

Oil Up the Machine

Gift Transaction Best Practices document aims to cut costs and time from gift ordering and receiving.

By Eric Grimm

SO HOW MANY DAYS DOES IT TAKE you to receive and shelve a gift order? An hour? A day? Several days? For many retailers, ordering and receiving gift products are burdensome tasks complicated by inconsistent processes, policies, and procedures. Some retailers literally spend days receiving and shelving gift orders.

The industry's Back Room Study revealed 25% of all gift shipments into Christian stores have discrepancies requiring manual data entry, shipment checks and rechecks, and purchase order-invoice reconciliation.

The research estimated automated entry of new product data alone could save the industry \$839,000 to \$2.6 million annually in operational costs. These estimates are based only on direct activity costs, not any costs or time spent dealing with related activities or issues. Because these are direct costs, saving this money would go directly to improving retail margin and profitability.

The Christian Retail Solutions Committee (CRSC) responded to the research by naming an ad hoc team to identify basic obstacles and make recommendations to improve the gift-transaction process. The result is the Gift Transaction Best Practices document that will be presented during Independents Day at 2007 ADVANCE. CBA and the CRSC can't mandate compliance with these recommendations, but the document is a road map to help gift suppliers align with operational changes their retailer customers would like to see happen.

It's a tool to open discussions between retailers and suppliers about improving how they do business together—some oil for a rusty machine.

CONSTRAINING PERFORMANCE

Doug Popken of Systems View, the Back Room Study author, said Christian stores—compared to American Bookseller Assoc. stores—have similar costs and comparable ratios between cost of goods sold and sales revenue. However, Christian stores generally don't perform as well as ABA stores. For example, according to published store research, high-profit ABA stores report 59.6% cost of goods compared to 60.7% in CBA-member stores, but CBA sales

per square foot are much lower—\$405 in ABA stores compared to \$167 in CBA stores.

"The data presents a clear indication that CBA retailers need to improve utilization of current space and inventory holdings to increase sales and profitability in order to remain competitive and viable," Popken said.

The gift transaction best practices offer a consistent, systematic transaction process that would result in spending less time and money to order and receive shipments. It also could improve gift inventory management, in-stock rates on popular gift items, and gift sales.

Bob Siemon Designs Marketing Director Natalie Clark, who participated in the best-practices development, said one of the most important benefits of implementing the practices is awareness of additional costs imposed by inefficient gift-distribution practices.

"Oftentimes retailers think they're saving when the wholesale cost of a particular item might be low," Clark says. "However, the savings they receive on the cost of the product are often overwhelmed by the additional hidden costs to make the product saleable in the store."

PURCHASE ORDER COST

The cost to process a purchase order in Christian stores ranges from \$36 for stores with annual sales of less than \$650,000 to nearly \$60 per order for large-volume stores with more than \$2 million in annual sales. Again, these are costs for actual process activities and don't include fixed costs, idle-time, or other related expenses—such as correcting errors, reconciling invoices, etc.

Retailers with lower sales volumes order gifts about 20 times a year, while medium-volume stores order more than 50 times and large-volume stores more than 160 times annually. Gift ordering alone can run \$6,400 to nearly \$10,000 at large-volume stores. The total ordering cost for all products ranges from \$19,800 to \$24,300 at large-volume stores—which means gift-product ordering takes nearly a third to more than 40% of total store-ordering costs, based on Back Room Study findings.

MORE RETAIL BENEFITS

In addition to time and money savings, a standardized gift transaction process has other benefits.

Gift Transaction

- Retailers say the current complexity of gift receiving requires them to put their most experienced and capable personnel in the back room, not on the sales floor engaging and serving customers. Streamlining operational processes means retailers—especially independents—can deploy their best people, including owners or managers, on the sales floor to positively impact sales and service.

- Efficient receiving means product is processed and shelved more quickly, reducing out-of-stock rates on fast-moving product and increasing sales.

- Using common industry standards and processes means less administrative time and faster, more accurate order processing and settling for both retailers and suppliers.

- More efficient systems mean quicker cycle times from initial order to the time product is actually on the shelf. That contributes to better in-stock performance and improved inventory performance, which enables retailers to increase sales with less inventory investment.

- Having established standards and processes lays the groundwork for future system improvements, such as automated receiving and order reconciliation. If the processes are in place, technology solutions can be readily applied, such as electronic commerce and receiving shipments by bar-code scans.

Beverly Channell, Wellspring (Des Moines, IA) co-owner says, “Having accurate sales data at hand insures having the right product at the right time, ahead of the curve, which is so vital in our Christian gift-giving seasons.”

MORE SUPPLIER BENEFITS

When retailers sell more and are more profitable, that’s a supplier benefit, but there’s more to it. As competition gets tougher and retailers need to distinguish themselves more effectively in the marketplace, suppliers practicing operational excellence gain additional benefits:

- Increasingly, retailers want to do business with suppliers who understand retail and the problems retailers face. So operational excellence means retailers prefer doing business with those suppliers. For example, more retailers

are refusing to do business with suppliers who don’t use Universal Product Codes because the codes are crucial to inventory management and optimization, sales analysis, merchandising strategy, and other retail disciplines.

- Common transaction and data systems will help create new ways to do business that benefit suppliers and their customers. With suppliers and their customers “singing from the same hymnal,” it’s much easier to share important sales and inventory data for maximum performance, share inventory management goals, and collaborate more effectively for merchandising, maximum sell-through, and efficiency.

- When retailers don’t have to spend a lot of time on the mechanics of ordering, receiving, and paying for products, they can spend more time on the sales floor with customers. That means improved sales and cash flow and quicker payment-cycle times.

- Standardized systems mean suppliers will see improved customer service through reduced operating costs and better customer relationships.

- The Christian Retail Channel is adopting broader general-retailing standards where appropriate and practical. That means suppliers who adapt to industry best practices will find it easier to adapt to national standards used by nearly all retailer customers in multiple retail segments.

Clark says greater collaboration between Christian retailers and their suppliers will help the industry be healthy. “Retailers and suppliers must become the best at what they do in order to survive in an increasingly competitive marketplace,” she adds.

THE BEST PRACTICES

The recommended best practices are the result of retailer and supplier participation and are based on direct in-store experience ordering and receiving gift products.

Data exchange and POS updating best practices are far-reaching. Much of the current POS updating process—even with existing electronic industry gift databases—requires retailers to manually update POS data. The team of chain and independent retailers who helped develop the best practices document agreed that identifying one standard and using it would be a benefit to both chains and independents—they both suffer from inefficient industry systems. The team agreed to accept and endorse the Family Christian Stores data-structure design.

FAMILY’S VENDOR MANDATE

Craig Klamer, Family’s merchandising VP, said the data-structure design aims to simplify the data-exchange process for retailers to receive new-product information and update their POS systems. Even Family’s sophisticated JDA software system can’t adapt to the many ways gift suppliers send product information. Last summer, Family mandated vendors who do business with the chain to submit all new-product data using the data structure.

The structure is a simple organization of an Excel spreadsheet. Once the data is submitted via the spreadsheet, it’s easy to convert the file into Family’s software or virtually any POS software that can accept Excel file conversions. Suppliers can view and download the spreadsheet at www.Christiansupplychain.org.

The data-design goal is to provide a foundation for ad-

Visit a Store During March’s Gift-Vendor Receiving Week

Christian gift-product vendors are invited to receive the shipments they send by visiting their customers’ Christian stores during Mar. 5-9.

The goal is to help suppliers learn more about the gift-receiving process in person and see how Gift Transaction Best Practices could improve efficiencies, reduce costs, and help retailers and suppliers work together better.

Vendors may schedule visits throughout the month, depend-

ing on shipping schedules, retailer availability, or other issues.

The week should help create greater industry awareness and education on real needs and benefits of supply-chain cooperation, and help improve channel efficiencies, reduce costs, and increase sales that support Christian-retail ministry.

Let us know about your Vendor Receiving Week experiences by calling CBA at (800) 252-1950 or e-mail info@cbaonline.org.

Gift Transaction

vanced data-exchange capabilities to automate updating for industry databases, collect data for industry reporting and analysis, and simplify how retailers and their suppliers exchange information and work collaboratively.

OPERATIONAL RECOMMENDATIONS

Other operational best practices are organized by activity, such as ordering, product labeling, shipping and receiving.

- **Use UPCs consistently.** Using Universal Product Codes (UPCs) is crucial, and using them consistently throughout the transaction is paramount. Some suppliers use different product codes at different stages of the transaction process. For example, a supplier may allow retailers to order with a UPC, but catalogs, shipping documents, and invoices have different coding—even in each medium. This is what requires excessive manual checking and rechecking.

- **Use separate UPC for standard-pack-**

aging configurations. The document also introduces the use of a separate UPC for standard-packaging configurations. For example, a standard carton of four units should have its own UPC. Not only does that clarify how many individual units a retailer is ordering, it eventually will enable automated item-quantity updating in POS systems and industry databases. This ensures accurate POS database inventories that correspond with store cycle-counting. It also eliminates confusion and added costs that come when retailers think they're ordering four individual items, not four packages totaling 16 individual items and vice versa.

- **Label individual items.** Retailers also want to see individual items labeled. Some gift companies stuff products into a shipping carton without any identifying markings, requiring inordinate amounts of time to cross-check products with the original purchase order. Item-level UPC labels and bar codes would significantly expedite receiving.

- **Include detailed packing slips.** The packing slip is an important document linking the original purchase order, the shipment, and the invoice. It eventually will serve as the key document in the development of the Advance Ship Notice, an X-12 electronic data interchange (EDI) document that enables automated receiving.

The packing slip should reflect both the original purchase order and the invoice with consistent UPC product coding, item listings and descriptions, and unit counts.

Carton and pallet labeling should follow the ANSI/UCC-128 standards, which are available at Christiansupplychain.org.

"This document provides guidance on how to operationally compete with general-market gift stores," Clark says. "Many are already requiring this level of distribution care from their suppliers. Christian retailers shouldn't be content with accepting practices that would prevent a supplier from competing in general-market gift shops.

"Although the greatest competitive distinction that Christian retailers have to offer should be their Christian expertise, following the guidelines in this document help level the operational playing field," she says.

See and download the best practices document at Christiansupplychain.org. It's open to review and comment until Mar. 30, 2007, and it will be presented to the Christian Retail Solutions Committee for final adoption in April. **AR**

CBA Retail Technology & Strategy Manager Eric Grimm is chairman of the industry's Christian Retail Solutions Committee.



Get your free slice.

No one has more catalog experience than Parable. We've been on the leading edge of industry print promotions for more than 20 years and have mailed over 300 million catalogs. Plus, our promotions have the highest measured response rates in the industry.

Now you can get our catalogs for free.

Call today to find out how.

PARABLE

(800) 366-6031, ext. 566 • chris.brown@parable.com • www.parablegroup.com