Supply Chain Briefing Part 2: Working with competitors - Cooperation conundrums

Posted by Stephen Gardner [1] on Oct 4, 2012

Brands and suppliers are increasingly willing to share supply chain sustainability data, to cut costs and overcome audit fatigue

Sustainability in super-sized and globalised supply networks is all about risk management.

At the simplest level, suppliers should be categorised according to their strategic significance, so that the weakest links in the supply chain can be identified. Problems at a key manufacturer, or in a country with a weak regulatory environment, will in general pose a more immediate risk than shortcomings at a legal services company or advertising agency.

Companies can then prioritise how they engage with suppliers, for example through targeted sustainability and responsibility audits. “It’s more complicated than it used to be, but we have more data at hand,” says Kevin Franklin, managing director of professional services at risk consultants Maplecroft. “There’s definitely a case for auditing, but you have to have more informed processes.”

To assist this, there are numerous forums that companies can use to exchange information about supply networks, and help segregate the high-risk from the low-risk suppliers. The spread of these platforms has been boosted by the internet and ever-easier data exchange.

Many platforms are sector specific. The Sustainable Apparel Coalition (SAC), for example, works on the environmental footprint of the clothing and footwear supply chain – a significant issue, as 80% of world clothing exports are shipped to developed economies, according to the World Trade Organisation.

SAC’s membership includes brands such as Adidas, Gap, H&M and Nike, and retailers such as Marks & Spencer and Wal-Mart, alongside their markedly less well-known suppliers, such as Gujurat-based Arvind Mills and the Taiwanese Makalot Industrial Company. SAC has published the Higg Index, a tool to measure the environmental impact of clothing and footwear throughout its lifecycle. It includes a “facilities module” – in other words, a methodology for segmenting suppliers according to how sustainable they are.

Tobias Fischer, CSR manager for retailer H&M, says the SAC is seeks to “involve suppliers more and let them take clearer ownership”. For H&M, SAC complements in-house initiatives, such as a “mill development” programme, which “reaches out to parts of the supply chain producing fabric and yarn, focusing on basic occupational health and safety, chemical handling and how water is disposed of”, Fischer says.

Safety in the crowd

Other information exchange platforms are cross-sector, and rely on crowdsourcing to assemble risk information about supply chains. Non-profit organisation Sedex is one example.

Tom Smith, Sedex’s head of marketing and business development, says the platform was established in 2004 by Marks & Spencer, Tesco and other retailers because “CSR and sustainability were getting more complex, and programmes were getting pushed further and further down the supply chain”. Ever-greater volumes of data were being produced, and a decision was made to share it.

The Sedex platform now covers about 500 brands and retailers, 26,000 suppliers and 150 countries. Supplier sustainability audit information is uploaded to the platform and can be accessed by purchasers. Details of corrective actions taken by suppliers in response to negative audit findings are also available.

Smith says Sedex has had a “snowball effect”. The more that retailers use the system, the greater the incentive for suppliers to ensure, first, that they are also part of Sedex, and, second, that they are demonstrably maintaining high sustainability standards. For both purchasers and suppliers, the system reduces the time-consuming and expensive duplication of audits.

Suppliers can use the system to win contracts by showing how reliable they are in sustainability terms. “It’s becoming more competitive,” Smith says. The expansion of the Sedex system is “consistent with growth of sustainability as a whole”.

Cost reduction is one reason why companies are prepared to collaborate and share the results of their audits via Sedex. The difficult economic climate has tended to promote sharing. “Companies are always looking for more efficient ways of doing things. The model of preventing duplication works perfectly in the current environment,” Smith says.

He adds that information available through Sedex reflects geographical or sector clusters, which “reflect our biggest members’ supply chains”. Chinese companies take the top spot in the supplier member category. Other clusters are seen in India and South Africa, but suppliers in eastern Europe, Britain and the US are also well represented, Smith says. Prominent sectors include clothing, packaging and drinks, but “the spread is pretty even”.

Smith is careful to emphasise that information exchange platforms such as Sedex do not solve all problems. Sedex does not verify the supplier audit reports that are uploaded to it, or label suppliers as good or bad. But like TripAdvisor for hotels, users of the system can assess the weight of evidence.

Common issues tend to rise to the surface. A factor such as worker accommodation provided at factories could indicate higher risk, Smith says, but it is up to the purchasers using the system to decide, or to use Sedex as an indicator for where further investigation might be appropriate.

Factory facts

The New York-based Fair Factories Clearinghouse (FFC) is similar to Sedex. It assembles sustainability and responsibility audit information on the basis that “shared expertise helps provide compliance capability beyond any single company’s experience”. Industry-wide collaboration leads to “greater efficiency and cost savings, risk mitigation and assurance in factory monitoring,” FFC says.

The FFC boasts impressive statistics: it covers more than 30,000 factories in 142 countries, has a total of about 90,000 compliance documents, including more than 70,000 audits, and is used by nearly 6,000 buyers, including major names such as Nike, Starbucks and Timberland.

One FFC member is the World Federation of the Sporting Goods Industry. The federation’s secretary-general, Robbert de Kock, says the FFC helps “to avoid audit fatigue and to save costs. In addition it offers the possibility to use the FFC tool as your internal administrative tool for sustainability monitoring.”

There is some resistance to sharing information via platforms such as the FFC, de Kock says. Some companies see it as a threat to their control over commercial information, such as locations of manufacturing plants. But de Kock believes that cost savings and efficiency will ultimately trump any concerns. “This is the right direction for our industry, and we are only at the beginning of a process which many more stakeholders in the industry and beyond should join. We need to work hard to get the manufacturers more involved, but this is in process. For them, the FFC tool could be a real asset to avoid audit fatigue.”

H&M’s Tobias Fischer agrees that cooperation between brands on sustainability in the supply chain is a work in progress. There are several difficulties, he says. “Some of the issues are to some extent beyond our direct influence; the labour and environmental laws are usually in place but the enforcement in countries where we source are not always in place."

In some cases, "there are other sourcing companies with other expectations and models for enforcement of legal requirements. This requires work with other stakeholders in these markets – it can be governments, employer associations, trade unions, NGOs and other retailing brands. Cooperation with these actors is usually time-consuming, and it takes time before results are achieved."

Ensuring sustainability

Tools such as Sedex and FFC, in combination with intelligently targeted audits and on-the-ground monitoring, can help purchasers as they implement their supply chain risk assessment strategies. But sustainability risk can never be completely eliminated.

"Some suppliers just don't have the right mindset," says Maplecroft's Kevin Franklin. In addition, cultural factors such as very ingrained gender differentiation can persist.

In general, says Franklin, "it is much better to have a conversation [with a supplier] rather than just end the relationship". But over-close supplier relationships can throw up their own risks. In particular, there is a "critical risk" where there is a limited number of suppliers. "The purchaser has a much reduced ability to influence," says Franklin. Diversification of the supplier base offers "responsible resourcing benefits and benefits around the continuity of supply".

Some companies have responded to this risk by forging closer ties with suppliers, by investing in them directly, or by acquiring them. Franklin says there is "definite innovation in this area".

Tata Steel, for example, said in June that it had finalised a project to make it "only the second vertically integrated producer" in the European Union of certain steel products. Raw materials for its Cogent Power subsidiary in south Wales will now be provided by a Tata plant in the Netherlands. This will remove "constraints on quality development and output that had existed because of previous dependence on third-party sources", the company says.

Starbucks, meanwhile, has invested directly in coffee plantations in China. The company agreed with the local government in an area of Yunnan province that it would operate a farm and coffee mills, and would establish research and training facilities for Chinese farmers. The initiative creates "more stable business that respects the people and the land of this area," Starbucks says.

Ultimately, for some companies, the benefits of third-party manufacturing might diminish to such an extent that they decide to repatriate production. Increased wealth and higher wages in emerging economies are likely to drive this trend.

More companies might follow the lead of American Apparel, which does not outsource any of its operations. The company designs, dyes, cuts, stitches and packs its products at its sites in southern California, where it employs about 5,000 people. Its workers earn the "highest pay worldwide for the manufacturing of apparel basics". And the benefits to the company are clear: "Adherence with US environmental regulations … better and more consistent quality of work, stronger employee morale, and ultimately, retention rates of skilled operators."

Perhaps bringing sustainability home is the best way of minimising the risks.

Links:
[1] http://www.ethicalcorp.com/users/stephen-gardner