

ABUSIVE RETAILERS

... and the

Vendors Who Sell Them

Vendors again cry foul over continued improper charging practices by retailers

METHODOLOGY

Data for this report were obtained from senior executives of leading home furnishings manufacturers, including furniture, textiles, decor, appliances, tabletop and housewares. Respondents were among 379 leaders who received a six-question survey via e-mail last month seeking their perspectives on various retailer practices.

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survey said the worst offenders from the past are still the worst offenders today. The lineup of usual suspects—led by Bed Bath & Beyond and Federated, and also including Linens 'n Things, Target and Kohl's—remains remarkably the same.

Said one vendor, who like every supplier interviewed declined to be identified because he still does business with the offending retailers: "They know exactly what they're doing. They know how much they can get away with."

In particular, vendors cited newer tactics, such as free freight, new store opening order discounts and other similar practices, as the next steps in increasingly aggressive—not to mention creative—strategies employed by retailers.

While nearly two-thirds of those surveyed said these practices have increased over the past year, only 7 percent said they had decreased.

Retailers contacted by HFN defended their actions and said these were largely fair and mutually agreed-upon practices. Only two stores, Macy's Home and Linens 'n Things, responded to requests for comment. Others, including Bed Bath & Beyond and Target, did not return phone calls asking for their point of view.

"We do not believe that chargebacks are tactics," said Tim Adams, president of Macy's Home. "Our goal is to build long-term relationships with vendors in a manner that allows them and us to grow profitably."

"We are committed to open discussions with our vendors on these subjects."

Vendors don't quite see it that way. In fact, compared to the last HFN survey on the subject three years ago, abuse of these tactics has gotten progressively worse. In a report published Nov. 13, 2003, just over half the survey group thought chargeback abuses were worse than the year before.

This time around, two-thirds of responding vendors cited a worsening situation as compared to a year ago.

Some vendors blame that on consolidation in retail. "We have always faced these types of business inducement," said one executive with a textiles supplier. "It's just that there is a greater concentration of retailers and everyone wants or needs to sell them."

The use of these tactics is generally agreed to have started with department stores, spread to the big-box players and more

COMPLIANCE CONSULTANTS TO THE RESCUE

A cottage industry of consultants has sprung up to help vendors address problems that lead to fines—and even recover money—from chargebacks.

Many of these consultants are former retail insiders who know firsthand how to navigate the pitfalls of dealing with the major retailers.

Charlie E. Miller founded Retail Compliance Solutions Inc. in Grand Prairie, Texas, two years ago, after working at J.C. Penney for more than 30 years. Having managed J.C. Penney's supplier Web site, where all the compliance rules are published, Miller now specializes in compliance with J.C. Penney's policies.

"There are certain things you can fight and get money back on, and other things you can fix," Miller said. "But the real opportunity, and this is the one that's painful, is to get into the analytics of your workflow. That's where you make strategic progress. Before you mop the floor, you have to turn the spigot off."

By far, the worst vendor mistakes happen when the contents don't exactly match the advance ship notice, which often results in three or four separate chargebacks, Miller said. Further, suppliers have to keep documentation. "You have to prove that they're wrong," he said.

John Thomas, a former executive director of logistics/vendor relations at Linens 'n Things, opened Compliance Advocates, a Winston-Salem, N.C.-based firm, in July. Thomas sees on-time shipping as the biggest issue, which can be solved by accurate forecasting, planning, and implementing operational and systemic controls. He guesses that "80 to 90 percent of suppliers get charged back some how, some way."

"Compliance is often viewed as a shipping/operations problem," Thomas said. "Everyone's busy, especially textiles vendors who don't have the resources to sustain compliance. I want to come in, put in sustainable processes." — Nancy Meyer