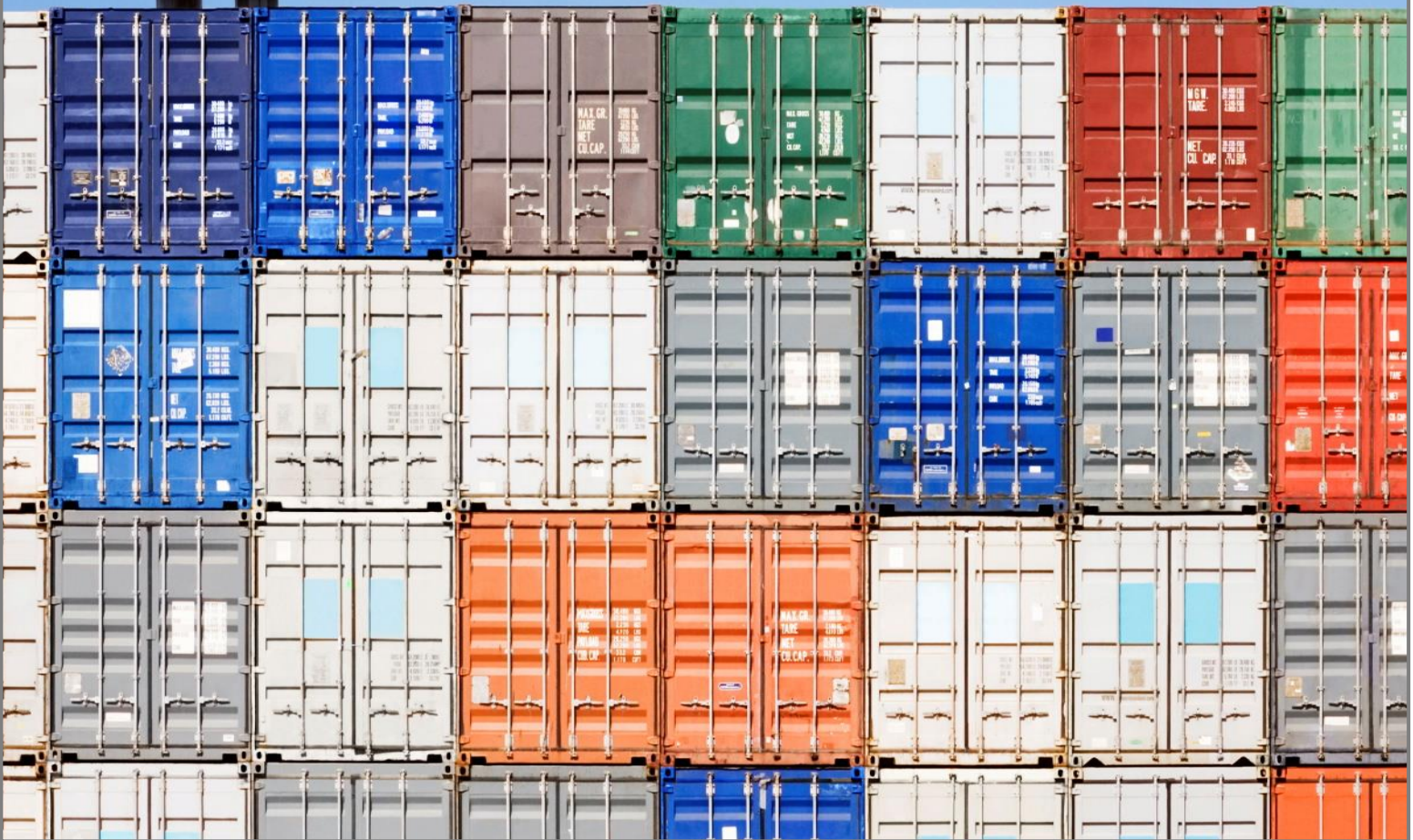# SCAN INSIGHT

Quarterly Member Newsletter

SCAN INSIGHT

CHAIRMAN'S CORNER

Our momentum over the last couple of years has been growing. In 2017, we will do our very best to provide even more benefits to help our members achieve the highest levels of supply chain security.

In this issue, we report on our current progress as we continue to move SCAN forward as the premier C-TPAT Security program for U.S. Importers. I wish to take this opportunity to acknowledge the tremendous work delivered by our Board of Directors this year, ably assisted by our Past Chairman, David Blackorby. I also wish to thank all of our partners/ members that have worked with us in 2016.

Now that SCAN has been in operation for a full 2 years, it is time to set objectives and goals for the organization going forward. As our membership has now grown to over 20 strong with more than 8,000 factory locations, our focus needs to be multi-faceted. One big area of focus is the value proposition that SCAN membership brings. The BOD and members should continue to trumpet with both factories and other importers this value proposition. Home Depot, for example, has avoided $125,000 in duplicate audit costs by capturing shared audit reports. The audit fatigue focus pays real dividends when reviewed in this manner and should be a key area of focus when recruiting new members or in discussions with management.

Going forward there are multiple areas that SCAN can look to as platform enhancements. With the C-TPAT minimum security standard re-write pending, SCAN will quickly incorporate these changes into the SCM portal to provide its members with a streamline way to acknowledge compliance with the new standards. Expansion options include evaluation of other service providers including transportation and destination warehouse providers. Social environmental compliance is yet another option that our board of directors is considering. As well as utilization of the SCM tool offered by BSI to map and monitor freight forwarders, customs brokers, ocean operation providers, and origin container management companies.

The fact that SCAN exists is a testament to you and your organization, however our continued success is dependent upon your guidance and input.

"While we are making significant progress there is always so much more to do because the security threats we face seem to increase every day. However, as a SCAN member, you will have an advantage because in the fight against terrorism and ensuring cargo security, we are all in this together."

- Kendra Riley, SCAN Chairman

EXECUTIVE SUMMARY

With expanding global markets and an increased demand on supplier compliance, the SCAN (Supplier Compliance Audit Network) Association continues to lead the industry's standard of improving supply chain security while reducing audit fatigue. Celebrating its one-year program mark in May, SCAN continues to demonstrate its unwavering commitment to improving supplier audit efficiencies through shared collaboration with its program's participants.

SCAN's members are the program's most important asset. With an impressive network comprised of fortune 500 companies, SCAN members generate a combined annual revenue of over $800 billion. In addition, SCAN continues to expand. The SCAN membership has grown to 22 partner companies across 5 different industry sectors, including Retail, Food, Apparel, Aerospace, and Pharmaceuticals.

In addition to membership growth, this quarter also witnessed significant shared audit cost savings to suppliers of over $1.26 million, proving just how effective SCAN's shared audit concept truly is and increasing the program's shared member rate to 26%. To date, 3,404 audits were conducted in 51 countries, with the top most audited countries identified as China, India, Bangladesh, Vietnam, and Mexico. Currently, there are 9,300 active suppliers in the audit repository, with 13% of these shared by more than one SCAN member. The average compliance score of audits this quarter was 90%.

SCAN's robust CAPA (Corrective and Preventative Actions) program also surpassed historical levels this quarter, with over 14,300 successfully implemented CAPAs to date, bringing the program's CAPA completion rate to 89% - a 9% improvement since last quarter. SCAN's decision to increase vigilance against security threats led to the revision and implementation of the program's newest assessment version, a more rigorous audit questionnaire. In addition, improved measures of security criteria and compliance performance, through its managed CAPA program, now include the recommendation of best practices as an action to suppliers. Additional quarterly program statistics can be found in the next section.

Welcome New Members!
We are pleased to welcome two new SCAN members:

Cabela's & Hallmark Cards!

Join Us!
We will be holding our annual member kick-off meeting on March 9, 2017 in Scottsdale, Arizona! This meeting is open to all members and interested parties to learn more about the association, network with members, and discuss our 2017 initiatives and goals.

For more details, please contact us at:
info@scanassociation.com

About this Issue
This issue also features exciting new system updates with robust enhancements to the SCAN Audit Repository and the SCM tool, a country risk review of India, committee updates, a member testimonial, and a message from the Board, as well as upcoming events and information on how to join SCAN. As we kickoff 2017, SCAN remains optimistic of the bright future ahead and the potential for exciting new avenues to be discovered and explored.

2016 Q4 SCAN STATISTICS

The SCAN membership includes some of the top fortune 500 industry leaders, including Walmart, Kroger, Boeing, Home Depot, Target and more. These organizations are utilizing the SCAN Audit Repository to help streamline their audit programs globally.
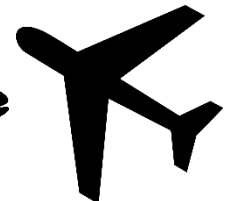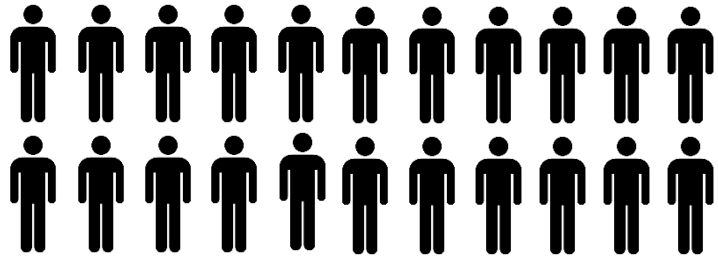
$800 Billion

In combined annual revenue between the membership

22
Active Members

Representing Multiple Industries: Retail, Pharmaceuticals, Apparel, Food and Aerospace

26% of the conducted audits are shared by more than one SCAN Member. "A total of 1,263 audits were saved for SCAN suppliers bringing a cost savings of over $1.26M to supplier audits costs."
- Kenneth McElroy, The Home Depot

13% of suppliers in the SCAN Audit Repository are shared by more than one SCAN member.

Audits have been conducted in 51 countries worldwide. The most audited countries are China, India, Bangladesh, Vietnam and Mexico.

887
Shared Audits

9,300
Active Suppliers

3,404
Audits Conducted

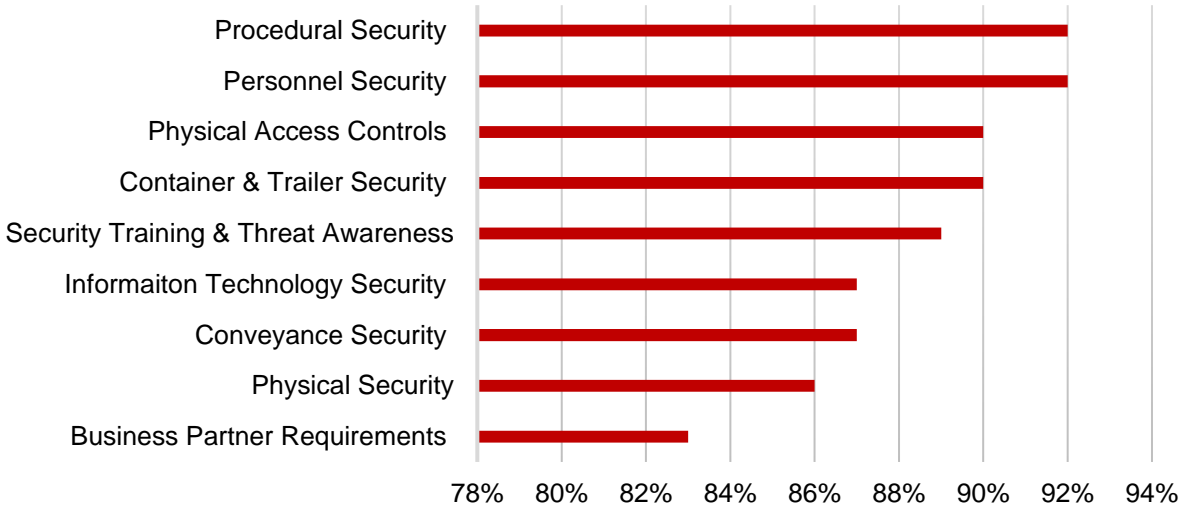**Mexico - 2%**   **Bangladesh - 4%**   **Vietnam - 2%**   **India - 7%**   **China - 72%**

Compliance by Category

The graphic below shows the compliance scores by category for all conducted SCAN audits.
Average compliance score in Q4 2016 was 90%.

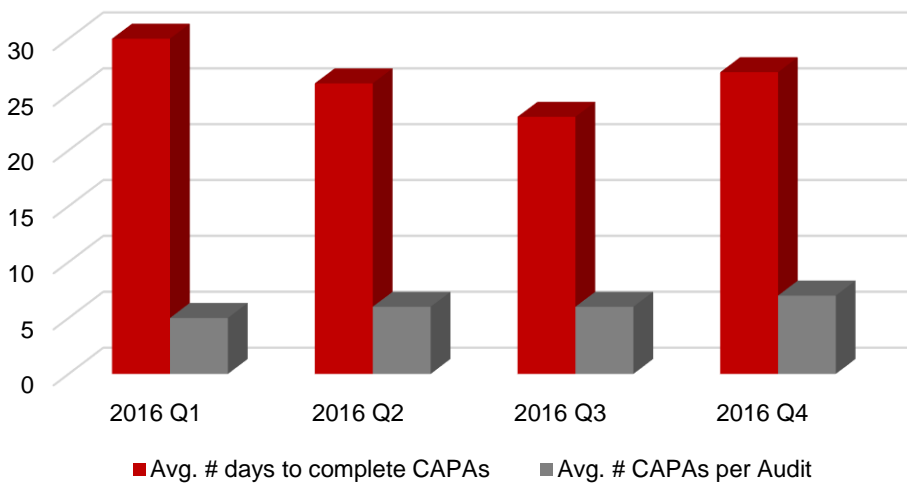## Corrective and Preventative Action - CAPA Status

SCAN successfully completed over 14,300 CAPAs in 2016.
The average compliance score after CAPA completion was 96% and CAPA completion rate overall was 89%.

Average number of days to complete CAPAs to date – 32
Average number of days to complete CAPAs in 2016 Q4 – 27

In Q4 2016, SCAN expanded CAPA assignment from only "Must" questions to "Must", "Should" and "Best Practices". If non-compliance was determined, CAPAs were generated and assigned to the factory explaining the rise in both the average number of days to complete CAPAs and CAPAs assigned per audit.

SCAN AUDIT REPOSITORY UPDATE

The SCAN Audit Repository provides SCAN members with access to a wealth of audit reports conducted since the program's inception in 2015. In the audit repository, members can search and identify shared factories with other SCAN members, monitor status of any audits in progress, retrieve completed audit reports, and order SCAN audits for new factories or reorder for existing. Should the SCAN member have access to a SCAN Premium account, there are additional features that will allow the member to sync the audits directly to their account. More information on SCAN Premium account access and features follow this section.
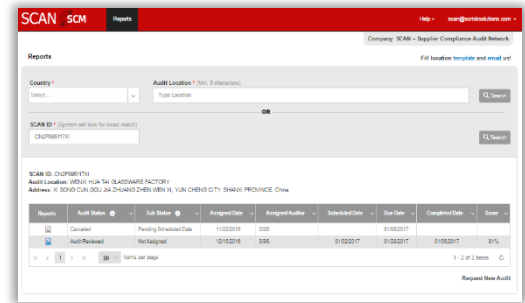
The following are new enhancements released in November to improve the look and functionality of the SCAN audit repository and process flow. These new features included:

- Auditor Access Role
- Status and Sub-Statuses

Auditor Access Role

The SCM Auditor Role and corresponding Web Portal provides the audit firm with access to complete the audit in SCM by using an available online or offline method. The audit firm now has the ability to upload the report directly into the system, eliminating the need to send reports to the SCAN Program Administration team and which in turn will decrease the amounts of reports sent back for revision due to errors or missing attachments.This will allow for better efficiencies and faster throughput time for SCAN Members.
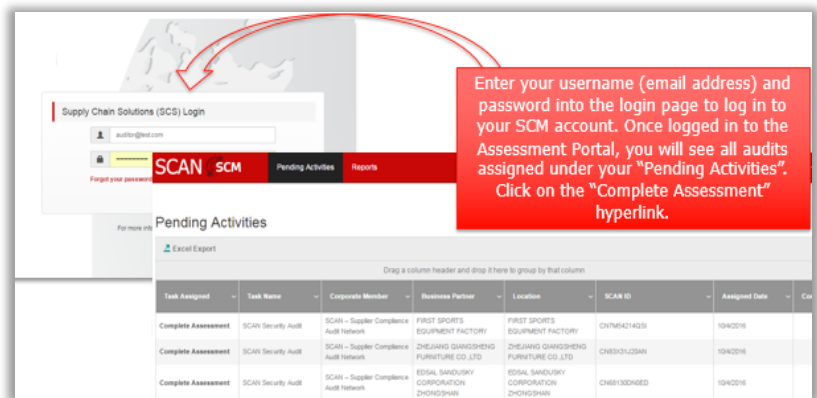
System capability has also been improved to handle a much larger volume of audits in a more secure and efficient method. This streamlined process allows for increased security and improved automation in relation to the assigning of audits and the sending of notifications through SCM system rather than individually created emails to the audit firm. Addtionally, audits can now be accessed via the auditor's pending activities page and is easily tracked and monitored for completion.

Revised Status & New Sub-Statuses

Allows for the ability to see SCM's revised audit Statuses, including new Sub-Statuses, in the SCAN Audit Repository and the SCM system. Statuses such as *Audit Assigned, Audit in Progress*, and *Audit Completed* now appear, along with CAPA Statuses.

Reports	Audit Status ⓘ	Sub Status ⓘ	Assigned Date	Assigned Auditor	Scheduled Date	Due Date	Completed Date	Score
🖼	CAPAs Assigned	CAPAs Rejected	11/23/2016	Intertek	12/21/2016	01/07/2017	12/27/2016	89%

|< < 1 > >| 20 ∨ Items per page   1 - 1 of 1 items ↻

Request New Audit

This dialed-down version of Sub-Statuses provides SCAN Members with more detailed updates of the progress of audits, including *Escalation in Progress* or *Pending Schedule Date*, as well as the progress of audits in CAPA, including *CAPAs Rejected, Overdue*, or *Incomplete*. Definitions, for both Statuses and Sub-Statuses, are available as well in the Repository and SCM by clicking on the Information Icon next to the Audit Status and Sub Status column.

Audit Sub Status Definition

Sub Status	Definition
CAPAs Rejected	CAPAs returned to the audited facility due to insufficient corrective action.
CAPAs Overdue	CAPAs are not completed by due date.
CAPAs Incomplete - Closed	Audited facility failed to successfully close their CAPAs. Audit is closed.
Pending Scheduled Date	Primary sub-status of an audit as soon as it is assigned.
Scheduled	Audit date confirmed.
Escalation In Progress	Audit is escalated to appropriate contact for resolution.
Under Appeal	Audit is being challenged by either the Corporate Member or the Business Partner. No further actions on next steps until directed by the Corporate Member.
Audit Hold	Audit is being held temporarily before any Corrective Actions are assigned.

SCM SYSTEM UPDATES AND IMPROVEMENTS

The Supplier Compliance Manager (SCM) tool, BSI's web-based risk assessment and audit management solution, eliminates the manual management of assessing suppliers within a supply chain with a more streamlined, automated system that analyzes and quantifies audit results. SCM can strategically evaluate risk and compliance for Supply Chain security programs, in particular the SCAN program, by intiating on-site audits that will assess a supplier's compliance and identify those areas of high risk.

Upon audit completion, the SCM tool will generate a full audit report that can be available not only in the SCAN audit repository but in the member's account with SCM Premium account access. Upon ordering the audit, the audit will also be synced to their individual account. The SCAN program management team will then review and assign necessary corrective and preventative actions (CAPs/CAPAs) to the supplier and SCM Premium accounts will be updated daily for the members to monitor progress of the actions until completed.

Other advantages of a SCAN Premium account linked with the SCAN Audit Repository include having all your factories in one area to monitor easily, a dashboard to reflect progress and compliance measures, and a customizable risk builder to allow for selecting the appropriate levels of geographic influence to be infused into the completed audit scores along with the compliance element. In addition, a geographic map representation of all the factory locations, along with other reporting capabilities,are exportable from individual accounts at any time.

System Improvements to SCAN Premium Accounts
With a growing membership and changes on the horizon for security standards, it is imperative that the tool continues to foster an enhanced capability to improve the program overall. As of November 1st, BSI released the following exciting new enhancements and features to its SCM tool:

- Automation/Synchronization
- New Dashboard Filters

Automation – Synchronization Feature
This feature allows for completed audits, both past and in progress, that have been uploaded to the SCAN Audit Repository to be synced to a Premium member's SCM account. When a SCAN member orders an audit a member of the program management team will add the report to member's account upon completion, including post-CAP/CAPA data. If a SCAN ID already exists for a location then the member now has the ability to add that completed report to their account by switching the sync icon to "on." The sync feature will only be available to select if the SCAN ID is listed within the location information of a member's account. Sub statuses are now also included in the automation feature, allowing for synced audits to update in a SCAN member's premium account.
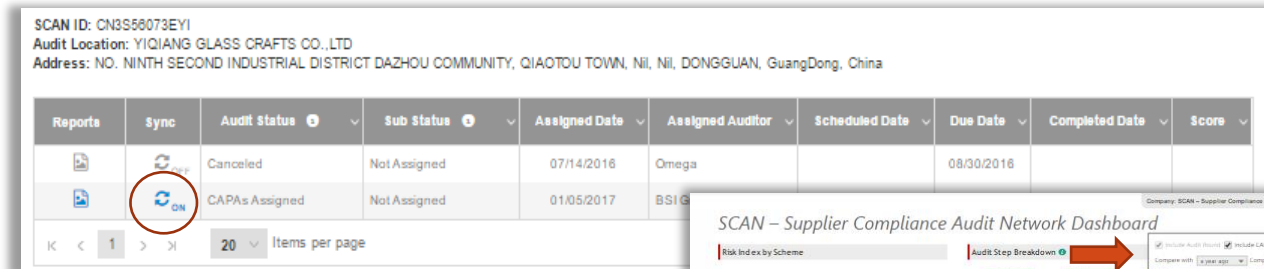
Dashboard Filters
New filters available in the SCM Dashboard allow Corporate Members to filter by pre-CAPA Score only or post-CAPA score. The Dashboard can also be filtered month by month or year to year, to identify trends and provide more specific risk analysis.

Major Shipping Facilities in Countries with Anti-Western Terrorism Concerns

bsi. SCREEN

- MAJOR AIR CARGO AIRPORT
- SUPPLY CHAIN TERRORISM
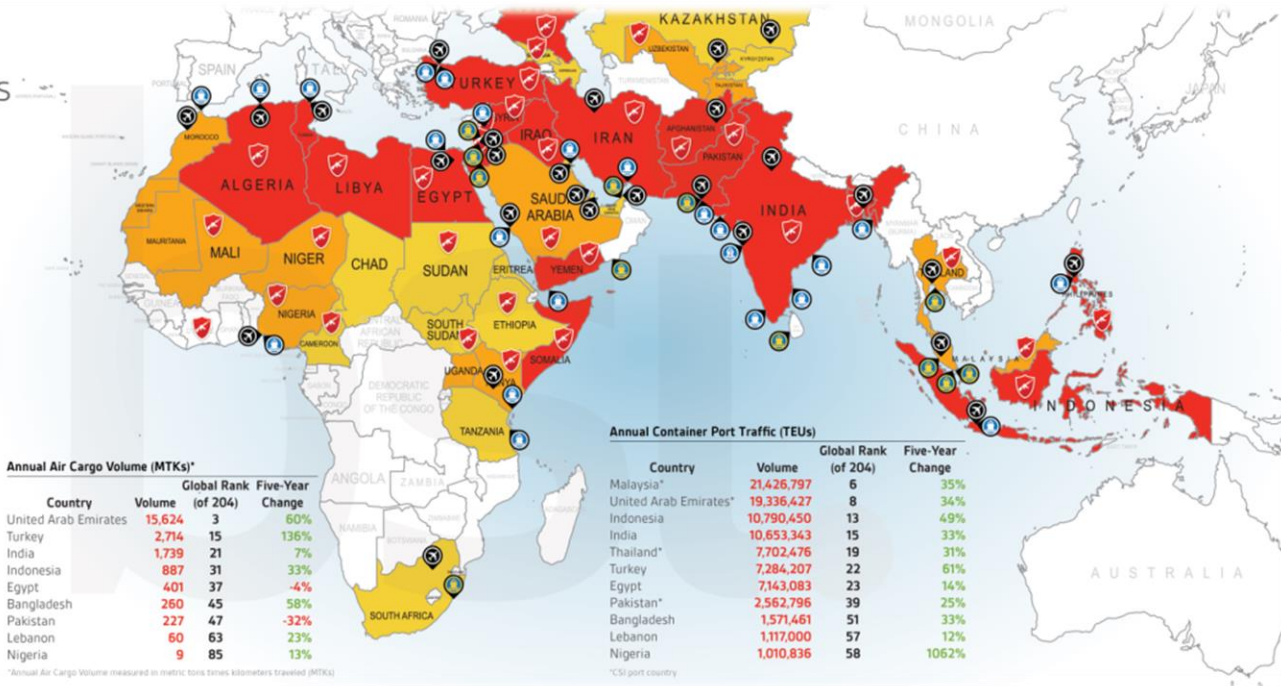- MAJOR CONTAINER SEAPORT
- CSI PORT

SEVERE
HIGH
ELEVATED
GUARDED
LOW

ANTI-WESTERN TERRORISM
Level of business and supply chain threats posed by terrorist groups with ideologies that target Western interests.

Annual Air Cargo Volume (MTKs)*

Country	Volume	Global Rank (of 204)	Five-Year Change
United Arab Emirates	15,624	3	60%
Turkey	2,714	15	136%
India	1,739	21	7%
Indonesia	887	31	33%
Egypt	401	37	-4%
Bangladesh	260	45	58%
Pakistan	227	47	-32%
Lebanon	60	63	23%
Nigeria	9	85	13%

*Annual Air Cargo Volume measured in metric tons times kilometers traveled (MTKs)

Annual Container Port Traffic (TEUs)

| Country	Volume	Global Rank (of 204)	Five-Year Change
Malaysia*	21,426,797	6	35%
United Arab Emirates*	19,336,427	8	34%
Indonesia	10,790,450	13	49%
India	10,653,343	15	33%
Thailand*	7,702,476	19	31%
Turkey	7,284,207	22	61%
Egypt	7,143,083	23	14%
Pakistan*	2,562,796	39	25%
Bangladesh	1,571,461	51	33%
Lebanon	1,117,000	57	12%
Nigeria	1,010,836	58	1062%

*CSI port country

SCAN Country Risk Highlight: India

SCAN's risk-based audit approach fulfills C-TPAT and AEO security requirements to incorporate geographical threats as part of the supplier risk assessment. SCAN's approach has been noted by C-TPAT an Industry best practice and uses three risk variables to quantify local threats: Unmanifested Cargo Introduction, Supply Chain Terrorism and Anti-Western Terrorism. Each quarter we will highlight a SCAN high volume country risk assessment with India being first.

India is one of the most problematic countries in the world for supply chains and business operations, which suffer from a wide range of significant risks. Other related issues, such as pervasive supply chain corruption, often compound many of the challenges that businesses face in India.

Unmanifested Cargo Introduction

Much of the Elevated risk of Unmanifested Cargo Introduction stems from the relatively frequent introduction of illegal drugs into cargo that occurs in the country. Weapons smuggling in cargo is also a key issue in India, with rifles originating in the country most recently used in the July 2016 Dhaka café terrorist attack.

Illegal Drug Seizures From Cargo Originating in India
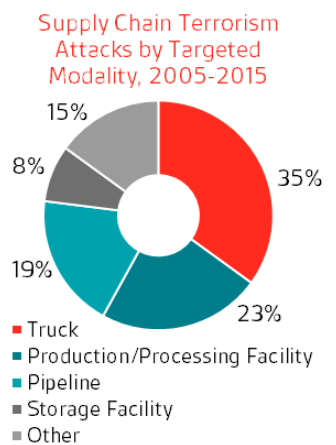

29%
38%
33%

■ Air ■ Truck ■ Sea
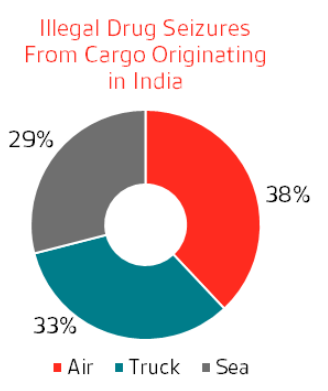
Anti-Western Terrorism

India faces a Severe threat of Anti-Western Terrorism, and the country ranks among the world's highest-risk countries for anti-Western terrorism threats. A significant proportion of terrorism in India is related to three separate conflicts that continue to trouble the country's poorest regions: an ongoing insurgency in the Muslim-majority province of Jammu and Kashmir, several tribal insurgencies in India's restive northeastern states, and a left-wing insurgency by Maoist rebels throughout much of eastern India. A number of anti-Western terrorist groups continue to mount attacks against civilian, government, and foreign targets across India.

Supply Chain Terrorism

India faces a Severe threat of Supply Chain Terrorism. Terrorists target virtually the entire range of shipping modalities in the country, including highways, railways, cargo trucks, freight trains, pipelines, and production facilities. Terrorists have also exploited the supply chain to facilitate their attacks.

Supply Chain Terrorism Attacks by Targeted Modality, 2005-2015

15%
8%
19%
35%
23%

■ Truck
■ Production/Processing Facility
■ Pipeline
■ Storage Facility
■ Other

SCAN INSIGHT

Audit Committee Report - Kenneth McElroy, The Home Depot

An updated version of the SCAN audit (version 9) was launched in November, which included simplified wording for the auditor guidance. The intention of the simplified wording is to provide direction to the auditor regarding examples of acceptable answers to a question. The original guidance was often perceived as restrictive and specific. For example, *"was a hammer available to perform a tap test during the 7-point trailer inspection?"* vs *"was a tool or implement provided to perform the tap test?"*

Upcoming plans include beginning work on the next audit questionnaire that will incorporate the updated C-TPAT minimum security criteria expected to be published for C-TPAT membership review in 2017, as well as development of analytics to compare the results of multiple audits on a specific factory. The idea is to develop a set method to evaluate specific areas where improvements were made or where activities evaluated initially as acceptable may have "lost some level of emphasis."

SCAN Member Testimonial - Kelli Lapp, Cabela's Inc.

While audits are a fundamental component of most supply chain security programs, they are also among the costliest and time-consuming activities for companies to manage. By using the Supplier Compliance Audit Network (SCAN) Program, our company has been able to improve audit efficiencies, decrease the number of audits ordered, and increase our flexibility and response time to meet the changing demands of our supply chain.

The number of shared audits available for immediate access on the SCAN platform exceeded my expectations. As the network's membership continues to grow and expand, the number of shared audits can only increase. Whether audits are ordered through the network platform or through a SCAN analyst, the process has been quick and simple, allowing me to direct my time and energy toward managing results. SCAN was a cost-effective investment that immediately paid for itself. It was a great decision for us.

What's on the Horizon from the Board Vice Chair – Lisa Schulte, Target

With a solid foundation in place after establishing the association in 2014, it's time for us to strategically plan for the future. The SCAN Board of Directors is in the process of identifying key strategic priorities for the association to go after in the short, mid, and long term. Once solidified, the board will share out the strategic roadmap with the SCAN membership. This information will help you understand and share with your company's leadership the value proposition of your participation in the association.

The board looks forward to sharing this information with you in 2017!

SCAN BOARD OF DIRECTORS AND COMMITTEE CHAIRMEN

Kendra Riley
The Home Depot
Board Chair

Lisa Schulte
Target Stores
Board Vice Chair

Pat Cerisano
Husky Injection Molding
Board Treasurer

Stella Bray-Conrad
Walmart Stores, Inc.
Board Secretary

Ken McElroy
The Home Depot
Audit Committee Chair

Kelli Lapp
Cabela's
Service Provider Chair

Jennifer Kissner
Newell Brands – Jarden Group
Member at Large

Yvettee Estrada
JC Penney
Membership Committee Chair

Walter Fong
Levis Strauss & Co.
Marketing Committee Chair

Beth Unger
Columbia Sportswear
Member at Large

Open Position: IT Committee Chair

If you would like to be considered for the open position
or participate in one of our committees, please contact
us at info@scanassociation.com to learn more!

BECOME A MEMBER!

Join various industry leaders, such as the members listed below, in becoming an official SCAN Member! Contact to learn more about the association, membership options and the shared audit repository! Contact us at info@scanassociation.com.

- Barnes & Noble, Inc.
- Cabela's
- Canadian Tire
- Carter's, Inc.
- Coleman Company, Inc.
- Columbia Sportswear Company
- Hallmark Cards, Incorporated
- Husky Injection Molding Systems
- Jarden
- JCPenney
- Kroger
- Levi Strauss & Co
- Meijer, Inc.
- Patagonia, Inc.
- Rawlings Sporting Goods Company
- Renfro Corporation
- Target
- The Home Depot, Inc.
- Walmart
- Wolverine Worldwide

Visit our website to learn more about the SCAN Association, www.scanassociation.com

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SCAN Anti-Trust Statement

Our association understands the importance of antitrust compliance. Our goal is to avoid the appearance of impropriety. We make every effort to avoid any discussion of prices, pricing policies, terms and conditions of doing business, or of course any sort of market allocation. We also avoid any discussion that might be perceived as suggesting that anyone should cease doing business with a particular supplier or customer, or any other discussion that might be viewed as coercive or exclusionary toward another company.

We encourage our members should they feel uncomfortable about any subject of discussion, or have any questions, to please speak up and bring their concerns to the attention of any Board Member who will stop the conversation until we can provide legal guidance.