

Walking the Walk:

Driving competitiveness
through ethical supply chains

by Mark Pearson

High performance. Delivered.

Fair wages. Eco-friendly supply chains. Healthy margins. Operating ethically and operating profitability are no longer mutually exclusive concepts. And leading companies are walking the walk: balancing the goal of achieving commercial advantage with gaining social and environmental advantages. Better yet, those focused on this "triple advantage" in supply chain operations can increase competitiveness through improved revenue and brand reputation while decreasing cost and risk.

Tipping Point

Business has reached a tipping point when it comes to supply chain sustainability. Over the years corporations have paid a lot of lip service to the concept. But many, up until this point, viewed ethical supply chains as a "nice to have," not a "must have." Now companies who continue to "talk the talk" instead of "walk the walk" when it comes to responsible supply chains will begin losing their ability to grow and compete. Why? First let's start with the customer.

Digital, particularly social media, is enabling customers to gain greater transparency, faster. The Rana Plaza disaster. Guangzhou sweatshops. A company that looks away as factory workers are exploited by a sub-supplier will feel the ire of their global customer base who will "vote with their wallets."

Secondly, investors' behavior is changing. Reputable analyst firms factor ethical behavior more and more into their valuations. Sustainability can create significant impact on stock prices which is causing companies to take notice. In fact, according to Accenture UN research, 52 percent of executives report that investor interest is an incentive for them to invest in sustainability, and 69 percent expect investor interest to be an increasingly important factor in building sustainability issues into their core business.¹

Finally, for companies that ignore sustainable business issues, it will become increasingly difficult to attract and

retain new talent. Although Boomers and Generation X may still be catching on to the importance of corporate sustainability, Millennials (born between 1980 and 2000) consider sustainable practices to be essential. CEOs are recognizing sustainability's impact on the war for talent.² In fact, 46 percent of CEOs reported that employees would be among the most influential groups in guiding their action on sustainability over the next five years—second only to consumers.

Consumers. Investors. Employees. Acting ethically imbues businesses that go beyond "talking the talk" with real competitive advantage. Just as automotive manufacturers were trumped by brands offering enhanced safety as a core feature, companies that don't embrace responsible supply chain practices risk falling behind, losing a competitive edge they may never regain.

From License to Operate to License to Grow

To sustain competitiveness, companies need to recalibrate their strategies towards ethical behavior—moving from a focus on compliance to differentiation. Companies engaged in responsible supply chain efforts often refer to their "license to operate." That implies they've established trust with local governments and society by complying with regulations and establishing health and safety programs that give them tacit permission to do business. But companies

stuck in a mindset of, "what's the minimum I need to do" are missing out. Leading companies are pursuing a "license to grow," using ethical business practices as an integral part of what makes them unique. Going beyond "just compliance" to create an unassailable competitive barrier in the marketplace.

Consider Ben and Jerry's. Socially responsible business practices are as important as their recipes for Cherry Garcia or Phish Food. Or, in the words of CEO Jostein Solheim, "Historically, this company has been and must continue to be a pioneer to continually challenge how business can be a force for good and address inequities inherent in global business."³

Patagonia, the global clothing retailer, is an early pioneer of sustainability. For decades it has pledged one percent of annual sales to the preservation and restoration of the environment. A portion of those donations go to domestic and international grassroots environmental groups. And the company's good works haven't hurt the bottom line: Patagonia has doubled its scale of operations and tripled its profits since 2008.⁴

Ethical Means Competitive

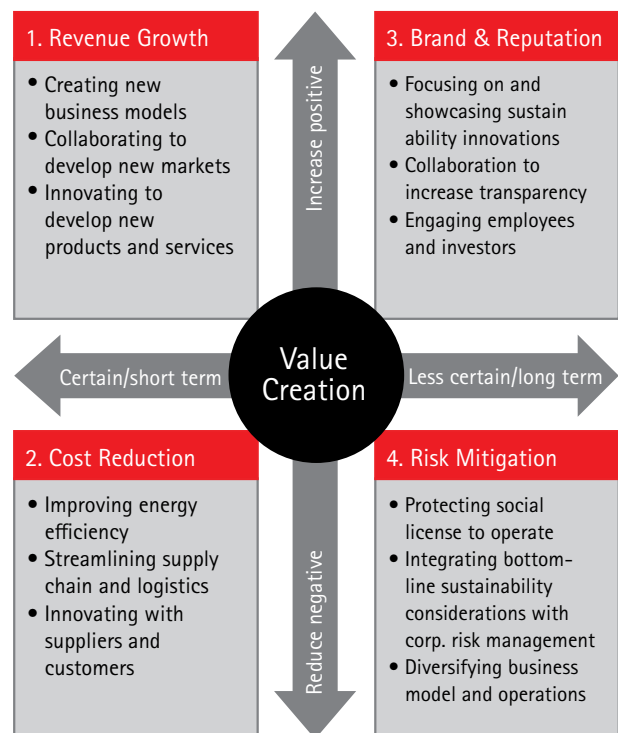
Responsible supply chains are "a must" not just to operate a business, but to grow it profitably. So what's holding some companies back? Businesses may view maintaining profitable supply chains as an exercise in trade-offs: that cheaper upstream labor affords better downstream customer service. Others struggle with the business case, "getting the numbers straight" and failing to justify necessary investments.

Achieving responsible and profitable supply chains is about gaining a triple advantage: creating a clear business case for corporations, as well as benefits for

the environment and society. To gain real competitive advantage through ethical supply chain practices they need to take a more holistic view on sustainability in order to build a compelling business case. (Figure 1)

By focusing on practices with a triple advantage, companies are able to increase their revenue by up to 20 percent, decrease supply chain costs by up to 16 percent, strengthen their brand value by up to 30 percent, and reduce their carbon footprint by up to 22 percent.⁵ With solid numbers backing them, businesses can move from a philosophical argument (it's the right thing to do) to a clear business case (this will boost profit), supporting them to get necessary funds, and reviving their license to grow.

Figure 1. Holistic view on value creation through ethical supply chains.⁶



Pulling the levers

According to an Accenture study, only 33 percent of CEOs feel that business is doing enough on sustainability.⁷ To reverse this

inertia and begin "walking the walk," supply chain executives need to gain transparency when it comes to the multitude of levers to pull. In the past, too many relied on "trial and error." Thankfully, as the concept has matured, there are decision support tools that can help.

Eighty-seven percent of CEOs see sustainability as opportunity for growth and innovation and 80 percent see it as a route to competitive advantage in their industry.⁸

New forms of collaboration

To begin "walking the walk" of sustainability, it is key to collaborate across an extended value chain of internal stakeholders, suppliers, sub-contractors, sub-sub contractors and the end consumer. Consider an electronics company that decides to reduce the size of a given product. Collaboration starts with internal engineers who may have to re-think product design. With new dimensions, suppliers have to be informed, packaging re-considered. Now that the packaging is smaller, it may make sense to join forces with another company (or even competitor) to cut the cost of transportation. Retailers that sell the product need to check shelf size and layout issues. And the end consumer may have a more energy-efficient product and should be made aware of it. Net-net, the more you collaborate, the more companies find new ways of getting social, environmental and economic gain. Leading corporations "squeeze out" even more value from the triple advantage by collaborating with competitors.

Collaborating with competitors

To achieve their own triple advantage, Nestlé⁹ has come up with an unusual recipe

for success: collaborating with competitors. Together with PepsiCo, Nestlé combined parts of its supply chain for its fresh and chilled food products in the Belgian market. The horizontal collaboration approach not only addresses low truck fill rates, but it also exploits retail customer overlaps.

Nestlé bundled warehousing, packaging and outbound distribution and synchronized deliveries to retailers to get full truck loads. This drove down transportation costs by 44 percent. Compared to "classic groupage" optimization, this horizontal collaboration created 15 percent higher cost savings. In addition, carbon emissions were reduced by 55 percent with spill-over effects on traffic and a decrease in accidents. Better yet, service levels increased. The approach also allowed Nestlé and PepsiCo to deliver more frequently—a key differentiator in fresh products—driving up the overall satisfaction levels of retailers and end customers.

Beyond the noble purpose

Companies need to move beyond the concept of sustainable business practices as "a noble purpose" and instead embrace them as a strategic weapon wielded to gain an advantage. But "walking the walk" means getting their numbers straight—building a clear business case for investments. And passing "trial and error" to go straight to proven methods by using decision support tools that identify the most effective triple advantage practices.

Those companies that hesitate do so at their own peril: More and more customers, investors and employees demand ethical operations. Happily, by positively impacting socio-environmental factors, the biggest benefit lands on the bottom line through new sources of growth and innovation.



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¹ The UN Global Compact – Accenture CEO Study on Sustainability, 2013

² The UN Global Compact – Accenture CEO Study on Sustainability, 2013

³ Ben & Jerry's webpage: <http://www.benjerry.com/flavors/phish-food-ice-cream>

⁴ How Patagonia's New CEO Is Increasing Profits While Trying To Save The World, *Fast Company*, February 28th 2014.

⁵ Beyond Supply Chains: Empowering Responsible Value Chains, a study by Accenture and the World Economic Forum, 2015

⁶ Holistic view on value creation through ethical supply chains. Source: Beyond Supply Chains: Empowering Responsible Value Chains, study by Accenture and the World Economic Forum, 2015

⁷ Accenture CEO Study on Sustainability, 2013

⁸ The UN Global Compact – Accenture CEO Study on Sustainability, 2013

⁹ Nestle CSV Summary Report, 2013, www.nestle.com

About Accenture

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