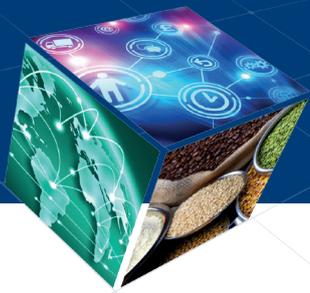


Supply Chain Sustainability

A Strategic Responsibility



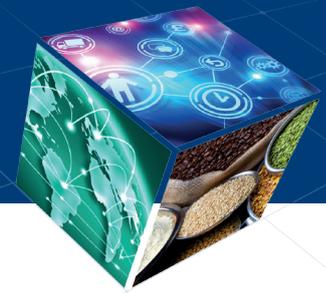
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The supply chain function has evolved significantly over the past decade, becoming a key strategic pillar of business. Going beyond its core role of delivering goods on time, in full, it has a vital role to play in customer experience and brand perception. Supply chain now has a seat in the boardroom in many organisations. Barely a week goes by without a supply chain issue - be it supplier failure or reputational risk - hitting the headlines and the share price. The proliferation and influence of social media has put supply chain risk and sustainability firmly in the spotlight. Companies are publicly held to account for the actions of all tiers of their supply chain. This is why companies must lead the way on sustainability issues, to mitigate economic, social and environmental impact. Beyond the risk however, there are significant strategic advantages to acting sustainably.

Social media has put supply chain risk in the spotlight





80%
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Supply Chain Sustainability

The sustainability discussion evolved from purely focusing on companies taking from society and wanting to give back, to realising there are risks to compliance and reputation.

Sustainability issues are often supply chain issues. For example, the introduction of the Modern Slavery Act is to ensure that slavery and human trafficking is not taking place in businesses or supply chains.

Today however, organisations are now seeing sustainability as a strategic opportunity that can increase competitive advantage.

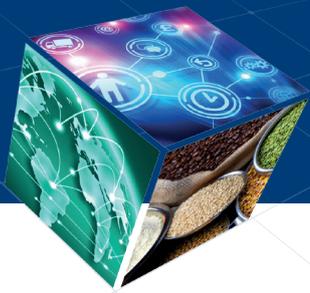
Two main streams have emerged:

- The risk dimension: what do companies have to do to avoid risk of brand damage?
- The aspiration dimension: what is the strategy for the long-term survival of the business?
- Industry collaboration is the biggest opportunity;
- Eliminating supply chain risks is the main driver;
- Traceability and environmental concerns are the biggest issues to watch out for.

Sustainability in the supply chain is increasingly seen among senior executives as essential to delivering long-term profitability. A sustainable supply chain captures value creation opportunities and offers significant competitive advantages for early adopters and process innovators. At the same time, supply chain is one of the key components for organisations to create a positive impact in the world, with an estimated 80% of global trade passing through supply chains. Many large corporations, such as Nestlé and Nike want to do good business and do the right thing.

A recent study on the global supply chain community saw three current trends emerging on supply chain sustainability in 2015/2016:





Collaboration

Starting with ethical and responsible sourcing, supply chain professionals have begun to understand the importance of building long term relationships with their suppliers. Having a win-win partnership is crucial. Companies who will be a valuable customer to their vendors will have a considerable competitive advantage.

Organisations are demanding more from their suppliers; traceability and transparency being key requirements. Companies sharing their big picture vision with their suppliers and their role in the long-term strategy will get more from their partners. Too many businesses are still failing to achieve this. Partnering with suppliers empowers them to unlock innovation quickly.

Working on more collaborative partnerships helps to minimise the risk factors too. Companies are liable for all tiers of their supply chains. Increased collaboration with others is vital to be able to efficiently assess all layers of the supply base. Organisations can never be too informed if they want to prevent risk, and need to demonstrate they have acted responsibly when risks are exposed. Companies must start with themselves and build open and transparent relationships with their suppliers.

Some pharmaceutical organisations, like Takeda, have recently established a supplier code of conduct in line with their international business ethics. They proactively audit and monitor their vendors to review performance in line with this code. It helps Takeda to have a much stronger supplier selection process; they are able to build stronger relationships and reduce risk exposure.

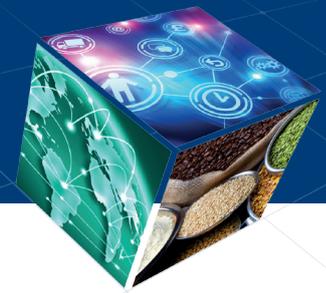
Collaboration with other industry leaders can be very valuable in sharing information when it comes to supplier audits. Takeda recently joined the Pharma Supply Chain Initiative composed of 20 companies. It has a supplier audit program and engages with the suppliers on behalf the member companies to make sure they comply. It also raises awareness from an environmental and ethical point of view. However, collaboration between businesses from the same industry is not widespread. Many companies fear a loss of commercial control and competitive advantage by working closely with others. As a result, there is an emergence of collaborative platforms that provide supplier sustainability ratings for global supply chain such a EcoVadis, working with many global brands

Collaboration can also take the form of partnering with NGOs. They can help and guide organisations on environmental or ethical issues, such as Kimberly-Clark and Greenpeace working together to practice responsible forestry management. Greenpeace has also reached accords in recent years with Unilever and others on palm-oil sourcing. In building those partnerships, the willingness to talk is key, particularly when there is a history of conflict.

Shareholders are concerned about sustainability and expect supply chain leaders to embed best practice. Research conducted by Accenture showed that 52% of executives report that investors' interest is an incentive to invest in sustainability.

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How to use sustainability as a competitive advantage?

Industry leaders understand that supply chain sustainability is an enabler in the competitive race and can bring a wealth of opportunities if utilised effectively.

Global brewing giant SABMiller embraces the idea that water is strategic. It cut its water consumption by 28%, now only using 3.3L to make 1L of beer and is on track to achieve its objective of 3L by 2020. Iconic sports brand Nike has adopted the concept of 3D printing a new pair of shoes to eliminate waste.

Companies not focusing their supply chain efforts on differentiation are at risk of falling behind. Innovation can also involve changing consumer behaviour. Here again, collaboration is key between different functions, from R&D to marketing and procurement and supply chain.

One of the three pillars of Unilever's Sustainable Living Plan is to halve the environmental footprint of their products by 2020. It is embedded in their purpose driven strategy to double the revenues of the business whilst having a positive social impact and reducing the environmental footprint. Their business model has put supply chain sustainability at the heart of strategy and they use innovation to embrace it.

20%
potential
increase in
revenue while
reducing
supply chain
costs

Cost

A common misbelief is that sustainable solutions cost more. In most cases, they are more profitable with a fast return on investment. Business and sustainability go hand in hand and better solutions have emerged, both for businesses and the planet.

Traceable palm oil with no impact on deforestation is an example of more expensive initiatives. However, setting up renewable energy solutions like windmills and solar panels can be profitable immediately. Many companies also put a lot of effort in reducing transportation, with the objective to decrease gas emissions but also the transportation cost itself. From a labour perspective, the overall cost could be diminished by improving productivity and respecting minimum wage.

When companies take the long-term approach that sustainability requires, the initiatives can be cost neutral or better. Some companies have increased their revenue by as much as 20%, while reducing supply chain costs up to 16% by implementing sustainable supply chain practices, according to the World Economic Forum report written with Accenture. Best practices have been identified to support companies achieve a "triple supply chain advantage" of increased revenue, reduction in supply chain cost and added brand value. The result is improved competitiveness and reduced operational risk.



Employees' engagement key to sustainable success

46% of CEOs reported that employees would be among the most influential groups in guiding their action on sustainability over the next five years - second only to consumers.

When it comes to employee engagement, it is important to communicate internally to all levels of the organisation. Best practice should come from within and companies should ensure that their external actions on sustainability are also reflected internally.

Taking care of the workforce, engaging them in implementing a corporate commitment to sustainability, will drive greater productivity and thus greater profitability.

Giving employees a purpose and empowering them to have ideas and find solutions at a local level could make a real difference in supply chain sustainability. It is more challenging to have sustainable operations in some global regions than in others. Leading supply chain executives encourage their teams to go beyond their own boundaries, inspiring, guiding and supporting them.

Many multinational organisations have their supply chain sustainability targets set to be reached by 2020. Winning companies will master the combination of commercial gains and "it is simply the right thing to do". They will embrace internal and external collaboration and will drive supplier and consumer behaviour.

In a world where social conscience is fed by social media and fear of the speed and scale at which information can disseminate globally, it is crucial to behave responsibly. Those organisations which do not act now on supply chain sustainability face the risk of long term brand and reputational damage.

Companies who are supply chain sustainability leaders are outperforming their less sustainable peers. Many studies show that these sustainability leaders have higher, faster growing stock value, better financial results, lower risks, and more engaged workforces.

Aligning employees' engagement with supply chain sustainability strategy is key to building an innovative, environmentally responsible, and socially conscious business. Workers on the front line are often in the best position to identify inefficiencies and propose solutions. The best companies are integrating their sustainability strategies into their employees' day jobs. Employers must incorporate sustainability targets in the employee's annual objectives and incentivise them.

Sustainability is the responsibility of everybody, but especially those involved in the supply chain that are in a position to act.

Communication and training are important factors in generating awareness across the workforce. To attract talent, particularly millennials and future generations, companies behind on the subject will lose in this battle too.

46%

of CEOs say employees influence their action on sustainability

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