Sustainable supply chains: Chains, levers or webs?

By Scott Nadler and Jeremy Soboil 18 Jan 2018

Customers have tremendous power in the business-to-business (B2B) sustainability world. Just by asking questions of their suppliers, customers send powerful signals about what matters.

Customers' questions can drive suppliers' focus on a wide range of issues, from carbon, water and circular economy to human rights, economic development and community impacts. When customers link their questions to their buying preferences, those signals become imperatives that suppliers cannot ignore. Yet after decades of experience, B2B customers still wield their power in inconsistent and even counter-productive ways.

In theory, sustainable supply chain management has made great leaps in recent years. Every set of reporting or performance guidance includes supply chain approaches, from CDP to GRI to SASB and even the UN SDGs.

In practice, many B2B sustainability practitioners tell a very different story. While some true industry leaders have develop highly effective approaches, overall less has changed over two decades than might be expected. Too many B2B customer hang on to approaches that impose maximum burdens on suppliers while creating minimum true impact on business risk c sustainability performance.

The choices can be summarised in three types of approaches: chains, levers or webs. It is time for corporate sustainabilit leaders to look honestly at their supply chain programmes and decide if they are going to stay with comfortable but ineffective mechanisms, or shift to truly effective approaches.

What do the different approaches look like?

Chains: Maximum burden, minimum impact

Chain approaches are linear and go one way. Buyers use their commercial power to impose restrictions and requirement on suppliers. These are the most common steps:

- Impose requirements, often framed as "guidelines", which may or may not be realistic.

- Demand lots of information.
- Provide little feedback on what really matters.

“Chain” programmes do what chains do: limit action and impose a burden to be carried. They can have some value by sending blunt, powerful signals about behaviour to avoid (or not to be caught in). They also have a perverse self-selection function, where some suppliers may choose to avoid certain customers who impose these burdens.

But the weight on the supply chain may impose burdens that stifle innovation, limit resilience and have more costs than val in real impact and risk reduction. Chain approaches sometimes have less to do with reducing bad behavior or even busine risk, and more with ticking boxes and being able to include “supplier programmes” in sustainability reporting. This includes reporting imposed as chains by customers’ own customers!

They also risk sending erroneous signals, directing suppliers’ valuable energy to the wrong issues. This happens often wh metrics are not driven by strategic thinking. The de facto rule becomes: “Do what we know how to measure” instead of “Measure what we need to do”. For example, firms with very small carbon or water footprints can be diverted into expensiv tracking and metrics (or even asymptotic reduction goals) – when their real risks may have to do with toxic materials in the product or the well-being of their staff.

While B2B customers often deny that they impose chains, ask any group of B2B suppliers. They will tell you precisely ho much of their time is eaten up with responding to customer information requests, filling out surveys and ticking boxes, generating little value.

Levers: Kinder, gentler chains?

Leverage approaches are still linear but focused more on results than imposing burdens. B2B customers combine their commercial power with their own insights and capabilities to leverage better performance from their suppliers. These approaches include:

- Clear guidelines, often with progressive levels of performance to help suppliers improve,
- Clear feedback (including supplier scoring and procurement rankings) to send clear signals not only to EHS/Sustainability professionals, but to sales, marketing and business leadership within suppliers’ own organisations
- Clear priorities – including sharing customers’ own problems where they need innovation and help from their supplie

Leverage approaches are still linear but open the potential for two-way collaboration. Walmart pioneered this approach – r surprising given its massive leverage over its suppliers. The Walmart programme has generated as much heat as light at times; many suppliers privately admit to having “made the pilgrimage to Bentonville [Walmart’s headquarters], kissed the ri taken the sustainability pledge, and then come home and said ‘what did we just sign up for?’. Over time, though, Walmart’s programme has had major impacts in driving major reductions in energy use and packaging throughout its supply chain.

Even companies with much less market power can use leverage in their sustainability supply chain. By communicating its concerns and metrics, for example, a women’s apparel retailer drove down energy and packaging utilisation (and costs) b leading Asian manufacturers to make minor changes to basic elements like buttons, bows and hangers. Even now, one health-care giant who has taken major steps in minimising its own packaging waste, is using leverage to reduce packaging some crucial inbound materials coming from suppliers. Rather than setting arbitrary expectations, the company is working directly with suppliers showing them the nature and extent of the issues and looking for solutions from the supplier side.

Webs

The emerging approach is to recognise and utilise the non-linear nature of many commercial relationships. Rather than ju pushing out expectations and priorities, customers use their market power to bring together multiple players who each contribute to innovative solutions.

Web approaches tend to have:

- Sponsoring companies who have matured through “chains” and already made major strides in addressing their own problems before they asked too much of suppliers,
- Unconventional (and often asymmetrical) partnering across huge and small firms, established giants and innovative startups, public and private entities, business and NGOs,
- Creation of entirely new product flows – and commercial opportunities.

For example, GM has been a leader in supply web approaches. Their creative work has created fascinating breakthroughs such as turning used water bottles into everything from Chevrolet Equinox V-6 engine covers to air filters for 10 GM plants insulation for coats for the homeless (in cooperation with The Empowerment Plan, a Detroit NGO). Dow’s Hefty Energy Ba programme brings together plastic film producers, their plastic bag customers, municipal recycling facilities and others to create innovative solutions that reduce waste and displace fossil fuels with waste plastic.

Woolworths in South Africa is working with a number of external NGOs and bodies to ensure their products are sustainabl Examples include a target to source all cotton from sustainable sources; sourcing 100% UTZ Certified cocoa for all the Woolworths private label boxed chocolates, slabs and bars; and working with NGO and partner Canopy to shift the fabric supply chain towards practices that protect the world’s remaining ancient and endangered forests and endangered specie habitats.

These are solutions that come from innovation, not from being weighed down with chains of requirements. Which approac is your company/industry really using? Which approach are you really depending on – chains, levers or webs?

B2B customers can get a quick sense by asking themselves – or even better, a few of their suppliers – to react to a few simple statements. Take a look at these statements, and ask yourself (or your supplier) whether you would strongly agree (give yourself a five) or strongly disagree (zero) or fall somewhere in between with each statement?

- Suppliers know the information we want.
- Suppliers know what we do with the information we request.
- Suppliers know the behaviour we want.
- Our purchasing decisions are heavily influenced by suppliers' responses/performance e.g. we choose not to buy.
- Our suppliers bring us solutions.
- We work with our suppliers to find additional players who can help.
- Our purchasing/procurement people see this as a value-added part of their job, not a burden.
- Our requirements/process improve our suppliers' sustainability performance significantly.
- Our requirements/process improve our suppliers' business performance significantly.
- Our requirements/process reduce our business risk significantly.

Then add up your answers:

If your total score is in the 40s, then you are probably using leverage and even webs.
If your total score is in the 20s or lower, then you are probably stuck in chains.
If you can't get through the questions without a lot of nervous laughter, you have your own answer.

No one approach is right for every company, let alone every company now. But maybe it's time to see if we can make a li more progress than we have over the last 25 years.

ABOUT THE AUTHOR

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