2. Retailer and Supplier Relationship
Objectives

- Understand the concept of slotting fee and its influence on retail industry
- Identify the major problems existing between retailers and their suppliers in China
- Learn the factors that influence buyer and supplier relationship in China
- Know the current status of the buyer and supplier relationship in China
Retailer and Supplier Relationship in China

- **Slotting fee (Allowance)**
  - A fee charged to suppliers by retailers in order to have their product placed on shelves.
  - Retailers may also charge promotional, advertising and stocking fees etc.

- Carrefour charges a variety of slotting fees.

- Wal-Mart announced that it does not charge any slotting fees from its suppliers in China at the beginning. However, it began to charge slotting fee later.
Examples of Carrefour’ slotting fees and other fees in China

<table>
<thead>
<tr>
<th>Items</th>
<th>Fees</th>
<th>Items</th>
<th>Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>French festivals</td>
<td>100,000 Yuan/year</td>
<td>Chinese festivals</td>
<td>300,000 Yuan/year,</td>
</tr>
<tr>
<td>New store opening</td>
<td>10,000-20,000 Yuan/year</td>
<td>Old store renovation</td>
<td>10,000-20,000 Yuan/year</td>
</tr>
<tr>
<td>Demonstration and posters</td>
<td>2,340/ store, 10 times/year;</td>
<td>End-cap</td>
<td>2,000/store</td>
</tr>
<tr>
<td>New product</td>
<td>1,000/store</td>
<td>Profit return</td>
<td>8% of sales</td>
</tr>
<tr>
<td>service fee</td>
<td>1.5%-2% sales</td>
<td>consulting fee</td>
<td>2% of sales</td>
</tr>
<tr>
<td>shelf management</td>
<td>2.5% of sales</td>
<td>unconditional return</td>
<td>3%-5% of sales</td>
</tr>
</tbody>
</table>
Retailer and Supplier relationship (Cont.)

- Effects of Slotting Fee
  - Benefits of suppliers, especially middle and smaller suppliers
    - Average 25%-28% sales
  - Consumers’ benefits
    - New product, quality, and variety
  - Nation’s benefits
  - Retail industry
Administrative Measures for Fair Transactions Between Retailers and Suppliers

- By Ministry of Commerce, National Development and Reform Commission, State Taxation Administration, State Administration of Industry & Commerce, and Ministry of Public Security and effective on 110/15/2006,

- Applicable to retailers with more than 10 million RMB Sales.

- Maximal fine is 30,000 RMB.
Administrative Measures for Fair Transactions Between Retailers and Suppliers

- Retailers should not conduct the following unfair transactions:
  - Refuse to accept products with no excuse, ask suppliers to pay for the damage to goods, ask for return profit, and request supplier to purchase certain product or service.

- Retailer should not charge fees in the following conditions
  - For signing or renewing a contract; charge fee on store bar code for products already having national approved bar codes; the fee for store bar code should not exceed its cost; store renovation or decoration; charge fees for festival, new store opening, store anniversary etc without any promotions; any other cost that are not directly related to the selling of products.

- Payment should be made in 60 days, and retailers should not delay its payment without reasonable excuses.
Retailer and Supplier Relationship (Cont.)

- Challenges for Carrefour
  - Its relationships with suppliers become worsen.
    - E.g., 11 famous domestic suppliers of roasted snacks resisted to provide products to Carrefour in order to against high slotting fees.
Challenges for Walmart

- Chinese suppliers do not give Walmart the lowest prices.
The Retailer and Supplier Relationship Survey (China Supplier Research Center, 2009)

- 426 valid questionnaires
- Retailers have greater power over suppliers

- Suppliers have no negotiation power, 77.67%
- Suppliers have greater negotiation power than retailers, 6.31%
- Retailers and Suppliers have equal negotiation power, 10.68%
- Hard to say, 5.34%
Price Reduction During Negotiation

- <5%, 33.68%
- 5%-10%, 42.11%
- 10%-20%, 16.32%
- >20%, 7.89%
Contract Implementation

- Retailers implement contracts, 55.40%
- Retailers change contracts, 30.99%
- Retailers revoke contracts, 11.74%
- Both retailers and suppliers do not implement contracts, 1.88%
Payment Period

- < 1 month, 27.15%
- 1-3 months, 47.02%
- 3-6 months, 16.56%
- > 6 months, 9.27%
Profit Return

- 3%-5%, 36.87%
- 5%-10%, 31.31%
- >10%, 16.67%
- <3%, 15.15%
Products are mainly distributed by suppliers

- Distributed by Suppliers, 59.56%
- Distributed by Retailers, 31.87%
- Distributed by the Third Party, 8.57%
Supply Chain Management in Hongyan Supermarket

Background

- Located at Chengdu
- 150 stores and 3,000 employees
Supply China Management in Hongyan Supermarket

- Distribution centers
  - Types
    - Food (limited cold chain) distribution center
    - Non-food distribution center
  - Equipment
    - Forklift (20), roll container (11), crane (2), platform lifter (34), tray (124)
  - Warehouse
    - Rented
Supply Chain Management in Hongyan Supermarket

- **Transportation**
  - 90% distributed by suppliers and 10% by self.
  - 7% self distribution for fresh food

- **Information system**
  - Replenishment is based on experience
    - Not enough in midseason and leave unused in off season
  - Bar code on 10% boxes and its bar codes do not connected to suppliers bar codes.
Supply Chain Management in Hongyan Supermarket

- **Inventory**
  - Average turnover is 21
  - Value of inventory is 4.3 Million RMB

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New Store</strong></td>
<td>20</td>
<td>23</td>
<td>29</td>
<td>36</td>
</tr>
<tr>
<td><strong>Investment (Million)</strong></td>
<td>1.7</td>
<td>2.3</td>
<td>3</td>
<td>4.4</td>
</tr>
</tbody>
</table>
### Combined Distribution
- 50-70% for central cities
- 30% for both cities and rural areas
- The goal is “order today, delivered tomorrow”. However, products are often delivered after 48 hours or even 1 week.

### Comparison between Hongyan and Walmart

<table>
<thead>
<tr>
<th></th>
<th>Distribution center /store (acreage)</th>
<th>Number of Stores/Number of distribution Center</th>
<th>Turnover (Day)</th>
<th>Distribution Radius (KM)</th>
<th>Transportation distance (KM)</th>
<th>Store/vehicle</th>
<th>Combined distribution rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hongyan</td>
<td>1:3</td>
<td>20</td>
<td>21</td>
<td>40</td>
<td>200</td>
<td>2</td>
<td>48%</td>
</tr>
<tr>
<td>Walmart</td>
<td>1:10</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>