KMART
SCAN-BASED TRADING ("SBT")
PROGRAM GUIDELINES

Kmart Scan-Based Trading Program Guidelines

Section 1 - Introduction

Scan-Based Trading ("SBT") is a partnership between Kmart Corporation and a vendor that, where appropriate, can benefit both Kmart and the vendor. SBT utilizes scanned sales data to drive vendor payment. Invoicing is removed from the process and payment is made based on store point-of-sale information. The vendor retains ownership of the inventory until sold in the Kmart store. Sales information is provided to the vendor on a daily basis by store and item.

Scan-Based Trading can provide:

- ✓ Reduced inventories and labor costs
- ✓ Streamlined distribution
- ✓ Elimination of vendor invoice errors/discrepancies

SBT is appropriate for Kmart vendors that:

1. Ship direct-to-store ("D2S"), *or*
2. Maintain the distribution and placement of their product in the store, *or*
3. Ship through Kmart's Distribution Centers ("DCs")

Within this document and other SBT documents/forms, these vendors will be referenced as:

1. **"D2S Ship Vendors"**
2. **"D2S Service Vendors"**
3. **"DC Vendors"**

Additional Information

Review the following additional documents for important information:

- ✓ **Kmart Vendor Information Guide** located in the Guides & Reference section on Vendor Portal provides information and requirements for all domestic Kmart vendors.

- ✓ **EDI Guidelines** located in the Guides & Reference section on Vendor Profile provides Kmart's mapping requirements for all EDI transactions.

Contacts

After reviewing the information in this document, if you have questions regarding:

- ✓ Vendor start-up process, send an email to startup@searshc.com.
- ✓ EDI transactions or the testing process, send an email to searsedi@searshc.com.
- ✓ Shipment marking and labeling requirements, send an email to SHCLabel@searshc.com and include "Label Help" in the subject line.
- ✓ GS1-128 shipping label testing/certification, send an email to SHCLabel@searshc.com.

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Section 2 - SBT Process Overview

D2S Ship Vendors

✓ The vendor ships the merchandise direct to the Kmart store.

✓ The store scans the vendor's GS1-128 (UCC/EAN-128) shipping label(s).

✓ The SSCC information scanned from the label(s) can be transmitted to the vendor via the optional EDI 861 to confirm delivery of the merchandise to the store.

✓ The merchandise is placed on the sales floor and is available for sale to customers.

D2S Service Vendors

✓ The vendor, vendor's representative or agent delivers the merchandise direct to the Kmart store.

✓ The store scans the GS1-128 shipping label provided by the vendor, vendor's representative or agent making the delivery.

✓ The SSCC information scanned from the label can be transmitted to the vendor via the optional EDI 861 to confirm delivery of the merchandise to the store.

✓ The vendor, vendor's representative or agent places the product on the sales floor making it available for sale to customers.

DC Vendors

✓ An EDI 850 Purchase Order is generated to the vendor.

✓ The vendor acknowledges receipt of the 850 via the EDI 997.

✓ The vendor ships the merchandise to the Distribution Center ("DC") and transmits an EDI 856 Ship Notice (ASN).

✓ The DC scans the vendor's GTIN-14 bar codes to receive the merchandise and distributes it to the stores at the designated "order up to" levels.

Point-Of-Sale ("POS") Process

✓ At customer point-of-sale, the GTIN-12 (U.P.C.) bar code on each item is scanned and the sale is captured as a SBT sale.

✓ On a daily basis, the previous day's sales transactions are transmitted to the vendor via the EDI 852. Sales will be reported by store, item and GTIN-12 (U.P.C.).

✓ Sales data will be summarized by store and sale date and sent to Accounts Payable for payment to the vendor.

✓ Based upon the terms agreed upon by the Buyer and vendor, payment will be generated to the vendor's Bank account via Electronic Funds Transfer (CCD+). The remittance detail will be sent to the vendor's VAN (Value Added Network) electronically via EDI 820.
Note: The EDI 820 Payment Order/Remittance Advice cannot be transmitted directly to the vendor's bank. (CTX is not an option for SBT vendors.)

▪ The EDI 820 information will be rolled up by store, by sales date. This information will be included in the document number field of the 820 data. SBT transactions will appear on the vendor's remittance with an entry type '39' and serial number '7797'.

Section 3 - SBT Requirements

General Requirements

❑ Vendor retains ownership of SBT merchandise until scanned at store point-of-sale.

- Kmart will not maintain financial inventory for vendor's merchandise.
- Unit-level inventory will be maintained for DC Vendors only.
- Vendor must **not** invoice Kmart for SBT items.

❑ D2S Ship and D2S Service Vendors are responsible for the appropriate initial inventory levels of SBT merchandise in the stores, and the replenishment and delivery of the merchandise to each store.

- Purchase orders will **not** be generated.
- The vendor does **not** generate an EDI 856 Ship Notice (ASN) or a confirming purchase order (EDI 855) to Kmart.
- The amount of SBT merchandise the vendor maintains in the stores is subject to review and approval by Sears Holdings.

❑ Kmart is responsible for merchandise replenishment for DC Vendors.

❑ Inventory shrinkage is the vendor's responsibility.

❑ Vendor must be EDI capable.

❑ Vendor must be able to receive payment via Electronic Funds Transfer ("EFT") via their VAN.

Customer Returns

If a customer returns SBT merchandise, the store will scan the GTIN-12 (U.P.C.) bar code on the item(s) which will create a "negative" sale in the store point-of-sale system. The negative sale will be transmitted to Accounts Payable to be deducted from the next payment due the vendor. Deductions will be processed as they occur.

❑ For D2S Ship and D2S Service Vendors' returned merchandise, a returns policy must be agreed upon between the vendor and the Sears Holdings' Buyer prior to activation on SBT.

- D2S Ship and D2S Service Vendors' returned merchandise cannot be handled through the CRC facilities due to the fact that Kmart does not maintain an item-level inventory of SBT product. Stores cannot systemically return merchandise to the vendor.

❑ DC Vendors' returns are handled through Sears Holdings' Central Return Centers ("CRCs").

- For specific information regarding the CRC facilities and returns process, refer to section 4 of the Kmart Vendor Information Guide located in the Guides & Reference section on Vendor Portal.

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EDI Transactions

❑ The following EDI transactions are required or optional for SBT as indicated:

D2S Ship & D2S Service Vendors

- 820 Payment Order/Remittance Advice (required)
- 852 Product Activity Data (required)
- 997 Functional Acknowledgment (required)
- 812 Credit/Debit Adjustment (optional)
- 861 Receiving Advice/Acceptance Certificate (optional)

DC Vendors

- 820 Payment Order/Remittance Advice (required)
- 850 Purchase Order (required)
- 852 Product Activity Data (required)
- 856 Ship Notice (required)
- 997 Functional Acknowledgment (required)
- 812 Credit/Debit Adjustment (optional)

EDI mapping requirements for the above transactions are included in Kmart EDI Guidelines in the Guides & Reference section on Vendor Portal.

Vendor Agreements & Certifications

The specific agreements and certifications a new SBT vendor must complete, sign and return are based on whether the vendor is a new vendor to Kmart, or an existing vendor to whom SBT is being added.

New Vendors

All new vendors must complete, sign and return all applicable agreements, certifications and forms required by Sears Holdings. These include, but may not be limited to:

- Universal Terms and Conditions ("UTC")
- Scan-Based Trading and Consignment Agreement
- Certificate of Insurance
- Electronic Funds Transfer ("EFT") Application
- Vendor/Factory Pre-Evaluation (QA & Compliance) form

The Vendor On-Boarding Team will provide new vendors information regarding the agreements and certifications they must submit and how to access them.

Existing Vendors

Existing vendors for whom SBT is being added must complete, sign and return the following agreements/forms:

- Scan-Based Trading and Consignment Agreement
- Vendor Authorization Form ("VAF")
- Electronic Funds Transfer ("EFT") Application
- Non-Conforming Merchandise Disposition Form - required only for an existing vendor whose SBT product will be sold in a different Kmart department number than existing product

The Vendor On-Boarding Team will send the applicable required agreements/forms to existing vendors for whom SBT is being added.

If the vendor is a current Kmart vendor and the items to be processed as SBT are current non-SBT items for Kmart, the Buyer and vendor must determine how to handle the current merchandise.

1. A buy-back of the merchandise can be arranged between the vendor and Kmart based on the inventory dollar amount in Kmart's financial ledger. A physical inventory will **not** be performed.
2. The vendor can remove the merchandise from the stores and re-label with new GTIN-12 (U.P.C.) codes that are associated with the new SBT Order Duns number.
3. The merchandise can be returned to the vendor.

Store Closing Procedures

When it has been determined that a Kmart store will be closing, the Buyers will be notified of vendors that have SBT merchandise in the store. It is the Buyer's responsibility to notify the vendor that their merchandise must be removed from the store and provide them the start date for the "going out of business sale".

❑ The vendor will be responsible for removing all SBT merchandise prior to the start date for the going out of business sale.

On the Monday following the start date of the going out of business sale, all vendors will be removed from the SBT program for the closing store. Sales will no longer be captured for payment.
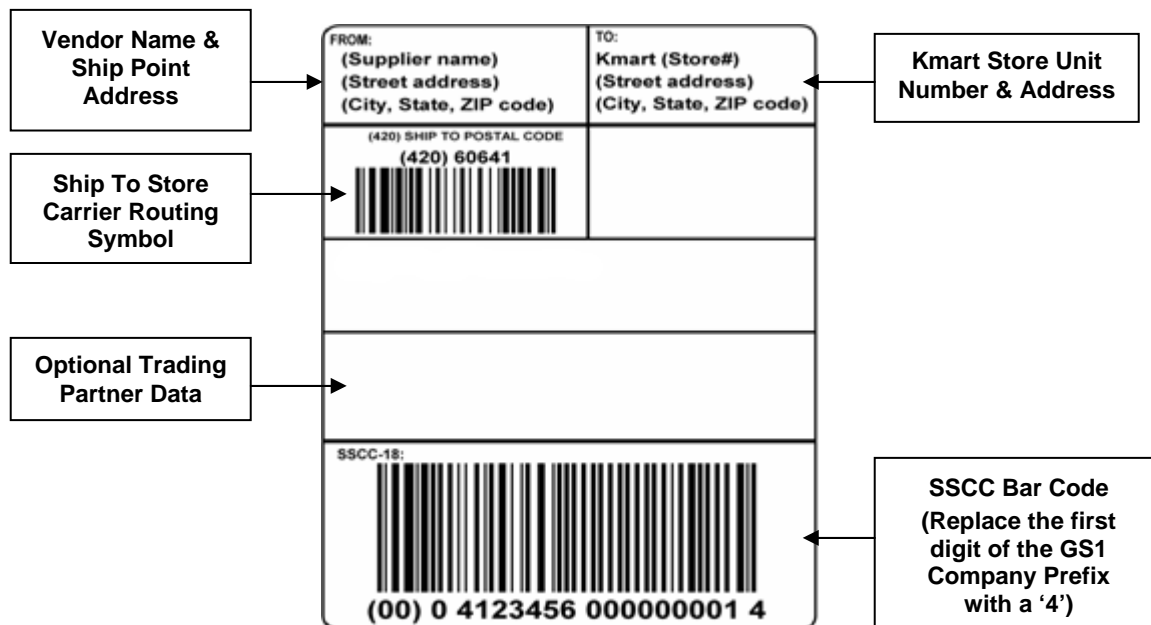
If there are exceptions to this procedure (due to the nature of the merchandise), the vendor must notify Accounts Payable prior to the going out of business sale start date with the appropriate action to take place in regards to payment.

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GS1-128 Shipping Label

❑ For **D2S Ship and D2S Service Vendors**, **at least one** GS1-128 (UCC/EAN-128) Shipping Label is required for each SBT store shipment. Refer to the illustration below for an example of the GS1-128 label that includes the required bar codes and text information.

- ▪ D2S Ship Vendors are required to place a GS1-128 shipping label on at least one of the cartons.
- ▪ For D2S Service Vendors, the vendor representative or agent that delivers the merchandise to the store is required to present one GS1-128 shipping label for the entire delivery for scanning by store personnel.

❑ **IMPORTANT:** A **'4'** (not a '0') must be used in the **4th position** of the 20-digit SSCC bar code on the label (the 1st position of the vendor's GS1 Company Prefix).

GS1-128 Shipping Label Example

Vendor Name & Ship Point Address

Ship To Store Carrier Routing Symbol

Optional Trading Partner Data

Kmart Store Unit Number & Address

SSCC Bar Code (Replace the first digit of the GS1 Company Prefix with a '4')

FROM:
(Supplier name)
(Street address)
(City, State, ZIP code)

TO:
Kmart (Store#)
(Street address)
(City, State, ZIP code)

(420) SHIP TO POSTAL CODE
(420) 60641

SSCC-18:
(00) 0 4123456 000000001 4

GS1-128 Text Information

❑ Vendor name and ship point address (vendor's company name provided to Sears Holdings - not a third-party shipper's name).

❑ 'Ship To' Kmart store unit number and address.

❑ Optional Trading Partner Data - any text information the vendor wants to include on the label, e.g., vendor item, model, style number(s), etc.

For specific information on the Carrier Routing Symbol and SSCC-18 Symbol, refer to section 8.3.b of the Kmart Vendor Information Guide located in the Guides & Reference section on Vendor Portal.

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GTIN-14 Bar Code

❑ **For DC Vendors**, a GTIN-14 bar code is required on each shipping carton except shipping cartons that are also the consumer packaging containing only one (1) consumer selling unit, e.g., TV's, stereos, lawn mowers, etc. This exception is based on the Point of Sale (POS) GTIN-12 (U.P.C.) or GTIN-13 (EAN-13) bar code being available on the carton.

❑ The 14-digit number scanned from the bar code on each carton **must match exactly the 14-digit "Shipping GTIN"** the vendor provided via the Item Maintenance Application ("IMA") for the product, quantity and configuration of the items packed inside the carton for the associated purchase order.

1 0 0	1 2 3 4 5	6 7 8 9 0	6
1	0012345	67890	6
Packaging Indicator	Vendor's GS1 Company Prefix	Product Number assigned by vendor	Modulo 10 Check Digit

For specific information on the GTIN-14 bar code including symbol size and carton placement requirements, refer to section 8.3.a of the Kmart Vendor Information Guide located in the Guides & Reference section on Vendor Portal.

Section 4 - SBT Vendor Start-Up Process Overview

1. Once the vendor and the Buyer have determined that SBT is appropriate, the Buyer will provide the Vendor On-Boarding Team with the necessary information to begin the start- up process, including a "Target Live Date" for the vendor.

2. The Vendor On-Boarding Team will send the vendor information regarding the start-up process and the documentation required to be submitted.

3. EDI testing will be conducted by a third-party testing provider on behalf of Sears Holdings. The provider will contact the vendor and schedule the testing. They will notify the Vendor On-Boarding Team when the vendor has completed EDI testing/certification.

   DC Vendors will be required to test:
   - 850 Purchase Order
   - 856 Ship Notice (ASN)

   The vendor must acknowledge all test data received via 997 Functional Acknowledgment.

4. Bar Code/Shipping Label testing will be conducted by Sears Holdings (SHCLabel@searshc.com). They will contact the vendor and provide information on the certification process.

   D2S Ship and D2S Service Vendors must test a GS1-128 shipping label as part of the vendor on-boarding process.

   - A **'4'** (not a '0') must be encoded in the **4th position** of the 20-digit SSCC bar code on the label submitted for certification and the labels used after activation on SBT.

   DC Vendors must test a GTIN-14 bar code as part of the vendor on-boarding process.

   - The 14-digit number scanned from the bar code on each carton **must match exactly the 14-digit "Shipping GTIN"** the vendor provided via the Item Maintenance Application ("IMA") for the product, quantity and configuration of the items packed inside the carton for the associated purchase order.

5. The Vendor On-Boarding Team will assign a "PO Duns Number" and "Pay Duns Number" for the SBT product, place the vendor into production, and communicate the information to the vendor and Buyer.

6. The vendor must set up the SBT items in the Item Maintenance Application ("IMA") under the correct Kmart department number and category as provided by the Buyer.

7. Once the SBT merchandise is in the stores, sales will begin to be captured for payment.