

Get Green With Vendor Compliance

Enable Green Initiatives, Impress Customers, Increase Profitability



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“Climate change is of such a magnitude and complexity that it requires a new form of leader, a leader capable of talking about both what's good for their firm and what's needed for society”.

Bruce Piasecki
World Inc., Part One, Chapter Three
(Sourcebooks, Inc., 2007)

Green initiatives aren't just good for the environment and customer relations. Business, in particular the supply chain and logistics industry, has learned that green initiatives also contribute to efficiency and profitability. As it turns out, what is good for the environment is usually good for business. Green initiatives promote lean operations, earn the admiration and loyalty of customers, and improve profitability.

According to Dr. Bruce Piasecki, Founder and CEO of AHC Group and author of World Inc., “the 300 largest corporations on Earth are now exploring this new world order, a new social frontier, if you will. In order for them to survive and prosper further, they need to develop and further refine the business art of innovation for social needs -- they need to find a new and socially responsible way to fill the hole our depleting oil supply is leaving.”¹

Today, many companies give green issues great consideration and weight when devising their business strategies. According to a July 2007 eyefortransport survey of 271 supply chain and logistics professionals (in transportation and logistics, hi-tech and electronics, food, retail and consumer packaged goods, automotive, chemical, and healthcare/pharmaceutical sectors) over half (59%) of respondents reported that green issues are either important or very important to their companies' overall strategy, 20% reported green issues as fairly important, 15% as somewhat important, and only 6% designated green issues as not important.²

According to the eyefortransport study there is a direct correlation between a company's prioritization of green issues and their revenues and business success. In fact, key drivers for green initiatives include government compliance, improved customer and public relations, a decreased fuel bill and financial ROI. Further, increasing supply chain

¹ Bruce Piasecki, World Inc., Part One, Chapter One (Sourcebooks, Inc., 2007)

² Green Transportation & Logistics Report (eyefortransport, July 2007)

efficiency, improving investor relations, decreasing risk and a larger Corporate Responsibility agenda were also important factors in the strategic decision to go green.²

This suggests that companies see an array of factors, rather than one main factor, as part of the benefits of supply chain greening. The combination of these positive changes is thus the payback that companies are seeking when they take on the challenge of green transport and logistics initiatives.²

Green initiatives most relevant to the supply chain and logistics industry fall into these categories (ranked by frequency of selection by survey respondents)²:

- Improving energy efficiency
- Vehicle re-routing to reduce miles
- Strategic warehouse and DC placement
- Emissions measuring and/or reductions
- Trialing and/or use of alternative fuels
- Using more environmentally friendly logistics providers
- Moving freight away from air towards other modes
- Other

Specific initiatives from the categories above include:

- Product design and packaging
- Recycling programs
- SmartWay transport program
- Returnables
- Moving air to surface routes
- Sustainable and LEED certified buildings
- Hybrid or electric vehicle development or usage
- Sustainable transport policies and 'green thinking'
- Waste reduction & asset recovery
- Leveraging green logistics technologies
- Reduced paper and energy consumption
- Green material usage
- Maximizing load and monitoring fuel usage
- Responding to customer requirements
- RFID and GPS
- Going solar
- Hydrogen enhanced combustion
- Reductions in toxins and hazardous chemicals

Going Green with Vendor Compliance Optimization

Most, if not all, green initiatives in the supply chain and logistics sector are directly facilitated by Vendor Compliance Optimization. A best-in-class Vendor Compliance Optimization program (also known as Supplier Performance Management) can enable a retailer to decrease costs, increase revenues, and mitigate risk. It will enable the retailer to measure supply chain performance and align its vendor community with the organization's strategic goals. Supply chain performance has been shown to improve in as little as 120 days.

One vendor addressing this area is Compliance Networks, which offers a supplier compliance optimization package. The product highlights supplier noncompliance and aids in the development of suppliers as partners working together to meet demand.

While solving supplier compliance issues isn't a simple fix because changes in human behavior are required, implementing a system like Compliance Networks is a great opportunity for companies to facilitate change and optimize supplier compliance.³

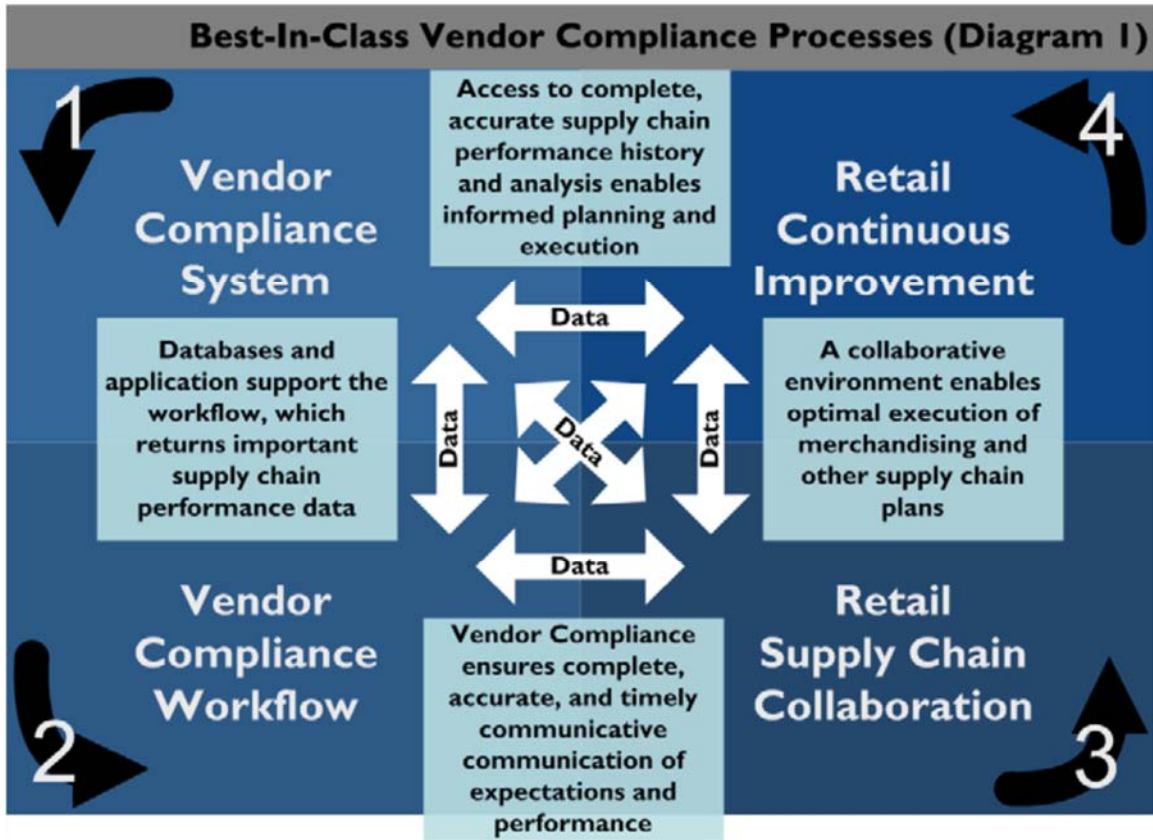
Vendor Compliance Optimization offers an effective, comprehensive, and affordable solution that enables the retail enterprise to optimize supply chain execution of the merchandising plan, provides visibility into supply chain activities, and provides comprehensive and accurate supply chain historical performance data to support merchandise planning and supply chain decision-making. The Vendor Compliance Optimization Benefits table (Table 1, below) illustrates the value that retail supply chain stakeholders realize from an effective Vendor Compliance Program.

Aligning Vendor Performance with Enterprise Goals and Initiatives

A best-in-class Vendor Compliance Optimization solution enables retailers to implement four supply chain processes that are essential for aligning vendor performance with enterprise goals and deriving maximum value from vendor compliance:

Vendor Compliance Optimization Benefits (Table 1)					
Management Information	Merchants	Vendor Compliance	Distribution and Logistics	Retail Enterprise	
Supply chain data warehouse that provides accessible and actionable supply chain information	Maximized PO fill-rates	Vendor scorecards that are complete, accurate, and fair	Maximized distribution service levels	Recovered dollars directly to bottom line	
	Maximized on-time shipping		Minimized labor expenses	Maximum flow of merchandise through the supply chain to stores	
Graphical User Interface that enables and facilitates on-line data visibility, analysis, reports, automatic reporting, correspondence management, and violation/charge research.	Optimized supply chain execution of the merchandising plan	Optimized vendor compliance activities via automated detection, defense, communication, reporting, and charge recovery	Optimized supply chain activities	Ongoing vendor compliance improvement	
	Accurate and comprehensive visibility into supply chain activities to support buying decisions		Optimized cross dock usage	Complete, accurate view of supply chain performance history to support business decisions	
	Perfect Order Index	Optimized communication to vendors and other supply chain stakeholders	Minimized distribution cycle times	Minimized exception processing	
				Perfect Order Index	Perfect Order Index

³ Mickey North Rizza Supplier Compliance Can Be Costly for Retail Suppliers (AMR Research Alert, March 2006)



- Vendor Compliance System - The software, hardware, and database infrastructure that will support vendor compliance activities.
- Vendor Compliance Workflow - The integration of human activities with the Vendor Compliance System that will execute the Vendor Compliance program.
- Retail Supply Chain Collaboration - The communication, planning, and cooperative activities that facilitate optimal execution of the supply chain.
- Retail Continuous Improvement - The leveraging of the supply chain performance data captured and produced by vendor compliance optimization activities, to enable the enterprise to identify supply chain execution failures and successes and adjust merchandising and other supply chain planning and execution.

The Best-In-Class Vendor Compliance Processes diagram (Diagram 1, below left) illustrates the relationships between the processes. The light blue boxes describe specific interaction between the processes and the white arrows indicate the flow of information between the processes.

“Climate change is a significant emerging global risk. Businesses - if they haven't already- must begin to account for it in their strategic and operational planning. Risks, which will vary by industry and geography, include the potential for physical damage due to changing weather patterns, fines and business constraints due to regulatory requirements, legal costs from possible litigation, investment risk from shareholder demands, changes in the competitive landscape as companies adapt to climate change, and possible brand damage if a company develops a reputation as a "climate change villain. “

Marsh Risk Alert, Climate Change: Business Risks and Solutions
(global.marsh.com/risk/climate/climates/)

The Link Between Green Initiatives and Vendor Compliance Optimization

According to a September 4, 2007 article titled Retailers Push Packagers to Think "Green" published by Reuters, New York:

Growing demand from retailers and manufacturers for smaller, eco-friendly packages is pushing box makers and chemical companies to create compact packaging that is bio-based and recyclable. Most initiatives, although still in their infancy, are being spurred by increasing environmental awareness and looming legislation. But companies exploring smaller and 'greener' packaging options are also doing so with a keen eye on profits. "I would say that the balance is still probably weighted more toward cost control," but the significance of environmental benefits is growing, said Wachovia analyst Ghansham Panjabi. At the forefront of one such initiative is the world's largest retailer, Wal-Mart Stores. Last year, the company announced a plan to reduce packaging by 5 percent by 2013, a move that could save it \$3.4 billion. A reduction in the volume of packaging has interesting ramifications said Robert Anstine, vice president of marketing at International Paper Co's Shorewood packaging unit, which is working with Wal-Mart on its packaging reduction program. "If you go to a smaller package, it means you can put more of them in a shipping container, which means you can get more product on a truck; it lowers the amount of energy and fuel used to transport the product," Anstine said. However, the chain reaction does not stop there. It also means more products on shelves, a higher probability of customers finding the products they seek and fewer man hours spent restocking shelves...

An effective vendor compliance program will support corporate objectives, green or otherwise, by enabling the supply chain to optimize compliance with the performance requirements aligned with those objectives. The Alignment of Vendor Compliance and Green Initiatives table (table 2, below) illustrates how an effective vendor compliance

optimization supports the rapid on-boarding of suppliers into green and other compliance requirements. This includes effective communication of requirements, accurate and complete measurement of supplier performance against those requirements, and objective and rapid communication of that performance to appropriate supply chain stakeholders.

A best-in-class vendor compliance program will enable accurate calculation, communication and recovery of penalties that may be assessed against vendors when they fail to meet performance expectations.

Finally, the data captured by vendor compliance optimization facilitates supply chain analysis and fact-based decision-support.

Alignment of Vendor Compliance and Green Initiatives (Table 2)			
Initiative	Objective	Benefits	Compliance Link
Product design and packaging	Minimize use of unnecessary materials and increase use of green materials	Reduce packaging costs, reduce weight/shipping costs, reduce packing materials, reduce waste materials	Communicate requirements, measure supplier performance, provide accurate and timely feedback
Recycling programs	Maximize use of recyclable materials or reusable assets	Reduce landfill deposits, reduce cost of assets	Communicate requirements and measure supplier performance
SmartWay (efficient) transport programs	Optimize transport modes, routing, and green equipment	Cost reduction, fuel use reduction, emissions reduction, streamlined routing	Communicate routing requirements, measure compliance, capture shipping history for fact-based analysis and decision support
Moving air to surface routes	Maximize use of fuel-efficient routes	Reduce transportation costs and emissions	
Sustainable transport policies and 'green thinking'	The efficient transit of goods and services, and sustainable freight and delivery systems	The efficient transit of goods and services, and sustainable freight and delivery systems	Accurate, complete, and objective measurement of supplier compliance with routing, shipping, packaging, and green packing requirements
Waste reduction & asset recovery	Minimize waste and asset loss	Minimized disposal costs, reduced landfill deposits, minimized asset costs	
Leveraging green logistics technologies	Maximize efficient and lean logistics practices	Elimination of unnecessary operations and materials costs	
Reduced paper and energy consumption	Minimize paper waste and energy use	Minimize paper waste and energy use	Communicate requirements and measure supplier performance
Green material usage	Maximize use of green construction materials	Minimize environment impact from construction and minimize energy consumption	
Maximizing load and monitoring fuel usage	Minimize empty cargo space, unnecessary trips, inefficient driving practices, and reduced idle time	Minimize transportation costs, optimize delivery service levels, minimize emissions	Communicate requirements, measure compliance, capture history
RFID	Improve inventory and shipment tracking, and reduce energy consumption and labor	Improve operational efficiency, service levels, labor efficiency, and energy costs	Communicate requirements and measure supplier performance

The Importance of Data

It is tough to fix something that you don't know is broken. It is equally difficult to improve performance or beat the competition if you don't have data to benchmark current performance. Most retailers don't capture the data necessary to know whether or not vendors are meeting essential requirements such as on time and order fill rates standards. Lack of data also hinders collaboration and improvement.

Few business areas need to be measured more extensively, more frequently, and more effectively than logistics. Yet current measurement practices still leave much to be desired, according to James Keebler, Ph.D, and author of "Keeping Score", one of the latest books on supply chain management. Keebler, an assistant professor with St. Cloud State University, says 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.⁴

The data must be current, complete, accurate, and readily accessible. It is essential to develop efficient methods for collecting supply chain performance data. The best method is to consolidate the data in a Supply Chain Data Warehouse. Sources of data that support supply chain performance measurement include purchase orders, items, EDI/ASN, freight, receipts, RF and manual audits, and AP data. Other considerations:

- PC-based database and spreadsheet software is acceptable for small retailers managing a small number of rules.
- Medium to large retailers, or those managing more than a few rules, require a robust database, such as Oracle.
- All the data must be stored in one location, to ensure that all stake holders reference the same data.
- A robust database requires a user-friendly front-end application to facilitate data entry and fact-based analysis/decision-making.
- What data will be gathered systemically from existing legacy systems versus human intervention?
- Where will entered data be collected? The receiving dock, vendor compliance office, transportation office, corporate headquarters, or 3PL?
- Can existing processes and staff gather the data, or are new systems and staff required?
- Will the system be paper-based, RF-based, or both?
- Will the enterprise require consulting help and will they build or buy an application to support the business processes?

Effective Vendor Compliance Program (Diagram 2, above).

The gray bands indicate three general levels of compliance programs. The blue pyramid on the left, labeled Retailer Community Adoption, indicates the universe of retailers with compliance programs. The relative number of retailers is indicated by the size of each blue section. The upside-down pyramid in the middle, labeled Relative Benefits, indicates

⁴ Julia Kuzeljevich, Keeping Score: Developing an Effective Strategy for Supply Chain Management (The CEO Refresher, 2001)

the return that retailers gain from compliance programs at each level. The relative benefits are indicated by the size of each blue section. The triangle on the right, labeled Relative Effort, indicates the human resource cost to execute vendor compliance programs at each level. The arrow on the right indicates the collaborative value for supply chain stakeholders that can be realized as more capable and robust compliance programs are implemented. Integrating green initiatives into supply chain compliance programs accelerates the adoption and benefits to the enterprise.

Profits from Green Initiatives in the Retail Supply Chain

According to an April 2007 report by AMR (Big Green: IBM and the ROI of Environmental Leadership), "Saving more than \$100M since 1998 by conserving energy, IBM continues to set environmental goals while openly reporting its performance, proving good practices generate good money. Perhaps the most encouraging news from IBM is the economic benefit it realizes from its leadership in environmental management." The AMR report quotes Wayne Balta, Vice President of Corporate Environmental Affairs and Product Safety as saying, "IBM estimates that, over the past eight years, annual savings from its focus on pollution prevention and design for the environment have exceeded environmental expenses by an average of two to one."

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, drop us an email at info@compliancenetWORKS.com, or call us at **877-267-3671**.