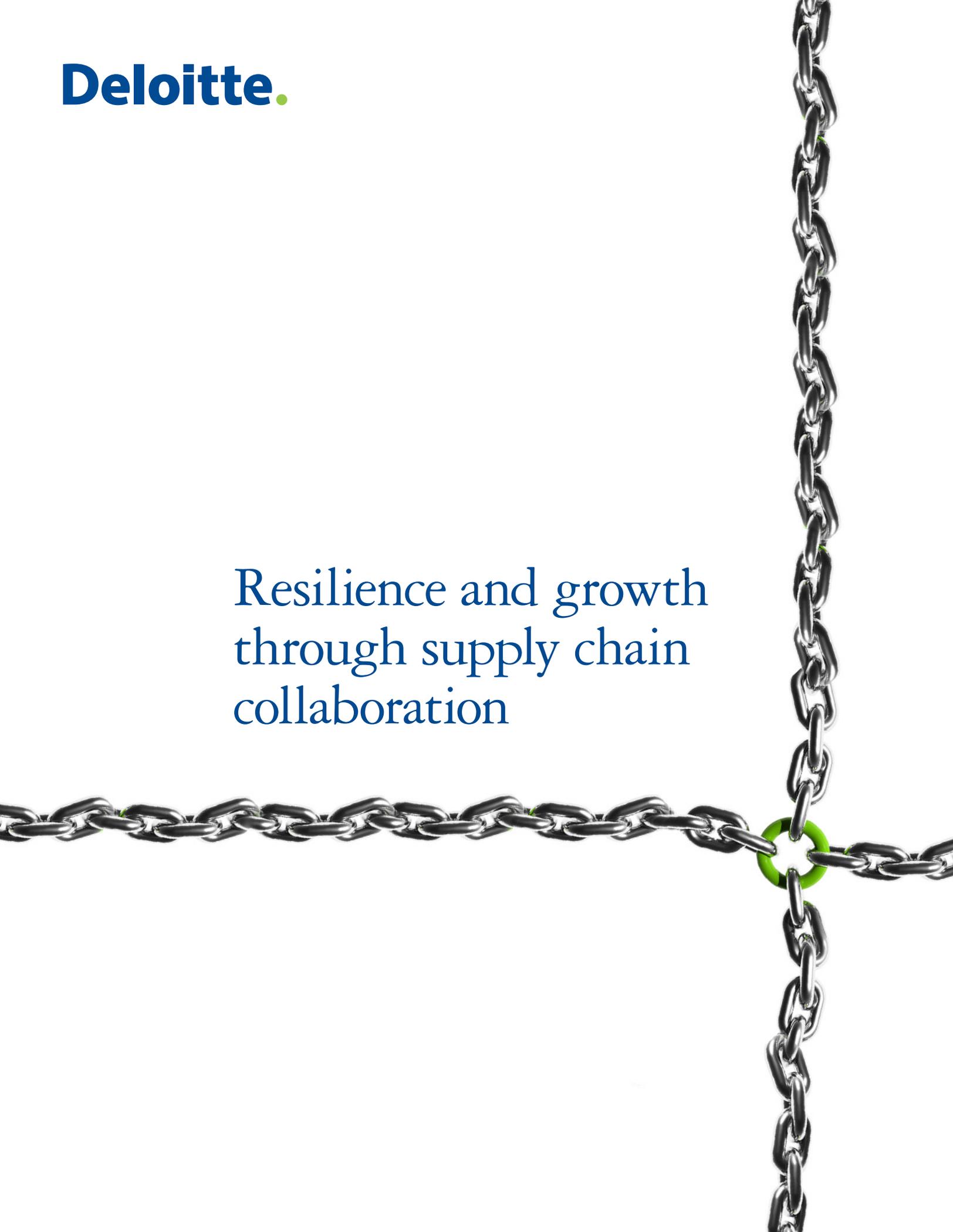




Resilience and growth
through supply chain
collaboration



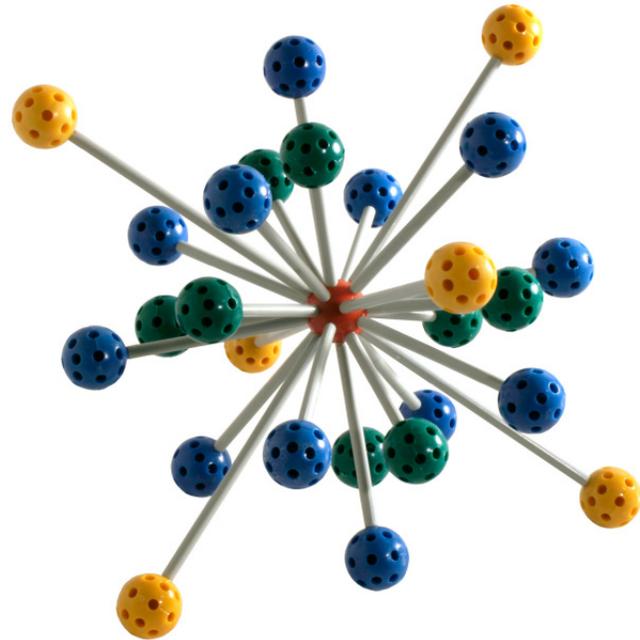
Executive summary

Overall, supply chains have become increasingly complex, distant and opaque. In the search for improved efficiency and lower costs, supply chains frequently span the globe and often involve thousands of suppliers. There is a need to address these issues whether supply chains are global or regional in nature, and companies now recognize that “they are their supply chain” from a brand perspective.

Companies that focus on cost without adequate appreciation for resource availability, environmental impact and social factors such as labor rights can expose their supply chains and in turn, their brand, to increasing levels of risk. Social media, increasing nongovernmental organization (NGO) scrutiny and increased competition for finite resources are creating an environment that demands companies take action to develop more resilient supply chains.

Supplier collaboration is a powerful means of reducing risk in the supply chain and unlocking value

Leading companies are transitioning from transactional supplier relationships to more transparent and collaborative relationships designed to achieve mutually beneficial outcomes. Transparency and collaboration do not come easily, but the potential reductions in risk and cost, and growth in revenue through innovation are well worth the journey. A recent survey of roughly 1,000 supply chain executives found that organizations that engaged with suppliers at any tier were 38 percent more likely to achieve or surpass their expectations and have their initiatives result in cost reductions.¹ A strategic approach can help your company identify strategies that drive a more responsible, resilient and efficient supply chain.



1. 2012 survey by Deloitte, in conjunction with ASQ, Institute for Supply Management, and Corporate Responsibility Officer Association.

Why does this matter?

Companies are facing a convergence of new supply chain challenges as regulations are mandating greater transparency. Stakeholders are more vocal on environmental and social issues originating in the supply chain. Critical resources are becoming scarce. Commodity prices are increasingly volatile. The combination of these factors is creating an atmosphere that rewards companies who proactively and effectively collaborate with supply chain partners.

Increasing transparency

Increasing regulations on issues such as human rights, conflict minerals, and food and product safety are driving towards greater transparency and collaboration across supply chain partners. Various NGOs have harnessed the power of social media to connect to a broad audience on specific issues related to the supply chain, such as labor rights and anti-corruption. Consumers are also armed with information and platforms for communication in ways that have not previously existed. This increase in transparency is requiring companies to take greater responsibility for the actions of their extended supply chain, essentially “internalizing externalities.” Events like the fire and building collapse in Bangladesh are impacting reputations of major apparel brands and retailers two and three tiers into the supply chain.^{2,3}

Fire and building collapse in Bangladesh^{2,3}

A recent fire and building collapse in Bangladesh garment factories highlight how exposed companies are to labor and human rights risks. Over 110 workers perished in a blaze that resulted from unsafe working conditions and fire safety regulation noncompliance, and more than 400 were killed in a building collapse. The result of these tragic accidents is that many stakeholders are asking the major retail brands that have been linked back to the factories what else is happening in their supply chain.

Critical resource risks

Critical resources are becoming scarce and expensive. Water consumption has grown at double the rate of population growth in the last 100 years. By 2025, 1.8 billion people are projected to live in regions with absolute water scarcity, and an estimated two-thirds of the global population will live in water stressed conditions.⁴

2. “Garment Workers Stage Angry Protest After Bangladesh Fire,” New York Times, November 26, 2012. http://www.nytimes.com/2012/11/27/world/asia/garment-workers-stage-protest-in-bangladesh-after-deadly-fire.html?_r=0.

3. “Some Retailers Rethink Role in Bangladesh,” New York Times, May 1, 2013 http://www.nytimes.com/2013/05/02/business/some-retailers-rethink-their-role-in-bangladesh.html?hp&_r=0.

4. United Nations Environment Programme website. Accessed 2012. <http://www.unep.org/dewa/vitalwater/jpg/0221-waterstress-EN.jpg>.

This is coupled with an increase in energy costs of about 160 percent between 1973 and 2012.⁵ Yet, within these challenges lies opportunity for companies to take concrete steps towards improved resource management and reduced risk. For example:

- A few major retailers worked with a shipping supplier to pilot “slow steaming”, resulting in a sizeable annual cost savings through a reduction in fuel consumption of 3,500 tons.⁶
- Working through their Sustainability Scorecard, Procter & Gamble received innovation ideas from nearly 40% of their responding suppliers.⁷
- Nestlé leveraged its Creating Shared Value strategy to develop a Cocoa plan that leverages investments in plant research, training programs on sustainable farming practices, investing in education in supplier communities, and collaborating with Fair-trade and UTZ programs to certify fair trade practices that provide premium wages for farmers. Through these practices, Nestlé is able to establish a reliable supply of high-quality cocoa and drive economic development with their farming communities in line with leading environmental practices.⁸
- Unilever is expanding its sourcing program by committing to source all Lipton brand tea bags from Rainforest Alliance Certified™ estates by 2015 and all tea brands by 2020.⁹ This commitment demonstrates Unilever’s focus on innovative sourcing strategies with suppliers that can drive product sales growth.

Resource focused collaboration can promptly create cost savings, spark new innovation opportunities, and create win-win outcomes for stakeholders along the value chain.

5. EIA government website. Accessed 2012. <http://www.eia.gov>.

6. “The Debate Over Slow Steaming,” 2Sustain. March 22, 2010. <http://2sustain.com/2010/03/the-debate-over-slow-steaming.html>.

7. Procter & Gamble Supplier Engagement http://www.pg.com/en_US/sustainability/environmental_sustainability/operations_suppliers_supplier_engagement.shtml.

8. Creating shared value in the supply chain. <http://businesscasestudies.co.uk/nestle/creating-shared-value-in-the-supply-chain/#axzz2MJJaAVMYw>.

9. Unilever Targets & Performance. Accessed 3/21/2013 <http://www.unilever.com/sustainable-living/sustainablesourcing/targets/>.

Four steps to effective supplier collaboration



Figure 1: Supplier Collaboration Framework

1. Set goals and expectations

Like many effective programs, these efforts should be guided by clear goals and staffed with adequate resources to execute on the defined strategy. It is also important at the outset to communicate clear goals and expectations to your supply chain partners through a Supplier Code of Conduct.

Many companies have some level of a code of conduct with suppliers, but often these programs do not accomplish their goals because expectations are not set up-front. To try to influence the way suppliers behave, effective companies set clear expectations with measurable objectives tied to the code of conduct. To improve efficacy with suppliers, companies can make the code easily communicable and supplement the document with scenario-based training that can provide real-life examples of the code's impact.

2. Identify critical hot spots

Next, the focus shifts to measuring current state performance. There are a number of analytical tools that can facilitate this exercise, and an increasingly common approach is to conduct a Life Cycle Assessment (LCA) on key products to identify "hot spots". A hot spot is a key process step in the life cycle of a product that presents a significant environmental or social impact. A rapid LCA can be performed across product categories by combining publicly available information on the relative impacts of various material types with sales or purchasing data to identify hot spots (see figure 2). A prioritization can then be conducted to narrow in on the important hot spots for deeper analysis. These hot spot areas often make great candidates for collaborating with suppliers, especially if solutions could potentially be complex.

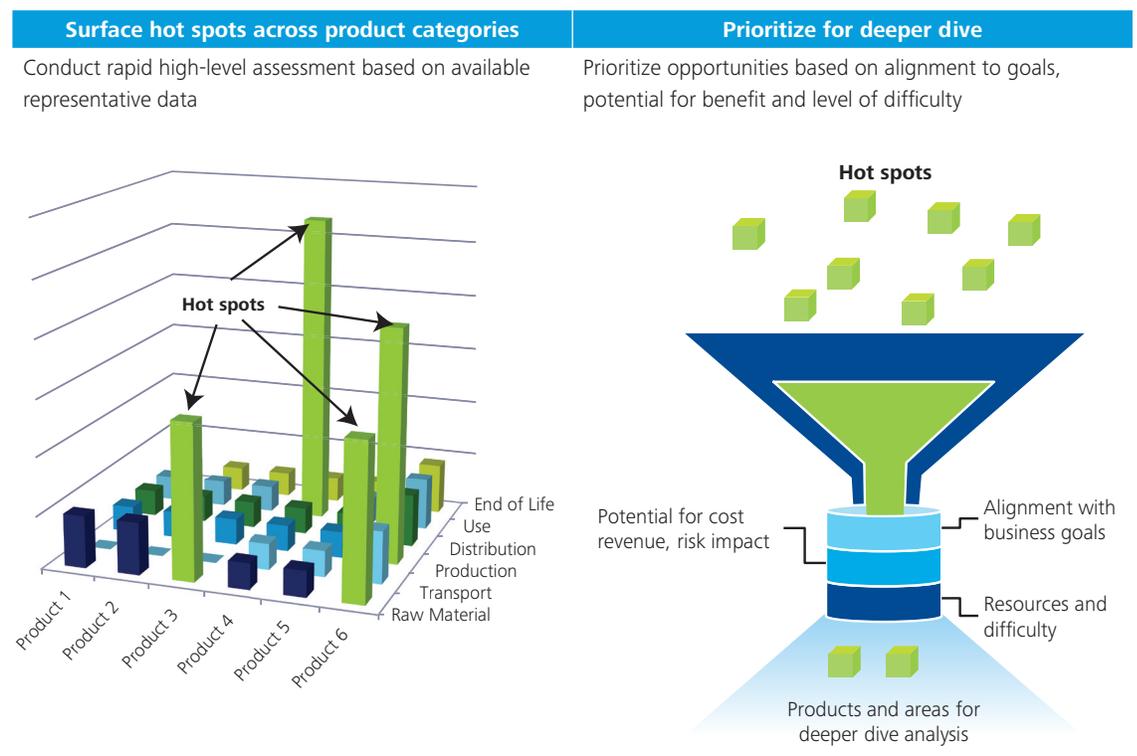


Figure 2: Illustrative identification and prioritization of environmental and social hot spots

1. Set clear expectations	Be clear and specific about the goals, incentives, and penalties of the effort with a focus on shared cost savings, revenue growth, and risk reduction
2. Make it worthwhile	Focus on a goal that is sizable enough to warrant the time and attention from both buyer and supplier
3. Build trust	Conduct in person meetings to promote a collaborative and trusting work environment
4. Make a clear commitment	Formulate an explicit agreement with clear goals, agreed upon method for measurement and verification of results and methods for capturing shared savings
5. Instill accountability	Create clear ownership from both parties and conduct regular progress updates
6. Draw upon leading practices	Learn from others who have been down this road and draw from leading practices

Figure 3: Elements of effective supplier engagement

For example, after identifying water usage and sugar production as two major impact areas, Coca-Cola led a collaboration effort with its supplier, Tereo Sucres, a French based supplier of beet and cane sugar, to recycle and store waste water so that it can be re-used in the factory and irrigated to other local farmers, saving the need of drawing reserves of groundwater.¹⁰ Coca-Cola also collaborated with NGOs such as the World Wildlife Fund to develop the Bonsucro Production Standard to procure certified sustainable sugar for beverage production.¹¹

3. Assess and prioritize suppliers

Based on the hot spot assessment, companies should have a clear idea of where potential risks and opportunities exist in the supply chain. The next step involves identifying the right issues and suppliers to engage. Using a combination of business criticality, spend volume, location, and alignment to hot spots can help identify potential supplier partners.

Getting suppliers to initially engage is often a hurdle, but communicating a clear mutual benefit for both parties will help encourage the supplier to commit the resources required for success. The steps in figure 3 describe an approach to effectively engage with the selected suppliers.

4. Execute plan to realize value

Effective collaboration requires that both organizations remain committed and accountable for results. There should be a clear commitment with an agreed upon method for measuring and comparing results and sharing in the benefits. While there are many benefits to collaboration, it is also important to define key risks such as identifying proprietary data, intellectual property, and other confidential information that should not be used during the collaboration process. Supplier collaboration is often a great vehicle for innovating, and looking critically at the hot spots in the supply chain can surface opportunities for innovative new products that can lead to revenue and market share growth.

For example, Unilever identified that the “product use” phase of its hair-care products drove the most significant value chain impact for energy and water use. This led them to partner with a retailer in offering a \$5 discount on Suave when coupled with an energy efficient showerhead purchase. The campaign sold out within three weeks as consumers recognized the savings and environmental benefits they could realize from the new products.¹²

Water-related collective action

Collaboration with water related risk is now viewed as “collective action” between supply chain providers, companies (and in some cases competitors), NGOs and the public sector. Collective action programs provide competitors an opportunity to work together in a “pre-competitive” setting (the 2030 Water Resources Group and the CEO Water Mandate Water Action Hub are examples of collective action initiatives). Identifying the appropriate venue for collaboration within your company’s industry will help uncover the benefits of collaboration with key stakeholders.

10. “Europe Water Report”, Coca-Cola Company, 2011. http://www.thecoca-colacompany.com/citizenship/pdf/2011_europe-water-report.pdf.

11. Promoting the Advancement of Sustainable Sugarcane in Brazil. <http://www.saiplatform.org/projects/8/98/Promoting-the-Advancement-of-Sustainable-Sugarcane-in-Brazil>.

12. Reducing GHG in Consumer Use. <http://www.unilever.com/sustainable-living/greenhousegases/reducingenergyusebyconsumers/>.

Conclusion

Stakeholder demands for transparency and responsibility along the supply chain are on the rise. Critical resources are becoming scarce while consumers are becoming more informed and demanding. Companies that effectively collaborate with suppliers could potentially reap handsome benefits in the form of lower risks, reduced costs, and new revenue growth.

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