

Greener than green and whiter than white - building supply chain sustainability

Today's consumers are increasingly linking retailers and the brands they sell with social, environmental and economic responsibility. Retailers must therefore prepare to work collaboratively within their supplier ecosystem to retain consumers' loyalty and trust while addressing these concerns, argues Mark McDonnell.

Developing new products and getting them to market as fast as possible remains a top retail challenge, but managing product quality and ensuring product safety along with the ethical and environmental compliance that consumers expect adds a whole new set of issues for retailers.

As two recent incidents that made national headlines demonstrate, retailers today must enforce rigorous quality control and assurance programmes for products manufactured and imported from overseas. For example, DIY chain Home Depot in North America fired four purchasing managers for allegedly taking cash kickbacks from Asian flooring suppliers in return for putting the vendors' products on the store shelves. Consequently, Home Depot has revamped its ethics policy. On the other hand, toy maker Mattel faced three recalls of more than two million toys after tests introduced since the initial recall revealed they contained excessive amounts of lead paint. Initially, Mattel indicated the Chinese factory was at fault, and to prevent further problems, Mattel globally put in place a strengthened three-stage safety check to test toys throughout the manufacturing process. A few weeks later, however, it appeared there were design flaws and Mattel apologized to China about the recalls.

To ensure product quality and help establish corporate social responsibility (CSR) credentials, retailers need to build collaboration and improve visibility, control and accountability throughout their operations and across their entire supplier networks.

CSR on the boardroom agenda

There is much evidence showing that the tide at last seems to be turning. Only a few years ago environmental management and social responsibility roles sat uncomfortably with the core moneymaking operations of a retailer's business. Today, however, savvy retailers are acutely aware that consumers do care about what's behind the label. While consumers increasingly demand ethically sourced and safe products, retailers are feeling the squeeze from all sides as they are hard-pressed to continually meet their competitors' low prices. At the same time, retailers are looking for ways to increase sales and improve margins, which means they have to source from afar.

Sourcing from factories in low-cost countries is today's obvious choice to help improve margins. However, retailers face a significant challenge in keeping track of numerous remote suppliers and their factory practices, and once they do develop

a trading relationship, retailers need to ensure continuity of supply with such partners in order to keep stocking safe, compliant products. With the onus on the retailer to define best operating practices and hold suppliers accountable, leaders are effectively building, developing and managing relationships with their supplier networks and constantly finding ways to strengthen information sharing and enhance vendor relationships.

So how can retailers avoid product recalls and establish their green and CSR credentials?

Rigorous supplier assessment

As part of the overall sourcing process, leading retailers are establishing stricter assessment criteria for suppliers and agents, using technology solutions to communicate and enforce these policies. Best practices force evidence to be gathered across the supplier's organization (often multiple factories) to meet the retailer's criteria. More stringent assessment programs make this process mandatory: no audit, no order. Unfortunately, suppliers can misrepresent the truth in information reported, but such detail would be recorded against their names throughout the process, thus protecting retailers' liability should issues arise.

Retailers can also impose best practices on supply chain partners by publishing a supplier code of conduct. However, to be useful, codes must have sufficient detail to allow clear interpretation, and companies must be able to measure the extent to which suppliers are complying. Active monitoring of compliance is important if a company wants to gain maximum benefit. By grading suppliers' factories for each job in progress, as well as jobs suppliers could be doing, a retailer can tap into a deeper source of pre-approved suppliers upon new requirements. The message to retailers is this: have a system in place to better understand the capabilities of existing suppliers before incurring the costs associated with on-boarding new ones.

Tracking product quality

Once key suppliers have been vetted and selected, it is imperative that retailers and their trading partners track product quality and have access to data regarding test runs, sampling, production runs and the final inspection processes. Retailers are finding that the manual processes and corporate, disparate systems of yesterday are no longer effective in managing today's complex supply chain operations. Rather, forward-thinking retailers are using IT solutions to manage the information flows of products from specification stage through to delivery to the retailer. This builds quality information and allows retailers to track a product's lifecycle collaboratively and critically on all points of the supply chain, ensuring end-to-end visibility and minimising the risk of costly design or production errors. Case in point: South Africa's largest fashion retail group, Edcon, today proactively manages critical path activities from initial product design through supplier collaboration to purchase order processes for a number of apparel lines carried by the company's department stores and discount outlets.

As new products and suppliers are added to the retailer's portfolio, many require unique processes to support the various phases of sourcing – from initial product design to delivery in the distribution centre, and as each new process is implemented, it must support CSR program guidelines and evolving regulatory requirements.

Balancing lean, mean and green

Building lean and mean supply chains while demonstrating best practices in delivering products that are safe as well as ethically and environmentally-friendly sourced is a tough balancing act for retailers. Of course, technology is not a silver bullet, but it can help in reconciling these seemingly conflicting goals. If applied well, supplier management systems can ensure that factories meet regulatory requirements and retailers meet CSR goals, in addition to improving supplier performance and accountability while flushing out poor performance. However, most importantly, they can help meet consumers' expectations that products will be greener than green and retailers whiter than white.

About the author

Mark McDonnell () is VP of Global Alliances at Eqos (www.eqos.com), a provider of on-demand global sourcing, PLM and supplier management solutions for the retail supply chain. He is responsible for business development to help grow

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