Uncovering the Drive Towards Responsible Sourcing by the Consumer Packaged Goods Industry

KRUGER PRODUCTS
CONSUMER ROUND TABLE WHITE PAPER
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INTRODUCTION

From forestry, fish and palm oil to sugar, cocoa and tea, and so much more, responsible sourcing should be a significant consideration for every company. It is a broad and far-reaching topic that can have a variety of meanings to companies, individuals and organizations. Unlike the term *sustainability*, which has a commonly accepted definition – development which meets the needs of current generations without compromising the ability of future generations to meet their own needs – which was developed by the United Nations, the term *responsible sourcing* does not have such an agreed upon definition. Despite this, a multitude of companies around the world have formulated their own definitions and are integrating responsible sourcing into their operations. From major international companies like *Unilever* and *Marks & Spencer*, mid-size companies, like *Whole Foods Markets*, and small, local companies like *Modrobes*, responsible sourcing is quickly becoming an important part of doing business, not only as it pertains to environmental and social sustainability, but from a long-term economic standpoint, too.

Companies operate with a primary purpose: profitability. No matter the industry, size or geography, all companies must earn a net profit to sustain themselves. Even the most environmentally-conscious companies, like *Interface* – a company made famous by its dedication to sustainability and unwavering commitment to eliminate the negative impact it has on the environment – understand the importance of financial performance. Without a sound business, operations couldn’t last and people would be out of work. Therein lies the challenge for every company – the delicate balancing act among environmental, social and economical sustainability components.

Yet, even within the demand for economic performance, leading organizations around the world are reviewing their processes and supply chain standards to integrate responsible extraction and/or procurement. The common link these companies share is some level of understanding of how this will benefit their companies’ overall performances and better prepare them to withstand the changing pressures the future will inevitably bring. How this is done will certainly differ by company, but it is happening all around us.

Despite the extensive work by many companies across the globe to make their supply chains more sustainable and promote responsible sourcing, it still does not play a significant factor in household purchasing decisions in developed countries, such as Canada or the United States. Consumer packaged goods (CPG) companies and retailers are working to communicate their responsible supply chain success stories, but consumer uptake is relatively slow. In fact, according to a recent study by BBMG, GlobeScan and SustainAbility, consumers in developing markets (Brazil, China, India) are more than twice as likely as their counterparts in developed markets (Germany, United Kingdom, United States) to purchase products because of environmental and social benefits (51% versus 22%), are willing to pay more for sustainable products (60% versus 26%) and encourage others to buy from companies that are socially and environmentally responsible (70% versus 34%). Further, consumers report that ‘origin’ – where it comes from’ (5%) and ‘supports causes I believe in / has positive social impact’ (4%) are very unlikely to compel them to switch brands within product categories.¹

¹ Re:Thinking Consumption – Consumers and the Future of Sustainability. A Study by BBMG, GlobeScan and SustainAbility. 2013.
To aid in the adoption of responsible sourcing, the second annual Leaders in Sustainable Thinking roundtable was convened by Kruger Products L.P. and Canadian Grocer magazine in Toronto, Ontario on March 6, 2013. The goal was to bring together like-minded companies to review current efforts, successes and challenges with the aim of elevating the discussion and facilitating collaborative opportunities. The roundtable was moderated by Howard Green, the anchor of Headline with Howard Green, the flagship interview program on Business News Network (BNN) in Canada. Participants were:

- **Bolan, Geoff** – Commercial Director for the Americas, Marine Stewardship Council
- **Bouchard, Francois** – Owner, Country Grocer
- **Comolli, Mark** – Director of Markets, Rainforest Alliance
- **Gerlsbeck, Rob** – Editor, Canadian Grocer magazine
- **Sage, Steven** – Vice President, Sustainability & Innovation, Kruger Products
- **Smith, David** – Vice President, Sustainability, Sobeys
- **Uys, Paul** – Vice President Sustainable Seafood, Loblaw Companies

Although there may not exist a universally accepted definition of responsible sourcing, industry- and product category-specific standards are beginning to emerge. For the purpose of this white paper, information and research is focused on the CPG industry and relevant consumer-facing retailers. The discussion is summarized in the following three sections:

1.0 Current Status

2.0 Challenges and Successes

3.0 Where Do We Go From Here?

To support the roundtable discussion, Rogers Media conducted an internet-based consumer survey in November-December, 2012 using its magazine subscribers across Canada as the respondent pool. Results cited throughout this white paper are based on 530 qualified participants and referenced as Rogers Connect Market Research 2012(2).
1.0 CURRENT STATUS

The Reason d’Etre

With the growing macro issues companies are facing, whether multi-national or not, responsible sourcing cannot be viewed solely through the lens of environmental protection; it is a true sustainability issue because it impacts all three pillars – environmental, social and economical. From economic variability and food/supply chain unpredictability to climate change volatility and water insufficiency, macro issues are an indisputable driving force behind the rapid adoption of responsible sourcing worldwide. Companies are beginning to recognize that this is not merely an altruistic endeavor to save the planet and gain customer, investor and consumer loyalty through carefully marketed communications, but one that is becoming a growing concern and a necessity for any business to continue to exist in the future.

For some leading companies, responsible sourcing and/or procurement is an important element of risk management. Others may not quite understand the volatility and instability the future may hold and, therefore, may not be attuned to the true business value of responsible sourcing throughout the supply chain. Although corporate reputation can be enhanced through appropriate promotion of a company’s responsible sourcing practices and policies, this halo effect is beginning to fade. Risk management is an important reason to integrate responsible sourcing. The tsunami in Japan in 2012 is proof of this. It demolished factories, thereby directly impacting profits in automotive and electronics companies across the world almost overnight.

Many companies also understand the important relationship between human rights conditions of direct and indirect employees and corporate success. When workers have decent working conditions, fair pay and are treated with respect, they are more committed to the companies for which they work and, ultimately, are more productive. Non-governmental organizations (NGOs) and consumer attention to poor working conditions grew during the 1970s when accusations were made against Nike that it used sweatshops in South Korea, China and Taiwan. Major brands, such as Nike and Gap, continue to draw public attention to human rights issues so the public is typically more aware of these types of issues than they are of other supply chain sourcing issues, such as responsible forestry or ethical palm oil.

In fact, as this white paper was being developed, a garment factory in Dhaka, Bangladesh collapsed killing more than 1,000 of workers, the investigation of which lead to the closure of at least 18 additional facilities in the country. This tragic situation called immediate global attention to human rights issues because the building was allegedly built illegally and construction regulations were violated. This is the third such incident in six months to raise questions about worker safety and labour conditions in Bangladesh. Agencies in Canada do not have the power to mandate that certain codes or regulations are followed in another country, but companies can require that certain standards be met and conduct audits to ensure this is happening. Loblaw was the first Canadian company to publicly acknowledge that it purchased clothing from the factory for its Joe Fresh brand, however, several other companies have since been tied to it, including H&M, Fairweather Ltd, Wal-Mart Canada and Atlantic Sportswear. Major Canadian retailers, including Wal-Mart Canada, Sears Canada and Loblaw held an emergency

meeting to plan how to move forward and ensuring “those tragic incidents do not occur again,” according to Diane Brisebois, president and CEO of the Retail Council of Canada (RCC).

Meanwhile, the European Union announced it is considering trade action against Bangladesh to pressure improvements in labour safety standards. With mounting global pressure, major retailers, including the Italian brand Benetton, British retailer Marks & Spencer, Swedish retailer H&M, and Spanish retailers Mango and Zara, announced a contract requiring such companies to conduct independent safety inspections of factories and cover the costs of repairs, in addition to a fee of $500,000 per year towards the efforts and the end of business with any factory that refuses to make safety improvements. At this point, Gap, along with 14 other North American retailers, has declined to sign the safety accord. The five-year agreement will see independent safety inspections with public reports on all Bangladeshi suppliers used by the signatory companies, mandatory repairs and renovations, the obligation by brands to underwrite the costs of safety upgrades, and repercussions for suppliers that refuse to improve conditions including the termination of business.

Similar action is occurring in the United States where Democrats Sander Levin and George Miller wrote a letter to President Obama urging him to facilitate the development of concrete plans to address the range of issues relating to working conditions and worker rights in the garment sector in Bangladesh. After international pressure, Prime Minister Sheikh Hasina warned factory owners that they have to take better care of their workers, including providing fair wages and safe environments. The government is also setting up a new minimum wage board to issue recommendations to the Cabinet to pay raises for garment workers.

Although often far removed, consumers do not want to hear about human rights violations, especially when they are tied to products we commonly purchase. In Canada, Loblaw faced calls for a boycott of the Joe Fresh line of products, and responded by promising to compensate the families of deceased workers. Ethical Trading Initiative director, Peter McAllister, said the retail industry needs to recognize the real cost of having sustainable businesses, but that unless an industry-wide change is made, it may take time for leaders to come forward because it could potentially put them at a competitive disadvantage.

It’s time that companies of all sizes and in all industries realize the uncertainty of tomorrow and the impact that uncertainty may have on their businesses. Responsible sourcing helps ensure that supplies are sustainable not just so companies can market their products as “green” or “ethical,” but so that they can continue to operate profitably. Issues like mitigating climate change, maintaining access to clean water, harnessing the growing middle class and their material demands, and eradicating deforestation are business imperatives.
Where are Canadian Consumers on the Issue?

All things being equal, responsible sourcing is not top of mind with the majority of consumers, however, more than half agree that food producers and manufacturers are doing a good job on responsible sourcing. A myriad of products, from fair trade chocolate to shade-grown coffee are available to consumers at the grocery store level and encouraged by the companies that manufacturer such products as the responsible choice. But how does a consumer make sense of the breadth of claims and labels on products – what exactly does ethical sourcing mean? How do fair trade and fair trade labeling differ? What’s the difference between Forest Stewardship Council® certification and Sustainable Forestry Initiative certification to a consumer? Unfortunately, the answers are not always clear to consumers.

To make matters more complex, Europe and North America stress different topics, which further confuses the goal of promoting responsible purchasing by consumers. In general, grocery stores in America stress food safety while European grocery stores tend to emphasize workers’ welfare, environmental protection and food safety.

What Canadian Consumers Say About Responsible Sourcing as a Purchasing Decision

There are a host of reasons that shoppers do not proactively seek out responsibly-produced products, many of which were identified in the Rogers research conducted for the 2012 Leaders in Sustainable Thinking roundtable and reported in the associated white paper, Helping Canadian Households.

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3 Rogers Connect Market Research 2012(2).
6 Rogers Connect Market Research 2012(2).
Achieve Their Sustainability Goals, such as consumer confusion, cost and a general distrust of brand claims. However, when consumers do consider responsible sourcing, it is often tied to human rights issues. Survey respondents were provided a list of certifications and asked which is the most important. The Fairtrade logo received the highest response; when asked why, the most common reason was that “it covers an important issue” (e.g. human rights).

Additionally, according to the Re:Thinking Consumption study, five of the top six issues consumers feel are very or extremely important for companies to address deal with human rights, include:

- Safe drinking water
- Healthcare
- Fair wages and safe working conditions
- Jobs and economic opportunity
- Education

Consumers also associate responsible sourcing with edible grocery items more so than they do with inedible items. This likely stems from the notion of caring more about products we ingest and the emotionality connected to food, which was agreed upon by participants in the 2013 Leaders in Sustainable Thinking roundtable. Humans have a personal relationship with food, and are, therefore, more concerned with food-related issues. Consumer concerns about the nature of food production and its health and safety implications have also grown. While European consumers have long experienced anxieties regarding food quality and safety, a series of ‘food scares’ and safety scandals erupted during the 1980s and 1990s that increased concerns of food products, including outbreaks of BSE (bovine spongiform encephalopathy), CJD (Creutzfeldt-Jakob disease), listeria, salmonella and foot and mouth disease. And more recently, the Maple Leaf Foods listeriosis outbreak in 2008 further increased consumer concern with food safety issues.

Credible Third-Party Organizations Can Help

Industry is not in this alone. There is an abundance of reputable organizations that can help companies in various industries audit their supply chains and sourcing policies and ultimately evolve them by integrating responsible sourcing. The difficulty may be figuring out which organization is best for a given company to work with on responsible sourcing initiatives. Companies have to strike a balance between economic business goals and stakeholder demands. Particularly within the CPG industry, consumer perception plays a key role in this decision. There are certainly some third-party organizations that are more recognizable and trusted by consumers, so their logos on products or in advertisements become

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7 Rogers 2012.
8 Rogers Connect Market Research 2012(2).
10 Rogers Connect Market Research 2012(2).
more valuable. But still, there is limited consumer understanding of responsible sourcing because of the complexity of supply chains. If consumers can’t understand responsible sourcing issues, of which every product category has their own, how can they understand the responsible claims of certain products and ultimately make responsible purchasing decisions?

**Most Recognizable Responsible Sourcing Certification Logos for Canadian Consumers**

![Bar Chart]

Below is a list of credible third-party organizations that work with for-profit companies to improve their supply chain and procurement standards as well as help audit and enforce compliance.

**Better Cotton Initiative**

The Better Cotton Initiative (BCI) is a global coalition of producers, ginners, mills, traders, manufacturers, retailers, brands and civil society organizations that are committed to developing sustainable cotton for mainstream commodity. It works with a range of stakeholders to promote measureable and continuing improvements for the environment, farming communities and the economies of cotton-producing areas. It exists to make global cotton production better for the people who produce it, better for the environment it grows in and better for the sector’s future. Retail members include H&M, Marks & Spencer, IKEA and Adidas Group, while donors include WWF, the Sustainable Trade Initiative, Advocates for International Development, among others.

13 Rogers Connect Market Research 2012(2).
Ethical Trading Initiative

The Ethical Trading Initiative (ETI) is an alliance of companies, trade unions and voluntary organizations that work in partnership to improve the working lives of poor and vulnerable people across the globe who make or grow consumer goods. ‘Doing’ ethical trade is much harder than it sounds. Modern supply chains are vast, complex and span the globe. Labour issues are themselves challenging. To ETI, ethical trade means that retailers, brands and their suppliers take responsibility for improving the working conditions of the people who make the products they sell. Marks & Spencer has introduced a range of initiatives designed to build supplier support for ethical trade, including conferences and other events, a dedicated website and awareness-raising DVDs.

Fair Labor Association

Fair Labor Association (FLA) is an international collaborative effort of universities, civil society organizations and socially responsible companies dedicated to protecting workers’ rights around the world. The organization works with companies to comply with workers’ rights standards and develop innovative sustainable strategies and resources to help companies improve their practices. Major companies, from Apple and American Eagle Outfitters, Inc. to Adidas Group and Nestle, work with FLA to ensure that fair labour practices and safe and humane working conditions exist throughout their supply chains.

Fairtrade Foundation

The Fairtrade Foundation is the independent non-profit organization that licenses use of the FAIRTRADE Mark on products in the UK in accordance with internationally agreed Fairtrade standards. It was founded in 1992 by six NGOs, including Oxfam, Christian Aid and the National Federation of Women’s Institutes and has since grown to include additional member organizations. The Foundation works for a world in which justice and sustainable development are at the heart of trade structures and practices. By working with businesses, community groups and individuals, it facilitates trading partnerships based on equity and transparency, thereby contributing to sustainable development for marginalized producers, workers and their communities.

Fair Trade International

Fair Trade International is a global organization comprised of more than 25 member organizations that are working together to secure a better deal for farmers and workers. It helps companies certify their products according to the organization’s Fairtrade standards as well as helping growers and producers earn Fairtrade certification and develop market opportunities. A diverse group of companies have integrated Fairtrade certified products, such as cane sugar, cocoa, and coffee, into their operations, including the following well-known companies: Redpath Sugars Ltd., Ben & Jerry’s, Mars Inc., Starbucks Manufacturing Corporation, and Dole Fresh Fruit International Ltd.
Forest Stewardship Council

In 1993, leading organizations, including the Rainforest Alliance and Greenpeace, established the Forest Stewardship Council® (FSC®), which today is the world’s most rigorous forestry accreditation body. FSC established a system that credibly identifies well-managed forests as the sources of responsibly produced wood products. The number of certificates issued in both forest management and chain of custody has increased exponentially, passing 20,000 certificates in 2011. Essentially, FSC promotes environmentally appropriate, socially beneficial, and economically viable management of the world’s forests. Kimberly-Clark first earned FSC certification after intense pressure from Greenpeace, while Kruger Products, a Canadian tissue manufacturer, became the first such Canadian company to earn FSC certification for its consumer and away-from-home tissue products.

GreenPalm Certificates

GreenPalm is a certificate trading program designed to tackle the environmental and social problems created by the production of palm oil. By selling certificates through the GreenPalm Programme palm oil producers can earn more for their crop through sustainable farming. Through buying a product that bears the GreenPalm logo, consumers can make a positive contribution to the production of certified sustainable palm oil.

The Marine Stewardship Council (MSC)

The MSC is a global organization working with fisheries, seafood companies, scientists, conservation groups and the public to promote the best environmental choice in seafood. Founded in 1997 by the World Wide Fund for Nature and Unilever, it became fully independent in 1999 and, as of March 2013, more than 18,000 seafood products, sold in more than 100 countries around the world, carry the MSC ecolabel to help identify responsible seafood.

The MSC has developed standards for sustainable fishing and seafood traceability. The organization believes that both standards meet the world’s toughest best practice guidelines and are helping to transform global seafood markets for the better. Numerous companies have adapted their sourcing standards to meet MSC’s standards.

One of the most notable examples in Canada is Loblaw Companies Limited’s target to source 100% of the seafood sold in its stores from sustainable sources, including those that are MSC-certified, by 2013. As Canada’s largest purchaser of seafood, it collaborated with a number of external organizations, ranging from academic experts to NGOs and government agencies to achieve this goal. It embarked on a strong campaign to promote the MSC label to increase consumer awareness while at the same time worked on the business side to engage suppliers and vendors to integrate this goal into their working relationship with Loblaw. This is a major undertaking because the goal applies not only to fresh and frozen seafood products, but also to products that contain seafood, such as pet food.
Rainforest Alliance

The Rainforest Alliance works to conserve biodiversity and ensure sustainable livelihoods by transforming land-use practices, business practices and consumer behaviour. They harness the power of the marketplace to arrest the major drivers of environmental destruction. To this end, they help communities ensure that ecosystems within and around their operations are protected, and that their workers are well-trained and enjoy safe conditions, proper sanitation, health care and housing. Once businesses meet certain environmental and social standards, The Rainforest Alliance links them up to the global marketplace where demand for sustainable goods and services is on the rise, thereby helping their business thrive and supporting the global awareness and demand of responsibly sourced products.

There are a number of product categories that the organization works with to improve their operations and environmental, social and economic impact: building materials, flowers and plants, health and beauty, food and beverage, home and office.

The organization enforces the three pillars of sustainability – environmental, social and economical protection. Its Sustainable Agriculture Network standards provide guidelines for the protection of wildlife and forests and other valuable habitats in and around farms. As well, its 10 guiding principles incorporate water conservation and quality monitoring. The social aspect is addressed through ensuring fair and decent wages and working conditions as well as eradicating child labour practices. Finally, certification increases efficiency on farms, reducing costly inputs and improving management and facilitates access to specialty buyers, contract stability, favorable credit options, publicity, technical assistance and premium markets. As a result, the quality of the farm product, whether cocoa, coffee, bananas or tea, generally improves.

Roundtable on Sustainable Palm Oil (RSPO)

The RSPO is a global, multi-stakeholder initiative on sustainable palm oil. It was formally established in 2004 and its founding members include the World Wildlife Fund (WWF), Unilever, Aarhus United UK Ltd, Migros, and the Malaysian Palm Oil Association. Today, membership has grown exponentially and includes environmental NGOs, banks and investors, growers, processors, manufacturers and retailers of palm oil products and social NGOs.

Put simply, the organization exists to make sustainable palm oil the norm around the world. In 2007 the RSPO released the RSPO Principles and Criteria for Sustainable Palm Oil Production (Including Indicators and Guidance October 2007), which serve as the global guidelines for producing palm oil sustainably. They have been described as the world’s toughest standards for sustainable agriculture production. To preserve its integrity, any organization wishing to use RSPO palm oil must do so transparently to allow tractability, which is assured through the RSPO Supply Chain Certification.

In October 2012, Holland became the first country to make a commitment towards responsible palm oil when Dutch traders and users pledged collectively to switch to 100% RSPO-certified sustainable palm oil by 2015. A Task Force was created that unites players in the Dutch refining, food manufacturing and feed industries to help the country achieve this target.
2.0 CHALLENGES AND SUCCESS

Challenges

There are a number of challenges companies face when trying to integrate responsible sourcing into their operations. However, the first step is being able to identify what specific challenges your company faces and prioritize solutions based on short-, medium-, and long-term timelines.

**The Nay Sayers** – in the foreseeable future, there will certainly be a fair share of companies that will not consider their impact on the environment or surrounding society. These companies may benefit in the short-term as other companies struggle to implement responsible sourcing initiatives. But once these companies have operationalized their revised sourcing policies, they will begin to realize benefits they would not have achieved otherwise, and those that do not follow suit will eventually be left behind.

**Complexity** – responsible sourcing requires support from a host of external stakeholders throughout the supply chain. And companies that manufacture a multitude of various products have a tangled web to unweave. This complexity also poses a challenge from a compliance standpoint because of the dedicated resources required to ensure that companies throughout a supply chain are observing standards properly.

**Competing Priorities** – as companies work with stakeholders to identify concerns of material interest, some of these priorities may differ from those of the company. Understanding this difference can help companies become better corporate citizens if they engage stakeholders and work with them to improve sustainability issues.

**Knowledge** – understanding your supply chain and where your company can make a measurable impact in responsible sourcing is more important and will reap more benefits than trying to tackle numerous issues without proper insight, which could ultimately lead to ineffective programs. Additionally, the more manufacturers are aware of their impacts, the more they can work with retailers to drive responsible sourcing and/or procurement further.

**Financial Timelines** – due to our current financial system, companies are focused on short-term profits driven by quarterly reporting, which often results in overlooking long-term risks. Responsible sourcing requires a more effective marriage between short-term goals and long-term vision.

**Pre-competitiveness** – competition can limit knowledge sharing among industry players and stalls progress through the hoarding of information. Eliminating this bias will extend benefits to more organizations, ultimately elevating the ease of incorporating and, thereby, the number of companies embarking on responsible sourcing journeys.

**Culture** – regional differences around the globe present different demands, challenges and supply chain issues. Finding commonalities and collaboration will be key to finding effective solutions.
Internal Support – sometimes earning the internal support to develop a responsible sourcing policy is more difficult than working with external stakeholders to implement it. Tying efforts to cost savings and risk management will play a key role in acceptance.

Breadth – this is not an issue one company can tackle in isolation. It requires dedicated support from internal and external stakeholders to integrate and enforce. No company is an island unto itself. Even if operations and/or sales are limited to a certain geography, impacts are felt around the world.

Success Stories

Kruger Products and Responsible Fibre

Kruger Products is Canada’s leading manufacturer of consumer, in-home and commercial, away-from-home tissue and paper products, including well-known brands such as Cashmere® bathroom tissue, Scotties®' facial tissue and SpongeTowels® paper towels. In 2010, the company launched Sustainability 2015, its five-year initiative to reduce its environmental footprint. Through this program, the company set nine measureable targets, one of which was to earn FSC Chain of Custody certification. Fibre is integral to Kruger Products’ business, and through its parent company, Kruger Inc., the company has a long legacy of leadership in responsible forestry management. But earning the stringent and internationally recognized FSC certification through the Rainforest Alliance was an important external validation for consumer and customers alike. By March 2011, Kruger Products had become the first Canadian tissue manufacturer to earn FSC certification and it currently offers one of the largest portfolios of third-party certified products in North America for the consumer and away-from-home markets. The company’s EnviroCare portfolio of 100% premium recycled tissue and paper towel products, as well as select away-from-home products, now bear the FSC and Rainforest Alliance logos so consumers and customers can readily identify the responsible products. After earning FSC certification, Kruger Products influenced additional Kruger Inc. divisions, such as KruPack (manufactures corrugate and containerboard boxes), to also earn FSC certification, as well as revising is supplier policy in favour of FSC-certified fibre, thereby extending the reach of its approach to responsible forestry throughout its supply chain.

Loblaw and Sustainable Seafood

As Canada’s largest retailer of seafood, Loblaw announced all the seafood sold in its stores will come from sustainable sources by the end of 2013. The company collaborated extensively with WWF, MSC and independent marine science advisors and government agencies along the way. A major component of achieving this was communicating with vendors because not only does this apply to fresh seafood, but it also applies to products that contain seafood, such as pet food. Loblaw also wanted to ensure that consumer education was happening at the same time so that shoppers would understand the changes they were seeing in Loblaw stores. Because of the complexity of seafood and related certifications, Loblaw had the challenge, as leaders often do, of figuring out how to communicate with audiences about the variety of certification logos appearing on pack to help make better decisions, whether consumers or vendors.
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Marks & Spencer and Ethically Sourced Cotton

The retailer first launched its Fairtrade cotton clothing through its Better Cotton Initiative line in March 2006 with a range of T-shirts and socks. Seven years later, Marks & Spencer now sells a variety of ethically sourced clothing products, including jeans, lingerie and shorts, as well as ethically sourced foods, such as coffee and tea. In 2009, Marks & Spencer began funding research about how to reduce water and pesticide use, while increasing the profitability of cotton production specifically in Warangal, Andhra Pradesh, India, which is a major source of cotton. It now works with the WWF to reduce the impact of cotton grown in Warangal as well as improve the health and safety of the farmers, while also improving profitability for farmers by improving how they manage their crop. This is the first high-end retailer to purposefully sell products with responsible supply chains and actively communicate about where such products come from, how they are made, and worker conditions.

Patagonia and Responsible Garment Production

As part of the garment industry, Patagonia is well-aware of the abundant human rights issues that plague the industry, from mistreatment of garment workers and child labour practices to poor pay and deplorable conditions. In the face of these issues, Patagonia’s mission has always been to “build the best product, cause no unnecessary harm, and use business to inspire and implement solutions to the environmental crisis.” In the early 1990s, as the company grew, it initiated a contractor relationship assessment in the form of a scorecard and made the bold decision not to work with any factory to produce Patagonia gear that the company could not visit. By the mid-1990s the company was contracting third-party audits, which became a facilitator to discuss positive changes in various factories. Eventually, the company became a founding member of the Fair Labor Association (FLA). However, as growth became more rapid, Patagonia began sourcing products from new factories that could produce them at lower costs. At the same time, the number of factories with which the company was working exploded and several of these factories subcontracted work to other factories without the company knowing. These elements made it difficult to keep track of business partners and working conditions, and for a while, the company dropped out of the FLA. In 2002 the company hired a manager of social responsibility to monitor social compliance throughout its supply chain and regain the status to work with the FLA. Employee engagement was a big factor of this turn-around, in fact, intense formal training is now provided to all employees who visit suppliers’ factories to fully understand Patagonia’s Workplace Code of Conduct.

Ongoing collaboration with auditing, special engagements and information sharing are facilitating the spread of responsible sourcing as a baseline for operations. Since 2007, the company has worked more closely with factories and has become intimately familiar with their supply chain. Patagonia evenaudits subcontractors to ensure standards are continuously met. In 2011 the company even began auditing raw materials suppliers.

Corporate responsibility is a major component of Patagonia’s sourcing strategy. Its Social/Environmental Responsibility (SER) team can veto a decision to work with a new factory with as much weight as can its Quality team.
Unilever and Sustainable Palm Oil

Unilever is one of the largest buyers of palm oil, using around 3% of the world's volume. It uses it to make products such as shampoo, margarine and soap. Unsustainable cultivation of oil palm is contributing to deforestation and climate change. The company committed to sourcing 100% of its palm oil from certified sustainable sources – GreenPalm Certificates – by 2015, but actually reached this target three years ahead of schedule. Unilever understood that effective engagement with suppliers would be crucial in helping them meet their sustainable palm oil commitment. The company’s Code of Business Principles and Supplier Code outline the required standards and behaviour of suppliers. Expectations of all suppliers in key areas such as health and safety at work, business ethics, labour standards, consumer safety and the environment are clear. Further, all of their major suppliers of palm oil are now members of the Roundtable on Sustainable Palm Oil.

In April 2008 Greenpeace issued a report, entitled How Unilever Palm Oil Suppliers are Burning Up Borneo accusing their suppliers of “fuelling climate change” by clearing forests and draining peat lands. Greenpeace demanded that Unilever stop trading with palm oil suppliers involved in rainforest destruction. To check the validity of these claims, Unilever commissioned an independent study to verify the allegations, which were led by Eric Wakker of Aidenvironment. The study, published in 2009, concluded that the Greenpeace report was broadly accurate. The findings were shared with suppliers and the company urged them to address the shortcomings.

Following further allegations from Greenpeace in December 2009 in relation to one particular supplier, Unilever suspended future purchases of palm oil from that company (PT SMART, part of the Sinar Mas group) until they could provide verifiable proof that none of their plantations are contributing to the destruction of ‘high conservation value’ forests or expanding onto peat lands. In February 2011, Golden Agri-Resources (the palm oil holding company of parent company Sinar Mas) announced that it had agreed to a new code of practice aimed at conserving carbon-rich forests and peat lands in Indonesia, in partnership with not-for-profit group The Forest Trust. Greenpeace responded by saying that this agreement could encourage other palm oil producers to adopt similar agreements, but only if Golden Agri-Resources takes prompt and thorough action to ensure it meets its commitments. Unilever welcomed this move by Golden Agri-Resources and continues to monitor its progress in implementing its new commitments.

Whole Foods Markets, Sustainable Coconut Water and Cocoa

One of the most recent examples of a company driving a responsible sourcing agenda with suppliers is Whole Foods Markets. In October 2012, Whole Foods announced that it was removing Scharffen Berger chocolate products (owned by Hershey) from store shelves because of Hershey’s child labour practices within its supply chain. Dating back to 2001, a non-profit coalition, Raise the Bar, has urged Hershey to track its raw materials to the farm level, verify farms to ensure they are not using child labour and encourage suppliers to pressure such farms to end those same practices. Hershey has been slow to address this issue and stakeholder pressure has mounted so much so that the company recently announced that it will purchase only 100% certified cocoa by 2020.

Further, at the end of 2012, the retailer communicated with coconut water suppliers to reinforce the sustainability of their supply chains, including human rights issues and that third-party ethical sourcing audits by company-approved auditors are required. This product category has grown exponentially in recent years because of its newfound popularity in the Western world and as Whole Foods is one of the
most important retailers for the category, it decided to take the lead to ensure ethical sourcing practices. It is a major retailer for many of these brands, so failure to comply with the company’s standards could effectively cut off revenue sources and either force positive social change or force closures. Whole Foods is concerned with the rapid growth of coconut water and the associated growth of its footprint. What used to be a product largely sourced in Brazil has recently expanded to Indonesia, the Philippines, Thailand and Vietnam, among other countries. Although no companies’ products have yet been taken off shelves, Whole Foods took an important stance in reinforcing the importance of demonstrating proof of sustainable sourcing practices, whether through certifications or audits.
3.0 WHERE DO WE GO FROM HERE?

Conclusion and Key Takeaways

Companies will increasingly be challenged to look beyond their own boundaries in the future. It’s no longer enough to make your direct operations sustainable; suppliers and sub-contractors must also meet corporate sourcing standards. How and why companies choose to incorporate and enforce responsible sourcing will differ, depending on their industry and key stakeholders.

While there are long-term initiatives companies can be working towards, such as completely eradicating unsustainable suppliers and vendors from value chains, focusing on short-term progress will make the longer-term goals more attainable. Suggestions to help companies in this area are listed below.

Maintain Positive Relationships with Stakeholders – strong relationships with employees, NGOs, suppliers, customers, and other stakeholders can help companies weather difficult times, whether due to economic downturns or sustainability issues.

Understand Your Use of Non-Renewable Resources – a clear understanding of your company’s use, or perhaps dependency, on non-renewable resources is the first step in researching alternative options.

Collaboration Enhances Outcomes – manufacturers and retailers will only achieve a certain level of progress towards sustainability working independently of each other. Collaboration between manufacturers and retailers allows for more idea-generation and could result in more concrete business cases for sustainability.

Know Your Data – without baseline metrics, tracking changes is challenging at best. Baseline metrics provide a foundation for comparison so companies can understand the results of different initiatives.

Compliance and Auditing – once baseline metrics and standards are set, vendors must prove they are operating in accordance on an ongoing basis. Using independent audit firms can enhance credibility and transparency of the process and results.

Eliminate Pre-competitive Bias – the topic of sustainability is saturated so companies within one industry should agree on the most effective standards to enhance the sustainability agenda and all work to educate consumers and customers to adopt these standards, too.

Continuous Improvement – don’t be satisfied with a few easy successes; operations and policies must continuously be evaluated and improved to maintain ever-sustainable standards.

Frame Up the Cost – don’t necessarily frame up responsible sourcing as a sustainability initiative. Being able to qualify associated costs with risks is an important and often times the most compelling factor for most companies.
Enforce Standards – responsible sourcing for different companies will result in different learning curves, but each company should enforce realistic goals and timelines for vendors. Companies must be prepared to stop working with non-compliant companies.

Communicate Benefits – all forms of benefits, including sustainability goals, employee attraction and retention, corporate reputation, and risk management must be effectively communicated to various audiences, such as employees, management, stakeholders, and customers/consumers, to increase awareness and understanding.
Uncovering the Drive Towards Responsible Sourcing by the Consumer Packaged Goods Industry