Retail Sustainability: Supplier Engagement

Entering the age of transparent, communicative supply chains

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Executive Summary

In an effort to be strategic and proactive, retailers are developing infrastructures that promote continuous improvement in product supply chain costs, risks, safety, quality, and innovation.

We are entering the age of transparent, communicative product supply chains.

Sustainable Product Supplier Efforts

There is rapid industry-wide movement toward transparent, communicative product supply chains

Why?
- Retailers are identifying significant opportunities in their product supply chains (cost savings, risk mitigation, innovation) while addressing employee, regulator, investor, customer, and other stakeholder concerns

How?
- More retailers are assessing, reporting, verifying and addressing product supply chain social and environmental impacts through codes of conduct, audits, capacity building, LCAs, surveys, retrofit financing, etc.
- Collaboration has proved essential for leading retailers; numerous collaborative efforts are forming to address sustainable supply chains

Who?
- A core but growing group of *"embracers" made up primarily of today's leading retailers,* are forging the way, while "*cautious adopters*" see advantages mainly in terms of risk management and efficiency gains

There are a number of factors driving retailers to engage their product suppliers on sustainability issues

Satisfy increasing stakeholder demands	• Meet investor and regulatory requirements for increased transparency • Provide products for more conscious consumers • Ensure a pro-active stance in terms of compliance (e.g. conflict minerals)
Reducing risk	• Reduce reputational risk (e.g. child labor, product recalls) • Reduce supplier risk • "Farm to factory" traceability (e.g. forest products, conflict minerals)
Identifying new opportunities	• Reduce costs • Reduce time-to-market • Define company reputation and culture • Ensure product quality • Enter new markets
Ensuring supply resiliency for the long-term	• Simplify supply chains • Ensure long-term access to materials • Reduce dependencies on volatile commodities • Maintain leadership stance

Stakeholders are pressuring retail to increase transparency

Customers
Becoming conscious of their product purchases and enjoying the purchase of ethically sourced products

Competitors
Boasting their sustainability leadership as a competitive differentiator

Investors
Requiring investments to be transparent about their impacts and risks

Regulators
Regulating product supply chain environmental and social impacts (e.g. conflict minerals)

Employees
Looking for their employer to commit to sustainable practices and sell ethical products

Retailers
Are considering the environmental and social impacts of their supply chains

Activists
Increasing supply transparency and enforcing product accountability

Internal stakeholders

External stakeholders

Why?

How?

Who?

Retailers are engaging their product suppliers through multiple channels, fundamentally changing the nature of retail-supplier relationships

Product supply chain relationships are evolving to be more transparent and communicative

Traditional Retailer-Supplier Relationship

Characteristics

- Arms-length transaction between retail buyer and supplier
- Select suppliers based on product requirements and price
- Basic understanding of supplier operations, including labor practices, environmental impacts (energy, water, resource use), manufacturing/product safety
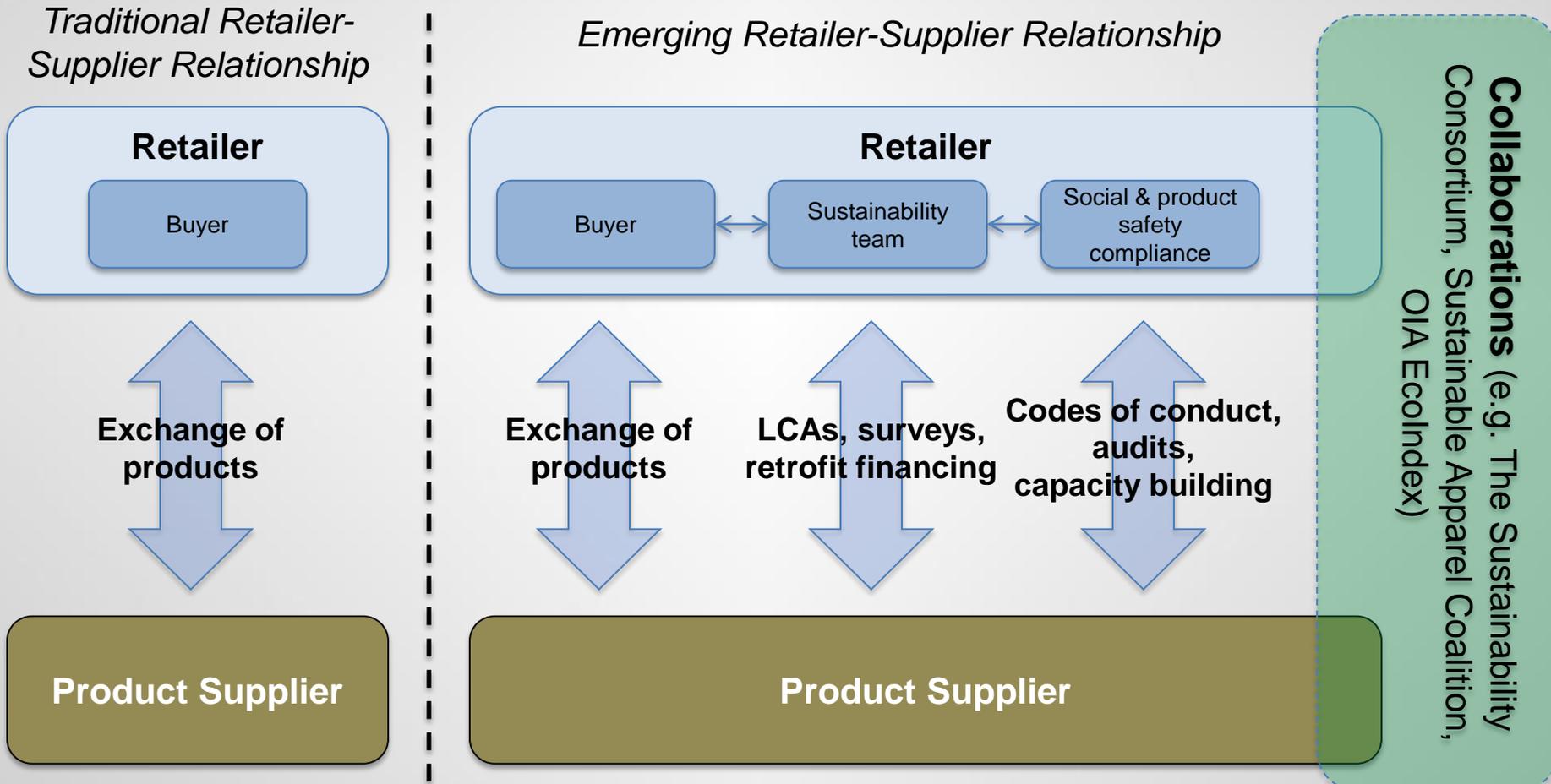
Emerging Retailer-Supplier Relationship

Characteristics

- Engaging suppliers in deeper conversations about their practices
- Developing systems to promote continuous improvement
- Building and maintaining trusted relationships
- Influencing suppliers to be more efficient, safe, and effective, reducing risk for both parties
- Setting supply chain environmental impact reduction goals

- Successful relationships include[1]:
    1. deep, intensive communication,
    2. open and free information sharing, and
    3. some form of joint planning, including mutually shared goals and dually aligned incentives with which to reach them

Communicative relationships are defined by multiple channels of interactions

Traditional Retailer-Supplier Relationship

Emerging Retailer-Supplier Relationship

Retailer

Buyer

Retailer

Buyer ↔ Sustainability team ↔ Social & product safety compliance

Exchange of products

Exchange of products

LCAs, surveys, retrofit financing

Codes of conduct, audits, capacity building

Product Supplier

Product Supplier

Collaborations (e.g. The Sustainability Consortium, Sustainable Apparel Coalition, OIA EcoIndex)

Each interaction increases opportunity to improve product supply chain efficiency and risk performance

	Type of Supply Chain Interaction	Description
Social compliance & product safety	Code of conduct, standards & expectations	• Guidelines relating to supplier labor practices, environment impacts, health, and safety
	Audits	• Visit manufacturing facilities to ensure standards and expectations are met • Can be carried out by company's internal audit team or contract auditors
	Monitoring & continuous improvement	• Risk assessment to determine the frequency and monitoring activities • Remediation provided to factories, sanctions for non-compliance
	Capacity building	• Train suppliers' management and providing suppliers assistance in improving the environment, health, and safety of their operations
	Purchasing practices	• Train sourcing, merchandising, and design teams to avoid practices that might impact supplier's ability to meet standards such as last minute changes to product, lead times, pricing, raw material sourcing, etc.
	Reporting	• Reporting on social compliance progress and metrics
Environmental	Product lifecycle assessments (LCA)	• Assess product and supply chain lifecycle costs and impacts • Identify opportunities for greatest improvement
	Capacity building & retrofit financing	• Develop forums for suppliers to share with each other and receive training[3] • Help suppliers connect to energy solutions-providers[3] • Provide technical assistance, capital for plant energy retrofit projects[2,3]
	Questionnaires & vendor portals	• Assess supplier's operations via surveys, questionnaires, and online portals
	Collaborative partnerships	• Partner with industry peers, suppliers, nonprofits, government, and/or universities to leverage diverse resources • Pilot test and implement more sustainable technologies and practices across the industry and supply chains
	Supplier forums	• Conferences, meetings, or webinars to explain retail priorities and solicit questions and feedback from supplier community

As expected, retailers are encountering challenges when engaging their product suppliers

Internal challenges

- Achieving aggressive objectives with limited resources (HR and technology)
- Garnering consistent support/commitment from management
- Achieving cross functional goals & strategies

Challenges interacting with suppliers

- Communicating the purpose of deeper supplier engagement
- Building ongoing, trusting relationships between buyers and suppliers
- Managing the vast numbers of suppliers and subcontracting factories
- Reaching beyond first tier suppliers
- Determining appropriate engagement metrics
- Quickly collecting and verifying accurate data from suppliers
- Interacting across language and cultural barriers, which are often based in China
- Remediating the stragglers

Leading retail-supplier engagement programs are combining engagement objectives

Today

Future

Social compliance

Typical areas of focus
- Working conditions (e.g. EHS, labor conditions)
- Human rights (e.g. child labor)
- Fair wages

Environmental impacts

Typical areas of focus
- Energy consumption / GHG emissions
- Water consumption
- Material selection / sourcing / use
- Waste generation / hazardous materials

Product safety

Typical areas of focus
- Product quality and regulatory requirements
- Toxics in products and processes

Combined engagement

Integrated corporate structure
- Cross-functional roles & teams
- Internal communication

Collaboration with suppliers, industry, and other stakeholders
- Capacity building & project financing with suppliers
- Developing industry-wide standards
- Engaging with NGOs
- Educating consumers

Comprehensive supply chain reporting
- Integrated financial & non-financial
- Increased supply chain transparency

13

Internal and external collaborations are becoming a requirement for effective product supply chain action

"Acting in isolation is no longer an option."[4]

"It's difficult for suppliers to listen when every customer is speaking a different language."

"You need a common set of rules before someone can win and collaboration is the only way rules can be created."
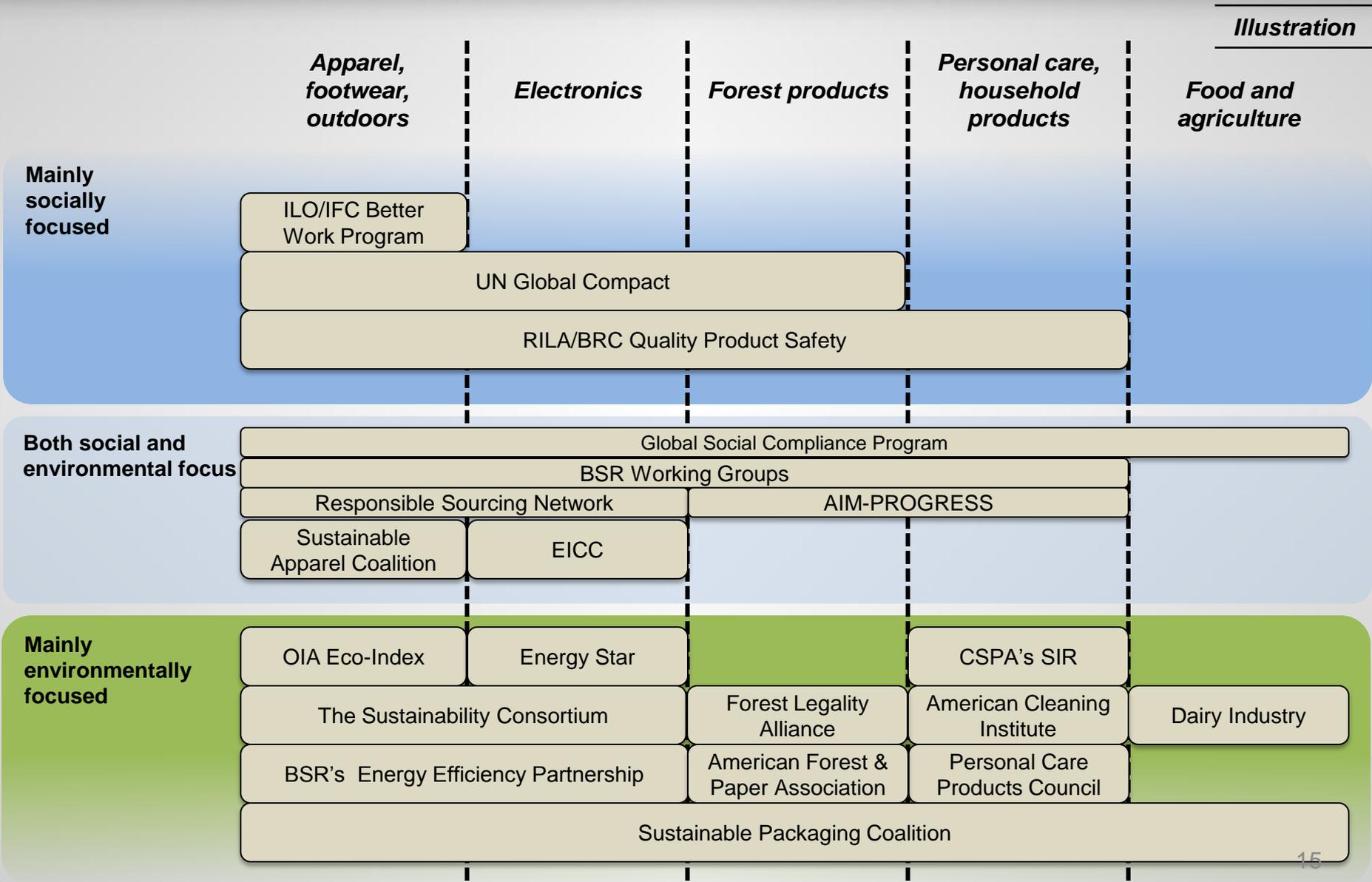
Need for collaboration

"At the end of the day, it's about consumers. The more we can collaborate, the more value we can bring to consumers."

"We need to get moving quickly….so have to coordinate cross functionally. There is value to collaboration."

14

Existing Collaborative Groups

Illustration

	Apparel, footwear, outdoors	Electronics	Forest products	Personal care, household products	Food and agriculture
Mainly socially focused	ILO/IFC Better Work Program				
	UN Global Compact				
	RILA/BRC Quality Product Safety				
Both social and environmental focus	Global Social Compliance Program				
	BSR Working Groups				
	Responsible Sourcing Network		AIM-PROGRESS		
	Sustainable Apparel Coalition	EICC			
Mainly environmentally focused	OIA Eco-Index	Energy Star		CSPA's SIR	
	The Sustainability Consortium		Forest Legality Alliance	American Cleaning Institute	Dairy Industry
	BSR's Energy Efficiency Partnership		American Forest & Paper Association	Personal Care Products Council	
	Sustainable Packaging Coalition				

Why?

How?

Who?

Generally retailers fall into three categories regarding their level of product supplier engagement

Retail Segmentation

Retailers are at different stages of opening communication with suppliers

Lagging	Responsive	Strategic
Traditionals	**Cautious Adopters**	**Embracers**
Characteristics • Maintains traditional retail - supplier relationship • Have not begun to consider product lifecycle impacts	• Produce incremental benefits for resources invested; no systems for continuous improvement • See relationships with suppliers as transactional • See supply chain engagement benefits in terms of risk management and/or efficiency gains	• Commitment from senior leaders • Developed/developing systems to foster continuous improvement • See supplier relationships as strategic
Engagement Activities • None	• Audits • Lifecycle assessments • Vendor portals / questionnaires	• Audits • Lifecycle assessments • Vendor portals / questionnaires • Capacity building • Retrofit project financing • Collaborative partnerships
Motivations for Engaging	• Risk management • Cost savings	• Support productivity loop, lower costs, improve quality, increase supply resiliency[2] • Develop innovative solutions

17

Segment titles adapted from BCG/MIT Sloan Management Review Report 2011

Characteristics of Leaders

Embracers are breaking down barriers internally and externally to develop systems for product supplier transparency and communication

Cautious Adopters		*Embracers*
Risk management	Motivation	Competitive advantage
Short-term focus	Vision	Long-term focus
Internal / limited	Metrics	Universal / LCA
Isolated / siloed	Implementation	Integrated internally and externally
Bottom-up	Drivers	Top-down & bottom-up
Audits	Supplier Engagement	Capacity building & financing
Internal operations	Reach	Supply chain / life cycle
Minimal	Collaboration	Industry, NGOs, Gov't, etc.

Information sources

Interviews

- The team interviewed nine leading retailers, supply chain collaborative groups, and retail sustainability consultants

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