

Retail Vendor

PERFORMANCE MANAGEMENT BULLETIN

New Study Finds Supply Audits Not Getting Job Done in Improving Conditions at Retail Suppliers

Supplier audits have become a cornerstone of Corporate Social Responsibility (CSR) programs across the globe, used by dozens of retailers.

The audits are generally conducted based on a given company's formal written standards for supplier conduct, and generally show a high and often improving level of supplier compliance to those standards.

But are such audit programs largely a charade in terms of actual effectiveness in affecting supplier behavior?

The surprising answer is Yes, according to a new report on the topic from the University of Sheffield in the UK, which says that "Ultimately, the audit regime is working for corporations, but failing workers and the planet."

The report is based on 25 interviews authors **Genevieve LeBaron and Jane Lister** conducted with ethical auditors,

business executives, NGOs [non-governmental organizations] and supplier firms in North America, the United Kingdom and China, as well as visits to factories in China.

The report notes that various NGOs have developed standards in their areas of expertise for supply chain behavior that are then often adopted as part of a given corporation's supplier standards. Examples include the Rainforest Alliance certification, Marine Stewardship Councils, and Fair Labor programs.

In fact, the rise of these NGO standards and audit programs by corporations has had the effect of causing local governments at all levels in many countries to step back from creating and enforcing their own legal standards in such areas as rules relative to employee pay, conditions and more.

One of the persons interviewed for the report said that "Walmart, on behalf of the entire retail industry, said, 'this is our problem. This

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Industry News Round Up

Target Pushes Vendors to List Chemical Ingredients in Major Overhaul

Target is doubling down on its efforts to win over customers who prefer Green products.

The discount chain recently announced major new guidelines around chemicals in products, a change likely to push hundreds of suppliers to list ingredients in all sorts of household goods from beauty items to cleaning products.

In 2014, the retailer introduced a 17-product, multi-brand collection called "Made to Matter" that focuses on products with cleaner ingredients and expanded it in the following years. Sales in the line of what Target calls "good-for-you" brands rose 30% last year.

Four years ago, Target committed to increase transparency about ingredients in the products it sells. And Target isn't

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Compliance Networks Corner:

Trip Report: The RILA Supply Chain Conference

The 2017 Retail Industry Leaders Association (RILA) Supply Chain conference focused on "The Customer-Centric Supply Chain." Over 40 general and breakout sessions represented five tracks focused on constantly evolving retail technology, meeting customer needs with multichannel supply chains, finding and developing leaders, dealing with adversity, and melding business strategies to deliver the retailer experience demanded by today's customers.

Greg Sandfort, CEO of Tractor Supply Company, opened the conference with a keynote that integrated many of the conference themes. TSC intends to create a seamless shopping experience from social media to online purchasing. The TSC supply chain is built to support this goal and accommodate the unique assortment of items and unique needs of TSC's rural customers. The nature of their business requires friendly, engaging, thoughtful in-store service and this provides a

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New Study Finds Supply Audits Not Getting Job Done... (continued)

isn't a government regulatory problem. This isn't China's problem, this isn't Vietnam's problem. This is our problem. We have the power, resources, and ability to deal with it and we will."

The report notes that Nike stated in its 2012 sustainability report that "We have learned that monitoring does not bring about sustainable change. Often, it only reinforces a pattern of hiding problems."


Most audits, the report notes, are pre-announced, enabling producers to falsify records and rid facilities of unauthorized agency contractors or exploited workers during audits, and to drill their people on what they need to say.

Another big issue, the report says, is that supplier audits tend to concentrate on tier 1 suppliers, whereas most of the issues with the environment and treatment of labor are in tier 2 or 3 suppliers.

The reports says its interviews also highlighted the existence of a "checklist" mentality for audit compliance, with a director of a UK

audit firm telling the authors that the majority of audits are "not trying to find things out, they're trying to prove that something is not there." In support of their arguments, the authors cite several example of where there were major accidents at supplier sites that had recently passed the audit process. For example, in Bangladesh in 2012 the Tazreen Fashion factory was audited on behalf of Walmart. Safety concerns were noted, but it was not recommended that the plant be closed. Two months later, the factory burned down, killing over 100 people.

The report also finds that audits typically treat social concerns separately from environmental concerns, often putting greater emphasis on the latter.

Alas, the report really offers no real recommendations for improving the audit process, though it does imply changes such as more local governmental enforcement of labor laws and use of third party auditors instead of corporate employees would deliver better results. 

Compliance Networks Corner: Trip Report: The RILA Supply Chain Conference

competitive advantage that other brick and mortar retailers may not have. As an example of managing through adversity, TSC tracks weather aggressively because seasonal and regional inconsistencies in weather impact customer demand.

Sandfort noted that Amazon has created an expectation of free online shipping. Retailers must learn from Amazon while focusing on their core value to their customers and execution of activities essential to those customers, Sandfort said.

Michael Tchong, founder of Ubercool Innovation presented four methods for "unboxing your thinking to create breakthroughs." Those were: challenge orthodoxies, meet unmet needs, leverage resources, and ride trend waves. Why is innovation relevant to retail and supply chain? Because, according to a CapGemini study, people would rather wash dishes than shop at a store. According to Tchong, relentless innovation drives financial success. Further, a critical ingredient to success is an open mind. We also liked this quote: "API's are the new FTE's".

Outdoors retailer REI provided an impressive and powerful case study on sustainable design for omni-channel distribution, based on the collaborative design and construction of REI's new omni-channel DC located in the Arizona desert. The innovative, high-tech facility is net zero energy and LEED Platinum. The solar power system nearly doubles REI's solar production and will provide REI with 20 years of free energy.


The goal of the project was to design and build the most sustainable omni-channel distribution facility in the country. The demanding vision required robust collaboration among participants such as the design/architecture firm and material handling system designers with REI operations.

REI began with design requirements and proceeded with a process of tweaking design elements in iterative cycles to continually reduce the power usage until it was equitable with the available solar array on the roof of the building at peak utilization.

Continuing one of the opening keynote themes of developing talent for the modern retail supply chain, Melissa Greenwell, EVP and COO of The Finish Line, made a compelling case for leveraging diversity to drive revenue growth and profitability. She borrowed from business cases, interviews with top executives, and science to make her case that balanced leadership will increase profits.

Former NBA power forward and current ESPN broadcaster John Amaechi, who holds a PhD as a research psychologist, offered up a powerful general session on the science behind "mindfulness" (increasing one's awareness) and the value that a culture of mindfulness can hold for an organization.

Supply chain executives from CVS, Petco, and Meijer spoke from the front lines of the retail supply chain on the necessity for retailers to focus on getting the customer what they want when they want it, the increasing importance of data in the next few years, and the accelerating speed of change.

Digitization guru Mitch Joel closed out the conference with a mind-opening session on how technology connects consumers to retail like never before. His advice for dealing with change: (1) to transform (define the problem); (2) to innovate (make products and experiences); and (3) to transact (market and build equity). He also delivered one of the most insightful quotes from the conference, borrowed from *Wired* magazine co-founder Kevin Kelley: "The future happens very slowly, then all at once." Another good show from RILA. 

Industry News Round Up (continued)

alone in thinking along those lines: in July, Walmart pushed its suppliers to eliminate controversial chemicals in some 90,000 household items.

By 2020, Targets wants full ingredient disclosure on items including major categories like beauty, baby, personal care and cleaning goods on the way to including all products eventually. Some of Target's new guidelines include the removal of perfluorinated chemicals and flame retardants from textiles in the next five years, and eventually, listing ingredients in all products. A year and a half ago, Target expanded the list of chemicals it wanted suppliers to remove from products.

Target is hoping its clout leads other retailers to adopt similar practices.

"It's ambitious, but using our size, scale and expertise, we think we'll be able to make significant progress." said Jennifer Silberman, Target's chief sustainability officer, in a blog post.

"RFID Don't Lie" Says Retailer Lululemon, Leveraging Vendor Tagging



Slowly but mostly steadily, item-level RFID tagging, especially in soft goods, is gaining traction - if not quite yet critical mass.

Macy's has said it will have all items in its stores tagged by the end of 2017. Target is rapidly moving ahead with its RFID tagging strategy and publicly touting its benefits. Kohl's is said to be working hard on RFID tests in its stores.

Another specialty retailer that has moved down the RFID path is Lululemon. Last month, Jonathan Aitken, IT Director Retail and RFID for the chain, wrote an interesting column on LinkedIn on his experience using the company's technology platform as a consumer.

Aitken wanted to buy a certain shirt that was soon to be gone from Lululemon shelves. Going to the closest store to his office, he found the shirt on the store floor, but not in the size he needed.

He is how Aitken tells the story from there.

"Instead of asking for help from one of our amazing educators (what we call store associates), and asking them to locate one for

me in a nearby store or asking them to check if there was one in the back, I pulled out my iPhone and used the Lululemon app to scan the barcode on the hangtag," Aitken said. "Our RFID ecosystem sprang into action."

That app uses the phone's camera to scan the bar code (not read the RFID tag) on the hangtag. That scan then pulls up the product detail page on Lululemon's ecommerce site.

It then uses the company's "back end integrations" to RFID to do a real-time inventory check across all stores, sorted by the ones closest to Aitken, based on his phone's location.

At the recent NRF show in New York City, Aitken said that before the RFID program, the company internally tested its buy on-line, pick up in store service in New York.

More than half the time, Lululemon was unable to fill the test orders because the store inventories were wrong. Now after RFID, it only has inventory issues on 1-4% of on-line orders, depending on the day.

"I could see that there was no size large in this store, but there was a large in our Robson Street flagship store two kilometers away downtown and they had two of them in stock!" Aitken wrote. "After dinner, I checked the inventory again and my phone showed that there were still two larges left and the update was less than five minutes ago."


Arriving at the store, he went to the rack confident that the item would be there.

"As our RFID Ops team is fond of saying 'RFID don't lie,'" Aitken wrote, adding that store inventories are now 98%+ accurate.

Goods are tagged by Lululemon vendors, and read as they are received at the store. Once a week, educators in every store cycle count the entire store front and back, a process that takes two of them less than two hours.

"This trues up the inventory to account for shrink and movement within the store," Aitken said.

Items are then read at the point of sale system when they are sold. All of the data about the inventory is pushed to the Cloud. The system also generates a task to move an item available in the backroom to the store floor if the last one is sold or goes missing.

"RFID puts the power of accurate inventory in the power of hands of the people that need it the most, the educators and our guests," Aitken concludes. 

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