

Inspiring Practice in Responsible Supply Chain Management **2013**

Five Case Studies Illustrating the Business Case for Shared Value Creation



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Colophon

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Foreword VBDO

Responsible Supply Chain Management (RSCM) has undoubtedly evolved into a key business concern for a majority of multinationals over the last years. When we compare the 2013 results of the VBDO Responsible Supply Chain Benchmark to the first one from 2006, we notice steady and impressive progress. This has been accompanied by a shifting attitude towards responsible supply chains. Whereas originally many companies wor-

ked from a risk-avoidance perspective, businesses are now trying to focus on value creation, often involving peers and other parties along the value chain.

Reviewing results of eight years of Benchmark history, one conclusion is that a relatively small group of front-runners are followed by a much larger group of companies that are hardly moving. This could relate to knowledge deficits regarding best implementation of RSCM, but also to questions regarding the necessity of RSCM: "Does it really pay off, and when?"

In order to address these questions and help this group advance, VBDO & KPMG issued an initial publication titled 'From Risk-Management To Value Creation', in 2011. That publication summarised the pay-offs of risk management and value creation while emphasising the additional benefits enabled through the latter approach. The present publication constitutes a follow-up to the 2011 publication and builds on publicly-available research confirming that specific forms of responsible chain management evidently deliver triple returns: for people, the planet and the balance sheet. We describe these three forms of RSCM business benefits and highlight each one with good practice case studies.

I would like to thank KPMG, ICCO and CNV International who made this publication possible, and wish you, the reader, lots of inspiration.

Giuseppe van der Helm

Executive Director VBDO, The Netherlands



Foreword **KPMG**

The relationship between sustainability and business benefits will be a key issue to be tackled over the long term. At this moment the ability to show sustainability benefits in financial terms is one of the key drivers needed to integrate sustainability into company business models. We know from our daily practice that there are no easy solutions when this challenge is brought to supply chains and at KPMG we believe that it should be one of the pri-

orities to share experience and practice.

In our consultancy practice we support clients with the central question: "Is Responsible Supply Chain Management a true value creation initiative to be welcomed not only by customers and NGO's but by shareholders and financial markets as well?" A KPMG global survey published today shows that we are not there yet. Many large companies fail to report on the impact of their supply chains. Sectors with significant supply chain risks see lowest levels of reporting: chemicals, utilities and oil & gas. Many of the world's largest companies fail to report on how they manage the environmental and social impacts of their supply chains.¹

Recent incidents including oil spills, factory disasters and controversy over worker conditions have reminded business leaders how important it is to manage the environmental and social impacts of your supply chain

Our mission is to make the procurement function a competitive differentiator for our clients. We help drive sustainable improvements to make Procurement a source of value and innovation. Leveraging our financial heritage, access to the C-suite and strength in managing risks and opportunities throughout the supply chain, we help achieve balanced business performances. I am convinced that this publication will inspire you to engage with your suppliers and create sustainable value.

Bernd Hendriksen

Lead Partner KPMG Sustainability, The Netherlands

¹ Eighth KPMG International Survey of Corporate Responsibility Reporting, published 9 December, 2013

<u>1 Introduction</u>

The VBDO looks back on a long tradition of researching public data for assessing corporate performance in responsible supply chain management. Our Responsible Supply Chain Benchmark is conducted for the 8th consecutive time, in 2013.

In addition to taking stock, we have always sought to contribute to raising the bar. As part of these efforts, in 2011, we issued an initial publication with our long-standing partner KPMG. Also this second small issue looks at the latest developments in responsible or - as it is sometimes also called - sustainable supply chain management - and additionally identifies particularly inspiring practices.

Responsible Supply Chain Management still is a relatively new dimension for Chief Procurement Officers (CPOs) who until recently based their decisions primarily on price, quality and time. Sustainability was mainly taken into account on a risk-based approach in line with the global movement towards low cost country sourcing. But how can classic risk protection be translated into business cases? And what is the impact on cost reduction and the development of new product-market combinations? The aim of this brief publication is to help Senior Procurement Managers - and other senior managers - facing this challenge by providing examples that show a business case. Moreover, when put into practice these examples help to show the value of Responsible Supply Chain Management.

In a short section on developments and trends, we re-emphasise that responsible chain management is not only about doing good, but about win-win situations that enable doing better as a business and that allow for pay-offs in different parts of value chains (for instance from raw material supplying smallholders to business-to-business relationships). With the identification of motives for and potential benefits derived from responsible chain management, we group business case opportunities in responsible chain management into three main pay-off areas: risk management; cost reduction; and revenue growth.

In the following, for each of these three areas, we illustrate concrete RSCM business cases by means of five carefully selected, publicly available case studies. All of the examples represent situations where companies with a significant market position and supply chain:

- a) have made clear (and quantified) monetary investment aimed at achieving environmentally and/or socially sustainable outcomes along the supply chain, which can be measured as qualifiable or quantifiable returns in the areas targeted;
- b) have made a monetary investment in sustainability which simultaneously constitutes a business case through qualifiable or quantifiable returns for the purchasing company;
- c) aim to realise sustainability objectives in such ways that these form a business case for other value chain partners as well. This cooperative thinking culminates in examples of shared value creation along the chain e.g. through co-generated innovation

One of our main aims with this publication is to inspire bold responsible practice. The chosen examples thus go beyond the harvesting of low-hanging fruits, showing that with intense efforts, higher pay-offs can be achieved. Furthermore, it is important to note that we partly chose less widely-known examples in the Dutch context, as we intend to maximise the chances of providing new insights that will encourage you to build a business case for responsible supply chain management.

Definition **Responsible or Sustainable Supply Chain Management (RSCM)**: The strategic, transparent integration and achievement of an organization's social, environmental, and economic goals in the systemic coordination of key interorganizational business processes for improving the long-term economic performance of the individual company and its supply chains (*from*: Carter & Rogers, 2008)

2 The Business Case for Responsible Supply Chains A Snapshot of Current Practice

Responsible Supply Chain Management (RSCM) has become accepted by businesses as one of the cornerstones to corporate sustainability. In some industries, for instance, in Food & Agri, sound chain management has clearly taken on a 'license to operate' character. In the meantime, ever more voices assert that future responsible management of chains will be driven less by ethical and reputation concerns and more by opportunities to realise full-fledged business cases. That future competition is one between chains rather than stand-alone companies is a stated conviction brought forward by the UN in its 'Unchaining Value' Report, as early as 2008 (SustainAbility, UNEP and UNGC, 2008).

Looking at four consecutive maturity stages of RSCM (*Figure 1*), controlling and counteracting the risks a company faces from a globalised supply base has become an integral part of everyday operations. In virtually all industries, the last decade saw the establishment of management systems and tools that target social and environmental supplier behaviour by means of codes of conduct, guidelines, risk assessments, audits, non-compliance policies, corrective action plans and the like.



Figure 1: Maturity Stages of Sustainability in Supply Chain Management (KPMG, 2012).

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While the traditional motives and systems for responsible chain management remain important, a growing number of multinationals that has established the needed basic systems is gradually embracing a more mature concept of sustainability in supply chains with strategic or even transformational character. In these advanced responses to sustainability challenges, business cases along the supply chain are developed, typically in three main pay-off areas (*see Table 1*).

Туре	Description	Contribution to Business Case in Economic Terms
Revenue growth	Additional revenue through sustainable or more responsi- ble business processes, products/services; extra sales from increased brand reputation; (supplier) productivity; price premium; income from recycling schemes	High
Risk reduction	Financial impact through reputational risk and license to operate, e.g. working conditions, local environmental pollu- tion; direct economic cost of supply chain disruptions, e.g. from non-compliance with environmental regulations	Average - High
Cost reduction	Reductions of costs throughout the value chain, e.g. linked to reduced energy costs, smarter specification, smarter con- sumption and reduced social and environmental compliance costs	Moderate - Average

Firstly, key functions like R&D and innovation management are increasingly approached from a supply chain perspective. Such business cases aimed at innovation along the value chain are most promising in terms of economic business benefits. Trust-based, creative partnership structures with suppliers are starting to replace primarily compliance and material cost-based relations on strategic buying categories. Customers and non-market entities are also increasingly part of these new forms of cooperation that result in sustainable process and product development.

Revenue growth from increased sales, price premiums, or higher margins through cost or material avoidance are thereby enabled through RSCM, and directly or indirectly

profit more parties along the value chain, also in terms of social and environmental aspects. Undoubtedly, this type of RSCM requires investment from all sides, highly intensive coordination and dedication.

Secondly, supply chain risk and cost management have also acquired a business case nuance in mature forms of responsible chain management. Risks are no longer dealt with in an exclusively reactive manner, but counteracted proactively. Ethical concerns and threats of brand value losses are turned into possibilities for gains. In addition, the risks around resources are changing which makes novel approaches vital. Some industries are beginning to face scarcity or cost concerns, e.g. the electronics sector over certain minerals. Others are dealing with increasing global demand for their core raw materials, e.g. cocoa and soy in the food sector, and these businesses need to worry about security of (sustainable) supply and meeting the forecasted demand of a growing world population - which has low purchasing power.

In this context, suppliers' inability to live up to environmental and social standards or productivity targets can be an issue threatening supply chain continuity and moreover can inhibit growth of other supply chain partners downstream. For these reasons, among others, multinational buying companies are starting to invest in knowledge and capacitybuilding of their suppliers, realising that supporting suppliers reduces overall risks compared to dealing with a vast supplier base that cannot meet the standards demanded in international markets. This insight seems particularly important to advance the implementation of human rights. For instance, the repeated incidents in garment factories in Bangladesh and workers' often overheard protests show that investment from buying companies is vital. Further, climate change is a sustainability mega-force that has become a real uncertainty factor for both suppliers and buyers. Experience shows that supply disruptions can simply not be avoided in some instances, e.g. extreme weather conditions. With all the above-mentioned types of risks and uncertainties, collaborative business models along the chain including joint planning and frequent communication can prevent survival-thwarting losses. Incrementally, some of the risks can be minimised indefinitely and gains from such business cases attained.

Thirdly, cost management is also perceived and tackled differently by frontrunners in responsible supply chain management. Purchasing departments that still only look at

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material prices are failing to see that total cost of ownership is lowered not by buying from the cheapest, but through suppliers offering reliable and sustainable forms of collaboration. RSCM frontrunners have implemented this knowledge and increasingly select responsible suppliers that can meet international social and environmental standards, or they facilitate supplier sustainability capacities, thereby eliminating a number of recurrent costs like those from accidents or worker turnover.

For achieving other types of cost reductions, frontrunners likewise look beyond their gates and towards the chain, connecting different parties in energy reduction programs or loop-closing cooperation aimed at reducing overall consumption through recycling, and reusing waste, raw materials and other resources. In such cost-reduction business cases and models, the gains achieved are typically less significant compared to the other two business benefit areas, yet these can often be shared with the end customers downstream.

All this being said, companies that understand the notable advantages potentially arising from RSCM business cases in the three areas of risk management, cost management and revenue generation, also know that seizing opportunities is often a question of heavy upfront investment in chain partnerships. Yet through such investments, in particular different tiers of upstream suppliers can be incentivised to participate in these new and collaborative forms of business cases. Hence the long prevailing business paradigm of positioning oneself in a way that neither customers, employees, competitors or suppliers can leverage value (Cox, 1999) is gradually replaced . What companies should aim for to have advanced strategies for growth in the long-run has been termed shared value creation by the well-known economists Porter & Kramer (2011). In this view, process and product innovation along the supply chain are the key to future competitiveness and (greater) global well-being.

Using shared value creation as the constant basis for doing business represents the most mature stage in Figure 1. Notwithstanding, from early on in the process of integrating RSCM in the supply chain, companies can derive business cases, and build underlying new business models, which bring about gains in more than one RSCM business benefit area simultaneously. For instance, reducing risks from non-compliant suppliers might be achieved through supplier training programs, where integration of knowledge transfer on added productivity delivers revenues. Another example is raw material substitution; here even competitors cooperate to lower overall R&D costs and to attain gains from reduced long-term risks and costs.

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Despite understanding the existence of potential benefits from shared value creation, many companies feel that there are noteworthy barriers to putting responsible supply chain management into practice. Common reasons relate to coordination efforts and lack of internal support due to short-term growth pressures. Thinking in long-term relations and returns is simply a relatively new phenomenon in many industries. Therefore, also certain shareholder groups may remain sceptical whether investment in responsible supply chain management really yields returns. Thus, the ultimate make-or-break factor for or against RSCM is obviously "Does RSCM deliver business benefits and if so, when?"

In the past, there was a lack of examples and data that could have answered this question thoroughly. A way to demonstrate the viability of RSCM business cases to investors and corporate top management was thus missing. On the one hand, because frontrunners kept quantitative data mostly confidential; on the other hand, scientifically valid measurement is simply difficult and an added cost. That transparency on social and environmental impacts continues to lack dramatically behind engagement in business cases has recently been confirmed again in the 8th KPMG International Survey of Corporate Responsibility Reporting conducted among the 250 largest corporations in the world (KPMG, 2013b). Particularly those with complex supply chains facing highest risks show the lowest levels of reporting.

Nevertheless, recently first comprehensive evidence regarding the RSCM benefits companies can "take to the bank and their shareholders" (Spend Matters, 2008) is found. Pay-offs related to cost reductions from energy efficiency; waste management and CO2 reduction are not really news anymore. Evidence about returns on investments in so called non-financial or 'soft-factors' focused on the social dimensions of sustainability (e.g. human rights) was, however, lacking from both companies and suppliers. How these aspects can make all the difference in the long-run has now been found in the first KPMG & IDH business case study (2013) on soft-factors in the electronics sector. Investment in supplier capacities resulted in lower worker turnover, increased productivity and margin improvements of up to 0.4 % (substantial given sector net margins of 1-2 percent) with a pay-back period of 4-20 months. Hence, while payback admittedly took longer than normal in most of the cases researched, it can be said to be justified by considerable gains.

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With the new GRI G4 criteria in place (released 2013)², which increase attention to environmental and social supply chain aspects companies are incentivized to better measurement and reporting on supply chain impacts, strategy, and interaction with supply chain stakeholders. Also, the VBDO, through its revised Responsible Supply Chain Management Benchmark, to be launched in 2014, will contribute its part to encourage further transparency on how leading companies deal with sustainability issues confronted in their supply chains.

In the remainder of this publication, we present five cases studies that offer such transparency on qualitative and quantitative impacts. The case studies are grouped according to their main business benefit area but value creation in more than one dimension is present in all of them. The inspiring studies stem from different sectors and various levels along the supply chain. This not only shows that each company can develop viable business cases that minimize negative and maximize positive chain impacts along the chain. Tackling not one, but several supply chain tiers, and smartly linking opportunities to achieve benefits in more than one business benefit area, is the key to the desired overall optimization of supply chain management.

² The Global Reporting Initiative pioneered a Sustainability Reporting Framework that is used by over 11,000 companies, in 2013. The newest version is termed G4. (Tuxworth, 2013, in: The Guardian)

3. Case Studies

1 Cost Reduction Case Study 1: Re-circulation Ricoh

An example that combines cost reduction with risk reduction is provided by the global technology company, Ricoh. The company specialises in office imaging equipment, production print solutions, document management systems and IT services. Recently, the Ricohmarketed an entirely new green product line of multi-functional printers (MFPs) throughout Europe that shows how one can achieve business benefits through re-circulation systems.

Ricoh's leading efforts have been recognised by many external assessors: this year the company is sector leader in the DJSI categories 'Innovation Management' and 'Product Stewardship'. Further, the re-circulation example outlined below has been declared by McKinsey as current best practice in circular economy. Such acclamation for its RSCM efforts only triggers more ambition at Ricoh: The company target is cutting the input of new resources by 25% before 2020 (base year 2007).

The Business case: Background

From the buying behaviour of its business customers, Ricoh learned that some departments do not demand cutting-edge technology but only need a basic multi-functional printer. Such insights gave rise to a new business concept around selling entire re-manufactured devices based on Ricoh's philosophy of decoupling sales revenues from new material input.

Ricoh developed a forward-looking '3R' (reduce, re-use, recycle) philosophy based on inner-loop recycling as far back as 1994 (*Figure 2*). The business excels in economically rational recycling and multi-tiered recycling, which is about repeated recycling processes and re-use of materials in production. Devoting maximum attention to recyclability already at the design stage, Ricoh has managed to nearly half man-hours needed for the recycling processes themselves. Re-use of high value-added parts and focus on design for easy disassembling optimizes material use.



Figure 2: The chart above represents Ricoh's approach to '3R'. The light green circlesrepresent activities carried out by Ricoh directly, the others involve supply chain partners (Ricoh, 1994).

Description of the Re-circulated Line of Multifunctional Printers

Ricoh's example shows how a mature business model focused on maximizing benefits from environmental sustainability delivers continuous opportunities for business cases. With the green MFPline, Ricoh does not need to re-invent fundamental structures but for most part relies on common steps of the 3R model. MFPs returned by customers reach Ricoh's Recycling Centre and are first tested for remaining life expectancy.

In the following step, those suitable for direct re-use undergo a thorough renewal process (others enter the recycling loop). This includes quality testing, key component replacement and equipping the device with the latest software. Ricoh engineers are involved at all stages of the process, and supply chain partners come into play at various stages, for instance for component replacement within the re-circulation loop.

Upon completion of the process, the MFP re-enter the market. Ricoh trusts in advertising the advantages of a re-used, product with lower environmental impact distinctly, and developed a separate label standard that makes these 3R-based MFPs immediately identifiable. By choosing this label, environmentally conscious customers make a statement. Further, in recognition of the importance of third-party standards, Ricoh made sure that the product line is governed by ISO management systems.

In addition, - and probably most importantly in terms of credibility - the product comes with the same warranty as an entirely new MFP. This broadens the customer target group and attracts shrewd buyers who are always on the look-out for value. Finally, the en-

tire renewal process is CO2 neutral, i.e. compensated for with carbon credits from UNFCCCregistered renewable energy projects into which Ricoh invests directly..

Impact

Ricoh's 3R concept helped the company to gain a resource recovery in its factories and subsidiaries of 99.3%, in 2012. The sustainable MFP line exhibits how multi-functional benefits of a more circular loop accrue to all parties involved. The customer gets a durable, cost-effectiveand more sustainable product. For Ricoh and its partnering suppliers, business gains meet environmental sustainability at many intersections.

Risk and cost reductions are achieved through retaining ownership over scarce resources. The multi-tiered recycling gives each component and finished product a higher return on the energy initially spent on its manufacture. And, selling equipment more than once generates additional revenue and margin.

Business benefit:

- 1. Risk reduction: reduced need for raw materials used in MFP
- **2. Cost reduction:** through 3R-based material use along the chain, i.e. multiple and diverse re-use ways of materials, components and entire products
- 3. Revenue growth: potential brand value gains; additional sales from GreenLine

Supplier benefit: partners in the inner loop achieve risk and cost reductions, e.g. parts manufacturers; or profit from re-circulation volume

Customer benefit: cost savings (price) and for certain segments the demonstrative effect of making an environmentally conscious choice

Sustainability achievements: addresses environmental dimension through reduced material use and recycling

Links:

www.ricoh.com
http://www.ricoh-europe.com/Images/Greenline%20brochure%20A5_EN_19April2012_t_5737302.pdf
http://www.ellenmacarthurfoundation.org/case_studies/ricoh
http://www.ricoh.com/environment/product/resource/01_01.html

Creating Value

Financial Social Environmental





2 Risk Reduction

Case Study 2: Going Beyond the Usual in Supplier Supervision Inditex

Inditex is the largest European fashion retailer and also one of the big players worldwide, owning brands like Bershka, Massimo Dutti, Pull & Bear, Stradivarius and Zara. Accordingly to the DJSI, Inditex is one of the more sustainable fashion retailers globally. In 2013, Inditex achieved an overall score of 81 points out of a possible 100, compared to an average of 36 in the industry. The company's handling of supply chain risks is exemplary, as it goes the extra mile to minimise risks along its supply chain. This is clear from its 'Vidya' (Hindi: total knowledge) project in India and its far-reaching textile standards monitoring - both examples go beyond usual supplier supervision and are described below.

Description of the Two Business Cases Vidya - Project for Compliance Risk Reduction and Capacity - Building in India

Most manufacturing for Inditex takes place in Europe but about 5% of production is located in India. In the country, many suppliers fail to meet important international standards on human rights and the environment, thereby posing a potential risk to buying companies. Instead of up giving up on the poorly performing non-exclusive suppliers in this country, Inditex chose to select the 24 worst performing ones and 17 of their sub-contractors for a comprehensive capacity-building and support program, in 2009.

Inditex involved the 'Ethical Trading Initiative' through sharing details at every stage of the project. As a very first step, Inditex conducted extensive research and discovered a network of 2,000 interlinked workshops and manufacturing centres prepared to receive any garment order. 222 workshops were identified as having ties with the company's direct sup-

pliers and production chain and many deficiencies regarding EHS (environmental, health and safety) standards were noted. Taking these results together with those of 700 unannounced audits previously conducted at all supplier facilities³, a number of focal points were chosen.

Most work was dedicated to improving working conditions, eliminating child labour and arranging fair living wages at suppliers and sub-contractors. Specific attention was also paid towards ending unauthorised outsourcing to subcontractors by increasing overall production capacity. Most work was dedicated to improving working conditions, eliminating child labour and arranging fair living wages at suppliers and sub-contractors. Specific attention was also paid towards ending unauthorised outsourcing to subcontractors by increasing overall production capacity.

Impacts of the Vidya Project

Chain risks from non-compliance were drastically reduced: From initial lowest ratings in Inditex's supplier assessment scheme, ten suppliers had achieved the best or second best possible rating 2 years later. Three suppliers were abandoned after all for continuing breaches of Inditex's RSCM policies. Most importantly for suppliers - but also for Inditex - through increasing direct supplier production capacities, the number of workshops receiving outsourced orders from Inditex suppliers (sub-contractors) fell by 95%. This translates into huge benefitsfor suppliers and into immensely reduced risks for Inditex through a much more transparent chain.

The Clear to Wear Standard: Testing is Better!

'Clear to Wear' is textile health standard that each and every supplier must comply with since 2010, whether in clothing, footwear or accessories. The standard regulates the handling of legally restricted substances, and sets limits on the use of two other non-regulated chemicals, organo-chlorinated compounds (can contaminate groundwater when solvent; in some forms has the potential to harm humans and animals) and isocyanates (potentially causes irritation to the eyes and respiratory tract).

The defining fact about 'Clear to Wear' might be less its coverage than its rigorous implementation. The Inditex philosophy is that while it is the suppliers' responsibility to

³ Inditex performs social audits with both specific CSR-teams and external auditors. Audits include surprise visits

comply, it is Inditex's duty towards customers to verify. In line with this, the Inditex checks the implementation at all different stages of the manufacturing process, at commercialisation and distribution stages. This equals 30,000 product tests conducted weekly by 28 independent and externally accredited laboratories. Inditex reports having performed in total 1.5 million tests in 2012. In order to help suppliers comply, Inditex publishes handbooks and carries out assistance visits - 600 of these worldwide in 2012. 40 independent experts work on this full-time.

Impacts of the Clear to Wear Standard

The continuity of this approach shows that Inditex perceives that costs of such extensive testing and assistance are balanced out by the benefits of lower overall chain risks and costs potentially resulting from non-compliance. Suppliers gain from the assistance to meet standards, and customers can be sure they are purchasing a high quality, safe and more sustainable product. In this way, a risk-focused business case delivers pay-offs for several parties and moreover it can lead to increased brand value in the long run.

Business benefit (both Vindya and Clear to Wear examples):

- **1. Risk reduction**: reduced risks of non-compliance with social and environmental standards
- 2. Cost reduction: avoided costs from reduced non-compliance
- **3. Revenue growth**: profits from increased supplier productivity, potential brand value gains

Supplier benefit: facilitated in meeting production standards; increased production capacity and volume (Vidya only); possibly advantages of enhanced reputation.

Customer benefit: confident reliance on compliance with environmental sustainability standards (Clear to Wear standard)

Sustainability achievements: addresses social dimension through supplier capacity-building (both cases) and environmental dimension through extended chemical standard and monitoring

Links

http://www.inditex.com/en/corporate_responsibility/product_safety http://www.eosi.org/dv/catalog/definition_CTW_STW_inditex.htm http://www.inditex.com/vidya/pdf/vidya_en.pdf STUDIES ILLUSTRATING THE BUSINESS CASE FOR SHARED VALUE CREATION

SUSTAINABLE INDITEX 2011 -2015

THE TERRA PROJECT

Inditex reaches an agreement with the Galician Regional Government (the Xunta de Galicia) to create a Seed Bank and implement a Forest Ecosystem Improvement project.

Pull & Bear plans to replace printed catalogues with an online version, as well as plant 16,500 trees in the Sierra Gorda Biosphere Reserve, in Mexico.

OYSHO supports a WWF campaign to raise public awareness about the situation of our seas and make consumers and policymakers responsible for their protection.

3 Revenue Growth Case Study 3: Sustainable Soy Partnership Cargill

Cargill is one of the biggest privately-held companies processing food and agricultural produce worldwide. In spite of the company's multiple RSCM projects, for instance regarding palm oil, cocoa, soy and cotton cultivation, Cargill's efforts are less well known and cited than those of the retailers it supplies. Mars, one of Cargill's buyers and itself a company applauded for its advanced RSCM, has now openly rewarded Cargill's efforts and handed over the 'Ensuring Responsible Supply Award' to its supplier.

Cargill understands how to turn the risky and costly situations in its supply chain into business cases, most notably with partners at the upstream, sourcing level. Moreover the subsequent example bears witness that Cargill executes nearly all of its projects in partnership with NGOs and local partners - and this is often found to be a key precondition to lasting success on the ground.

The Business Case: Background

In 2005, Cargill was targeted by Greenpeace for building a soy terminal in the Satarém Amazon region in Brazil, a densely forested area. According to Cargill, plantation owners nearby had started to clear land in order to reach the port, thereby increasing deforestation. Responding to accusations, the company became an early advocate of the, then newlyimplemented, Amazon Deforestation Moratorium, and therefore ceased purchasing soybeans from farmers associated with deforestation. This in turn threatened the livelihood of many farmers in the region - 80% of local soy farmers supply Cargill.



In order to retain an important source of soy in the light of growing world demand, and to provide a perspective to farmers, Cargill sought a partnership with The Nature Conservancy (TNC) for the promotion of responsible harvesting of soy. In a report on the project, the company states how it realised that conducting agribusiness in such a controversial region can be either a source of problems or opportunities.

Description of the Engagement Program in the Amazon

Cargill and TNC's ongoing project aims at capacity-building and provides support that enables local farmers to comply with the government's Brazilian Forest Code and other requirements for legal and responsible sourcing. The conservation rules in the Amazon region are among the world's strictest - for instance, must farmers in principle preserve forest on 80% of their land, even if this was deforested decades ago.

Many farmers lacked the means to implement these conservation rules. Thus, training programmes on agronomic practices are carried out on the ground by TNC, together with the Rural Producers Association of Santarém. This education is coupled with reforestation and restoration programs. Specific emphasis is paid to the responsible use of water and soil and to increasing productivity. As well as nature conservation and training on good agricultural practice, the key component of the project is an extensive monitoring system.

As a first step for system implementation, the boundaries of soy farms were mapped, their legal status and land use determined. Then the satellite-based forest monitoring system (later also water usage and pesticide monitoring) was installed. By 2013, this covered a total area of 9.6 million hectares, including each farm supplying to the soy port. Cargill has publicised the cost of the system: US\$84,000 were due for database generation, upgrading the version cost another US\$74,500, and annual operating costs are US\$40,000 - which the TNC finds remarkably low. In addition to this system, field visits make every change in land conditions and practice detectable and allow for customised solutions.

Having wider shared value creation in mind, Cargill and its partners have started to offer support to farmers growing other crops in the region. Residue from soybeans is made

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available as a free low-grade fertilizer. Further, engagement with the wider community exists. Public libraries and town murals were restored and sanitation facilities improved.

Impact

Cargill turned a project with the seemingly 'classic motive' of preventing further reputation losses into a replicable business case. To date, 383 Santarém farms have received the Brazilian certification needed for responsible farming, which benefits Cargill, farmers and the wider region.

At the same time, conservation measures are fruitful: The area has seen zero deforestation since 2008. For TNC the case shows that market players are not only the cause of difficulties but can be problem-solvers, too, for Brazil's Forest Code has finally started to be enforced. The Brazilian government regards the combination of conservation and regional economic revival as being so successful that the system has been reproduced for different types of farms (e.g. cattle) across numerous regions in Brazil.

Cargill has also significantly profited by developing another source of responsible soy. The best proof of this is another US\$3 million investment allocated for the continuation of the project with TNC in 2013. Although multinationals' engagement in the rainforest remains controversial, it seems that in this case both farmers and the environment are receiving a fair share of the value

Business benefit:

- **1. Risk reduction**: secure and responsible supply in the light of steadily growing demand for soy (certification increasingly important); reputation loss halted; possible local reputation gain
- 2. Revenue growth: extra revenues from certified soy, increased productivity of farmers; re-exploitation of previously shut-down regional market (because of the deforestation moratorium no revenue was generated in the region); international reputational gains

Supplier benefit: farmers can legally harvest (income), profits from gains in capacities and productivity; TNC is of the opinion that the real costs of non-compliance such as lack of income, bribery or problems with credit access were dramatically reduced in the community *NGO benefit*: the objective of enforcing the Brazilian Forest Code was reached; NGOs re-

ceive a portion of the Cargill investment for training and conservation

Benefits to outside parties: State: the revitalised region of Santarém, Brazil, can benefit from Cargill's concept development and measures on the ground and replicate the concept in other places

Sustainability achievements: addresses environmental dimension through combating deforestation (indirectly halts climate change); use of good agricultural practices minimizes resource use; addresses social dimensions through the assistance provided to farmers and the wider community

Links

http://www.nature.org/ourinitiatives/regions/southamerica/brazil/explore/the-green-waveof-brazilian-soy.xmlhttp://www.cargill.com/wcm/groups/public/@ccom/documents/document/br-nature-conservancy-report.pdf

http://www.cargill.com/wcm/groups/public/@ccom/documents/document/na3037951.pdf http://www.cargill.com/corporate-responsibility/pov/soy-production/supporting-soy-farmerspromoting-sustainability/index.jsp

FIVE CASE STUDIES ILLUSTRATING THE BUSINESS CASE FOR SHARED VALUE CREATION

3 Revenue Growth Case Study 4: Pay-per-Lux Philips

Philips is well known for advanced RSCM. In 2013, the company ranks 1st in the VBDO Responsible Supply Chain Benchmark; the 7th time in a row. Philips also managed to become DJSI super-sector leader in Personal & Household Goods once again.

Philips' 'Pay-per-Lux' example is an innovative case, entailing risk reduction, cost reduction and revenue benefits for several parties simultaneously. This is achieved by application of an entirely new business model promulgating 'access over ownership'. The example clearly shows how vital connections to customers downstream can be for discovering and entering new and distinct markets and market segments. What at first sight seemed to creatively satisfy an individual need, turned into a replicable, formalised solution responding to solid market demand.

The Business Case: Background

The point of departure for this RSCM business case is rather unconventional. Philips' long-term partner and customer RAU Architects (Amsterdam) approached Philips, in 2011, to ask for a way to extend their 'performance-based-consumption' concept to lighting. With RAU being in search for a customized office lighting solution, Philips and RAU, as its client, agreed to use the architects' office as first test-ground for solutions based on 'performance' and 'access over ownership' consumption principles.

Description of the 'Pay-Per-Lux' Model

In the 'Pay-Per-Lux' model, Philips develops individual, dynamic lighting concepts for the client, who only pays for the light (i.e. the lux units consumed). This means Philips re-

tains ownership of all lighting products installed (including lamps, luminaires, cables or controls), and because of being paid for performance, is incentivised to select only the newest, most cost-efficient and most sustainable technologies for their involved partners to install. In the pilot, RAU intended to maximize the use of natural light while retaining options to use light dynamically depending on desired intensity, color temperature and personalized use of space.

The first concept that Philips developed was however stilltoo traditional and costly for RAU; and showed Philips that true out-of-the-box thinking is required with this new business model. Thus also for a frontrunner like Philips, trial-and-error is an essential part of innovation and profit generating RSCM. In the end, several existing lighting solutions were deployed in an adapted, new fashion. In RAU's office, with the help of smart sensors, the most energy and cost efficient lighting options can be determined at any point of the day, and working with daylight became a way for Philips to prove how little artificial light an office actually needs.

After the first pilot with RAU, Philips received significant interest for such individual solutions based on service delivery rather than product sale. Possibly, a key component in the discovery of such demand, and concrete clients, was a timely press release. Philips has meanwhile decided to formalize the 'Pay-Per-Lux' concept into a full-fledged business case, working closely with Turntoo - RAU's platform facilitating connections between the producer (Philips), suppliers and end-users. Thus, Philips and its idea-generating customer realised how both can continuously co-generate and share value from what could have remained a one-off cross-sector collaboration.

Impact

The key benefit for Philips in this RSCM business case is clear: as well as receiving revenues for the lighting concept development and maintenance, Philips retains ownership over scarce materials and can control the best re-use options. In this way the raw materials constitute a financial deposit. For the client, Philips estimates that in an office with 100 employees, about 70% of energy can be saved annually translating into cost savings about 12,000 euros and reduced pollution.

Business benefit:

- 1. Risk reduction: reduced need for raw materials used in lighting products
- 2. Cost reduction: achieved by recycling of lighting materials and products; cost avoidance by foregoing need for artificial light where customer infrastructure allows
- 3. Revenue growth: development of tailored lighting solutions (concept service); maintenance (service); increased product sales (growth in demand for specific LEDsolution); performance-pay model drives innovation and fosters adapted deployment of established lighting solutions

Supplier benefit: installation partners (in the pilot: Cas Sombroek) are part of creating and installing individual solutions for customers

Customer benefit: cost-effective, sustainable and individual solution based on dynamic lighting; additional time and cost savings by skirting ownership and self-maintenance of any lighting equipment installed

Sustainability achievements: addresses environmental dimension through reduced new material use, and Philips recycling partners will benefit from increased volumes through a well-managed reversed logistics process

Links

http://www.lighting.philips.com/pwc_li/main/shared/assets/downloads/casestudy-rau-int.pdf http://www.newscenter.philips.com/nl_nl/standard/about/news/press/20110207_verlichtingsconcept_pay_per_lux.wpd#.UoPXceKKJwY



3 Revenue Growth Case Study 5: Project Liberty DSM-POET

Creating sustainable shared value is at the core of DSM's stated strategy. Over the last decade, the company has directed substantial investments into innovation of biobased materials and chemicals and has gained a leadership position. In addition to its focus on research into sustainable technology, the company is also regularly innovating in close partnership with supply chain partners or peers. The final case study in this publication is thus a story about cooperation in product innovation. Cooperation led to a joint venture with the aim of delivering substantial and sustainable shared value to the parent companies and several other parties in the value chain, and beyond.

The Business Case: Background

The starting point of this case are several remarkable DSM breakthroughs in biofuel research. DSM is now able to viably manufacture competitive second generation biofuels from cellulosic waste products. Looking for a partner to commercialise the technology with, DSM set up a 50/50 joint venture with the US-based company POET, which is one of the largest ethanol producers worldwide. The rationale for both straightforward: to jointly optimise bioconversion, and combining efforts to handle the supply chain including market access.

The US government is also a partner in market development, recognising the potential for the US economy and for advancing sustainability. The state of Iowa, where DSM-POET will be located, jumped in with \$20 million in financial assistance. Additionally, the US Department of Energy has offered grants up to \$100 million to cover costs arising from biomass collection and infrastructure.

Description of the Bio-Fuel Business Case and Model

The biofuel to be produced by DSM-POET is made of corn crop residue - cobs, leaves, husks and some stalk residue. Only material that passes through the combine during harvest

is used, 25% approximately, whereas 75% is left in the field to ensure nutrient replacement and prevent soil erosion. In this way DSM-POET's business model opens a new market to farmers who can generate additional revenue with minimal input costs. According to DSM, no additional planting or farming procedures are needed as the residue can be harvested through a normal baler. Already in 2013 DSM-POET will need approximately 100,000 tons from this year's US harvest - and this just to facilitate the start-up. In the process, after the residue has been harvested by the farmer, it is brought to the ethanol plant for conversion (Figure 3). For this purpose, DSM-POET is currently building its first ethanol plant, which is close to an existing POET bio-refining plant in Iowa, US. The choice to cluster activities enables sharing of roads, land and other features; hence various costs can be minimised.

The waste provided by the farmer is turned into biofuel in the plant, by means of a biological process using enzymatic hydrolysis (cleavage of chemical bonds) and fermentation. In the DSM-POET method of biofuel production, enough energy to power the entire plant will be generated as a by-product of the ethanol process. Further excess power will be send to the adjacent corn grain-based plant, thereby maximising inner-loop energy exploitation.





To date, the total investment in Project Liberty is \$250 million. DSM-POET estimates that it will produce 20 million gallons of ethanol in first year, with production expected to rise to 25 million gallons per year from year two. Eventually, an enormous scale-up will be achieved through the licensing of technology to a network of 27 ethanol plants connected to POET.

Potential Impact

It is already a major achievement by DSM-POET to have turned waste into a fuel resource, and to reach the maturity needed for commercially viable exploitation. Production and sale have not yet started, but if market parties and the state continue to work together, the business case potential estimated by DSM-POET might well become reality. Project Liberty is expected to be profitable within the first full year of production. Benefits also immediately arise for suppliers (farmers) providing the residue. In the long run, DSM-POET expects to create 35,000-70,000 additional jobs⁴. This means, the project will also benefit citizens by providing employment and by stimulating the local economy. The US government even speculates that DSM-POET's bio-fuel concept could become a 50-state solution to energy problems and replace one-third of the country's gasoline use. This would not only give citizens access to a potentially cheaper source of fuel, the wider environmental benefits from bio versus fossil fuels are considerable.

Upon combustion of fossil fuels, CO2 stored underground for millions of years is released, whereas with bio-fuels, the CO2 absorbed by plants during their lifetime is returned into the atmosphere. This is a fundamental difference between the two types of fuel. In addition, the bio-ethanol production process is also less CO2 intensive - making the product more environmentally friendly throughout its lifecycle. Given all the benefits accruing to people, the planet, and profits, DSM-POET hopes that the US pilot and scale-up will be so successful that it might be the starting point for unlocking the opportunity of using cellulosic waste materials as bio-ethanol for the entire globe.

Business benefit:

- **1. Cost reduction:** the opportunity itself lies not in cost reduction but reductions are a product of the optimisation of infrastructure and supply channels
- Revenue growth: revenues will flow from the sale of cellulosic bio-ethanol, biogas and (later on) license income from third-party licensees of the JV technology package, including POET's biorefineries

Supplier benefit: additional revenue at low effort

Customer benefit: potential cost savings

Sustainability achievements: products which would previously have been waste are instead re-used; CO2 savings over full lifecycle, energy as a by-product of the production process, DSM-POET research and the product itself contribute to wider transition to non-fossil fuels and thus in a wider sense to halting climate change

Links:

http://poet-dsm.com/pr/farmers-now-harvesting-biomass-liberty https://www.dsm.com/content/ dam/dsm/cworld/en_US/documents/presentation-poet-dsm-advanced-biofuels-launch.pdf

⁴ US Department of Energy estimates that 10,000-20,000 jobs are created with every one billion gallons of ethanol production capacity.

FIVE CASE STUDIES ILLUSTRATING THE BUSINESS CASE FOR SHARED VALUE CREATION

Biomass Fuel Fields of tall grass are appearing as farmers grow crops to supply the new Biomass Power Stations that are a green alternative to fossil fuels.

4 Concluding Remarks

The case studies presented in this publication show that the starting point of business cases in responsible or sustainable supply chain management (RSCM) often differs, depending on sector and company specifics. The common denominator in all the cases is clear though: for each and every company there are opportunities to simultaneously build robust, sustainable supply chains and to benefit from them by reducing risks and costs, and by increasing revenue.

The examples further indicate how base-line opportunities for risk and cost reduction are rather similar across sectors, with variations corresponding to differences in materiality. Opportunities for gaining extra revenue are more specific to companies, while also being more diverse overall. Currently, RSCM is still a differentiating factor, and strategic or transformational RSCM, characterized by development of new business models and innovation can bring about significant revenue gains. Yet, generating scalable business models integrating sustainability throughout the chain requires a combination of in-depth knowledge of the company (and supply chain partners) with creative out-of-the-box thinking. Only where bold vision guides RSCM, benefits in more than one of the three areas and in the environmental and social sustainability dimension can be repeatedly attained.

A couple of steps can be identified which characterise the road to mature responsible supply chain management in businesses. In the following, we focus on four fundamental steps.

1 Take a 'business case' approach to supply chain sustainability

As indicated, the most important starting point for moving from traditional to strategic and transformational levels of RSCM is the realisation that the second step after supervising and controlling a supply chain issue, is to put on a business case lens in order to see how the issue could be turned into a source of benefits. Here, taking a supply chain perspective rather than a company perspective should come to guide broader business aims as it opens up more options for concerted and fruitful action.

In some instances adding perspective might not be enough. The current strategy and main business model(s) might even have to be re-defined in order to enable higher value creation for the company and along the chain. Company and supply chain trends have to be carefully recorded to get the most out of RSCM.

The role of the purchasing department in integrating an RSCM approach remains fundamental, as we first pointed out, in 2011. Its role changes from being CVR-driven (cost, value and risk) towards being a strategic asset of the company which is part of innovative business models and which communicates to top management (CPO) and the R&D department about its perspective on future-proof products and processes.

Not only should purchasers expand their role; more cross-functional cooperation is one of the key preconditions to the success of RSCM. With the aim of re-engineering chains, businesses have to be prepared to re-engineer some of their internal structures as well, to make sure all departments know how to apply RSCM to bring about mature solutions.

A non-representative VBDO survey conducted in 2013 shows that barriers to RSCM are not only a question of cooperating with suppliers or having RSCM-valuing customers. It appears also that there are considerable power struggles between RSCM-oriented departments and those that have not yet embraced supply and value chain perspective.

Thus, the alignment of perspectives seems to be a tremendous business case in itself, one about optimising the sustainability of the 'inner supply chain'. This can, for instance be fostered with the help of programmes where two or more people from different departments cooperate and build understanding for each other's more traditional views but also jointly figure out what applying RSCM would mean for the individual.

2 Make it happen - outside parties comes into play

Companies often gain from cooperating with partners, governments, NGOs and wider civil society to seize concrete RSCM opportunities. While coordination efforts increase, such cooperation can eventually lower the total costs of an initiative. In many instances, the realisation of projects or innovation is only financially viable if several parties jointly invest tangible and intangible resources. Further, VBDO research has shown that in other instances, power asymmetries hindering implementation can be limited or fully overcome through cooperation of market (and non-market) parties. Revolutionary projects simply require finding new ways to cooperate. Previously unrelated parties may have to be brought in which is a chance to connect with other peers, new suppliers and customers/consumers.

For widening connections, it may be viable to use new forms of communication, e.g. by implementing an open innovation platform.

3 Treat it like any other business case - just with different parameters

Once a clear opportunity has been identified, a regular business plan with value proposition should be drafted, including options for scaling up. Above all, the plan should include an economic cost benefit analysis, yet one based on new methods to calculate total cost of ownership and including intangibles. It is crucial to identify benefits arising for the various involved partners; and to clearly specify in what ways and to what extend different partners will profit (i.e. clarify how the value created is distributed along the chain).

With the commonly longer time horizon needed for returns on investment in RSCM projects, careful deployment of formalized economic tools that can demonstrate all the 'what if's', is particularly important to convince sceptical investor and stakeholder groups.

4 Ensure transparency and accountability by communicating practice and results to stakeholders

The case for the implementation of RSCM in any organisation should also include provision for timely measuring and regular reporting. This is essential to review progress to date, to drive improvements, to ensure transparency and for reinforcing accountability.

Where lack of transparency equals absence of measurement that is particularly problematic: the old saying 'you can't manage what you don't measure' remains valid. Regular and transparent communication about the benefits of RSCM for the company, and the associated parties along the value chain, can be an important tool to bring more parties on board, and can encourage learning and foster change.

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Finally, lack of transparency can be a shot in your own foot, as the fourth case study demonstrated. Likely, timely communication made the new business model known and led to a full order book. Transparency should be an inherent aspect of responsible chain management and carefully managed to ensure that the organisation maximises the potential of RSCM.

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