

Supply Chain Transparency and Resilience: Insights for Sustainable Retail



**RETAIL INDUSTRY
LEADERS ASSOCIATION**

August 12, 2020

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 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

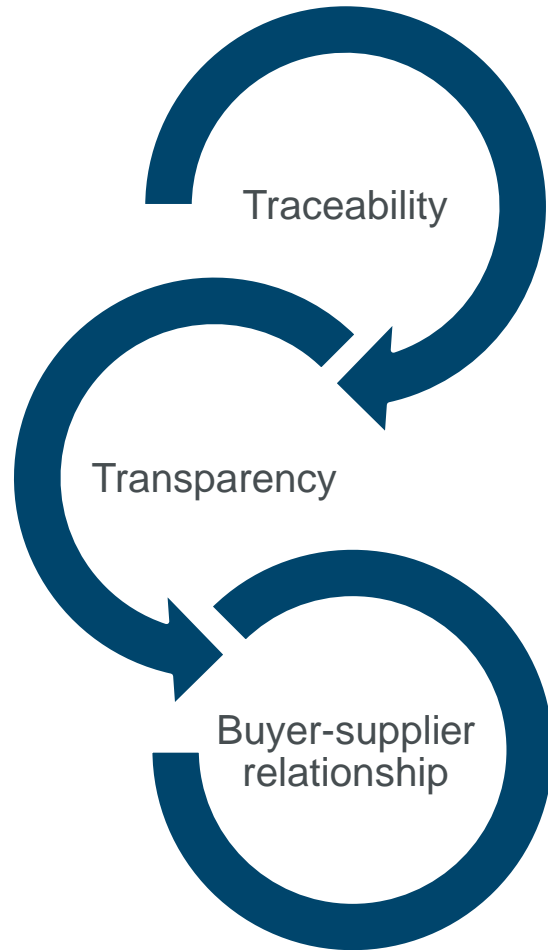


Cost buffer

Bridge when you can
Buffer just in case



From tracing to relating



Electronic components disrupted by fire



Nokia use bridging
Ericsson used buffering

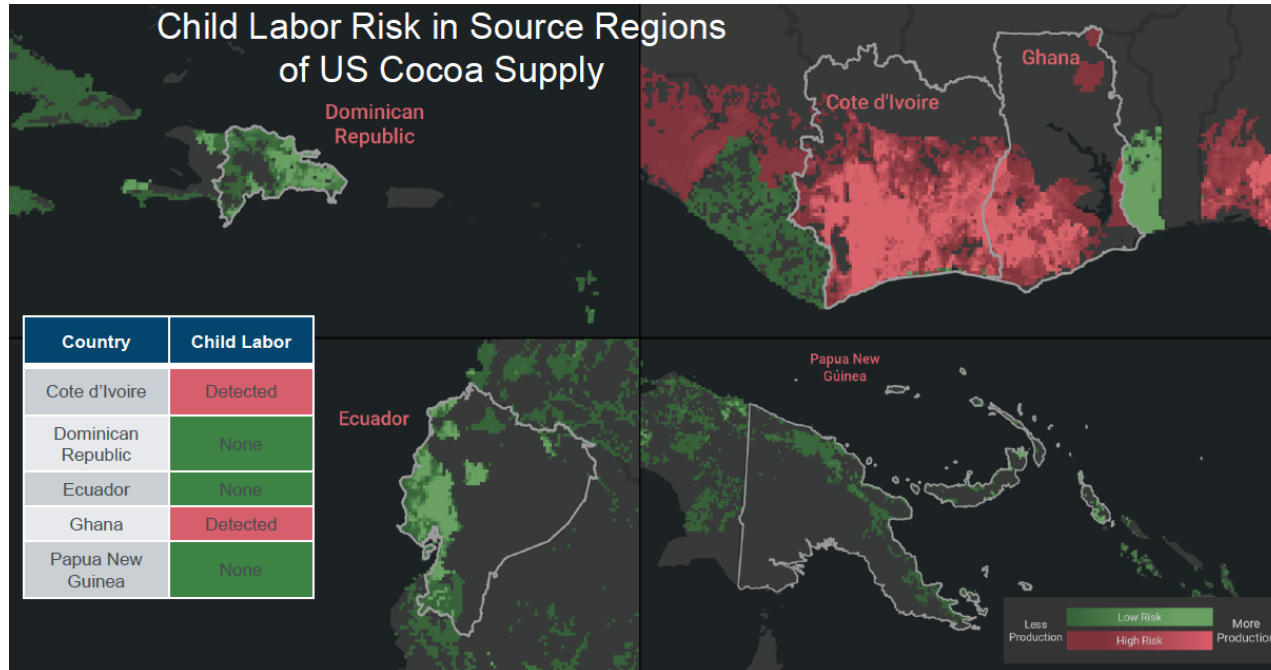
Xirallic paint disrupted by tsunami



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

% brands with full transparency into suppliers' practices:

2016: 27%
2017: 29%
2018: 31%

Category	Average score (Participate one year)	Average score (Participate five years)
Apparel and Home Textile	36%	49%
Hand Tools	4%	28%
Plastic Products	20%	40%
Plastic Toys	13%	27%



How pandemic disruptions have been different

Lessons learned

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

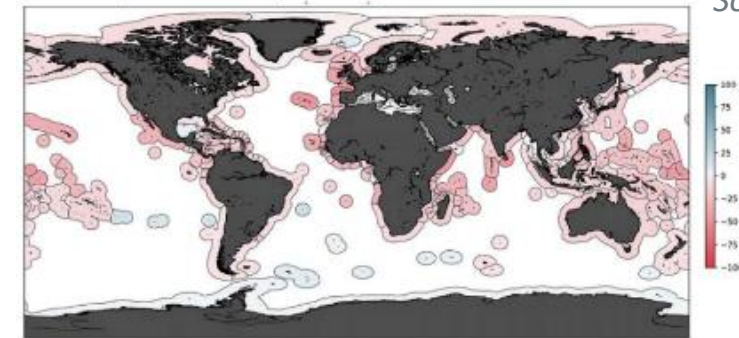
- Optimized supply chains decrease resilience
 - Can we decrease asset specificity?
- All measures of supply chain performance emphasize lean
 - Want resilience? Measure it.
- Buffers can only take you so far
- We need supplier geographic diversity



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

A Catch potential mid century RCP8.5 – Dynamic size-based food web model



Source: FAO, 2018

Improving Supply Chain Resilience to
Manage Climate Change Risks

June 2020



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




Source: Bill Dickinson, 2018





 www.sustainabilityconsortium.org

 @TheSustainabilityConsortium

 @TSC_news

 **Julie Ann Wrigley**
Global Institute of Sustainability
Arizona State University

 UNIVERSITY OF
ARKANSAS

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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.

RILA | Retail Compliance Center Webinar

Supply chain transparency and resilience

Insights for sustainable retail

Jamie Barsimantov

12 August 2020

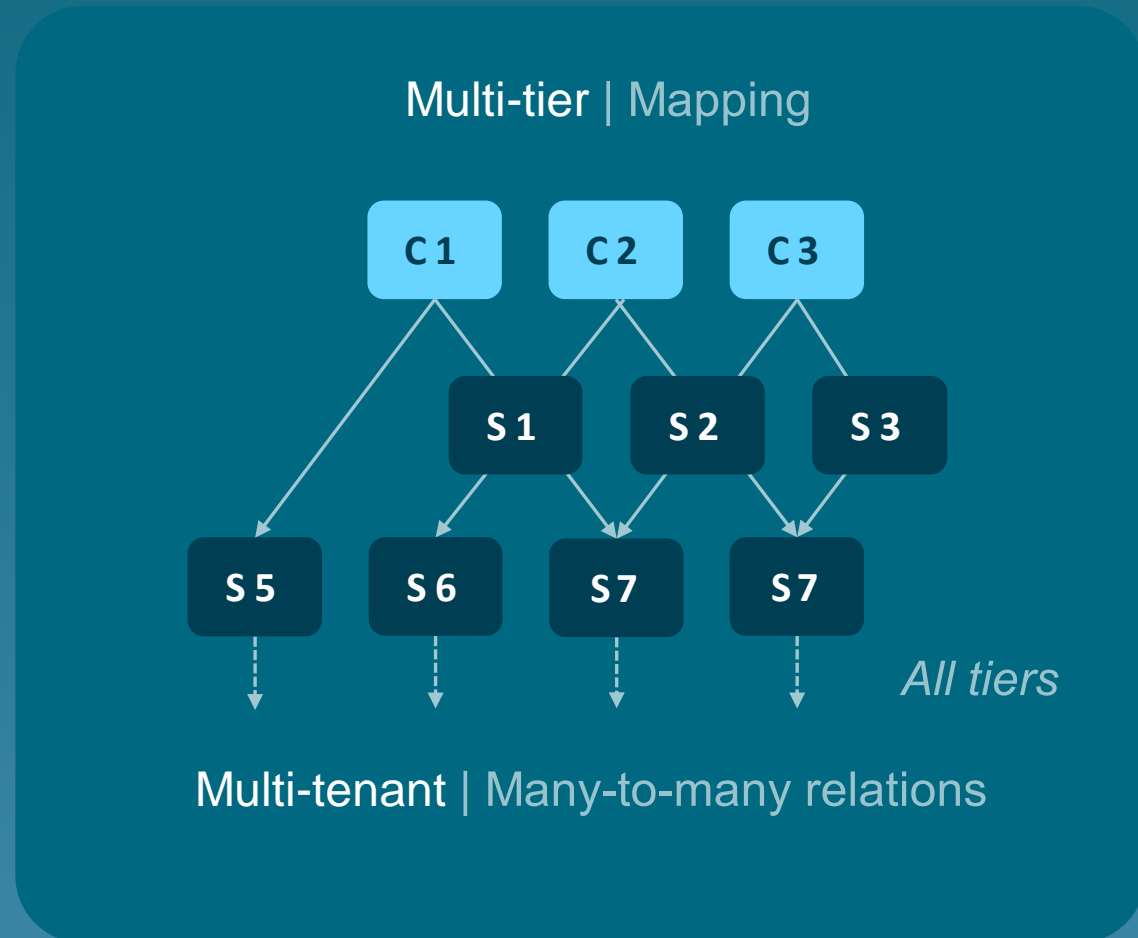


Outline

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

Responsible 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



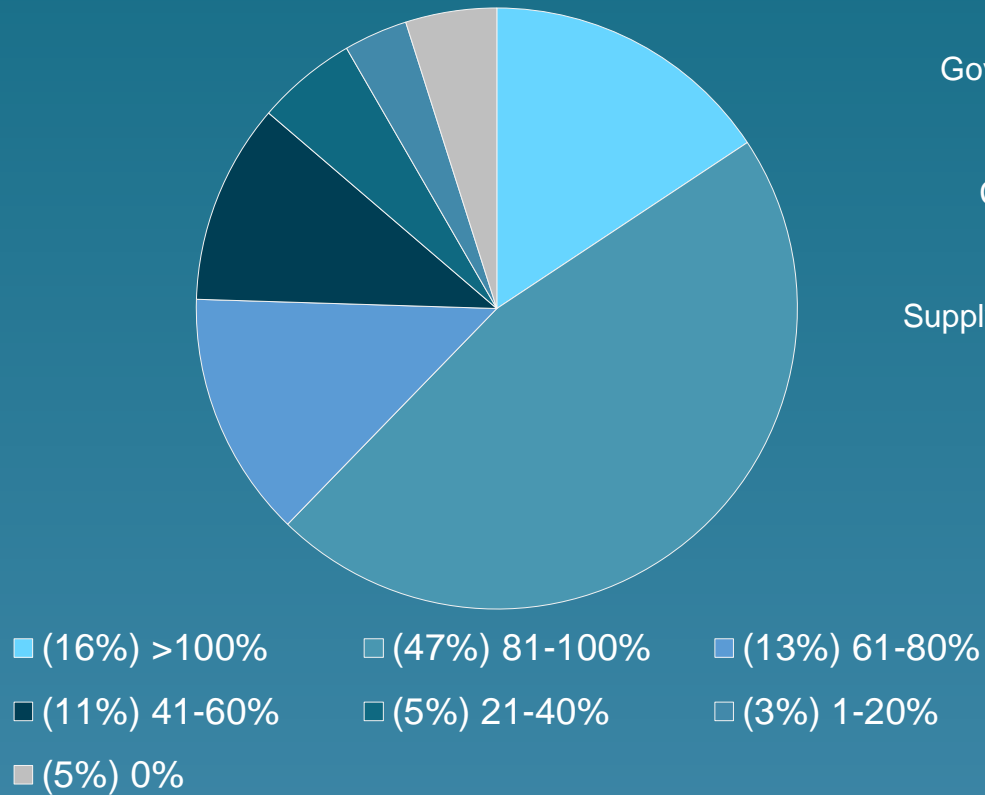
Supply Chain Visibility and COVID-19 Impact Assessment

In response to COVID-19's impact on global business and to help companies create lasting visibility, SupplyShift is offering this mapping assessment at no cost for a limited time. Map out your extended supply chain and assess the impacts of COVID-19 on your business.

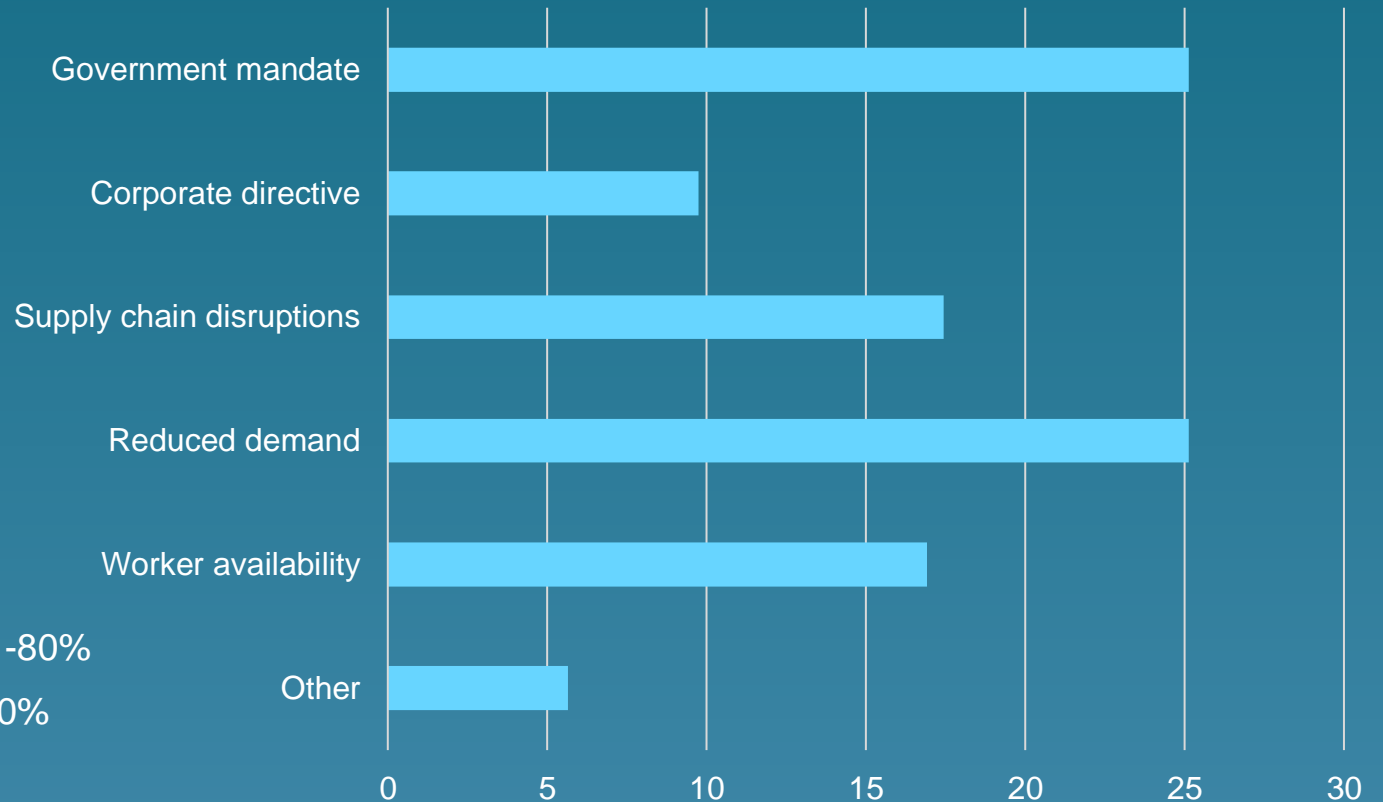
Learn more at supplyshift.net/covid-19

COVID-19 Impact Assessment

Operational Capacity

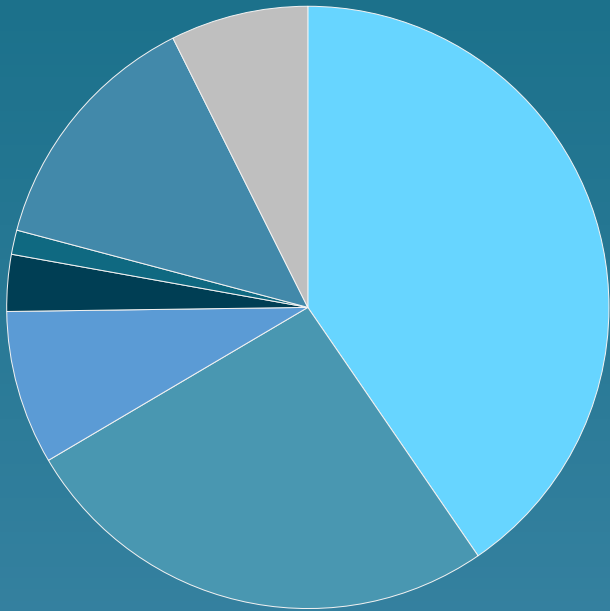


Reason for Shutdown



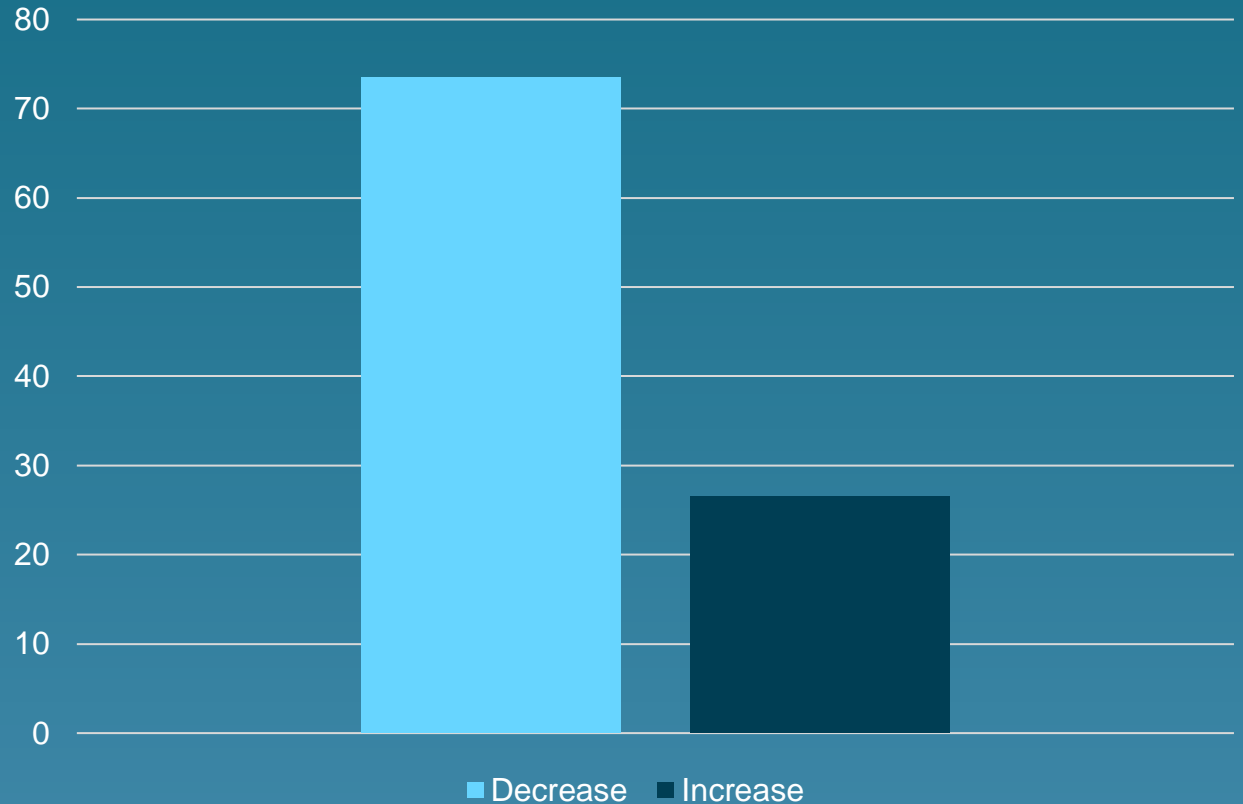
COVID-19 Impact Assessment

% of Employees Unavailable



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

Do you expect disruptions to increase or decrease?



ESG takes center stage

“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.”

BlackRock

“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.”

WSJ

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



SCIENCE
BASED
TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION



TSC AND WALMART PARTNERSHIP

THEISIS 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



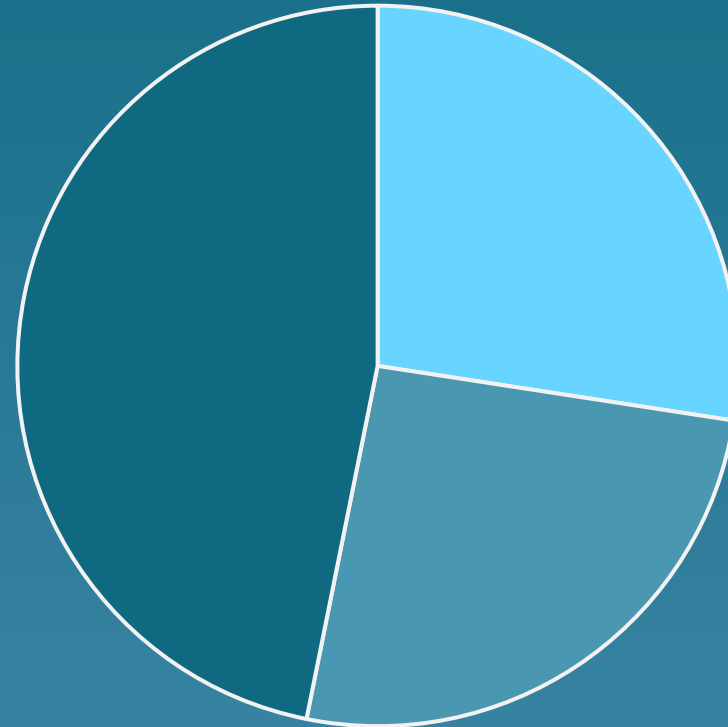
SOURCE: THESIS BY TSC, 2019

Scope 3 goal setting is behind

Commitments to reduce and disclose Scope 3 Emissions

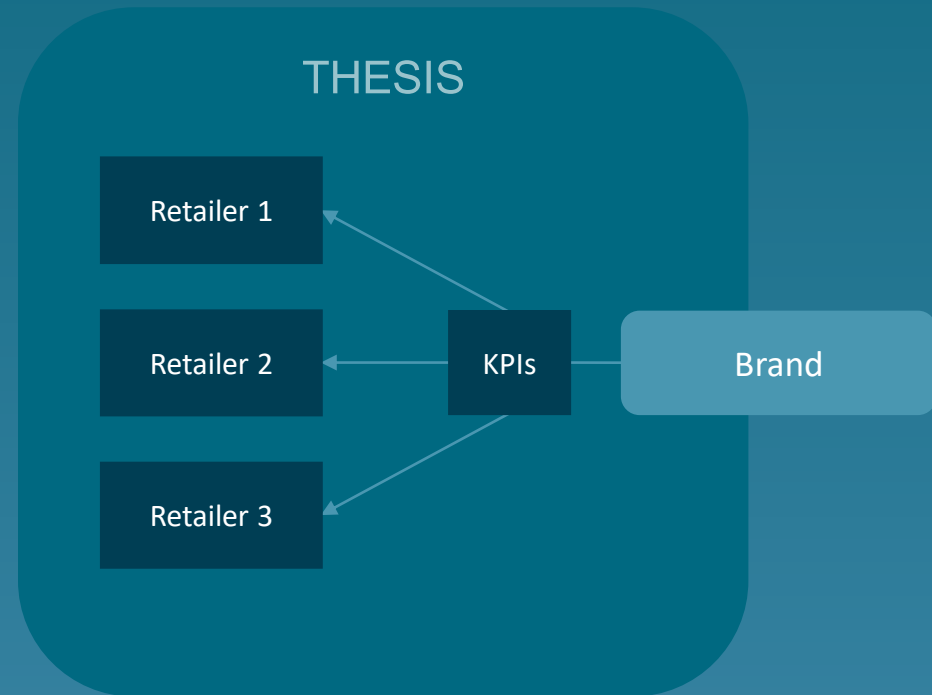


- (27.4%) Yes, have goals and track/disclose Scope 3
- (25.4%) No, but know that suppliers measure emissions
- (46.8%) No, with no supplier information



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

TSC Find the right assessments

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

BACK CONTINUE

Understand supplier category performance

The screenshot shows a web interface for 'Assessment responses'. The main content is divided into two sections: 'RESPONSES' and 'REPORT'. The 'REPORT' section is titled 'THESIS SCORECARD Tomatoes and tomatillos'. It features a circular progress indicator showing '29% Your score'. To the right, two boxes display 'THESIS rank 3 of 24 Participating suppliers' and 'Retailer 1 rank 2 of 16 Retailer 1 suppliers'. Below this, a 'Supplier comparison' bar chart shows various scores, with 'Your score' highlighted in green. The 'RESPONSES' section on the left lists details for 'Bee Clean, Inc.' as the supplier, reported to 'Retailer 1', approved by 'Bob Smith', Supply Chain Director. The assessment is for 'Tomatoes, Peppers, and Eggplant' with KPI set 'v03.02.10.003' and date 'March 3, 2019'. A table of contents is also visible.

Assessment responses

RESPONSES

REPORT

THESIS SCORECARD
Tomatoes and tomatillos

29%
Your score

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

10
5
0 10 20 30 40 50 60 70 80 90 100

Your score

THESIS
BY THE SUSTAINABILITY CONSORTIUM

Bee Clean, Inc.
Supplier

Retailer 1
Reported to

Bob Smith [Email]
Supply Chain Director
Approved by

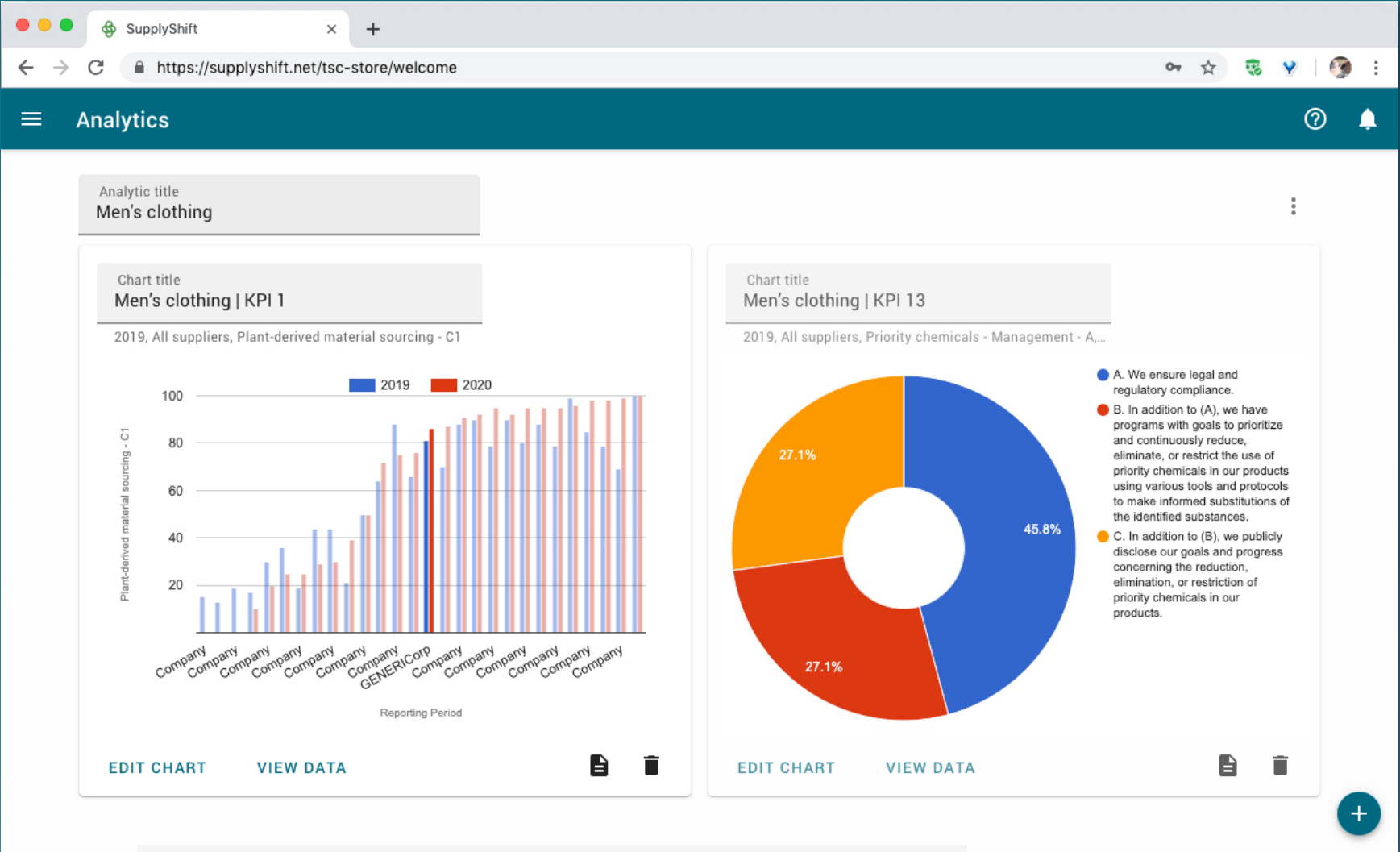
Tomatoes, Peppers, and Eggplant
v03.02.10.003
KPI set

March 3, 2019
Assessment date

CONTENTS

1. Crop Supply Mapping
2. Access to Opportunities for...
3. Child Labor Use - Growing

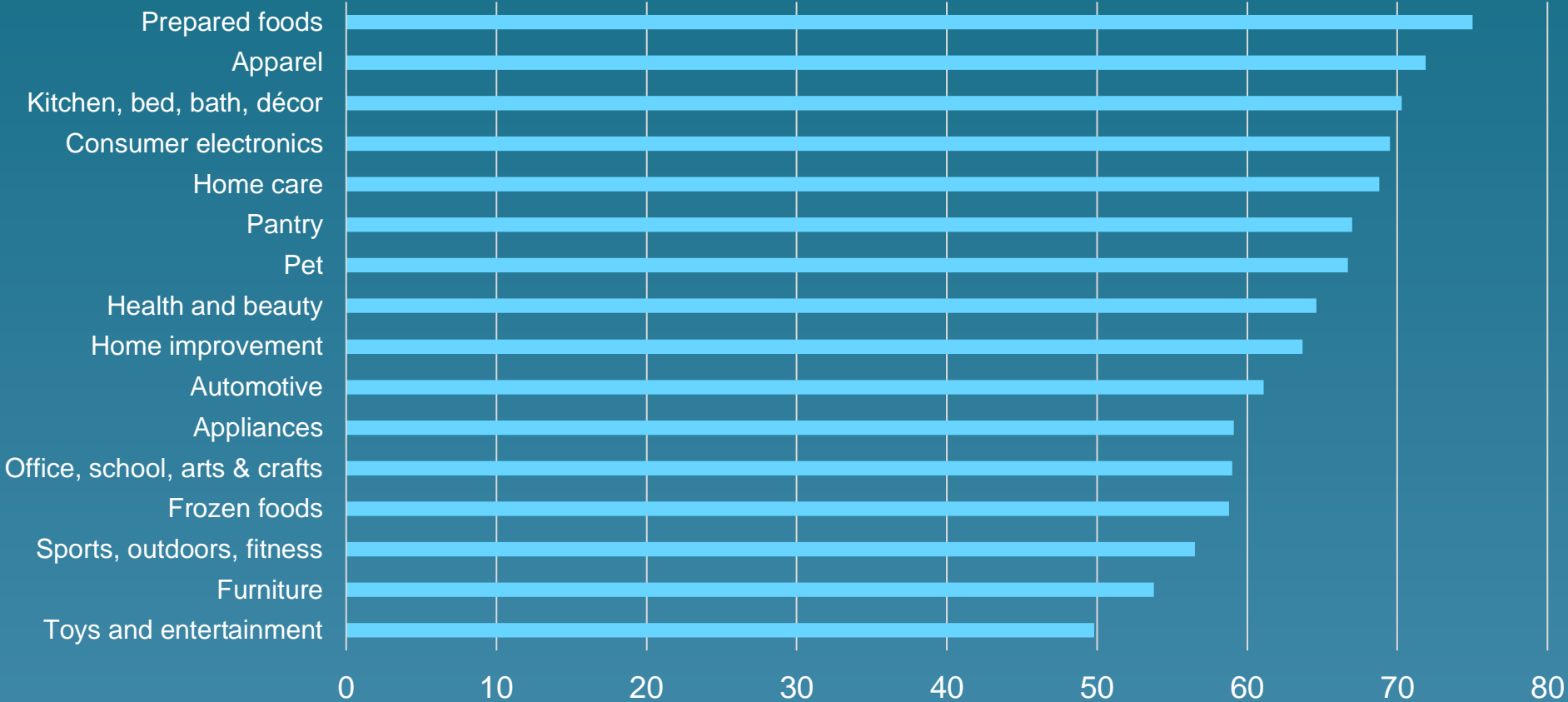
Create dashboards to focus on any issue



Engagement improves outcomes



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

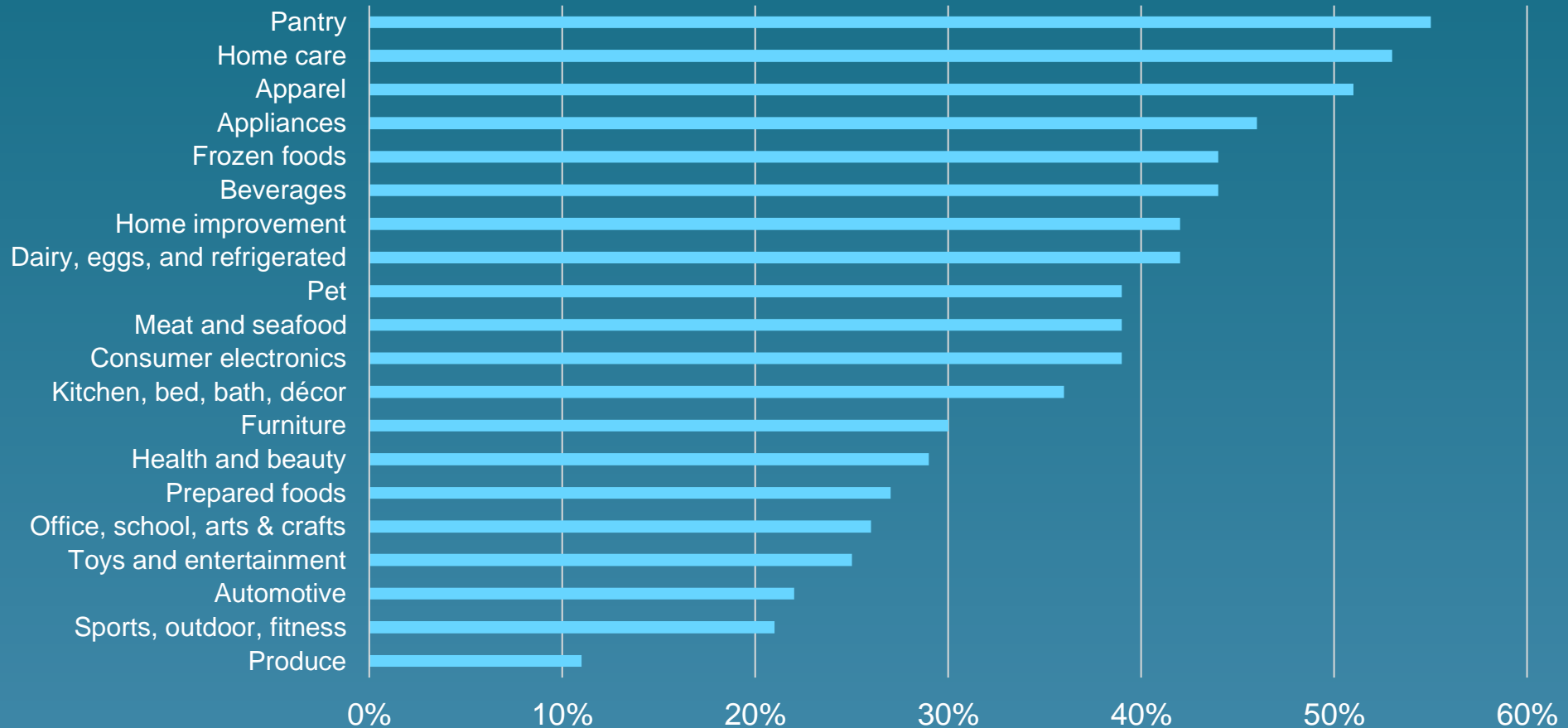


SOURCE: THESIS BY TSC, 2019

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

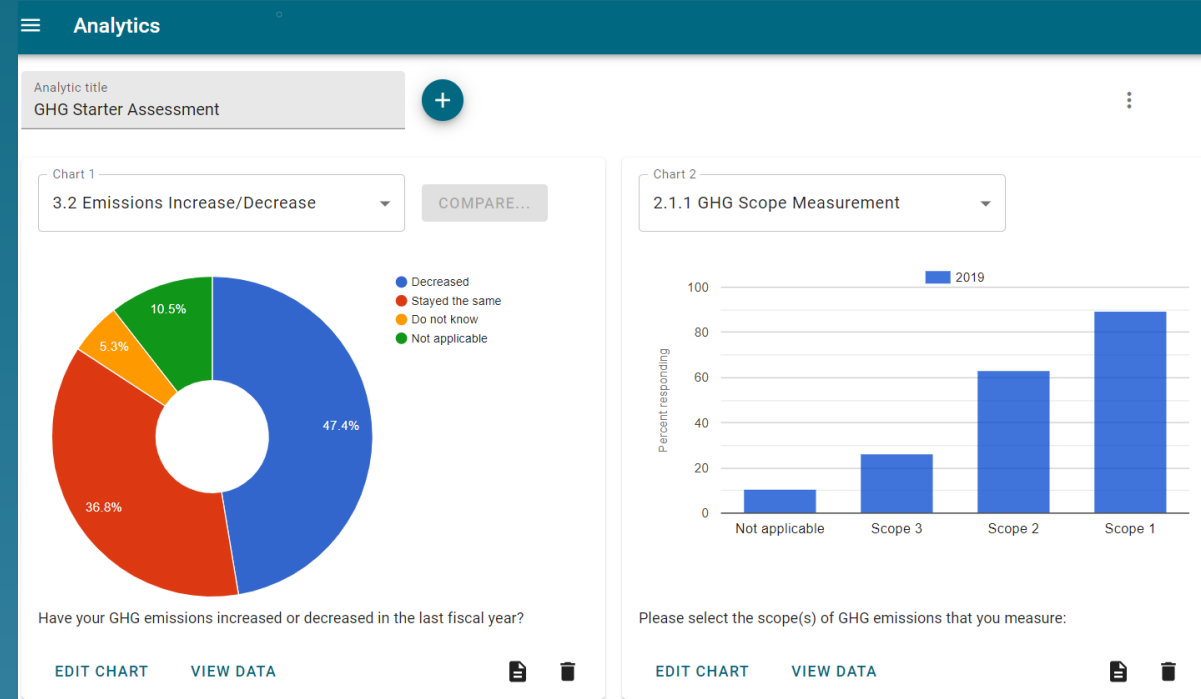
Set procurement benchmarks and thresholds to create incentives that motivate suppliers to act.

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 laggards
- 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

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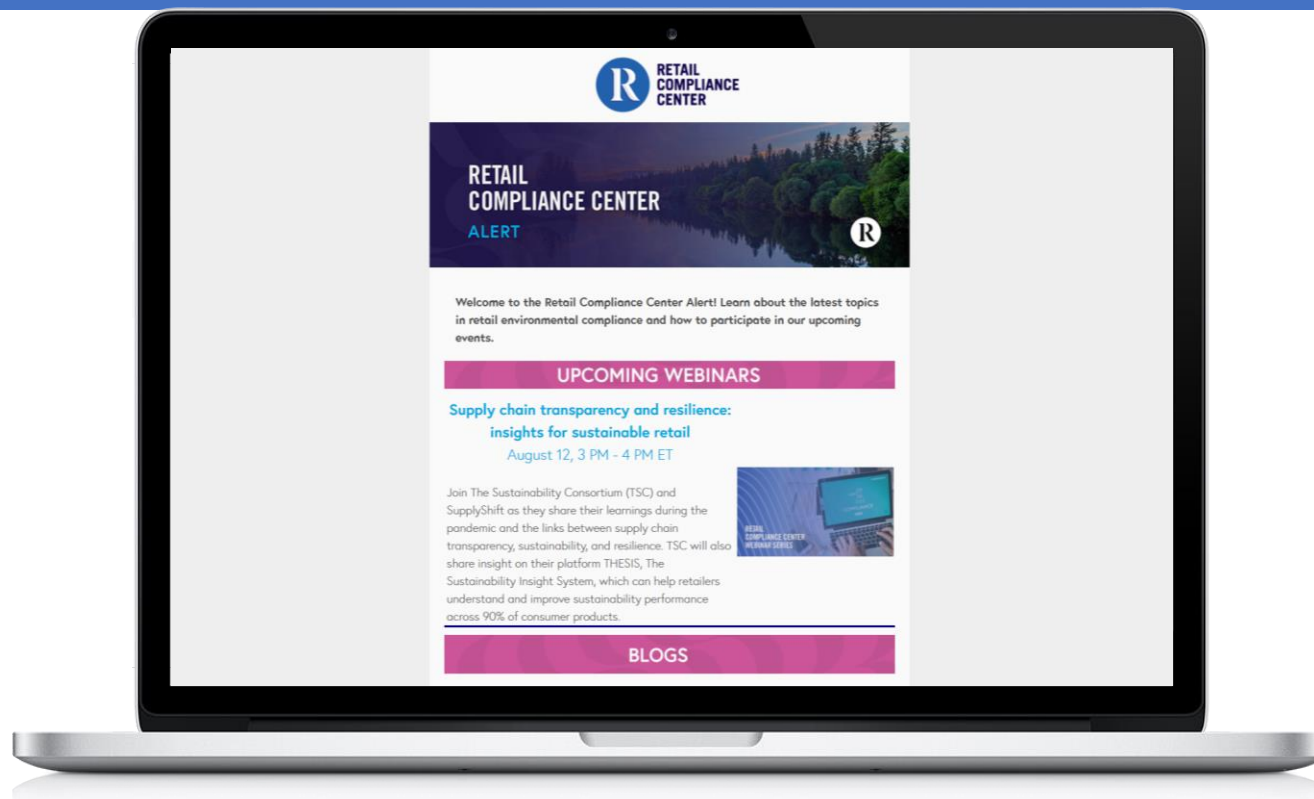
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QUESTIONS?

USE THE Q&A BOX TO SUBMIT YOUR 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