

Wal-Mart sets late-delivery fee Suppliers, carriers that miss 4-day window docked 3%

BY STEVE PAINTER , LAURIE WHALEN

Northwest Arkansas — Wal-Mart Stores Inc. has joined the ranks of retailers that impose penalties on suppliers that fail to deliver products within the company's prescribed four-day window.

Effective Feb. 1, under the new policy, suppliers whose products arrive at regional distribution centers before or after that period face a 3 percent penalty based on the cost of the goods.

Previously, the company requested delivery within a four-day window but gave suppliers no incentive to meet the schedule, said Dan Fogleman, a Wal-Mart spokesman.

"This is a common practice among national retailers, and really in line with charges assessed by our closest competitors," Fogleman said.

Suppliers now receive a must-arrive-by date when orders are placed and will be in compliance with the retailer's new policy if the goods arrive on that day or the three previous days. A first-time miss will not trigger the penalty but subsequent misses will, he said.

If products arrive at distribution centers earlier than expected, that drives up storage costs, Fogleman said. And if they arrive late, the products are not available for customers.

On-time delivery means lower prices for customers, he said.

"One of the fundamental advantages we've maintained throughout our history is the efficiency in our supply chain," Fogleman said.

Competitors Target Corp., Best Buy Co. Inc. and Kohl's Corp. are among the other retailers that assess penalties for early or late deliveries.

Though not among the first to impose penalties for missing delivery deadlines, Wal-Mart's status as the nation's and the world's largest retailer is likely to spur further adoption of such policies.

And, it's good business practice not to have excess inventory on hand or run short of stock, said Jim Crowell, director of the Supply Chain Management Research Center, a part of the Sam M. Walton College of Business at the University of Arkansas at Fayetteville.

"From a customer's perspective, they want to get that delivery window to be as tight as they can, so I think it's just good supply-chain logistics," Crowell said.

Still, he said, any change in supply-chain practices takes awhile to implement with the thousands of suppliers whose goods are destined for the shelves of Wal-Mart stores.

"The tools exist to meet it. It's really between the supplier and the customer how to meet it," Crowell said. "Obviously, they didn't do this without suppliers having some input."

James Harris, president of High Impact Analytics in Bentonville, said Wal-Mart is "one of the later companies to come to the table" on missed-delivery-window fees. His company works with suppliers to interpret data that help them schedule deliveries to Wal-Mart distribution centers.

Wal-Mart's Retail Link Internet-based tool lets suppliers access point-of-sale data to analyze their products' status in the retailer's stores.

"Wal-Mart gives more information to their suppliers than any retailer, anywhere," Harris said. "This policy most likely is just going to pressure companies to do the analytical work they haven't done in the past."

Some small manufacturers don't have the time or expertise to analyze Retail Link data, he said, but with some help, they eventually are able to make good use of the information.

Some Arkansas-based carriers say they try to avoid hauling loads that come with the risk of penalty fees - typically freight being delivered to grocers or retailers.

"If I had the option of taking a load with penalties and that paid better than one without the penalty, I'd probably take the less-paying load," said Chad Gossett, vice president of operations at dry-van carrier CCS Transportation Inc. in Conway.

Truckers say a penalty-free load is more appealing and less to fret about in the event of unexpected delays.

Joey Bray, owner of 13 refrigerated trucks at Avenue West Express Inc. in Beebe, said he'll avoid doing business with shippers imposing late fees, even though in his niche - hauling fresh produce - timeliness is critical.

"No insurance you can get on that," said Bray of late deliveries.

When loads are arranged through brokers or other middlemen, late delivery fees are likely to be passed down to the carrier, Bray said.

Truckers of all sizes have been battling a slowdown since late 2006 that financial analysts and economists say could be remedied by use of fewer trucks.

Signs of year-over-year improvement have been noted over the last four quarters. The trucking industry, a bellwether economic indicator, is typically among the first businesses to lead the country out of a recession, but insiders say that's not been the case this time.

Rob Moten, whose Siloam Springs outfit hauls dry goods under the D.M.T. Services Inc. banner, said more shippers are seeking to impose late-delivery fees on carriers.

And while such fees "have been around for a while," Moten guesses that the sour economy is spurring more retailers and grocers to apply them.

Carriers are being asked to "run last-minute stuff," Moten said. "You have to be on time or people get upset."

Wal-Mart gave suppliers notice in the fall about the planned penalty for missing must-arrive-by-dates. Mark McEntire, vice president of operations for logistics firm Transplace in Dallas, said he's already been working with manufacturers on ways to "mitigate these fines."

McEntire said the company has developed reports that are predictive rather than backward-looking. When a must-arrive-by date is missed, Transplace can figure out whether Wal-Mart or the carrier changed the date and what can be done.

"That's critical because it's a proactive report," he said.

Red flags include orders created in the past week but not yet accepted by a carrier; loads scheduled for pickup in the next 48 hours but the pickup appointment has not been made; and loads that are supposed to be delivered in the next 72 hours but no delivery appointment has been set.

"It's kind of been business as usual except that customers have all gone back and done their due diligence," McEntire said. "Wal-Mart is a large portion of most CPGs' [consumer packaged goods] business."