

# Retail Vendor

## PERFORMANCE MANAGEMENT BULLETIN

### The State of Retailer-Vendor Supply Chain Relationships 2018 - Part 3

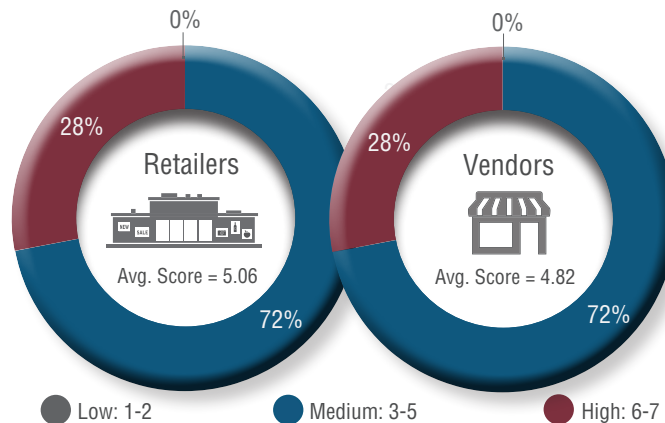
We're back for one last time with highlights from our second biannual benchmarking study on the state of retail and vendor relationships and collaboration, based on survey responses from retailers and vendors.

The good news is both sides say their relationships are getting slightly better – or at least not deteriorating. We asked both retailers and vendors to rate their current relations with vendors or retailers from a supply chain perspective on a scale of 1 to 7, with 1 being the worst and 7 being the highest. We took those scores and grouped them, in an approach we use throughout this report: 1-2 categorized as low, 3 to 5 medium, and 6 or 7 high.

As can be seen in the chart nearby, the results were almost identical, with 72% of both retailers and vendors indicating they had medium levels of supply chain relationships, and 28%

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Level of Supply Chain Relationships between Retailers and Vendors



### Industry News Round Up

#### Whole Foods Vendors in Uproar Over Changes

Whole Foods, now of course owned by Amazon, is at high tension with many of its vendors over changes to its procurement processes and new fees it will levy on them.



The grocer recently told vendors that they would be charged 3-5% of their invoices depending on product category basically to receive store “merchandising services” from a single provider. That and other changes are happening as the grocery chain moves to a centralized procurement model from a more regional one.

The centralization was already under way before Amazon acquired Whole Foods last year, but that doesn't stop many vendors from somehow seeing Amazon as the villain in the process.

Under the new program, anything store-related - from handing out free samples to checking inventory and refreshing shelf displays - now has to go through a retail-services firm called Daymon and its subsidiary, SAS Retail Services. Whole

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### Compliance Networks Corner:

#### BOPIS to the Rescue - Inventory Integrity

*Richard Wilhelm, Compliance Networks*

As part of our on-going series BOPIS (buy online pickup in store) to the Rescue, we will this discuss the critical characteristic of inventory integrity and how it relates to supply chain performance. To summarize quickly to where we are to this point in our series, we talk about four key characteristics a supply chain must possess in order to be successful in executing a BOPIS strategy.

They are visibility, speed, inventory integrity and execution. In our last article, we talked about the importance of speed to the traditional brick and mortar retailer. We discussed speed in the supply chain (defined as purchase order create to store receipt) being important for a number of reasons, including: increasing sales, reducing inventory investment and delighting customers. Let us now move to the third characteristic of inventory integrity in the supply chain as it relates to implementing a successful BOPIS strategy.

#### The Moment of Truth

Think about psychology of a customer when he or she places a BOPIS order. For me, it is the delight that the search is over,

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## The State of Retailer-Vendor Supply Chain Relationships 2018 - Part 3 (continued)

claiming high levels, while no retailer or vendor said they had poor supply chain relationships. The average score for retailers was 5.06, a bit above the 2016 benchmark average of 4.72, while the average vendor score was of 4.82 - almost identical to the average of 4.85 in the prior survey.

“On-time, in full continues to be challenging,” one vendor commented. “Not all retailers apply same metrics.”

“Good relations but not great compliance,” interestingly said one retailer. Added another: “Would say things are fairly status quo, which means OK but not great in this time of immense change.”

You can certainly say that again.


Importantly, over the last 18 months or so, Walmart and Target both have announced programs to reduce vendor variability, an

area where frankly most retailers historically have put little real focus, other than collecting chargebacks. 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 comment from one vendor probably has it right: “With Walmart - absolutely. If they are successful, others will follow.”

The excellent full report can be found at [www.scdigest.com/retail\\_vendor\\_performance.php](http://www.scdigest.com/retail_vendor_performance.php) 

## Compliance Networks Corner: “BOPIS” To The Rescue (continued)

the task complete and the problem solved. After a quick jaunt to the store's front desk (no need to go deep this visit) and I will be on my merry way to the next problem.

And, while we are at it, please staff this location with enough workers. In a time crunched world of BOPIS, we don't want to wait in long lines either. Time for the today's consumer is no longer a luxury, it's a constraint and a demanding taskmaster at that. The BOPIS visit psychologically to a customer is different than when he or she is responding to the Sunday circular. It is similar to the difference between dating and marriage, as one can be described as casual while the other as commitment.

When that commitment goes wrong, the consequences are real. Lost sales, lost margin, lost loyalty and worst of all, an open invitation to succumb to the gravity that is online shopping. For you football fans, it's similar to fumbling at the one yard line. In the age of disruption and transformation, there is no time for fumbles.

### “But our System says it's in Stock”

Maybe so, but that doesn't make the customer's day any brighter does it? And in the challenge to hold marketshare against online retailers only results count, not excuses. In a recent study conducted by Auburn University, it is estimated that “*in-store accuracy levels hover around 80% at an individual item level.*” 80% - let that sink in. Imagine how you would feel about renewing your Amazon Prime Membership if they hit its two-day delivery promise 80% of the time. So what happened to our inventory count? The usual suspects are called down to the station: miscounts, pilferage, wrong location, still at the distribution center, in the backroom (or even in the *lunchroom*). But truth of the matter is that more times than not, the inventory never existed in the first place.


## Ghost Inventory

In our previous article we discussed inventory speed as a strategy to simultaneously to increase sales, reduce costs and delight customers. But is sacrificing inventory integrity for speed a good thing? An effective tool to facilitate inventory speed is the use of ASNs to blind receive at the distribution center and crossdock the merchandise directly to the store. While the benefits are numerous, the consequences for inaccuracies are endless.

In a recent study titled “Advance Shipping Notification and Inventory Integrity Report” (2017) conducted by Auburn University along with Compliance Networks, the Retail Value Chain Federation and Supply Chain Digest, it was revealed that retailers achieved a median performance of 92% among the survey respondents as it pertains to ASN accuracy. Or simply put, the ability of the vendor to accurately communicate what they shipped is not high. While this study focused on all ASN errors, a major component of those errors were that the audited order contained less than was listed on the ASN. And in the eyes of the customer, nothing else matters more if the merchandise isn't where you said it would be.

## The Net Net

So working down our list of supply chain characteristics required to implement a successful BOPIS strategy, it is easy to understand why inventory integrity is so important moving forward. As stated by Dr. Brian Gibson of Auburn University, “*Without accuracy, prioritizing speed leads to errors that become returns, shortages that inhibit sales and dissatisfaction that drives defection.*”

Next in our series we will discuss the role execution plays in a successful BOPIS strategy. For a copy of the *2017 Advance Shipping Notification and Inventory Integrity Report*, please go to [www.scdigest.com/contentaccess.php?cid=14004](http://www.scdigest.com/contentaccess.php?cid=14004). 

## Industry News Round Up (continued)

Foods used to let suppliers handle these activities themselves - or hire someone else to do it.

These third-party brokers of course fulfill a number of functions, but their key role is to make sure products are displayed and merchandised well. That could mean anything from making sure there are more granola bars on the shelf when those bars are on sale, keeping the freshest yogurt on the top of rack, or strategically hiding under-stocked goods. Brokers can also use the relationships they wield to make their case for more shelf-space.

But now Whole Foods says Daymon will do all of this for them – for a fee.

“To successfully run this program, we need your financial support,” Whole Foods said about this and other changes in a recent email to vendors, in an interesting way to describe the program.

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## Amazon Also Raising Fees on Some Vendors

Amazon itself is raising transportation fees for suppliers of beverages, diapers and other heavy, bulky products that are expensive to ship, according to a report from Bloomberg.



Amazon has been willing to absorb losses of millions of dollars a year on certain products to make sure it has the items in stock and to fight a price war with Walmart and other retailers. But those costs are becoming unsustainable as the company sells more household goods. Fulfillment expenses -- the cost of storing, packing and shipping goods -- surged 43% in 2017 to \$25 billion, outpacing revenue growth of 31% that.

Amazon has been carefully examining the delivery expenses associated with each item. Now, the people say, it's shifting more of those costs onto vendors, including Procter & Gamble.

Amazon already deducts the cost of moving inventory through its distribution network from what it pays suppliers for bulk orders, in a move similar to what Walmart began doing for some vendors and items several years back. Now Amazon is seeking to significantly increase those deductions, which amount to transportation fees.

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## Companies Trying to Revive Made in America Apparel

As reported in the Sourcing Journal, efforts and activity to revive US apparel and textile manufacturing continue to percolate, and building on a variety of grass roots initiatives and new-age company strategies.



American Giant, for example, has launched its first new product of 2018, called the Roughneck Pant for men, and is making it in the US, despite the obstacles, which aren't necessarily around labor costs.

“We wanted to make a stretch canvas pant that was both utilitarian and looks great,” CEO Bayard Winthrop said. “Producing that material and silhouette

in the US is a challenge because the machinery isn't widely available. It forced us to expand our manufacturing footprint to Georgia to make the pants the way we wanted.”

Focused on ecommerce, American Giant made a name for itself with its high-quality sweatshirts and T-shirts made in the US.

The Roughneck pants are made with fabric milled in Georgia. American Giant also has two company-owned cut-and-sew facilities around Raleigh, which are supported by a Carolinas-based cotton supply chain.

“It's a unique approach to product development because it always comes down to our supply chain and our deep commitment to our manufacturing partners.” Winthrop said. “We want to know the cotton farmers, the ginners, the yarn spinners and knitters, every single component - the proximity to the production process that allows us to get the product right, keep the quality high and continue to build our US manufacturing presence.”

According to the National Council of Textile Organizations, the value of US man-made fiber and filament, textile and apparel shipments increased 4.7% in 2017 to reach \$77.9 billion. That increase may sound modest, but it is 16% above 2009 levels. Investment in fiber, yarn, fabric and other non-apparel textile product manufacturing more than doubled to \$2.1 billion in 2016 from \$960 million in 2009.

That said, the resurgence of Made in America and reshoring of the industry has been incremental. Company strategies are usually based on quick response delivery capabilities and having more flexible production. The efforts are helped by government-industry alliances in major hubs like New York and Los Angeles. Georgia is also the source of a new initiative to promote apparel manufacturing in the state.



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