



BSR Conference 2009

Reset Economy. Reset World.

Traceability and Responsibility: How Far Does Corporate Responsibility Extend Down Your Supply Chain?

Breakout Session Summary

Thursday, October 22, 2009 | 1:45-4 p.m.

Speakers

- » **Michael Kobori**, Vice President, Social and Environmental Sustainability, Levi Strauss & Co.
- » **Jorgette Mariñez**, Senior Manager, Global Supplier Corporate Social Responsibility Assurance, PepsiCo
- » **Zoe McMahon**, Supply Chain Social and Environmental Responsibility Manager, HP
- » **Roger McElrath**, Manager, Advisory Services, BSR (moderator)

Highlights

- » Traceability is a tool for understanding what's happening in companies' supply chains, but the information is important only if companies act to address sustainability impacts.
- » The concept of traceability should extend through product lifecycles so that companies can address social and environmental impacts that occur throughout the supply chain.
- » Industry collaboration is crucial for improving transparency and sustainability in supply chains.

Memorable Quotes

"Traceability isn't just about physical tracing—it's also about information transparency. [Food and agriculture] companies, for example, need to know not only the country of origin for cocoa beans, but also how the beans were farmed, the labor conditions on the farm, and the resources consumed in production." —Roger McElrath, BSR

"It can be challenging to enforce standards beyond the first tier of the supply chain. We rely on our relationships with first-tier suppliers developed over the last five years to try to learn about the second and third tiers." —Zoe McMahon, HP

"[When it comes to how far into our supply chain our responsibility extends], it doesn't matter what we think—it matters what our customers think." —Michael Kobori, Levi Strauss & Co.

Overview

McElrath opened by the session by offering an overview of supply chain traceability. Ultimately, it is an issue of transparency, and although sectors such as food and agriculture began to grapple with traceability concerns earlier than other industries, these issues can affect all companies. Customers, governments, and stakeholders are all demanding information about product origins. McElrath provided an example of Japanese customers in grocery stores who can use smart phones to scan products to learn how they were farmed.

Some traceability challenges include the length and depth of global supply chains, the commingling of product inputs, and the lack of integrated technology systems.



According to McMahon, HP's sustainable supply chain program was driven in part by expectations from multiple stakeholder groups pushing the company to consider sustainability issues further down its supply chain. For instance, customers are increasingly interested in understanding the complete lifecycle carbon footprint of HP's products.

Stakeholders also have been increasingly concerned about whether the metal content of HP's products are sourced from regions in conflict such as the eastern Democratic Republic of Congo (DRC). McMahon explained that even though some electronics products require only a small percentage of the minerals mined, the value of these metals in conflict regions is high, and their use in products can have a significant impact on financing conflicts. HP has addressed the issue in several ways: by surveying suppliers; securing supplier commitments not to source metals from the DRC; and engaging with other companies and industries using the same metals, and with multiple stakeholders. The Electronic Industry Citizenship Coalition (EICC) is considering chemical tracing as well as document tracing to verify the origin of metals. However, document tracing in particular is subject to corruption.

Mariñez then explained the approach that PepsiCo has designed to improve sustainable practices throughout its supply chain. In addition to product ingredients, the company sources a variety of marketing and distribution collateral, such as packaging and soda coolers. Consequently, PepsiCo buys directly from approximately 50,000 first-tier suppliers. While some, such as potato and fruit farmers, are the original sources of product inputs, others are just the first link in a deep supply chain. PepsiCo works with AIM-PROGRESS, a joint initiative of the European Brands Association and the Grocery Manufacturers Association, which allows industry peers to collaborate on sustainability standards and supplier audits. By partnering across its industry, PepsiCo plans to use this shared knowledge to address sustainability issues that exist deep in its supply chain.

Next, Kobori talked about traceability issues with its cotton inputs. When Levis Strauss & Co. became aware of the significant climate change and water impacts of cotton growing, as well as the human rights violations in the industry in Uzbekistan, the company began an initiative to address cotton at the base of its supply chain. The company evaluated a number of existing industry initiatives using criteria such as whether the initiatives had a traceability component, how the initiatives affected social and environmental impacts and farmers, and the price premium associated with each. Based on this assessment, Levis Strauss & Co. has decided to participate in the Better Cotton Initiative (BCI) and has required its mills to cease all use of Uzbek cotton. BCI is currently establishing traceability mechanisms; however, supply chains are opaque, particularly when brokers are involved, and records falsification is an ongoing challenge.

During the Q&A, McElrath asked the speakers if full traceability is an expensive proposition, and if customers will be willing to pay higher prices. Kobori remarked that the most significant expenses will not be in tracing product input origins but in addressing the issues uncovered.

Notes Sponsor

