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DEFENSE COMMISSARY AGENCY  
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MPS

NOTICE TO THE TRADE – DeCA NOTICE 15-53

MAY - 7 2015

SUBJECT: Question Regarding DeCA Notice 14-75, Expansion of DeCA's Brand Name Swell Allowance Program – Deadline to Negotiate Swell Allowance Rates is June 12, 2015

DeCA Notice 14-75, Expansion of DeCA's Brand Name Swell Allowance Program, generated a number of questions from Industry. Answers to those questions and a reference copy of DeCA Notice 14-75 are attached.

The deadline for negotiating swell allowance rates is June 12. Manufacturers/vendors that have not negotiated a swell allowance rate by June 12 will be subject to application of a swell allowance rate based on commercial standards and a review of historical VCMs written to DeCA for unsaleables.

Application of swell allowance percentage rates will begin with the implementation of Enterprise Business Solution (EBS), Increment 1, estimated implementation of January 2016. No manual VCMs will be written to cover unsaleable products once the Swell Allowance Program is in effect.

The point of contact for the Swell Allowance Program is Ms. Marye Carr, 804.734.8000 extension 52781 and respective category managers. Thanks for your support!

*Tracie L. Russ*  
for Tracie L. Russ  
Director, Sales

Attachments:  
As stated

**Questions Regarding DeCA Notice 14-75  
Expansion of DeCA's Brand Name Swell Allowance Program**

**Question 1.** If Industry signs up for Swell, will there be any other instances where a markdown will occur?

*Answer:* For items cover under the swell program markdowns will be presented and approved via the Retalix HQ system by the store. Markdowns will occur; but, if the product is covered under the Swell program, the markdown will not be billed back to the vendor. A list of products was identified in NTT: 14-75 as being exempt from the Swell program. Procedures will be in place to process markdowns for product not included in the Swell Program.

**Question 2.** What about damage caused by distributors? Either poor pallet builds or shifting of product? Who pays?

*Answer:* *Distributor shortages, damages, mispicks, etc., are not part of Swell; the distributor is responsible for these occurrences.*

**Question 3.** What about damage caused by in-store contract stockers (cut cases, ripped bags)?

*Answer:* *Routine salvage such as customer or employee damage is covered by the 1% markup; it is not covered by swell allowance. The 1% markup also covers unknown loss – such as pilferage or theft.*

**Question 4.** Will DeCA continue to mark-down product using scan downs? If so, do we have to plan for it, and the expense? What happens with the product? Who is responsible?

*Answer:* *Scandowns will not be used in the future for markdowns. Scanbacks and Off-invoice reductions will be in support of promotions and will be planned and presented via the vendor portal and tracked through the Bill Back Manager this includes holiday and seasonal items.*

**Question 5.** Companies often times will use VCM's to offer special pricing to encourage movement out of distributors. Will we be able to continue to use that practice?

*Answer:* *Stores will have the ability to offer special pricing using the EBS portal. This is not part of swell. Markdowns will be done through the planned/anticipated vendor Web-based portal. We do not have a detailed process developed at this time since we are still in the discovery phase of EBS but are aware that the EBS portal will provide this capability.*

**Question 6.** Will VPR's (using VCM's) continue for Europe and the Far East for price specials?

*Answer:* *The VPR system will be shut down, local price reductions in Europe and Pacific will be performed through the EBS Vendor Portal*

**Question 7.** Will swell allowance be deducted from DeCA remittances?

*Answer:* *Yes.*

**Question 8.** How do we propose a swell allowance on new brands/items and will this be noted on the 40-15.

*Answer:* *The category average will be used on new brands/items or the Swell percent that was agreed upon between DeCA and the Vendor for existing items within the same category.*

**Question 9.** Will swell be determined at the SKU level?

*Answer: The swell rate will be determined and negotiated at the category/subcategory level and will be evaluated every six months.*

**Question 10.** There are times when product at store level is written up as swell when really it was a markdown to move product out the door. How often will DeCA revise and update Swell allowances?

*Answer: Moving to EBS, Vendors will need to submit the reductions as a local promotion in the Vendor Portal. Swell rates will be evaluated every six months.*

**Question 11.** How does Industry write up product for vendor demos if no VCMs? Sometimes product is written up as damage.

*Answer: Demo product is not part of swell. Demo product must be paid for by cash/check or credit card.*

**Question 12.** Will there be different swell rates for OCONUS?

*Answer: OCONUS swell rates will not be different.*

**Question 13.** Once this program goes live what is the process and metrics that will be used by both DeCA and Industry to evaluate swell levels and “the requirements needed to increase or decrease the Swell Rate”

*Answer: DeCA will evaluate swell rates using data that is collected at store-level and by reviewing Industry average swell rate information.*

**Question 14.** If a manufacturer’s swell allowance plus paper VCM’s combined exceeds the level of what total “paper VCM’s were before the swell allowance, what is the recourse?

*Answer: Paper VCMs for unsaleable product are going away and historical data is only one part of the equation. The manufacturer’s POC responsible for negotiating the swell rate needs to discuss with the Category Manager.*

**Question 15.** Who in DeCA is going to be managing this data going forward, Category Manager or Swell Team?

*Answer: Category Managers.*

**Question 16.** What is to prevent stores from avoiding the salvage swell and requiring industry to handle 100% reimbursement? This is a big concern.

*Answer: All stores will be on swell. There will be no VCMs for unsaleable product at store level. The exception to the Swell Program are listed in NTT 14-75.*

**Question 17.** What is Inmar’s role in the Swell/Salvage process?

*Answer: Inmar evaluated DeCA unsaleable data and provided both Industry and DeCA category average swell rates.*

**Question 18.** Shelf Life requirement – this should be 50% of the shelf life of what manufacturer’s guarantee to the first receiver (military distributors)

*Answer: As stated in the NTT 14-75: Any Products not in Conformance with Shelf Life Requirements at time of Delivery: Products shall be the latest date-of- pack available at the time of delivery. Unless otherwise specified in the agreement, products shall be delivered to locations specified in the ROA or the designated port of embarkation for overseas shipments with a minimum of one-half (1 /2) or fifty percent (50%) of the guaranteed shelf life remaining (rounded to the nearest whole day.) If supplies delivered do not have the minimum number of days of shelf life remaining, as set forth in the agreement, the government has the right to reject them and require replacement.*

**Question 19.** Could AC Nielsen and IRI be supplied with store salvage scans from the POS system, just as they are supplied sales scans? This would allow the swell data to be managed at the lowest level UPC and Store and provide a realistic salvage rate.

*Answer: EBS will deliver a solution to manage and evaluate swell allowance percentages. At the time a swell allowance is evaluated and a decision is made to change Swell Allowance, DeCA can provide information supporting the decision.*

**Question20.** From the initial percentage buyers are quoting, evident these are category average percentages vs. actual brand swell percentages. This approach punishes brands that have effectively managed their product while rewarding those brands that do not. Why can't actual brand percentages be used?

*Answer: DeCA does have actual brand swell percentages. During the negotiation process, the category manager has access to these percentages and considers them during negotiations with Industry.*

**Question 21.** As a part of the negotiation process, brands are required to provide DeCA with 2-year documentation to support their proposed percentage. Why shouldn't DeCA also be required to provide their back-up to support their proposed percentage?

*Answer: DeCA's proposed percentage is derived from review of both Industry category averages and DeCA VCM activity for each category. Industry is required to provide back-up information only if agreement is not reached. Industry should be aware of average Industry rates and of their VCM activity for specific categories.*

**Question 22.** Many brands do NOT offer swell percentages in retail...primarily as a result of lack of swell in the categories they compete. DeCA is still requiring swell percentages from these brands. Why should DeCA not comply with retail best practices & policies for these categories/brands?

*Answer: According to Industry data, swell rates are negotiated for most categories and most manufacturers in retail. Commercial retail has gross margin in every category to absorb anomalies, DeCA does not. Rates are calculated in part using historical data, which means there has been reimbursement for unsalable product in the past and it will be required in the future.*

**Question 23.** Some brokers have multiple categories on their ROA and therefore the percentage DeCA has come up with is not correct. Where this is the case can't you break out the percentage by each category rather than an overall percentage?

*Answer: Yes, swell rates will be negotiated by category. The Swell rate negotiated at category level will be applied to all items on the ROA which fall under the negotiated category rate.*

**Question 24.** We understand percentages come from VCM data and “items entered in CAO.” What is the latter? We believe this to be costs which are also included in the VCM data category. Therefore double counting.

*Answer: Stores that have CAO scanned salvage items to adjust item balance-on-hand to maintain integrity of the item perpetual inventory. As a byproduct, this information is captured on a CAO salvage report that is attached to the VCM for supporting documentation. Be assured that DeCA is not double counting this merchandise. Once the items are scanned into CAO, the products are disposed of and not counted again.*