MASSACHUSETTS INSTITUTE OF TECHNOLOGY

MIT Center for Transportation & Logistics

Reducing Risk and Sourcing Sustainably: The Path to Supply Chain Transparency

January 21, 2016

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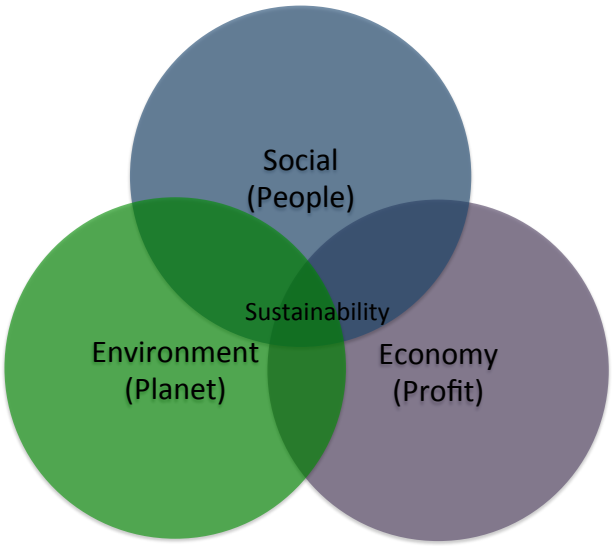
The Big Picture



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In the Numbers

Population	7.3	Billion people globally
Planet	5.2	Million hectares of net forest lost annually
Children	59	Million children engaged in child labor around the world
Producers	1/3	Global population reliant on commodity production for livelihood
Consumers	2	Billion cell phones globally by 2016 dependent on extractive industries for minerals
Information	459	Ecolabels around the world in 197 countries in 25 industry sectors

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Motivation

- Ethical consumption (will) "reach breakout proportions in 2016"
  Economist (2015)
- "People believe that corporate supply chains are a place to conceal skeletons. Corporate treatment of workers overseas is abominable. They plunder scarce resources and pollute the landscape. Companies are loyal only to profit. **70%** of our sample believe that **companies were not transparent about the goods they sell to the public**."
  Forbes 2015
- "Many people have realized that the cost of inaction is often greater than the cost of action. Competitors need to say that it is in our own self-interest that we move to sustainable sourcing, stop illegal deforestation… If the consumer goods industry does not move to a more sustainable model, most of its profits will be wiped out in 30 to 50 years, and if you are in food even earlier."
  Paul Polman, CEO of Unilever
- "When Greenpeace reaches for its toolbox, it tends to find only one tool, and that's a mallet and it tends to beat people over the head with it....But it works, in the sense that it starts the process of change."
  Scott Ponyton, Founder of The Forest Trust

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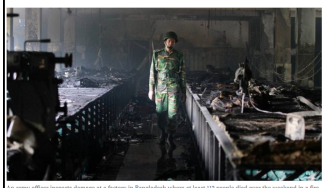
Motivation

Child labour on Nestlé farms: chocolate giant's problems continue

Fatal Fire in Bangladesh Highlights the Dangers Facing Garment Workers



theguardian

Revealed: Asian slave labour producing prawns for supermarkets in US, UK

Thai 'ghost ships' that enslave and even kill workers are linked to global shrimp supply chain, Guardian investigation discovers

Tesco Says "Every Retailer" of Thai Prawns Is "Likely" Implicated in the Slave Trade

by Brendan Kiley · Jun 24, 2014 at 2:05 pm

Sustainable Sourcing "Strategies"

- Grow Revenues
  - Ex: new sustainable product introduction
- Reduce Costs
  - Ex: Increase resource efficiencies
- Manage Risk
  - Ex: Long term supply
- Build Intangible Assets
  - Enhance brand through social and environmental responsibility
- WHERE TO START?

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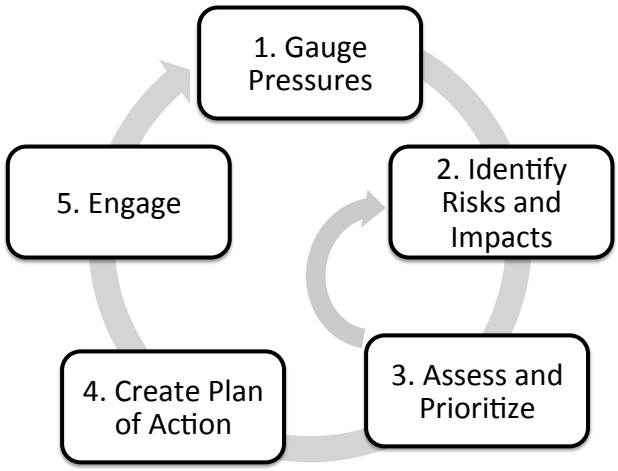
Five steps to develop a sound **Sustainable Sourcing** Strategy



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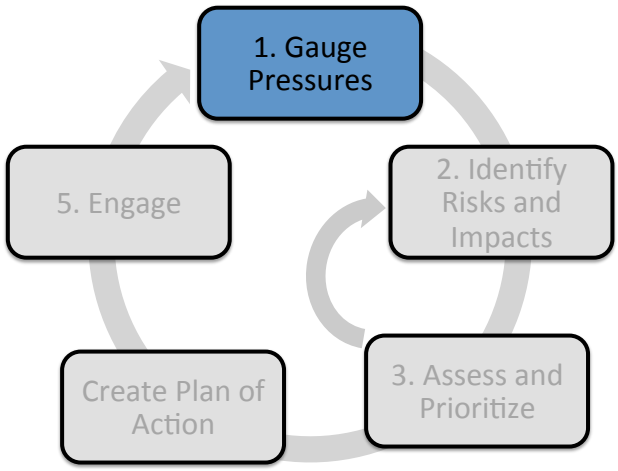

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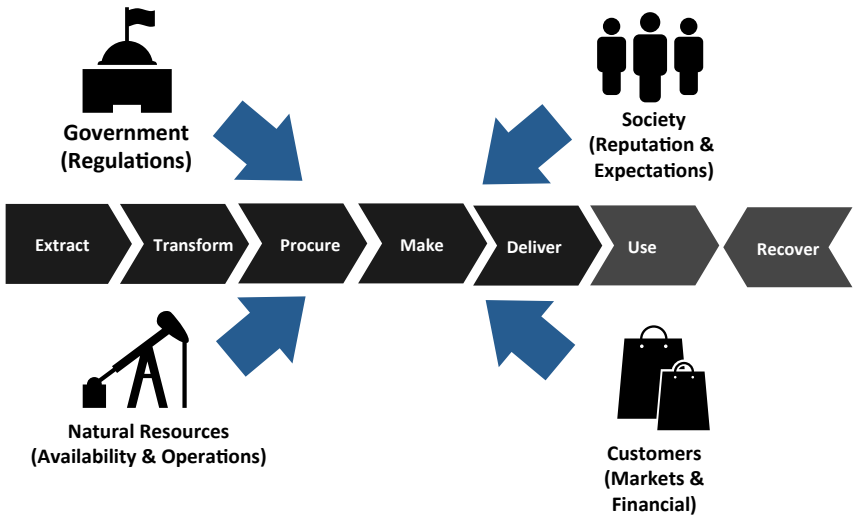

Adapted from Paquette, MIT 2005

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Regulation

Regulation	Requirements
European Commission Food Regulation, U.S. Food Safety Modernization Act	Food traceability requirements through all stages of production, processing, and distribution
U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 1502	SEC registered companies must disclose their use of conflict minerals
EU Timber Regulation, U.S. Lacey Act	Prohibits illegal timber products on market, obligations to keep records for traceability of source
Genetically Engineered Food Right-to-Know Act (Introduced Legislation)	Disclosure of any food that is genetically engineered or contains one or more GE ingredients
California's Transparency Act in Supply Chains SB 657	Requires companies doing business in California to disclose efforts to combat slavery and human trafficking

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NGO Pressures

- Mitsubishi Corporation & RAN
  - Paper Sourcing

- Nestle & Greenpeace
  - Palm Oil suppliers

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Other Pressures

- Industry Competitiveness – early movers
- Social Media – brand value
- Risk Mitigation – materials
- Consumer awareness and preference
  - In, On, Around

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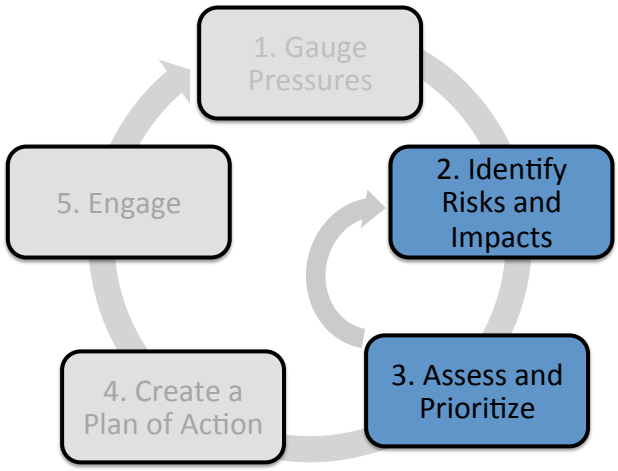

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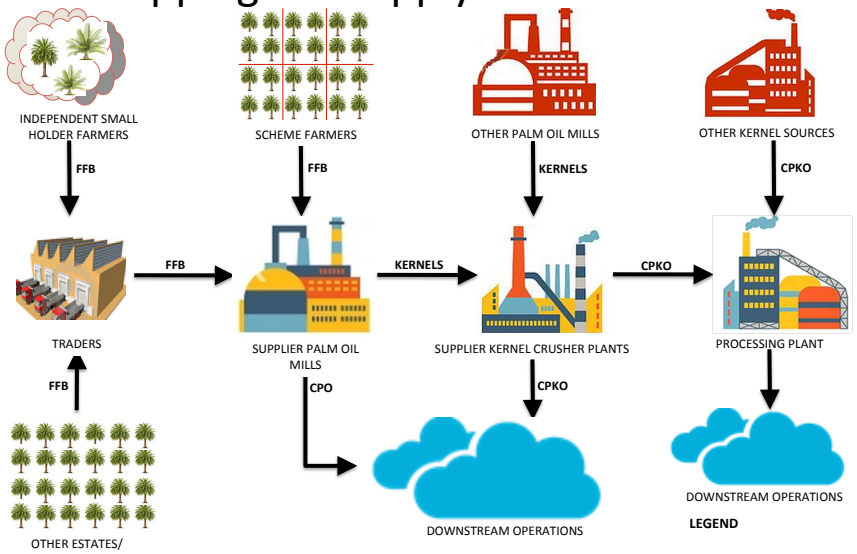
Mapping the supply chain: Palm Oil



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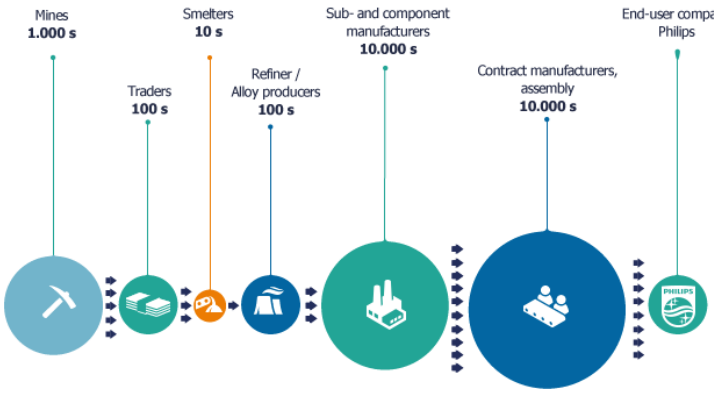

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Transparency & Traceability

- Transparency: Process by which a company takes action on the insights gained through greater visibility in order to manage risks more effectively
- Traceability: the history, distribution, location, and use of products, parts, and materials

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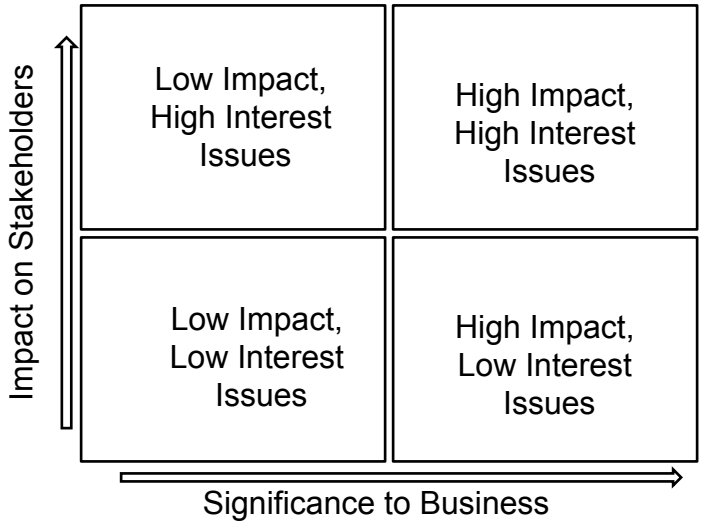
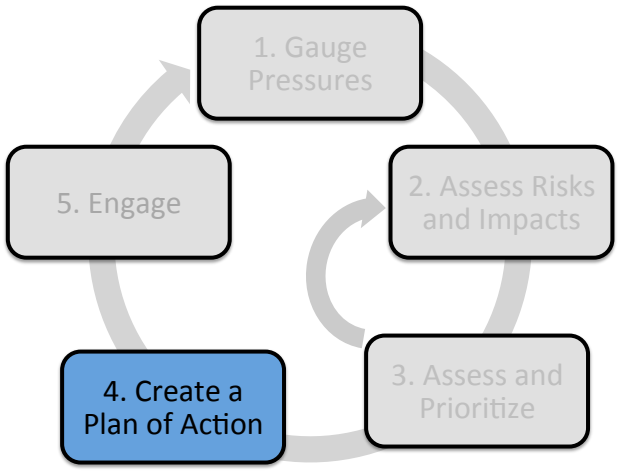
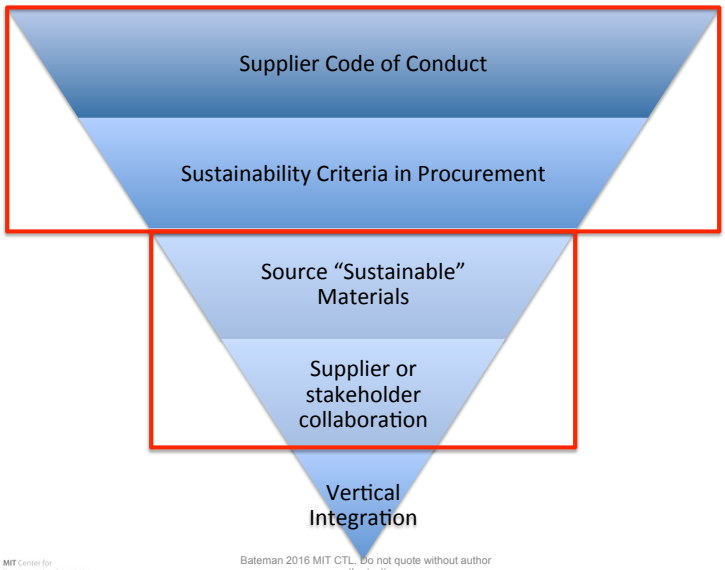
Identifying Risks: Materiality Assessment



Five steps to develop a sound **Green SCM** Strategy



Company Approach



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Supplier Transparency

IKEA **IWAY Standard**

Minimum Requirements for Environment and Social & Working Conditions when Purchasing Products, Materials and Services.

Issued By:	Approved By:	Date:	Edition:
IKEA Supply AG	INGKA Holding B.V.	2008.06.04	4

1.3 Severe Environmental pollution
The IKEA supplier shall prevent severe environmental

1.1 Prevention of child labour
IKEA does not accept child labour. All n

80 full-time auditors
+
auditors, of auditors
+
Training of supply chain organization

ecovadis
SUSTAINABLE SUPPLY MANAGEMENT

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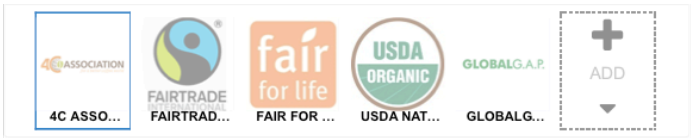
Standards Map



Audits

Conformity assessment	
Inspection, audit, verification process	4C Units submit their updated documents (Self Assessment, Business Partner Mapping, Organizational Chart) together with an updated documentation on a yearly basis. An audit takes palce every 3 years.
Type of assessment required	Third-party audit is required
Frequency of audits or assessments	Surprise audits,Other
Validity of certificate	3 years on average. Following the initial vertification and compliance plans for yellow indicators, red practices need to be re-verified.
Processus d'obtention de la première vérification/certification	1. Become a member 2. Establish a 4C Unit and implement 4C Code of Conduct 2. Select and engage a 4C Verifier 3. Send a Self Assessment (average yellow-performance), Business Partner Mapping and organizational chart to selected verifier 4. Licensing decision is taken by 4C Secretariat based on verification report Check out 4C's Step by Step guide: //www.4c-coffeeassociation.org/document-library/documents/4c-code-and-verification-documents/step-by-step.html

Joe Satran Become a fan
joe.satran@huffingtonpost.com

The Coffee Industry Is Worse Than Ever For The Environment

Posted: 04/29/2014 7:36 am EDT | Updated: 05/29/2014 12:59 pm EDT

KitKat commits to only sustainable cocoa by early 2016

By Oliver Nieburg+

The Washington Post:
Why your morning cup of coffee may not be as Earth-friendly as you think
By Joby Warrick August 28

Ferrero promises transparency as it sets 2020 target for sustainable cocoa

By Oliver Nieburg, 16-Apr-2012
Last updated on 16-Apr-2012 at 15:12 GMT

Recalls: Salmonella in chocolate and pathogens in cheese

By Joe Whitworth+
20-Aug-2015
Last updated on 20-Aug-2015 at 12:16 GMT

Post a

2.03 million: Cocoa industry needs to respond to rising child labor numbers

August 19, 2015
Bernie Pacyniak

Mondelez overhauls women's rights commitment after criticism

By Oliver Nieburg+, 23-Apr-2013

Coffee “Big Four” and standards

Mondelēz International

Nestlé Good Food, Good Life

DE MASTER BLENDERS 1753

SMUCKER'S THE J. M. SMUCKER COMPANY

Chocolate and standards

MARS | Nestlé Good Food, Good Life | Mondelēz International | HERSHEY'S MILK CHOCOLATE | FERRERO

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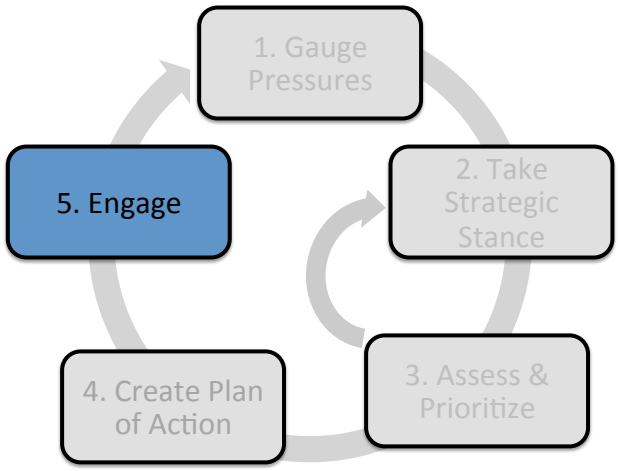

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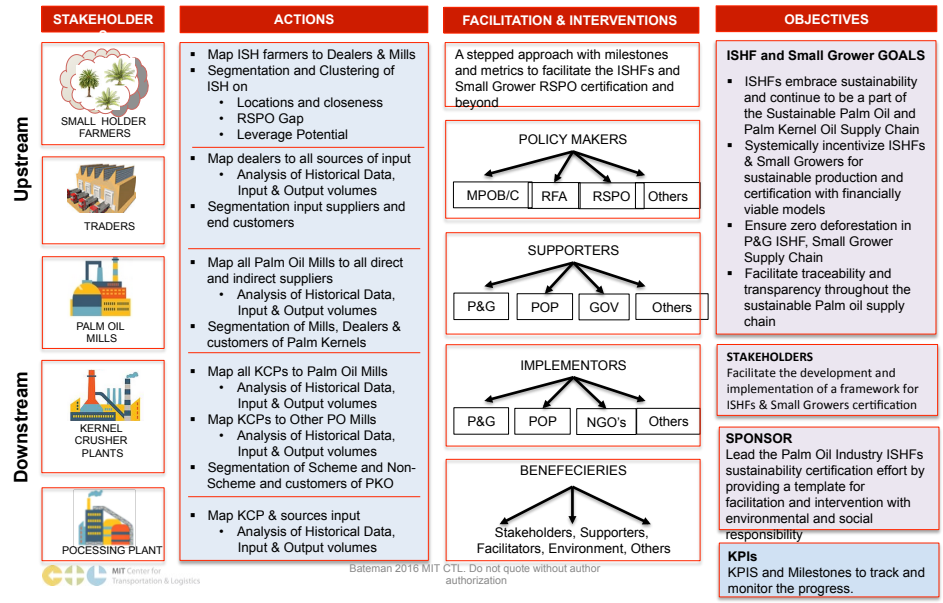
Types of Organizations Supporting Supply Chain Transparency

	Information Exchange	Standards/ Certifications	Governance Mechanisms
Description	Products and services for data collection and sharing	Voluntary and mandatory attributes for social supply chain compliance	Organizational infrastructure for information exchange and transparency
Solution for company	Software for data collection, supplier collaboration, supplier audit, more information for the company	License to operate minimum standards, guarantee of credence attributes, opportunity to inform consumer	Industry collaboration, external partnerships, shared responsibility
Supply Chain Scope	Dyadic, Supply Chain	Dyadic, Supply Chain, Network	Supply Chain, Network
Examples	Labour Voices, Ecovadis, Sourcemap, Geotraceability	Fair Trade, Rainforest Alliance, UTZ, RSPO, Better Cotton Initiative	IDH – Sustainable Trade Initiative, EICC, Sustainable Apparel Coalition, UN Global Compact

The P&G Sustainable Sourcing Framework



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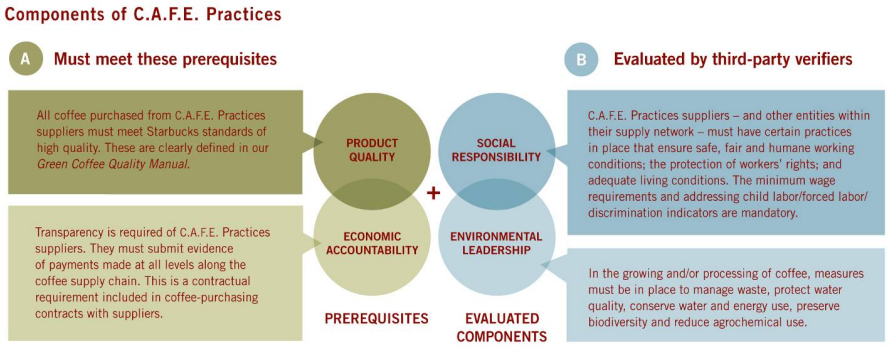
Starbucks C.A.F.E. Practices



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Transparency

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Potential Outcomes of Sustainable Sourcing

Performance

- Reduce Risk
- Operational efficiencies and process consistency
- Securing Supply
- Supplier Selection and Supplier Relationships
- Reputational Benefits
- Meeting Legal Requirements

Sustainability

- Meeting Stakeholder Demands
- Validating Sustainability Claims
- Security of Natural Resources
- Ability to Find and Address "Hot Spots" in Supply Chain

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THANKS! QUESTIONS?

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