


3PL Partnerships: The Smarter Approach to Retail Compliance Management





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In the bustling world of retail, the dance between vendors and retailers is as intricate as it is impactful. Thriving in this space means securing shelf space, both in-store and online, and navigating the challenges of retailer compliance. Failure to do so? Well, it can cost you—big time.

What Are Retail Compliance Fines & Regulations?

Retail compliance, sometimes called vendor compliance, is a set of regulations each retailer puts in place to standardize the receipt of products from their vendors. The regulations are geared to benefit the retailer, penalizing vendors who cause delays, provide sub-par product quality, and other issues. A vendor scorecard can be instrumental in tracking these penalties for a retailer, ensuring they are able to track each vendor's compliance with these standards.

Typically, vendors will receive a copy of a retailer's compliance standards and documentation during vendor setup. If changes are made to the documentation, some retailers will alert vendors. In other cases, it's up to the vendor to keep up to date with changes. Details vary from retailer to retailer, but most retail compliance fines, or chargebacks, are centered around the following issues:

- Product, packaging, and pallet labeling errors
- Damaged goods or packaging
- Failure to send an Advanced Shipping Notice (ASN), or sending an incomplete, incorrect, or late ASN
- Failure to comply with a retailer's routing guide or transportation management system (TMS)
- Sending shipments to the wrong location
- Shipments not arriving on time in full (OTIF) or short shipping
- Fill rate challenges including inadequate inventory
- Electronic Data Interchange (EDI) requirement non-compliance

There are numerous retail compliance regulations, and they vary by retailer. Failure to comply with each retailer's requirements can be costly.

One of our clients, a major appliances manufacturer, saw an incredible **75% reduction** in Amazon chargebacks after we worked with the them to improve their retail compliance & fulfillment processes. This partnership resulted in almost **\$1 Million** in savings over a 12-month period.



Navigating the Different Retail Compliance Management Methods

Vendors aiming to establish and maintain successful relationships with retailers typically take one of two approaches to managing retail compliance requirements: either in-house or partnering with a third-party logistics (3PL) provider. Each option has its own benefits and challenges, which greatly influence how a business operates.

In-House Management

When vendors choose to manage retail compliance in-house, they take on the full responsibility of meeting the complex and varying requirements set by each retailer they work with. This approach has both significant advantages and challenges, which need careful consideration:

Pros:

- **Control:** Companies can maintain full autonomy over their logistics and compliance strategies by managing compliance in-house. This control may allow for a tailored approach that aligns with the vendor's operational methods and business objectives.
- **Direct Oversight:** With in-house management, vendors can gain direct oversight over every aspect of their compliance process. This hands-on approach can facilitate quicker decision-making and allows for real-time adjustments and responses to compliance issues as they arise.



Cons:

- **Resource Intensive:** Effective in-house management of retail compliance requires significant resources. Companies must invest in staffing teams to oversee and manage compliance requirements, plus the infrastructure and IT needs for compliance. Additionally, dedicated staff training programs and professional development are essential to keep the team updated on the latest retail standards and procedures, adding to operational costs. Each of these items can be a challenge to source and fund, and can add strain to resource needs as a business grows and scales its operations.
- **Risk of Non-Compliance:** The complexity and breadth of compliance requirements pose a considerable challenge for many companies, especially small to medium-sized enterprises. Smaller teams may find it challenging to thoroughly cover all aspects of compliance, which can increase the risk of oversight or errors. These mistakes can lead to costly chargebacks, which need dedicate team members to refute if a company wants to challenge the fine. Furthermore, repeated compliance failures can damage business relationships with retailers, potentially leading to a loss of business opportunities.
- **Scalability Issues:** Scaling in-house compliance processes can be challenging as the business grows and expands into new markets or adds new retailers with different compliance demands. The need to constantly upgrade systems, hire, and train staff on a larger scale can strain resources like labor and money. It also drives focus away from what the company excels at: creating quality products loved by their consumers.



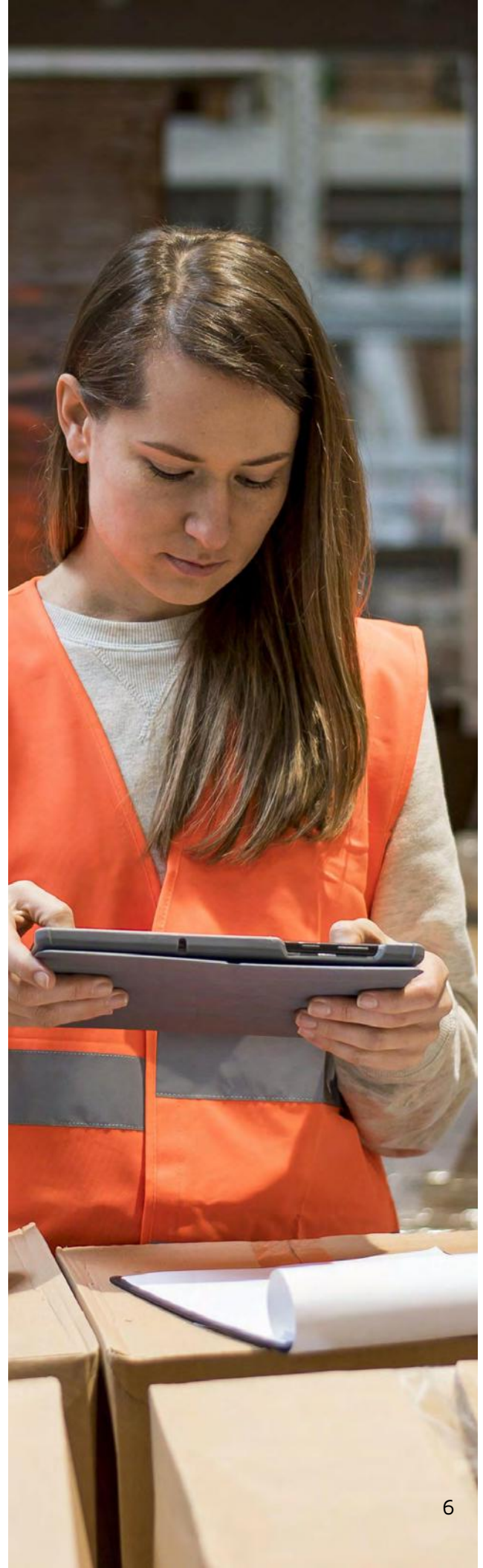
For companies considering in-house management, weighing in-house management pros and cons in the context of the company's specific operational capabilities and business goals is crucial. **The steep resource requirements and risks associated with non-compliance may prompt consideration of alternatives, such as partnering with a 3PL provider that specialize in retail compliance.**

Partnering with a 3PL

Partnering with a 3PL provider can offer a streamlined and expert approach to navigating the complex retail compliance landscape. This compliance management method is increasingly popular among vendors who aim to leverage specialized expertise and reduce operational burdens. Below, we expand on the pros and cons of this approach:

Pros:

- **Expertise and Experience:** 3PLs bring specialized knowledge and extensive experience managing retail compliance across various industries. This expertise is crucial in avoiding common pitfalls that lead to poor vendor scorecards and fines, and is essential to disputing any chargebacks imposed by retailers. By leveraging resources and relationships to stay abreast of the latest retailer requirements and regulatory changes, 3PLs help maintain compliance without the need for vendors to constantly update their knowledge and systems. This can significantly enhance supply chain efficiency, with 3PLs implementing best practices refined across a diverse client base.
- **Cost-Effectiveness:** Partnering with a 3PL can be more economical than managing compliance in-house. The cost savings come from leveraging the 3PL's existing infrastructure and technology, aligning with compliance requirements. This setup eliminates the need for vendors to make upfront investments in specialized staff training, technology, and systems development specifically for compliance. Additionally, 3PLs often have economies of scale that can reduce shipping and handling costs, further improving the financial efficiency of the logistics operations.
- **Scalability:** 3PLs are designed to adapt to fluctuating market demands, making it easier for vendors to scale their operations up or down without the logistical constraints associated with in-house management. This flexibility is particularly advantageous for businesses experiencing seasonal spikes in demand or those exploring expansion into new markets. With a 3PL, scalability is managed more efficiently, allowing vendors to focus on their core business without being hindered by logistical complexities.



Cons:

- **Potential for Less Control:** When outsourcing to a 3PL, vendors give up a degree of control over their logistics and compliance processes. While 3PLs handle the operational details, the vendor must trust that the 3PL adheres to all compliance requirements and handles operations according to agreed standards. A great way to mitigate this risk is establishing monitoring systems and alignment meetings with your 3PL provider, promoting visibility and cross-team communication.
- **Dependence on Another Company:** Relying on a 3PL for crucial logistics and compliance management introduces a dependency that can be risky if the partnership experiences disruptions. The vendor is directly affected if a 3PL fails to meet compliance standards or faces operational challenges. This dependence makes it essential for vendors to carefully select a reputable and reliable 3PL partner and to establish a strong working relationship to safeguard against potential challenges.

For many vendors, the advantages of partnering with a 3PL –access to specialized expertise, cost savings, and scalability – outweigh the potential cons, particularly when the vendor lacks the resources or capacity to manage compliance effectively in-house. **Choosing a 3PL partner who demonstrates a robust compliance and reliability track record is critical to minimizing risks and maximizing the benefits of this collaborative approach.**



The Case for Partnering with a 3PL: Backed by Data

The resource intensity and risk of non-compliance make managing retail compliance in-house a challenging option, especially for businesses without a dedicated compliance team. On the other hand, partnering with a 3PL delivers cost efficiency, ensures scalability, and continuously optimizes compliance processes. Given the complexity and stakes involved in retail compliance, leveraging the specialized skills and resources of a 3PL provider is often the more strategic and safe choice for vendors looking to expand and thrive in competitive retail markets.

A study from the [Council of Supply Chain Management Professionals \(CSCMP\)](#) underscores the benefits of partnering with 3PL providers. According to their research, companies that partner with 3PL providers report an average reduction in logistics costs by 11% and an average decrease in inventory costs by 6%. These cost savings add up fast to benefit a vendor. Moreover, the study highlights improved order fulfillment accuracy and reduced delivery lead times, contributing to better vendor scorecards and fewer penalties.

The Derby Difference

A proud provider of 3PL services, Derby Supply Chain Solutions brings over 45 years of experience in navigating the complex landscape of retail compliance. With a track record of satisfied clients across the United States, we work in tandem with our clients to provide:

- **Expertise in Retail Compliance:** Our extensive retail compliance experience ensures that your products meet retailer-specific requirements efficiently, reducing the risk of costly penalties. Paired with a dedicated quality team and strict compliance practices, we provide vendors visibility and reliability throughout the logistics process with clear communication and dedicated portal access.
- **Cost Savings:** Minimize your financial losses due to non-compliance or short payments and allocate resources more effectively across your operations. Our continued success in meeting compliance regulations and our ability to provide 3PL services at scale enables our customers to explore new retail opportunities without the financial burden of managing retail compliance alone.
- **Scalability and Flexibility:** Our innovative WMS and 3PL solutions allow us to quickly adapt to changing market demands. Benefit from continual process improvements and our network of resources, ensuring enhanced efficiency and competitiveness for your brand.

Embrace the Future of Retail Compliance with Confidence

Transitioning your fulfillment operations to a 3PL provider like Derby isn't just about outsourcing – it's about strategically aligning with a partner who propels your business forward. With Derby, you gain a partner committed to your success in the retail space. [Contact our team today](#) to discover how we can tailor our solutions to help you master retail compliance and grow your business.

