Retail v Vendor
PERFORMANCE MANAGEMENT BULLETIN

Key to Vendor Compliance Success - Part 2

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 once again.

Last month we reviewed Keys numbered 1 to 4:

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. And that vision needs to be developed across several functions within the company: distribution, transportation, finance, merchandising, etc.

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.

3. **Benchmark Other Compliance Programs:** Since hundreds of retailers have gone down this path, why not learn from their efforts and mistakes?

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.

This month, we take a look at Keys numbered from 5 through 8:

5. **Develop Vendor Requirements -** What specific vendor requirements are you going to monitor? Will they all

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Industry News Round Up

Consumers Still Prefer Free over Fast Delivery; Amazon Private Label Apparel Brands Struggling; Growing Trend of Retail Vendors Going Direct to Consumer

Consumers Prefer Cheap versus Fast Shipping

A full 88% of ecommerce consumers prefer free delivery versus fast delivery. That according to the annual holiday shopping survey from Deloitte. That is consistent with previous Deloitte studies and many other surveys.

Maybe even more surprising, 66% of consumers said they were willing to wait 3 to 7 days so long as the delivery was free. Which reminds us of a research note from the analysts at Moody's that recently suggested retailers may be spending too much on very rapid delivery capabilities that consumers won't pay for.

Nevertheless, in October Home Depot, aided by startups Roadie and Deliv in its top 35 metro markets, announced on-line orders made before noon of about 20,000 products - everything from Halloween decorations to power tools - can arrive by van or car the same day, starting at a cost of $8.99.

Traverse Systems Corner:

Compliance Networks Is Now Traverse Systems!

Compliance Networks recently a comprehensive rebrand to Traverse Systems, an interdisciplinary team of supply chain professionals whose platform drives a unified understanding of your entire supply chain. The rebrand comes as Traverse Systems expands their offerings beyond retail.

Now, the company will begin to also offer comprehensive supply chain solutions for wholesale distributors, grocers, digitally native vertical brands, and suppliers.

"We made the decision to rebrand because the supply chain world is changing rapidly. As our current customers know, Compliance Networks no longer encapsulated the entirety of our value. We've grown and expanded the capabilities of our technology platform over the course of the last two decades," said Greg Holder, CEO of Traverse Systems. "Our solutions go far beyond compliance: they give customers bidirectional visibility into their supply chains. We chose Traverse Systems because it elegantly explains our core competencies: traversing

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Key to Vendor Compliance Success (continued)

be released at once, or phased in over time? Will the requirements apply to all vendors, or will different categories of merchandise have different requirements? Of course, this is an area where something like omnichannel adds some complexity, such as with drop shipping. Do not estimate the time it will take to develop the requirements.

6. **Build a Clear Technology Strategy** – It takes solid technology support to develop and maintain a vendor compliance program. Many retailers decide right upfront to use a third-party solution as the foundation of their programs. For others, it's a make or buy decision, and many have in fact opted for homegrown solutions, though we believe history has shown that retailers going the homegrown route often stall in their efforts

7. **Think Through the Approach to Penalties and Scorecarding** - Most but not all programs, it must be noted, involve chargebacks, though hybrid chargeback-scorecard

programs are increasingly popular, especially among retailers looking to use compliance mostly to improve supply chain performance. If there will be chargebacks, how will they be set, and at what level for each type of violation?

8. **Develop the Master Plan** - Clearly, someone needs to take all this and develop a master plan for the program itself and its rollout. That means a formal document is needed that lays out all key elements: overall objectives; detailed goals; people, process and technology; time-phased plans and rollout dates; communication and education programs, etc.

SCDigest research shows retailers often failed to lay out a multi-year plan beyond the scope of the initial program scope, to look at how this data can be further leveraged to improve both vendor and retailer performance.

We'll be back with the final set of keys next month. The full report is available at www.scdigest.com/retail_vendor_performance.php ⓥ

Traverse Systems Corner: Compliance Networks Is Now Traverse Systems! (continued)

across various systems to drive a unified view of the supply chain."

The Traverse Platform aggregates data from disparate systems to drive a unified understanding of entire supply chains. Its core capabilities and benefits include:

- **Reduced Supply Chain Days** – Identify opportunities for continuous improvement, resulting in a reduction in supply chain days.

- **No Integration Needed** – Minimal data wrangling and zero integration to get started. You provision access to the necessary data, and we handle the rest.

- **Business-Speed Performance Monitoring** – Fully automate identification and reporting on events that disrupt the flow of merchandise and add avoidable costs that reduce overall profitability.

- **Automated and Manual Auditing** – Robust suite of supply chain audit tools automates reporting and streamlines your communication with trading partners.

- **Out-Of-The-Box Collaboration Tools** – Align your entire partner ecosystem towards meeting your goals.

- **Fortress-Level Data Security** – Reduce security concerns and overhead of on-site data centers with secure IT hosting of client applications and hardware, including foolproof backups of critical business data.

Built upon the core capabilities of the Traverse Platform, Traverse Systems' industry-specific supply chain solutions transform the operational center of any business from a cost center into a margin contributor. Each vertical solution – built on the core platform that Traverse Systems' customers have long relied upon – leverages sets of tools that address industry-specific challenges. The

Traverse System team can also build custom solutions to fit any organization's unique needs.

"We're excited to extend our solutions to verticals outside of retail, where our technology can provide immediate value," said David Watts, CFO of Traverse Systems. "At the same time, I want to ensure our existing customers that our platform provides the same functionality as it always has. At the end of the day, we're still the same team you've relied on day-in and day-out for over 18 years."

To learn more or get in touch, please visit http://www.traversesystems.com.

About Traverse Systems

Traverse Systems is an interdisciplinary team of supply chain professionals. Our platform drives a unified understanding of your entire supply chain. For 18 years, we have served some of the world's most respected brands including CVS, Burlington Stores, PepBoys, Tractor Supply, Kohl's, and more.

In an era when competition is fierce, mistakes and miscommunication are acute sources of risk. Meanwhile, supply chains are more dynamic than ever. Markets and consumer expectations are changing rapidly, and old operational models are breaking under the pressure. Our job is to mitigate those risks with technology and expertise that optimizes performance and execution. We get business partners to peak performance and keep them there.

Our platform aggregates data from disparate systems and provides a holistic understanding of your operations so that nothing is left to chance.

Traverse Systems is proudly based in Sugar Land, Texas. ⓥ

Industry News Round Up (continued)

"We set an overarching goal for our supply chain to be the fastest, most efficient delivery in home improvement," said Mark Holifield, Home Depot's executive vice president of supply chain and product development. Customers "want it cheap, but also want it to be quick."

Walmart also expanded its free shipping program, extending free two-day shipping for millions more products sold by third-party merchants other than Walmart on its web site as long as shoppers spend at least $35.

Meanwhile, Target further upped the ante by announcing it will offer free two-day delivery with no order minimum or membership fee for the holidays. The program starts November 1 and will run through December 22, but if it's successful enough, Target could conceivably make the offer permanent, putting more pressure on the bottom lines of retailers forced to match the offer.

Amazon Private Label Apparel Sales Struggling

Penetrating the apparel market with its own private label line is perhaps more difficult than Amazon realized.

That according to a report by *Jungle Scout*, a data-research firm for merchants.

Apparel makes up 88% of all Amazon private label brands, but only 1% of all private label sales, according to the report. Women's fashion, which makes up most of the company's clothing brands, is struggling the most, with more than 4 of 5 Amazon women's clothing brands selling fewer than 100 items per month, according to the report.

"Amazon has invested heavily in women's clothing labels and continues to do so," *Jungle Scout* said in the report released in late October. "However, our data show that women's clothing performs poorly for them."

The report shows that Seattle-based Amazon's apparel brands aren't benefitting from consumers' greater interest in buying clothing on-line. On-line sales made up about 27% of all U.S. apparel purchases in 2017, up from almost 21% in 2015, according to *Internet Retailer*.

Amazon has more than 120 brands, about 100 of which were introduced over the past two years, according to *TJI Research*. Some brands are directly tied to the Amazon name, such as Amazon Basics merchandise and Amazon Essentials clothing, which includes pull-over fleeces, T-shirts and underwear. Other private label brands, including most of its other fashion lines, don't include the Amazon name.

Amazon is seeking to improve its clothing sales with strategies such as introducing a try-before-you buy program last year for its Prime members, which allows customers to order clothing, keep and pay for what they want and ship the rest back. Amazon also entered a partnership with Kohl's last year to let customers make returns at select Kohl's locations.

The Role of Vendors in Retail Woes

As many brick-and-mortar retailers continue to struggle, a sharp rise in direct-to-consumer (DTC) activity by vendor, spurred by ecommerce, may be partially to blame.

Many suppliers and manufacturers are moving from bulk sales orders - even to large wholesale accounts - to selling more at an item or case level. That changes their business model and supply chain, making them rethink relationships with what used to be their entire client base.

In many cases, vendors have started to directly competing against their retail customers.

Vendors historically didn't compete with their retail customers, concerned the retailers would drop such vendors or downgrade the assortment or merchandising plans for those vendors.

But those vendor fears are clearly waning.

Smaller and start-up companies now have an easier route to market, not needing brick-and-mortar retailers for access and shelf space. In fact, consumer goods companies, especially in the soft goods sector are increasingly breaking down revenue categories in financial reports to include DTC revenue, where this wasn't being done five to ten years ago.

In effect, manufacturers are telling retailers how much business is bypassing them.

For vendors, instead of selling products by the pallet and truckload, one purchase order to the vendor for 1,000 pairs of sneakers turns into 1,000 purchase orders for 1,000 pairs of sneakers. By directly selling their own items, logistics costs for pick, pack and ship costs for those sales, it's where consumers are going – and in some cases may still result in higher margins for vendors.

How retailers manage this competitive threat from their own vendors will be a critical strategic issue. ⓥ

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