



# INCREASING EMPHASIS ON SUSTAINABLE SUPPLY CHAINS: IMPLICATIONS FOR RETAILERS AND MANUFACTURERS

BY MEREDITH REISFIELD

Retailers are increasingly feeling the effect of sustainability-driven industry disruptions. Already feeling their margins pinched, retailers are among the first to gain or lose a competitive advantage from changing consumer demands for sustainable products, and retailers are aligning with these changing consumer demands. Eighty-two percent of grocery retail CEOs now cite sustainability as a key priority, 90 percent of the top 50 global grocery retailers market their own private-label organic products and 68 percent publish a sustainability report.<sup>1</sup>

Amplified attention to sustainable supply chains in retail has been driven by factors including brand reputation, risk mitigation, compliance and cost savings. These factors are augmented by mounting pressure from consumers, advocacy groups and other public sector organizations, fueled by heightened recognition that with access to both thousands of suppliers and millions of consumers, retailers are in a uniquely influential position in supply chains. Retailers' unique ability to influence how products are made, transported, sold and consumed will have growing impacts for both the retail industry and the manufacturers who supply them.



With decision-making spread across a diverse array of buyers, category managers, procurement specialists, store associates, logistics professionals and other team members, retailers face inherent barriers to incorporating sustainability into their daily decision-making. To combat this, retailers are deploying a diverse toolkit to move toward more sustainable supply chains. Increasingly, retailers are deploying multiple approaches simultaneously and requesting additional data, time commitments and other resources from suppliers in pursuit of sustainability goals.

## CONSUMER'S EYE ON SUPPLY: HOWGOOD

Since its launch in 2014, the food product rating start-up HowGood has been adopted by grocers in 26 states across more than 250 stores. The company rates products on a variety of sustainability indicators from pesticide practices to packaging. Products performing in the top 25, 15 and 5 percent relative to other products in the database earn ratings of "good," "great" or "best," respectively, which are displayed on grocery shelves or on the company's app to meet consumer demand for responsible purchasing.



## NO SHORTAGE OF TOOLS FOR SUSTAINABLE SUPPLY CHAINS

### ESTABLISHING GOALS AND POLICIES

A critical initial step toward demonstrating knowledge of and progress toward addressing social and environmental issues in retail supply chains occurs through setting goals and implementing policy. Goals are critical in establishing a framework and marching orders for the organization. Then, specific teams can work toward achieving goals by implementing policies that can take the form of supplier codes of conduct or be specific to hot-button issues, such as human rights, or high-risk commodities, like seafood. Over the past four years, EcoVadis has seen a 12 percentage point growth in procurement professionals utilizing supplier codes of conduct to 88 percent, with half of

respondents reporting use of targets for corporate social responsibility monitoring and/or performance.<sup>2</sup> Seafood showcases the use of more specific commitments: the Packard Foundation reports that the majority of top retailers in North America and Europe have sustainable seafood commitments for wild-caught seafood, with more than 90 percent of the market share engaged, though substantial room for progress toward responsibly procured seafood still exists.<sup>3</sup> These policy documents point to the retailers' long-term goals for sustainable procurement and indicate potential future developments to retail suppliers.

### IDENTIFYING KEY SUPPLIERS AND COMMODITIES

Large retailers can have thousands of suppliers and purchase products containing hundreds of commodities. Some retailers have adopted a key suppliers or key commodities approach. Kroger, for example, has identified seafood, eggs, palm oil and dairy as commodities with notable social and environmental hotspots and incorporated sustainability targets for these commodities into its 2020 Sustainability Goals.<sup>4</sup> Similarly, Walmart adopted its own version of the 80/20 rule to narrow its focus. Prior to launching its energy-saving program in 2008, Walmart convened its top 200 suppliers in China, which represented 60 to 80 percent of its total supply chain, to develop best practices before expanding participation in the program to smaller suppliers.<sup>5</sup>

## MISSION MEASUREMENT: THE SUSTAINABILITY CONSORTIUM

The Sustainability Consortium (TSC) has been living its mission “to use the best sustainability science to help companies make the everyday products we use better and more sustainable” since its launch with initial funding from Walmart in 2009. TSC’s work over the last eight years to translate the complexity of supply chain sustainability into simple tools for retailers and suppliers has led Walmart and other retailers to implement TSC’s reporting platforms with notable impact: Amazon launched Amazon Fresh in the UK in 2016 using TSC’s supplier survey methodology and Kroger is partnering with TSC to assess key commodities using its commodity mapping tool.<sup>10</sup> Over 2,000 suppliers are using TSC tools and surveys to report their progress toward sustainable products to their retail buyers, and are identifying social and environmental risks in their supply chains in the process.<sup>11</sup>

## ENGAGING WITH SUPPLIERS

To ensure success of their sustainability programs, retailers are engaging directly with suppliers to generate buy-in to retailer sustainability goals. Successful programs make this a practice early and often, and can facilitate suppliers exchanging best practices. Tesco has implemented these principles in the creation of its Sustainable Farming Groups, where Tesco works to provide a forum to discuss sustainable production across different regions and product categories, as well as its Supplier Network and Supplier Summits, designed to enable suppliers to both connect directly with Tesco teams and find peers facing similar sustainability challenges so that manufacturers can share best practices.<sup>6,7</sup>

## LEVERAGING TECHNOLOGY TO INTEGRATE DATA

The axiom that you can't manage what you don't measure also applies to a retailer's ability to create a sustainable value chain. With only 16 percent of the top 50 grocers analyzing how sustainability efforts translate into financial outcomes, and with many of the largest and best global corporations still using spreadsheets to handle environmental data, retailers struggle to assess their performance and chart a path forward.<sup>8,9</sup> The ability to track data allows retailers to more effectively make decisions, work with their suppliers in specific, data identified areas. Quality and compliance software, like TraQtion, can weave sustainability data management capabilities with core competencies in food quality and safety, allowing for easy data gathering, reporting and decision making.

## BUILDING SUSTAINABILITY INTO PROCUREMENT

Retailers are driving sustainability through to their suppliers by building sustainability considerations into procurement, leveraging both brand-specific sustainability metrics and third-party product sustainability certifications. A recent study on sustainable procurement found that 75 percent of organizations use corporate social responsibility (CSR) data when selecting new suppliers and 58 percent use CSR data for their annual supplier evaluations.<sup>12</sup>

Retailers are further integrating sustainability concerns into procurement by making sustainability discussions part of contract negotiations and other supplier dialogues.

## IMPLICATIONS FOR RETAILERS AND MANUFACTURERS

The pressures, whether from consumers, financial institutions or NGOs, is real. And, increased emphasis on sustainability in retail supply chains carries multiple implications for retailers and manufacturers alike.

For retailers, an evolving set of best practices is emerging on what it means both to operate sustainability within their own walls and to source sustainable and responsible products. In the future, it's likely that sustainability will rise to become a key competency in retail operations similar to IT and other functions. Currently, a few key trends and implications exist:

**Growing attention** – Retailers can anticipate increasing pressure from consumers, investors and other stakeholders, carrying ripple effects through their in-house product lines and their potential to gain or lose competitive advantage as consumers weigh the perceived sustainability of the products on their shelves alongside quality, health and pricing concerns.

**Reporting requirements and incentives** – Supply chain partners stocking in-store and virtual shelves can anticipate increasing reporting requirements from their retail customers, added incentives to identify what sustainability means in each product category and a potential new dimension to commodity-specific sustainability standards as retailers embrace time-bound, specific responsible sourcing goals.

**Traceability and transparency** – While the growth of sustainability activity in the retail sector is a key factor in driving increased visibility into supply chain sustainability, the majority of manufacturer visibility of environmental and social aspects of their supply chain remains with tier-one suppliers. Many significant risk areas lie further down the supply chain, which is a core challenge for retailers and manufacturers going forward. Some brands are beginning to understand and implement programs within their supply chain that

add traceability and transparency. Some are being very upfront on where their product is sourced and others are adding commodity-specific certifications and or verifying label claims.

**Supply chain data** – Closely related to traceability and transparency challenges is the management of sustainability data at scale. Manufacturers receiving requests for sustainability from retailers may find themselves being asked to collect data they have never tracked before, as TSC noted in its 2017 Impact Report.<sup>13</sup> At scale, both retailers and manufacturers that seek to track progress toward sustainability goals (using related data from the macro to minutiae) and to take corrective measures are deploying new technology platforms to accommodate these needs.

Meeting the challenge of thriving in a sustainability-conscious retail environment will not be easy; implementing practices such as policy development, strategy design, supplier engagement and training, data management, auditing and certification capabilities will be crucial to gain the upside of the shifting market. Retailers who deploy a broad range of

competencies, collaborating with their manufacturer partners and solutions providers, have the opportunity to impact their products, gain customers and improve their bottom line.

**Download our webinar** featuring Robin Foster of Whole Foods discussing its Responsibly Grown global perishable purchasing program.



### About the Author

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