



**Kable Distribution Services, Inc.**

Scan-based trading (SBT) has existed since 1996 when a committee formed by the Grocery Manufacturers of America initiated a pilot program with HEB Stores in Texas. Some of the participant suppliers were Coca-Cola, Nabisco, Frito-Lay and Pepsi-Cola. A recent report (from Mercer Management Consulting Group) underwritten by IPDA indicated that although this and subsequent SBT initiatives have resulted in some cost-saving benefits, the major suppliers involved in the original program have not expanded their SBT relationships. Mercer also indicated that for SBT relationships to be truly effective for all parties concerned, it would require significant enhancements of both retailer and wholesaler IT systems. To date, it is Kable's view that for the most part this investment has not occurred. Thus, any agreement to enter into such relationships will be distinct and separate from all other agreements, and shall conform to the guidelines that follow.

Further, in such SBT relationships retailers pay wholesalers based upon what magazines have been scanned and properly read by retailer scanning equipment. This method of payment does not include copies that are "lost" within the system including: sales that were improperly scanned at the point of sale, copies stolen by the retailer's employees or customers, and copies not included due to reporting errors. Should wholesalers utilize scanned sales data (received from their SBT retailers as payment reconciliation) as their method of reporting sales to national distributors and publishers, this will distort the true number of copies sold (not returned from retail outlets). As such, this would negatively impact audited sales submitted to both ABC and BPA. Therefore, wholesalers must still maintain and report sales based upon strict adherence to industry accepted order regulation practices.

As scan based trading (SBT) relationships continue to evolve, it becomes increasingly important the integrity of these partnerships is ensured. There are many efficiencies to be gained by our industry from such associations, however, clear and concise communication of the expectations of all parties concerned is paramount. With that in mind, the Kable Distribution Services (KDS) management team has prepared the following guidelines for us to consider supporting a SBT relationship between a wholesale customer and their respective retail customer (s).

**General**

1. Acceptance of any Scan Based Trading (SBT) relationships will be in accordance with general industry acceptance of the same relationship. It is understood the financial relationship in such agreements remains between the retailer and the

wholesaler, however, (as a national distributor) KDS requires involvement in so far as its financial relationship with the wholesaler community is not adversely impacted as a result of any wholesaler's SBT relationship with any retailer.

2. Each SBT trading agreement will require a testing period to determine shrink allocation and to institute quality assurance that shrink will be minimized. The length of this period will be a minimum of 6 months. The test period will include a beginning and ending inventory in the test stores, store check-in of product and the continuance of processing of store returns at the wholesaler level. In essence, parallel systems will have been created to safeguard the transition process to actual scan based inter-functionality.
3. Any wholesaler or retailer wishing to enter into a SBT relationship must allow Kable representatives to review all policies and procedures (due diligence) to ensure the proper checks and balances are in place. Kable reserves the right to refuse to accept any relationship where it is deemed these procedures are unacceptable.
4. Any wholesaler entering into a SBT relationship will still be required to process returns in its own facility, and provide accurate return affidavits under pre-existing terms and conditions.
5. The shrink formula is calculated by taking the difference between POS sales and the traditional sales calculation (draw minus return), resulting in shrink number of copies. The shrink percentage is then computed by dividing the shrink copies by the traditional sale copies.
6. Shrink is not the burden of either the national distributor or its publisher clients. Shrink levels in an SBT relationship must be maintained at a level below 2%. Neither KDS nor its clients will accept financial responsibility for said shrink after delivery has been made to the servicing wholesaler. At that point, shrinkage is the responsibility of the participating retailer and wholesaler(s).
7. Each SBT agreement must have in place provisions for periodic procedural audits. These should include retailer level audit of scanner maintenance, reliability, and data synchronization as well as auditing of all wholesaler policies and procedures. Each retailer involved in a SBT relationship with a wholesaler must agree to provide scanned sales data directly to a sanctioned POS Repository. A flow of scanned sales activity from the retailer to the wholesaler and then to KDS is not acceptable.

#### **Retailer**

1. Scanner loading / item maintenance must be electronic, preferably using the IPDA.org system.
2. Scanner maintenance and synchronization must be complete within 24 hours of initiated change.
3. In the event of a non-scan, the retailer must require all checkout clerks to key the UPC number of the magazine concerned.
4. Retailer must provide POS data (available in daily buckets) for the entire category electronically for all titles sold at the chain at a minimum frequency of weekly.
5. Retailer must check in number of totes and must periodically audit the contents.
6. Retailer must eliminate the store level '999' file (aka item reject file, dummy key, etc.) transactions for magazines.

7. Each magazine must be maintained as a unique item in the item maintenance file (no price points, etc.)
8. All scanned sales data must be retained and made available to national distributors for a minimum of thirteen months.
9. The retailer should accommodate price testing of magazines within its stores.

### **Wholesaler**

1. Wholesaler will provide KDS with access to the protocol agreement (less specific pricing and other information pertaining to terms and conditions of sale) with the retailer. This agreement should include information related to shrink conditions and scanned data transfers, reconciliation and item file maintenance processes.
2. All delivery totes must be sealed.
3. Totes must be checked in at retail outlets.
4. Wholesaler must use the IPDA.ORG system for item maintenance and loading of retail scanners.
5. Wholesalers should be using the 'perfect pick' system. If no 'perfect pick' system is in place, wholesalers must continue to check in product at the store level.
6. The wholesaler responsible for the chain is to maintain an item maintenance procedure, whereas, one copy of each issue of each magazine delivered to the chain is scanned to ensure it is properly loaded in the retail outlet scan system.
7. Wholesaler is required to remit payment to Kable no more than 5 days after receipt of payment from retailer. If one of the benefits of such SBT relationships is improved payment terms for the wholesaler channel, then the supplier should also benefit from same.
8. Wholesaler must maintain a separate chain/Kable receivable account for each SBT relationship.
9. All retail chains involved such SBT relationships must be removed from any and all restrictive wholesaler programs (i.e. Anderson NPC, TNG Non-core, Levy Lift, etc.).
10. Wholesaler must provide order regulation information for entire category for all POS stores at no cost to KDS.
11. Wholesaler must provide confirmation of delivery of POS copies to outlet.
12. Wholesaler must provide to national distributor daily POS data (with no access fee) for the entire magazine category electronically for all titles sold at the chain at a minimum frequency of weekly.
13. Wholesaler must maintain thirteen months of POS data (stored in original format received from retailer) in archives that can be accessed in the event of a POS audit.
14. Wholesaler is responsible for removal from retail outlet and destruction of any unsold copies. These copies must be returned in sealed totes and must be accompanied by a signed return confirmation from the retailer.
15. Wholesaler will, upon notification from national distributor, scan return copies before destruction for any specified audit periods. A Kable representative will be present during the audit period, will be provided access to all scan data, and will oversee all audit procedures.

In the event a retailer and wholesaler enter into a SBT relationship, and that arrangement does not conform to the best practices described above, the servicing wholesaler will be required to submit magazine covers for all KDS product sold within that chain. Those covers will then be sorted by title and issue, bundled in groups of 100, and mailed with an appropriate return affidavit report. Such submissions will be timed with an electronic transfer of the same information so as to facilitate reporting to the national distributor and ultimately the publisher.

It is fully anticipated the above guidelines will be refined as relationships and inter-channel technologies continue to evolve. KDS embraces discourse designed to improve efficiencies among all trading partners concerned.