

10 Best Practices for Mastering Retail Compliance

Avoid Unnecessary Chargebacks and Become a Preferred Vendor for Retailers

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10 BEST PRACTICES FOR MASTERING RETAIL COMPLIANCE

Compliance is an area where most suppliers struggle to be consistently successful and it's only becoming more difficult as e-tailers and omnichannel retail giants become increasingly demanding.

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

This is hardly a unique problem. Compliance is an area where most suppliers struggle to be consistently successful and it's only becoming more difficult as e-tailers and omnichannel retail giants become increasingly demanding.

This best practices guide was developed for suppliers that are either new to retail compliance or are struggling to consistently satisfy compliance requirements. It addresses the compliance issues your organization faces with 10 steps you can take to minimize chargebacks and establish lasting partnerships with key retailers.

TODAY'S RETAIL ENVIRONMENT: WHY DO COMPLIANCE STANDARDS EXIST?

Suppliers may feel as though they are victims of an adversarial relationship where retailers introduce fines to offset excess costs in their operations or simply use it as another place to collect funds. Rather than fix problems in their own operations, it would seem 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 with razor-thin margins that have only shrunk with competition from pure-play eCommerce businesses. To remain competitive, they must find ways to cut down operational costs, which reach into the supply community. Retailers have to deal with the pressures of balancing supply and demand, shorter product lifecycles, demand volatility, multichannel merchandising, longer supply chains and faster delivery of customers' products.

Once high-speed internet and smartphones became widely available, it forever transformed how consumers purchase merchandise in virtually every product category. That places extra pressure on retailers to offer competitive pricing, both in-store and online. Most brick-and-mortar retailers also battle the "showroom effect," where shoppers browse in-store to try out a product before purchasing the item online from a competitor.

With that in mind, it should come as no surprise to suppliers that retail customers set specific, onerous compliance requirements. Distributors usually obey because dealing with chargebacks and non-compliance issues is costly and can be highly unproductive, leading to canceled orders, management escalations and more money spent on shipping due to unnecessary expediting, among other issues.



THE COMPLIANCE CHALLENGE

Accepting the reality that retail compliance requirements are a necessary part of doing business does not make it any easier to satisfy them. There are a wide range of violations that can incur chargebacks, as Figure 1 illustrates. In some cases, a single product on a single order is hit with multiple chargebacks. The charges can add up quickly to the point where you're generating little to no profit from that customer.

Adding to the complexity is that each retailer has its 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 frequently asked to support drop-ship vendor programs and ship smaller orders directly to shoppers. Drop-ship vendor programs introduce new compliance requirements and place pressure on the systems to handle a new distribution channel. For example, today it's common for a retailer to want the package to look like it came straight from them – not a wholesaler or manufacturer – when it reaches the consumer's hands. That includes having the right logo and format on packing slips, shipping labels and more.

In addition, retailers often provide complex routing instructions that must be followed carefully. It tells the distributor how to ship the order, which could include pack and hold, collect freight or pre-paid freight. Big-box stores often wait until the last minute to provide distributors with shipping instructions or, when handling their own freight, pickup times. It often forces the supplier to release picking waves as late as possible to meet the retailer's expectations.

FIGURE 1

Common Non-Compliance Issues Reported by Suppliers

- UPC codes, pedigrees, serial numbers or lot IDs were 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 with 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



WHY MASTER RETAIL COMPLIANCE?

Above all, improving retail compliance is important due to the financial impact that it has on the business. Non-compliance can severely cut into a company's bottom line, given the unbudgeted cost offsets that are incurred for non-performance. Even if a company budgets for these seemingly inevitable charges, the margins become thinner.

At the end of the day, the best partners will rise to the top. Suppliers that do not comply with requirements will not have future opportunities with their retail partners.

But that's not the only reason to make retail compliance a priority. As you would expect, retailers will look more favorably on higher-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 a bigger 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 to cost savings through increased business efficiencies. Companies that build core competencies around retail compliance often win opportunities from competitors and complementary product lines that help the business grow.

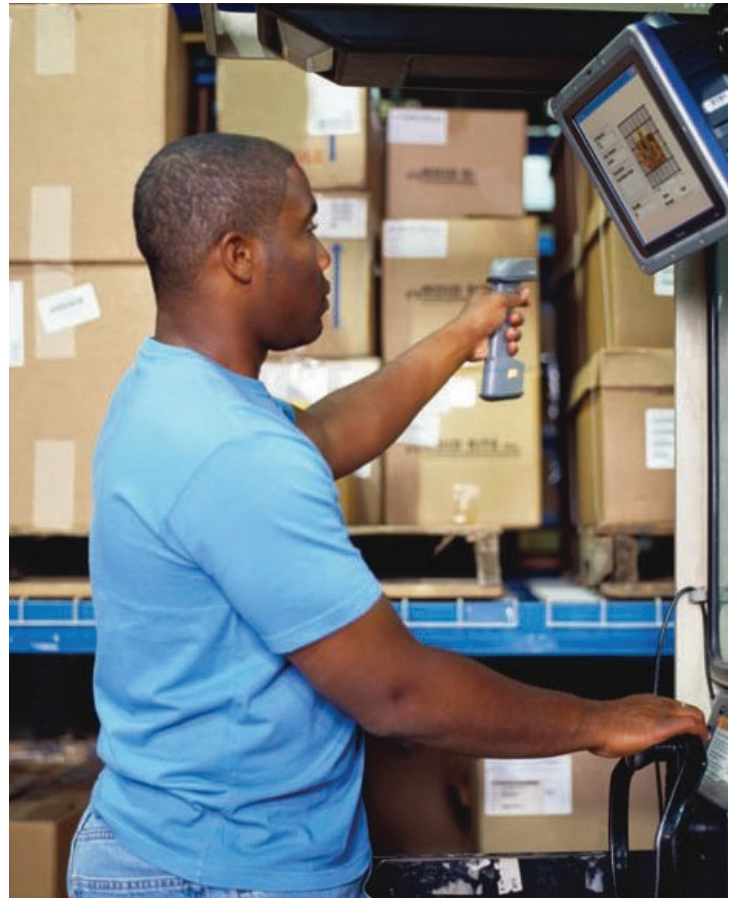
A CHALLENGE THAT AFFECTS BUSINESSES OF ALL SIZES

Large organizations often have executives and teams dedicated to managing key retail accounts and their compliance requirements. Although small and mid-sized 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 like a faraway dream, applying best practices is a great place to start. There are also best-of-breed supply chain software applications that enable suppliers of all sizes to live up to retailers' expectations.

An effective approach starts with building awareness in the organization regarding the requirements and how the organization is currently performing in that area. Establishing best practices 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



Get to know your customer

Develop and maintain a thorough understanding of vendor compliance requirements

Each retailer will publish detailed vendor guidelines that effectively serve as the "rules of trade." These guidelines can be extensive and are usually posted to a vendor portal for easy access by suppliers. It's critical for the supplier to know the details included in these guidelines.

Retailers will update their vendor guidelines on a fairly regular basis. Therefore, it's important that the supplier monitor and review these guidelines so these changes do not come as a sudden, unwelcome surprise. While it's true that every change may not impact particular suppliers, it's up to the supplier to make that determination and be ready to act when changes come.

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 they fully understand requirements and avoid costly chargebacks.

**Be versatile***Establish cross-functional teams*

It's smart to piece together cross-functional teams consisting of a manager and subject matter expert from each core operational area (sales, customer service, information technology, operations and finance). These teams should jointly interpret requirements and implement process changes. This approach ensures all aspects of the business are factored into these decisions and changes are not made in siloes that could put other departments in a bad spot.

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 as necessary. If there's a trend, a process change may be in order.

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

**Streamline compliance into your operations***Make compliance practices part of the process*

The best way to avoid violations 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 reaches all the way to financial document reconciliation.

Building compliance into the process includes both the information flow and the physical product flow. These two key components should be in sync with one another. Building compliance into the informational/data flows starts with a best-of-breed EDI platform. Each retailer's EDI specifications are configured into the system and when EDI documents are exchanged, they will always match the retailer's specifications.

The same holds true for product flows. A best-of-breed warehouse management system (WMS) will enable the supplier to put 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.

Top-tier EDI systems can also now generate retailer-specific labels and packing slips, as well. In the near future these systems will automatically update all the necessary

documents when the compliance requirements change. That automation makes chargebacks a true rarity.

**Ensure endless process enhancement***Leverage retail compliance as a continuous process improvement tool*

Suppliers should take a critical look at their own operations as they work toward aligning with retailer requirements. Changing processes to meet retailer requirements should be looked at as a perfect opportunity for suppliers to make improvements to their own supply chain. Compliance then becomes not just an added cost of business but provides internal business value.

To be most effective, continuous process 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 draw up 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.

**Measure, Measure, Measure***Track compliance effectiveness*

It's 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 evaluate the success of their compliance programs. Having this information available allows them to respond to potential issues before they become visible to customers.

Here again, best-of-breed EDI and WMS 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 be sure that what matters 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 kind of metrics, accountability and reward mechanisms should be in place. Each department's leader should be held accountable to its team's results and the appropriate reward structures should be set up. Companies might consider tying a portion of variable compensation to these performance goals.

The scorecards (both retailer and internal) should be shared 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 on their work to reach their full potential. Measuring key performance indicators (KPIs) and communicating the results to those responsible will lead to performance improvements.



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 beyond seeking operational improvements within the four walls of the supplier's business – it also involves socializing compliance challenges and requirements with all supply chain partners in order to find opportunities to improve compliance by speaking 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 could help the supplier.

Just as a supplier's client holds them accountable for 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 initial source when the products are initially packaged and prepared for shipping.

For suppliers that work with 3PLs to fulfill retailer orders, it's best 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 is already in place. These 3PLs are also accustomed to the unpredictability of this environment, so they are much more prepared to onboard new customers and deal with their corresponding requirements.



Choose technology that works for you

Implement business systems up to the challenge

Too often, businesses devise patchwork solutions to deal with the challenges of retail compliance. Multiple EDI compliance systems or a larger workforce, for example, are not stable long-term answers. The systems used to conduct business with retail partners are critical to the overall success of the operations.

This includes EDI, warehouse management and shipping systems. Suppliers must take the time to evaluate the capabilities of these systems before investing in one to be sure they have the flexibility to manage evolving retail compliance requirements.

Best-of-breed supply chain solutions integrate with the ERP system, eCommerce platform, EDI platform, WMS and more. Look for a vendor that has certified integrations and a long-standing relationship with these ERP and software providers.

Suppliers should implement systems that enable them to create basic, repeatable business processes while still offering the flexibility to add retailer-specific requirements at appropriate points in the process. This will not only reduce chargebacks but will also flatten the learning curve for associates.

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



Get educated

Attend vendor compliance workshops

Even suppliers that have a solid understanding of their customers' requirements can benefit from attending vendor compliance workshops. It demonstrates to the retailer that the supplier is committed to the success of the business relationship – a little time and money can go a long way in building rapport with the customer.

Attending workshops is also an opportunity to get specific information ahead of time 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 establish a trusted group of advisors that can collaborate on future issues.



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 surface. Retailers will appreciate suppliers that are proactively seeking solutions to reduce issues. However, it is essential that the supplier develop a plan of action beforehand and is prepared to inform the retailer about what steps the organization is willing to take to resolve the issue. This is also an opportunity for the supplier to reassure the retailer that they are committed to shared business success and making the appropriate investments in training and tools to eliminate issues.

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



Invest in your team *Educate the sales team*

While it's 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 how it affects your business and distribution capabilities. Often overlooked by companies, educating the sales team in this area can produce great dividends.

As the operational team successfully executes retail compliance strategies, giving the sales team 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. The end result? A growing, thriving business.



CONCLUSION

Retail compliance programs have been around for a long time, as have the associated chargebacks. As consumers become more demanding – looking for faster delivery, greater product variety and more distribution options – it only becomes more difficult. Retailers must adapt their processes to accommodate these new demands.

To be successful, retailers need suppliers that can help them meet these 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 shows they are easy to work with and limit the risk of supply chain disruptions. It only makes sense that these suppliers are rewarded with new business.

Suppliers cannot risk losing mind share with the retailer or end customer due to an inability to follow rules. By following this best practices guide and implementing the right systems to support the necessary business processes, suppliers can master retail compliance and will subsequently establish themselves as an industry leader.

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