Retail Sustainability: Product 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
Retailers are identifying significant opportunities with their product suppliers while addressing stakeholder concerns.
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  |
Retailers are considering the environmental and social impacts of their supply chains

- **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
- **Employees**: Looking for their employer to commit to sustainable practices and sell ethical products
- **Regulators**: Regulating product supply chain environmental and social impacts (e.g., conflict minerals)
- **Activists**: Increasing supply transparency and enforcing product accountability

Stakeholders are pressuring retail to increase transparency.
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. 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

Exchange of products

LCAs, surveys, retrofit financing

Codes of conduct, audits, capacity building

Retailer

Buyer

Sustainability team

Social & product safety compliance

Product Supplier

Emerging Retail - Supplier Relationship

Collaborations (e.g. The Sustainability Consortium, Sustainable Apparel Coalition, OIA EcoIndex)
# Types of Product Supplier Interaction

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

<table>
<thead>
<tr>
<th>Type of Supply Chain Interaction</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td><strong>Social compliance &amp; product safety</strong></td>
<td></td>
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<tr>
<td>Code of conduct, standards &amp; expectations</td>
<td>• Guidelines relating to supplier labor practices, environment impacts, health, and safety</td>
</tr>
</tbody>
</table>
| 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 training³  
| | • Help suppliers connect to energy solutions-providers³  
| | • Provide technical assistance, capital for plant energy retrofit projects²,³ |
| 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

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

**Social compliance**
- Working conditions (e.g. EHS, labor conditions)
- Human rights (e.g. child labor)
- Fair wages

**Environmental impacts**
- Energy consumption / GHG emissions
- Water consumption
- Material selection / sourcing / use
- Waste generation / hazardous materials

**Product safety**
- Product quality and regulatory requirements
- Toxics in products and processes
Internal and external collaborations are becoming a requirement for effective product supply chain action.

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

“Acting in isolation is no longer an option.”

“It’s difficult for suppliers to listen when every customer is speaking a different language.”

“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.”
Existing Collaborative Groups

Mainly socially focused

- ILO/IFC Better Work Program
- UN Global Compact
- Global Social Compliance Programme
- RILA/BRC Quality Product Safety

Both social and environmental focus

- Global Social Compliance Program
- BSR Working Groups
- Responsible Sourcing Network
- Sustainable Apparel Coalition
- EICC

Mainly environmentally focused

- OIA Eco-Index
- Energy Star
- The Sustainability Consortium
- Dairy Industry
- BSR’s Energy Efficiency Partnership

Illustration

(Apparel, footwear, outdoors) (Electronics) (Food and agriculture) (Personal care, household products) (Forest products)
Generally retailers fall into three categories regarding their level of product supplier engagement.
Retailers are at different stages of opening communication with suppliers

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<th>Characteristics</th>
<th>Traditionals</th>
<th>Cautious Adopters</th>
<th>Embracers</th>
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<tbody>
<tr>
<td><strong>Maintains traditional retail-supplier relationship</strong></td>
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<td><em>Produce incremental benefits for resources invested; no systems for continuous improvement</em></td>
<td><em>Commitment from senior leaders</em></td>
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<td><strong>Have not begun to consider product lifecycle impacts</strong></td>
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<td><em>See relationships with suppliers as transactional</em></td>
<td><em>Developed/developing systems to foster continuous improvement</em></td>
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<td><strong>See supply chain engagement benefits in terms of risk management and/or efficiency gains</strong></td>
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<td><em>See supplier relationships as strategic</em></td>
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<th>Engagement Activities</th>
<th>Lagging</th>
<th>Responsive</th>
<th>Strategic</th>
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<tbody>
<tr>
<td><strong>None</strong></td>
<td><em>Audits</em></td>
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<td><strong>Lifecycle assessments</strong></td>
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<td><strong>Vendor portals / questionnaires</strong></td>
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<td><strong>Capacity building</strong></td>
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<td><strong>Retrofit project financing</strong></td>
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<tr>
<th>Motivations for Engaging</th>
<th>Lagging</th>
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<th>Strategic</th>
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<td><strong>Risk management</strong></td>
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<td><em>Support productivity loop, lower costs, improve quality, increase supply resiliency²</em></td>
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<tr>
<td><strong>Cost savings</strong></td>
<td><em>Cost savings</em></td>
<td><em>Cost savings</em></td>
<td><em>Develop innovative solutions</em></td>
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* Segment titles adapted from BCG/MIT Sloan Management Review Report 2011
Embracers are breaking down barriers internally and externally to develop systems for product supplier transparency and communication.

**Characteristics of Leaders**

**Cautious Adopters**
- Risk management
- Short-term focus
- Internal / limited
- Isolated / siloed
- Bottom-up
- Audits
- Internal operations
- Minimal

**Embracers**
- Competitive advantage
- Long-term focus
- Universal / LCA
- Integrated internally and externally
- Top-down & bottom-up
- Capacity building & financing
- Supply chain / life cycle
- 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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