

# MWPVL

**International**

**Supply Chain | Experience**

## Value Added Strategies for Today's Wholesale Distribution Channel



### Prepared for DC Velocity / Epicor Webcast

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# MWPVL International - Company Overview

**Supply Chain and Logistics Consulting Firm**

**Headquartered in Montreal Since 2006; 2<sup>nd</sup> Office in Caribbean**

**25 Years Consulting Experience, 100's Mandates Completed**

**Markets Served: 75% USA; 15% Canada; 10% Rest of World**

**Markets Served: Retail 50%; Distribution 35%; Manufacturing 15%**

**Specialization : Strategy, Operations, Design, Technology, Implementation**

# MWPVL International Consulting Services Overview

- **MWPVL International** provides distribution companies with:
  - 100% Unbiased experience in supply chain and logistics operations
  - Strong experience in helping distribution companies in the following critical areas:
    - Optimized supply chain strategies to support the business strategy and growth objectives of your company
    - The design and implementation of distribution facilities to maximize asset utilization, labor efficiency and quality of service
    - Invaluable insight to improve efficiency, accuracy and quality of your distribution operations
    - The selection/deployment of supply chain and logistics technology applications

# Presentation Overview

- This presentation reviews how distributors constantly walk a tightrope due to the maze of compliance requirements
- Failure to comply results in major chargebacks or loss of business
- Focus is on the wholesale to retail channel
- We will look at specific examples of:
  - Information Management / EDI
  - Order Management
  - Warehouse Management
  - Value Added Services
  - Transportation Management
  - Retailer chargebacks



# Information Management: EDI Compliance Challenges

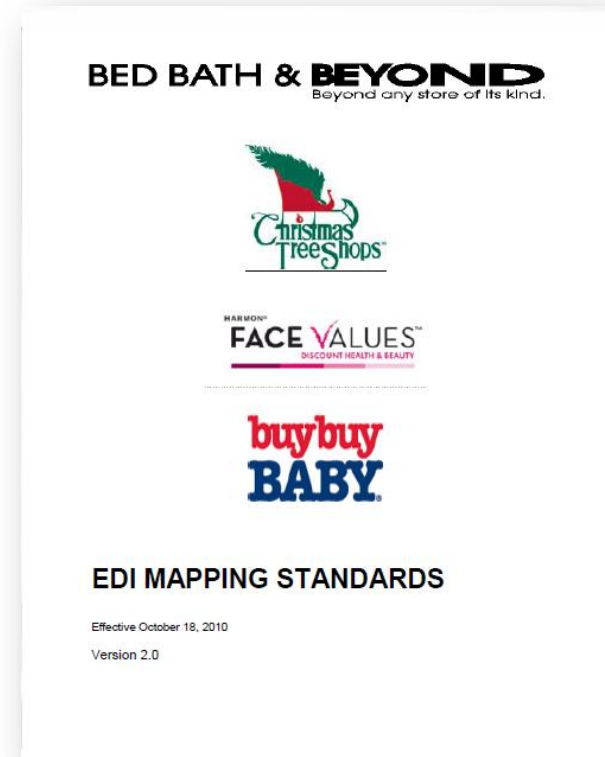
➤ **The most critical driver behind a distributor's ability to trade with sophisticated retailers starts with EDI capabilities**

- Fairly even split between retailers using the VICS (Voluntary Interindustry Commerce Standard) Formed in 1986 and the ASC X12 standard
- The 19 most common transactions for distributors to support are in the shaded cells to the right

EDI Transaction Set	Description	Typical Requirement
204	Motor Carrier Shipment Information	
210	Motor Carrier Freight Details and Invoice	
214	Transportation Carrier Shipment Stats Message	Out
810	Invoice	Out
812	Credit Debit Adjustment	In
816	Organizational Relationship	In
820	Payment Order/Remittance Advice	In
824	Application Advice	
830	Planning Schedule with Release Capability	In
832	Price/Sales Catalog	
844	Product Transfer Account Adjustment	
845	Price Authorization Acknowledgement/Status	
846	Inventory Inquiry/Advice	In
849	Response to Product Transfer Account Adjustment	
850	Purchase Order	In
852	Product Activity Data	In
855	Purchase Order Acknowledgment	Out
856	Shipment Notice/Manifest	In/Out
860	Purchase Order Change Request - Buyer Initiated	In
861	Remittance Advice	
864	Text Message	In
867	Product Transfer and Resale Report	In
869	Order Status Inquiry - Request for Status	In
870	Order Status Inquiry - Response for Status	Out
875	Grocery Products Purchase Order	In
880	Grocery Products Invoice	Out
940	Warehouse Shipping Order	
943	Warehouse Stock Transfer Shipment Advice	
944	Warehouse Stock Transfer Receipt Advice	
945	Warehouse Shipping Advice	
947	Warehouse Inventory Adjustment Advice	
990	Response to a Load Tender	
997	Functional Acknowledgment	In/Out

# Information Management: EDI Compliance Challenges Continued

- **Each retailer publishes an EDI Vendor Compliance Guide**
  - Each retailer has unique file definition requirements
  - Requires a constant effort to ensure that the EDI mappings are complied with
  - Distributors may have to cope with up to 60 different EDI mapping guides
  - A good link to access vendor-specific guides is at <http://www.vendorcompliance.info/retailrs.htm>



*The Bed Bath and Beyond EDI Mapping Guide at 29 Pages is just one of the many compliance guides for distributors to comply with.*

# Information Management: EDI 860 – Purchase Order Change Request

- **The 860 is designed to enable the retailer to submit an order change request to the distributor**
  - PO change request arrives & typically gets printed out
  - Often times the order has already been released to the warehouse where it is being (or already has been) picked which is why you don't necessarily want this EDI file to change the original PO
  - May require manually undoing completed orders out in the warehouse to comply with the retailer's order change request (which is a major pain to say the least).



*Hopefully your warehouse doesn't look like this!*

# Information Management - Data Synchronization

## ➤ GTIN

- Global Trade Item Number - refers to the globally unique GS1 System identification number for products and services.
- 8, 12, 13 or 14 digits long
- Can be constructed using any of four numbering structures, depending upon the exact application

## ➤ GLN

- Global Location Number
- Used to identify locations involved in trade
  - E.g. Company headquarters, billing departments, and ship-to addresses

## ➤ Wal-Mart's Data Synchronization Initiative

- Wal-Mart requires vendor to label each master case with a GS1-128 label to replace the UCC-128 label to identify:
  - Product GTIN#
  - GLN# assigned to the Wal-Mart store

FROM: FromAddress1 FromAddress2 FromCity, FromState FromZip	TO: XXX XX Store (90500) ShipAddress2 ShipAddress3 ShipCity, ShipState ShipZip
SHIP TO POST (420) 77082 	SUPP #198184 PO 35987200 SUB 107 DESC
FOR: (91) 099481 	<b>99481</b> <b>NC</b>
SSCC (00) 1 0791916 000023729 7 	

# Order Management: Bulk Orders

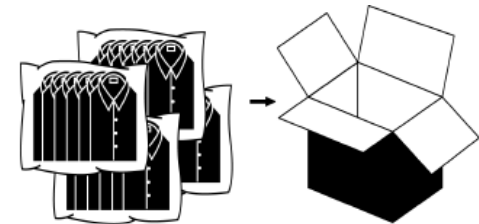
- **Customer sends EDI order well ahead of actual demand to provide advance notification of requirement**
  - Similar to blanket order
  - Enters into system but no inventory allocation
  - Followed up by EDI order release notification
  - EDI distribution order released
    - Replaces bulk order with a detailed distribution order
    - Breaks down aggregate demand quantities by SKU by store



# Order Management: Pre-Pack Orders

## ➤ Pre-Pack Orders

- Often used for shelf / countertop displays that contain multiple SKUs
  - Also used for distribution orders of multiple color/style/size garments
- Pre-pack order may be for a kit that is a make-to-stock or make-to-order assembly of multiple SKUs
  - Ideally the order release invokes a work order to assemble kit components
- Customers are typically inconsistent in how displays are ordered:
  - Ordered as a display SKU quantity = 1
  - Ordered as a standard set of 20 kit component SKUs
  - Companies like Kohl's want customized mix and match of SKUs specific to their needs
  - Specialized kit pricing & deals also need to be supported



# Order Management: Shipment Dates

## ➤ Shipment Dates

- The distributor must comply with a myriad of retailer-specific shipment requirements
  - Do not ship before date
  - Do not ship after date
  - Cancel if not shipped by date
  - Must arrive by date
    - Requires in-transit time by customer by DC to determine this
    - The distributor must track and maintain which retail stores are associated with each retailer DC location to identify the in transit time for each store order
    - Macy's, Kohl's, etc. all require this to be supported



# Warehouse Management: Pick/Pack by Store + Ship to DC

## ➤ Pick/Pack by Store + Ship to DC

- Kohl's, Macy's, and other retailers want the distributor to pack each store order individually but then send all store orders as a consolidated shipment to their assigned retail distribution center
  - Each store order needs to be picked and packed separately so that retailer can flow through or cross dock the order through their DC
  - Can be a major pain because a healthy \$50,000 order might break down to hundreds of \$10 orders resulting in highly inefficient and costly warehouse processes



# Warehouse Management: Packaging Requirements

## ➤ Packaging Requirements

- Some retailers have minimum shipping carton fill rates that must be satisfied otherwise a chargeback is applied
  - This issue is sensitive especially when the retailer issues small store orders that must be packed by store
- Master carton and inner carton maximum weight and dimension constraints
- Corrugated requirements
- Taping specifications
- Palletization specification
  - E.g. Dollar General orders by layer (pallet tier) with label applied to the layer



# Warehouse Management: Pick Pack and Hold

## ➤ Pick Pack and Hold

- Retailers like Wal-Mart are arranging to collect pickup at the distributor's DC with a range of days when they intend to pick up their orders
- Requires completed orders to be staged in the warehouse for days / weeks and consumes valuable storage capacity that can no longer be used to hold inventory
  - Not unusual for retailer to miss their pickup date window but when they do arrive then the truck needs to be loaded out within 2 hours else chargeback applied



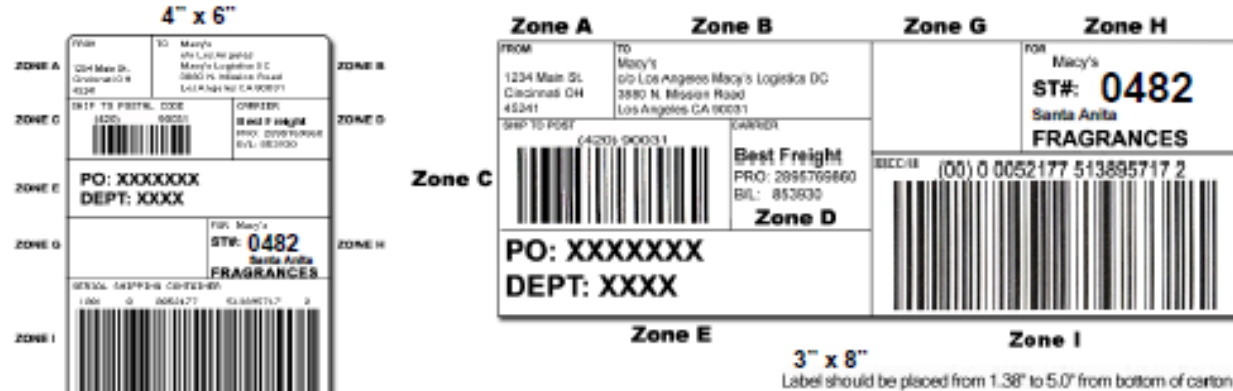
# Warehouse Management: UCC128 Labeling

## ➤ Carton Labeling

- Retailers have strict instructions on the format and placement of UCC128 Labels on shipping cartons
- Stiff penalties are applied for non-compliance

## UCC-128 SHIPPING CONTAINER LABEL FORMAT & PLACEMENT

These labels are being provided for illustration only. Your UCC-128 label should be created using your unique information in accordance with applicable Uniform Code Council guidelines. (800-543-8137 or [www.gs1us.org](http://www.gs1us.org))



## PO Carton Consolidation Examples



# Value Added Services : B2C Fulfillment

## ➤ B2C Fulfillment

- Retailers like Bloomingdales, JC Penney and Kohls are outsourcing their dot.com consumer order fulfillment to distributors
- Retailer sends consumer order via EDI and distributor picks, packs and ships conforming to retailer specifications
- Transparent to consumer that distributor was involved in transaction
- Results in small orders with split case quantities
- Requires retailer's order # and consumer pricing to be on packing list as well as sales taxes to be applied
  - May need to suppress this if it is a gift item
  - Other requirements may include bridal registry numbers, gift wrapping, etc.



*Often, distributors need to establish a separate logical warehouse for B2C orders. Retailers send the EDI 846 Inventory Status to update quantity available to sale for their web site so this needs to be a separate inventory pool.*

# Value Added Services: Pre-Ticketing

## ➤ Pricing / Pre-Ticketing

- Retailer-specific pre-ticketing requirements include:
  - Retail price
  - Size
  - Scannable UPC barcode
  - Retailer logo
  - Retailer SKU number
- Requires maintaining files for retailer-specific item data and pricing
  - If the distributor pre-price tickets product overseas then there is a coordination of pricing changes, stocking separate inventory for the same SKU (priced/not priced) with the same UPC
  - So this is not a viable cost reduction opportunity

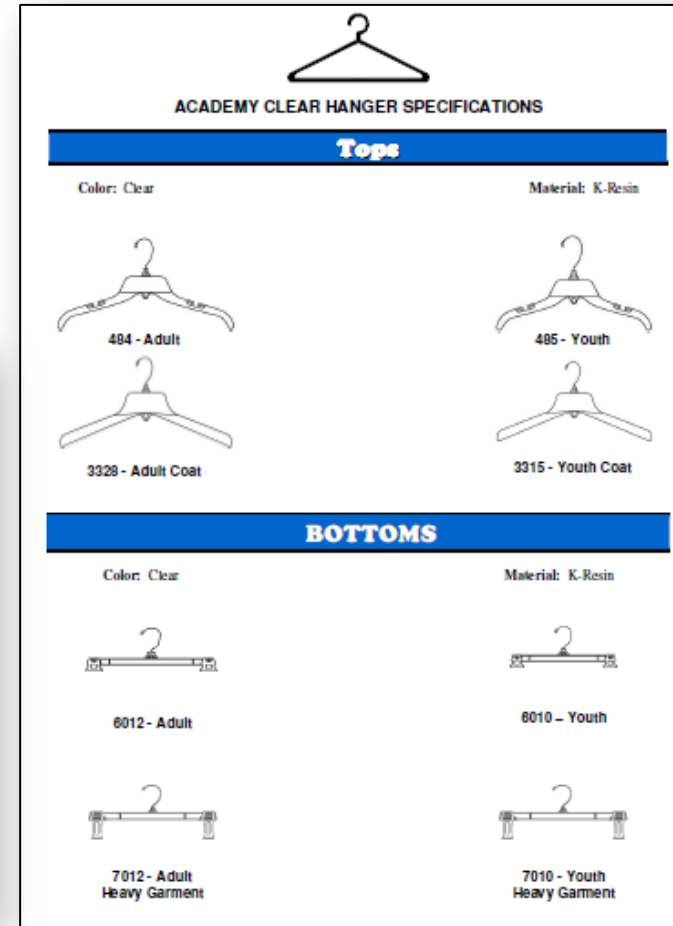


*Academy Sports Price Ticketing Requirements*

# Value Added Services: Garment Handling

➤ **Garment suppliers must conform to strict compliance requirements else hefty chargebacks are applied**

- Folded versus Hanging
- Adhesive size strips
- Ticketing
- Hanger-specific requirements
  - Color
  - Type
  - Size

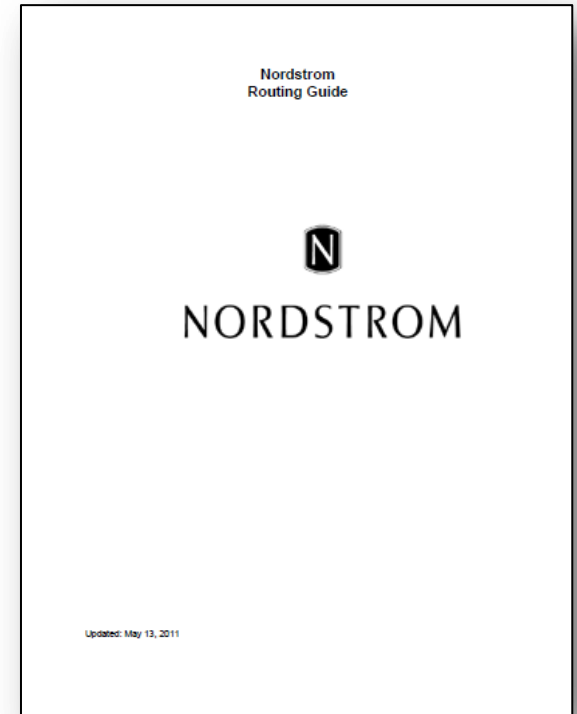


*Sample Hanger Specification Documents*

# Transportation Management: Routing Guides

## ➤ Routing Guides

- The distributor must comply with a myriad of retailer-specific transportation routing requirements
  - Domestic and International Shipping guidelines
  - Direct to store versus DC shipment guidelines
  - Shipping timeframes
  - Special handling instructions by product type
  - Prepaid, Collect, Consignee rules
  - Freight invoicing instructions
  - Palletization, sorting and loading of freight
  - Carrier specifications by shipment method/mode, weight, cube, and point of origin
  - Bill of lading/ EDI ASN 856 specifications, etc.



*The Nordstrom Routing Guide at 127 Pages is just one of the many routing guides for distributors to comply with.*

# Transportation Management: Routing Guides Continued

## ➤ Examples of Routing Complexities

- For orders > \$500 ship prepaid; else ship “prepaid & add”)
- Ship by FedEx before 12 noon
- Transmit shipment manifest to retailer within 1 hour of shipment departure time
- Retailers like Macy’s and Kohl’s want store orders to be individually picked and packed but they need to be consolidated to a single large shipment with 1 ASN and 1 Bill of Lading
  - Consolidate multiple store POs to 1 EDI ASN and 1 Bill of lading
  - Some retailers like Anna’s want each store PO to be submitted as 1 EDI ASN file which forces the distributor to process multiple bills of lading (i.e. 1 BOL per ASN) which is an inefficient process that drives up freight costs



# Transportation Management: Shipping Information Tracking

## ➤ Shipping Information Tracking

- **Retailers have powerful IT systems but they require distributors to keep track of their PO information**
  - Wal-Mart wants PO Type /Dept /PO Number on the bill of lading and shipment label
  - Results in customization of the standard VICS BOL document and shipment label
- **Carton 1 of 10**
  - Every shipment label must have carton X of Y meaning the distributor must know that the order will result in Y cartons in advance of picking the order or that all cartons must be processed together at shipping prior to generating shipment labels
  - Can cause warehouse process inefficiency and is often the source of pain if the total carton count is off for any reason



*Sample Wal-Mart shipping label*

# Transportation Management: Order Pooling

## ➤ Order Pooling

- E.g. Bed Bath and Beyond has introduced the notion of VDP (Vendor Direct to Pool)
- Some, but not all BBB stores are assigned to 1 of 27 pools for cross docking purposes (avg. of 30 stores per pool location)
- Orders with at least 130+ cartons or > 4300 LBs or > X cube are grouped into a pool to reduce shipping costs inbound for BBB; otherwise ship directly to the store
- If distributor is off by 1 LB then the penalty is a chargeback
- Requires all completed orders to be set aside for a final carton count to determine if orders should be pooled or shipped direct to store
- Consumes warehouse space and results in inefficient processes for the distributor



# Financial Management: A/R Payment Terms

## ➤ Payment Terms

- Net
- Clock starts after receipt of delivery at customer site
  - But goods may sit in their yard for days and distributor only knows the shipment date
- End of Month
- Payment on the 10<sup>th</sup> day of following month
- Extended payment terms for a new store / DC



# Retailer Chargebacks

- Retailers chargebacks are issued because vendor noncompliance disrupts their operations causing additional operating expense
  - These expense offset policies are intended to recover additional costs due to vendor noncompliance.
- Unfortunately, vendor noncompliance chargebacks have become healthy profit-centers for many retailers and everyone is getting into the act – even the little guys.
- Results in a significant profit reduction for the distributor due to:
  - Additional staffing, operating expenses and capital investment requirements to support complex and proliferating compliance programs
  - Expense of paying chargebacks when human errors are incurred

# Retailer Chargebacks – Example (Neiman Marcus)

NEIMAN MARCUS EXPENSE OFFSET CHARGEBACKS				
SHIPPING VIOLATIONS		PENALTY	INVOICE VIOLATIONS	PENALTY
Incorrect pallet count from specific vendor		\$100.00	No purchase order on invoice	\$100.00
Pallet not shrink wrapped		\$100.00	Incorrect purchase order number on invoice	\$100.00
Wrong size pallet. (Standard is 40"x48").		\$100.00	No item number on invoice	\$100.00
Pallet height exceeds 55"		\$100.00	Incorrect item number on invoice	\$100.00
Mixed pallet		\$100.00	Terms not listed	\$100.00
Not delivered during receiving hours		\$100.00		
No packing list with shipment		\$100.00	PURCHASE ORDER VIOLATIONS	
No purchase order number on packing list		\$100.00	Late Purchase Order delivery (2 days after due date) without prior approval	\$100.00
Incorrect purchase order number on packing list		\$100.00	Early Purchase Order delivery (2 days before due date) without prior approval	\$100.00
No item number on packing list		\$100.00	Failure to confirm receipt of purchase order via email or fax	\$100.00
Incorrect item number on packing list		\$100.00		
Double shipment		\$100.00	PRODUCT / INVENTORY VIOLATIONS	
Damaged cartons		\$100.00	Failure to meet product specifications	\$100.00
No Dunnage		\$100.00	Required monthly inventory not on hand	\$100.00
Misroute		\$100.00	Required monthly inventory report not received	\$100.00
Unauthorized / Incorrect carrier		\$100.00	CARTON VIOLATIONS	
Multiple BOL on the same day / Consecutive business days to same destination location		\$100.00	Cartons not labeled with Neiman Marcus item number	\$100.00
Carrier detention charges at origin		\$100.00	Incorrect Neiman Marcus item number on the carton	\$100.00
Declared value charges		\$100.00	No product description on carton	\$100.00
Driver load assist charges		\$100.00	No quantity on carton	\$100.00
Failure to contact Neiman Marcus Traffic Department for shipping instructions.		\$100.00	Incorrect unit of measure/case pack	\$100.00
No purchase order number on the freight bill		\$100.00	Carton over 50 lbs.	\$100.00
Incorrect purchase order number on the freight bill		\$100.00		
Failure to contact Neiman Marcus to schedule a dock appointment		\$100.00		

Source: Neiman Marcus Stores Chargeback Codes

# Retailer Chargebacks – Example (Pamida)

## Distribution Chargebacks

- Not loaded as instructed \$400.00
- Carton Markings \$1.00 per carton/Min \$300.00
- Incomplete Detail on Manifest/Packing List/Bill of Lading (No Wernervas Tour/Load ID#) \$200.00
- Carton Pack Variance from Purchase Order per SKU/ITEM plus extra handling cost of \$1.00 per carton if repacking is required \$5.00 per carton/Min \$300.00
- No UPC/incorrect UPC on merchandise from purchase order per SKU/item plus additional charges for required ticketing/reticketing \$500.00 per SKU/ITEM
- DC Shipments – Packing List not Attached/Noted on Bill of Lading given to the driver. Attached to a carton or pallet does not qualify. \$300.00 per PO
- Illegible Printing on outside of carton \$1.00 per carton/Min \$300.00
- Store Name & Number not on outside of carton (if required) \$1.00 per carton/Min \$300.00

*Source: Pamida Vendor Partnership Manual*

# Retailer Chargebacks (DSW Shoe Warehouse)



DSW

eTail Direct

DSW Leased

## 9.2 Schedule of Chargeback Expense

NON-COMPLIANCE ISSUE	CHARGEBACK EXPENSE
<b>Purchase Order Errors</b>	
Failure to comply with PO preparation or packing instructions or specifications	\$ .25 per unit of merchandise, plus Company cost incurred per PO
<b>Return-to-Vendor Handling Expenses</b>	
Defective/damaged/un-saleable merchandise	\$150, plus all Company costs incurred per PO
<b>Packaging Errors</b>	
Bands, straps, wire or other material wrapped around the carton (non-conveyable carton)	\$5 per carton in error (minimum \$50)
Merchandise not in corrugated boxes	\$5 per carton in error (minimum \$50)
Multiple POs packed into a carton	\$25 per carton in error (minimum \$50)
Multiple styles and/or colors packed into a carton	\$25 per carton in error (minimum \$50)
Style/color/size substitutions not previously authorized by Company buyer	\$5 per carton in error (minimum \$50)
Too large or too small corrugate or use of unacceptable corrugate	\$5 per carton in error (minimum \$50)

Source: DSE Show Warehouse Vendor Chargeback Policy

# Retailer Chargebacks – Examples of Penalties

Chargeback Penalty Example	Pamida	Neiman Marcus	DSW
Missing UPC/Incorrect UPC on merchandise	\$500.00 per SKU/Item	\$0.25/Unit	\$150.00 + \$0.20/Unit
No UCC-128 label on carton	\$400.00/Carton	\$100.00/Carton	\$7.50/Carton (min. \$50.00)
Incorrect pre-ticket	\$0.50/Unit (min. \$300)	N/A	\$150, plus \$.20 per unit
Missing/Incomplete Packing List with Shipment	\$200.00	\$100.00	\$50.00
Not loaded/sorted as instructed	\$400.00 per PO	\$100.00 per occurrence	\$1 per carton, plus company cost incurred per PO
Missing Bill of Lading or insufficient detail	\$300.00 per occurrence	\$100.00 per occurrence	\$150.00 per occurrence

# Retailer Chargebacks

- The reality is that large retail chains hold most of the cards when dealing with their distributor suppliers
- Retailers are levying all types of chargeback fees, legitimate and questionable, with huge variations in the valuation of the chargeback amount
- There is very little that most suppliers can do about it other than go along for the ride and take the financial hit.
- This trend ultimately drives up the cost of doing business for all suppliers which in turn makes it very difficult to compete unless the supplier has invested into best in class processes and I.T. systems to enable near perfect accuracy.

# Conclusions

- The distribution world has become significantly more complicated and challenging over the past 30 years due to ever increasing:
  - Retailer-specific EDI/routing/information tracking/value added service requirements
  - Retailer-specific supplier requirements that require powerful and flexible I.T. systems to support EDI, Order Processing, & Warehouse and Transportation Management
  - Hefty chargebacks for supplier non-compliance can result in a major drain on profits
- Distributors can still prosper and succeed in this demanding and constantly changing environment, but survival requires a major financial commitment in world-class I.T. systems and logistics operations.

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