



Direct Ship Program Policies

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1. Kroger Direct Ship Program Definition

Kroger's dropship program ("Direct Ship") provides Vendors the opportunity to expand the product assortments available to Customers by leveraging the vendor's fulfillment capacity to ship directly to the Customer. Through Direct Ship, the Vendor retains the inventory and fulfills orders on behalf of Kroger, creating a streamlined inventory arrangement while maintaining a seamless experience for the Customer.

The Direct Ship program policies apply to e-commerce Customer orders placed on ship.banner.com, where merchandise is fulfilled and shipped directly from the Vendor to the Customer's designated "Ship-To" address.

The Direct Ship program policies outlined in this document are subject to change. Vendors must comply with policies within sixty (60) days of the changes being published. Vendors who are unable to comply within sixty (60) days will have their product removed from Kroger's e-commerce platform ("Ship") until compliance is achieved, or a written exemption signed by a Kroger executive is received.

2. Product Content

Kroger manages all product content displayed on its websites. Product content includes, but not limited to, product descriptions, specifications, feature/benefit information, images, video animation or interactive media, graphics, audio, website addresses and other content furnished to and/or used by Kroger.

2.1 Product Specifications

2.1.1 All products offered for sale through Direct Ship must have complete and accurate product information provided by the Vendor.

2.1.2 It is the Vendor's responsibility to notify Kroger's Digital Assortment Team when changes are made to product information. Changes should be submitted with as much notice as possible.

2.2 Content Submission

2.2.1 In addition to the detailed product specifications, Vendors are encouraged to submit product copy (an extended romance description) with each product offered for sale in the program. Copy may be embellished or modified by Kroger to create a consistent shopping experience for Customers.

2.2.2 Up to 6 images per item may be submitted. Lifestyle images will be accepted in addition to primary product image shots. You can include as much romance copy as needed.

2.3 Cost of Goods

2.3.1 The Cost of Goods for Direct Ship products will be negotiated between Kroger's Digital Assortment Team and the Vendor. The cost submitted must be inclusive of all discounts. Additional line items on the invoice will not be accepted. Do not include shipping fees in the cost (Kroger will be providing a third-party shipping account number). Best bracket pricing is required.

2.3.2 Any changes to product cost after the original assortment setup must be resubmitted to Kroger's Digital Assortment Team in writing with a minimum of 30 days' notice to the effective cost change date. Cost changes are subject to approval by the Digital Assortment Team and the Brick and Mortar Category Manager.

3. Product Quality

Maintaining Kroger's quality standards is of the highest importance to ensure customer satisfaction.

3.1 Product Recalls

3.1.1 Vendor agrees to notify Kroger of any product recalls, voluntary or involuntary, which impact Customer purchase orders on ship.banner.com. Vendors should use protocol for advising the Digital Assortment Team as well as notifying Kroger's Direct Ship team through MerchandisingShiptoHome@Kroger.com.

3.1.2 Products subjected to a recall must be immediately taken down off ship.banner.com websites through the submission of a zero-inventory feed and discontinued for the affected products through the Kroger integration.

3.1.3 If a customer has purchased recalled product, Vendor is to credit Kroger for recalled items and any related fees as a result of the recall.

4. Inventory Availability

Vendors are required to provide on-hand quantity inventory levels for each Stock Keeping Unit (SKU) at least once a day. The Vendor is responsible for properly setting up and maintaining the inventory information provided for Direct Ship.

4.1 Inventory Feed Setup & Management

4.1.1 Inventory information is communicated through Kroger's third-party commerce network partner, which is currently Logicbroker®. Vendors will receive training and guidance for submitting inventory through Logicbroker® and will be responsible for ensuring all necessary personnel can use the provided software and that electronic data feeds are successful on an ongoing basis.

4.1.2 Vendors must report available inventory at the SKU level and include any required elements defined in the Logicbroker® specifications.

4.1.3 Only SKUs which have been approved for the final Direct Ship assortment should be set up or transmitted to Logicbroker®.

4.1.4 Accurate inventory is critical to avoiding Customer disappointment. In the event of a transmission failure Vendors will be responsible for correcting and resubmitting inventory the same business day the error is communicated, or alternatively Vendors may leverage the commerce network web interface to process inventory updates until data feeds have been corrected and automated electronic communication methods successfully resumed.

4.2 Inventory and Reservation

4.2.1 Vendors are responsible for ensuring inventory is accurate daily and adjusting inventory levels throughout the day as necessary to avoid potential oversells. Inventory must be transmitted at a minimum of once per day.

4.2.2 Inventory communicated to Kroger is expected to be 100% available for ship.banner.com Customers. If inventory levels fluctuate throughout the day due to orders placed with Vendor's other e-commerce retailers, inventory feeds should be loaded more frequently to reflect this.

4.3 Out-of-Stocks

4.3.1 Vendors are required to zero out inventory immediately for out-of-stock products.

4.3.2 With the exception of special orders, any Customer order which cannot be fulfilled within the standard fulfillment time due to the lack of inventory should be communicated to the Direct Ship Customer Operations Team through Logicbroker® for direction. Backorders and substitutions are NOT permitted.

4.4 Product Discontinuations

4.4.1 A product is considered discontinued when the Vendor or the Digital Assortment Team no longer wishes to carry that item in the Direct Ship assortment. Products which are discontinued by the Vendor must be notified to Kroger so that the appropriate steps are taken for site removal. Please communicate product discontinuations to the Kroger Digital Assortment Team as well as ShipDisco@Kroger.com.

4.5 Demand Forecasts

4.5.1 Kroger is not obligated to provide forecasts of demand/sales potential to any Vendor or for any product for Direct Ship.

5. Customer Order Processing & Fulfillment

Consistent order fulfillment is key to maintaining a positive Customer e-commerce shopping experience with Kroger. This section outlines Direct Ship order processing and fulfillment policies which will ensure a quality experience for the ship.banner.com Customer.

5.1 Third Party Commerce Network Data Interface

5.1.1 All Direct Ship Customer Purchase Orders will be transmitted using Kroger's designated third-party commerce network, Logicbroker®.

5.1.2 Vendors must maintain an active Logicbroker® connection to receive and process orders. This requires Vendors to keep accounts current and systems active. Vendors must notify Kroger's Digital Assortment Team 60 days prior to disconnection from the third-party commerce network.

5.1.3 Vendors must successfully complete all testing and training and be certified by Logicbroker® prior to their launch.

5.1.4 In the event of electronic communication failures, Vendors must be able to use the third-party commerce network web browser interface as a backup to process orders in the same order shipment expectations outlined within these policies.

5.1.5 Vendors participating in Direct Ship are expected to use the self-monitoring tools within the web interface to ensure that the Vendor is meeting all key performance indicators for the program.

5.2 PO Transmission

5.2.1 Customer POs transmitted to Direct Ship Vendors may contain single lines, multiple lines, single units, multiple units, or multiple lines for multiple units. Each transmitted Customer PO will be designated to a single "Ship-To" address.

5.2.2 Kroger transmits Customer POs to the third-party commerce network periodically throughout the day. Vendors are encouraged to download POs the same day they are made available in the interface. Regardless of whether the Vendor downloads the order on the first available day, the on-time shipment clock begins the first business day that the Customer PO is made available to the Vendor by the third-party commerce network. Please refer to 5.4 for further detail.

5.3 Confidential Customer Information

5.3.1 In the course of supporting Direct Ship, Vendor will receive Confidential Information including sensitive information about customers. Vendor may not use the Confidential Information for any purpose other than performance of its obligations under Direct Ship. Vendor shall take sufficient precautions to protect the confidentiality of all Confidential Information and shall not disclose it to any third parties. Vendor will not use any of the Confidential Information to solicit customers or engage in any practice or

campaign directed toward or resulting in customers buying any products or services from any source other than Kroger.

5.4 On-time Shipment

5.4.1 Products which the Vendor has made available to Kroger within the “standard” fulfillment timeframe must ship within two (2) business days, unless otherwise agreed upon between Vendor and Kroger. Thursday and Friday will not be considered business days for fresh and frozen item shipments (unless the item was ordered for FedEx Next Day or any other overnight service level shipment, in which case Thursday will be considered a business day).

5.4.2 Vendors who participate in expedited fulfillment programs agree to ship within one (1) business day for any Customer PO that is marked for FedEx Next Day or any other overnight service level shipment.

5.4.3 Day one (1) of the fulfillment timeframe begins the day the Customer PO is posted in the third-party commerce network. Customer POs posted to the third-party commerce network by noon (12:00 pm), Eastern Time, will be counted as that day’s orders. Orders received after noon (12:00 pm) Eastern are considered the next business day’s orders. For orders received during Vendor-reported business closures the fulfillment timeframe will not start until the next business day. These business closures should be reported to Kroger’s Digital Assortment Team at the time of onboarding, or a minimum of thirty (30) days prior to the closure date.

5.4.4 On-time shipment is defined as any shipment confirmation posted to the third-party commerce network by twelve (12:00 pm) Eastern Time on the second (2nd) business day for expedited fulfillment, twelve (12:00 pm) Eastern Time on the third (3rd) business day for standard fulfillment, or twelve (12:00 pm) Eastern Time on the day following the last day of the extended fulfillment period for special orders.

SERVICE LEVEL	ORDER CREATE DATE & TIME	SHIP BY DATE	SLA
Standard (Ground)	Order Time: before 12:00 Noon EST 11/5/2018	Must ship by 11/6/2018	2 business days
Standard (Ground)	Order Time: after 12:00 Noon EST 11/5/2018	Must ship by 11/7/2018	2 business days
2 nd Day Air	Order Time: before 12:00 Noon EST 11/5/2018	Must ship by 11/5/2018	Same Day
2 nd Day Air	Order Time: after 12:00 Noon EST 11/5/2018	Must ship by 11/6/2018	1 business day
Next Day Air Saver	Order Time: before 12:00 Noon EST 11/5/2018	Must ship by 11/5/2018	Same Day
Next Day Air Saver	Order Time: after 12:00 Noon EST 11/5/2018	Must ship by 11/6/2018	1 business day

5.4.5 Customer POs not confirmed as shipped in the third-party commerce network by twelve (12:00 pm) Eastern Time on the day following the ship date of the fulfillment period are considered to be delinquent. Delinquent orders are subject to cancellation by Kroger after three (3) business days. A non-compliance penalty may be issued for delinquent orders.

5.4.6 Kroger excuses Vendor from nonperformance or delays in delivery caused by unforeseeable occurrences, but Vendor agrees it is not excused by unexpected difficulty or commercial impracticality of any degree. If Vendor can fulfill its delivery obligation only by premium shipping, the premium charges shall be prepaid by the Vendor or, if not prepaid, then Kroger reserves the right to issue chargebacks relating to the additional shipping costs.

5.5 Shipment Confirmations

5.5.1 Customer POs are not considered to be shipped until a successful ship confirmation is processed in the third-party commerce network with valid and accurate tracking information.

5.5.2 Shipment confirmations must be posted in the order third-party commerce network no later than twelve (12:00 pm) Eastern Time on the day after the carrier has taken possession of the shipment.

5.5.3 Shipment confirmations must include the complete tracking number and indicate the actual carrier and service level used for the shipment.

5.5.4 Vendors may not submit shipment confirmations more than one (1) business day in advance of the carrier taking possession of the shipment.

5.6 Customer Order Cancellation

5.6.1 On occasion, Kroger may request the cancellation of a Customer PO due to potential fraud, Customer request, or other reasons. Vendors should make a best effort to stop shipment on requested cancellations. If the request can be accommodated, then the order should be cancelled within one (1) business day. If the cancellation request is unsuccessful and the order ships out, the Direct Ship Customer Operations Team must be notified, and the order must be confirmed with tracking information within one (1) business day.

5.6.2 Vendors may not hold backorders for products which cannot be sourced within agreed upon fulfillment timeframe.

5.6.3 Partial shipment is allowed. The Direct Ship program is fill and kill at the line level, which means that Vendors may ship less than the full quantity of a given line on the Customer's order and backorders will be cancelled off. For example, if a Customer ordered a quantity of 5 units on a single line item and Vendor can only fulfill a quantity of 3, the remaining 2 units must be cancelled at the same time. Packing lists must be reprinted to adjust quantity shipped totals and pricing in the event that less than the complete ordered products are shipped.

5.6.4 In all cases, Vendors must use the appropriate reason code from the list of valid codes provided by the third-party commerce network, and must include any other reasons, to indicate why a Customer PO line was canceled.

5.6.5 For non-product availability related issues preventing a Vendor from fulfilling a PO (i.e., incomplete "Ship-To" address, unable to identify the product ordered, etc.), Vendors should contact the Direct Ship Customer Operations Team to try and resolve the problem prior to cancelling the order.

5.7 Fulfillment Errors

5.7.1 Unless otherwise negotiated, in the event a Customer receives the wrong or damaged/defective product(s), Kroger may request the customer send back the mis-shipped or damaged/defective product(s). In the event fulfillment errors exceed five (5) percent in a quarter, Kroger reserves the right to pursue chargebacks to cover the additional costs to Kroger and any necessary appeasements to minimize the impact of the poor fulfillment experience provided by the Vendor.

5.7.2 Replacement orders for mis-shipped or defective products which the Customer wishes to reorder may be issued under a separate PO number. Vendors must fulfill the replacement order pursuant to the same policies and procedures as any regular Direct Ship Customer order. Vendors will be billed back for the freight and cost of goods for replacement orders.

5.8 Peak Season Fulfillment

5.8.1 Peak ordering seasons for ship.banner.com include the months of November and December. Vendors are required to ship within the applicable fulfillment timeframe even during peak seasons when

orders may dramatically increase. It is the Vendor's responsibility to ensure adequate staffing to support peak order demand without a decrease in fulfillment service.

5.8.2 Kroger may choose to publish on its websites "order by" dates for products offered with expedited or standard fulfillment. The Vendor will be responsible for ensuring that such Customer orders ship on-time to arrive for key holidays such as, but not limited to: Valentine's Day, Easter, Mother's Day, Father's Day, Halloween, Hanukkah, and Christmas. Failure to meet fulfillment expectations during these critical peak times may require the Vendor to upgrade shipping service levels on Customer POs to meet key delivery dates. If upgraded shipping is required due to Vendor delinquency, Kroger reserves the right to charge back the additional freight costs incurred for these delinquent orders plus administrative fees.

6. Shipping

The Vendor has the most control over ensuring the Customer's order arrives at the "Ship-To" address in "as ordered" (excellent and working) condition. It is in the best interest of both Kroger and the Vendor to adhere to these policies to minimize shipment damage and loss in transit.

6.1 Freight Terms

6.1.1 Direct Ship Customer PO shipment terms are FOB-Origin. This means the Vendor is responsible for appropriately packaging and labeling the shipment and delivering to the carrier dictated by Kroger. Kroger assumes title of the goods when it's designated carrier takes possession of the package. Once title has been transferred, Kroger will oversee the carrier's delivery of the shipment to the Customer.

6.1.2 The Vendor's ship-from warehouse must be located within the contiguous United States. Direct Ship purchase orders cannot be fulfilled from warehouses located in Alaska, Hawaii, or United States territories.

6.2 Insurance

6.2.1 Kroger will insure Customer shipments at their discretion. Vendors will not be liable for damage by the carrier, losses in transit, theft, or other potential exceptions unless the Vendor is found to have mislabeled the package or failed to meet packaging standards that would have protected the contents during shipping.

6.2.2 Kroger reserves the right to assess penalties for Vendors whose fulfillment errors (including poor packaging and/or mislabeling the shipment) are deemed to exceed five (5) percent of shipments quarterly.

6.2.3 Vendors may be asked to provide testimony or documentation for proof of shipment in the event of a freight or insurance claim and must be able to do so within 2 business days of receipt of request.

6.3 Packaging Standards

6.3.1 Customer PO shipments should be packaged suitably to prevent in-transit damage to the shipment contents. Packages must be sufficient to withstand the initial outbound trip.

Please use the following approved packaging materials for guidance:

Boxes: 32ect Single Wall & 48ect Double Wall; **Gel Packs:** No Sweat 16oz & 24oz; **Water Activated Tape:** 3" Grade 250; **Carton Erecting Tape:** 3" 2.5mil

6.3.2 The Vendor is responsible for all costs related to packaging, with the exception of any Kroger materials.

6.3.3 The Vendor is responsible for following industry best practices and adhering to any specific packaging guidelines that Kroger's carrier provides. It is the Vendor's responsibility to keep abreast of any such changes so that the incidence of in-transit shipment damage is minimized as much as possible.

6.3.4 Kroger reserves the right to require the Vendor to change outer box packaging or dunnage in the event the existing packaging is deemed insufficient. Kroger may, at its discretion, choose to remove the inadequately packaged products from sale on ship.banner.com websites while packaging is being re-engineered.

6.4 Freight Billing

6.4.1 Kroger will solely determine the appropriate shipping surcharges to the Customer for delivery of the product. Ship is responsible for assessing and collecting these fees from the Customer. Kroger will set up the proper third-party shipment billing to ensure Customers are not required to pay additional shipping fees / COD expense to receive delivery of the product.

6.4.2 Unless otherwise stated, cost of freight for all Customer PO shipments will be billed directly to Kroger using the third-party billing account information provided.

6.4.3 Third-party billing account information provided to the Vendor by Kroger may only be used to ship the Customer POs ordered from the ship.banner.com website. Unauthorized use of the account provided may result in a full chargeback of the unauthorized charges as well as a \$100 fee. Vendors are responsible for protecting the account information to prevent misuse, and for ensuring that billing is appropriately setup within the Vendor's systems and processes.

6.4.4 There will be no reimbursement for failure to use Kroger's third-party billing account when shipping out a Customer order. It is the vendor's responsibility to ensure the correct billing account is being used for Kroger purchase orders at the time of shipping.

6.5 Shipment Routing

6.5.1 The Customer PO "Ship-To" address may be a residential home, business, or PO box within the United States, as well as APO/FPO. Shipping is not currently offered to U.S. protectorates or territories, and international addresses.

6.5.2 The Customer PO will contain routing information for what carrier and service option the PO must be shipped with. It is the Vendor's responsibility to ensure that the proper carrier and service level is selected to comply with the Customer PO routing.

6.5.3 Vendors will be responsible for ensuring indirect signature service is requested for any shipments which contain contents that have a sale price of \$300 or more. Failure to execute indirect signature service may result in the Vendor being liable for the actual cost of goods lost or stolen upon delivery. In the event the appropriate service level is not used, a non-compliance penalty may be issued.

6.5.4 Shipping options are subject to change, and Kroger will provide advanced notice should additional shipping options or carriers be added in the future.

6.6 Freight Claims

6.6.1 Kroger will be responsible for filing freight claims with the carrier in the event of damage or loss to a Customer PO shipment during transit. Vendors may need to provide backup documentation or testimony to support such claims, within two (2) business days of receipt of request.

6.6.2 In the event freight claims are denied by Kroger's carrier due to poor packaging or shipment mislabeling, Kroger may require the Vendor correct packaging issues. Freight claims lost due to Vendor mishandling of the shipment will count against the 5% fulfillment error allowance.

7. Packaging & Branding

This section describes key policies for maintaining Kroger packaging standards.

7.1 Outer-Box / Shipping Cartons

7.1.1 The outer-box or shipping carton may be either an appropriately sized carton provided by the carrier (UPS boxes are **not** permitted), or the Vendor may use their own packaging so long as it is sturdy enough to meet carrier requirements. Vendors choosing to leverage their own packaging are responsible for all packaging costs. These additional costs should not be passed on to Kroger.

7.2 Packing List

7.2.1 It is recommended that a Kroger branded packing list that complies with Kroger branding guidelines be included with every Customer PO shipment container. This packing list may function as a receipt, and may contain pricing, tax and payment information. The Kroger logo must always appear on the packing list. Standard text required on the packing list cannot be altered.

7.2.2 The packing list can be downloaded from Logicbroker or the vendor may host the generation of an approved packing list. If the vendor generates the packing list, the vendor must receive approval from Logicbroker and/or Kroger prior to going live.

7.2.3 The packing list must reflect total shipment contents. For orders that are only partially shipped (i.e. one or more line is canceled from the PO), the packing list must be reprinted after the unshipped lines have been canceled so that the pricing and tax amounts are accurate and reflect what the Customer will receive. For orders that result in multiple shipments, a copy of the packing list must be included in each carton.

7.2.4 Under no circumstances may Vendors hand write or mark on the Kroger packing list. This document may be used as a Customer receipt in our stores and should not be altered.

7.2.5 Vendors may not include product catalogs, references to direct sales websites or stores, or solicit sales in any way on the packaging or inside the box, unless specifically requested by Kroger.

7.3 Shipment Labeling

7.3.1 Vendors must not identify Vendor name in the ship-from address on the shipment label. All labels should list the ship-from address as the Kroger Return Center.

7.3.2. Customer Purchase Order (PO) Number must be entered in the Carrier first reference field at the time of shipping the order in order for Kroger to reconcile freight costs. The Kroger Vendor Pay-To Number must be listed in the second reference field. The Kroger Vendor Pay-To Number is the same as the Kroger Ship billing Vendor number.

7.3.3 Customer POs which result in multiple shipments should contain an indicator on the shipment label or carton that the package is one of multiple shipments (e.g., "1 of 2 shipments" for a PO split into two cartons).

7.4 Retail Product Tags / Labeling

7.4.1 Products should NOT have a retail price tag on the product or packaging.

7.4.2 All products that are required by law to be marked with their Country of Origin or shipped with a Country of Origin tag attached to the product, must abide by this regulation.

8. Invoicing

Vendors participating in Direct Ship must electronically provide shipment invoices leveraging Kroger's designated third-party commerce network.

8.1 Electronic Invoicing & Reconciliation

8.1.1 Kroger will only reconcile financials per the electronic invoice transaction (EDI 810 or equivalent). NO paper invoices are accepted for Customer POs. In the event of notification of a rejected invoice due to non-conformance to the accounting policies, a corrected invoice may be submitted on paper if approved (this will delay payment). Rejected invoices shall be resolved within 1 business day of transmission of a failure message.

8.1.2 Invoice transactions for Kroger must be processed through Kroger's designated third-party commerce network no later than two (2) business days after the order has been marked as shipped in the third-party commerce network to ensure on-time payment.

8.2 Cost of Goods Sold

8.2.1 Kroger will pay the Vendor the lesser of A) the Cost of Goods Sold (COGS) listed on the 810-invoice transaction, or B) the COGS listed on the inbound Customer PO (EDI 850 or equivalent).

8.2.2 Cost increases communicated on the Invoice will not be accepted unless they were approved in writing by the Digital Assortment Team. Customer POs will continue to be paid at the original cost until the cost change effective date is reached.

8.2.3 The cost of goods includes all federal, state and local taxes, tariffs, import duties, commissions and other charges, except taxes Vendor is required by law to collect from Kroger. Such taxes, if any, will be separately stated in Vendor's invoice and will be paid by Kroger unless an exemption is available.

8.3 Add-Ons

8.3.1 Kroger will not accept add-ons to the invoice. Invoices should reflect only the total COGS for the Customer PO.

8.4 Deductions & Hold Backs

8.4.1 As appropriate, Kroger may take deductions from the Vendor's payment for negotiated off-invoice allowances, early payment discounts, returns on mis-shipped or defective items, as well as chargebacks for non-compliance penalties.

8.4.2 At the termination or suspension of the business relationship between Kroger and the Vendor, it may become necessary for Kroger to temporarily hold back a portion of the payment to cover potential Customer returns. Kroger reserves the right to hold a commercially reasonable portion of the Vendor's final check for up to one hundred (100) days beyond the due date to cover the potential returns period for Customer returns. Such holdbacks may not be necessary if the Vendor continues other business with Kroger payment for which potential future Customer returns can be deducted.

8.5 Payment & Remittance

8.5.1 Vendor may choose to establish electronic funds transfer (EFT). Participation in the EFT payment process is at the discretion of the Vendor and may require additional paperwork to be filled out and submitted to the Ship Accounts Payable (AP) team. Existing Vendors will receive payment as they are paid today. Vendors who do not establish EFT will receive paper checks.

8.5.2 Detail remittance data which provides the Vendor with the PO information and detailed deduction breakdowns for payments received can be electronic or paper-based. The Vendor may elect either option, but EFT Vendors will automatically receive an e-mail of the payment details, and paper-check Vendors will receive payment details directly on the check stub.

9. Returns

The Customer return policies published online apply to all purchases fulfilled through Direct Ship. The following guidelines determine how a Vendor is expected to handle merchandise returns for Kroger Direct Ship product.

9.1 Customer Return Policy

9.1.1 Kroger will not return any customer orders to Direct Ship Vendors, unless otherwise agreed upon. The Digital Assortment Team and Vendor will align on a Return Allowance during onboarding to cover defective or damaged customer returns.

9.2 Damaged, Defective or Fulfillment Error Returns

9.2.1 Returns that are the result of the Vendor's error may not exceed five (5) percent per quarter. In the event a Vendor's return rate for Vendor fault reasons rises above 5%, Kroger reserves the right to assess non-compliance penalties. Vendor fault reasons include without limitation the following: insufficient packaging, Kroger shipping label error resulting in loss or theft, incomplete shipment, mis-shipment, shipment of used, defective or poor-quality merchandise, or late shipment.

9.2.2 Kroger will deduct from invoice for product that is defective or damaged. Kroger will also deduct for product that does not deliver to the customer due to fault of the vendor, such as instances of not meeting the required on-time shipment timeframe or shipment of the incorrect item.

9.3 Return Authorizations

9.3.1 Kroger authorizes Customer-initiated returns through our Customer Service team.

10. Customer Service Commitment

Vendors participating in Direct Ship act as an extension of Kroger, with a direct touch point to the Customer and must be committed to the highest level of Customer service.

10.1 Customer Order Inquiries

10.1.1 Vendors are not authorized to engage the ship.banner.com Customer directly. In the event a Vendor receives a call or email or other communication directly from a Customer, that Customer should be referred to the Kroger Customer Service Team (1-800-576-4377). Vendors should ensure that their call centers have contact information available to be able to quickly provide such referrals. It is Kroger's preference that wherever possible a "warm-transfer" is provided for the ship.banner.com Customer.

10.1.2 Vendors must provide a Customer Service contact which can be reached during business hours. Contacts should be provided on the Logicbroker® onboarding survey and include an e-mail and phone number. Vendors should staff appropriately to ensure that there is coverage during business hours.

10.1.3 Inquiries on Customer Orders communicated from Kroger's Customer Service Team regarding status or questions about Direct Ship orders must be resolved as quickly as possible. Vendors must be able to respond to Kroger Customer Service inquiries no later than one (1) business day after the inquiry is sent. Failure to respond within one (1) business day may result in the cancellation of the Customer order, or the assessment of a non-compliance penalty.

10.2 Mystery Shopper Program

10.2.1 Kroger may periodically audit the Vendor's fulfillment and branding performance by issuing a mystery shopper order. Vendors will not receive warning of such orders. Results will be documented and will contribute to the Vendor's performance review. If branding or fulfillment is found to be non-compliant with Kroger's policies, the Vendor will be notified and Kroger may at its discretion stop orders until compliance can be achieved.

10.3 Vendor Profile Updates

10.3.1 It is the Vendor's responsibility to keep Kroger's Digital Assortment Team informed of any changes to their Direct Ship contacts. Vendors should submit contact changes in writing, sending an updated Contacts and Payment sheet from the Vendor RFI to MerchandisingShiptoHome@Kroger.com.

10.4 Warehouse Closures

10.4.1 Vendors are required to notify Kroger's Digital Assortment Team of any warehouse closures which may inhibit the Vendor from meeting the product fulfillment timeframe a minimum of thirty (30) days prior to the closure date.

10.4.2 In the event of an emergency (unexpected) closure, Kroger's Digital Assortment Team must be notified immediately.

11. Service Level Management & Compliance

Vendor service level performance and adherence to Kroger's Direct Ship policies will be monitored on an ongoing basis. Vendors have access to self-monitoring tools within Logicbroker®'s network user interface, and Direct Ship performance evaluations will be conducted periodically.

11.1 Vendor Performance Evaluations

11.1.1 Kroger will assess Vendor performance on the Direct Ship program to ensure that the Vendor is meeting overall performance expectations. Outside of periodic performance evaluations performed by Kroger, Vendors are encouraged to self-monitor their performance by leveraging the tools in the third-party commerce network solution.

11.2 Vendor Classifications

11.2.1 To help categorize the Vendor base, Vendors may be assigned a Classification based on performance across key performance indicators (KPIs). Changes in a Vendor Classification will be based on service level performance and communicated to Vendors prior to the change.

11.2.2 KPI metric categories include, but are not limited to, financial impact, operational performance (e.g., fill rates, fulfillment lead-time), policy compliance and relationship commitment.

11.2.3 Vendors new to Direct Ship will be automatically put into a "Probation" Classification. Vendors will stay in this category for up to 30 days, or until 1,000 orders are processed, whichever comes first. In the initial Probation period, Vendors will not be assessed non-compliance penalties.

11.3 Vendor Compliance Guidelines

11.3.1 Performance Expectations: Direct Ship vendors are expected and required to provide the same quality of experience that would be provided if the order were shipped by Kroger. Direct Ship chargebacks will be incurred when a Vendor participating in Direct Ship fails to comply with the following Compliance Guidelines:

METRIC	COMPLIANCE REQUIREMENT	CALCULATION	TIME FRAME
Fulfillment Rate	>95%	Shipped orders divided by total orders received	Kroger Fiscal Quarter
Cancel Rate	<5%	Cancelled orders divided by total orders received	Kroger Fiscal Quarter
On-Time Shipment Rate	>95%	Orders shipped by Ship by Date divided by total orders shipped	Kroger Fiscal Quarter
Return Rate (due to quality or fulfillment errors)	<5%	Returned orders divided by total orders shipped	Kroger Fiscal Quarter

11.3.2 Fulfillment Rate Chargebacks: Ship reserves the right to charge 10% of the total order value of mis-shipped quantities if the vendor exceeds 5% of fulfillment errors per quarter due to Vendor error.

11.3.3 Return Rate Chargebacks: Ship reserves the right to charge 10% of the total order value for returns that are the result of the Vendor's error (quality issues or fulfillment errors). Returns may not exceed five (5) percent per quarter.

11.3.4 Advance Shipment Notification (ASN) Chargebacks: Ship reserves the right to charge 10% of total order value for orders shipped late. This includes failure to submit ASN in the required time frame from date/time order was placed.

11.3.5 Cancellation Rate Chargebacks: Ship reserves the right to charge 10% of the total canceled quantities if the vendor exceeds 5% cancellations due to lack of inventory within the fiscal quarter. This includes denying an order in totality that Kroger has transmitted, or orders that have been partially fulfilled but not completed.

11.3.6 Shipment Chargebacks: Ship reserves the right to charge the vendor for misuse of Kroger's third-party billing account for shipments. The charge is equal to the shipping cost plus a \$100 fee per occurrence. Ship reserves the right to charge the vendor for using a different ship method than what was instructed by Kroger (e.g. choosing FedEx Second Day Air when Standard Shipping was the method given). The charge is equal to the shipping cost plus a \$10 fee per occurrence. Ship reserves the right to charge the vendor for failure to execute signature service when necessary, resulting in lost or stolen goods. Vendor may be liable for the cost of goods lost or stolen.

11.3.7 Packaging Standards Chargebacks: Ship reserves the right to charge \$100 per non-compliant order if a Vendor is found to be not adhering to the packaging standards listed in the Direct Ship program policies.

11.3.8 Routing Guide Chargebacks: Ship reserves the right to charge \$100 for each occurrence of non-compliance with the Direct Ship Routing Guide.

11.4 Non-Compliance Fee Schedule

11.4.1 Errors may be charged back to the Vendor as the actual costs of any financial losses accrued by Kroger due to the Vendor error plus labor and a \$100 fee. Total fees will be determined as the issues are identified.

11.5 Direct Ship Program Participation Termination

11.5.1 Kroger may remove Vendor's product from display on the website and stop the flow of orders if the Vendor fails to comply with the policies laid out in this document. It will be at Kroger's discretion to turn the sales pipeline back on once Kroger is satisfied that the Vendor can conform to the quality, branding, service and fulfillment expectations for Kroger partners.

11.5.2 Kroger reserves the right to terminate the Vendor's participation in Direct Ship at any time, for any reason throughout the relationship without penalty. Vendors who do not adhere to branding or quality

standards that result in a poor Customer experience are not desirable partners and may not remain on the program if performance cannot be improved.

12. Item Set Up

Kroger requires all suppliers to provide the following information about products sold in any Kroger channel.

12.1 1WorldSync Registration

12.1.1 Kroger has partnered with 1WorldSync, an industry leader in global product data management to create the Kroger Vendor Item Portal (VIP), which is integrated with the Global Data Synchronization Network (GDSN). VIP facilitates the process required to submit and maintain item data by storing characteristics or “attributes” of items sold. Please note: all suppliers must be registered with 1WorldSync and UPC codes must be GS1 compliant to be submitted for Ship.

12.1.2 Visit the Kroger / 1WorldSync webpage for more information about registering for the Vendor Item Portal, the tool for item submission. **Be sure to allow sufficient time (at least a week) for your company’s registration request to process and receipt of access information.**

12.2 Dun & Bradstreet DUNS Number

12.2.1 As a Kroger Vendor you will be required to provide your Corporate DUNS number. You will also be responsible for providing the DUNS number for all supplier facilities that provide products, ingredients or packaging to Kroger.

13. Sales Planning

13.1 Promotions

13.1.1 In-Store events will not be duplicated online at this time.

13.1.2 The initial Ship platform will be a separated non-integrated platform and will have opportunity for promotions and digital coupons. The coupons will be specific to Ship only. In-store digital coupons will not work on Ship.

13.1.3 For questions about promotions, contact ShipPromotions@Kroger.com.

Please note that these are our Direct Ship program policies and are not inclusive of negotiated cost of goods and any additional promotional allowances. Cost of goods and promotional terms will be discussed individually and independently. These terms will be effective and valid for parent companies, as well as all subsidiaries for both Kroger and the suppliers.

Kroger recognizes that our suppliers are important to the success of our company. Your continued support is truly valued by us. Thank you for your attention in this exciting venture, and we look forward to continued success as partners. We appreciate your partnership!