

Anticipating Regulation and the Cost to Conform

by Austin Locke and Chelsea Barnes

In [Understanding the Cost of Compliance: A Framework](#), we outlined a framework for organizations to understand how much they're spending on regulatory compliance and whether that investment is sufficient and effectively allocated. We will now take a deeper dive into the "Conformance Cost" category.



- Scanning
- Impact assessment
- Improvement initiatives
- Systems and process
- Training

First, let's consider scanning and impact assessment, both of which are related to the day-to-day verification costs shown in the Cost of Compliance framework. Scanning costs are driven by the time the regulatory workforce spends scanning the environment to proactively look for and understand potential regulation. For example, an organization might assign several regulatory employees, or invest in a global group, to research proposed or pending laws across the globe that could have significant effects on the business. Once new or pending regulations are identified, the organization must invest resources to fully understand the new regulation, determine its impact and implement the changes. These costs are impact assessment costs. Many businesses recently experienced a large increase in these types of expenditures as they transformed their organizations to comply with the Food Safety Modernization Act (FSMA).

Note that scanning and impact assessment costs must be driven by an organization's regulatory workforce. Most regulatory personnel spend a majority of their time on verification activities, meaning that regulatory teams are frequently overwhelmed keeping day-to-day regulatory checks afloat. They don't devote enough time to proactive scanning or understanding the impact of new regulation, frequently resulting in expensive "fire drills" when new regulation hits. Regulatory teams' time must be split amongst scanning, impact assessment and verification activities, and leading organizations must clearly prioritize scanning and impact assessment to ensure these activities do not get lost between the day-to-day maintenance.

Training, system/process implementations and improvement initiatives make up the remainder of the Conformance Cost category. Training costs are incurred each year as employees are taught how to comply with regulatory changes or new market trends. In recent years, General Mills has shown how a leading F&B manufacturer can invest in this space. In 2016, the company certified 125 employees to prepare for the FSMA requirement that all food safety plans be reviewed¹. Additionally, General Mills conducted Auditor Academy training sessions attended by 200 participants from 14 countries. The sessions aimed to improve General Mills' ability to prevent and resolve potential food safety issues. Companies should evaluate their investment on this preventative aspect of compliance - ensuring that they are building the internal capability to both keep up with regulatory requirements and to avoid the costs of non-compliance.

Apart from the people-driven aspects of compliance, F&B companies also install new technology solutions or business processes to improve their ability to conform with regulations. Many solutions seek to automate horizon scanning or act as one-stop regulatory databases, ensuring regulatory teams are up-to-date. The costs to develop and deploy these technologies and their corresponding process updates all fall within the systems & process sub-category. Based on our research and experience, we estimate that an average multi-national F&B organization will invest 10-15% of their total ProductLifecycle Management (PLM) budget on regulatory systems and processes. For those unfamiliar, PLM is an information management discipline that integrates data, processes, business systems and people in an enterprise. While a precise inventory of all projects in this space is preferable for calculating a company's spend on systems and processes, using a PLM budget as a starting point is a reliable measure.

Lastly, improvement initiatives are a significant and broad category used to describe investments made in corporate improvement programs related to regulatory compliance. For example, PepsiCo's leading Performance with a Purpose initiative includes goals to reformulate products each year not just to meet mandatory regulatory requirements, but to implement recommendations by the World Health Organization's Plan for Preventative Control of Non-Communicable Disease². These types of initiatives prepare companies to adjust to market trends, such as a desire for healthier and more sustainable products

Of all the costs contained within the Conformance Cost category, improvement initiatives and training are the largest on average. Significant investment in th

ese types of forward-looking initiatives – 30% of total compliance cost for average-performing companies – demonstrates the willingness of F&B organizations to “future proof” their operations. Risk of the cost of non-compliance, to be explored in Part 3 of this series, is all the motivator needed to dedicate resources to preventative compliance.

Works Cited

1. Watrous, Monica. General Mills investing more in food safety. Food Business News. April 14, 2017.
2. PepsiCo.com. Performance with a Purpose-Products. Accessed November 2017. <http://www.pepsico.com/sustainability/Performance-with-Purpose/Products>

Originally published on March 1st, 2018

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About the Authors



Austin Locke

austin.locke@kalypso.com

Austin is recognized thought leader focused in the Strategy & Operations and Digital practices.



Chelsea Barnes

chelsea.barnes@kalypso.com

Chelsea is a Senior Consultant at Kalypso bringing experience in customer service, project management, and business strategies analysis. She serves clients in the CPG industry.