MAY 2018

Retail Vendor
PERFORMANCE MANAGEMENT BULLETIN

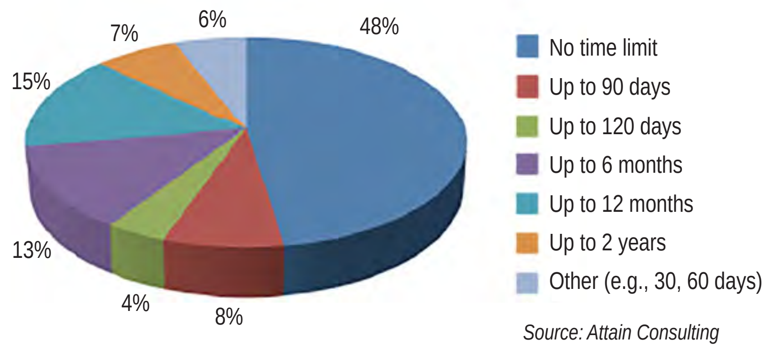
Highlights from the 2018 Retail Deductions Study

Every three years or so, the Attaining Consulting Group, in partnership with the Credit Research Foundation, conducts a survey primarily of vendors relative to the always controversial topic of "deductions" in the consumer goods to retail value chain.

This is actually a tricky subject for several reasons, not the least of which is that deductions from invoices sent to retailers are of two kinds: (1) deductions relative to trade promotions and allowances, returns, etc.; and (2) deductions (often called chargebacks) for supply chain/logistics-related errors or failures, ranging from labeling issues to fill rates and on-time shipments.

And some vendor sectors in general are more impacted by trade allowance issues (e.g., consumer packaged goods) while others (e.g., apparel/soft goods) are disproportionately hit with

How Long Do Vendors Leave Chargebacks Open?



Source: Attain Consulting

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Industry News Round Up

Target Piloting New Flow Distribution Center

Target stores continues to move aggressively and innovatively to adapt to the new world of ecommerce.

Target has been opening stores in urban areas with a much smaller footprint than its traditional stores, started using item-level RFID tagging to better track inventory, and been aggressive about using its stores for efulfillment.

And its success with store-based ecommerce fulillment – nearly 70% of its on-line orders were filled via its stores in last year's Christmas season – is in part behind a potential whole new approach to store replenishment.

As reported by the *Wall Street Journal*, Target hopes to reduce the DC to store replenishment cycle from days to hours and reduce inventory at stores at the same time, especially at its aforementioned small-format stores.

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Compliance Networks Corner:

The Foundations of Successful ASN Programs

Dr. Brian Gibson, Auburn University

When deployed effectively, advanced shipping notification (ASN) programs facilitate shipment visibility, inventory control, and cycle time reduction. Retailers and suppliers collaborate for improvement because they both stand to benefit from ready access to accurate ASN information. Strong programs facilitate rapid replenishment and in-stock availability to drive revenues higher.

In contrast, ineffective ASN programs fail to elicit desired outcomes. Punitive, chargeback-based initiatives serve as wakeup calls for suppliers but don't necessarily alter behaviors or produce lasting improvement. Furthermore, an acrimonious relationship can emerge where the penalties overshadow the goals of insight and carton content accuracy. As a result, nobody wins.

While conducting the research for the 2017 Advance Shipping Notification and Inventory Integrity Report, it became apparent to me that there are right ways and wrong ways to managing ASN programs. By simply asking a dozen retailer and supplier

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Highlights from the 2018 Retail Deductions Study (continued)

operational chargebacks, for a variety of reasons. We will note, however, grocers such as Kroger and HEB have initiated traditional chargeback programs similar to those of department stores.

Here we will focus on data in the report relative to operational chargebacks.

If a vendor has a dedicated operational (or what the report calls "non-trade") compliance management group, a plurality of 34% of those groups report to operations/logistics, while 27% report to finance, 16% customer service, and 9% sales and marketing, with 14% "other."

How long do vendors leave a retail chargeback "open" before fully writing it off? Here there was a wide array of responses, with 48% having no time limited, and anywhere from 4% to 15% leaving deductions open anywhere from 90 days to two years, as shown in the chart on page 1.

The report notes from the vendor's perspective, "Since deductions do not improve with age, the speed with which a company is able to reach an initial decision as to the validity of a deduction, as well as the time it takes from that initial decision until a final resolution is reached, is indicative of the effectiveness of its deduction management process. Companies that resolve issues and charge back invalid deductions to their customers earlier, often do a better job in terms of recovery percentages."

What percent of total accounts receivable are represented by non-trade related deductions? The survey found that the median response for companies with annual revenue less than $500 million was ½ to 1%, while perhaps surprisingly larger companies with annual revenue greater than $500 million reported this amount to be 1.1-3%.

However, the report notes that how effective a given vendor is in resolving chargebacks might play a role here, as those that are less effective may have larger on-going open chargeback balances.

There is a lot more in this interesting report – we'll be back with a few more data points next month.

Compliance Networks Corner: The Foundations of Successful ASN Programs (continued)

experts about their wish lists for ASN and inventory accuracy improvements, a foundational set of guidelines emerged from the interviews.

Clarity is the base layer of the foundation. Retailers want to know how suppliers are delivering on the promise of information and inventory integrity. Suppliers simply need to share their ASN plans and pursue a logical path to error reduction. "Tell us what procedures are in place to guarantee accuracy of your picks and ASNs before shipping," one retail executive suggested.

Suppliers can only establish desired ASN capabilities if retailers clearly document and publish their ASN requirements. Retailers must also communicate ASN rules adjustments well before implementation. A supplier representative requested: "Provide more lead time on ASN mapping changes. We really have to act quickly, or we'll have a flawed EDI document."

Attention to detail is the middle layer of the foundation. Retailers need their suppliers to execute flawlessly which necessitates meticulous order fulfillment. One retailer begged: "Check one more time for 860 order changes before an order goes out. You could alleviate a lot of the ASN penalties."

Details are essential for understanding the nature and source of ASN inaccuracies. Unfortunately, many chargeback notifications lack specific insights to help the supplier make appropriate adjustments. Sometimes all it takes is a quick click on a mobile phone. "Give supporting photos and documentation of errors to help us get to the root causes," one supplier requested.

Capabilities of Top Suppliers	Retailer Agreement
Have dedicated teams that focus on ASNs and inventory accuracy.	56.3%
Use scan-and-pack techniques.	56.3%
Create ASNs AFTER the fulfillment of an order.	65.6%

The top layer of the foundation is sensibility. Suppliers must complete a reasonable level of shipment inspections to truly know their level of ASN accuracy and inventory integrity. One retail executive wanted to know: ""How much auditing are they really doing? It's hard to get them to answer this question honestly."

From a supplier's perspective, chargeback penalties must be rational and fair. The retailer's goal should be to grab attention and stimulate corrective actions, not to decimate the supplier's bottom line. Avoid being overzealous with penalties, a supplier recommended: "Is it a critical requirement to warrant that amount of chargeback? Sometimes, I think that it goes too far."

The foundations of a successful ASN program are not overly complicated. Retailers and suppliers both have an obligation to pursue clarity, attention to detail, and sensibility in all matters related to ASNs. Doing so will pave the way for greater inventory integrity and enhanced product availability.

To download a copy of the 2017/18 ASN study, go to: www.scdigest.com/retail_vendor_performance.php

Industry News Round Up (continued)

The approach is being piloted at a Target DC in Perth Amboy, NJ and uses a single pool of inventory to replenish stores and fulfill on-line orders, a departure from Target's existing processes.

Target is calling the test New Jersey DC a "flow center." Under the approach, Target replenishes stores more frequently with smaller quantities of items more precisely tied to what has sold, rather than shipping full cases of products as is usually done even for slow movers when they reach a replenishment point.

That could mean shipping "five bottles of shampoo, a case of ketchup, two polo shirts on hangers and a pallet of water, all prepared to move out directly to the sales floor," Preston Mosier, Target's senior vice president of global supply chain and logistics field operations, said last week at an industry conference in New York. "Or it could mean sending similar items prepared to move directly to a pack station to later go out to a guest in the neighborhood."

That approach in turn naturally results in less inventory held at stores, freeing up space for still more ecommerce fulfillment, Target COO John Mulligan said in a conference call with investors in March. "Shipping more orders from our stores reduces our costs, while allowing us to move faster," he said, according to the *Wall Street Journal*.

Target's costs would be reduced by shipping products to consumers' homes from stores close by rather than by more distant distribution centers. SCDigest notes, however, that most studies have found pick and pack and ship processes are more costly at store than in a DC.

At Target, stores supported by the flow center have reduced back-room inventories "to a fraction of the norm," Mosier added in his conference presentation. Out-of-stocks are also down, increasing sales, Mosier said.

SCDigest notes many store chains in Europe such as Tesco have been using similar approaches for years, as often their stores lack the backroom space to store full cases of product.

We also note there are additional handling and transportation costs in such a strategy – how those balance out will likely be key metrics for the test.

How will this impact Target's approach to vendor management?

Target has for a long time used the "Mark for" approach to crossdock full case and mixed case shipments from vendors straight to stores at the DC – perhaps now the percent of split case cartons ordered from vendors and crossdocked will increased.

Four Retailers Make the 2018 Gartner 25 Supply Chains

The analysts at Gartner are out with their annual list of the top 25 supply chains for 2018, using a process that combines financial measures such as return on assets and inventory turns with a forced ranking process performed by both analysts and a group of supply chain professionals, plus external scores on corporate social responsibility.

Put all that in the computer and out spits something that looks like an objective process.

For the third straight year, consumer goods company Unilever came out on top – that after rival Procter & Gamble and also Apple, McDonald's and Amazon were placed in the "supply chain masters" category, a sort of Hall of Fame for companies consistently in the top 5 on the list.

With Amazon thus not in contention, four retailers made the 2018 list:

- Number 2: Inditex (Zara)
- Number 9: H&M
- Number 20: Walmart
- Number 23: Home Depot

The omission of Target on the list again this year seems unusual.

Cisco Systems, Colgate-Palmolive and Intel round out the top five.

As we say every year, the Gartner top 25 supply chains has many faults, but it is the best we've got. It certainly stirs the pot.

Kroger Bets Big on Ocado

In mid-May, U.S. grocery giant Kroger announced it had signed an exclusive deal with UK online supermarket Ocado to use its distribution technology in the United States.

Ocado said it will begin setting up Kroger with various systems to help it manage warehouse operations, automation, logistics and delivery route planning in the U.S.

Ocado had developed - first for its own use - a unique robotic picking system for ecommerce, then began marketing the technology to others.

The companies will identify three sites in 2018 for development of new Kroger "automated warehouse facilities" in the United States, they said in a statement. A total of 20 will be identified in the first three years of the deal.

"Ocado believes Kroger to be the grocer best-positioned to win in U.S. grocery and will discontinue discussions with other U.S.-based retailers," the companies said in a statement.

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