, shifting spending away from more traditional retail categories," Deloitte notes, adding that "This furthers the view that the complexity of the disruption needs to be understood beyond a simplistic brick-and-mortar vs. online view."

### Amazon Is Buying Products from Some US Brands at Full Price To Build Global Inventory

Amazon is trying to boost its catalog by telling marketplace sellers in the U.S. that it will buy their inventory at full retail price.

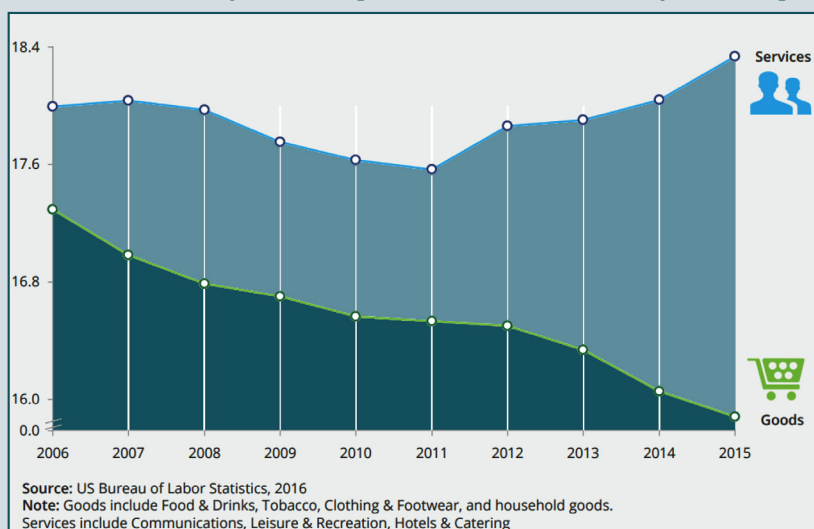
**amazon.com**

In an email sent to sellers and obtained by CNBC, the Fulfillment by Amazon (FBA) team said a new program is being introduced where Amazon will buy products at full price from third-party merchants, then sell them to consumers across the globe. "For a

limited time, there will be no additional fees, and we will purchase inventory at your local marketplace offer price," the email said.

The new program, which follows a similar rollout in Europe, is the latest move by **Jeff Bezos** to build up a complete catalog, even if Amazon can't make any money on the products in question. In some cases, Amazon is approaching these third-party merchants after the manufacturer has declined to distribute the products through Amazon.

Consumer Expenditure [% of total household expenditure]



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