2018 The State of Retailer-Vendor Supply Chain Relationships

A Benchmark Study

SupplyChainDigest™

Your First Stop for Supply Chain Information

SupplyChainDigest™

Supply Chain Digest is back with our second biannual benchmarking study on the state of retail and vendor relationships and collaboration.

The consumer goods to retail supply chain has clearly been the most prominent and quite arguably the most important sector of the supply chain for decades. Just consider how many supply chain developments and innovations have come from this sector, such as the UPC code, serialized carton bar code labeling, Efficient Consumer Response (ECR), continuous replenishment, Quick Response, Collaborative Planning, Forecasting and Replenishment (CPFR), the EPC RFID tag and more.

Of course, many of the companies most associated with supply chain excellence are either consumer goods manufacturers or retailers, including Walmart, Procter & Gamble, Unilever, Amazon and many others.

Many of the initiatives listed above have some level of collaboration between retailers and manufacturers at or near their center. There is nearly universal agreement that there is significant opportunity for both sides to reduce cost and improve customer service by working more as true supply chain partners in meeting common goals, versus acting as manufacturers and retailers independently pursuing their own strategies and objectives.

In fact, with increasing supply chain efficiency in their own operations, some retailers and especially manufacturers contend that the next generation of supply chain improvements must come from collaborative efforts, working "the seams" of the entire consumer goods to retail value chain.

All of which again leads *SCDigest* to a number of critical questions: What is the state of retailer-manufacturer supply chain relationships today? Are they getting better or worse – and why? What are the barriers to higher levels of supply chain collaboration?

In pursuit of such insights, in Q3 2017 *SCDigest* recently conducted a survey of retailers, consumer goods manufacturers and others (academics, consultants) to benchmark where things stand in the consumer goods to retail value chain.

Importantly, we believe this survey can be repeated every other year to track progress – or backsliding – over time.

The survey was promoted to *SCDigest* readers, along with support from RVCF (Retail Value Chain Federation), which encouraged its members to participate.

In addition, the research was supported by Compliance Networks, a well-known provider of retail vendor performance management solutions.

This Benchmark Study represents a comprehensive sampling of leading retail and manufacturing/ brand companies...

Over 44 retailers and 165 consumer goods manufacturers participated in this survey. In addition, 60 surveys were also received from other categories.

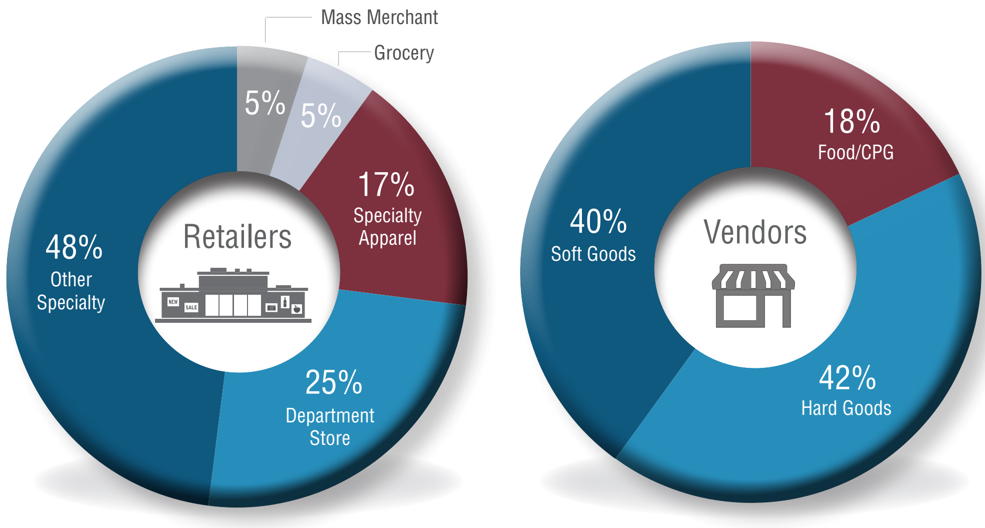
All told, *SCDigest* received survey responses from 44 retailers, about 165 consumer goods manufacturers, and 60 from the "other" category. That included many leading retail and manufacturing/brand companies, a sample of which are listed below.

Survey Participants

3M	Bonton Stores	HanesBrands	Perrigo
Ace Hardware	Buckle	HEAD Penn	Procter & Gamble
American Eagle	Carhartt	JC Penney	REI
Auto Zone	Chico's	Johnson & Johnson	Stage Stores
Barnes & Noble	Central Garden & Pet	Levi Strauss	Stanley
Big Lots	Columbia Sportswear	L'Oreal	Stein Mart
Bentex	GAP	LVMH	Target
Big Lots	General Mills	Mattel	The Apparel Group
BISSELL	Hachette Book Group	Mohawk Home	Under Armour
Bonded Apparel	Home Depot	Nike	Unilever

Respondents were very balanced across various sectors of retail and manufacturers/brands, as shown in the graphics below:

Survey Respondent Demographics



Before looking at the survey data, we'll set some context in terms of the current very challenging environment for retailers and manufacturers.

Challenging Environment for Retailers and Manufacturers

To state that the current business environment is a challenging one for both retailers and manufacturers is putting it mildly.

Most – but not all – of that pressure comes from the growth of ecommerce, which continues to rise in the U.S. around 15% every quarter with no end in sight, according to government statistics.

Combine that with clearly changing consumer shopping habits – a Saturday afternoon at the mall just isn't what it used to be for many shoppers – and many brick and mortar retailers are in trouble.

During 2017 we saw complete bankruptcies, in relatively healthy economic times, from chains such as HH Gregg and The Sports Authority, while net store closings were in the 2500 range (8500 closings versus 6000 openings).

It may get worse in 2018, with real estate firm Cushman and Wakefield estimating closings will hit the 12,000 level this year.

Of course, much of this can be attributed to Amazon, which continues to grow at faster rates (20+%) than overall ecommerce sales, meaning it is rapidly gaining share. A new term even entered our retail vocabulary as a result of this: being "Amazoned."

But it isn't only retailers that are struggling. Many consumer goods companies, from Mattel to Campbell's Soup, are also under pressure from poor or even negative growth, in part as consumers in the grocery sector move away from traditional consumer packaged goods and the "center aisle" areas of the store towards fresher fare.

All that pressure is leading to change, naturally enough. Nike, for example, says it wants to double the percentage of goods sold on-line directly to customers, and wants to develop real-time visibility into its retail partner inventories so that it can point consumers to the right outlet.

Even more consequentially, both Target and Walmart announced programs in 2017 designed to reduce supply chain variability associated with vendor shipments, notably on-time and fill rate performance. Both retail giants are tightening the requirements and increasing the penalties for underperformance, in moves that could have huge ramifications for the consumer goods to retail supply chain.

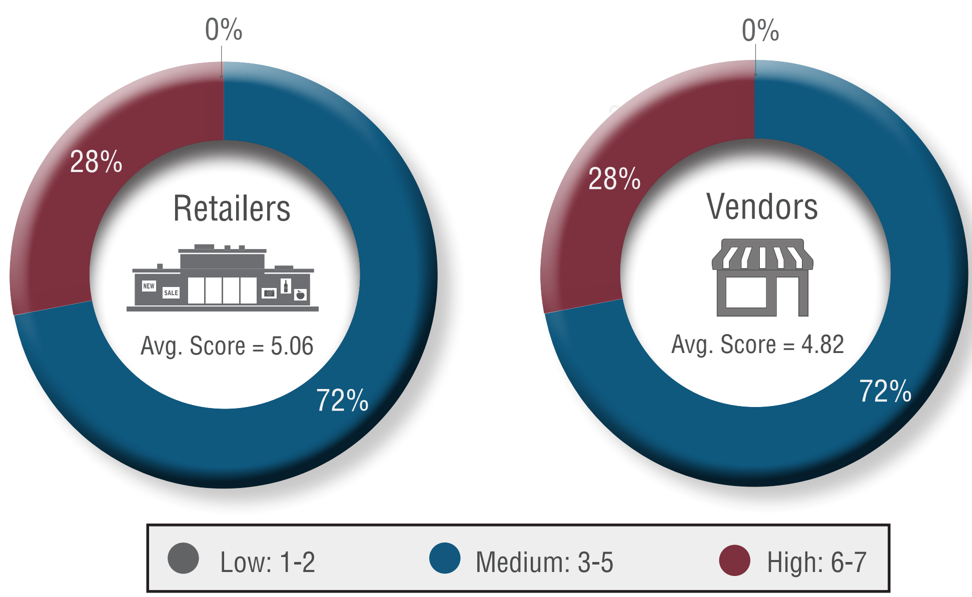
In fact, we added a couple of questions about this trend to our survey this year, as will be seen in the following section.

Survey Results

We started by asking both retailers and vendors to rate their current relations with vendors or retailers from a supply chain perspective on a scale of 1 to 7, with 1 being the worst and 7 being the highest. We then took those scores and grouped them, in an approach we use throughout this report: 1-2 categorized as low, 3 to 5 medium, and 6 or 7 high.

As can be seen in the charts below, the results were almost identical, with 72% of both retailers and vendors indicating they had medium levels of supply chain relationships, and 28% claiming high levels, while no retailer or vendor said they had poor supply chain relationships.

Level of Supply Chain Relationships between Retailers and Vendors



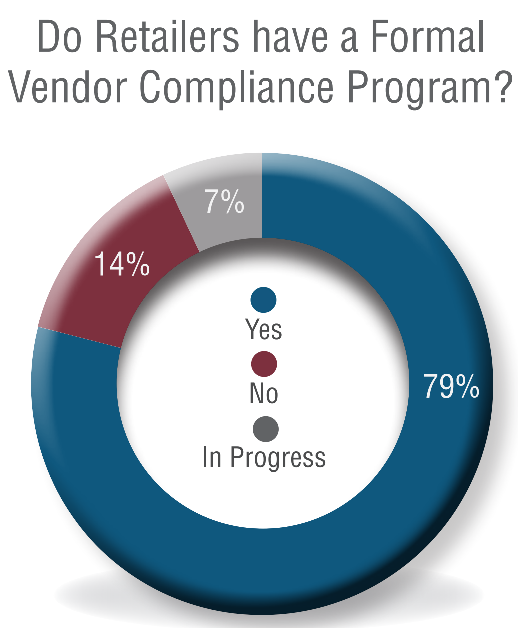
The average score for retailers was 5.06, a bit above the 2016 benchmark average of 4.72, while the average vendor score was of 4.82 was almost identical to the average of 4.85 in the prior survey.

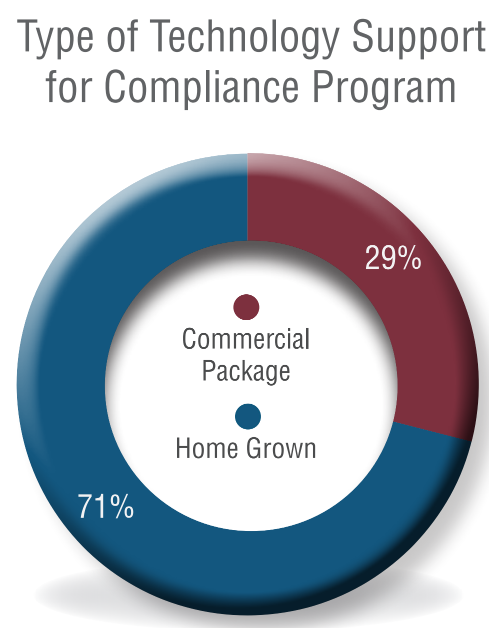
- "On-time, on-full continues to be challenging," one vendor commented. "Not all retailers apply same metrics."
- "Good relations but not great compliance," interestingly said one retailer. Added another: "Would say things are fairly status quo, which means OK but not great in this time of immense change."

Next, we started a series of questions relative to so-called vendor compliance programs, in which retailers set a variety of rules relative to vendor shipments – from bar coding and other labeling issues to fill rates and much more – to which financial penalties (chargebacks) are levied for failure to perform or comply.

Virtually all retailers of mid-size or greater have compliance programs of some kind. As can be seen in the chart below, 79% of retailer respondents said they had compliance programs – up from 69% in the past study - with another 14% having such a program in development.

What type of technology support do retailers have? 71% of respondents say they are using homegrown technology, versus 29% of respondents using a commercial package. That figure is up slightly from the 24% using a package in the last study. We will note that historically retailers with home grown systems have often struggled to devote the IT resources needed to maintain and expand those applications.





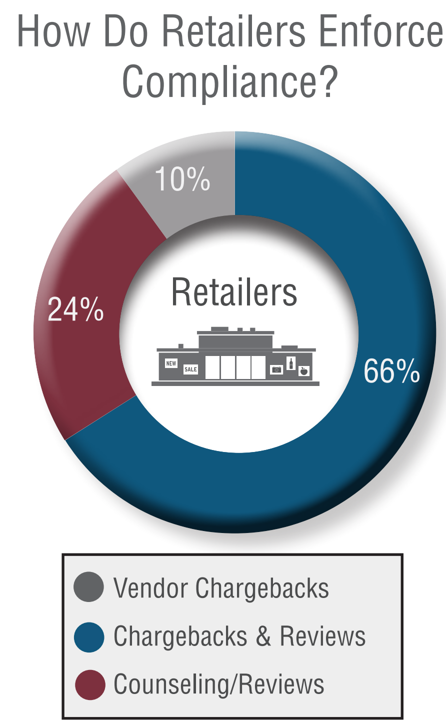
"Virtually all retailers of mid-size or greater have compliance programs of some kind. 79% of retailer respondents said they had compliance programs – up from 69% in the past study - with another 14% having such a program in development."

How do retailers enforce vendor compliance? The preponderance (66%) use both chargebacks and counseling, with another 10% chargebacks alone. 24% say they are using only counseling.

Interestingly, a few years ago Supply Chain Digest conducted a Videocast with Compliance Networks and a major auto parts retailer that was using just counseling for its program.

We checked on the status of that as of 2017, and learned the retailer had moved to add chargebacks, finding counseling alone did not deliver enough improvements in their inbound supply chain.

A key question has to do with the trends in chargebacks. We asked both retailers and vendors for their views, and the results and comments were quite interesting. As shown in the chart on the next page, 28% of retailers say their chargeback levels are growing, whereas vendors see things a bit differently, with 55% indicating they are seeing rising chargebacks.



We're not quite sure how to reconcile those two data points. Regardless, more on both sides say chargebacks are rising than in the previous study, where 36% of retailers and 51% of vendors saw chargebacks levels increasing.

The comments from retailers and vendors on this topic were quite interesting.

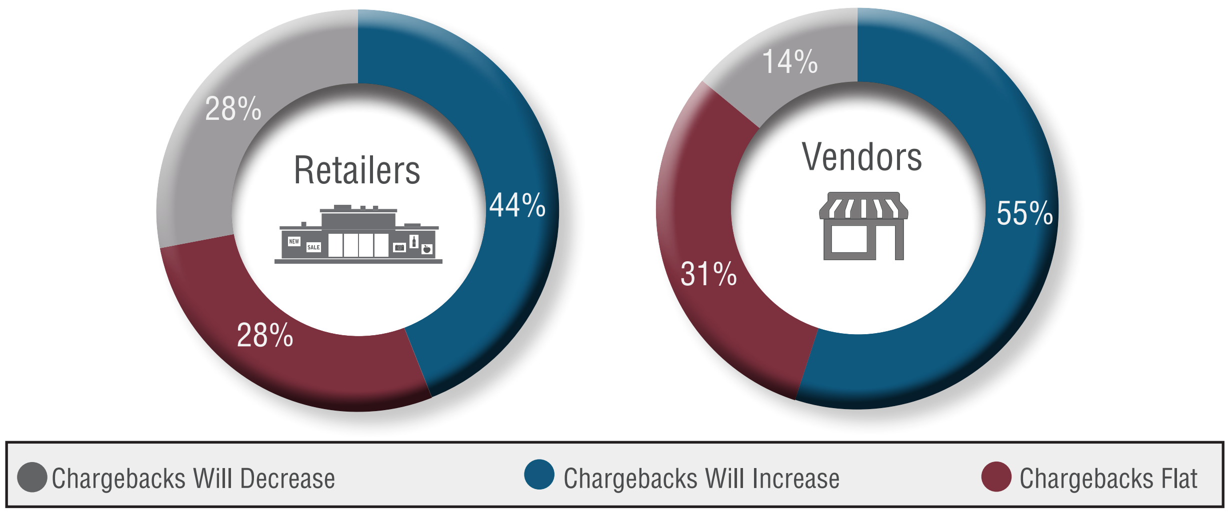
- "The number of deductions year over year has decreased, however the amount we have collected has increased because the violations have hit higher tier dollar amounts," one retailer said.

- Added another: "As we tighten up our own supply chain performance standards, we are getting tougher on vendors to perform."

- On the vendor side, one noted that "Our chargeback levels are rising due to changes in retailer requirements plus internal manual efforts to be compliant, which results in human error. Also, retailers are becoming less willing to bend when requesting leniency for one-time violations."

- And of course, there were a number of comments along this line: "Chargebacks seem to be a profit center for many retailers. They are trying to use vendor dollars to make up for lost brick and mortar sales."

What is the Trend with Retail Chargebacks?

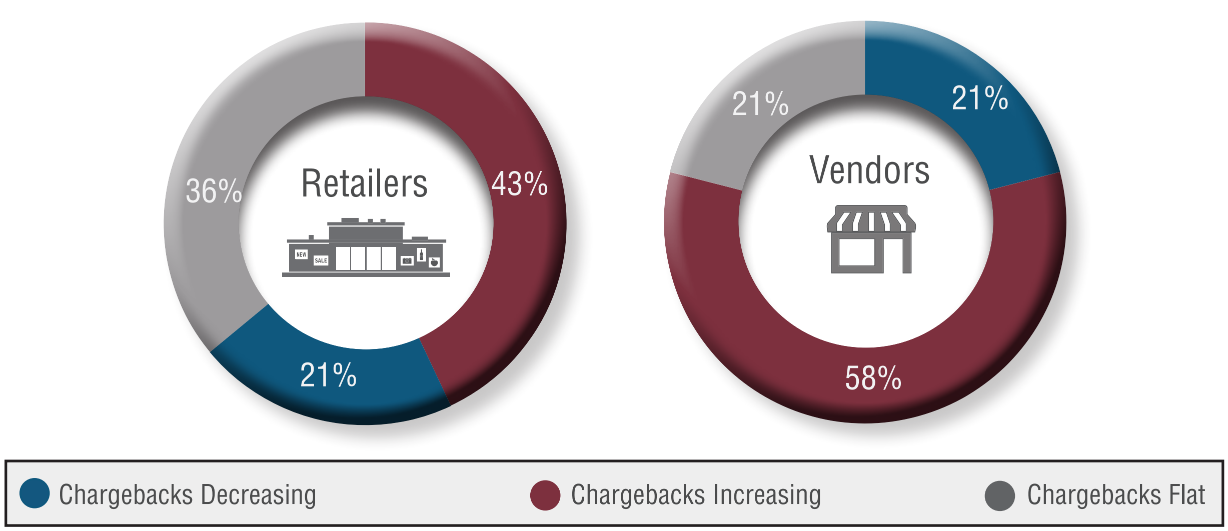


That data captures a snapshot of current views on vendor compliance and chargebacks. Just as important are perspectives on the future of chargebacks.

The bad news, from our perspective, is that both retailers and vendors believe chargebacks are going to head still higher. As can be seen in the chart below, 43% of retailers and 58% or vendors expect chargeback levels to rise, with only 21% of each group predicting chargeback levels will decline.

In fact, slightly higher percentages of each group expect chargeback levels to rise in this study than in the previous study, in which 33% of retailers and 52% of vendors predicted chargeback levels would rise. It looks like from our current data that they were right.

What Will happen Over the Next Five Over Years with Regards to Chargebacks?



Several comments echoed our survey results on chargebacks:

- "Over the past 18 months we have become more attuned to identifying and reporting compliance errors. In the past many errors would be corrected without being reported. We expect this trend to continue over the next 2-3 years," one retailer noted.

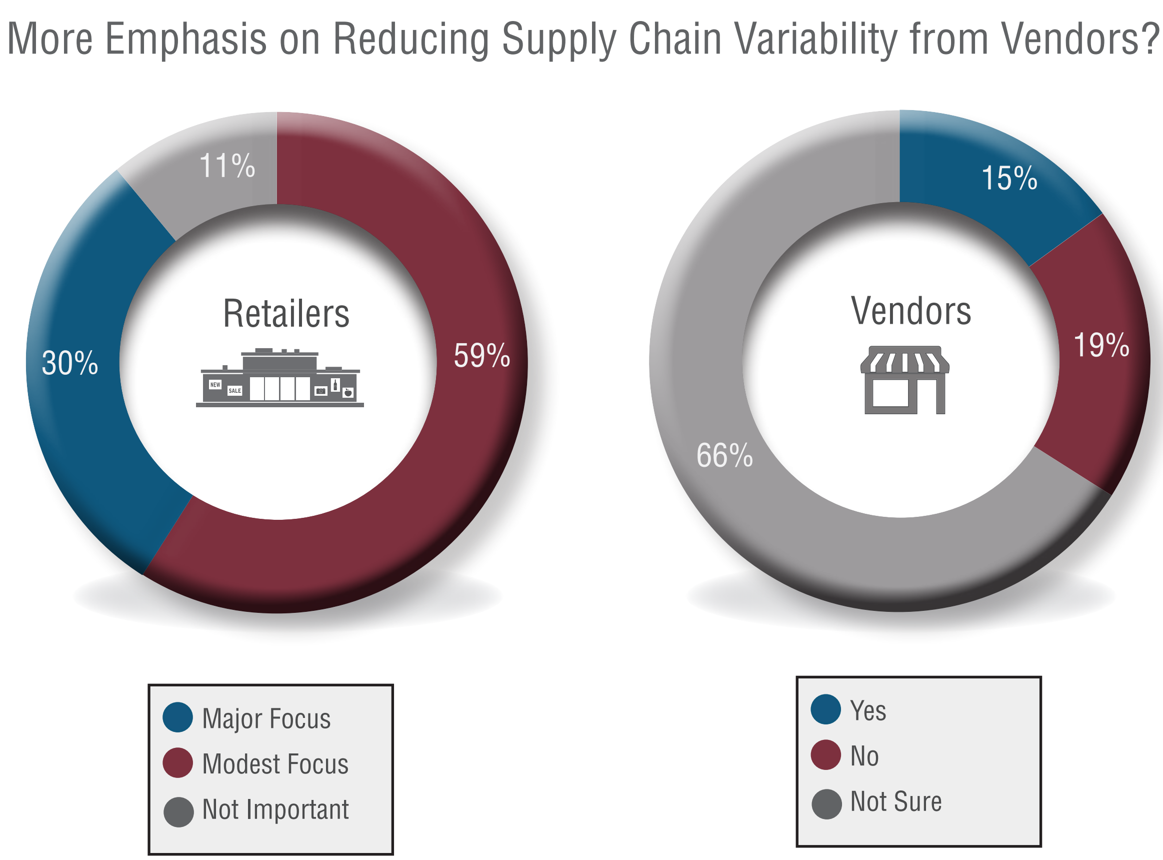
- Added one manufacturer: "We need to be smarter to understand the requirements and incorporate the strictest rules from all of our retailers into the general rules of our company."

As noted earlier in this report, Walmart and Target both have recently announced programs to reduce vendor variability. Grocers HEB and Kroger have also launched similar initiatives, in a first for the grocery sector.

Is this a real overall trend in the consumer goods to retail supply chain? An emerging one, our survey data says.

A significant 30% or retailers say reducing vendor-caused supply chain variability is a major focus area, with another 59% saying it is at least a modest focus.

On the vendor side, 15% see variability as a major retail focus, though the vast majority (66%) say they aren't sure yet.



- The comment from one vendor probably has it right: "With Walmart - absolutely. If they are successful, others will follow."

- Commented one retailer that sees lots of opportunity on this area: "There is no question retailers are relatively unfocused on the impact of supply chain variability, and there is much to be gained here."

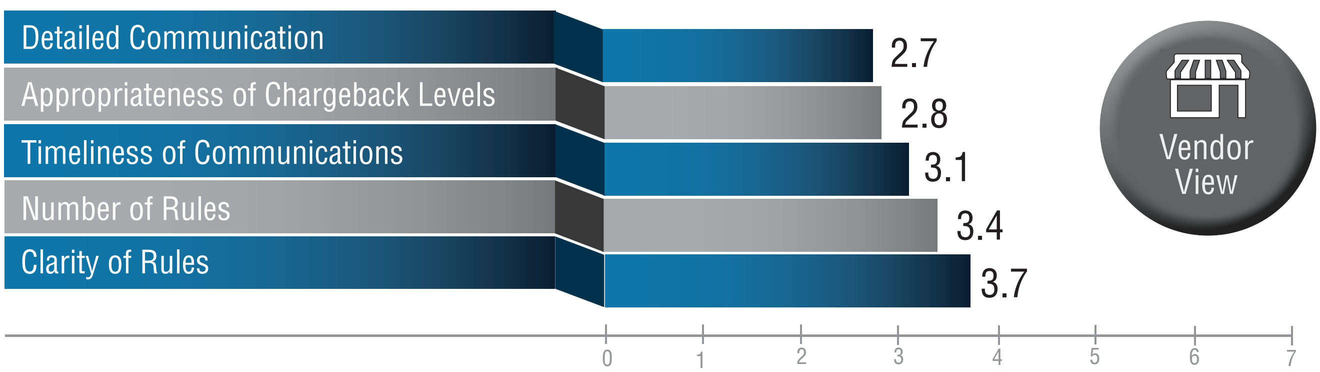
We also once again wanted to see how vendors viewed various aspects of retailer compliance programs.

Again using our 1 to 7 scale, with 1 indicating the least satisfied and 7 the most satisfied, vendors had the biggest beef with the lack of detailed information on what triggered a chargeback (average score of 2.7).

That was barely ahead of "Appropriateness of Chargeback Levels" (2.8) and "Timeliness of Communications" (3.1). Vendors had the least concern relative to the clarity of the rules, which with an average of 3.7 came in just a bit above the mid-point on the scale of 3.5.

We will note that the level of detail in communications about chargebacks and the timeliness of those communications is something that is very much in the control of retailers, and can be improved with relatively little investment. We wish more of them would put some focus in these areas.

How Would You Rate Your Perspectives On Various Aspects Of Retail Compliance Programs?



Scale of 1-7 with 1 being the Least Satisfied and 7 being the Most Satisfied.

"Again using our 1 to 7 scale, with 1 indicating the least satisfied and 7 the most satisfied, vendors had the biggest beef with the lack of detailed information on what triggered a chargeback (average score of 2.7)... That was barely ahead of "Appropriateness of Chargeback Levels" (2.8) and "Timeliness of Communications" (3.1)."

As noted previously, many vendors believe retailers use chargeback programs as a profit center. Our data somewhat contradicts that.

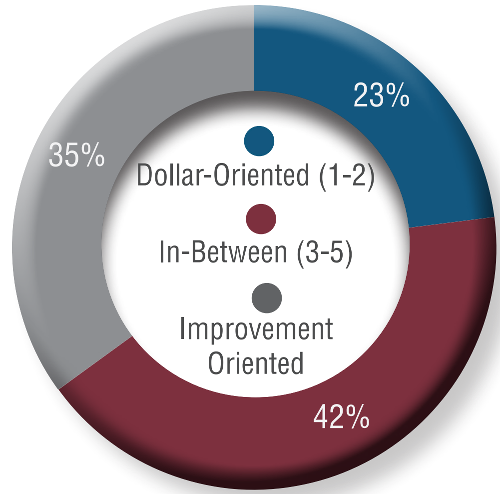
As seen in the chart on the right, 23% of retailers admit their programs are dollar-oriented, while 35% say their programs are primarily focused on supply chain improvement. The plurality, however, (42%) said the focus of their programs was a mix of improvement and dollar objectives.

On a positive note, the percentage of retailers saying their programs were improvement-oriented was just 20% in 2016.

Which area of vendor compliance gives retailers the most challenges?

As can be seen in the chart below, showing an average score for each of several areas using a 1 to 7 scale, with 1 being the lowest problems and 7 being the highest, advanced ship notice (ASN) compliance is the most problematic, with an average score of 5.3, significantly above the mid-point.

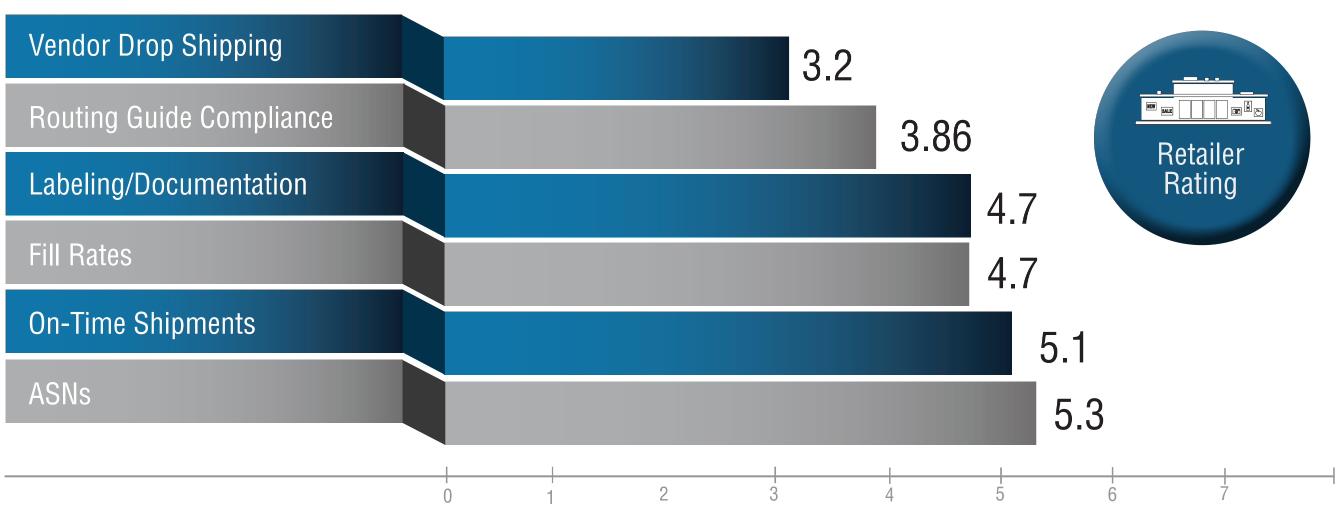
The Focus of Retail Chargeback Programs



Scale of 1-7 with 1 being Very Dollar-Oriented and 7 being Very Supply Improvement Oriented

Right behind that were on time shipments (5.1) and fill rates and labeling, both with average scores of 4.7. Vendor drop shipments - on the rise with the growth in ecommerce - was seen as the least problematic, with an average score of 3.2.

Retail View of the Most Challenging Areas of Vendor Compliance



Scale of 1-7 with 1 being Very Dollar-Oriented and 7 being Very Supply Improvement Oriented

Next we looked at supply chain collaboration between retailers and vendors from several aspects.

We asked both sides about their level of collaboration with the other side, and how their collaboration might vary based on the size of the vendor or retailer.

The results were frankly more positive than we anticipated.

As can be seen in the chart below, using our 1 to 7 scale and then again grouping those responses into low, medium and high, 57% of retailers believe they have high levels of supply chain collaboration with larger top tiers suppliers. Only 7% said such collaboration was at low levels.

> *57% of retailers believe they have high levels of collaboration with top tier suppliers... A combined 85% of retailers reported medium or high-levels of collaboration even with mid-tier suppliers.*
>
> *The results were more positive than we anticipated.*

More surprisingly, a combined 85% of retailers say they have medium or high levels of collaboration even with mid-tier suppliers.

The results were relatively the same on the vendor side, though the numbers for collaboration for top tier retailers were flipped, with about 38% saying that collaboration was high and 53% characterizing it as at a medium level. But all told, all these data points are higher than we expected.

Levels of Collaboration by Tier of Partner

Retailers

Top Tier Suppliers

Low	7.10%
Medium	35.70%
High	57.20%

Mid-Tier Suppliers

Low	14.30%
Medium	64.30%
High	21.40%

Vendors

Top Tier Retailers

Low	8.60%
Medium	53.50%
High	37.90%

Mid-Tier Retailers

Low	18.90%
Medium	64.30%
High	16.80%

Scale of 1-7 with 1 being the Lowest and 7 being the Highest, then grouped (1-2 = Low, 3-5 = Medium, 6-7 = High)

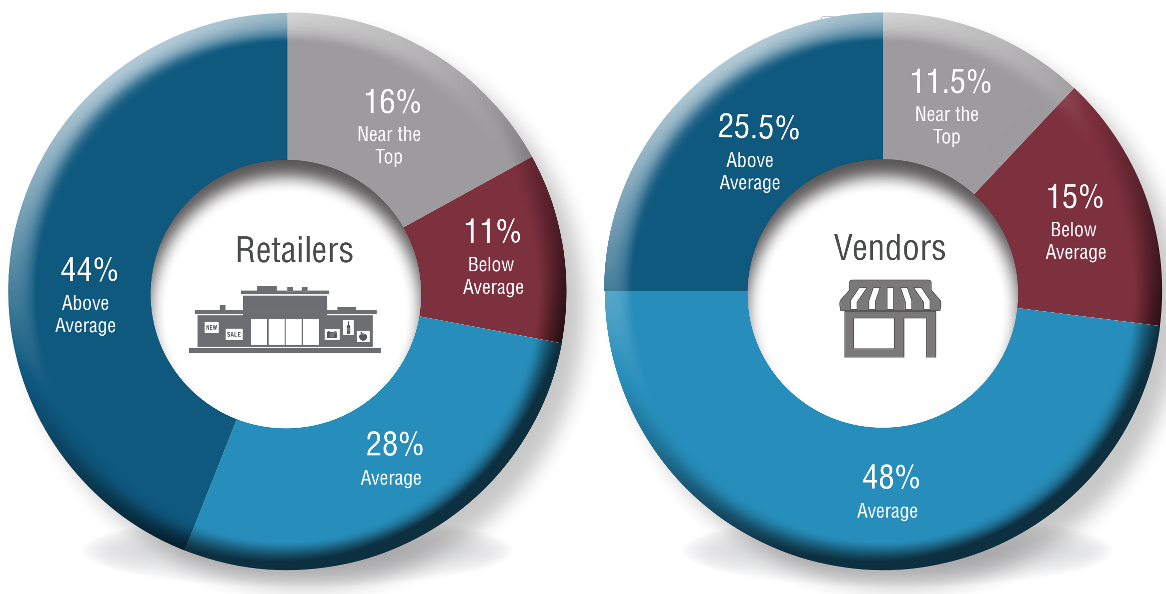
We then asked both retailers and vendors to rate their overall level of supply chain collaboration capabilities.

As can be seen in the chart below, 16% of retailers believe they are "near the top" in terms of collaborative skill and practices. Interestingly that was up from 0% in the previous study.

Another 44% of retailers believe they are above average. Only 11% believe their collaboration is below average.

A similar story occurs on the vendor side, with 11.5% believing they are near the top of the collaboration hill. But only 25% believe they are above average, while a significant 15% say they are below average.

How Good is your Company at Vendor or Retailer Supply Chain Collaboration?



What are the barriers to improved collaboration?

As shown in the chart on the next page, retailers believe the biggest barrier is related to a lack of actionable data, with an average score of 4.1, on a 1 to 7 scale, with 1 being the least barrier and 7 the highest barrier.

That was just ahead of the lack of knowledge/skill on the part of trading partners (4.2) and then the general level of interest in collaboration by trading partners (4.1).

On the vendor side, lack of data was also seen as the largest barrier to collaboration (4.5), followed by a tie at 4.3 across trading partner skill, general interest in collaboration, and questions about how to share the gains.

Interestingly, as was also true in the previous study, both retailers (2.8) and vendors (3.2) rate their own skills in collaboration as low barriers to improvement – in other words, "It's not us, it's the other guy."

Perceived Barriers to Collaboration	Retailers	Vendors
Level of Trust	3.3	3.9
General Level of Interest in Collaboration	4.1	4.3
Difficulty Defining/Agreeing on How to Share Gains	3.3	4.3
Clear Return on Investment	3.4	3.9
Tools to Enable Collaboration	4.0	4.2
Executive Support	3.9	3.8
Our Knowledge/Skill in How to Collaborate Successfully	2.8	3.2
Trading Partner Knowledge/Skill in Successful Collaboration	4.1	4.3
Quality/Availability of Data	4.2	4.5

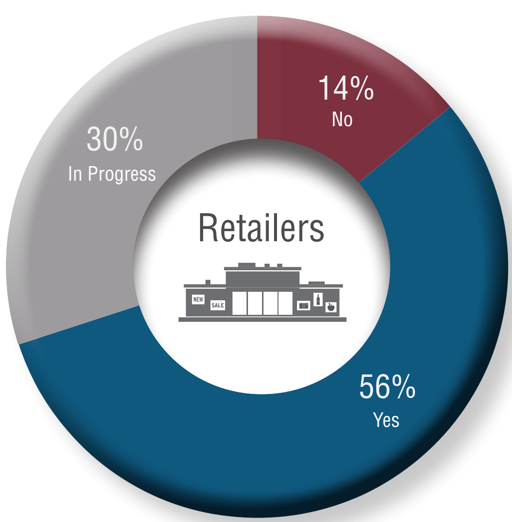
Scale of 1-7 (1 Equals Very Low Barrier, 7 Equals Very High Barrier)

We also wanted to understand the type of supporting technology retailers use to support collaboration – or at least improve compliance.

As can be seen in the chart below, 56% have formal vendor scorecard programs, with another 30% saying a scorecard program is in progress. Those numbers were up just a bit from the previous survey.

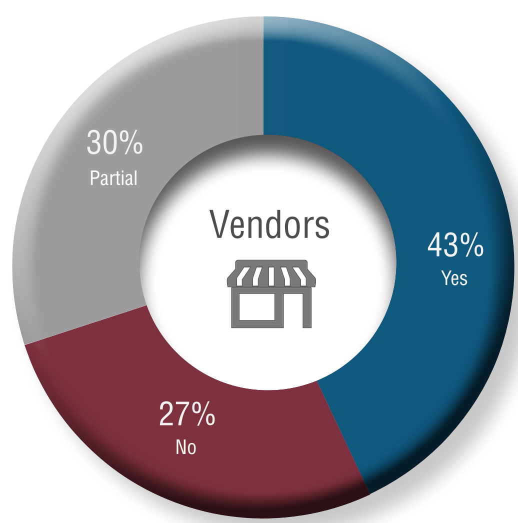
Meanwhile, 43% of retailers have an on-line portal to communicate performance to vendors, with another 30% saying they have something going on in this area, again numbers that are up a bit from the 2016 report.

Formal Vendor Supply Chain Scorecard Program?



Yes = 51% in 2015

On-line Portal for Vendors?



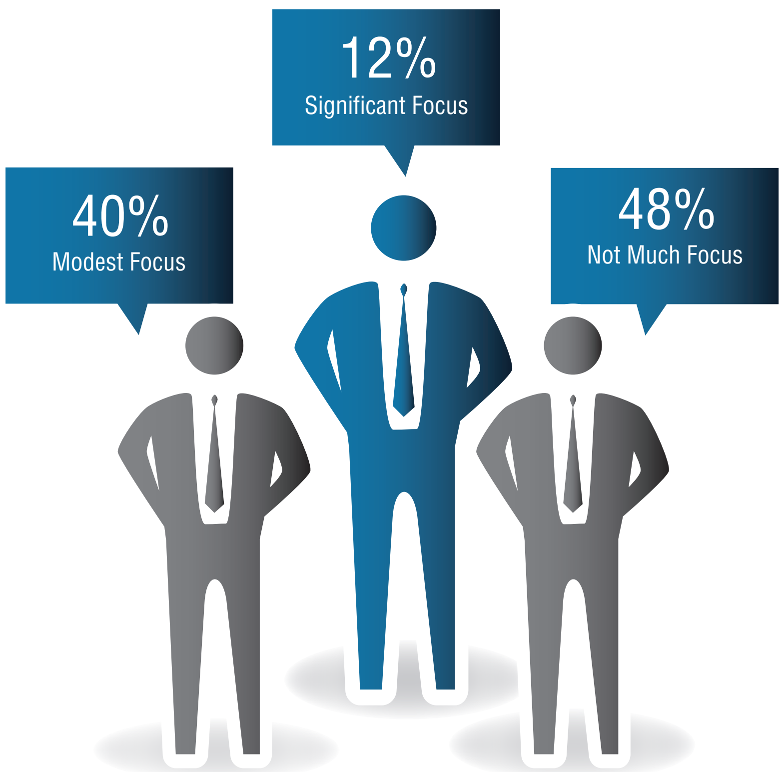
Yes = 38% in 2015

Now let's take another look at collaboration from the vendors' perspective.

We wanted to know in their meetings with retailers, how much of the focus was on opportunities for supply chain improvement, versus just their own performance relative to compliance issues.

The answer, it appears, is not much. As seen in the chart below, only 12% said there was usually significant focus on ideas for supply chain improvement, with the plurality – 48% - saying there was little focus in this area. That is unfortunate.

Do Meetings with Retailers have a Strong Focus on Supply Chain Opportunities?



Summing Up the Data

As with the first study in 2016, the data on the state of retailer-vendor supply chain relationships provides a very interesting picture.

On the one hand, both retailers and vendors rate their current levels of supply chain relationships and collaboration as strong, and in general the numbers in those areas are up from the previous data.

On the other hand, chargebacks continue to be a hot bottom issue for vendors, and sadly a significant percentage of both vendors and retailers expect the levels of chargebacks to rise over the next five years.

One positive data point is that the percentage of retailers saying their chargeback programs are focused on supply chain improvement rather than the chargeback dollars rose nicely from the 2016 study.

And we will note that at the Fall 2017 RVCF conference in Phoenix, two former Amazon managers stated in a presentation that the on-line giant's aggressive chargeback program really is focused on improving supply chain performance, which is why it is so tough on fill rate issues – it can't sell what it doesn't have in stock.

Walmart and Target seem to be on a similar path with their programs to reduce vendor variability. Early on, Target claimed a 50% reduction in out-of-stocks in its ecommerce business.

How this plays out at Walmart and Target and then beyond is really one of the most important issues in the consumer goods to retail supply chain.

About Supply Chain Digest

Supply Chain Digest™ is the industry's premier interactive knowledge source, providing timely, relevant, in-context information. Reaching tens of thousands of supply chain and logistics decision-makers each week, our flagship publications - *Supply Chain Digest, Supply Chain Digest –On-Target,* and *The Supply Chain Digest Letter* - and web sites (www.scdigest.com, www.distributiondigest.com. and TheGreenSupplyChain.com) deliver news, opinions and information to help end users improve supply chain processes and find technology solutions.

For more information, contact Supply Chain Digest at:
www.scdigest.com • email: info@scdigest.com

SupplyChainDigest™

About Compliance Networks

When retailers want to improve supply chain relationships they turn to Compliance Networks. Both retailers and vendors benefit from a vendor compliance process that automatically identifies compliance errors and provides near-real time alerts including photos and documents to vendors.

Vendor and retailer collaboration improves with Compliance Networks' vendor portals that enable chargeback research and dispute management.

Compliance Networks helps vendors understand how and where compliance errors occurred by providing evidence and reports allowing vendors to make adjustments that prevent future problems.

Compliance Networks improves retailer and supplier relationships for improved supply chain performance:

- Business intelligence via PO Lifecycle and fill rate visibility
- Reduced out-of-stocks, safety stock, and lost sales
- Vendor performance-based classification

Deploy best-in-class hosted solutions for continuous extended supply chain improvement:

- Supply chain intelligence, analytics, and reporting
- Automated accounts payable interface

Compliance Networks offers a complimentary Opportunity Assessment to identify strengths and areas for improvement in vendor performance improvement and compare your performance with retail community benchmarks.

Compliance Networks is a leading provider of proven, private-cloud vendor performance software solutions for supply chain excellence. Since 2000, our suite of solutions have enabled improved profitability through continuous improvements in supply chain execution.

Compliance Networks is proud to serve leading organizations such as such as Kohl's, Burlington Stores, Pep Boys, Stein Mart, GNC, Petco, Pacific Sunwear, Tractor Supply Company and others.

Email: info@compliancenetworks.com
Web: www.compliancenetworks.com