



SCAN INSIGHT

Quarter 3 | November 2018





MESSAGE FROM THE BOARD CHAIR

Nearly 3 years ago we (Target) made the decision to join SCAN. Like many of you, we took our time in evaluating how we would blend the approach with our current CTPAT program management and developing processes for ordering, tracking, and assessing SCAN audits and corresponding action plans. It took us the better part of a year to develop our rhythm and approach, as well as for us to fully comprehend the value proposition of SCAN.

When we feed supplier information to the portal and initiated audits, as well as track previously conducted audits, it reinforced our decision tenfold as to why we decided to join the association. As our activity grew through the association, so did our involvement through committee and board level participation. It became abundantly clear through our active involvement that we were on to something special. My early experience with SCAN solidified my commitment to this association, and the value we can continue to bring by growing membership, enhancing our service offerings, and building strong partnerships with CBP and global supply chain stakeholders.

Today, I am thrilled to connect with you all as the Chair of SCAN. I am honored to step into this role in service to you all - our membership. And I give you my commitment that this association will continue to build upon the solid foundation that has been thoughtfully built by those who came before me. It's an exciting, and sometimes anxiety driven, time to be in world of international trade. Our role as an association is to bring global likeminded companies together, and join forces to achieve great results to protect our global supply chains. We've got our work cut out for us this year, and with your input and support I'm confident that this association will soar to new levels.

I look forward to meeting and hearing from you all.



Lisa Schulte
SCAN Chairperson
Senior Director, Global Trade Services - Target



EXECUTIVE SUMMARY

Board of Directors and Committee elections were held in August, and the results were announced during the BSI conference in October. Be sure to check out the message from our new Chairperson on page 2. For an entire list of BOB and Committee Chairs, head to page 9.

Reminder: as a SCAN Member, you are critical component to the Association's Shared Audit Concept. We ask for your help in ordering and accepting SCAN audits as your business dictates. Ordering and accepting audits grows the Association's factory pool, a key component to the success of this program and all its members.

SCAN sent comments related to the MSC updates draft to CBP in October during the comment period. The audit committee has been working hard drafting an updated SCAN audit to align with MSC. The draft is being modeled to determine the best methods to weigh the scoring to promote continuous improvement.

In addition to the SCAN audit draft, the committee will begin working on both Auditor and CAP/CAPA guidance documents to support the new audit. Once the finalized MSC is published by CBP, SCAN will be in a position to launch the new audit.


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 info@scanassociation.com

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 [Supplier Compliance Audit Network \(SCAN\)](#)



QUARTER 3 STATISTICS

The SCAN membership includes some of the top fortune 500 industry leaders. These organizations have added 14,632 factories to the SCAN Audit Repository, allowing members and factories to benefit from shared audits. We would like to welcome new SCAN members **Kohl's Department Stores and Talbots.**

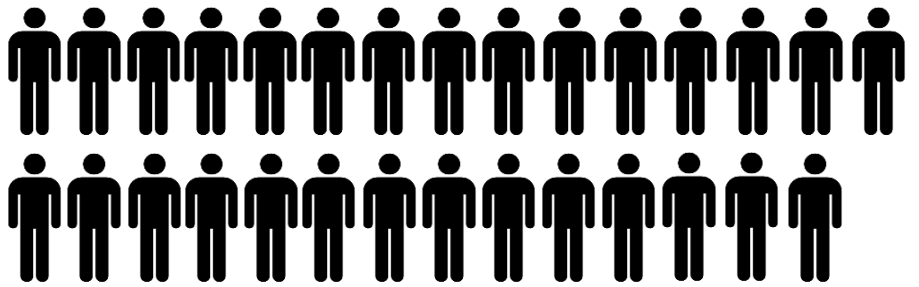
\$884 Billion

In combined annual revenue between the membership

29

SCAN Members

Representing Multiple Industries: Retail, Apparel, Food and Sporting Goods.



43% of the conducted audits are shared by more than one SCAN member.

19% of factories in the SCAN Audit Repository are shared by more than one SCAN member.

In Q3, audits were conducted in 31 countries. The most audited countries during that quarter were China, Vietnam, India, Indonesia and Bangladesh.

2,988

Shared Audits

14,632

Active Factories

6,901

Conducted Audits



China – 74%



Vietnam – 5%



India – 3%



Indonesia – 3%



Bangladesh – 2%



COUNTRY RISK SPOTLIGHT - INDONESIA

UNMANIFESTED CARGO INTRODUCTION

Illegal Drug Introduction

The threat of illegal drug introduction into cargo in Indonesia is **Guarded**. The Indonesian government's harsh anti-drug policies, including the imposition of the death penalty for drug smuggling and permission for police to shoot drug dealers on sight, are one potential factor contributing to relatively low trafficking rates in the country. However, smugglers continue to periodically introduce illicit drugs into cargo shipments in Indonesia, including some consignments destined for export.

Most drug introductions recorded by BSI in Indonesia involve sea container and cargo truck shipments, along with a smaller number of seizures from air freight consignments. Destinations for exported drug shipments include other countries in the Asia-Pacific region, including Taiwan, Malaysia, and Australia, as well as Europe and the Caribbean. In BSI recorded incidents in Indonesia, officials most frequently seize illegal drugs from agricultural and consumer products shipments.

Arms & Weapons Introduction

Indonesia faces a **Guarded** threat of illegal small-arms introduction into cargo. Indonesia is not widely used as a point of origin for small-arms trafficking, although periodic instances may occur.

Stowaway Introduction

The threat of stowaway introduction into cargo in Indonesia is **Elevated**. Indonesia hosts a relatively large population of migrants who remain stranded as key destination countries like Australia strengthen immigration controls, a situation that remains conducive to a heightened risk of stowaway introduction into cargo. Human smugglers have previously targeted marine cargo shipments as a means to traffic people from Indonesia to Australia.

TERRORISM

Indonesia faces a **Severe** threat of terrorism. BSI has recorded a relatively consistent number of terrorist attacks over the last several years, despite a significant drop in incidents in 2016. Both separatist and Islamic terrorist groups, including those affiliated with ISIS and al-Qaeda, operate in the country and relatively frequently carry out attacks.

Terrorist attacks in Indonesia are most frequently armed assaults or bombings. Although a high number of recent terrorist attacks have targeted government entities in



Indonesia, particularly law enforcement and military forces, terrorists operating in the country will also carry out attacks against business, civilian, and utilities targets.

SCT SUPPLY CHAIN TERRORISM

The threat of supply chain terrorism in Indonesia is **High**. The threat of terrorist attacks against supply chain targets in Indonesia is most pronounced in the more remote regions located away from the capital, particularly in Papua, the eastern-most province of the country where government protection over local infrastructure is weaker.

Recently, terrorists in the country have targeted the construction and mining industries most frequently, a trend that correlates with the higher activity of the separatist group Free Papua Movement. It is possible that, given the relatively high rate of piracy in the region, terrorists could use a captured tanker or other vessel to carry out an attack; however, the possibility of this occurring remains low.



FACTORY SPOTLIGHT

FACTORY TESTIMONIALS

A vendor contact from China’s Guangzhou City shared the following about their experience with a recent SCAN audit:

“Among different types of security audits, I made the choice to encourage our factories to take SCAN audit because they only need to take one audit at a time and are able to share it with several customers. In addition, our factories also benefited a lot from the CAPA process: the compliance score had significant improvement after the process; it also helped us better understand the SCAN criteria. Hope more oversea customers will join SCAN so we can benefit more.”

SCAN is devoted to help factories/suppliers avoid audit fatigue and save costs in their supply chain. BSI data from July to September demonstrates that:

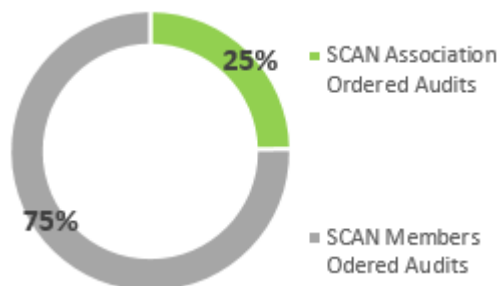
- 373 completed SCAN audits shared with multiple SCAN members
- Compliance scored improved appx. 8% after CAPA process.



AUTOMATED RE-AUDIT PROCESS

In August, SCAN sent out an update to the Re-audit Process to all business partner users. This new procedure offers factories/suppliers whose SCAN audits have/will expired an automated way to renew their audit.

According to BSI data, **92 out of 373** re-audits ordered by the SCAN Association are shared by at least two SCAN members. By conducting a SCAN re-audit, these factories only had to complete **1** audit to be shared between the members; new SCAN members can accept the SCAN security audit as well which in turn helps reduce audit fatigue and saved the turnaround time.



Now all factories who have completed a SCAN audit can contact SCAN@SCRiskSolutions.com directly to apply for a SCAN re-audit, or can proactively act after being contacted by a SCAN-designated audit firm to proceed with the re-audit.



FACILITY CORRECTIVE ACTION/PREVENTIVE ACTIONS (CAPA) PROCESS

Why is it imperative for facilities to complete CAPAs assigned after the audit?

- CAPAs closed as incomplete will impact your report validity period!
 - Per SCAN policy, audits with CAPAs closed as “Incomplete” will be valid for only one year regardless of the audit’s compliance score. Facilities will have 60 days from the date CAPAs are assigned to address/resolve CAPAs
- SCAN members can evaluate if they will or will not accept a SCAN audit report that was closed with incomplete CAPAs
 - Some members consider audits with CAPAs incomplete as invalid SCAN audits
- Completing CAPAs help improve facilities’ compliance score and show continuous improvement in the supply chain

SCAN BOARD OF DIRECTORS AND COMMITTEE CHAIRS

Elections for the Board of Directors and Committee Chairs were held in August. Both familiar and new faces round out this leadership team.



Board Chair

Lisa Schulte | Target



Vice Chair

Jennifer Kissner | Newell Brands



Treasurer

Pat Cerisano | Husky Injection Molding



Secretary

Lesa Hubbad | JCPenney



Committee Chair: Audit

Ken McElroy | The Home Depot



Committee Chair: IT

Holly Roelofs | Meijer



Committee Chair: Marketing/PR

Dennis Gandy | Wolverine World Wide



Committee Chair: Membership

Ryan Klath | Target



Committee Chair: Service Providers

Yvette Estrada | Fossil



Member At Large

Donna Neil | Canadian Tire



Committee Chair: Foreign Origins

Negolas Xie | Newell Brands



Executive Director

Dave Blackorby



MEET THE TEAM: SCAN EXECUTIVE DIRECTOR DAVE BLACKORBY

I retired from Walmart early last year, concluding 5 years as the VP Global Security Operations to include managing the company's global supply chain security program. While in this role, I participated as one of the founders of SCAN, becoming the first Board Chair. The previous 5 years I was one of the VP General Counsels at Walmart where I supervised a legal team supporting Ethics and Global Security divisions.

Previous to Walmart, I spent 30+ years with IRS-Criminal Investigation Division and the US Department of Justice (Criminal Division) working on and supervising financial crimes prosecutions. During this same period, I remained in the military reserve component, retiring in 2010.

I was very fortunate to rejoin SCAN this past August as Executive Director. SCAN has always had a special place in my professional life. I am grateful to the Board for allowing me to return and help support the excellent programs that SCAN provides to its members, regulatory agencies, and the commercial organizations at large. My goal as the ED is to be the daily go to source to assist the Board, members, and BSI in managing supply chain-related issues in facilitating resolutions.

SCAN will have a very busy, and I anticipate successful, year going into 2019. We will be rolling out our updated audit questionnaire and related programs in response to the U.S. CBP MSC updates. This will require extensive SCAN member engagement with our service providers and suppliers through training and management of the audit programs. We will also be addressing the expansion of our audit programs and the offering of membership programs to an expanded cadre of supply chain participants.



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.

- Associated Premium
- Barnes & Noble, Inc
- Cabela's
- Canadian Tire
- Carter's, Inc.
- Coleman Company, Inc
- Columbia Sportswear Company
- Costco
- Hallmark Cards, Incorporated
- Husky Injection Molding Systems
- Jarden
- JCPenney
- Kohl's
- Kroger
- Levi Strauss & Co
- Meijer, Inc.
- Michaels
- Newell Brands
- Patagonia, Inc.
- PriceSmart
- Rawlings Sporting Goods Company
- Renfro Corporation
- Revman International
- RMS International
- Target
- The Children's Place
- The Home Depot, Inc.
- Walmart
- Wolverine Worldwide



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

SCAN Anti-Trust Statement

Our association understands the importance of anti-trust 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 factory 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.