



# Managing Vendor Compliance

The importance of uniformity

BY DR. BRIAN GIBSON


In the not-too-distant past, delivering quality produce on time, in full, at a fair price was a true advantage for growers and shippers. However, the supply chain stakes are growing ever higher. Retailers are raising standards for fulfillment perfection, requiring greater product variety, and initiating a wide variety of compliance programs.

These compliance programs address multiple aspects of supplier operations including food safety, traceability, corporate social responsibility, and indemnification against losses. Standards, audit methods, and reporting requirements vary by retailer and may venture beyond federal and state regulation. Suppliers must comply or run the risk of penalties, chargebacks, and a loss of business.

The supplier challenge is not the existence of vendor compliance programs; the problem is their lack of uniformity. It's as if retailers are yelling "Jump!" but each has a different answer to "How high?" The more commodities, growing regions, and retailers served by a supplier, the more complex and costly the compliance situation becomes.

To gain a better understanding of vendor compliance challenges and how to best address them, I spoke with industry professionals from four different organizations. Each provided valuable insight into the current and emerging requirements being imposed on suppliers, strategies for harmonizing the compliance process, and tactics for staying in the good graces of retailers without breaking the bank.

## FOOD SAFETY CHALLENGES






 Food safety is a massive compliance challenge for suppliers. They must deal with state and federal regulations, including U.S. Food and Drug Administration requirements which stem from the Food Safety Modernization Act (FSMA).


The rules focus on product safety, preventative controls, sanitary transportation, intentional adulteration, and foreign supplier verification. Accurate record keeping is key to demonstrating compliance, according to Jennifer McEntire, PhD, vice president of food safety and technology for the Washington, DC-based United Fresh Produce Association. McEntire notes that many of the regulatory requirements were *de facto* market access requirements before they became regulations.

"Keeping records of training, test results, and how your food safety system is performing is not something new," she says. "But when it shifts to regulatory requirements and compliance, there may be increased anxiety in making sure that records are accurate, legible, and retrievable in a timely fashion. You never know when an inspector will show up and ask you to show you're in compliance."

### Key Elements

Uniformity is critical to meeting compliance challenges for:

-  state and federal regulations stemming from FSMA
-  individual retailer audit requirements
-  whole-chain traceability via PTI and blockchain
-  transparency in sustainable farming and ethical business practices
-  indemnification contract modifications by retailers.

To learn more about each key element, look for the  symbols throughout the article.

*Growers and suppliers face a wide and evolving spectrum of vendor compliance requirements.*

*Evolving retail requirements*

Market requirements may go beyond state and federal regulations, with individual retailers establishing their own standards and demanding third-party audits to confirm that suppliers have a compliant food safety system.

Part of the challenge for suppliers is the one-upmanship activities of some retailers that alter or increase requirements to highlight their unmatched commitment to food safety. More, however, is not necessarily better if these additional requests do not generate greater safety.

“Each time you add information or a document, it creates additional work on the back end,” mentions Andy Kennedy, cofounder and advisor for software provider FoodLogiQ in Durham, NC. “There has to be a process developed to acquire the information, verify that you documented it properly, and then share it.”

In an effort to ease these challenges, Kennedy worked with the Produce Marketing Association and Purdue University’s Open Ag Technology & Systems Group in the development of Trellis.

Trellis provides an industry-specific framework to electronically exchange authenticated fresh produce food safety audit data and other customer-required information between trading partners.

“The documents are kept in their original form and shared as an electronic file that can go straight into the database for use,” Kennedy says.

*Seeking standardization*

Another retailer-induced challenge is the variety of auditing schemes. Kristen Granger, PhD, food safety manager for Bancroft, WI-based RPE, Inc., indicates customers generally want their suppliers to pass food safety audits that are GFSI (Global Food Safety Initiative) recognized.

However, she adds, “Certain customers want us to use certain auditors that may have slightly different questions, documentation requirements, and platforms. One may want us to use PrimusGFS and another wants a USDA audit because they have a government contract. Technically, we do two audits per farm, although they are basically the same.”

From the perspective of suppliers, a perfect world scenario would have the industry moving to a common food safety data set, information sharing framework, and audit processes. Yet given the number of organizations with profit motives involved, complete harmonization is unlikely—though GFSI, Trellis, and related efforts achieving some level of standardization may be the best hope for suppliers.

**TRACEABILITY EFFORTS**

The fundamental ability to track product across the supply chain is essential for food safety and recall activities. Each supplier must have a traceability system in place to track produce one step forward and one step back. This work is made easier by establishing lots so each can be traced separately.

“We need to know who we sold the potatoes to,” Granger states. “If the destination is Costco, did it go to a warehouse club or a distribution center?” Further, Granger explains, “We also identify where we got the potatoes from—the packing house or the farm, plus we capture more detail than the

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audit may require, including when it was harvested, the bill of lading, and the transportation company.”

*Testing and tracking*

To demonstrate RPE’s one step forward, one step back traceability within two hours, the company conducts mock recalls every six months at its year-round facilities. One of the recalls must involve packaging, which is then traced by lot number to determine if all bags are found and accounted for.

“Some customers’ contracts also require us to monitor environmental conditions for warehousing and transportation,” Granger points out. “We generally have to check the condition and temperature of the trailer before we load. Then, it’s the driver’s responsibility to conform to the requirements.”

☑ Whole-chain traceability compliance requirements will rise as more retailers participate in the Produce Traceability Initiative (PTI) and blockchain pilot tests. Back in 2013, Walmart issued a directive to its produce suppliers to tag cases with PTI-compliant labels.

Other retailers have slowly followed suit, and the Produce Marketing Association estimates 60 to 65 percent of all cases within the U.S. supply chain are now tagged with barcoded PTI-compliant labels.

On the blockchain front, Walmart, Kroger, and Wegmans are working with Driscoll’s, Dole, and leafy greens suppliers on rapid traceability back to the point of harvest via IBM’s Food Trust Network. This blockchain-enabled solution securely connects supply chain data across the ecosystem with trust and transparency.

In addition to providing provenance insights, the pilot tests are achieving optimized supply chain processes, increased freshness, improved food safety, and minimized waste and fraud.

*Added details and value?*

Kennedy sees another traceability opportunity that may drive further development of compliance requirements. As the industry learns more about how production practices impact nutritional elements of fruits and vegetables, there will be

more tailoring of seeds and more precise production practices. This, when combined with personalized nutrition and food as medicine trends, will require more information collection and sharing of supply chain data with consumers.

Once point-of-sale systems are able to consistently read these tags, Kennedy says grower information will also be tied to the product. This then “opens up the ability for micro-segmentation of products where you can provide detailed nutritional value and tailored information to customers at the package level using GTINs [Global Trade Item Numbers].”

Such batch lot traceability is an expensive and challenging proposition right now, but Kennedy believes this is where the industry will be headed over the next ten years.

**CORPORATE SOCIAL RESPONSIBILITY**

Sustainability is another major concern of consumers. They’re willing to pay more for organic and sustainably produced food, but want verifiable information before they pull out their wallets. As retailers seek to fulfill these market priorities, they require sustainability compliance audits and additional reporting from suppliers.

For some retailers, the focus goes beyond issues of pesticide use, water conservation, and crop rotation. They’re advocating corporate social responsibility with a balanced focus on people, planet, and profit.

☑ In addition to complying with the legal requirements of food safety, retailers want proof suppliers are following ethical business practices with labor, prioritizing sustainable farming practices, and pursuing economic efficiency to eliminate waste.

*Joining forces*

A number of well-known growers and retailers have partnered with the Equitable Food Initiative (EFI) in Washington, DC, to increase transparency and assurances regarding grower business practices. Standards cover labor conditions, food safety, and pest management, according to Kenton Harmer, EFI’s director of certification.

“It’s built upon labor-management collaboration with leadership teams



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working together to solve problems on the farm, and to keep the farm in conformance with EFI standards,” Harmer says.

“We help put the team in place and provide soft skills training in collaboration, problem solving, communication, and conflict resolution,” explains LeAnne Ruzzamenti, EFI’s director of marketing communications. “We then step away from the farm and let the team [advance] the operation toward the standards. When they decide they’re in compliance, they call for a third-party audit.”

After certification across EFI’s 300 standards is granted, growers are allowed to use the EFI label on products. “When product is sold to participating retailers, suppliers can charge the EFI premium, the majority of which is returned to the worker in the form of a bonus,” reports Ruzzamenti.

This holistic focus on corporate social responsibility, cross-chain stakeholder engagement, and collaboration generates positive benefits for the 30-plus farms certified by EFI. Worker recruitment and retention is better, continuous process improvement is prioritized, and audit fatigue is reduced. Working with one set of standards and guidelines like EFI is far less stressful, costly, and time consuming than dealing with the individual audit processes of multiple retailers.

## INDEMNIFICATION AND RISK

In the wake of recent produce recalls and safety advisories, indemnification and insurance have become of greater concern to retailers. McEntire says contracts have long been in place to deal with product recalls from suppliers. Should a contamination issue or other problem arise that is attributable to a supplier, then it is financially responsible for compensating the retailer.

The issue becomes murky in the event of a government advisory like the November 2018 Centers for Disease Control-issued national ban on sales and usage of romaine lettuce. This type of advisory is not necessarily covered by recall or general liability insurance; hence many retailers and other romaine lettuce purchasers were unable to recover their

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costs from suppliers during the week-long advisory.

As a result, retailers may alter their contracts and vendor compliance programs to ensure they are financially protected against such events and/or other product quality issues. McEntire confirms receiving questions about the terms of recall and general liability insurance. “What do they cover? What do they not cover? Who’s responsible for what? Things are starting to shift a bit,” she says.

“We hope an advisory of this magnitude never occurs again,” McEntire adds, “but everybody’s starting to think through how they can recoup some of their costs. They want to make sure their supply chain partners won’t leave them stranded and responsible for covering all the costs.”

☑ Suppliers would be wise to think through these indemnification questions and familiarize themselves with the contract language modifications being pursued by retailers.

## COMPLIANCE DEMANDS

Growers and suppliers face a wide and evolving spectrum of vendor compliance requirements. The challenge is to develop proactive strategies to keep pace with retailer demands and maintain required standards.

This is no easy task, and trying to operate in a business-as-usual manner will only lead to audit fatigue, compliance failures, and potential loss of business.

The experts featured in this article identified multiple options for keeping pace. First, dedicate a team member to vendor compliance. Food safety managers juggle a wide variety of responsibilities and dedicating more time to audits will detract from their primary focus. While costly at the outset, having an internal expert to oversee audit processes, answer questions, and feed the audit portals will avoid problems in the long run.

Second, standardize data capture and share accurate information. Moving away from pencil-and-paper or home-grown spreadsheets is essential to accurate and timely data availability for analysis and reporting. Also, adopting appropriate tools and a framework like

Trellis can streamline the exchange of audit and compliance data between trading partners.

Third, participate in industrywide initiatives. Proactively adopting GFSI standards, engaging in PTI, and working with organizations like EFI will demonstrate a supplier’s capabilities and its commitment to vendor compliance. In some situations, this will serve as a proxy for a retailer’s program and avoid the need to participate in yet another unique audit.

Although the tactics discussed above won’t preclude every retailer from pursuing a tailored vendor compliance initiative, it may encourage some retailers to adopt more standardized processes. Plus, taking an active approach to compliance will ensure suppliers understand fundamental requirements and are well positioned to successfully navigate the long road ahead. **BP**

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