

Wal-Mart: Giant of retailing shakes up supply chain

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Wal-Mart's ambitious supply chain sustainability initiatives have the potential to overhaul the way goods are sourced and sold

Until a couple of years ago, Wal-Mart, the world's largest retailer, was often in the news for poor working conditions in its global supply chain. In the past two years, the US giant has transformed into a sustainability leader. Now the company makes headlines for bold sustainability initiatives in the supply chain, not least in terms of cutting carbon.

In July last year Wal-Mart announced plans for a sustainable product index that would rate products in terms of a number of environmental and social criteria. Then in February this year, Wal-Mart announced plans to eliminate 20m tonnes of carbon emissions from its global supply chain by the end of 2015. The targeted reduction is 50% bigger than the company's estimated carbon footprint growth in the same period.

Ryan Schuchard, research and innovation manager at Business for Social Responsibility (BSR), a US-based global business network and consultancy focused on sustainability, says Wal-Mart's 20m tonnes commitment is "huge". He says it is "four times the collective annual commitment of nearly 200 companies in the US Environmental Protection Agency's Climate Leaders programme".

The company's focus on reducing carbon emissions from the supply chain is understandable. After all, the carbon footprint of its global supply chain is many times larger than its direct operational footprint.

It was in 2005 when Wal-Mart first made a public commitment to become a more environmentally sustainable company announcing a new approach called Sustainability 360, which involves finding ways to reduce the company's own environmental impact as well as engaging suppliers, employees (or "associates" as Wal-Mart describes them) and customers around the world to reduce their environmental impact.

The company's broad sustainability goals have since included sourcing its entire energy supply from renewable sources, zero waste and selling products that sustain resources and the environment.

The Sustainability 360 approach led Wal-Mart to develop a new organisational model. Rather than creating a corporate social responsibility division, an approach more common in the industry, the company established 12 sustainable value networks. These are cross-functional teams driving sustainability goals within each major business division, such as seafood, logistics and buildings.

Direct impact

The company started out with identifying and reducing the environmental impact of its direct operations. The top three targets were developing a store prototype 25-30% more energy efficient by 2009, reducing carbon emission at existing stores and distribution centres around the world by 20% by 2012 and doubling the truck fleet efficiency in the US by 2015. The company then decided to apply what it had learnt from these internal initiatives to its supply chain, which accounts for the company's indirect impact.

"We are actively driving progress towards our three greenhouse gas goals for our own operations. In the process we have discovered enormous untapped opportunities to share what we learn with our suppliers," says Wal-Mart sustainability director Miranda Ballentine.

Ballentine says that in many cases, the biggest, fastest, most economical emission reductions are up or down the value-chain of consumer products, either in raw material extraction, product manufacturing, transportation, customer use or end-of-life. This means closely working with suppliers to reduce their carbon footprint.

Wal-Mart is offering expertise to its suppliers through a battery of dedicated greenhouse gas reduction experts who use the company's own experience to help suppliers find ways to reduce emissions from their operations.

Ballentine says greenhouse gas reductions have made Wal-Mart a more efficient company and lowered operating costs. But that's not all. "Suppliers who innovate, become more efficient and drive sustainable practices throughout their own businesses will be more likely to share in our business growth – a prospect that gets most of our suppliers very excited," she says.

Suppliers seem to have taken the cue. Ballentine says Wal-Mart has had an outpouring of requests from suppliers to be included in the programme.

A business-like approach to emissions reduction goes well with Wal-Mart's pricing philosophy that aims at continuously reducing the cost of products. The company's low emission target promises suppliers savings from reduced energy use, improved product quality and reduce manufacturing and operating costs.

Even Wal-Mart's customers – the company serves 200 million of them every week – are part of the all-round sustainability orbit. "As we help our suppliers reduce their energy use, costs and carbon footprint, we will be helping our customers do exactly the same," Ballentine says.

Lifecycle carbon

The retailer believes that cutting carbon in the life cycle of the products it sells will ultimately benefit customers and make the company stronger and more competitive. The company says that reducing carbon emissions will often mean reducing energy use by several products and making them more efficient. Greater energy efficiency of products and lower energy costs will not only save money for customers, but will also help customers to reduce their own carbon footprint.

Wal-Mart's sustainability framework sounds simple and very convincing. But the company needs to work its way through a complex worldwide supply chain and an extremely diverse range of 145,000 products for its framework to work.

The first daunting task is to measure the carbon footprint of the products the company sells, which are manufactured by suppliers spread all over the globe. To this end, Wal-Mart has partnered with non-profit groups such as Environmental Defense Fund, Carbon Disclosure Project, Clear Carbon and the Applied Sustainability Centre at the University of Arkansas to review the embedded carbon emissions in thousands of product categories.

Ballentine says the company looks not only at the carbon intensity of the specific products using life cycle impact data but also factors in Wal-Mart's sales and market-share of the products to understand the real impact and to identify hot-spots for intervention.

"Our supplier greenhouse gas innovation initiative will first focus on reducing embedded carbon in the products with the biggest opportunity to reduce emissions," Ballentine says. She explains that the programme will not affect all suppliers immediately. However, the company is encouraging all suppliers to continuously improve their own products' carbon footprint.

Verifiability and stringent accounting are key features of Wal-Mart's supply chain carbon emission reduction programme. Each project will be documented and assessed by a third party. Participating suppliers and Wal-Mart will jointly account for the reductions.

Ballentine says only those reductions where the company is able to demonstrate that it was directly involved in influencing the reduction of emissions will be counted towards Wal-Mart's 20m-tonne

reduction target.

All quantification calculations will be reviewed by several parties – initially by Wal-Mart, EDF and Clear Carbon for a quality check and subsequently by PricewaterhouseCoopers to ensure all procedures were followed in assessing the reduction claim.

Carbon emission disclosure is an important piece of Wal-Mart's supplier sustainability strategy. Wal-Mart became the first company to sign up to the UK-based Carbon Disclosure Project's supply chain initiative in 2007. The retailer is asking its suppliers to report their carbon emission data, reduction targets and climate change strategy using the CDP platform.

Frances Way, head of the CDP Supply Chain programme, says that, in many cases, using the CDP platform encourages Wal-Mart's suppliers to take the first step towards becoming more sustainable.

"By encouraging participation in CDP's disclosure process, suppliers are able to fully measure and report their greenhouse gases, and the risks and opportunities from climate change, so that they can strategise ways to reduce emissions," she says.

Starting with hot-spots

However, while the Wal-Mart strategy looks great on paper, the company has challenges on the ground.

"One of the biggest challenges is choosing from the thousands of greenhouse gas reduction opportunities. By starting with greenhouse gas hot spots in the most GHG-intensive product categories, we are able to narrow down the vast universe of emission reduction opportunities," Ballentine says.

The company will initially focus on clothing, food and high-energy-use products. This approach ensures Wal-Mart focuses on areas with a greater opportunity to reduce greenhouse gas emissions in the life cycle of products, Ballentine argues.

Apart from identifying hot spots among the product categories, the company is also taking geography into account. For example, the company has launched special initiatives in China, where it has a thriving chain of stores as well as many supplier factories.

In October 2008, the then Wal-Mart chief executive Lee Scott delivered a stern message to suppliers in China in a sustainability summit. He said: "Meeting social and environmental standards is not optional." The summit brought together nearly 1,000 of Wal-Mart's leading suppliers, Chinese officials and other stakeholders.

Wal-Mart used the Beijing event to set a goal for the top 200 factories it sources from to achieve a 20% improvement in energy efficiency by 2012. At the event, the company unveiled a new supplier agreement that required suppliers to certify that they complied with China's environmental regulations as well as the company's social and environmental standards.

Observers say the company will need to build internal capabilities in order to deliver on these goals in China.

"Many factories, especially in China, focus on growth at the expense of productivity. So, the company will need to motivate and train suppliers about the opportunity for becoming leaner, more resilient and more competitive," says BSR's Schuchard, who helped Wal-Mart launch a supplier energy efficiency programme in China last year.

A key challenge will be to ensure suppliers' affordable access to energy efficiency technology.

"The company will need to continue to build bridges between suppliers and partners and the professional energy service companies in countries where the biggest improvement opportunities are, which also often happen to be places such as China where laws and attitudes about outsourcing

this kind of work make it challenging to do transactions,” Schuchard says.

Wal-Mart’s supply chain sustainability initiatives are likely to have a ripple effect. Schuchard says: “This sort of initiative will catalyse suppliers that Wal-Mart works with to achieve even greater reductions, because much of the challenge is just getting started, and there is a significant waste in the system.”

He says the emission reduction activities are likely to spread to other companies as Wal-Mart suppliers potentially engage with their suppliers and supply chain emissions reduction becomes common.

“The Wal-Mart initiative will unlock the energy efficiency market by building more bridges between the professional energy service industry and suppliers, allowing energy efficiency to take hold more on its own.”

Frances Way of CDP Supply Chain says that taking a collaborative approach with suppliers is important. She notes that Wal-Mart is sharing best practice and working with its suppliers to drive innovation on this issue. “This should lead to a flurry of new ideas at the supplier level, creating greater efficiency and pushing sustainability forward for both large and small companies.”

The Wal-Mart initiative, if successful, can also build momentum with other retailers and brands by showing them what can work.

Sustainable product index

Wal-Mart also took a lead in July 2009 in establishing an industry-wide sustainable product index. The ambitious plan, unveiled by president and chief executive Mike Duke to 1,500 suppliers in the US, aims to ultimately establish a sustainability rating system for each item on Wal-Mart’s shelves.

The rating will help consumers to understand the social and environmental impact of products and will potentially drive innovation among suppliers to create greener goods.

The index will be based on supplier performance on four key areas: energy and climate, natural resources, material efficiency, and people and community. The company started the first phase of the programme by sending out a questionnaire to the US based top-tier suppliers in 2009, eventually to be rolled out to all 100,000 suppliers worldwide.

Wal-Mart is funding the creation of a consortium led by the Arizona State University and the University of Arkansas to jointly administer the consortium. The consortium will collaborate with suppliers, retailers, NGOs and government to develop a global database of information on the lifecycle of products – from raw materials to disposal. This database will be used to create the index. Wal-Mart is asking other retailers to join the initiative to develop an industry-wide index.

Wal-Mart’s supplier code of conduct already includes social standards such as child labour, discrimination, human rights, working hours, wage and benefits, workplace health and safety and environmental standards. The company has been periodically auditing suppliers to ensure conformance with these standards.

But in spite of an aggressive sustainability programme, winning the confidence of activists could be a long journey for Wal-Mart.

In March, environmental campaigner Greenpeace accused Wal-Mart of illegally selling genetically modified rice in its superstores in eight cities in China.

In November 2009, labour rights NGO China Labour Watch said in a report that Wal-Mart failed to implement basic labour standards. The report was based on its investigation of five Wal-Mart supplier factories producing shoes, Christmas lights, tools, curtains and paper boxes. The report pointed to violations including excessive overtime, safety issues, discriminatory hiring, and audit falsification.

Wal-Mart's supply chain sustainability initiative has raised expectations of stakeholders. The company will need to implement the programme with precision and complete transparency. Campaigners will be quick to pick examples where Wal-Mart's words don't match its actions.

Wal-Mart quick facts

- \$405bn revenue in 2009, and profit at **\$13.4bn**.
- Two million employees worldwide.
- More than **8,400** retail outlets under 55 banners in 15 countries.
- Number of Wal-Mart stores in the US: **3,656**.
- Number of Wal-Mart stores outside the US: **3,615**.
- Owns Asda in the UK and Seiyu in Japan, joint venture with Bharti Enterprise in India.
- More than **200 million** customers each week.
- More than **145,000** different products on the shelves.
- Sources from more than **100,000** suppliers worldwide.

Wal-Mart's supply chain sustainability goals

- Eliminate **20m** tonnes of greenhouse gas emissions from its global supply chain by the end of 2015.
- Reduce the amount of packaging in the supply chain by 5% by 2013.
- Improve energy efficiency of top 200 Chinese suppliers by **20%** by 2012 using 2007 as baseline.
- Plans to engage with **one million** farmers by 2011 in China alone.
- By 2012, **95%** of direct sourcing to come from suppliers who score the highest environmental and social rating, up from **79%** in 2008.
- Reduce the amount of packaging in supply chain by **5%** by 2013.
- Achieve **10%** traceability of all diamonds, gold and silver in jewellery sold in Wal-Mart US from mines, refineries and manufacturers (by 2010).
- Purchase all of its wild-caught fresh and frozen fish for the US from Marine Stewardship Council-certified fisheries by 2011.
- Certification of all foreign shrimp suppliers for compliance with Best Aquaculture Practices standards in the US by 2011.

Source: Wal-Mart

Links:

[1] <http://www.ethicalcorp.com/users/rajesh-chhabara>