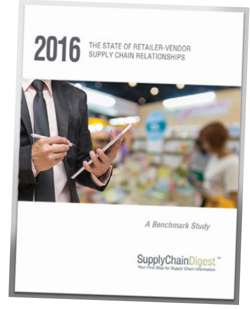
AUGUST 2017

Retail Vendor

PERFORMANCE MANAGEMENT BULLETIN

Still Time to Participate in SCDigest's 2nd Benchmark Study on Retail-Vendor Supply Chain Relationships



It's back – but time is running out.

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.

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 2, on how retailers rate the biggest challenges in vendor performance, with average scores on a scale from 1 to 5 in which 5 indicated the highest challenge.

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

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Industry News Round Up

Walmart Sees Sharp eCommerce Sales Rise, Looks to Vendors to Help Fund Investments

Walmart's ecommerce sales were up 60% in its most recent quarter, according to its earnings report in August. However, much of that growth is coming as a result of its acquisitions of Jet.com, and smaller etailers such as ModCloth, Moosejaw and ShoeBuy, not from purely organic growth as is the case with Amazon.

The Walmart news on the brick and mortar side was also positive, with same store US sales up a strong 1.8%, the 12th consecutive quarterly increase in that metric. But Walmart is finding like Amazon that it takes a ton of investment to drive that growth.

The *Wall Street Journal* reports that over the past year Walmart has used automation to replace some jobs and laid off more than 1,000 corporate employees. But as usual, Walmart is also looking to vendors to help fund many of its investments by pressuring vendors to cut their prices, increasing the fees they pay to pass inventory through its distribution centers, and narrowing the shipping window vendors must hit to avoid fines.

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Compliance Networks Corner:

"BOPIS" to the Rescue

Richard Wilhjelm, Compliance Networks

As we hit September, the back to school season is upon us. In my case, my middle daughter is leaving home for the first time to begin her college experience. Unlike my distant college experience, she and her roommates put together a tidy spreadsheet detailing who would be responsible for supplying what in their new apartment. Days before their move-in date, one glaring weakness emerged in their planning: who would bring the router?

"Oh, my dad will get it" responded my daughter, "he is in the computer business…", as though I enjoyed configuring home routers in my spare time. While the spreadsheet was well-intended, teenage procrastination somehow had seeped into their well-defined project plan. The timing of the omission meant Amazon was no longer an option and a traditional brick and mortal retailer five hours away in Gainesville, Florida would be my only solution: BOPIS (Buy Online, Pickup in Store) to the rescue.

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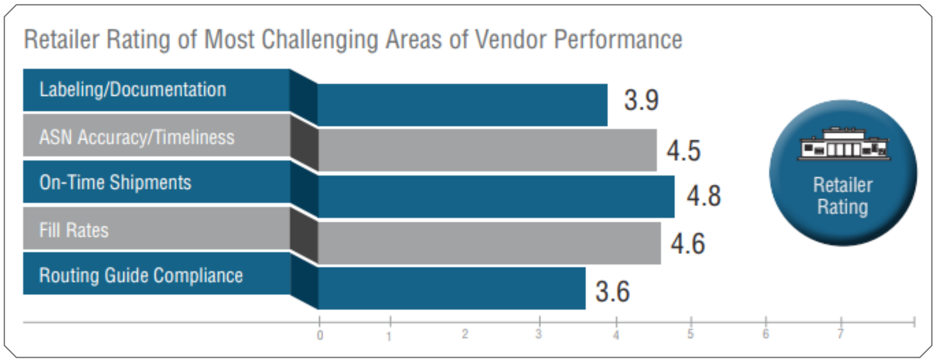
Still Time to Participate in SCDigest's 2nd Benchmark Study... (continued)

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

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

All 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 the 2017 survey, visit SCDigest's home page (scdigest.com) and look under the Latest Supply Chain Research section. The survey will be open into September, with the report expected in mid-October.

Compliance Networks Corner: "BOPIS" To The Rescue (continued)

In 2015, I wrote an article for *Supply Chain Digest* suggesting that traditional brick and mortar retailers had a strategic edge over the e-commerce retailers when the consumer absolutely needed the product "now". Apparently, that trend continues to grow: a recent article on *FierceRetail* reports BOPIS is up 44% YTD. While 2-day delivery has become table stakes for the e-comm world, this report suggests there exists a growing demographic of consumers for whom only "now" will suffice.

I believe this represents both opportunities and challenges for the traditional retailer. Opportunities exist because that segment of the population demands instant gratification which allows traditional retailers to firmly stake out a corner of the ring that e-comm vendors can't offer, yet.

Challenges exist because traditional retailers' supply chains must be agile enough to adapt to this rapidly shifting marketplace. From my perspective, based on my work with senior retail supply chain executives, supply chains of the future will require the following four characteristics going forward:

1. **Visibility –** the ability to see into the supply chain, understand performance, anticipate problems and react.

2. **Speed –** to improve traditional delivery times, shrink the purchase order lifecycle and optimize capital by reducing overall inventory investment.

3. **Execution –** to operate with a minimum amount of supply disruptions creating trust amongst all stakeholders.

4. **Inventory Integrity –** to be able to publish with confidence, inventory levels that will maximize sales, delight customers and protect the brand.

Why are these characteristics so important to traditional retailers moving forward? Because e-comm retailers are not their only competition. Traditional retailers must also compete with exchanges (Wal-Mart, Amazon, Rakuten and New Egg) and with brands that offer direct-to-consumer (DTC) sales venues (Nike, New Balance and M&M's).

In future articles, I will examine each of these following areas and provide specific examples where these characteristics are "table stakes" for traditional retailers moving forward. As I have mentioned in previous articles, supply chains continue to increase the competitive value they bring to retailers.

And of course, you can't ship to store if you don't have the product in the DC, or you have to ship more expensively from a more remote DC or vendor drop ship. So as with most things in retail, vendor performance is key, which involves compliance, performance management, and reducing variability.

Will BOPIS be the saving grace for traditional retailers moving for forward? Will it continue to grow as the FierceRetail report suggests? Will it be a key differentiator in an industry that continues to shift and fragment on what seems like a daily basis? We will see how that plays out, but, in my case, I'm grateful that it's the perfect antidote for teenage procrastination.

Industry News Round Up (continued)

Is there an opportunity for your company to use vendor performance management to deliver cash to fund omnichannel investments, as Walmart is doing? That is certainly worth a look.

Is Blockchain Tracking in Your Extended Supply Chain Future?

In late August, IBM announced 10 food industry companies had recently signed up with IBM to test the use of so-called blockchain technology for tracking the movement of food products across the global supply chain. The goal is to increase visibility and reduce risk.

Participants in the test include Nestle, Unilever, Kroger, McCormick & Company, Dole Foods, Golden State Foods, Driscoll's, distributor McLane, and Tyson Foods. They all join Walmart, which began a blockchain pilot with IBM last year.

Walmart has said that in the trials the time it took to trace the movement of mangoes fell to 2.2 seconds from about seven days without blockchain. It added that a single product recall could cost anything from tens of thousands to millions of dollars in lost sales – a risk block chain may be able to reduce through better visibility and awareness of emerging supply chain issues. The scale of a given recall might also be reduced from the improved visibility and traceability.

A blockchain is a data structure that makes it possible to create a digital ledger of transactions and share it among a distributed network of users. It uses cryptography to allow each participant on the network to update the ledger in a secure way without the need for a central managing authority, even across disparate companies.

Once a block of data is recorded on the blockchain ledger, it's extremely difficult to change or remove. When someone wants to add to it, participants in the network - all of which have copies of the existing blockchain - run special algorithms to evaluate and verify the proposed transaction. If a majority of nodes agree that the transaction looks valid - for example, that identifying information matches the blockchain's history - then the new transaction will be approved and a new block added to the chain.

So in a blockchain network, all participants – vendors, transportation providers, ports, etc. – update information on the movement of goods all the way to final destination, providing end-end-end visibility, though of course each entity has to agree to participate.

While the safety and recall aspect makes the food industry especially ripe (pun intended) for use of blockchain, other sectors could also benefit. For example, in the apparel industry, blockchain could be used to better track the actual supply of garments to ensure only authorized/approved vendors were used – a huge problem in the industry.

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Across all industries, especially long supply chains with product coming from Asia, blockchain may allow total cycle times to be reduced from increased visibility about where product movements are slowing.

Robotic Sewing Coming to Arkansas – and Maybe Your Vendor List

Chinese clothing manufacturer Tianyuan Garments Company announced in late August that it will open a new garment factory in Arkansas next year, which will run primarily with the use of autonomous robots and a few human supervisors.

Once factory operations are in full swing, the 21 production lines are expected to produce 1.2 million T-shirts annually, at a total production cost that's competitive with apparel companies using low-wage countries to manufacture garments, the company says. Tianyuan Garments Company is one of the first businesses to use the sewbots, which could advance apparel supply chains in coming years – and bring some manufacturing back on-shore.

Atlantas-based SoftWear Automation developed the sewbots that will be used in Tianyuan's new factory. In 2012, researchers received a grant from the Defense Department's technology innovation wing, DARPA, to work on the sewbot concept and form SoftWear Automation. Two years ago, SoftWear Automation began selling sewbots that could help produce bath mats and towels. The company's newest robot models will be deployed in the new factory and have the capability of making many apparel items, including T-shirts and jeans.

Computer vision is the key technology behind the sewbots, used to analyze and watch fabric so the fabric can be advanced through the sewing process efficiently and with quality.

For now at least, the robots are best used for simple garments, with humans still needed to stitch more complex goods. But this is something to keep an eye on for sure.

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