Probably hundreds of retailers have vendor compliance programs, though the scope and maturity of those programs varies widely. What kinds of supply chain problems or issues are retailers trying to solve with such vendor programs?

Several years ago, SCDigest’s research arm Chief Supply Chain Officer Insights conducted a survey of more than 20 clients of retail vendor performance management software provider Compliance Networks on a variety of issues. One thing we wanted to understand is what problems retailers were trying to solve when they decided to engage a compliance optimization solution.

Respondents were presented with a series of potential problems, and asked which of these were important issues to their companies when they adopted compliance optimization software.

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Industry News Round Up
CRBE On Global Warehouse Rents

What are the most expensive locations for warehouse space across the globe? Real estate firm CRBE’s research arm recently released its top 10 list of rent rates compiled based on year-end 2015 data, and currency exchange rates at that time.

No US metro regions are in the top 10 list, but Los Angeles/Orange County came in at #12, and perhaps surprising the next highest US area for warehouse rents was Houston, at number 17. The full top 10 are as follows:

1. Hong Kong: $28.94
2. Tokyo: $16.74
3. London: $16.36
4. Singapore: $10.91
5. Stockholm: $9.90
6. Shanghai: $9.44
7. Manchester/Liverpool: $8.75
8. Leeds/Sheffield: $8.45
9. Sydney: $8.30
10. Shenzhen: $8.27

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Compliance Networks Corner:
Vendor Performance Management Case Study:
Reducing Inventory Investment through Managing the Purchase Order Lifecycle

The Company

The following is an actual case study based on an apparel and hard goods retailer. This retailer operates nearly 500 stores in almost 50 states and Puerto Rico as well as an e-commerce site. The retailer chose not to disclose their name due to corporate policy but wanted to share the results of its project.

Supply Chain

The retailer operates a sophisticated chain with four distribution centers located from coast-to-coast. The retailer utilizes a ship-to-mark-for or cross-dock strategy for its apparel and merchandise. This approach ensures the delicate balance of maximizing in-store availability, while minimizing the
Retailer Vendor Compliance Basics (continued)

As can be seen from the graphic on page 1, improving shipment accuracy and the related category of reducing DC “problem shipments” topped the list, each cited by 85% of respondents. (“Problem shipments” is a term often used in retail to describe a receipt that is just difficult to process for any of a number of reasons, or the shipment sits in the DC awaiting direction from somewhere else in the organization, such as IT or merchandising.)

Those top two responses were followed by third place “poor fill rates,” cited by 77% of respondents.

Late shipments, carrier routing issues, “floor ready” issues, and problems with labeling and documentation also scored high.

We also note that 54% of respondents cited “cost to track compliance manually/with existing systems” as a problem to be solved with a new compliance optimization solution. While that was tied for the low spot with ASN/EDI problems, it implied more than half the respondents either had built an internal system that just could not keep up or needed too much maintenance, or that the company had looked at building a compliance tool internally and found it would be too expensive or take too long.

One respondent in a side comment noted that “It isn’t at all about the chargeback, it’s about perfecting retail logistics.” But another said, “We simply were not able to identify all the violations we were experiencing with our internal systems, and now with this software we can.”

Another survey respondent said that “Our project was viewed as a skunk works type of program that was very limited in scope, but after the fact this has very much changed. It is well recognized as having a big impact on our supply chain improvement since then.”

The Opportunity

As with many retailers, vendor performance issues affected the velocity of their inventory movement. In addition to the normal quality issues retailers face, such as early/late shipments, carton labeling and ASN timeliness and accuracy, the retailer faced the additional challenge of long ship windows. The retailer’s vice president of supply chain stated that “long ship windows add additional layers of complexity to our business, and this coupled with non-defined fixed pickup and delivery schedules was driving up our inventory value. The additional investment in inventory and its associated handling costs were affecting our overall profitability.”

Compliance Networks’ Solution

The retailer had successfully deployed Compliance Networks rCMS Revolution for its vendor performance optimization needs for several years. While the solution was used to improve vendor performance, it had not been used to quantify the overall length of the supply chain and where the opportunities lay to reduce that length.

The vp of supply chain stated, “We saw an opportunity to compress the ship windows. These ship windows were created years ago, particularly the vendor lead times and were never challenged.” Armed with information from the Purchase Order LifeCycle module from rCMS, the retailer analyzed its vendors’ shipping patterns and concluded the lead times were unnecessarily long. The retailer brought together its inventory planning and merchant teams to see where opportunities could be found with its replenishment merchandise.

The Results

Deploying the Purchase Order LifeCycle in rCMS, the retailer achieved greater supply chain efficiency.

“The results were stunning,” commented the VP of supply chain. “We took a full eight days out of our supply chain with no effect on our overall service levels. Eight days in our supply chain is not only a multi-million dollar savings initially, but the reduced holding costs are a benefit we will see for many years to come and it freed open-to-buy money for our merchant team.”

The retailer’s full utilization of the features of rCMS Revolution to not only monitor its vendors overall supply chain performance, but to identity additional inventory reduction opportunities resulted in a more consistent, predictable and ultimately profitable supply chain.

As we have written before in this Bulletin, savvy retailers go beyond compliance management using Compliance Networks’ tools to improve vendor and supply chain performance through the type of visibility and analytics this case study retailer achieved.
Industry News Round Up (continued)

However, US metro markets were well represented in the top 10 for growth in rental rates, led by the Oakland, where rates were up almost 30% in 2015 to put it in the top spot for growth year over year. The other US markets in the top 10 were New Jersey, California’s Inland Empire, LA/Orange Country, Dallas and Atlanta.

But even with the 6.8% increase last year, Atlanta was still at the bottom of the CRBE list of 68 markets, with rental rates of just $3.13 per square foot, barely below number 67 Dallas ($3.76) and number 66 Chicago ($4.13). All three areas still have abundant land available for DC construction, keeping rates low.

Walmart’s Success in Getting Vendors to Accept DC Handling Feeds

It was widely reported last year that Walmart had sent letters to thousands of its vendors demanding new fees for products that move through its distribution network.

That move in 2015 was part of several actions Walmart has recently taken with vendors in an attempt to shore up its profitability through more payments or concessions. At the time, news publications such as Reuters and the Wall Street Journal reported anonymous Walmart vendors as saying they would not pay the new fees, which amount to a sort of logistics handling charge probably not seen before in the retail industry.

Is it working for Walmart? Maybe. The Wall Street Journal reported in June that according to vendor interviews and documents its reporters reviewed, “Walmart has managed to get many of its thousands of suppliers to sign new contracts that include more fees to move products through Walmart’s warehouses and earn shelf space in new stores.”

One exception: Procter and Gamble, which resisted the terms in a series of tense meetings, the Journal reports.

P&G executives are said to have emphasized how it had invested in a network of “mixing centers,” large distribution centers from which P&G can ship its full portfolio of products quickly to a larger number of retail locations, reducing the cost of Walmart’s supply chain.

While Walmart may be collecting the fees from other vendors now, in the end it seems those costs will be reflected in higher prices from the vendors. We have not heard of any other retailers trying this approach.

US Retailers Should be Thankful there is No Groceries Code Adjudicator Here

If you have been following the news, there have been a series of scandals in the UK over the past few years relative to retailers there - largely in the grocery sector - abusing suppliers through dramatically extended payment terms, forced payments of various kinds, and other offenses.

For example, in early 2015 there were numerous reports that UK grocers were stretching out payments to suppliers to extreme levels, causing dozens of food manufacturers to go under. That news led later to changes to the country’s payment code that pressured retailers to pay vendors in 30 to 60 days maximum. Tesco, the largest UK grocer, announced changes that will speed up payments to many of its suppliers near the end of Q1 last year.

The “payment code” referenced above is serious, and there is a governmental organization – the Groceries Code Adjudicator (GCA) - to enforce it. Just recently, the GCA released a report relative to the practices of another UK grocery chain, Morrison’s, quoting emails the company sent to suppliers asking for funding to support the cost of investment in areas such as staffing in its stores.

In one email, Morrison’s legal team had offered to help “construct arguments that are credible” to justify the demands to suppliers. One vendor alone was asked was for payment of two million pounds - ouch!

The GCA said the events were now more than a year old, and the company has since taken swift action to address the practices. It seems unlikely we will see a GCA type office here in the US, but if demands on suppliers get too extreme, who knows.
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For current trends & events in Retail Vendor Management...

• Retail Vendor Compliance Basics
• Vendor Performance Management Case Study
• Industry News Round Up

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Compliance Networks
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877.267.3671