



CONSUMER SPEAKS

The power of blockchain in the consumer industry

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Guest speakers: • Linda Pawczuk, Brian Hansen, and Michael Marzelli

Sam

Welcome to Consumer Speaks, a Deloitte podcast series where you'll hear industry specialists share their perspectives and insights on emerging topics impacting the consumer industry. I'm Sam Loughry, the leader of our consumer industry Audit & Assurance practice at Deloitte & Touche LLP. Today we're discussing blockchain, why the consumer industry is adopting this technology, and some of the accounting implications companies need to consider. We're joined by Linda Pawczuk, the Global and U.S. Consulting Blockchain and Digital

Asset leader and principal at Deloitte Consulting, LLP, Brian Hansen, U.S. Audit Blockchain leader and Audit & Assurance partner at Deloitte & Touche, LLP, and Michael Marzelli, U.S. Audit & Assurance partner in Blockchain and Digital Assets specialist at Deloitte and Touche, LLP. Guys, thanks for being here. Linda, let's jump right in with you. Blockchain has been around for more than a decade; however, many industries haven't fully embraced this technology. What are you seeing in the consumer industry?

Linda

Sure, and thanks, Sam, for having me. What I'd like to focus on is the efforts that we're seeing to recover from COVID have triggered a substantial number of innovations in work, collaboration, distribution, service industries. And we're seeing a big shift in consumer behaviors and habits and expectations driven by the impact of COVID. The pandemic has revealed limitations in the capacity of our global infrastructure to respond to this crisis. We think back to things like supply chains that we've now evidenced they're not chains, they're in

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fact supply webs. So while blockchain has been around for now over a decade, some of its core technologies have been around for 20 and 30 years, in fact. But blockchain in its current instantiation continues to revolutionize the way we think about a transaction-based industry. So despite some of these challenges that we're facing on a global basis, there's maybe a limited number of large-scale projects to date. The characteristics of what we see in blockchain and something that is very much connected to blockchain, as we call digital assets, their capacity and their focus in the most important thing of increasing the trust through the transparency of transactions. This is the basis of what underlies blockchain, to create an established single source of truth. So if I think about it in more meaningful ways, and while more companies have moved past this concern about it being an emerging technology and now seeing more viable application, there's some really interesting use cases that are out there.

Sam

So, Linda, what are some of the specific applications, and what is the value you see these applications providing to consumers?

Linda

Well, let me first start by jumping off the point on COVID. There can't be enough focus in the world today around safety and the concerns for safety. So as we see it today, even in blockchain technology, there's some new hope around some applications that will allow for safe travel, specifically with the verification of passenger records and the COVID status before perhaps boarding a plane or entering a building, that connectivity between the verifiable record, which is again the single source of truth that would connect between the actual vaccination process, the testing process, would create basically a health certificate authenticating that person's health record before either boarding a plane, crossing a border, and allowing what is ultimately the important attribute here of safe passage from one point to another. There's also things that we see evolving around safety that reference things as digital twins in maturing pieces of a solution that are

increasing the visibility for consumers in tracking and tracing, things that have often been very opaque to a consumer, such as sustainable products. How do you know that the source of that product was truly sourced from a sustainable environment, despite what the labeling says? Research says that [one in 10 people will contract a foodborne illness](#) and that only one in four consumers today trust our food system.¹ If we think about the importance of single source of truth to a consumer, a predominant reason why someone would shop at a local market, it used to be for freshness. Today, people shopping in a local market are looking for safety. When we think about things like, by way of example, whether it's sustainable product and being able to authenticate that from often what is referred to as from farm to table or from hook to table, which would be for the seafood industry, is we're able to look at things around, for instance, recall management. In the past, recalls were done in a very serial linear process, sometimes very much verticalized depending upon where it was sourced, by region, by geography, and even by manufacturer. What blockchain allows the food producers to do is to use this sourcing information, which creates basically a digital identity associated with the food produced and then through the distribution process to, let's say, the grocer have clear traceability. So when there's a food recall to prevent foodborne illness, as we said, one in 10, is we're able to isolate it down to the exact farm, in some cases, the exact field within the farm, as to where there could be some contamination. So safety is a critically important consumer element. The other thing that we see interesting within the consumer industry too is in terms of the supply chain itself, that the ability to trace the attributes of a product, as I was talking about whether it's sustainability or if we even move to manufacturing of automotive components, so that the ability to track and trace is actually one of the most common use cases associated with blockchain. Similar to the example of safety found in COVID, which would be tracking and tracing the authentication of a health record. So there's a number of really interesting use cases that are really directed to the consumer in improving the

transparency that's needed, the verification and authentication, whether it could also be in some cases warranties, and the digital twin associated with a warranty of any given product that could be easily transferable versus a siloed record or on a proprietary system with a given manufacturer, it creates a much more integrated web of capabilities versus a chain of capabilities.

Sam

So, Brian, say a company is thinking about implementing blockchain technologies. What factors should they be considering?

Brian

Sam, so there are a lot of factors that need to be considered early on in adoption and throughout the journey, as companies are thinking about blockchain adoption. One of the common pitfalls we see is that organizations assess these things too late and realize that they're going to get stuck because they've made strategic choices that are really hard to go back and fix late in development. Another thing too is that bottom line, blockchain is more than the use case development and the underlying technology. So, I'm gonna walk through a number of areas that really need to be considered by organizations as they think about blockchain adoption. The first place to start is risk assessment. A company really needs to consider, as they develop their blockchain use cases or building proofs of concept, or scaling and deployment in the production environment, they need to think about the specific blockchain risks that are very unique in this area. It is important to study if the organization's enterprise risk framework accounts for those risks. A lot of times they don't. And so you have to think about, what am I going to need to do to update my risk assessment, and think about all the things that are considerations in that initial scoping before the project gets too far down the road. The next important factor is thinking about stakeholders and the design and deployment considerations that come along with blockchain implementation. A company needs to evaluate whether the blockchain environment impacts operations or financial reporting. A lot of times that assessment might have a really large

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impact on the needs of the stakeholders and really it can be in either scenario. Certain stakeholders might place significant importance on the control environment and would be very interested in data integrity and consensus mechanisms and the ability to extract that data. Those stakeholders also might be very interested in assessing the auditability in the new environment or the ability to provide certain types of assurance. One example of that in the consumer industry is sustainability. We hear about this a lot. And the ability to get effective data and to have a good control environment around that is really critical in providing assurance on sustainability. The last area I want to think about is, as you think about those use cases, this is really in a multi-party ecosystem. That's a very unique thing. You need to think about, what does the control framework look like when you have a multi-party ecosystem? And do you need to think about a whole new framework for your internal controls or do you need to think about strengthening your existing one? So several things I just want to hit on that are really important to that internal control framework to address early in the blockchain environment. There's probably four or five that are real critical. The first one is thinking about how am I going to migrate to this blockchain environment? You need to think about those controls, that change management of getting this over into a blockchain environment. The second one, which I mentioned earlier, is around data integrity and consensus mechanisms. This one continues to be really important to stakeholders, and for people like regulators and auditors like myself, those controls are really going to be critical because people who want to extract that data want to know those controls are in place. The next one is around completeness or accuracy of the applications extracting data from a blockchain environment, especially if you're in a financial reporting setting where that blockchain will impact your financial reporting. You're gonna have to think about all those relationships between the blockchain and what might ultimately end up on a general ledger. The next one is around the IT environment itself. We've all read a lot and heard a lot about this, but

thinking about controls over cybersecurity and controls over user provisioning for access to write to a blockchain are extremely important as you're building this out. And finally, there's unique considerations due to the fact that blockchain technology is immutable. The need to put controls in place to deal with potential errors and mediation of disputes, that's very unique to a blockchain environment. So, Sam, to sum this all up, the reliability that organizations have in employing blockchain is really being driven by their efforts to invest properly in the things I talked about, which is risk assessment, understanding the stakeholders, and design and deployment considerations, and thinking about how they're going to invest in the control environment.

Sam

Thanks, Brian. Mike, let me turn to you. Linda shared several use cases for blockchain in the consumer industry. Can you provide some insights specifically related to digital assets and the impact on financial reporting?

Mike

Thanks, Sam. And yes, there's been a number of emerging use cases for consumer companies around digital assets that have really emerged over the last year. Really thinking about one is accepting crypto for payments. That has allowed companies to both lower their potential transaction costs of accepting payments, but also has opened the door to new customers who want to use digital assets to pay for goods and services. Now, there were a lot of questions in thinking about accepting crypto for payments, which assets you'd like to accept and setting a company policy in terms of thinking about how to liquidate crypto assets or whether you want to hold them for treasury purposes. That also leads us to a second emerging use case that we're seeing more and more of in the last six months, which is a company investing a portion of their treasury investments into crypto assets, really companies seeing crypto assets as a hedge against inflation and a store of value. And as the ecosystem for crypto assets has improved

and the infrastructure has improved, many companies are considering whether this is an appropriate allocation of assets within their company's treasury policy.

Sam

Mike, when companies are developing these digital asset strategies, what are some of the best practices and implications they should be aware of.

Mike

So very similar to what Brian had mentioned earlier, it's really looking around corners and thinking about the challenges that you might face when you're rolling out a new business model. Whether you're considering whether to accept crypto as payments or implementing a treasury strategy, thinking about the right business model and what the impact might be to accounting, tax, internal controls, and regulation upfront becomes really important to make sure that you don't have any surprises later on. And some examples of that are, if you're choosing to accept crypto for payments, what is the methodology you'll use to do that? Are you going to build the solution internally to interact directly with the blockchain or do you want to use a service provider such as a payment processor, an exchange or custodian, to process a lot of those transactions for you, which can make the process a lot easier. But when you make that decision considering internal controls, whether your partners may have an SOC 1 or an SOC 2 report, considering whether the accounting implications of the flow of transactions becomes very important.

Sam

Thanks, Mike. Linda, Brian, Mike, thank you all for participating today. For our listeners, I hope we were able to add some clarity around blockchain in the consumer industry. As noted by our panelists, there's definitely some innovative uses in the consumer industry to be tapped. For more information, please email sloughry@deloitte.com or visit our website at deloitte.com. I'm Sam Loughry. Thank you for listening to Consumer Speaks, sponsored by Deloitte's Audit & Assurance business. Until next time, take care.

Endnotes

1. <https://www2.deloitte.com/us/en/insights/industry/retail-distribution/future-of-fresh-food-sales/pandemic-consumer-behavior-grocery-shopping.html>

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