

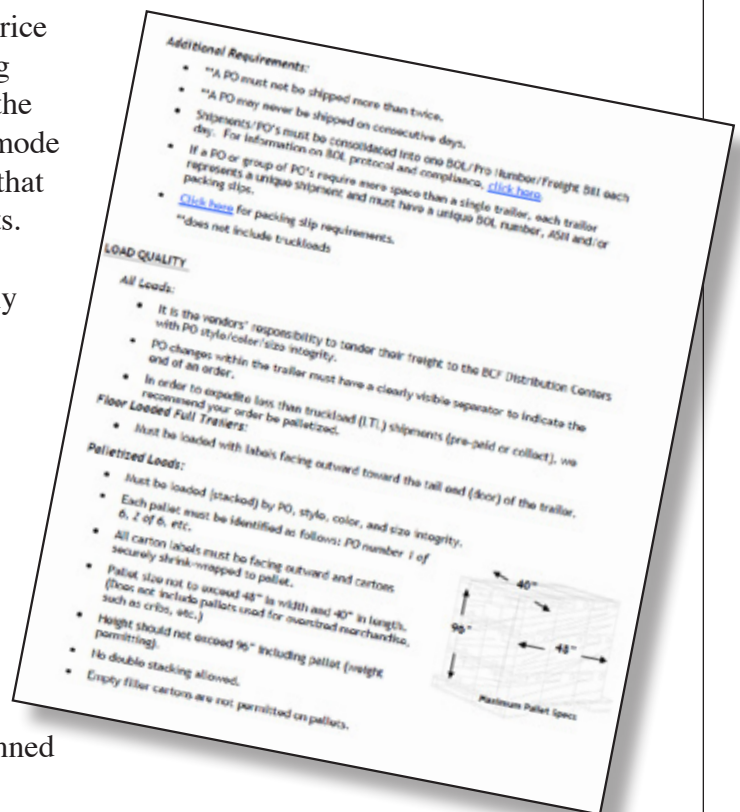
The Value of Vendor Compliance Optimization Technology

Dozens of retailers, and in some cases other types of companies such as wholesalers and manufacturers, manage “vendor compliance programs” under which their suppliers are required to follow a set of rules for each purchase order/shipment. Those rules can cover a lot of territory, from on-time shipping requirements to use of specific modes and carriers depending on shipment details, labeling and price ticketing specifications, the use of EDI, and more.

These retailer requirements are generally summarized in a “Vendor Requirements Guide” or similarly named document (see sample image nearby), which in some cases can run on for dozens of pages and contain dozens of different rules. The Vendor Compliance Federation, now simply called VCF, says it tracks some 225 different retailers with individual compliance guides.

In most cases, retailers assign financial penalties to a vendor for failing to meet the rules set forth in their compliance documents. These penalties (often called chargebacks), are designed to offset the retailer cost for correcting the error or oversight or incurring other financial impacts. For example, if the vendor fails to price ticket the goods or mismarks them (say with the wrong price), the retailer must spend time and money inside the DC to ticket those goods. If a vendor uses a different mode or carrier than the one indicated by the routing guide, that could lead to higher than necessary transportation costs. However, the actual practice of implementing vendor compliance rules and chargeback policies varies widely across the retail industry.

Just as importantly, many issues with vendors lead to delays in getting merchandise to the store floor. Many retailers use “flow through” or cross dock distribution processes that move inbound receipts rapidly to outbound doors. Late shipments obviously impact planned store deliveries, but so can problems with labeling/ticketing, inaccurate Advance Ship Notices (ASNs) and other problems that cause the merchandise to stop rather than flowing through. Failure to get the merchandise to the store floor as planned can lead to lost sales for both the retailer and vendor.



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Retailers can easily have hundreds if not several thousand different vendors. Managing rules compliance across all these vendors for each shipment is a daunting task. Trying to track rule violations, documenting the problem, communicating with the vendor about the issue, calculating the “chargeback,” and other steps in the process manually not only places a significant burden on distribution, transportation, IT and other areas of the supply chain, it can also lead to errors and confusion/frustration from the vendors, who may not trust the system and the penalties - and in some cases with justification.

To address the limitations of a manual approach to compliance, a few solution providers have developed software that is often referred to as “compliance optimization” or “compliance management” technology. These types of solutions are available from a small number of specialty vendors, often as a “service” rather than an installed piece of software, and in limited form from a handful of Warehouse Management System (WMS) providers. Some retailers have also built their own compliance optimization solutions internally.

What functions do these compliance optimization solutions perform? It varies a bit by provider, of course, but in general retailers or others can expect the following types of capabilities:

- A data warehouse of all compliance related information and transactions
- The ability to model the specific rules and scenarios relative to a company’s published vendor requirements
- The ability to capture vendor performance automatically or through associate data capture and compare that performance to the programmed rule sets (e.g., did the vendor choose the right mode and carrier for this shipment based on the routing guide, and was the shipment received within the window specified in the PO?)
- The ability to automatically calculate any vendor chargebacks based on all the above for compliance violations
- The ability to automatically communicate a violation to a vendor (typically via email) that documents the specific issue and provides supporting information, photographs, documents, etc.
- The ability to generate a variety of reports across vendors and shipments

Some providers of compliance solutions have taken these capabilities even further, using the data collected to model a complete “PO Lifecycle” or to provide supply chain visibility solutions in addition to more pure compliance optimization.

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CSCO Insights wanted to better understand how retailers specifically saw the value of this type of software solution, and undertook a survey of the retail customers of one compliance optimization software provider, Compliance Networks.

Using our standard methodology (see sidebar), *CSCO Insights* sent out requests to a broad base of Compliance Networks' customers. In the end, *CSCO Insights* received 22 usable responses.



Standard Methodology

In our “value of” series of analyses, CSCO Insights surveys users of different technology solutions to gain insight into how the solution is used and the value/benefit companies are realizing from the technology.

We solicit a list of companies and contacts from the participating vendor. We ask for a comprehensive or at least representative list of such customers, and do some checks to ensure the lists we receive are fair representations of the vendor’s overall customer population (especially recent installs).

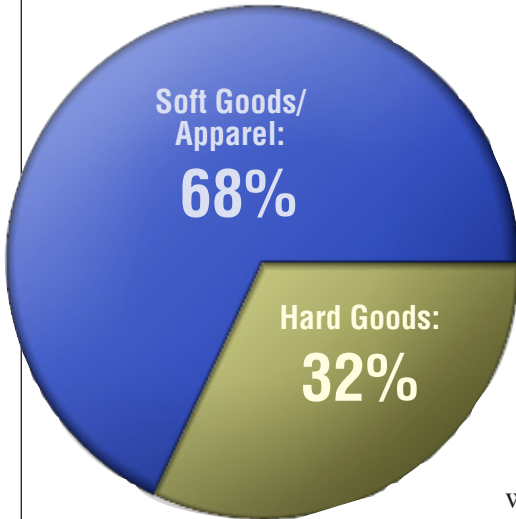
However, in many cases we would not be surprised if the vendors do not share customers/contacts for implementations that are known internally to have not gone well, as will be the case for every vendor for a variety of reasons, often not connected to the capabilities or quality of the solution (such as a poor job of change management at the customer).

Nevertheless, we are confident our methodology does deliver statistically reliable insight. We certify here that the published results are completely consistent with the survey data we have received. If the solution provider is unhappy with those results, we do offer them the option to cancel the project and have the results not be published as one of these research notes.

The results and quotes published in this series come from the survey data received, the freeform comments section associated with many survey questions, and - in some cases - private one on one interview sessions with survey respondents.

We can also sometimes connect companies reading one of these documents and potentially considering a solution with members of our survey population for additional information.

Type of Retailer



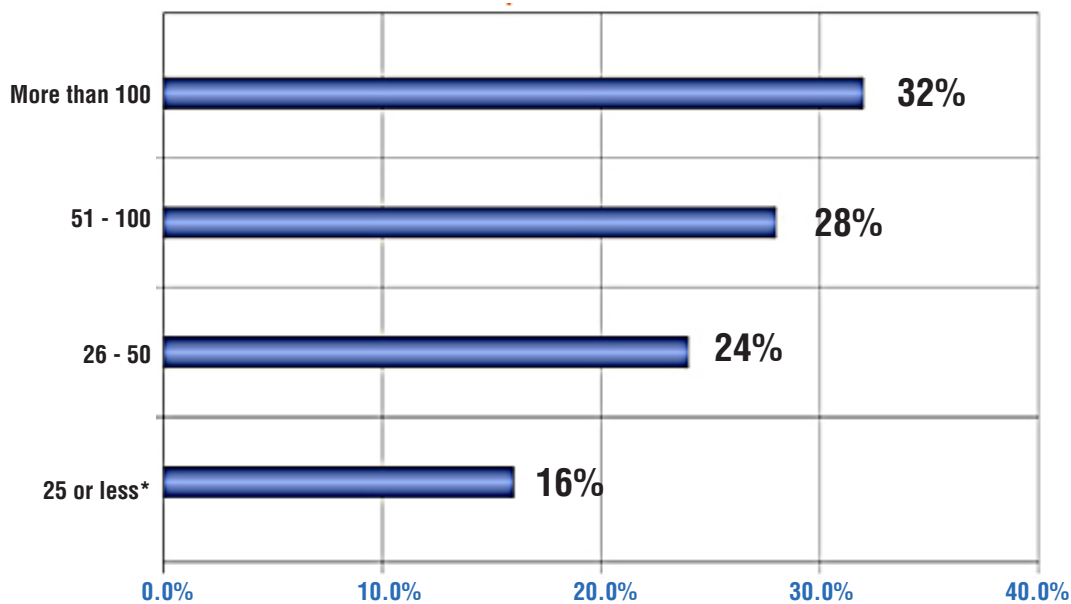
Soft goods and apparel retailers have always been the most aggressive implementers of compliance programs, and that was reflected in our survey population profile, where 15 of the 22 respondents (68%) were from the soft goods sector, versus 32% from various hard goods retailers. We included department store chains in the soft goods category, even though they sell a mixture of hard and soft goods.

Also in terms of profile, there was a good mix of how long respondents had been using the Compliance Networks solution, with about one quarter having deployed the software in 2007 or before, with the rest scattered across deployments in 2008, 2009 or 2010.

We asked the respondents a brief series of questions about both how they were using compliance software and the results/benefits they were achieving using these tools.

First, we were curious as to the number of rules tracked by each retailer. As shown in the chart below, 60% tracked 50 or more rules, and the average among all respondents was 81 rules. Most of the few respondents which said they were tracking less than 25 rules indicated that was because they had not

Potential Inventory Reduction Through Process/Technology Improvement



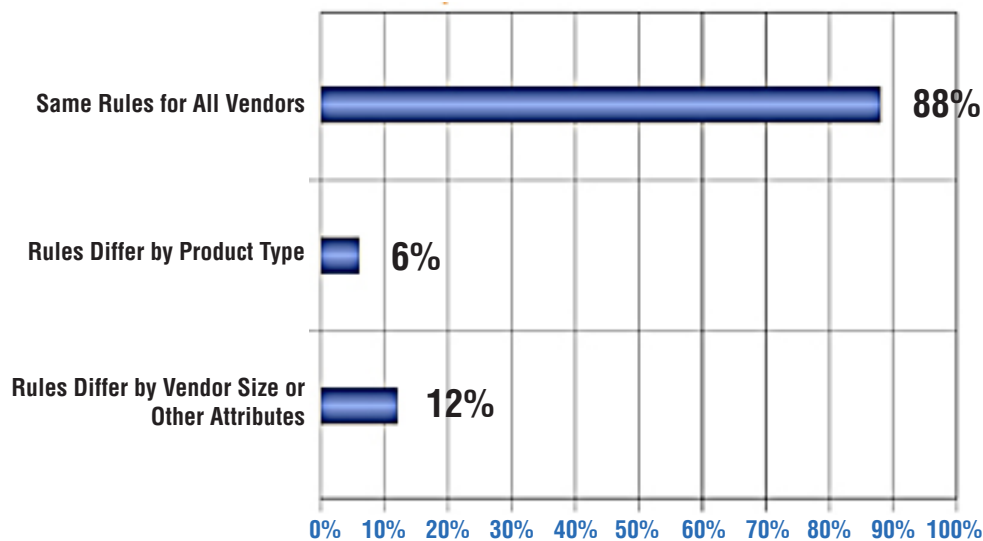
* Several respondents within this category said they were early in their implementations and would add more rules over time.

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yet fully rolled the solution out to all functional areas within the company. (It is common for retailers to start in one area, such as transportation, and add other process areas over time.) However, we note that it is common for a single overall area, such as price ticketing, to have a dozen or so rules underneath that general category.

The vast majority of the respondents (88%) maintain the same sets of rules for all vendors. A small minority have rules that differ by product type (just 6%) or size of vendor or other attribute (12%). Some respondents said their rules differed by both product type and size of vendor/other, which is why the total adds up to more than 100%.

Approach to Compliance Rules



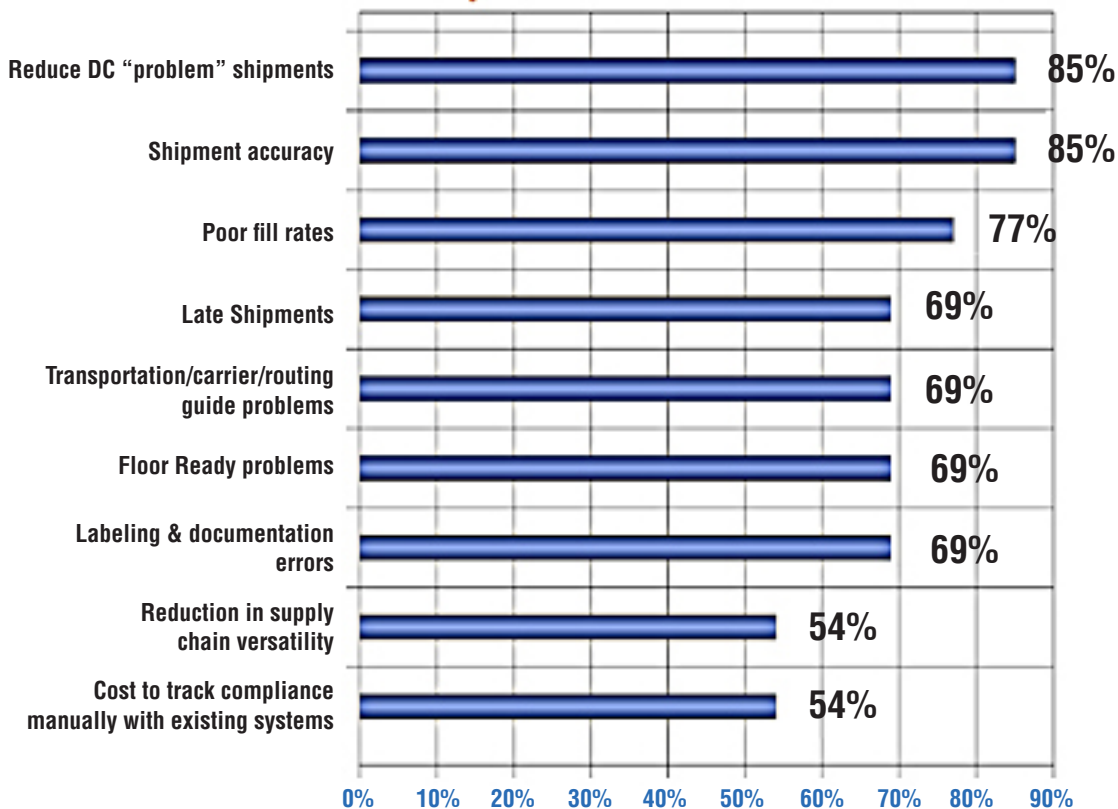
Problems Retailers Were Looking to Solve

We also wanted to understand what problems retailers were trying to solve when they decided to engage a compliance optimization solution.

Respondents were presented with a series of potential problems, and asked which of these were important issues to their companies when they adopted compliance optimization software.

As can be seen from the figure on the next page, improving shipment accuracy and the related category of reducing DC “problem shipments” topped the list, each cited by 85% of respondents. (“Problem shipments” is a term often used in retail to describe a receipt that is just difficult to process for any of a number of reasons, or the shipment sits in the DC awaiting direction from somewhere else in the organization, such as IT or merchandising.) Those top two responses were followed by “poor fill rates,” cited by 77% of respondents.

What Problems Were You Trying to Solve with Compliance Optimization Software?



Late shipments, carrier routing issues, "floor ready" issues, and problems with labeling and documentation also scored high.

We also note that 54% of respondents cited "cost to track compliance manually/with existing systems" as a problem to be solved with a new compliance optimization solution. While that was tied for the low spot with ASN/EDI problems, it implies more than half the respondents either had built an internal system that just could not keep up or needed too much maintenance, or else the company had looked at building a compliance tool internally and found it would be too expensive or take too long.

So with that quick view of what retailers were hoping to achieve, what were the actual results?

We asked retailers to rate their level of improvement along a number of different supply chain/logistics processes on a scale of 1-5, with 1 being a very high level of improvement, 5 being a low level, and by definition a score of 2.5 being an average or normal level of improvement. We took the scores from each recipient, added them together, and divided by the number of respondents to get an average for each area.

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Naturally enough, the linked categories of improvement to compliance guidelines - in the end the core mission of compliance software - and improvement in chargeback “revenue,” which is the key lever for driving vendor compliance, scored the highest, with identical averages of 1.8 across the full population.

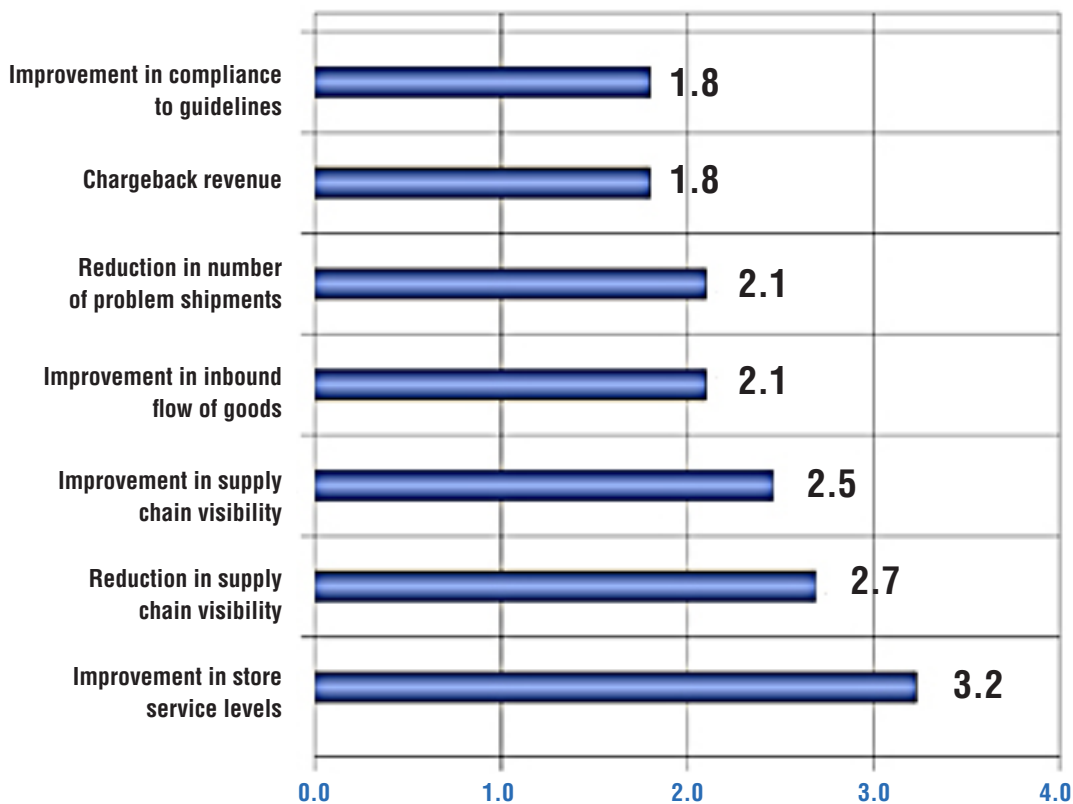
There are two sides to this coin. One respondent in a side comment noted that “It isn’t at all about the chargeback, it’s about perfecting retail logistics.” But another said, “We simply were not able to identify all the violations we were experiencing with our internal systems, and now with this software we can.”

Reduction in the number of problem shipments and improvement in the inbound flow of goods also scored high, with improvements in supply chain visibility and variability scoring about average.

We were a little surprised that improvement in store service levels score a bit below average, as it seems inevitable that the improvements in other supply chain/logistics areas would lead to improvements in store service, but perhaps respondents interpreted this question in a different way.

Improvement in Supply Chain Processes

(1 = Very High, 5 = Very Low)



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We next wanted to get a sense of how well the supply chain/logistics improvements resulting from the compliance program were recognized within the company, using a similar 1-5 evaluation methodology.

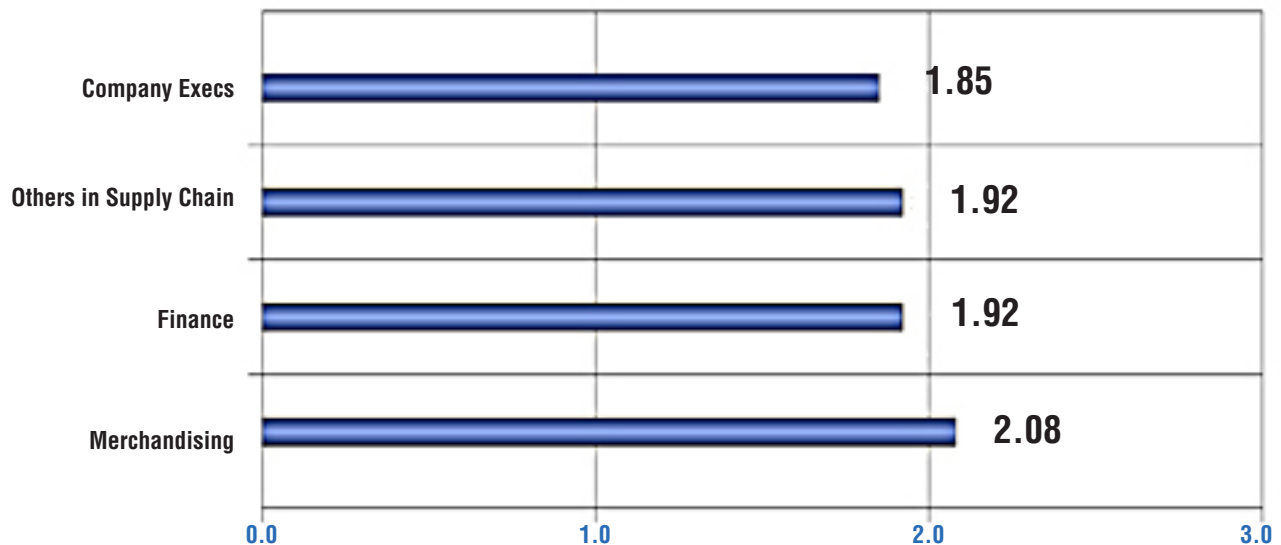
Perhaps somewhat surprisingly, respondents said general company executives had the greatest recognition of the benefits of the program, with an average score of 1.85, just ahead of others in the supply chain and in finance, each with an average of 1.92. Recognition from merchandising was also strong, scoring just over 2.0.

One respondent said that “Our project was viewed as a skunk works type of program that was very limited in scope, but after the fact this has very much changed. It is well recognized as having a big impact on our supply chain improvement since then.”

Added another: “It will probably take awhile to win over the merchants, who see it as getting between them and their vendors, but if you keep educating the buyers on the connection to getting merchandise to the store and reducing lost sales you can win them over.”

Recognition of Improvements in Vendor Compliance/Supply Chain Performance

(1 = Very High Recognition, 5 = Very Low)



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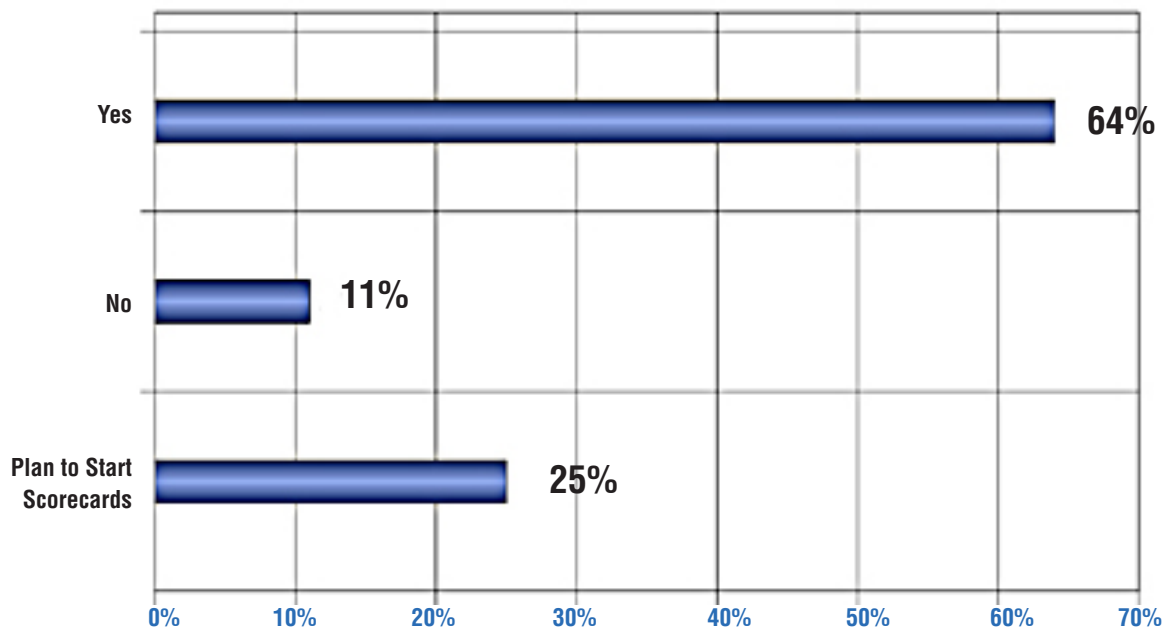
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We were also curious to see whether retailers using compliance software were doing so not just to track violations and chargebacks, but also for creating vendor scorecards and using them to work proactively with vendors to improve overall supply chain performance.

This is clearly the trend, as shown in the chart below. 64% of respondents are already using compliance information to power scorecards, and another 25% said they were planning to implement vendor scorecards soon. Just 11% indicated no plans for scorecards.

Said one respondent: “This data has become the focal point of our quarterly meetings with our vendors.”

Use of Compliance Data for Vendor Scorecards?



Last Two Key Questions

We listed a number of the core capabilities of the Compliance Networks’ solution and asked retailers to rate the value of each, again on a scale of 1-5, with 1 being “very high value” and 5 being “little value.”

What is perhaps the core capability of this type of solution, to automatically identify supply chain failures/violations, came out on top, with a very high score of 1.45. That was tied with the ability to auto

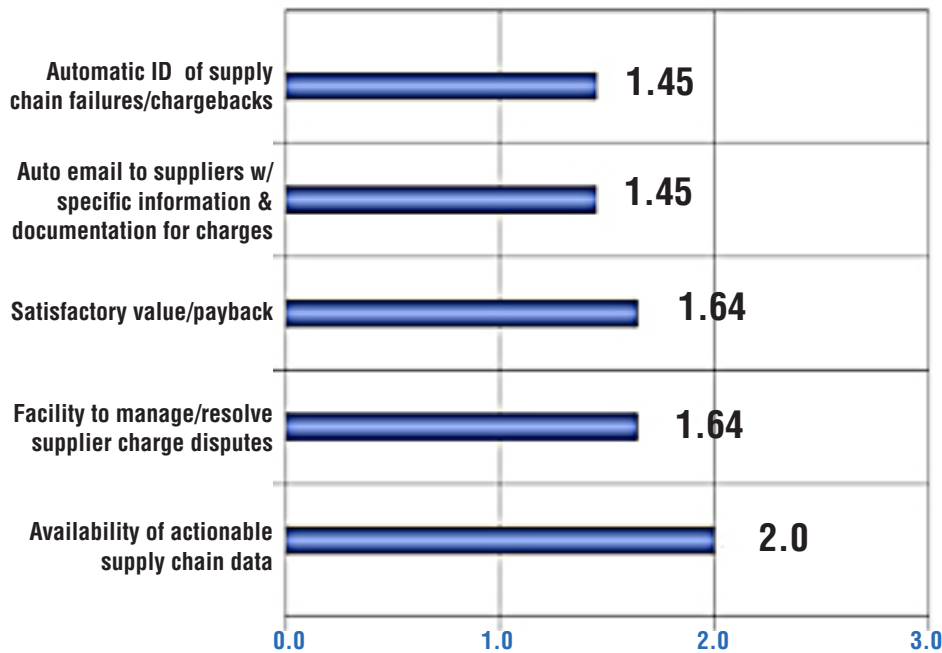
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email suppliers with information about the violation. But all five of the capabilities listed scored high, bunched together in a tight range with scores between 1.45 and 2.0.

One respondent said that “the ability to rapidly communicate violations to suppliers with all the facts, photos, etc., is key. It makes it clear this is very objective, and the rapid communication means if the vendor has a systemic problem somewhere they can address it before the next shipment.”

Value of Compliance Optimization Capabilities

(1 = Highly Valuable, 5 = Little Value)



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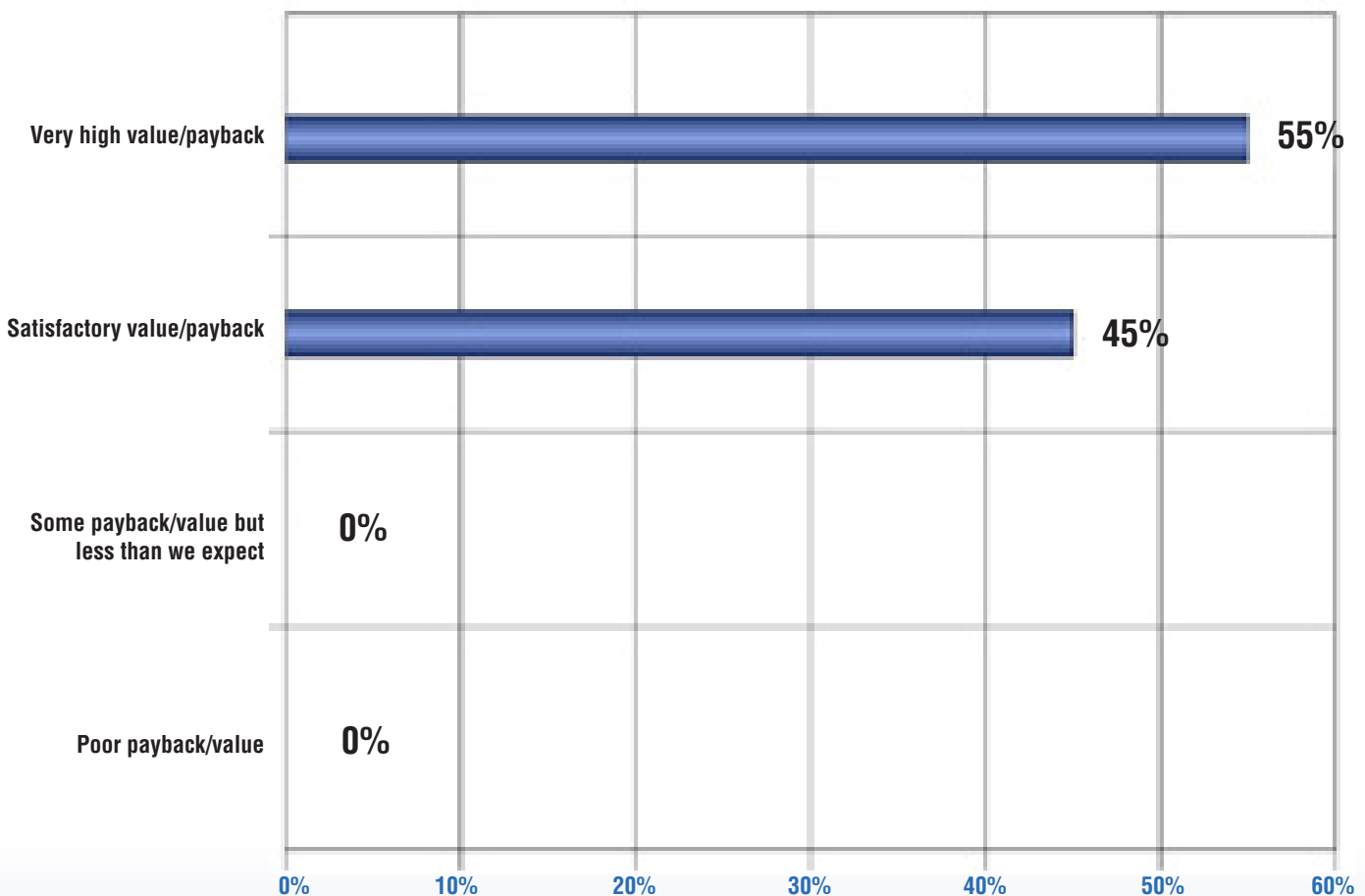
Finally, we asked retailers for an overall rating of the value of the Compliance Networks' solution. Here, results were very strong for this compliance optimization provider.

As can be seen in the graphic below, 100% of the respondents said they have experienced either very high value/payback from the system (55%) or satisfactory value/payback (45%). No respondent picked either of the other two categories, which represented modest or limited value.

"This solution does exactly what it is supposed to do, and does it well," one respondent noted.

Another said that "It is the ability to automate all these processes sort of behind the scenes that makes it valuable for us."

Value of the Compliance Networks Solution



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Summing it Up

Although this data is based on a relatively small number of data points (22 for most questions), the consistency of the responses across that pool indicate the strong majority of Compliance Networks' customers find excellent value in the solution and its individual capabilities.


Both in the survey data and freeform comments, it is clear that the core of the problem retailers are looking to solve and where the heart of the value lies comes from the basic capability to automate significant portions of a vendor compliance process that can be very labor intensive without strong supporting technology. That labor intensity not only adds to the cost of the vendor compliance program and limits its effectiveness, but also creates delays in communications with vendors and leads to errors and other issues that combined can cause relationship problems with vendors related to the program.

That in turn can lead to the focus being whether violations occurred or not and what the chargeback should be, rather than an emphasis on reducing violations and improving combined supply chain/logistics performance, which is where retail leaders clearly set their sights.

Very impressive also is the fact that 100% of respondents said that they achieve excellent or acceptable payback from their investment in the Compliance Networks' solution.

It appears that most retailers recognize that automating this process is critical for compliance program success, and that many have moved to the Compliance Networks' solution after finding that an in-house developed solution is either not robust enough or too difficult to maintain over time.

Retail industry leaders are using this information to improve vendor performance, develop scorecard programs, and enhance their total supply chain visibility.

While the focus of this survey is in the retail sector where Compliance Networks has the vast majority of its customers, we believe the concept and solution could easily be applicable for wholesalers and manufacturers. 

About CSCO Insights

CSCO (Chief Supply Chain Officer) Insights offers research and analysis focused on providing actionable information and intelligence to senior supply chain executives and those aspiring to reach executives levels. The research arm of Supply Chain Digest, the industry's leading on-line publication and web site, *CSCO Insights* is becoming the preferred source of insight for supply chain leaders.