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Retail Vendor
PERFORMANCE MANAGEMENT BULLETIN

Highlights from the 2018 Retail Deductions Study - Part 2

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

We're back with more highlights from the recently released 2018 report.

Where does vendor compliance management sit within the vendor's organization?

The plurality report into operations or logistics organizations, at 34%, followed by finance at 27% and customer service at 16%.

Given all the complaints about chargebacks from vendors, it is surprising how few chargebacks vendors actually believe are invalid.

Top Compliance Deduction Reasons ($)

Rank	# Received	$ Received
1.	Concealed shortages	Concealed shortages
2.	Transportation, freight, or routing	Transportation, freight, or routing
3.	Early/late delivery	Early/late delivery
4.	EDI/ASN errors	Full carton shortages
5.	Full carton shortages	EDI/ASN errors

Source: Attain Consulting Group

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Industry News Round Up

Amazon has Blow Out Q2

$52.8 Billion - that was Amazon's incredible revenue number for Q2, up 39% year over year, according to the company's earnings release.

Amazon is also finally starting to make some money, with Q2 profits of $2.53 billion, making it three straight quarters of profits over $1 billion, and extending Amazon's profitability streak across three years.

No longer is Amazon known for suffering losses or producing razor-thin income by plowing every dollar it makes back into investments such as fulfillment centers.

Walmart's Share of US Retail Sales Holds Steady

Not all that many years ago, there were concerns about Walmart gobbling a giant, monopolistic share of the US retail market. That fear has simply faded.

With the recent very modest sales growth, Walmart's share of US retail has flatlined.

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Compliance Networks Corner:

It Really is about Fully Managing the PO Lifecyle

By Richard Wilhjelm

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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Highlights from the 2018 Retail Deductions Study - Part 2 (continued)

When asked, based on historical information, what percent of total deduction dollars received are invalid or disallowed and charged back to retailers, the median of all respondents is just 5.1-10%. This is consistent with the results of the 2015 survey.

But just because a vendor views a chargeback as invalid doesn't mean it will recover those dollars from a retailer. While about 16% of vendors say they recover more than 90% of invalid chargeback dollars, almost 45% say they recover less than 50%, and 15% recover less than 10% of allegedly invalid deductions.

What are the top causes of operational deductions (as opposed to those related to trade terms)?

When asked to report their top 3 reasons for deductions based on both the number and dollars of deductions received, "concealed shortages" (missing items in a mixed SKU carton) topped the list in terms of number of chargebacks, followed by transportation routing issues, then early or late shipments, EDI or ASN errors, and full carton shortages. As shown in the chart on page 1, the results were almost identical when viewed from a "dollars of chargebacks" perspective.

Thirty-two percent (32%) of responding companies reported an increase in deduction dollars taken in the past 12 months. Twenty-nine (29%) of respondents indicated that deductions have declined. These results are fairly consistent with those reported in 2015, which were 33% and 27%, respectively.

A question was added to the 2018 survey asking whether respondents noticed any changes in the types of deductions received in the past 12 months.

Thirty-seven percent (37%) of respondents indicated that they have not noticed any changes, while 27% reported noticing that new compliance rules or deduction types were being taken.

While many retailers use technology to manage the chargeback process from companies such as Compliance Networks, vendor use of technology to manage retail deductions is limited.

Fifty-six percent (56%) of respondents reported that they do not use any 3rd party technologies in deduction management, but that was down from 69% in the 2015 study. But just 9% said they were using a tool listed as "claims reconciliation/validation," while only 11% use a tool the survey called "deduction reporting."

Interestingly, outsourcing has not yet hit the deductions world of vendors. Just 9% reported outsourcing any part of the chargeback process.

The excellent full report is available from the Attain Consulting web site.

Compliance Networks Corner: It Really is about Fully Managing the PO Lifecyle (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).

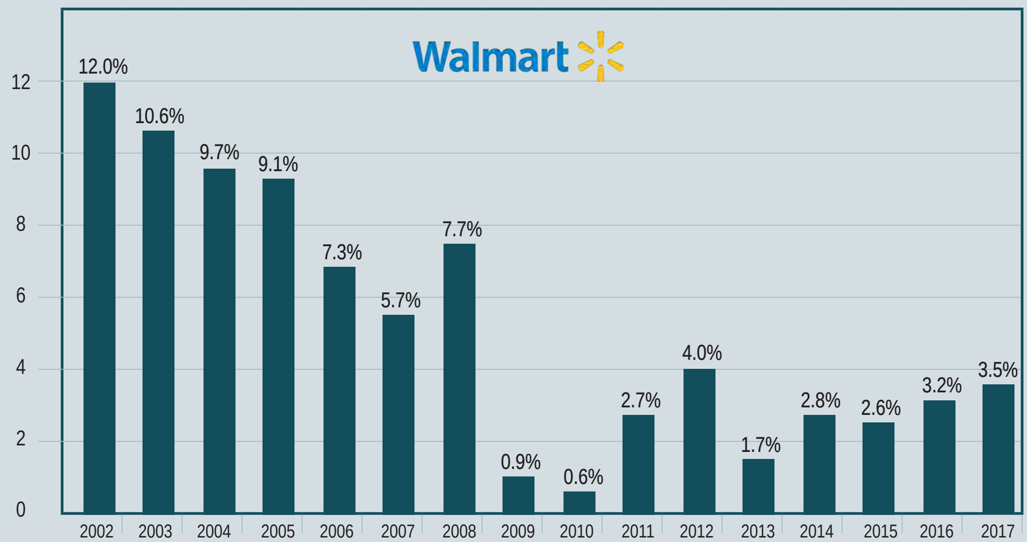
Industry News Round Up (continued)

SCDigest developed a methodology several years ago, where we compare Walmart's US sales versus relevant US retail figures - total retail minus autos and parts, gas station and other fuel sales, and restaurants/bars.

It's not quite perfect because Yes, Walmart does sell some gasoline, but it doesn't break that number out in a way we can use. Nevertheless, what we have is pretty good - and does reflect a higher share of US retail for Walmart than if you do not exclude those categories, which is how it is usually reported.

By our measure, Walmart had an 11.1% of US retail sales in 2017, basically flat over the past 5 years, and down from a peak of 12% in 2009. It simply does not appear any more that Walmart will take over the retail industry.

Walmart Annual U.S. Sales Growth as Percentage



While Walmart is an incredible giant, its growth has slowed dramatically in recent years - though back now on something of an uptick, driven in part by the strong US economy. As can be seen in the chart nearby, Walmart's US sales grew very rapidly in the beginning years of the 2000s, primarily by adding new superstores carrying groceries at a rapid pace into new markets.

But that growth soon decelerated, and in the recession year of 2009 started a pattern of mostly very low growth (2012 exception) that is not much above inflation on average, meaning real growth was almost flat or up a percent or so at best. But the news is better in the past two years.

Total Walmart US sales (Walmart US + Sam's Club) reached $377.7 billion last year, about double the $188 billion the company had in 2002, but the pace of that growth has obviously slowed substantially down. The Cumulative Average Growth Rate (CAGR) has averaged 4.77% since 2002, but has slowed to 2.87% since 2010.

Tariffs Threaten Retailers' Inventory Discipline

President Donald Trump has threatened to put tariffs on $200 billion worth of Chinese imports. That means retailers have a tough choice - order early for the Christmas season to beat the penalties, which the White House says won't take effect for at least two months, and run the risk of ending up with excess inventory. Or they can wait and risk paying the higher costs if the tariffs do go through.

This dilemma comes after a 2017 that saw department stores and other retailers to delay releasing POs until later and later in the season.

The tariffs, as announced, hit a range of consumer products, including luggage, handbags, baseball gloves, furniture, apparel, mattresses, electric lamps and components in telephones and flat panel displays. Many companies have tried to tamp down anxiety by saying they have been reducing their exposure to China anyway. But they can only shift so much production, especially on short notice. Restoration Hardware, for example, has said 35% of its products are sourced from China, according to the *Wall Street Journal*.

It's too late for the most part to change sourcing strategies in the face of the tariffs for 2018.

It is certainly hard to imagine it happening in time for the holiday-order rush. Retailers appear to be placing orders early to get them through customs before tariffs hit.

"Shippers are definitely shipping early to beat the tariffs," says an Asia-based shipping-industry executive.

But that carries risks, such as excess inventories. That would bring back bad memories of 2015 and 2016, when too many unsold goods forced them to offer steep discounts during the holiday season, hurting profits.

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