Wal-Mart Cracks the Whip on Suppliers

● The retailer is rolling out new fines for those who deliver late—or early

Long known for squeezing its vast network of suppliers, Wal-Mart Stores Inc. is about to step up the pressure. The focus this time is delivery scheduling, and the giant retailer isn't messing around. Two days late? That'll earn you a fine. One day early? That's a fine, too. Right on time but goods aren't packed properly? You guessed it—fine.

The program, labeled On-Time, In-Full, seeks to add $1 billion to annual revenue by improving product availability at stores, according to slides from a presentation reviewed by Bloomberg, and it underscores the urgency Wal-Mart feels as it raises wages, cuts prices, and confronts rival Amazon.com Inc. "Wal-Mart has to find efficiencies wherever it can," says Laura Kennedy, an analyst at Kantar Retail. "They're trying to squeeze and squeeze and squeeze."

The initiative builds on progress Wal-Mart has made in reducing inventory and tidying its 4,700 U.S. stores after backrooms became so cluttered the company often kept surplus products in cargo trailers parked outside. Wal-Mart isn't the first big retailer to tighten the deadline for vendor deliveries. Target Corp. introduced a similar policy last year as part of a broader supply-chain overhaul. But Wal-Mart's vast logistics network of more than 150 U.S. distribution centers dwarfs that of any other merchant.

The rules take effect in August, when the retailer says it'll require full-truckload suppliers of fast-turning items—groceries, paper towels—to "deliver what we ordered 100 percent in full, on the must-arrive-by date 75 percent of the time." Each month, items that are late or missing during that period will incur a fine equal to 3 percent of their value. Early shipments get dinged, too, because they create overstocks.

By February, Wal-Mart wants these deliveries to be on-time and in-full (known as OTIF) 95 percent of the time. The target previously was 90 percent for hitting a wider four-day window. "Variability is the No. 1 killer of the supply chain," said Kendall Trainor, a Wal-Mart senior director of operations support and supplier collaboration, earlier this year.

Those variations can be extreme: OTIF scores for Wal-Mart's top 75 suppliers had been as low as 10 percent, according to Trainor's presentation. And none had reached the 95 percent long-term target. A company spokesman says the retailer hopes to not collect any fees and is "working closely with our vendors to help reach these targets."

While big suppliers should be able to invest in fancy inventory-management systems to comply with the rules, smaller businesses will feel more pain. Some don't even know what OTIF stands for, according to Colby Beland, vice president for sales and marketing at CaseStack, a logistics provider that bundles supplier shipments into full truckloads for delivery to retailers' warehouses.

That confusion has created a brisk business for consultants. "OTIF is the hottest subject out there right now," according to Joel Graham, a director of client services at consultant 8th & Walton, which has conducted OTIF seminars in New York; Portland, Ore.; Ontario, Canada; and other cities. "Everybody has come to the stark realization that OTIF is here and it's real and they better get ready for August," Beland says. —*Matthew Boyle*

THE BOTTOM LINE On-time deliveries to Wal-Mart's 150 U.S. distribution centers are key to keeping its operations humming. So it's tightening supplier targets to add $1 billion in annual revenue.