Supply Chain Transparency and Resilience: Insights for Sustainable Retail
HOUSEKEEPING

Everyone is muted upon entry
• This reduces background noise during the presentation.

Recording
• The webinar is being recorded and will be housed on RILA’s RCC site for future views.

Posing a question/commenting
• Please use the Q&A box to pose questions or comments.
• Questions and comments posed will go directly to the moderators.
• Questions will be answered after the conclusion of the speakers’ presentation.
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• Do not discuss profits or profit margins, including what is a "fair" profit margin.
• Do not discuss allocating markets, territories, or customers.
• Do not discuss current or future production or purchasing plans, including plans to take facility downtime, production quotas, or limits on output.
• Do not discuss refusing to deal with any suppliers, customers, or competitors (or any class or type of suppliers or customers).
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Speakers

Jamie Barsimantov
Co-founder & COO, SupplyShift

Kevin Dooley
Chief Scientist, The Sustainability Consortium
Supply Chain Transparency and Resilience: A Risk Management Perspective

Dr. Kevin Dooley, Chief Scientist, TSC
Supply chain disruptions

Root causes
- Production failures
- Natural disasters
- Supplier bankruptcy/closure
- Labor strike
- Geo-political conflict
- Infrastructure/cyber failures

Effects on buyers
- Less or no supply
- More costly, less timely supply
- Supplier substitution
- Stock market value loss
- Loss of customer goodwill
POLL QUESTION

How often do you have supply disruptions due to issues beyond your immediate, first-tier suppliers?

1. Rarely, most disruptions are linked directly to our first tier suppliers.

2. Sometimes disruptions occur because of our suppliers’ suppliers, or suppliers’ suppliers’ suppliers, etc.

3. Most disruptions occur because of our suppliers’ suppliers, or suppliers’ suppliers’ suppliers, etc.
Resilience

“the ability of a system, community or society exposed to hazards to resist, absorb, accommodate, adapt to, transform and recover from the effects of a hazard in a timely and efficient manner, including through the preservation and restoration of its essential basic structures and functions through risk management”

UN Office for Disaster Risk Reduction
Supply chain resiliency strategies

There are three bridging strategies:

- Collaborative planning and control
- Financial support
- Strengthen relationship with supplier

Five buffering strategies:

- Inventory buffer
- Capacity buffer
- Liability buffer
- Lead time buffer
- Cost buffer

Bridge when you can
Buffer just in case
From tracing to relating

- **Traceability**
- **Transparency**
- **Buyer-supplier relationship**

Electronic components disrupted by fire
- Nokia used bridging
- Ericsson used buffering

Xirallic paint disrupted by tsunami
- Automotive buyers unaware of single supplier
Risks are place-based

- Commodities are particularly challenging to even trace
- Knowing where a commodity comes from is first step
- TSC’s Commodity Mapping combines trade and production location data to determine region, which can be mapped against spatially-specific risks
Assessing transparency with THESIS

THESIS is evolution of Walmart Sustainability Index, now used by many retailers

SupplyShift platform creates many-to-many reporting

Provides science-based hotspots and KPIs for 100+ product categories

In 2019, over 1500 suppliers made assessments representing $1 Trillion in annual sales

<table>
<thead>
<tr>
<th>Category</th>
<th>Average score (Participate one year)</th>
<th>Average score (Participate five years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel and Home Textile</td>
<td>36%</td>
<td>49%</td>
</tr>
<tr>
<td>Hand Tools</td>
<td>4%</td>
<td>28%</td>
</tr>
<tr>
<td>Plastic Products</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>Plastic Toys</td>
<td>13%</td>
<td>27%</td>
</tr>
</tbody>
</table>

% brands with full transparency into suppliers’ practices:
- 2016: 27%
- 2017: 29%
- 2018: 31%
How pandemic disruptions have been different

- Many concurrent disruptions
- Very long-lasting
- Demand shifting
- Increases and decreases in demand
- Impacts to suppliers, workers, customers

Lessons learned

- Optimized supply chains decrease resilience
  - Can we decrease asset specificity?
- All measures of supply chain performance emphasize lean
  - Want resilience? Measure it.
- Buffers can only take you so far
- We need supplier geographic diversity
Climate change disruptions will be even more severe

- More frequent, severe, and longer-duration disruptions
- Supply chain disruptions in more places
- Structural transitions in supply chains, especially in food and forestry
- More investor focus on supply chain decarbonization
- More buyer-supplier contract focus on force majeure

Source: FAO, 2018
High reliability organizations

- Pre-occupied with failure
- Reluctant to simplify interpretations
- Sensitivity to operations
- Commitment to resilience
- Deference to expertise

Weick and Sutcliffe
Q&A
The Sustainability Consortium® is jointly administered by Arizona State University and University of Arkansas with additional operations at Wageningen UR in the Netherlands and Tianjin, China.
Supply chain transparency and resilience
Insights for sustainable retail

Jamie Barsimantov
12 August 2020
Outline

• COVID-19 & supply chain transparency
• Climate change and supplier GHG emissions
• Retail Network: TSC’s THESIS Index in action
Responsive supply chain network

- Quicker time to data
- Visibility to source
- Relieves survey fatigue
- Scales easily
- Provides actionable insights
OUR GLOBAL NETWORK

Enterprise scale

7m+ data points | Over 80,000 entities | Suppliers in 133 countries | Platform in 15 languages
Supply chain sustainability | pre-COVID

- Sustainability often siloed from broader business
- Focus on specific commodities, not holistic
- Transparency is a “nice to have”
- Difficult to make the business case/justify ROI
Supply chain sustainability | post-COVID

- Increased focus on visibility and transparency
- More reliance on remote supplier assessment
- Sustainability tenets taken up by procurement
- Sustainable supply chains show resiliency
- Investors call for increased focus on ESG
POLL QUESTION

Has COVID-19 prompted your organization to put more focus on supply chain transparency?

a. Yes.
b. No.
c. We were already focused on supply chain transparency
Transparency is a vital strategy

“Create transparency on multitier supply chains, establishing a list of critical components, determining the origin of supply, and identifying alternative sources.”

McKinsey&Company

“Develop a high risk for supply chain disruption monitoring and response programs for countries impacted by the virus and potential supply chain exposure from tier 1 and below. If lower tier transparency is missing, start building up the program and prioritize discovery to get a full picture rapidly.”

Gartner

- Enhance focus on workforce/labor planning
- Focus on Tier 1 supplier risk
- Illuminate the extended supply network
- Understand and activate alternate sources of supply
- Update inventory policy and planning parameters
- Enhance inbound materials visibility
- Prepare for plant closures

Deloitte
COVID-19 Impact Assessment

- Create transparency
- Understand how supplier operations are impacted
- 10 indicators (location, impact, attitude)
- External COVID-19 risk data

Learn more at supplyshift.net/covid-19
COVID-19 Impact Assessment

**Operational Capacity**

- (16%) >100%
- (47%) 81-100%
- (13%) 61-80%
- (11%) 41-60%
- (5%) 21-40%
- (3%) 1-20%
- (5%) 0%

**Reason for Shutdown**

- Government mandate
- Corporate directive
- Supply chain disruptions
- Reduced demand
- Worker availability
- Other
COVID-19 Impact Assessment

% of Employees Unavailable

- (41%) 0%
- (3%) 21-30%
- (26%) 1-10%
- (8%) 11-20%
- (3%) 21-30%
- (1%) 31-40%
- (1%) 31-40%
- (14%) 41-50%
- (7%) >51%

Do you expect disruptions to increase or decrease?

- Decrease
- Increase

RILA RCC Webinar | Transparency and resilience
The pandemic we’re experiencing now highlights the fragility of the globalized world and the value of sustainable portfolios. We’ve seen sustainable portfolios deliver stronger performance than traditional portfolios during this period.”

“Companies should expect more investors to ask questions about resilience and contingency planning, viewing the issues in light of the pandemic as relevant to a company’s long-term performance. Down the line, those conversations could evolve to broader ESG discussions.”
POLL QUESTION

Does your company view climate risk mitigation as an aspect of business resilience?

a. Yes.
b. No.
Momentum in climate action

363 companies have approved science-based GHG reduction targets

873 companies have committed to setting targets as of May 1, 2020
THESIS Index for retail supply chains

Retailer Network: Walmart, Walgreens, Sprouts, Kroger, Sam’s Club, and more

Standardized assessments developed collaboratively by retailers and brands

Insights delivered to retailers across environmental and labor KPIs

Thousands of suppliers self-selecting product categories

Automated score reports and action recommendations
Scope 3 goal setting is behind

Commitments to reduce and disclose Scope 3 Emissions

- (27.4%) Yes, have goals and track/disclose Scope 3
- (25.4%) No, but know that suppliers measure emissions
- (46.8%) No, with no supplier information

SOURCE: THESIS BY TSC, 2019
Many-to-many reporting solution

- Submit to multiple retailers
- 400+ Performance Assessments
- Assessments for what you sell
- Track performance year over year
- Added value for respondents
Supplier assessment self-selection

Tell us what you sell.

- Health and beauty
- Apparel
- Consumer electronics
- Appliances
- Pet
- Automotive
- Furniture
- Home improvement
- Produce
- Meat and seafood

16 items, 2 selected
Understand supplier category performance

THESIS SCORECARD
Tomatoes and tomatillos

29% Year-over-year

THESIS rank: 3 of 24 Participating suppliers
Retailer 1 rank: 2 of 16 Retailer 1 suppliers

Rank and average updated as more suppliers share results.

Supplier comparison

RILA RCC Webinar | Transparency and resilience
Create dashboards to focus on any issue
Engagement improves outcomes

Brand/Manufacturer Responses (excluding N/A response):
% of Your Supply Produced by Suppliers Who Report Scope 1 & 2 GHG Emissions

- Prepared foods
- Apparel
- Kitchen, bed, bath, décor
- Consumer electronics
- Home care
- Pantry
- Pet
- Health and beauty
- Home improvement
- Automotive
- Appliances
- Office, school, arts & crafts
- Frozen foods
- Sports, outdoors, fitness
- Furniture
- Toys and entertainment
Real data is available; more is needed

% Reporting Manufacturing GHG Intensity
Actions and takeaways from 2019

1. Supply chain transparency and responsibility are cross-cutting more than ever.
2. Suppliers respond well to standardized approaches across a range of issues.
3. The network of sustainability-focused retailers is growing quickly.
4. Measure what matters; measuring is critical to achieving goals.
5. Set procurement benchmarks and thresholds to create incentives that motivate suppliers to act.
6. Communicate progress to consumers to improve your reputation and demonstrate your work.
Greenhouse Gas Starter Assessment

• Understand supplier measurement and disclosure efforts
• Track CDP and SBTi participation
• Identify leaders and laggars
• Gain insight into activities to prioritize your climate action strategy

Learn more at supplyshift.net/starter-assessments/ghg
Thank you!

Learn more and connect:

THESIS | supplyshift.net/thesis-for-retailers
SupplyShift GHG Hub | supplyshift.net/issue/ghg
GHG Starter Assessment | supplyshift.net/starter-assessments/ghg
Twitter | @SupplyShift
LinkedIn | /SupplyShift

Jamie Barsimantov
COO
SupplyShift
jbarsimantov@supplyshift.net
@SupplyShift
QUESTIONS?

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For more information on retail environmental compliance and sustainability, visit the RCC website at https://www.rila.org/retail-compliance-center.
THANK YOU