SEPTEMBER 2018

Retail Vendor
PERFORMANCE MANAGEMENT BULLETIN

Keys to Vendor Compliance Success

Several years ago, *SCDigest* developed a report on *"The 13 Steps to a Successful Retail Vendor Compliance Program."* Whether you are considering starting a compliance program for the first time, or have one in place and are looking to improve, it's worth reviewing those recommendations, which we will do here and again in next month's edition.

SCDigest believes that vendor compliance programs run the right way can be identified by several key attributes:

- A focus on improving supply chain and logistics performance, not generating chargeback revenue.
- Programs and penalty regimens that are easy to understand, with prompt and clear communication of errors and penalties when they occur.
- Chargeback levels that accurately reflect the cost to the retailer from the error.

Gough Grubbs, former senior VP of logistics and distribution at Stage Stores, offered this wise perspective on a videocast on our Supply Chain Television Channel several years ago: "I just put it to vendors this way: We have a contract that details what and how you are going to deliver. When you deviate from that contract, when you don't deliver what you promised, we incur some costs that need to be recovered."

With that introduction, below are summaries from the first four keys to success from the report:

No. 1 - Start with the End in Mind: It may sound obvious, but it is critical that there is a clear vision about the role and results from a vendor compliance program at the outset of the effort. That vision needs to be developed across several functions within the company: distribution, transportation, finance, merchandising, etc.

- continued pg. 2 -

Industry News Round Up

Moody's Says there May be too Much Investment in Rapid Delivery

While retailer investments in speedy delivery are escalating, the benefits remain unclear, according to a new report from financial firm Moody's.

The report notes that traditional retail has the advantage as the only way for consumers to satisfy their itch for "instant gratification" and get merchandise the same-day in most areas of the US is to visit the store and pick it up.

"With the same-day delivery arms race' in full swing, and large retailers such as Walmart, Amazon, and Target taking meaningful and costly steps to develop increased capability, the issue of how much is too much remains," Moody's lead analyst Charlie O'Shea said in the report. "What is unclear to us is to what degree consumers will ultimately desire and use the service, and then how much they will be willing to pay."

With all these efforts, Moody's said that "There are some significant unknowns, in our view. For instance, how 'loudly' are consumers actually clamoring for same-day delivery and

- continued pg. 3 -

Compliance Networks Corner:

Supply Chain: Cost Center or Margin Contributor?

By Richard Wilhjelm, Compliance Networks

As I work with many senior supply chain executives, a common question I hear is: how can we be viewed more as margin contributor and less as a cost center? The question isn't surprising given the current economic environment. While as a whole the economy is performing extraordinarily well, there are underlying challenges the industry faces including intense competition, rising inflation, labor shortages, and soaring transportation costs due to capacity constraints and fuel increases. Add to that pile the uncertainty surrounding tariffs and it's easy to see why senior financial executives remain cautious about future profit forecasts.

In this ever-dynamic industry, what's the role that supply chain plays and how do we shift the conversation from cost center to margin contributor?

The Past

I think it's safe to say that in the past supply chain's role was to get the product from point A to point B as quickly and – more importantly – as economically as possible. Most retail organizations – particularly merchant organizations – believed that "if

- continued pg. 2 -

Key to Vendor Compliance Success (continued)

Too often compliance programs are initiated in one area, say distribution, with a vision and scope that does not adequately accommodate the opportunity for these other functions. Or, it comes from a sort of knee-jerk reaction to a pressing issue – e.g., reducing the number of "problem" shipments – and thus does not take a broader view of the potential benefits of a successful program.

No. 2 - Assemble the Team: A basic and obvious step, forming the team that will drive the program needs to be tackled early on, and per the discussion above needs to be truly cross functional: distribution, transportation, IT, finance, merchandising/sourcing, etc. Many retailers of course have a "vendor relations" group, and this is the natural place from which the vendor compliance effort should be led. But there is a big difference between having such a group leading the process and receiving input from other areas and actually forming the type of cross-functional team discussed above.

No. 3 - Benchmark Other Compliance Programs: Since hundreds of retailers have gone down this path, why not learn from their efforts and mistakes?

Retailers are at times reluctant to reach out to their peers for such insight, even though benchmarking efforts can save a company looking at a compliance program much effort and help them benefit from the "lessons learned" of these established programs.

No. 4 - Define Success Metrics & Requirements: How will the company know in the end if its program is a success? The team must define what metrics will be used to judge the program, and what level of achievement is expected over what time horizons.

We'll be back with the rest next month. The full report is available at www.scdigest.com/retail_vendor_performance.php.

Compliance Networks Corner: Supply Chain: Cost Center or Margin Contributor? (continued)

you buy it, they will come." With money being cheap, the path to profitability was simply a factor of opening as many stores as possible, stocking them with as much inventory as you could, and letting top line growth lead the way.

Meanwhile, wholesale distribution organizations were rallying to a similar cry: "if you stock it, they will come." The idea was that you beat the competition by stocking more lines than they did, as all customers seemed to care about are price and service levels.

For both retailers and wholesale distributors, supply chain's marching orders were similar: get it there quick and get in there cheap. You were measured by cost as a percent of sales. Supply chains were architected around how senior executives were incentivized, resulting in long, slow, and typically unresponsive supply chains.

Now

How did we get to where we are now? We're seeing record store closings while digitally native vertical brands are popping up all over the place and experiencing unprecedented growth. Does that mean retail as we know it is dying? Far from it. As astutely conveyed in a recent webinar conducted by IHL Group, retail has actually grown at a rate of 4.5% in 2017 and through July of 2018, has increased 5.5%. This is a far from the "retail apocalypse," as noted by the IHL Group in "Retail's Radical Transformation/Real Opportunities."

The wholesale distribution space, we are witnessing organizations configuring their operations to offer more retail-like fulfillment capabilities to their customers. Apparel brands are bypassing retailers altogether by opening their own stores and by selling directly to consumers on exchanges like Amazon and Walmart. Retail isn't going away; in my opinion, it's fragmenting as the traditional lines of retail are being blurred by other providers. So, what has changed and how did we get here? While there are a multitude of explanations from technology to competition to the well-publicized Amazon effect, at the end of the day I think it comes down to the fact that consumers' expectations and consumer behavior has changed.

The Future

Today's fast fashion is a perfect example of changing consumer behavior and demand. The typical fast fashion retailer's products are relatively inexpensive and they change their assortment frequently.

With lower price points, the consumer, typically a younger demographic, can change their style frequently and not break the bank. The impact to supply chain, however, is dramatic. In the fast fashion example, the typical lead time from idea to shelf went from 6+ months down to 3 weeks as noted by IHL Group.

Fast fashion isn't alone as all supply chains are seeing pressure to compress lead times. The days of the long, slow, low cost supply chains are no longer sustainable for most industries. At one end of the supply chain, you have consumers demanding products cheaper and faster than ever before across multiple platforms. At the other end, lower price points combined with rising transportation costs and the end of cheap money are leading to the potential erosion of profits. I believe therein lies the opportunity for supply chain.

The Opportunity

With the days of the long, slow, cheap supply chains coming to an end, supply chain professionals are suddenly thrust into the spotlight to perform what seems – on appearance alone – to be impossible. They must not only improve service levels while reducing costs but also contribute to top line revenue growth through in-store and in-stock availability. Gone are the days when procurement and merchant organizations alone competed for market share. Nowadays, supply chain organizations are also sales enablers in a fierce battle for consumers' hearts and wallets.

They are fighting the fight by ensuring stock is on-time and complete. And while there are countless tools to improve visibility, execution and inventory integrity, at the end of the day it will be incumbent upon the supply chain professional to traverse across these various systems to produce the winning combination of speed, low cost and higher margins. And now I insert the requisite cliché, "within every challenge lies opportunity."

Retail Vendor
PERFORMANCE MANAGEMENT BULLETIN

Industry News Round Up (continued)

how much are retailers investing in what we view as a costly initiative?"

Retailers are really at risk of overspending in this area, Moody's says. The Moody's report contends that "the jury is still out regarding how important same-day delivery will be in the eyes of many consumers." Interesting.

Turkey, Myanmar Added to List of Countries Producing Goods with Child and Forced Labor

Turkey and Myanmar, formerly Burma, have been named by the United States Department of Labor's Bureau of International Labor Affairs (ILAB) in its annual "List of Goods Produced by Child Labor or Forced Labor."

According to the *Sourcing Journal*, garment industries in both countries have employed child labor, according to the report, as have footwear manufacturers in Turkey.

The report, which includes 148 commodities from 76 countries, was mandated by the Trafficking Victims Protection Reauthorization Act of 2005 and is updated regularly. ILAB continuously collects data from worldwide exporters in order to educate industry leaders on risky goods and regions that might otherwise escape notice. The process requires independent verification of labor information and does not rely solely on official data.

Turkey is one of the larger exporters of textile and clothing in the world. It exported nearly $26 billion in textile and clothing products in 2016, the latest year available in World Bank's data, and was responsible for roughly 18% of the world's textile and clothing exports.

"Turkey is one of the larger exporters of textile and clothing in the world. It exported nearly $26 billion in textile and clothing products in 2016, the latest year available in World Bank's data, and was responsible for roughly 18% of the world's textile and clothing exports."

Retailers Blend Physical and Digital to Succeed

According to the *Business Insider* web site, the retailers who have found the most success lately have beefed up their stores to make them more amenable to shoppers who mostly purchase things on-line.

It cited Walmart, Target, Nordstrom, and Kohl's as all reporting strong earnings results in the most recent quarter after launching new initiatives to blend e-commerce and in-store shopping.

The move to beef up the in-store experience seems to be paying off for these retailers, *Business Insider* says.

In fact, it observes, there is a growing divide between retail's winners and losers — and the answer may be in the store experience.

In April, for example, Nordstrom opened a new men's store in New York that combines in-store services such as tailoring, shoe shining, and food with high-tech digital ordering and returns systems.

Customers can choose to buy items online and pick them up in-store, or reserve up to 10 items in advance on the Nordstrom app and have them ready and waiting to try on in the store's fitting room.

There is also a handy returns system by the entrance of the store that allows shoppers to nip into the store, scan their receipt, and insert the items into a box.

Meanwhile, Target has been investing in its stores, opening smaller locations in urban centers, rolling out new partnerships and private-label brands, and doubling down on e-commerce, an area where it has lagged behind its competitors in the past.

It is also focusing on ways to make it easier for shoppers to load up their carts without worrying about how to get their purchases home.

One new service, which is reserved for Target's urban locations, allows customers to have their purchases shipped home that same day for a flat fee of $7.

Another service allows customers to buy products on the app and have them brought out to their car by a team member.

All this takes investment and out of the box thinking – but it's innovate or perish in this new normal for retailers.

Bon-Ton begins its Planned Comeback On-line

Invest firm CSC, of Merrillville, Indiana, had been thinking about Bon-Ton Stores Inc. for about a year, wondering whether the brand could be saved and reinvented as an online-based retailer with some physical stores in its old markets. CSC concluded it could and agreed in federal bankruptcy court to pay $900,000 for Bon-Ton's trademarks, websites, customer lists and other intellectual property.

Websites for Boston Store, Younkers and other department store names were recently re-launched to put Bon-Ton back in business, selling merchandise such as kitchen appliances, major home electronics and other new items along with the apparel, cosmetics and home goods Bon-Ton stores had been known for over the years.

The company also is planning to open some limited-hour physical stores, and might open regular outlets in coming years.

SupplyChainDigest ™
P.O. Box 714
Springboro, Ohio 45066

Retail Vendor
PERFORMANCE MANAGEMENT BULLETIN

SEE INSIDE...

For current trends & events in Retail Vendor Management...

- Keys to Vendor Compliance Success
- Supply Chain: Cost Center or Margin Contributor?
- Industry News Round Up

ComplianceNetworks Improving Supply Chain Performance
SupplyChainDigest ™