FEBRUARY 2018

Retail Vendor
PERFORMANCE MANAGEMENT BULLETIN

The State of Retailer-Vendor Supply Chain Relationships 2018

As noted last month, *Supply Chain Digest* is back with our second biannual benchmarking study on the state of retail and vendor relationships and collaboration.

This year's report, based on a survey of 44 retailers and 165 consumer goods companies, of course comes at a time of immense change and stress for both retailers and many vendors, as ecommerce, Amazon and changing consumer behavior play havoc with many areas of these industries.

Here again this month we highlight some of the research findings from the report. Last month, we looked at current views of retailers and vendors relative to trends in chargebacks. This month in the *RVPM Bulletin*, we look at predictions for where chargebacks are headed.

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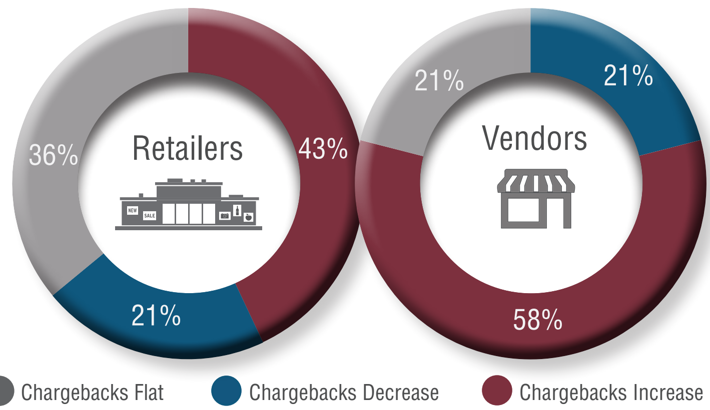
What Will Happen over the Next 5 Years with Regards to Chargebacks?



Industry News Round Up

Amazon Distribution Footprint to Keep Growing in 2018

Marc Wulfraat, President of MWPVL International, is one of the more interesting supply chain consultants out there. In addition to his normal work in supply chain and logistics, he has carved out a great niche as the foremost expert in ecommerce fulfillment generally and Amazon and Walmart specifically.

Wulfraat noted in some supply chain predictions for 2018 for *SCDigest* that in 2017, *Moody's Investor Services* identified 26 distressed retailers with troubled financials that could make them potential bankruptcy risks. The number represents a stunning 19% of the retailers that *Moody's* tracks and it surpasses the list of 19 recorded at the peak of the Great Recession. It is likely to get worse in 2018, even here in good economic times, Wulfraat added.

"This profound turbulence in the retail landscape is not just about distressed retailers," Wulfraat says. "Talk to any major retailer with a healthy balance sheet and the story of the day is

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Compliance Networks Corner:

BOPIS Will Force Retailers to Reduce Vendor Shipment Variability

Greg Holder, CEO, Compliance Networks

I recently did an interview with Dan Gilmore from the Supply Chain Television Channel discussing a recent Wall Street Journal Article titled "Walmart and Kroger Get Tough with Food Suppliers on Delays." The subtitle was "Traditional grocers battling Amazon want to claw back sales lost when items are out of stock, equal to some 10% of annual sales, they say."

Dan asked me if this was news. It is news to the grocery industry but apparel and hard goods retailers have been levying fines on vendors for shipping on-time and complete and other supply chain failures for years.

What is new is that in this brave new world of ecommerce and the success of Amazon, retailers are leveraging their physical stores as a competitive advantage to satisfy a busy consumer. It is known as BOPIS or "Buy Online, Pick up in Store".

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The State of Retailer-Vendor Supply Chain Relationships 2018 (continued)

Both retailers and vendors believe chargebacks are going to head still higher. As can be seen in the chart on Page 1, 43% of retailers and 58% of vendors expect chargeback levels to rise, with only 21% of each group predicting chargeback levels will decline. In fact, slightly higher percentages of each group expect chargeback levels to rise in this study than in the previous study, in which 33% of retailers and 52% of vendors predicted chargeback levels would rise. It appears from our current data that they were right.

"Over the past 18 months we have become more attuned to identifying and reporting compliance errors. In the past many errors would be corrected without being reported. We expect this trend to continue over the next 2-3 years," one retailer noted.

Added one manufacturer: "We need to be smarter to understand the requirements and incorporate the strictest rules from all of our retailers into the general rules of our company."

As noted last month, Walmart and Target both have recently announced programs to reduce vendor variability. Grocers HEB and Kroger have also launched similar initiatives, in a first for the grocery sector. Is this a real overall trend in the consumer goods to retail supply chain? An emerging one, our survey data says.

A significant 30% of retailers say reducing vendor-caused supply chain variability is a major focus area, with another 59% saying it is at least a modest focus.

On the vendor side, 15% see variability as a major retail focus, though the vast majority (66%) say they aren't sure yet.

The excellent full report can be found at www.scdigest.com/retail_vendor_performance.php

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

Home Depot, Best Buy and others have been doing it for years. Grocers are taking it a step further. Basically you enter your grocery list, an associate will pick the order and notify you when it is available to be picked up. You drive to the grocery store, park in a special location, call a number and tell them what space you are in and they deliver your merchandise. Pretty cool.

Thinking about my personal grocery shopping experience helps me understand this better. I went shopping with my wife for Thanksgiving. She had a two page list of items and would highlight the items as she handed them to me to place in the basket. (I am a logistics guy and load grocery baskets as if I were loading a trailer so she is not allowed to put items directly in the cart.) Too often that day and on others, what is on our list was not on the shelf. Occasionally, on similar trips we ask a store associate if there is any in the back. Sometimes yes, sometimes no but every time we check out, the checker asks: 'did you find everything you were looking for today?' Sometimes yes, sometimes no, but nothing happens. They don't ask what, they don't write it down, they are just being friendly and asking. Maybe they talk about it in morning meetings.

Back to BOPIS: Now think about the same process where a store associate is picking an order. They have a picking list (grocery list) and are moving up and down the aisles to pick my order. When they can't find something on the shelf, I assume they look in the back and then call a manager. As the BOPIS trend continues, the manager is getting called more and more often. Eventually, district managers here it more frequently from their store managers and regional managers hear it from the district managers and so on. Store operations makes an effort to identify empty shelves and keep product moving from the back rooms.

What happens when it is not in the store? How do we get it here?

Walmart and Kroger and even Target have turned their attention to the vendor community. They recognize they can't sell it if they don't have it and shipping variability is having an impact on their in-stock position. To that end, Walmart has reduced their delivery window from 4 days to 2 and increased their fill rate requirement from 90% to 95%. Kroger, according to the article, is fining suppliers $500 for every order that is more than 2 days late.

Will this solve the problem? It is only one tactic of several that should be investigated. Retailers need to do more to correct poor inventory accuracy in the stores. For years we have discussed poor ASN Carton Accuracy as one driver for inaccurate store inventory. Retailers also need to do more to understand shipping variability and reduce it or at least account for it. What changes would be made to the order process if a buyer knew one category for a vendor had a typical fill rate of 95% and another 87%? What if they knew one vendor always shipped 5-7 days late? Or if three vendor DCs shipped on time but one vendor DC was always 5 days later?

This is all a lot of information for a human to consume but easy for machines if the data exists. This is an exciting time for us because 17 years ago we started a company to help retailers automate the vendor compliance process; from identification, calculation and communication. To do that we needed data from execution systems. As a result, we have the data that can help retailers make this a reality.

We might not eliminate all out of stocks but perhaps next Thanksgiving we only have to go to two stores and not four.

Industry News Round Up (continued)

that the business is shifting away from retail to on-line, and store closures are being planned."

He notes for example the recent news that Walmart abruptly closed 63 Sam's Clubs stores, of which 10 will be converted into regional ecommerce fulfillment centers.

In the face of that, he notes that "Amazon will continue its record-level spending on distribution infrastructure build-out in 2018, which is good for suppliers of buildings and equipment, and bad for Amazon's competitors."

He calculates that in 2017, Amazon added about 26.6 million square feet of distribution space in the US and another 12.6 Million square feet in the rest of the world. In 2018, MWVPL is aware of an additional 23 million square feet of distribution space being added by Amazon to the US market, and the company expects that this number will be closer to an incredible 30 million by year-end 2018.

The Robots Are Coming for Garment Workers Too

Very low cost wages have led Bangladesh to see its exports of apparel goods reach almost $30 billion annually – but apparently even rock bottom labor costs aren't enough to stop automation there.

For example, as recently reported by the *Wall Street Journal*, the Mohammadi Fashion Sweaters Ltd. factory in Bangladesh's capital of Dhaka began automating the sweater knitting process at its factories in 2012, and by last year, the knitting process was fully automated.

"It doesn't make sense for us to slow ourselves down" and not automate, says Rubana Huq, managing director of Mohammadi Group, which makes sweaters for H&M, Zara and other Western brands. Her factories have replaced about 500 workers with machines - and the company may buy more, she says.

What's going on? Though still very low, labor costs in Bangladesh and other low cost countries are rising. In the face of that, technology is becoming so advanced that machines can increasingly handle difficult tasks such as manipulating pliable fabrics, stitching pockets and attaching belt loops to pants.

"All that is upending the economics of the apparel industry, which long served as the first rung on the economic ladder for poorer countries, especially in Asia," the *Wall Street Journal* says.

In fact, a 2016 *International Labor Organization* study predicted some Asian nations could lose more than 80% of their garment, textile and apparel manufacturing jobs as automation spreads.

The automation will help keep much apparel manufacturing in countries such as Bangladesh. But it may also lead to some production moving back to developed economies.

As an early example, banks of these so-called "sewbots" will be used next year in a Little Rock, Ark., factory operated by Chinese garment producer Tinyuan Garments. Nike, Under Amour, and Adidas are all developing highly automated shoe production facilities in the US and/or Europe.

One garment automation technology vendor, in fact, predicts sewbots will eventually make individual clothing items automatically on demand after they're ordered on-line, reducing the need of fashion brands to outsource production to Asia.

> *"Walmart's US ecommerce sales grew 23% in Q4 – a big drop from 50% growth seen in Q3... [the company reported in its' Q4 earnings call] quarterly earnings slumped 42.1% to $2.2 billion, as "investments" to keep prices low and effects of on-line sales of lower-margin items* ***hurt profits.***
>
> *As a result, Walmart's stock price fell 10.2%, the largest one day drop in more than 30 years."*

Walmart's eCommerce Growth Slows

Walmart's US ecommerce sales grew 23% in Q4 – a big drop from the 50% growth seen in Q3. In addition, quarterly earnings slumped 42.1% to $2.2 billion, as "investments" to keep prices low and the effects of on-line sales of lower-margin items hurt profits, the company said in its Q4 earnings call.

As a result, Walmart's stock price fell 10.2%, the largest one day drop in more than 30 years. That, even as the company reported another solid quarter of gains in US comparable store sales, continuing a recent streak.

Walmart does say it expects ecommerce sales to grow 40% in 2018, off of a base of $11.5 billion in 2017 – a figure far below Amazon's US on-line sales.

"Our visibility into picking costs, shipping costs, margin rates, the costs to acquire a customer, and how the different cohorts are behaving as we make the marketing investments is really improving," CEO Doug McMillon said.

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