The Sarbanes Oxley (SOX) Act is an attempt to maintain correctness in financial figures pertaining to the internal systems of enterprises. Every aspect of business which involves financial transaction comes under the scrutiny of the act. Many of the US enterprises, especially those involved in retail supply chain, have already complied with SOX; many are on the path of compliance. On the other hand, a large number of European enterprises are reluctant to comply as they feel the Act involves a lot of complications. However one thing is clear; if not in the near future, at some point of time all the public limited companies will have to comply with the SOX or similar acts.

This white paper explains the need for organizations involved in supply chain activities to comply with SOX and outlines the best practices that can be adopted to achieve that. Considerable amount of space is devoted to explain the impact of SOX in the US context and the learning European companies can embrace from these early adopters.
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INTRODUCTION

The Sarbanes Oxley Act 2002 was enacted by the US Congress after a spate of financial malpractices by corporations such as Enron shook investor confidence. The Act mandates all companies with a market capitalization greater than US $ 75 million and listed in American exchanges to comply before the November 2004 deadline. The compliance deadline for European companies listed in these exchanges is 15th April 2005.

Supply chain centric organizations in Europe such as Ahold, Parmalat and Shell have been in the eye of the storm in the recent past on financial compliance issues. The positive side to this is that it provides a great opportunity for corporations to get appropriate management attention and pool in the required resources to clean up their business processes.

There are immediate challenges for European companies listed in US stock exchanges and for those who are not listed in the US exchanges, such whistle blower policies are expected to only get tighter in the days to come. The instances of financial irregularities could potentially trigger tighter financial compliance norms, equivalent to SOX, for the European enterprises as well.

From the American experience, the SOX Act has significant implications for supply chain managers. All processes across the supply chain having direct or indirect bearing on financial figures, although not reported earlier, will now need to be tracked, evaluated and included in disclosure reports. Section 401 of the SOX act requires companies to disclose off-balance sheet liabilities resulting from transactions and agreements that have material impact on future financial performance.

SOME KNEE-JERK REACTIONS

The compliance requirements have seen some extreme reactions from companies such as Porsche, which abandoned listing from the New York Stock Exchange. It is unlikely, though, that other companies follow suit considering the huge impact on the corporate image and investor ratings.

Going by past precedence of compliance initiatives by US corporations, SOX should be seen as a wider compliance tool which results in a host of valuable ancillary benefits such as supply chain process standardization, implementation of best practices and enabling intelligent and real time analysis of business data. In fact, all RoI considerations for investments on SOX factor these benefits.

HIGH STAKES

The increased consumer demand for value is forcing manufacturers and retailers to bring several new concepts to the forefront across the supply chain. As organizations implement these concepts, supply chains will be confronted with key issues such as learning to cope with the growing complexity of the supply network resulting from global supply chain operations, getting better visibility into the supply chain, inventory ownership, lowering trade promotion risks resulting from financial exposures due to rebate management and managing risks arising out of the inability to enforce country specific regulations in foreign shores.

For instance, consider a major store promotion event which is forecasted to generate substantial revenue, and the key supplier is unable to deliver due to plant breakdown or a prolonged port strike. The result is a sharp dip in the forecasted sale, brand profitability, a fall in stocks price and grilling by investors over the inability to live up to earning predictions.

A study by the University of Western Ontario and Georgia Institute of Technology suggests that supply chain glitches can result in a 9% drop in stock prices and stock devaluation up to 20% within 6 months of the problem being publicly revealed.
COMPLIANCE ACHIEVED THROUGH BEST PRACTICES

Corporations should look for solutions that will increase supply chain visibility, reduce inventory, control or lower liabilities resulting from agreements with partners and strengthen the bonds with partners across the supply chain. For purposes of illustration, a set of best practices relevant for retail supply chains, which have been considered by US retailers, are provided below.

Trade Promotions Management

A high risk exposure area in promotions management is vendor funds management. Funds are provided by the manufacturer for cash discounts and other promotional rebates. At the end of the period, financial claims are reconciled and outstanding claims are settled. Improper accounting of these funds leads to inflated earnings, which leads to restatement of revenues. Retailers should improve internal controls by re-engineering trade promotion processes and adopt suitable measures; given below is a set of business challenges, the strategy to be adopted and the enabling processes or solutions.

Driver

- Risk of inflated earnings caused due to poor management of vendor funds, likely delayed reconciliation of funds utilization
- Poor quality of information on promotion effectiveness, like inability to delineate base from lift demand

Strategy

- Faster turnaround time between vendor funding to funds deployment
- Prognostic analysis of promotion effectiveness

Enabler

- A single view for the manufacturer and retailer of funds utilized within an accounting period.
- Automated reconciliation processes which are currently manual and hence error prone
- Identification of a system of record that establishes the ‘single source of truth’ of historic sales & promotional data
- Analytic solutions that measure effectiveness on a real time basis
Building Adaptive Supply Chains

Adaptive supply chains assist in developing a truly demand driven chain enabling better use of resources deployed by way of improved availability of products and lower risk of carrying obsolescent inventory. Three key enablers to building adaptive supply chain network are ‘information quality’, ‘information speed’ and ‘information depth’ across trading partners. This requires collaborative effort aimed at the common objectives of maximizing service efficiencies. Retailers have entered into CPFR, VMI programs aimed at improving supplier collaboration. The rewards of an adaptive supply chain are shared by all partners based on risk – reward relationships. The key drivers, strategy and enabler relationships are provided below.

Driver
- Inventory of finished goods stock-out or overstocked (due to short product lifecycles, highly configurable products)
- Linear supply Chains that add time and cost to the process at every link

Strategy
- Delayed differentiation
- Shift from a ‘chain’ to a ‘network’ model

Enabler
- Capture demand signal closer to production
- Flexible Manufacturing Systems
- Collaborate across multiple trading partners for maximum service flexibility

Building Closed Loop Supply Chains

Retailers can take a hit on their sales as well as be saddled with obsolescent products if their systems are not geared to move products swiftly through the distribution channel, both forward and reverse. Inventory write-offs, cost of disposing expired goods coupled with lost sales can cause a significant dent in the retailer’s earnings. The key drivers, strategy and enabler relationship for building closed loop supply chains are provided below.

Driver
- Poor visibility of the supply chain (caused due to multiple stocking points / inventory ownerships)
- Regulatory compliance such as WEEE (directive for the European union on disposal of hazardous wastes) or FDA (in the US)

Strategy
- Improve track and trace effectiveness of material movement
- Create a disposition strategy (recycle, recondition or repair)

Enabler
- RFID enable at the shipment level, case or item level.
- Use workflow enabled disposition business rule engine
- Use auto identification tools such as (RFID tags, Barcodes) to identify product returns at the stage of returns movement authorization
Other Best Practices

Other facilitating areas which corporations should consider are, building robust business processes and a risk management plan to support flaws in processes, building good exception handling capabilities and audit features.

**Driver**
- Detect Business process failure points (like application of the correct tax rates to customer order)
- Transforming information into actionable tasks
- Efficient and faster audits

**Strategy**
- Create real time enterprise by monitoring process health and handling exceptions
- Leveraging on data analytics and business intelligence
- Improving traceability of information

**Enabler**
- Using exception based reporting and auditing tools
- Simulating high risk transactions using quantitative methods to constantly review impact.
- Using business activity monitoring tools to check process health
- Translating operational data into business subject areas (e.g. sales, inventory)
- Deploying document management solutions

**CONCLUSION**

To conclude, European corporations should plan to seize the advantages of financial compliance policies and look much beyond the immediate needs of quarterly reporting. Compliance measures should be used as a strategic tool for bringing in process standardization, best practices and accurate measurement capabilities in supply chain and operational areas.

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ABOUT WIPRO TECHNOLOGIES

Wipro is the first PCMM Level 5 and SEI CMMi Level 5 certified IT services company globally. Wipro provides comprehensive IT solutions and services (including systems integration, IS outsourcing, package implementation, software application development and maintenance) and research & development services (hardware and software design, development and implementation) to corporations globally.

Wipro’s unique value proposition is further delivered through our pioneering Offshore Outsourcing Model and stringent quality processes of SEI and Six Sigma.

WIPRO IN RETAIL, CPG & DISTRIBUTION

Wipro provides complete business consulting and technical integration services for supply chain management (SCM). Wipro has years of experience in doing large-scale ERP implementations with focus on key issues like purchasing, inbound logistics, operations, warehouse management, outbound logistics and demand management. Experienced technical and functional consultants along with certified product expertise enable Wipro in providing solutions like i2, SAP and Oracle.

Wipro can help you transform your supply chain, from strategy to execution, providing competitive advantage while maximizing profit and shareholder value. Wipro supply chain specialists leverage IT to create an adaptive supply network which seamlessly connects supply, planning, manufacturing, and distribution operations to critical enterprise applications. It aids in providing real-time visibility across the supply network, thereby enabling rapid decision-making and optimal execution.

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