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The Compliance Beast Of Food Retail Supply Chains

By PYMNTS

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Tightening regulations have introduced loftier compliance burdens to global supply chains, made even more complex and challenging as companies do business with thousands of vendors across borders. This is true for any industry, but perhaps even more so in the food retail space, where regulations can be as much about public health and safety as they are about money laundering and fraud.

The burden of regulatory compliance came to a head in the U.S. food retail market with the adoption of the Food Safety Modernization Act (FSMA), introduced by legislators in 2009 and signed into law in 2011.

Randy Fields, chairman and CEO of **ReposiTrak** parent company **Park City Group**, said this legislation exemplifies the difficulties of supply chain compliance in the food sector, and demonstrates the limitations of technology in automating compliance and due diligence.

"It created an enormous regulatory burden up and down the supply chain for food," he told PYMNTS in an interview. "In the last several years, you've seen the environment, which was already relatively stringent, become even more stringent."

For food retailers with thousands — or even tens of thousands — of supplies, due diligence is far from simple. The biggest hurdle in the area of supply chain compliance is the volume of paperwork and documents that must exchange hands to prove that a company and its entire supply chain is compliant with these U.S. regulations, even if a vendor is not in the U.S. While the FSMA and other food-related regulations have certainly forced the industry to adopt what Fields said is "a higher degree of seriousness" about supply chain compliance, they have also introduced a paperwork backlog that can stall business operations, including vendor payments or time-sensitive product sourcing and restocks.

"Each of these suppliers [need] to provide some number of documents to prove they are compliant, ranging from a certificate of insurance to a food safety audit to a manufacturing audit, and so on," he said. "It's not unusual for people to be handling tens of thousands of documents, trying to determine if they are within the bounds of compliance."

The Limitations Of Tech

The increase of regulatory burdens on the food retail market and elsewhere has also given rise to the RegTech industry, one that has seen half a billion dollars in startup funding in the first quarter of 2018 alone — equating to **more than half** of the capital RegTech startups raised for the entirety of 2017. Recent **KPMG** data found that RegTech funding jumped to $1.37 billion by the end of Q2 2018.

The industry promises to automate due diligence tasks and help companies remain updated on regulatory changes, thus avoiding massive fines and reputational damage in cases of non-compliance. However, **adoption of RegTech** is rarely straightforward, particularly for companies with wide supply chain webs with thousands of vendors.

Fields emphasized that technology can certainly aid in compliance, particularly when it comes to the aggregation and assessment of key documents that businesses and their vendors must provide. In truth, though, technology can fall short.

"We use technology as the basis for gathering, and for maintenance of, the documents. But that's only a piece of it. The real problem is getting people to provide the documents, getting companies to be willing to be compliant." he said. "We found that you have to add this perfect cocktail mix of people *and* technology."

That's a blunt realization in the era of RegTech, particularly as technologies like artificial intelligence (AI) and **blockchain** position themselves as solvers of document and data burdens. The appeal of blockchain for many in the supply chain management space is its promise to provide a single record of truth on which companies can store data and share information with the right parties — a compelling case for compliance and due diligence.
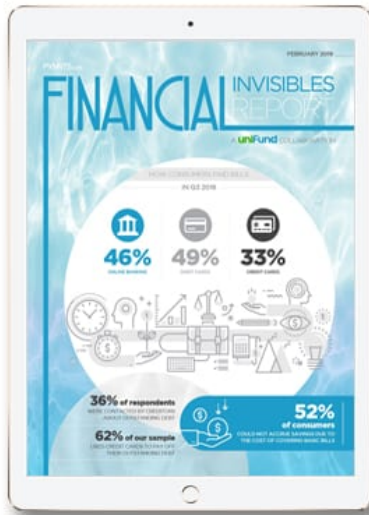
Fields isn't convinced, however, describing AI and blockchain as the technologies that are merely "in vogue" today. While these tools have the potential to store data securely, they do not necessarily have an impact on what's truly key for supply chain compliance: participation from professionals to provide the information in the first place.

It may be surprising to some people that companies are still reluctant to provide the necessary documentation to retain their corporate customers, but Fields said that is often the reality, one that technology is unable to address.

"When you tell people that their customers need them to provide documentation so they can continue to do business, and you email them to say that if they don't provide documentation then they'll lose a customer, and you need up [to] a 16.8 percent participation rate — do you [think] the problem is technology, or is it people?" said Fields. "It's people."

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