



Out of Your Direct Control

Achieving Environmental Excellence in Your Supply Chain



Many companies find that their biggest environmental and social impacts lie upstream in their supply chain – amid a complicated chain of suppliers that is, in large part, out of their direct control. Yet stakeholders, including customers, employees and investors, are increasingly demanding that environmental improvements be carried out across all levels of the supply chain. Beyond growing pressure from these stakeholders, companies confront unprecedented climate and nature risks if they choose to ignore addressing the environmental impacts of their value chain.

“Many of the most pressing and challenging goals that companies have pledged to try and address stem from the complexity of global supply chains,” says Zachary Freeze, senior director of sustainability for Walmart. “Due to the systemic nature of issues like climate change, lasting improvements and progress require an all-hands-on-deck approach from stakeholders.”

Additionally, the COVID-19 pandemic pushed companies to take a closer look at their supply chains. “The post-pandemic ethical landscape has vastly changed,” says Heather Deeth, ethical buying manager North America for Lush Fresh Handmade Cosmetics, a company whose Ethical Buying approach to

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sourcing includes a commitment to transparency and a non-animal testing declaration that ensures ingredients and products are not tested on animals.

In order to manage risk in their supply chains, companies like Lush are thinking about “economic and social impacts, and how we look at bridging the gap towards the green economy that we need [in order to] reverse climate change,” Deeth says.

And when organizations address key risks in such a way that those issues are not only being mitigated but are being proactively improved in a regenerative way, they stand not only to meet the demands of stakeholders but to differentiate themselves from their competitors.

Walmart is one such company. The retail giant operates at a large scale, which means it can have a large impact.



In 2020, the company responded to the increasing evidence of the climate and nature crisis, as well as rising inequality, by elevating its ambition. “We set an aspiration to become a regenerative company – oriented toward restoring, renewing and replenishing the planet, as well as advancing prosperity and equity for people worldwide, including those who participate in product supply chains,” says Freeze.

It is clear that for companies wanting to stand out from the herd, to make an environmental and social difference, and to ensure the satisfaction of stakeholders, managing the sustainability of their value chain has become a top priority. But the path to value chain improvement can be muddy. Possible strategies span the spectrum, from sustainable sourcing and regenerative agriculture to capacity



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building and community collaboration to food policy development and supplier qualification. All can be complex in their own way, and choosing a starting point may be difficult.

One important step is communicating your needs directly to the companies within your supply chain. “Working with suppliers on their sustainability efforts is not an arm’s-length, send-them-an-email kind of thing,” says Jason Blake, chief sustainability officer for PepsiCo Beverages North America (PBNA).

Working directly with suppliers sounds good, but where does an organization get started?

Begin at the Beginning...

Often, there is no single “nudge” that pushes a company to begin focusing on its value chain. “It’s generally a variety of drivers that propel a company toward improving their



environmental and social performance,” notes Cheryl Baldwin, vice president of sustainability consulting for Pure Strategies, a sustainability consulting firm. But whatever the impetus, getting top management onboard is key to having a successful effort.

Conducting a materiality assessment is one way to show higher-ups that improving the sustainability of your value chain is a necessity. This can help show that you have thought about overall sustainability within the structure of your organization and identified sourcing or issues within the supply chain as areas of concern.

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Steps to Success

Consider breaking your journey into three distinct steps:

Step #1. Assessing

Though you may have done an initial assessment to identify sourcing as a priority and to gain upper-level management support, be sure to do a deeper dive, as well.

This involves looking at what is sourced, the volume sourced, and where it is sourced, to the fullest



extent feasible, and identifying the level of environmental and social risks based on volume, the location, and unique considerations of the supply. Topics evaluated often include such things as carbon, water, land, forests, biodiversity, chemicals, animal welfare, wages, and labor.

“At this stage there is usually an initial set of priorities that rise to the top and to further focus, it helps to consider the feasibility of making the needed change,” says Baldwin. This may include assessing if there are available solutions, the cost and complexity of the change, and the ability to influence the change. With this view, you can identify priorities and ways to improve environmental and social performance for your business.

“For example, if deforestation is a top risk in your supply chain,” says



Baldwin, “you should understand which materials are at risk and where that may be happening to evaluate what steps can be taken to effectively mitigate the risk and potentially drive to a net positive change.”

When Lush studies its value chain, they consider everything they purchase, from raw materials to packaging, and consider the environmental and social impacts. The company evaluates “what risks there are and how we reduce any potential harm, and [we] look to ensure positive impact,” Deeth explains.

Step #1 Example:

When setting priorities in order to expand and enhance sustainable sourcing, Walmart looked at its key commodities.

“We’ve shortlisted 20 commodities for prioritized action by 2025,” Freeze says. “These commodities include fisheries, forests, and agricultural supply chains.”

Commodities were selected based on environmental and social risks and the importance to the business, stakeholders, and Walmart’s ability to make a significant impact, Freeze says.

Step #2. Defining

Once you’ve considered the level of risk and prioritized what to focus on, you’ll want to define what you plan to accomplish and the steps you will take in order to get there.

Your defined approach may take the shape of a goal (“We will achieve zero deforestation in our supply chain”), program (“Sourcing is evaluated against sustainable agriculture criteria”), or a policy (“We do not use chemicals on our restricted substances list”).

“Most companies respond well to goals because it sets an expectation, whether internal or external,” says Baldwin. “That accountability helps.”

Then, define how you’ll reach your goals. Possible approaches to the problem of deforestation within a supply chain, for example, might include:

- Ensuring a verification process for materials being sourced responsibly;
- Building support for suppliers at the community level with tools to help them address risks like weather fluctuations and disease;
- Broadening that project by offering those tools at the regional level to be sure that overall sourcing within that entire region is being improved.

Some organizations may limit their work to verifying materials are being sourced responsibly, and “that’s a great first step, but there’s more to do to have a sustainable sourcing program,” Baldwin explains. “It has become clear over time that more engagement at the ground level helps drive continuous improvement and effective change.”

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Looking to develop more sustainable supply chains that:

Ensure human rights and fair trade?

Support nature and climate solutions?

Deliver safe and effective materials?

Pure Strategies can help.

Pure Strategies provides sustainability consulting services to empower you and your organization to take meaningful steps forward with your sustainability and supply chain programs. We can help you realize environmental, economic, and social improvements across all levels of the supply chain.

For over twenty years, our team has worked with some of the most notable companies to advance sustainability. We can support your company too — from establishing sustainability goals to engaging your supply chain and improving products using sustainable sourcing.

You can read about how our clients have established sustainability programs that deliver meaningful change while realizing business growth, cost savings, and risk reduction and learn how we can help you at [purestrategies.com](https://www.purestrategies.com).



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info@purestrategies.com
[purestrategies.com](https://www.purestrategies.com)

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Other ways of having direct engagement might include working to build capacity across suppliers, paying for soil testing or sensors at the farm level, or sending experts to supply advice to farmers.

“The details of the approach may be different from company to company,” says Baldwin. “But you need to have a sense of where you’re going and how you’ll get there.”

Step #2 Example:

One of Lush’s approaches to being involved on the ground level of their supply chain has been to define a set of farming methods that work with nature instead of against it, seeking to reverse deforestation, restore degraded soil, increase biodiversity and improve the water cycle.

With those aims defined, the company began investing in projects where ingredients for its own products could be grown in more natural environments. The company operates its own regenerative agriculture and agroforestry farms in Uganda, Guatemala, Peru and Arizona. “All of these farms are growing materials we use in our products and have the highest level of ethical standards we can generate,” says Deeth.

Additionally, the company partners with farmers in establishing their own plots. Lush supports them in recovering degraded land and shares skills on

‘WHEN SHOULD WE ANNOUNCE OUR GOALS?’

Knowing when to announce your sustainability goals — should you announce as soon as you’ve defined the goal or wait until after you’ve started making progress? — can be a challenge.

“It’s usually better to announce goals sooner rather than later, as it adds accountability within the organization,” says Baldwin. “Sometimes companies wait in order to clarify understanding and begin to make progress, but there’s risk that the needed change might not happen because it has not been officially announced.”

The thing to remember when it comes to a public announcement is that you must vet it with internal stakeholders such as procurement teams and external stakeholders such as suppliers first. “It helps to get their input and for them to be prepared, with a sense of where you’re headed,” Baldwin explains. 🌱



how to grow crops with regeneration practices in mind. And when it's time to harvest, the company is a guaranteed buyer, offering a fair price for their yield while also helping them gain access to other buyers and strengthening their foothold in the market.



Step #3. Activating

You've pinpointed the areas of highest risk within your supply chain. You've defined your goals and how you'll get there. The final step is activating and maintaining your projects.

The communication aspect is a significant piece of the puzzle at this point. It's important to be specific with suppliers, letting them know what you expect from them, what

you'll be tracking and how you will measure it, and the plan you intend to follow in order to achieve your goals.

Engage with suppliers and educate them on why sustainability is important, Blake suggests. PepsiCo Beverages North America, a company that believes the journey to achieving collective goals begins with a deep commitment to sustainability at the forefront of all its business practices, has found that often, there are varying degrees of sophistication among suppliers, and some need more help than others. Think holistically, and give every supplier the opportunity to engage. "Many, dare I say all, of them want to do the right thing," Blake says. "Engagement generally starts with an understanding of the facts: where we are today and where we want to get to."

Collaboration is another important element of the activation process. "When there are multiple entities working together, they can achieve broader change," says Baldwin. "You might bring together the government, NGOs, academic organizations, activists, your own company, and your supply partners."

For example, if you're attempting to bring about change in terms of social issues in a region where you source your palm oil, you might work with:

- the local government to ensure you're meeting local deforestation laws and regulations;



- local NGOs that can help you navigate the area's specific cultures and norms;
- other companies like your own that also want to improve the sustainable sourcing of palm oil, and with whom you can share best practices.

"The Consumer Goods Forum is one group that does collaborative projects like this," Baldwin says. "It brings together different consumer goods companies that have similar aims. They might have a similar approach but different models, so they learn from each other, work together to outline how to achieve progress effectively, define a standard, and build out those models." There are many other organizations working in this way that may help advance your supply chain needs.

Walmart, too, works with suppliers, partners, and NGOs to collaborate on innovative approaches and ensure it is deploying cutting-edge processes to integrate sustainability across its supply chain. For Project Gigaton, for example, the retailer works with suppliers to identify the right targets for them and hold each other accountable in their shared ambition to build sustainable supply chains. Suppliers are asked to set specific goals. "This helps companies to get started with clear metrics, track progress and report out on a consistent basis," Freeze says. Walmart also offers tools, workshops, initiatives and more – such as a packaging playbook that suppliers can

reference as they set goals for recyclable packaging and recycled content – to support partners on this journey.

Using these types of approaches, Walmart met its seafood goal four years early, by achieving 100% of private-brand shelf-stable tuna as Marine Stewardship Council certified. The retailer also achieved its goal of sourcing 100% of private-brand coffee sustainably one year ahead of schedule and moved on to include Sam's Club US private-brand coffee. Today, 98% of private-brand coffee sales across Walmart and Sam's Club stores in the US are certified sustainable, Freeze points out.

Step #3 Example:

PepsiCo has activated projects in line with its ambitious Positive Agriculture strategy in order to develop a more sustainable, resilient and inclusive food system. The agenda's far-reaching goals aim to reduce an estimated three million tons of greenhouse gas emissions and improve the livelihoods of more than 250,000 people in its agricultural supply chain by the end of the decade.

The company is partnering with farmers to focus on regenerative farming techniques with a focus on building soil health and fertility, reducing carbon emissions, enhancing watershed management, increasing biodiversity and improving farmer livelihoods. PepsiCo is working to spread the adoption of these practices across seven million acres, or an area approximately equal to its entire agricultural footprint.



THE BUSINESS CASE FOR EXCELLENCE

Climate change is already affecting the production, distribution and (in some cases) the viability of food and other consumer products that depend on agriculture, Walmart's Freeze says. And an analysis of the potential climate exposure of several commodities suggested that some commodities may face significant challenges due to future climate effects.

The analysis underscores the relevance of companies that implement sustainable commodity initiatives and other initiatives focused on enhancing the resilience of supply chains.

So while implementing approaches to improving the sustainability of your supply chain may cost more in certain areas, be sure to look at the entire value chain, suggests Deeth. "We've had a lot of success in finding other

areas to save money, so year over year you improve your margin," she says.

To be successful in the long-term, it is important to address the pressing issues of climate change, nature loss, and social fairness. Mars, for example, has announced it plans to grow as a company but says rather than expanding in terms of land use, it will source the extra goods it needs from the same amount of land.

Being aware of key challenges such as climate change, nature loss and social justice can help companies achieve excellence.

"We believe more value is created for everyone when a company takes the long-term view, addressing the needs of whole systems – customers, associates, suppliers, communities and the planet," says Freeze. "Improving supply chain sustainability is how we ensure a resilient business for the future." 



