SCAN INSIGHT

Quarterly Newsletter

SCAN INSIGHT

CHAIRMAN'S CORNER

As we make our way into the third quarter of 2017, one of our primary focuses remains on how to build and improve membership growth and benefits, as well as empower members to leverage SCAN's audit data effectively. As a board, our ultimate desire is to help our members achieve the highest levels of supply chain security, therefore I'd like to take a moment to thank all of our board members who have worked so tirelessly these past months to make SCAN a stronger association. They have dedicated numerous volunteer hours for the promotion and progress of this program.

In this issue, we report on our current progress of moving SCAN forward as the premier C-TPAT Security program for U.S. Importers. To quickly highlight some of our successes, we are currently in the process of onboarding four new members, some of which are the largest importers of containerized cargo into the U.S., as well as small and medium-sized importers. Again, this highlights the range of benefits SCAN provides to its members, no matter the size of company.

We also continue to monitor and participate in the C-TPAT minimum-security standard re-write with CBP. Leveraging SCAN and its available system will reduce the effort required by each individual company in incorporating these new standards in their security programs. This rewrite falls right in line with our core goal of securing the supply chain while reducing audit fatigue for our shared factories. Recently, members have reported on how factories have approached them, requesting their facility undergo a SCAN audit. It is encouraging to see their desire to participate with SCAN too. In addition, SCAN members who had recently undergone a C-TPAT revalidation were noted by CBP in their report that participating in the SCAN program was considered a best practice. This is great news!

While we continue to make significant progress, the security threats we face seem to increase daily. Expansion options, including the evaluation of other service providers such as transportation and destination warehouse providers are currently being discussed by the board, as well as social environmental compliance. It is my belief that as a SCAN member, despite the uncertainty that may lay ahead, you will have an advantage because in the fight against terrorism and ensuring cargo security we are collectively in this together.

- Kendra Hobbs, SCAN Board Chair

EXECUTIVE SUMMARY

This past March, the SCAN Board of Directors, along with BSI SCAN Program Administrators, Audit Service Providers, current SCAN Members, and prospective members participated in its annual open board meeting in Scottsdale, Arizona. This meeting provided attendees with an informative overview of the program, statistical KPI metrics, as well as introduced the various association committees, each focused on core areas of membership, audit management, and public relations.

Kendra Riley, the SCAN Board Chair, presented the SCAN program at BSI's annual Supply Chain conference earlier that week to invite those to attend the open meeting and learn more about the SCAN concept. SCAN's first quarterly newsletter, *SCAN Insight*, was distributed among conference attendees, and shared through the Supplier Compliance Manager (SCM) tool with all participating SCAN members, Audit Service Providers, and factories. After receiving his edition of *SCAN Insight*, a compliance manager in India shared his feedback with program administrators on how the increasing value of SCAN has benefited their business. His comments are in the SCAN testimonial section of this issue.

The SCAN Board of Directors continue to strive to provide all partners involved in this organization, at any level, with essential program updates, statistics, and opportunities for committee involvement through this publication. However, the program's greatest asset is the SCAN Audit Repository in providing the ability for members to access and leverage shared audit reports. Of the 3,579 total audits conducted through Q1, 35% of the audits were shared by more than one SCAN member, highlighting a savings potential of over $1.7m to SCAN factories.

SCAN's CAPA program also continues to benefit members and factories alike, in its commitment to increasing security compliance worldwide. To date, SCAN has assigned a total of 25,736 corrective actions with a recent Q1 CAPA completion rate of 97%. The remaining 3% in CAPA were closed and marked as Incomplete due to failure to complete and submit CAPAs within the approved 75 days. See page 5 for additional CAPA statistics on average compliance scores by country and category.

Member Buddy System
If you would like to get in contact with one of our SCAN Members to understand how to implement SCAN into your supply chain program, please contact:
info@scanassociation.com

In this Issue:
This issue features SCAN's quarterly program statistics for Q1, new exciting system enhancements, and a country risk highlight of Bangladesh.

Check out SCAN's Website!
www.scanassociation.com for recently added updates & past newsletters. If you would like to request a demo of the SCAN audit repository, please contact info@scanassociation.com and a SCAN Board representative will contact you.

Comments or Feedback?
SCAN's Program Administrators welcomes SCAN members and factories alike to email their comments or feedback regarding this publication, to scan@scrisksolutions.com.

The SCAN membership includes some of the top fortune 500 industry leaders, including Carter's Costco, Levi Strauss & Co, Meijer, Patagonia, Rawlings Sporting Goods Company, and more. These organizations have more than 11,000 factories added to the SCAN Audit Repository allowing members and factories to benefit from shared audits.

$900 Billion

In combined annual revenue between the membership

22

SCAN Members

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

35% of the conducted audits are shared by more than one SCAN Member. The shared audits have increased by 9% since the last quarter.

17% of factories in the SCAN Audit Repository are shared by more than one SCAN member.

In Q1, audits were conducted in 16 countries. The most audited countries during that quarter are China, Vietnam, Bangladesh, Indonesia and Taiwan.

1,774
Shared Audits

11,028
Active Factories

3,579
Conducted Audits

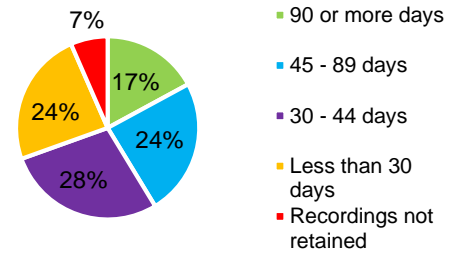China – 79%   Vietnam – 6%   Bangladesh – 3%   Indonesia – 2%   Taiwan – 2%

Corrective Actions

Since program inception to end of Q1, SCAN has assigned an impressive 25,736 corrective actions (CAPA's). On average, approximately 7.8 CAPA's are assigned per audit. In Q1, the average compliance score after CAPA completion was 97% and CAPA completion rate overall for Q1 was also 97%. The most non-compliant audit question among audits in Q1 dealt with the number of days CCTV recordings are kept. 83% of factories do not keep their recordings for the recommended 90 days or more.

How many days are CCTV recordings kept?

- 90 or more days
- 45 - 89 days
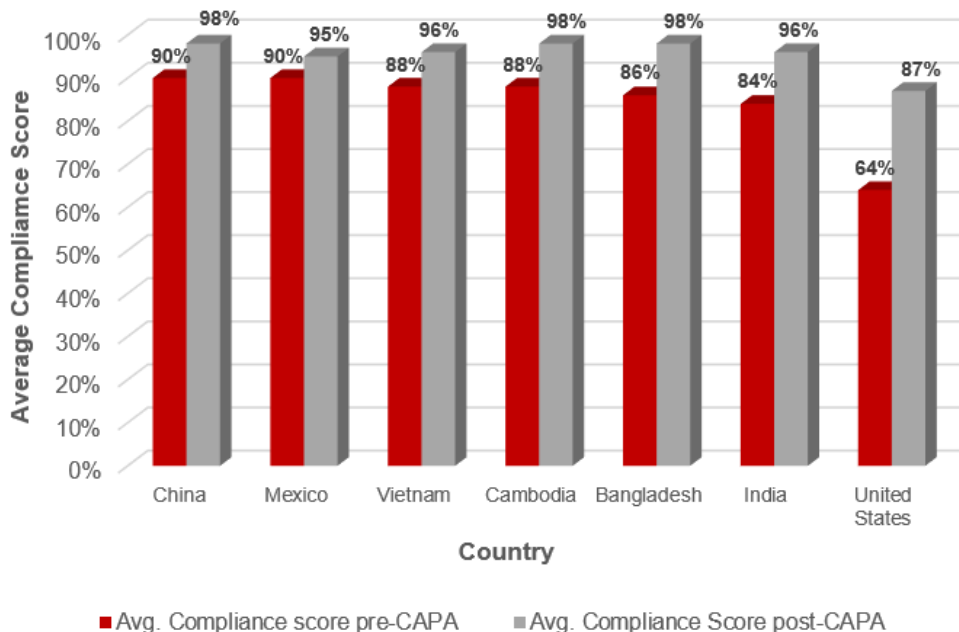- 30 - 44 days
- Less than 30 days
- Recordings not retained

Compliance by Category – The Top 5 categories assigned most corrective actions since program inception to end of Q1.

Compliance Category	Total CAPA's
Physical Security	5,622
Container & Trailer Security	4,829
Conveyance Security	3,762
Physical Access Controls	3,283
Business Partner Requirements	2,000

In order to facilitate factory knowledge of emerging threats to supply chain security, the SCAN Association now offers access to a complimentary online BSI training to factories who do not have a Security Threat Awareness Training program established. This training will help educate factories on how to identify threats within their organization. For more information on how to access this training, please contact scan@scrisksolutions.com.

Compliance by Country

The graphic below shows the compliance scores of selected countries for all conducted SCAN audits. The average pre-CAPA compliance score in Q1 2017 was 89%.

■ Avg. Compliance score pre-CAPA   ■ Avg. Compliance Score post-CAPA

SCM SYSTEM UPDATES AND IMPROVEMENTS

As program administrators, BSI continues to drive its commitment to the SCAN Association through its enhancements of the SCM tool used to leverage and manage the program. This past March and June, new features and system enhancements were released and are now available for members with an SCM Premium account. See below for a brief overview of what's new! For more information on any of these releases please contact the SCAN program admininistrators at scan@scrisksolutions.com.

March Release:

- Location Page
- Percentage of Completion bar for Audit and CAPA round
- New Language Added -Turkish
- Password Policy Changes

Location Page: New page located under the compliance tab within SCM offering a list of all locations within an account. This new page allows the ability to view all factory locations in a grid format which can be drilled down into further location details as needed. This grid

can also be exported to excel. Also available are a few new filters at the top of the page to help you sort the data you wish to view and access.
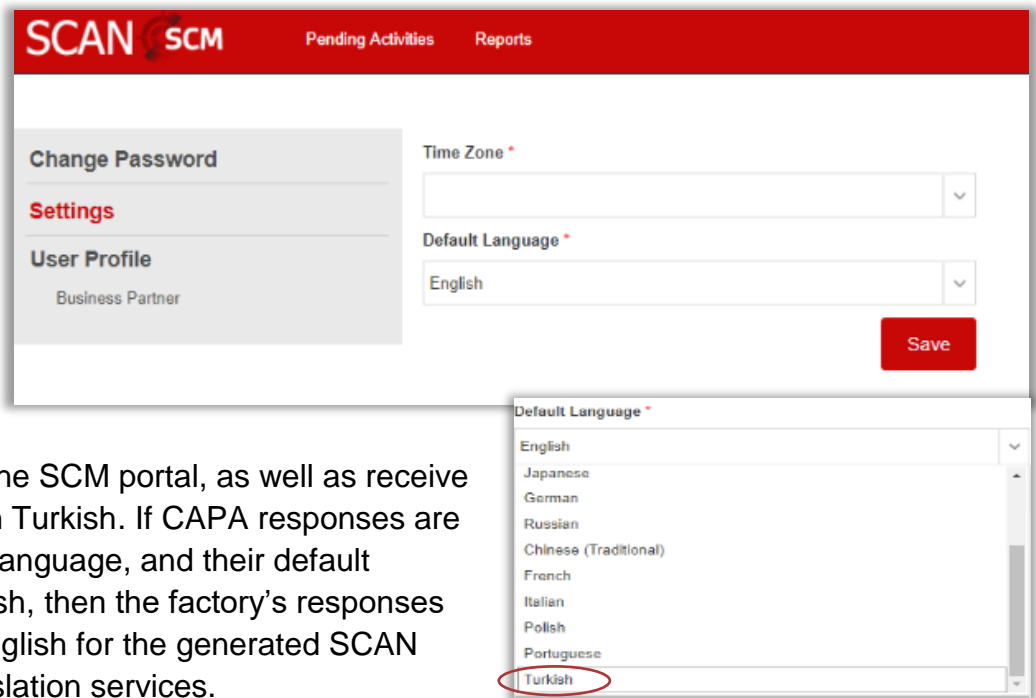
Percentage of Completion – Audits and CAPAs

Within the Audit Management grid, the percentage of completion for an audit and CAPA is now available in the column titled "In Progress/Completion %." This added feature helps program administrators and SCAN members who are SCM users to identify locations that may be at risk of not completing their CAPAs.
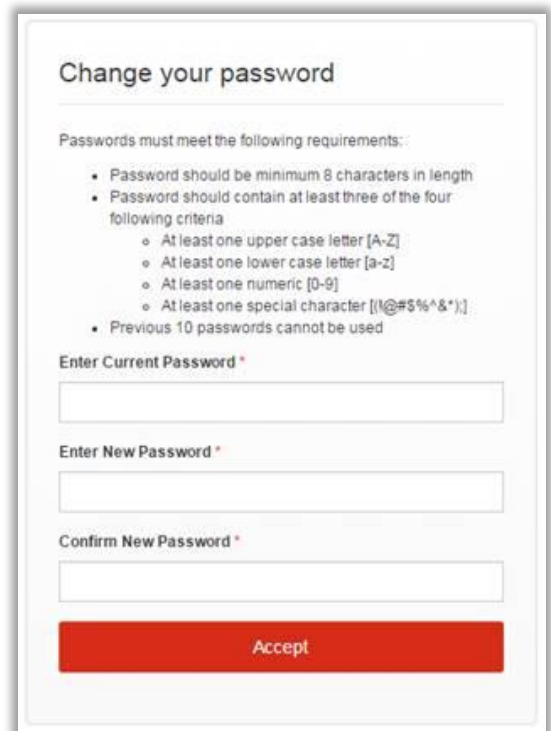
New Language Added – Turkish

The Turkish language has been added to the list of 12 available languages including; English, Spanish, Chinese (Simplified and Traditional), French, German, Japanese, Russian, Italian, Polish and Portuguese. Factories may select Turkish as the factory's default language in the SCM portal, as well as receive automated communications in Turkish. If CAPA responses are entered into the portal in this language, and their default language is selected as Turkish, then the factory's responses will be translated back into English for the generated SCAN report via the automated translation services.

Password Policy Changes

With the continued desire to stay on top of Information Security best practices, SCM now provides more robust security measures around the Password structure and system accessibility for SCAN members, auditors, and factory users. Some new features include inability to use the last 10 passwords when creating a new password, as well as locking SCAN member SCM users who do not access the system within a 45-day window. Factory users, whose access to information is more limited, will have a 90-day window before being locked out. Every 90 days, all users will need to update their passwords according to the new enforced rules. It is highly recommended to all portal users to keep accounts active by logging into the system at least once a month. For any login issues, please contact scan@scrisksolutions.com for assistance.

June SCM Enhancement Release:

- Completing and Submitting SCAN Audits – New design changes for Audit Service Providers utilizing their auditor access role when completing and submitting SCAN audit reports through the tool
- Redesigned user portal for SCAN factories completing the CAPA process
- New column filters and audit summary analysis available
- New Email Communication Tokens (audit status and sub status)
- Location Grid Enhancement with custom fields and columns that can be sorted and filtered
- Location Audit Reports now include factories with multiple address lines

Audit Service Providers Completing and Submitting SCAN Audits in the portal:
A newly redesigned SCAN audit interface for audit service providers completing and uploading SCAN audit reports in the portal through their auditor role access. New features are combined with a simplified design for a more streamlined completion process. Missing requirements, such as attachments or additional comments, are now easily identifiable during completion, and a general progress of the task is provided by percentage. This new interface has improved response times and reduced overall technical inquiries.

SCAN factories Completing CAPAs in the portal:
Similar to the redesign of audit completion, CAPA completion has also received a new look! With this simplified design, factory users completing the CAPA process are also given a general progress of their task by percentage, as well as any missing responses, additional comments, or attachments required for verification. Factory users will also have the ability to jump to specific compliance categories they would like to work on. Overall, this design allows users to complete the CAPA process with added ease and efficiency.
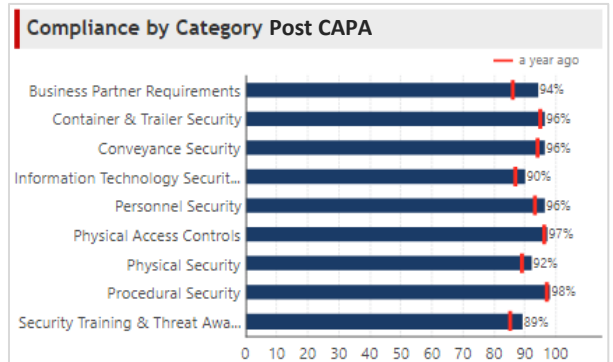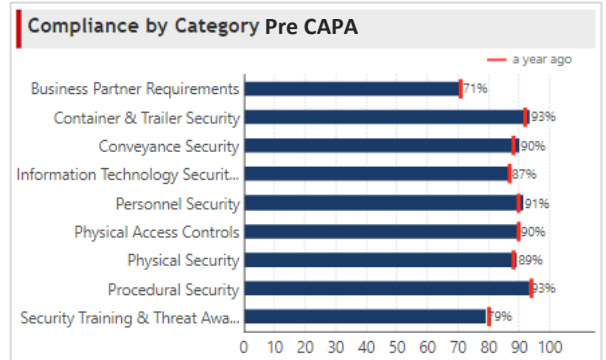
SCAN Country Risk Highlight: Bangladesh

Factories in Bangladesh were the third most audited country by SCAN in Q1. The average compliance score for audits conducted in Bangladesh was 89%. With corrective actions, the average compliance score was increased to 95%.

Garments account for approximately 80% of Bangladesh's exports. Because Bangladesh is considered a Least Developed Country (LDC), World Trade Organization (WTO) rules give Bangladesh more favorable access to developed markets. Despite consistent economic growth, multiple factors constrain economic development in Bangladesh, and per capita income in the country is among the lowest in Asia and worldwide. Over thirty percent of Bangladesh's population lives below the poverty line. Bangladesh's economy faces several challenges, however. The population has doubled since the 1960s and is expected to double again by 2035. Global markets and natural disasters threaten Bangladesh's textile and agriculture sectors, while corruption, low tax revenues, and political instability hinder development projects.

SCAN's risk-based audit approach uses BSI's SCREEN Intelligence 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.

The threat of cargo disruption in Bangladesh is High, and a range of criminal and terrorist threats heighten the risk to supply chain security in the country. Cargo truck hijackings are common, particularly near the cities of Dhaka and Chittagong. These incidents are frequently violent and occasionally result in the death of cargo truck drivers. Bangladesh is also known to be a hub for the illegal smuggling of small arms. Widespread corruption among police and customs officials exacerbates these threats to the supply chain.

Compliance by Category Pre CAPA

— a year ago

Category	Score
Business Partner Requirements	71%
Container & Trailer Security	93%
Conveyance Security	90%
Information Technology Securit…	87%
Personnel Security	91%
Physical Access Controls	90%
Physical Security	89%
Procedural Security	93%
Security Training & Threat Awa…	79%

Compliance by Category Post CAPA

— a year ago

Category	Score
Business Partner Requirements	94%
Container & Trailer Security	96%
Conveyance Security	96%
Information Technology Securit…	90%
Personnel Security	96%
Physical Access Controls	97%
Physical Security	92%
Procedural Security	98%
Security Training & Threat Awa…	89%

SCAN Country Risk Highlight: Bangladesh

Targeted Commodities
Cargo thieves generally target shipments of cotton, fabrics, ready-made garments, steel, automobiles, staple food products, textiles, paper, and cement.

Recommended Security Measures
Given the threat environment in Bangladesh, stringent security countermeasures are recommended to reduce cargo exposure and should include security escorts for high-value shipments.

Unmanifested Cargo Introduction
The threat of unmanifested cargo introduction in Bangladesh is Guarded. One major smuggling concern in the country is the trafficking of weapons via Bangladeshi ports to militant groups in India and Nepal. Although exploitation by smugglers of the legitimate supply chain does not occur as frequently in Bangladesh as in other South Asian countries, endemic supply chain corruption heightens the risk of unmanifested cargo introduction, and senior customs officials have been implicated in major smuggling cases.

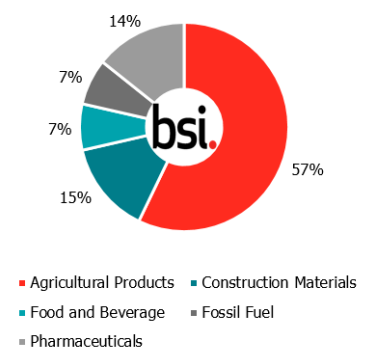| Recent BSI-Recorded Drug Seizures From Bangladesh-Origin Cargo Shipments		
Destination	**Seized Substance**	**Shipping Modality**
India	Cocaine	Truck
Germany	Khat	Air
Malaysia	Unspecified Narcotic	Air

Anti-Western Terrorism
Bangladesh faces a Severe threat of anti-Western terrorism, and the country has witnessed the rise of several relatively new radical Islamist militant groups in recent years. Jamatul Mujahedin Bangladeshi (JMB) and Ansarullah Bangla Team (ABT) are among the most active and dangerous groups in the country; Bangladeshi authorities blamed a new JMB faction aligned with the Islamic State in Iraq and Syria (ISIS) for a high-profile attack on a Dhaka café in July 2016 that killed 23 people, mostly foreigners. JMB, ABT, and other Islamist militant organizations in Bangladesh exploit religious tensions between Muslims, Hindus, and secularists by conducting sectarian attacks, but are also linked to groups like ISIS and al-Qaeda with more anti-Western orientations.

Supply Chain Terrorism
The threat of supply chain terrorism in Bangladesh is Severe, and anti-government groups or protesters routinely use attacks against a range of infrastructural and business targets in the country in order to disrupt economic activity or intimidate the civilian population. The majority of recorded supply chain terrorist attacks in Bangladesh target trucks, with a small number of attacks targeting pipelines or storage facilities in the country.

Supply Chain Terrorist Attacks in Bangladesh by Targeted Commodity

14%
7%
7%
15%
57%

- Agricultural Products
- Construction Materials
- Food and Beverage
- Fossil Fuel
- Pharmaceuticals

SCAN TESTIMONIALS

Member Testimonial
Kenneth McElroy, Manager Global Trade Risk and Export Compliance – The Home Depot

Home Depot became involved with SCAN in late spring of 2014, not long after the program's concept was developed. The shared audit concept was something that Home Depot had struggled with due to the lack of quality control that C-TPAT tier III members are required to guarantee. The idea of a jointly created and centrally controlled audit, that included a corrective action plan, made SCAN extremely attractive to Home Depot. During program inception, Home Depot chaired efforts to create the first original SCAN audit template. In 2015, Home Depot furthered these efforts by launching an audit pilot sponsoring about 50 audits. This pilot was such a success that in 2016 50% of Home Depot "re-audits" were conducted using the SCAN platform.

Shared factory audits totaling 126 factory locations were identified in 2016, which resulted in a potential cost avoidance of approximately $126K. In 2017, "100 %" of Home Depot re-audits will be conducted within the SCAN platform and any "new" factories are researched in SCAN's repository to determine if there is a valid SCAN audit already complete. With over 1000 locations loaded into the SCAN platform to date, Home Depot is experiencing a 14%+ shared factory rate. With the ongoing addition of new factories and the continual addition of factories due for audits, the overall expectation for the Home Depot supply chain is continued cost avoidance. Managing a growing and complex global supply chain in a secure fashion is a "huge" challenge. However, SCAN has made it significantly easier and much more cost effective to accomplish.

Factory Testimonial

Following the distribution of last quarter's *SCAN Insight,* our program administrators received much feedback and positive inquiries from our participating SCAN factories. The SCAN program always welcomes feedback from factories. Here is a comment received from a Compliance Manager in India on his reaction to receiving the first edition of the *SCAN Insight*… *"Thankfully noted that SCAN Association has started a quarterly newsletter to convey the compliance status and updates to their association members and factories. We find the presentation of the first newsletter a very good outset of communication. SCAN is becoming more useful and meaningful to all association members and they can reduce the tedium of different security audits. The efforts of the charioteers who are working behind this SCAN association are appreciated and we use this opportunity to extend our hearty congratulations to them."*

Audit Committee Report - Kenneth McElroy, The Home Depot

The audit committee is preparing for the long anticipated C-TPAT minimum security standards re-write to be published. At the BSI user conference this past March, special guest speaker Richard F. DiNucci, Executive Director of Cargo Conveyance and Security for CBP, indicated that the review of the COAC recommendations was underway and that the publication for comment would be later in 2017. Additionally, the committee is in the initial stages of coordinating and recruiting "3rd party service providers" such as transportation, warehousing companies to consider development of a SCAN audit for contracted service providers that could be shared and allow for a more in depth mapping of the end to end supply chain. C-TPAT partners being able to monitor and map all nodes of the supply chain has always been a goal and best practice for US CBP. SCAN's goal is to become a platform that provides its members with the ability to achieve as many "best practices" as possible.

SCAN Board Updates by Board Vice Chair – Lisa Schulte, Target

The Name of the Game is…Participation!

As a member driven association, the key to our program's success is active participation by our membership. And now is the best time to get involved, as our recent program stats demonstrate increasing numbers of audits ordered, shared, and factories added to the repository. With new members joining our network this year, we are 22 members strong! And it is our hope that these numbers will continue to grow. To date, we've performed over 3,500 audits and have identified a potential of 1,774 saved audits for SCAN factories, bringing an estimated potential cost savings of over $1.77m for factories. But we still have much to accomplish.

For those of you unable to join us at our March SCAN Board meeting, we unveiled our association committees, each focused on core areas such as; membership, audit management and public relations. Our committees meet on a monthly basis and work to drive strategies around their key areas of focus. Committee involvement is critical, as it supports the vision of our association while building out future SCAN offerings. Don't delay - each member is encouraged to play an active role today, no matter how big or small. If you're still questioning what value you're getting out of the association, take a moment to think about what *you're* putting into the association because the old adage stands true – you get what you give. I promise - you won't be disappointed with what you will learn and what you can accomplish with the SCAN Association!

For more information on involvement in the association, please contact info@scanassociation.com. I hope to hear from you soon!

SCAN BOARD OF DIRECTORS AND COMMITTEE CHAIRMEN

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Target Stores
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Pat Cerisano
Husky Injection Molding
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Marketing Committee Chair

Stella Bray-Conrad
Walmart Stores, Inc.
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 SCAN 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
- Costco
- 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 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.