

# Vendor Compliance Optimization

Increase Sales | Decrease Costs | Mitigate Risk



## Vendor Compliance Optimization

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*“Few business areas need to be measured more extensively, more frequently, and more effectively than logistics.”*






*“There is a strong association between measurement and operational performance, yet research on the logistics measurement programs of more than 350 companies shows that many firms do not comprehensively measure.” (Kuzeljevich, 2001)*

**Dr. James Keebler**  
**St. Cloud State University**  
**Keeping up with Success**

Like many other successful retailers, BCF has invested heavily in its distribution systems over the years to ensure effective execution of the company’s merchandising plans. BCF also persistently looks for changes in processes and technologies to improve operations and support the following corporate goals:

### KEY TAKEAWAYS

Vendor Compliance Optimization, leading to vendor performance improvement and visibility into supply chain activities is critical for breaking the cycle of poor vendor performance. Clarity into the supply chain offers the potential for improving buyer planning, merchandising execution and:

-  Identifying/capturing lost revenue,
-  Improving customer satisfaction,
-  Reducing labor costs associated with resolving problem shipments,
-  Reducing the amount of required safety stock, and ultimately
-  Improving sales.

#### **Eliminate store receiving backlogs**

- Product that arrives at stores in less than good, saleable condition, or shipped to the wrong store, or sent before or after its intended placement on the sales floor, creates a backlog of merchandise in store receiving areas. This backlog reduces the efficiency of store receiving operations, increases damaged merchandise, creates opportunities for merchandise theft, and can skew sales data for stores.

#### **Improve service levels to stores**

- Optimizing service levels to stores enables a retailer to reduce freight costs by

- transitioning products from direct-to-store shipments (typically via parcel or LTL shippers) to bulk distribution center shipments (typically by truckload).
- Shipping products through a distribution center also allows the retailer to centralize quality assurance or vendor scoring functions.

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## WHY READ THIS REPORT

It should be every retailer's ambition to adopt a proven Vendor Compliance Optimization process to improve supply execution of the merchandising plan and provide a comprehensive view into extended supply chain activities. A vendor compliance optimization process lays the groundwork for improving supply chain performance and positively contributing to a retailer's profit target goals and meeting shareholder expectations.

Effective supply chain execution via a vendor compliance optimization process enables a retailer to gain control of their supply chain by establishing accountability for vendors and other key stakeholders alike. A vendor compliance optimization process brings clarity to internal and external supply chain activities while yielding insights that lead to predictability of future performance.

An effective vendor compliance optimization solution automates processes, formalizes workflows, encourages collaboration and places the organization on a continuous improvement track. It also provides key stakeholders with a 360° view of all aspects of their supply chain activities so they're equipped to make data-driven decisions.

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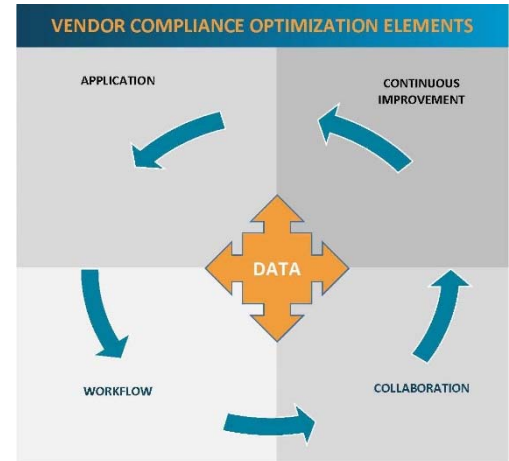
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## THE ELEMENTS OF VENDOR COMPLIANCE OPTIMIZATION

A meaningful Vendor Compliance Optimization effort is comprised of four supply chain elements that directly support the retailer's overall objectives

- **Application** - The technology (software, hardware, and database) infrastructure that supports all compliance assessment activities.
- **Workflow** - The integration of human activities with the application which automates the optimization program.
- **Collaboration** - The communication, planning, and cooperative activities between all stakeholders which facilitates optimal execution of the merchandising plan.
- **Continuous Improvement** – The performance data generated by vendor compliance activities enables stakeholders to focus on continuous improvement. Performance data identifies execution successes and failures and facilitates merchandising plan and other supply chain activity adjustments.



## VENDOR COMPLIANCE ADOPTION MODEL

Prior to taking any actions or making any decisions, it's important to evaluate where your organization is on the Vendor Compliance Adoption Scale.

### **First Outcome Level: Visibility**

Vendor Compliance Optimization processes establish vendor accountability for following published guidelines. If and when these guidelines are breached, penalties are assessed and notifications are delivered to the vendor. The penalty corresponds to the cost directly associated for remediation or recouping lost sales.

The intent of these penalties is not punitive. Penalties, also known as chargebacks, expense offsets, or deductions enable the retailer to recover the cost of correcting vendor failures or to recover the value of lost sales due to vendor failures. The penalties also encourage execution of the merchandising plan. Accountability is most complete and accurate when automated processes are involved. Manual efforts to detect violations are not as accurate, complete, and more costly than automated detection strategies.

A Visibility-level organization efforts and execution are predominately manual. There is little to no automation for identifying breaches, assessing penalties and notifying vendors.

### **Second Outcome Level: Variability**

Vendor Compliance Optimization solutions leverage data to reduce variation in supply chain activities and by doing so they improve decision-making accuracy. Objective information is now available to assist stakeholders in managing their organizations into a continuous improvement cycle.

A second level organization automates vendor compliance failures, penalties and notifications (with supporting documentation) which encourages immediate improvement opportunities.

### **Third Outcome Level: Velocity**

Objective historical supply chain performance data enables the retailer to base their merchandising plans on facts rather than myth, rumor, assumptions, or conventional wisdom.

Historical vendor performance is assessed to anticipate future vendor performance. This predictability is leveraged to adjust orders adjustments based on their record of shortages and overages. Velocity-level retailers can also adjust order timing to accommodate vendor tendencies.

The power of predictability is that now the retailer can take advantage of these tendencies in the short term, while encouraging vendor behavioral changes in the long term.

A Velocity-level organization embraces predictability which enables the retailer to optimize their merchandising plan execution and significantly improve the prospects of achieving its business goals.

## **BENEFITS OF VENDOR COMPLIANCE OPTIMIZATION**

As a retailer matures in their VENDOR COMPLIANCE OPTIMIZATION process efforts, they create a predictable supply chain performance, which informs the merchandising and logistics planning while encouraging improvement throughout the supply chain. Improved sales result from having accurate inventory on hand. A reduction of manual efforts reduces overhead and reduces oversight risk.

## ABOUT COMPLIANCE NETWORKS

Compliance Networks is a leading provider of proven, private-cloud vendor performance solutions for retail supply chain excellence. Since 2000, our suite of solutions has enabled enterprises to improve profitability through continuous improvements in supply chain execution.

If you'd like more information or case studies of the impact of VENDOR PERFORMANCE OPTIMIZATION PROCESS, visit us at [www.compliancenetWORKS.com](http://www.compliancenetWORKS.com), drop us an email at [info@compliancenetWORKS.com](mailto:info@compliancenetWORKS.com), or call us at **877-267-3671**.