



Shelf-Life Compliance Program Policy Instructions





Document Control Information

Document Information

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2.0	1.2 Shelf-Life Compliance Standards Page 4 – Your ASNs should include expiration date to assist with data validation. Page 5 – CVS will no longer round up when calculating <i>Shelf-Life Percent</i> remaining – removed language indicating such. 2.2 Penalty/Deduction Processing <i>Penalty/Deduction Timeline</i> Page 9 – Update to the Deduction Code values as they will appear on the payment remittance
3.0	3.1 Calculating Chargebacks Page 6 – Penalty Rate Grid Page 6 – CVS reserves the right to adjust SKU data when either a) missing manufacture shelf-life days or b) SKU data is inaccurate

Upon reviewing this document, any questions can be addressed to the CVS Health Shelf-Life Compliance Team at ShelfLifeCompliance@CVSHealth.com.

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1 Policy Overview

This policy covers the background, scope, and administration of the CVS Health Shelf-Life Compliance program. Upon reviewing this document, any questions can be addressed to the CVS Health Shelf-Life Compliance Team at ShelfLifeCompliance@CVSHealth.com.

1.1 Background

At CVS Health, we help people on their path to better health. This means we are committed to putting customers at the center of their care. To support this philosophy, we are taking steps to ensure our customers have access to the freshest quality products in our stores.

To meet this need, CVS implemented the Shelf-Life Compliance Program in 2020 with the following goals:

1. **Improve Customer Experience:** Policy's intent is non-punitive; rather, it supports an optimal customer experience by ensuring we offer the freshest product possible.
2. **Reduce Waste and Drive Mutual Efficiency:** Improve mutual business processes to reduce waste and improve efficiencies.

1.2 Shelf-Life Compliance Standards

Policy Overview

- CVS is requiring our supplier partners to deliver date-coded product with a minimum of 75% (national brands) and 50% (store brands) remaining Shelf-Life at the time of intended receipt at our Distribution Centers (DCs).
- These standards are only applicable for Front Store, warehouse delivered SKUs. This policy does not apply to any Pharmacy ('Rx') merchandise or direct to store deliveries.
- These standards are only applicable to items that currently require an "Expiration Date" or "Best by Date" on the packaging.
 - Your ASNs should include expiration date to assist with data validation
- There are no deductions for any item received with 18 months (540 days) of remaining Shelf-Life.
 - **Example:** Assume a SKU has a five-year total manufacturer's Shelf-Life and arrives at one of our DCs with 18 months or 540 days remaining. While the remaining Shelf-Life (30%) is less than the 75% or 50% requirement (outlined in further detail below), the delivery is deemed in adherence.
- Measuring *Shelf-Life* Performance at Receipt

This section summarizes the methodology for assessing SKU receipts in the CVS DCs for Shelf-Life Compliance. The main metric used in measuring Shelf-Life Compliance is *Shelf-Life Percent*. *Shelf-Life Percent* is the percent of Shelf-Life remaining at the point of receipt compared to the SKU's total Shelf-Life.

1. The process starts by calculating the *Remaining Shelf-Life in days* or the days between the SKU's receipt and the expiration date as printed on the carton label.
 - a. To ensure DC delays in appointment scheduling do not negatively impact a vendor's performance, we will supplement the SKU's receipt date with the requested delivery date when the requested delivery date is prior to the SKU receipt date.
2. Next, we divide the *Remaining Shelf-Life in Days* by the *Total Manufacturer's Shelf-Life* to arrive at *Shelf-Life Percent*.

The following are detailed bullet points on the Shelf-Life Compliance's team process for calculated *Shelf-Life Percent*.

- The Shelf-Life Compliance Team collaborates with vendors to obtain the *Total Manufacturer's Shelf-Life* for each of the vendor's SKUs. The *Total Manufacturer's Shelf-Life* is tracked and maintained in a Master Item Database.

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- Vendors are responsible for ensuring they provide the CVS Shelf-Life Compliance team with *accurate Total Manufacturer Shelf-Life* for each SKU.
- At the point of receipt, CVS will calculate the *Remaining Shelf-Life Days* for each SKU received by calculating the earlier of the two dates below compared to the *SKU's Expiry Date*:
 1. *Requested Appointment Delivery Date* – Delivery date requested when creating an *eAppointment* with CVS.
 2. *Receipt Date* – Date the product shipment arrives at a CVS distribution center.
- In most examples, the Requested Appointment Delivery Date will be earlier and used in the calculation.
- By considering the Requested Appointment Delivery Date, we will ensure any scheduling differences between requested and approved delivery appointments will not negatively impact a vendor's score.
- We will then calculate the *Shelf-Life Percent* for each SKU received by dividing the *Remaining Shelf-Life Days* by the SKU's *Total Manufacturer's Shelf-Life*.
- SKUs must have a *Shelf-Life Percent* greater than 75% for National Brand and 50% for Store Brands to avoid penalties/chargebacks.
- The following is an example outlining the calculation described above:

Requested Delivery Appointment Date of 8/31/22

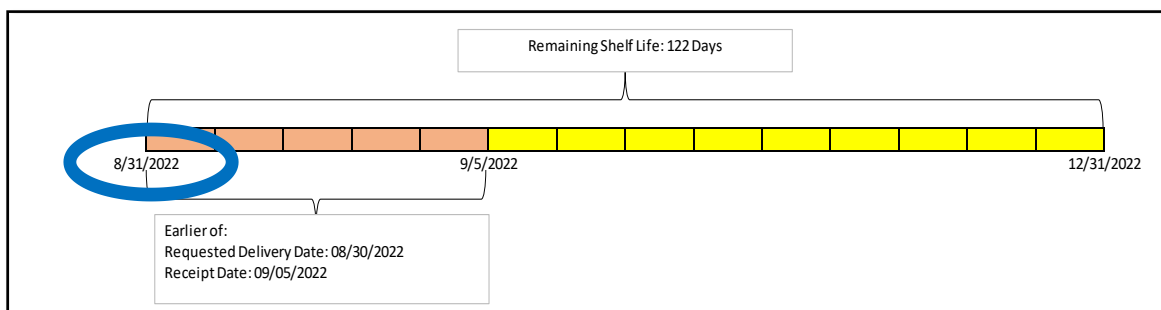
Receipt Date of 09/05/22

Expiry Date of 12/31/22

Remaining Shelf-Life Days = SKU's Expiry Date - (earlier of Requested Appointment Delivery Date and Receipt Date)

Expiry Date (12/31/22) – Requested Delivery Date (08/31/22) = 122 Days

Remaining Shelf-Life equals 122 days at the time of intended delivery.



Total Manufacturer's Shelf-Life of 365 days or 1 year

$$\text{Shelf Life \% (34\%)} = \frac{\text{Remaining Shelf Life (122 Days)}}{\text{Total Manufacturer's Shelf life (365)}}$$

Shelf-Life Percent = Remaining Shelf-Life Days / Total Manufacturer's Shelf-Life

Items with 1-year Total Manufactured Shelf-Life should be received with 274 days or approximately 9 months remaining for National Brand and 182 days or approximately 6 months remaining for Store Band.

- Distribution Center Receiving Process
 - Expiry Date is manually recorded by receivers when items are received into the DCs. Any manual entry of Expiry Date by our DC Receivers will remain unchanged in the current DC processes. In the event a pallet arrives with multiple lot numbers; CVS will use the most recent (oldest lot's) Expiry Date.

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- To account for variability in how expiry dates are printed on different items (DD/MM/YY vs MM/YY), CVS uses the Expiry Date column to the Expiry Month. Please note that all calculations are based on the **END** of the month.
- A SKU will be recorded as “Received” when all shipped units for that SKU has been received into the DC inventory.
- Calculating Chargebacks (National Brand and Store Brand)
 - National Brand and Store Brand vendors each have different fee schedules under the CVS *Shelf-Life* Compliance Program. See table below.
 - National brand SKUs must be received with at least **75% of the remaining Shelf-Life** to receive no penalty.
 - Store brand SKUs must be received with at least **50% of the remaining Shelf-Life** to receive no penalty.

Shelf-Life at Receipt	Store Brand*	National Brand, Regularly Carried*	National Brand, Non-Regularly Carried*
Greater than or equal to 75%	0%	0%	0%
Less than 75% and greater than or equal to 50%	0%	10%	0%
Less 50% and greater than or equal to 25%	10%	25%	10%
Less than 25%	50%	50%	50%

**Calculated as Percent of Cost of Goods Received*

- SKU adjustments
 - CVS holds the right to supplement or replace the total shelf-life value* provided by our suppliers in each of the following circumstances for date coded products:
 1. The SKU is missing a total shelf-life value (i.e. was not provided by the supplier in a reasonable time) and/or
 2. The total shelf-life value on record is inaccurate based on the product freshness calculated at the time of receipt (i.e. the product expiration exceeds the number of shelf-life days provided by the supplier)

*Supplemented/Replacement values will be calculated based on factors including (but not limited to) total shelf-life of comparable SKUs in the category and overall product freshness averages at receipt.

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National Brand example:

- Expiry Date - 12/31/22
- Requested Delivery Date - 05/26/22
- Receipt Date – 05/10/22
- Total Manufacturer's Shelf-Life – 365 Days

$$\text{Remaining Shelf Life (219 Days)} = \frac{\text{Expiry Date (12/31/22)}}{\text{Requested Delivery Date (5/26/22)}}$$

$$\text{Shelf Life \% (60\%)} = \frac{\text{Remaining Shelf Life (219 Days)}}{\text{Total Manufacturer's Shelf Life (365)}}$$

SKU Dollar Value: \$1,000
Penalty Tier: Between 50% and 75% (per above fee schedule) = 10% Penalty
Total Penalty: SKU Dollar Value (\$1,000) X Penalty (10%) = \$100

Store Brand example:

- Expiry Date - 12/31/22
- Requested Delivery Date - 05/26/22
- Receipt Date – 05/10/22
- Total Manufacturer's Shelf-Life – 365 Days

$$\text{Remaining Shelf Life (219 Days)} = \frac{\text{Expiry Date (12/31/22)}}{\text{Requested Delivery Date (5/26/22)}}$$

$$\text{Shelf Life \% (60\%)} = \frac{\text{Remaining Shelf Life (219 Days)}}{\text{Total Manufacturer's Shelf Life (365)}}$$

SKU Dollar Value: \$1,000
Penalty Tier: Between 50% and 75% (per above fee schedule) = 0% Penalty
Total Penalty: SKU Dollar Value (\$1,000) X Penalty (0%) = \$0

2 Compliance Tracking and Invoicing Process Changes

2.1 Compliance Tracking

Receipts will be tracked by vendor every two weeks. The CVS *Shelf-Life* Compliance team will then send each vendor a report summarizing their performance for the prior two weeks. The report includes three tabs:

- 1) *Legend* – Provides a listing of all the field names and definitions for the performance data included in the *Shelf-Life Report* tab
- 2) *Shelf-Life Report* – Provides a summary of Shelf-Life Compliance performance for the previous two-week period.
- 3) *Shelf-Life Page* – This is a list of SKUs which require an update to our master SKU data. SKUs on this tab are flagged with some sort of error code during our *Shelf-Life* Compliance assessment. Vendors are expected to review this list and provide updated total manufacturer's Shelf-Life for each SKU.
 - a. Example: A SKU is received with remaining *Shelf-Life* greater than the Total Manufacturer's *Shelf-Life* per our master SKU data.
 - b. Vendors are expected to provide the updated data within two weeks of receiving the report.

Pay vendor #	Pay Vendor Number
Pay Vendor Name + Number	Pay Vendor Name and Pay Vendor Number
Vendor Name + Number	PO Vendor Name and Vendor Number under Pay Vendor Number
DC Name + ID	Distribution Center Name
PO Number	Purchase Order Number
MDSE GRP DSC	Merchandise Group Description
Cat Dsc	Category Description
SKU Number	SKU Number
SKU Description	SKU Description
Regularly Carried Indicator	Continuative Stock/Product (Y) or Seasonal and Event Stock/Product (N)
Private Label Indicator	National Brand Product (NB) or Store Brand Product (SB)
Minimum required SL	Minimum Receipt Shelf-Life % requested from vendor
DC Appointment Requested Date	First Distribution Center Appointment Requested Date
Expiry Month	Expiry Date adjusted to end of the month
Days Of Shelf-Life on Receipt	Calculated difference between Expiry Month and DC Appointment Requested Date
Mfg. Shelf-Life	Total Manufacturing Shelf-Life in days provided by vendor
Receipt Shelf-Life %	Calculated ratio between Days of Shelf-Life on Receipt and Mfg. Shelf-Life
Fine Tier	Percent range of Receipt Shelf-Life %
Deduction Code	SLC + PO Number + SKU Number
Receipt Cost	Value of Quantity Received
Deductions	Value of Deduction based on Fine Tier and Receipt Cost*

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2.2 Penalty/Deduction Processing

Penalty/Deduction Timeline

Program violations appear on payment remittance as “SLC”, followed by a five-to-seven-digit **PO number**, followed by the four digits as **YY** and **WW** (example: SLC12345672301).

- **YY** = Fiscal Final two digits of the year 20**23**
- **WW** = Fiscal Week of Receipt Date 01-52

You should **ONLY** reference the above payment remittance number if there are questions/concerns

The Shelf-Life timeline consists of four stages over nine weeks. The purpose of this deduction timeline is to give structure to *Shelf-Life* compliance fees/deductions. Additionally, it provides our suppliers with an easy-to-understand time frame to view and dispute violations.

Note: All SKUs received beginning January 1, 2023, are subject to the requirements and fees outlined previously.

Shelf Life Deduction Process Timeline			
Assessment Period	Dispute Period	Finalize Charges	Processing Charges
1st-2nd Week	3rd-7th Week	8th Week	9th Week

1) Assessment Period: Assessment periods operate in two-week cycles. During this time, we are receiving SKUs included in the *Shelf-Life* Compliance Program and assessing performance under the program guidelines (i.e. comparing *Shelf-Life* at receipt to total *Shelf-Life*).

2) Dispute Period: Reports outlined in section ‘2.1 Compliance Tracking’ are sent to the vendors at the beginning of the dispute period. Vendors will have five weeks to dispute any charges issued in the reports (see ‘Dispute Management’ section for details).

3) Finalize Charges: The *Shelf-Life* Compliance team will adjust charges identified during the assessment period based on disputes received at the conclusion of the dispute period.

4) Processing Charges: All finalized charges are approved and sent to accounts payable for processing.

Dispute Management

- The dispute period for charges assessed under the *Shelf-Life* Compliance Program is five weeks after charges are communicated to the vendor.
 - Recall from ‘Penalty/Deduction Timeline’ section, reports outlining *Shelf-Life* performance and chargebacks are distributed at the beginning of the dispute period in week 3 of the *Shelf-Life Deduction Process Timeline*.
 - Please ensure you are providing the *Shelf-Life* Compliance team updated SKU Shelf-Life and Shelf-Life Flag (SKU expires or not). Ensure any changes are being updated in CVS systems.
- Vendors must complete the *Shelf-Life* Compliance Dispute Form when disputing a chargeback. The completed form must be submitted to ShelfLifeCompliance@CVSHealth.com.
 - The *Shelf-Life* Compliance Dispute Form can be obtained by e-mailing ShelfLifeCompliance@CVSHealth.com.
 - When submitting a dispute using the *Shelf-Life* Compliance Dispute Form, please follow the instructions included in the form.
 - Please note, charges are only disputable once. The *Shelf-Life* Compliance team will not review disputes multiple times therefore it is imperative to submit disputes with supporting documentation that effectively substantiates/justifies the dispute.

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3 Frequently Asked Questions

When will the new policy take affect?	Penalties/Fees will take effect for all receipts beginning 01/01/2023. The remainder of the policy is effective immediately.
What do I need to do to align my supply chain to new policy?	Ensure date coded product sent to CVS has more than 75% (National Brand) or 50% (Store Brand) of total manufactured shelf-life remaining when it is received at CVS. For new items going forward, include the total manufactured Shelf-Life
Why is CVS implementing a policy change?	Improve customer experience: the policy's intent is non-punitive; rather, to support an optimal customer experience through ensuring we offer the freshest product possible. Reduce waste and drive mutual efficiency: Improve mutual business processes to reduce waste and improve efficiencies.
I send quality product to CVS. Why are we implementing new policy?	We require all supplier partners to align with this policy. While most suppliers follow these guidelines already (ship us product with 75% shelf-life remaining), we do still quite frequently receive shipments that are close to expiration (or even have product arrive at our DCs already expired).
What is my risk of being fined?	If you send your freshest product to CVS, you should not be concerned with fines. Deductions are not meant to be punitive. We informed suppliers of the new policy during October 2022, which is sufficient time to change process to avoid deductions. Deductions scale with degree of outdating.
What is the fining process?	Like other CVS Supply Chain Compliance programs, fines are applied by deducting from the supplier's future invoice payments.
I give CVS allowances for write-offs, why should we be fined as well?	<i>Shelf-Life</i> is only one driver of write-offs. We anticipate other drivers of write-offs to continue. If all goods are received in compliance with the new policy, write-offs are projected to reduce, which in turn, reduces your liability. We set fine thresholds carefully to only offset the write-offs due to short dates, which represents product that comes into the DC unexpired but are likely to expire in the DC or Store.
How does this impact my trade funds or other initiatives?	The penalties and fees under this program are meant to be incremental to any other programs/funding with CVS. As such, there should be no impact because this is a supply chain improvement initiative to better align with industry standards.
How can we handle exceptions?	All requests for exceptions must be approved by CVS Leadership (VP and above). Requests need to be sent to ShelfLifeCompliance@CVSHealth.com for initial vetting.
Does this policy apply to DSD suppliers?	DSD suppliers are out of scope for this policy. This policy only applies to front store, warehouse deliveries.
Does this policy apply to items with Product Stability guidelines but no Expiry Date?	The policy is limited to items that are mandated to have a printed Expiry Date.
Will products that are rejected at DC's subjected to fines?	Any product rejected at DCs is not subjected to penalties/fines.

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Is there a dispute process for charges? How long do I have to dispute my charges?	The dispute process is outlined in section 2.3 Dispute Management. Vendors will have five weeks to dispute charges after the charge is reported on their bi-weekly reporting.
Why am I only seeing 1 invoice number?	We are providing 1 master invoice number to group all charges associated with 1 vendor. This will look like "SLCxxxxx1". You should provide the payment remittance deduction code as referenced on page 9 when reaching out with questions/concerns.
Is there a point of contact in the event I am running into supply chain issues?	Please contact ShelfLifeCompliance@CVSHealth.com .

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