

Vendor Managed Inventory Partnerships

Tuesday, August 24, 2004

Letter of Intent

To the Christian Retail Industry:

The last few years have been difficult for our economy. We've seen a general decline in the external environment impacting our own industry as Christian retailers have struggled to grow their businesses, and in some cases, have had to close their doors permanently. This has caused great concern for everyone in our industry, from publishers to wholesalers to retailers. We are all partners working to get quality Christian literature and music into the hands of consumers. If any one of us fails, we will all feel the impact.

This concern has prompted different reactions in all of us. Some have pointed to the rise of the big boxes as our greatest obstacle, others have pointed to a sluggish and complex supply chain, and others have pointed to the need for greater breadth in the product carried in Christian retail outlets. Regardless of where you stand on these issues and the many others that have been discussed throughout the industry, there is no question that they are all a part of our diverse and changing economic landscape.

This letter is to raise awareness of a potential partnership that may be forged in our industry that would address many of the concerns raised in the last two years in ECPA and CBA. We believe that Vendor Managed Inventory Partnerships hold great potential for meeting the critical needs of the Christian retail industry.

There are a number of potential benefits of VMIPs that must be considered.

- 1) They will assist retailers to create a healthy balance between "inventory turn" and breadth of product selection.
- 2) Suppliers/Vendors would utilize highly specialized, focused and motivated personnel to ensure the backlist and frontlist retail inventory is managed to its greatest potential. VMIP personnel would offer a high level of product expertise due to smaller breadth of product responsibility and frequent review of store sales data, access to publisher promotional support, product availability etc.
- 3) An added benefit of VMIP is the availability of shared data for comparison purposes. Both sides of the supply chain will more easily see what's happening in their relationship.
- 4) VMIPs will free store management and frontline personnel from the mundane tasks so they can spend more time on the retail sales floor . . .
 - a. interacting with customers to answer questions/needs and "optimizing the transaction" by producing add on sales.
 - b. managing the store shelf to ensure product is where it belongs and in sellable condition.
 - c. improving store merchandising by creating a more inviting, exciting and profitable environment.
 - d. focusing on "Frontline" training in product knowledge, selling and customer service skills, merchandising and store maintenance skills.

These activities will strengthen CBA stores' core competencies and competitive advantages: breadth of product offering and a high service/community experience for shoppers.

- 5) To complete the win/win for retailers and Vendors/Suppliers in VMIPs, improving CBA stores' businesses will strengthen CBA publishers while meeting our shared ministry goals. Greater retailer and consumer interaction WILL result in greater sales and contentment for all parties.

While VMIPs alone will not save a complex industry like ours, we believe they would be a change that would bring the improvements we are all looking for. As with any new initiative, there will be obstacles to face: lack of trust, desire for independence, uncertainties about how technology will change our businesses. Despite the barriers to change, we believe these partnerships need to be investigated. They will require change in every member of the supply chain and therefore must be well planned and well executed. As a group, we are saying that we are ready to engage in that work with POS providers, other vendors/suppliers, and retailers who share our passion to see this industry improve.

Sincerely,

Spring Arbor/Ingram	Crossway/Good News	Tyndale House Publishers
Moody Publishing	Provident Distribution	Pubnet GL Services

Effective Supply Chain thru Effective Partnerships

Of all the supply chain initiatives and programs discussed in the previous year, one of the most appealing and effective is Vendor Managed Inventory Partnerships (VMIP). This is a practice utilized in other industries with great effectiveness, although it has not yet been used in the general book market. The purpose of this document is to lay down a framework to guide further discussions throughout the marketplace between all potential partners who may bring their special skills and experience to the table and thereby help to make VMIP possible.

The concept behind VMIP is that retailers are freed up from the back room to be out on the floor selling product and serving their customers, because the supplier is providing a service in managing their inventory.

An effective vendor managed inventory service must be built upon three principals:

1. The retailer chooses the best level of partnership on a vendor by vendor basis.
 - a. It must be easy to enter into a contract at whatever level is appropriate for the product covered by the partnership.
 - b. The retailer must be in the driver's seat having multiple options to choose from, both in level of partnership services as well as the partnership vendor. There must be an opportunity to collaborate and agree upon a stocking plan or a product mix or special merchandising with the partnership vendor. Discounting and terms must also remain negotiable for each partnership.
2. These VMIP contracts should be standardized and have the same meaning throughout the entire marketplace.
 - a. The contracts (Level One, Level Two & Level Three) must be scalable and allow for multi-sourcing; e.g. a primary vendor supplies product for the first 30, 60 days and a distributor is the source for replenishment after the product becomes backlist.
 - b. The contracts must leave room for retailers to choose wholesalers or publishers to manage portions of their inventory. (the POS or retail systems should provide this ability)
3. The reporting and analysis of results must be easily accessed by the retailers and by their partners.
 - a. Open information sharing will strengthen the partnership as it is the foundation of this complementary relationship. Therefore, all parties in the VMIP services team need ready access to inventory data and product activity. VMIP services teams must receive retail POS data and retailers must receive regular analysis of product performance. This data should be exchanged through EDI using the standard X12 documents whenever possible.
 - b. Most transactions related to the partnership such as inventory levels, sales data, and catalog data should be exchanged using the standard X12 EDI documents. Some data and resulting analysis, summaries, metrics, scorecards, industry trends, inventory turns, etc. may be more easily accessed through online web services. The most effective, efficient and timely method should be used in each case.

Who wins with VMIP?

1. Retailers

The most significant benefit of VMIP is that the work in the back room of a CBA store is decreased allowing greater service to customers and more time selling. This is the core competency of CBA and will be enhanced through these types of partnerships.

- With VMIP retailers will be more able to interact with customers to answer questions/needs and to optimize the transaction through add on sales.
- When the retailer is no longer in the back room, they are free to manage the items actually on the shelf, making sure it is on the shelf, where it belongs, and in sellable condition.
- The merchandising in a store will be improved by creating a more inviting, exciting, and profitable environment rather than worrying about basic ordering responsibilities.
- With VMIP, there can be a renewed focus on frontline training in product knowledge, selling and customer service skills, merchandising, and store maintenance skills.

VMIP will also assist the retailer to improve a healthy balance between "inventory turn" and breath of product selection. Finally, an additional benefit of VMIP will be more efficient and cost effective markdown and return procedures for the stores.

2. Suppliers

The heart of our supply chain is the partnership between the retailer and the supplier. The success of each is dependent on one another.

To complete the win/win for retailer and Vendor/Supplier, improving CBA stores business will strengthen CBA publishers while meeting our shared ministry goals. Greater retailer and consumer interaction WILL result in greater sales and contentment for all parties.

3. Wholesalers

VMIP allows wholesalers to take a greater role in supporting and servicing their retail customers. When a retailer decides to enter into a VMIP contract, they may choose to select a wholesaler as their preferred vendor for certain categories of product which would allow them to both deepen their relationship with that vendor, transfer the management of their inventory to that vendor, reduce the total number of suppliers and thereby free up more time and resources to focus on the consumer.

What will VMIP look like?

VMIP Contracts are those agreements made by a retail partner to transfer some or all of the functions related to inventory management and merchandising. These contracts vary in that some are all encompassing, thereby transferring the entire work load to the supplier or vendor, while other contracts are very limited where the retailer retains complete responsibility for all merchandising and inventory management but chooses to share real-time data and measurements with their vendor or supplier partner.

These contracts provide the necessary framework for VMIP. VMIP services could take several different forms in the marketplace but can be fundamentally grouped into three categories or levels of services.

Level One:

The retailer retains and performs all inventory management and merchandising functions while only reporting the resulting data to the vendor or supplier or data analysis service.

The vendor or supplier or data analysis service will provide aggregated vs. specific data analysis reports, core inventory lists, and suggested reorder reports based upon the data received from the retailer.

The vendor or supplier or merchandising group will provide aggregated vs. specific merchandising consultation, merchandising materials, front-line training, return authorizations, etc.

"Level One" should serve as the proving ground for period of time agreed upon between the partners with the expectation that the contract level can be later moved up to "Level Two". Three to six months should be enough time to build a profile of collaboration and identify mutual benefits to be gained in a closer partnership.

Level Two:

The retailer will report to the vendor or supplier all data covered in "Level One" plus additional data related to special mark-down pricing, sales, loyalty data and merchandising codes for shelf-ready labeling.

The vendor or supplier or merchandising group will have the capability to build and submit suggested orders or quotes to the retail system where it may require the retail buyer's approval.

The vendor or supplier will also assist the retailer in managing mark-downs, cut-outs and returns with a goal to reduce the necessity for returns.

Returns at this level will be determined by the supplier/vendor on a schedule that is agreed upon in the partnership contract and will be communicated through an RMA submitted to the retailer.

The following two variations of Level Three allows the retailer to choose the best combination of inventory management services from multiple sources, i.e. supplier, distributor, wholesaler, consolidator, etc.

Level 2A: (optional)

The same as "Level Two" except only new titles are managed by the supplier. After the initial order(s) for a new title, the supplier's right to manage is reduced to only "Level One" capabilities.

Level 2B: (optional)

The same as "Level Two" except only backlist titles are managed by the supplier. The supplier's right to manage does not extend to new titles.

Regular assessments of each partner's performance should be included in the agreement to allow each partner an opportunity to make necessary adjustments. Specific performance metrics should be defined and agreed to.

Level Three:

The retailer will report to the vendor or supplier all data covered in "Level One" and "Level Two". All decisions taken for daily inventory & merchandising management will be transferred from the retailer to the vendor or supplier partner.

The vendor or supplier will have the capability to assume all responsibility for managing daily shelf inventory and merchandising based upon the product mix agreed upon between both parties. Orders will be generated by the vendor or supplier and submitted via EDI using the standard, X12 documents.

The vendor or supplier will also assist the retailer in managing mark-downs, cut-outs and returns with a goal to reduce the necessity for returns. To manage the specials, sales or mark-downs the VMIP team must see the pricing and have the ability to set the price. Margin guarantees should be negotiated as well as discount, terms, freight, etc.

Returns at this level will be determined by the supplier/vendor on an agreed upon schedule and will be communicated through an RMA submitted to the retailer system via EDI using the standard, X12 documents.

The following two variations of Level Three allows the retailer to choose the best combination of inventory management services from multiple sources, i.e. supplier, distributor, wholesaler, consolidator, etc.

Level 3A: (optional)

The same as Level Three except only new titles are managed by the supplier. After the initial order(s) for a new title, the supplier's right to manage is reduced to only "Level One" capabilities.

Level 3B: (optional)

The same as Level Three except only backlist titles are managed by the supplier. The supplier's right to manage does not extend to new titles.

Regular assessments of each partner's performance should be included in the agreement to allow each partner an opportunity to make necessary adjustments. Specific performance metrics should be defined and agreed to.

All of the data which must be exchanged between partners can be carried through the industry value added network using existing standard X12 documents which are widely used in other industries; the codes are already defined. Once the specific description of the suggested implementation is published, each of the marketplace partners can begin the work of expanding their applications to incorporate these new functions and codes where necessary.

The industry and marketplace should agree to target dates for common implementation schedules for the capabilities described in each of the levels.

Summary of Data Exchanged at Each Contract Level

Contract Levels			Data	Method																								
1	2	3																										
O	O	O	On Hand Quantity	X12 852 PD																								
O	O	O	On Order Quantity	X12 852 PD																								
O	O	O	Quantity Sold	X12 852 PD																								
O	O	O	Quantity Returned	X12 852 PD																								
	O	O	Price at register of quantity sold	X12 852 PD																								
O	O	O	Last Quantity received & date	X12 852 PD																								
	O	O	"Loyalty" Data product profile (if #sold in transaction >1, capture Qty & SKU)	X12 852 PD																								
	O	O	Store's department or merchandise code & description – for shelf ready labeling	X12 850 PO																								
O	X	X	Set (suggested) Reorder Quantity	+X12 852 PD																								
O	X	X	Set (suggested) Minimum Quantity	+X12 852 PD																								
	X	X	Send Replenishment PO, Reversed Acknowledgment	+X12 855 PR "AP"																								
X	X	X	Send a Sales Book to POS or Retail System (PDF & X12 832); for text-only systems, send link to vendor or supplier website for glossy catalog	X12 832 SC "PC" "SC"																								
X	X	X	Send a Special Flyer or link to vendor website for printable and customizable promotional information or marketing tools	PDF, URI																								
X	X	X	Send an electronic RMA or Suggested Returns list, or recall defective product	X12 180 AN "RA"																								
X	X	X	Send Front-line sales help or training materials	PDF, URI																								
		X	Send merchandise markdown to inventory record	X12 832 SC "PS"																								
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