

10 Tips for Avoiding Costly Mistakes: Mastering Retail Compliance Requirements

A Best Practices Guide for Small & Medium Sized Companies



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MASTERING RETAIL COMPLIANCE REQUIREMENTS

If you are a supplier to large retailers, it is likely that you have incurred some form of chargeback due to a non-compliance event, such as an incorrect ASN. Perhaps this is a recurring problem for your business that is driving down your margins and negatively impacting your scorecard performance with your most strategic accounts. You know that you must improve to keep your existing customers happy and to grow your business; however, it is no small task.

Although it may be of little comfort, you are not alone. This is an area where most suppliers struggle to be consistently successful.

This best practices guide was developed specifically for small to medium sized companies that are new to supplying national retailers, as well as for suppliers that are struggling with consistently meeting compliance requirements within their retail customer community.

Today's Retail Environment

Suppliers may feel as though they are victims of an adversarial relationship where retailers introduce fines to offset excess costs in their operations or to build a profit center. Rather than fix problems in their own operations, retailers are simply taking a cut of the supplier's revenue to boost their own profitability.

On the contrary, compliance requirements are designed by retailers to drive costs out of inefficient supply networks and build value. Without guidelines, retailers would be very challenged to remain competitive and satisfy their customers' expectations. To understand the driving force behind what may seem like unfair compliance requirements, you need to know the dynamics that are shaping the current state of retail.

Most retailers operate at razor thin margins. To remain competitive, they must seek opportunities to drive out costs from their operations and their supply community. Retailers have to deal with the pressures of balancing supply with demand, shorter product lifecycles, demand volatility, multi-channel merchandising, longer supply chains, and the constant pressure to deliver products to their customers faster.

The convergence of high-speed Internet connectivity and smartphone devices has forever transformed how consumers purchase merchandise in virtually every product category. This places extra pressure on retailers to offer competitive pricing, both in store and on their e-commerce sites. Most brick-and-mortar retailers also battle the "Showroom Effect" where shoppers browse in store to try out a product before purchasing the item on-line, often from another retailer. This intensifies the pressure to drive costs out of supply chains and to consistently deliver on rising customer service expectations.

Given this background, it should come as no surprise to suppliers that retail customers set demanding compliance requirements. Even so, dealing with chargebacks and non-compliance issues is costly and can be highly unproductive involving management escalations, canceled orders, and increased transportation spend due to unnecessary expediting, among many other issues.

The Compliance Challenges

Accepting the reality that retail compliance requirements are a necessary part of doing business does not make it any easier to meet the challenges. As the list in Figure 1 illustrates, there are a wide range of violations for which chargebacks can be applied. In some cases, a single product on a single order is hit with multiple chargebacks. The charges can add up in a hurry and the result can be an unprofitable customer for the business.

Adding to the complexity for a supplier, each retailer has their own compliance requirements. Although there is a certain amount of commonality, the intricacies of key components like electronic data interchange (EDI), labeling, and pack slips are all uniquely defined by each individual retailer.

Furthermore, suppliers who have traditionally replenished inventory to brick-and-mortar outlets are now being asked to support drop-ship vendor programs and ship smaller shipments direct to consumers more frequently. Drop-ship vendor programs introduce new compliance requirements and place pressure on the systems to handle a new distribution channel.

For suppliers that are unable to solve compliance challenges and meet, or exceed their retail customers' expectations, the result is likely to be reduced sales or lost customers altogether.

Why is mastering retail compliance important?

Put simply, mastering retail compliance is important due to the financial impact that it makes to the business. Non-compliance can be significantly disruptive to a company's bottom-line performance, given the unbudgeted cost offsets that are incurred for non-performance. Even if a company budgets for these seemingly inevitable charges, the margins of the business will be negatively impacted. At the end of the day, it is about survival. Suppliers that do not comply with requirements will not have future opportunities with their retail partners.

Aside from possible financial implications, there are many positive reasons to master retail compliance. It is a fact that retailers will look more favorably on high performing suppliers. This will translate directly to increased sales for those suppliers that perform well and exceed expectations. Establishing true symbiotic relationships with trading partners often leads to expanding the footprint with these retailers. Expansions may include the addition of new product categories or the introduction of products to new sales channels.

Mastering compliance requirements not only contributes to the efficiencies of the retailer's operations, it will also establish discipline and best practices within the supplier's business. This will translate into cost savings through increased business efficiencies. Companies that build core competencies around retail compliance are often successful in acquiring competitors, complementary product lines, and growing their business in many other ways.

But what about small and mid-sized companies?

Large organizations often have executives and teams of individuals devoted to managing key retail accounts and their compliance requirements. Although small and mid-size companies do not have significant resources to dedicate to retail compliance requirements, they will be held to the same standards as larger suppliers.

Being cognizant of that constraint, small and mid-sized companies must focus on simple and practical solutions. While mastering compliance may seem out of reach, there are best practices that can be applied within the business. There are also best-of-breed supply chain software applications built specifically for small and mid-sized companies that will enable suppliers to master compliance.

Like mastering any complex challenge, an effective approach is to build awareness in the organization regarding the requirements and to measure the team on their effectiveness in

Figure 1

Common non-compliance issues reported by suppliers

- UPC codes, Pedigrees, serial numbers or Lot IDs are not properly traced or embedded in product labels
- An order was delivered outside of the required delivery window (too early or too late)
- Packages were shipped with the wrong inner and outer pack quantities
- The label was not applied on the proper geography on the shipping container
- Packages were shipped without the required packing slip format
- The retailer specific GS1 barcode label was missing required data or could not be scanned
- The Advance Ship Notice document (856) was incorrect, incomplete or was not received before the delivery arrived at a retailer's dock door
- An EDI purchase order (850 / 875) was not acknowledged as received with a subsequent functional acknowledgment (997)
- Routing instructions were not followed properly
- Pallets were not built to the proper specifications
- Invoice EDI documents (810 / 888) were rejected because they were missing data or were incomplete
- Purchase Order Acknowledgments EDI documents (855) were not sent within the required acknowledgement window or they were sent incomplete

sustaining compliance. Building disciplines within the operations and the mission critical business applications will also lower the barriers for consistently achieving full compliance.

The following section provides a best practices guide for establishing a core competency in order to master retail compliance requirements.

10 Best Practices for Mastering Retail Compliance

1. Get to know your customer

Develop and maintain a thorough understanding of vendor compliance requirements

Each retailer will publish detailed vendor guidelines that are effectively the “rules of trade.” These guidelines can be quite extensive and are usually posted to a vendor portal for easy access by suppliers. It is essential that the supplier organization acquire sufficient knowledge of these guidelines in order to effectively adhere to them.



Retailers will update their vendor guidelines on a fairly regular basis; therefore, it is important that the supplier set up mechanisms for periodic monitoring and review to determine the impact to their business. While it is true that the changes may not impact a particular supplier, it remains the supplier’s responsibility to make that determination and be ready to act when changes are required.

Most retailers have a supplier support hotline available to assist with any questions related to compliance requirements. Suppliers should take advantage of the support made available to make sure requirements are fully understood and costly chargebacks are avoided.

2. Get educated

Attend vendor compliance workshops

Even for suppliers that have a solid understanding of their retail customers’ requirements, attending vendor compliance workshops can provide many ancillary benefits. It demonstrates to the retail customer that the supplier is committed to the success of the business relationship. This is an area where an investment of a little time and money can go a long way in building rapport with the customer.

Attending workshops is also an opportunity to get advanced information on possible upcoming changes that may impact the operation. This enables suppliers to weigh in on the issues before they become part of the established requirements. Finally, it provides an opportunity to network with peers to discuss best practices and to establish a trusted advisor group that can collaborate on future issues.

3. Be Versatile

Establish cross-functional teams

Cross-functional teams consisting of a manager and subject matter expert from each core operational area (sales, customer service, information technology, operations, finance) should be established. These teams should jointly interpret requirements and implement required process changes. Having cross-functional teams ensures that all aspects of the business are considered and that changes are not made in silos potentially unexpectedly impacting other departments.

These teams should meet on a regular basis to review changes in the guidelines and to evaluate requirements for new customers. During these reoccurring meetings, the teams should also review all non-compliance events and chargebacks that have occurred in order to take corrective action when necessary.

The teams should be empowered to build processes that enable consistent support of retail compliance requirements. Members will also serve as the liaisons for their respective departments making sure that all members are trained in fulfilling their role in meeting requirements.

4. “Kill two birds with one stone”

Build Compliance into the Process

The surest way to guarantee that violations are avoided is to embed compliance activities into the core business processes. This begins upstream with the assortment and order management functions, continues through distribution operations, and goes all the way through to financial document reconciliation.

Building compliance into the process will include both the information flow and the physical product flow. These two key components should be in synch and harmonized with one another. Building compliance into the informational/data flows will start with a best-of-breed EDI platform. This ensures that each retailer’s EDI specifications will be configured into the system and when EDI documents are exchanged, they will always match the retailer’s specifications.

The same holds true for the product flows.

A best-of-breed warehouse management system (WMS) will enable the supplier to build proper labeling and assortment handling into the receiving and put away processes. As orders are received from specific retailers, the operations team can quickly and easily fill orders without having to break bulk and or completely construct orders based on retailer specific packing requirements. It will also ensure that all customer requirements are met upon shipment of orders, including customer specific labeling, packing slips, and shipment notifications.



5. Ensure endless process enhancement

Leverage Retail Compliance as a Continuous Improvement Tool

Suppliers should take a critical look at their own operations as they work towards complying with retailer requirements. Changing processes to meet retailer requirements is a golden opportunity for suppliers to make improvements to their own operations. This helps to ensure that compliance is not just an added cost to the business, but that it also provides internal business value.

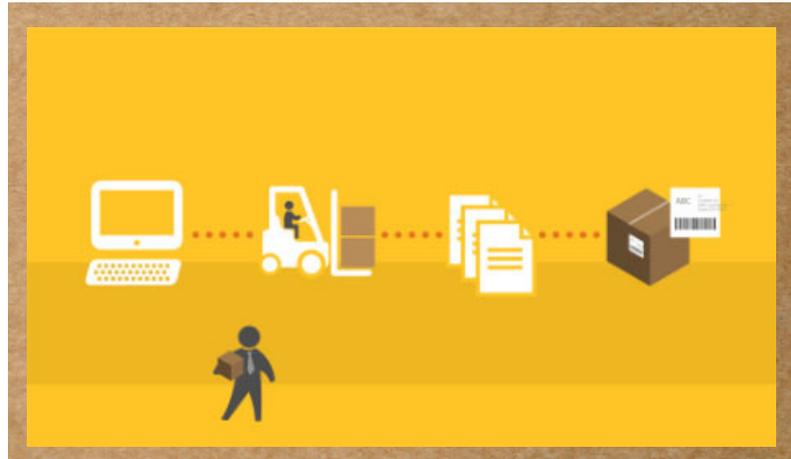
To be most effective, continuous improvement programs leverage the knowledge and ideas of the broader team. The team should be empowered to submit ideas on how compliance issues can be creatively solved. Team members that put forth effective ideas should be recognized and rewarded for their efforts. Rewarding employees for their efforts fosters an environment of continuous improvement where the people that do the jobs every day (and therefore have the deepest knowledge) will be the ones that drive process change.

6. Measure, Measure, Measure

Measure Compliance Effectiveness

It is a familiar adage: you cannot improve what you do not measure. Suppliers can be certain that retailers will be measuring their performance, so it only makes sense that suppliers perform their own measurements of their compliance programs. Having this information will enable them to respond to potential issues before they become visible to customers.

Here again, best-of-breed EDI platforms and warehouse management systems will provide tools that enable suppliers to create their own internal scorecards for evaluating performance. Most retailers will provide a performance scorecard to the supplier when requested and suppliers should make comparisons between the two to make sure that what is important to the retailer is also tracked internally. It also provides the opportunity to verify that there are no inconsistencies in the measures that may lead to incorrect compliance charges or inaccurate performance ratings.



As with any measurement program, to be most effective, accountability and reward mechanisms should be in place. Each departmental leader should be held accountable to their team's results and the appropriate reward structures should be put in place. Companies might consider tying a portion of variable compensation to the performance goals that are established.

As a further tool for success, the scorecards (both retailer and internal) should be socialized with the broader teams during regular staff meetings. Just as a supplier needs to understand how the retailer is measuring them, individual team members need similar feedback to achieve success. Measuring a key performance indicator and communicating the results to those responsible will lead to performance improvements. This will also foster competitiveness with other teams and a continuous improvement environment.

7. Learn from the best

Embrace institutionalized retail business practices

Take a page from the retailer community and seek efficiencies from all extended supply chain partners. This goes above and beyond seeking operational improvements within the four walls of the supplier's business, but also involves socializing compliance challenges and requirements with all supply chain partners in order to find opportunities to improve compliance with the retail community. This will include third party logistics (3PL) providers, vendors, and carriers with which a supplier interacts.

Working with these other parties in the ecosystem can help to identify opportunities for improvement and cost reduction. For example, carriers may be able to offer consolidation opportunities or other means of reducing cost even while adhering to more aggressive delivery windows. Carriers may also have insight into specific retailers that may aid the supplier in working more effectively with that retailer.

Just as a supplier's retail customer holds them accountable to things like case and pallet configurations, suppliers can hold their vendors accountable to the same requirements. It is easiest to meet such requirements at the ultimate source when the products are initially packaged and configured for shipping.

For suppliers that work with 3PLs for the fulfillment of retailer orders, it will be in their best interest to establish concrete requirements that ensure retail compliance is built into the process. By selecting 3PLs that commonly work with retail customers, much of the groundwork will

already be in place. These 3PLs will also be accustomed to the unpredictability of this environment and will be much more prepared to onboard new requirements and customers.

8. Use technology that actually works

Implement business systems that are up to the challenge

The systems that are used to conduct business with retail partners are critical to the success of the program. These systems include trading partner integration (EDI), warehouse management, and shipping systems. Suppliers must evaluate the capabilities of these systems to ensure that they have the flexibility to manage evolving retail compliance requirements.

The systems that are best placed to meet these challenges are ones that are fully integrated with the company's ERP system. This means that the business systems have certified integrations to the ERP and that the providers have a long-standing relationship that has been proven effective in the field.

Suppliers should implement systems that enable them to create "flat" business processes (e.g. the core process is consistent for all customers), yet allow them to configure retailer specific requirements at the appropriate points in the process. This will not only help to conform to requirements, but will also flatten the learning curve for personnel performing the processes.

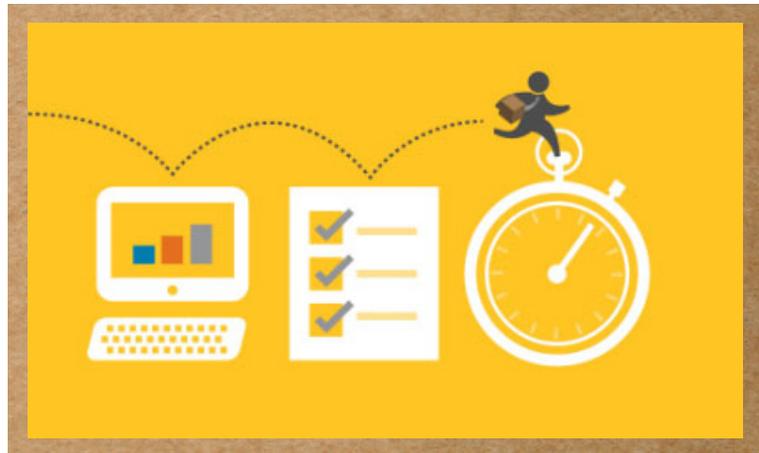
Finally, the systems should be embedded with alerting, reporting, and dash boarding tools that enable proactive management of the overall process. This helps the supplier to address problems before they create compliance issues with customers and lead to chargebacks.

9. Stay in touch

Establish regular communication with retail partners

Suppliers cannot be afraid to approach their retail partners to discuss a plan for improvement when non-compliance issues have surfaced. Retailers will appreciate suppliers that are proactively seeking solutions to reduce issues.

However, it is essential that the supplier give thought to the issues at hand before approaching the retailer. They should have an action plan developed and be prepared to inform the retailer about what steps the organization is taking to resolve the issue. It will also be an opportunity for the supplier to reassure the retailer that they are committed to shared business success and are making the appropriate investments in training and tools to eliminate issues.



Retailers understand that compliance is not easy for suppliers and that issues will surface occasionally. Generally, if the organization does not have a continued history of non-compliance issues, retailers are understanding and will work with the business partner on jointly solving problems.

10. Invest in your team

Educate the sales team

While it is true that operations are at the heart of retail compliance initiatives, it is also important that everyone in the organization has a thorough awareness of the impacts to your business and distribution capabilities. Often an overlooked opportunity by companies, educating the sales team in this area can produce great dividends.

As the operational team successfully executes their retail compliance strategies, equipping the sales team with an understanding of the company's capabilities will give them a very useful tool as they seek new business. By highlighting the strong distribution capabilities of the company, the sales team will be able to get more products, to more channels, with more retailers; thus growing your business.

Conclusion

Retail compliance programs have been around for a long time, as have the associated chargebacks. Adding to the challenge is the fact that end customers are becoming more demanding; they are looking for greater product variety, shorter lead times, and more options for taking possession of the purchased goods. This means that retailers have to adapt their processes to accommodate these demands.

To be successful, retailers need suppliers that can help them to meet the challenges. A common business practice is to scorecard suppliers based on their performance against compliance programs. High marks for a particular supplier on the scorecard will be an indicator that they are easy to work with and the risk of supply chain disruptions will be greatly reduced. It only makes sense that these are the suppliers that are rewarded with new business.

Suppliers cannot risk losing mindshare with the retailer or end customer due to poor compliance results. By following this best practices guide and implementing the right systems to support the necessary business processes, suppliers can master retail compliance and establish themselves as a leader in the industry.



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