

Building sustainable supply chains: consumer choice or direct management?

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Putting a 'carbon label' on products to show how much carbon dioxide is emitted during their production, transport and disposal has been heralded as a powerful route to sustainability within companies' supply chains. Several leading firms have joined the Carbon Trust carbon labelling scheme over the past five years, including UK-based retail giant Tesco, which as early as 2007 promised to use carbon labels on all its products. But earlier this year, the multinational said it was dropping carbon labels and instead directly managing its supply chains. Many other companies are similarly choosing direct management over consumer choice as the most effective route to emission reductions. In so doing, they are shouldering greater responsibility for the emissions and impacts of their supply chains. But environmental concerns must not be allowed to trump development needs and companies must not unfairly disadvantage smaller-scale producers in developing countries.



Launched in March 2007, the Carbon Trust Carbon Reduction Label (CTRL) is used by several high profile companies — including PepsiCo, Walkers, Dyson and Kingsmill — across 20 countries. The idea behind the CTRL, and other carbon labels like it, is that if consumers know the carbon footprint of individual products, they will choose to buy the least carbon-intensive one. Tesco was an early supporter and in January 2007 pledged to use the CTRL on all of its 70,000 own brand products.

But in early 2012 the company announced that it would no longer use carbon labels. Tesco attributed its decision to the high costs associated with calculating the carbon footprints of products, as well as the hesitance of other supermarkets to follow suit, which has led to a lack of products and stores for consumers to choose between.

The company's move does not signal an end to its efforts to reduce emissions — Tesco remains committed to calculating the carbon footprints of its products and working with suppliers to identify energy savings. But, in a move that seems to reflect a growing trend, its emphasis is no longer on communicating carbon

footprints to consumers and expecting them to choose the lowest carbon option. This has important implications for sustainable development.

Who decides?

There has been widespread support for consumer choice as a major driver of sustainability. One example is the growth of certification schemes and the consumer-facing labels on which they are based. These schemes are designed to empower consumers to choose sustainable options in the marketplace.

But while certification schemes continue to have an important place in sustainability, there is a growing recognition of their limitations, which include limited market coverage. For example, less than 10 per cent of total market share for individual products¹ is certified, with the exception of bananas. Against this backdrop, relying on consumer demand for certified products alone is unlikely to achieve widespread shifts to sustainability.

Many researchers agree that relying on consumers to 'grow the market' and drive corporate sustainability is not always effective. Consumers may claim to



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be influenced by sustainability issues, such as carbon footprints, but this is rarely authenticated by their purchasing behaviour. Evidence suggests that consumers tend to have fixed patterns of buying and are most likely to be influenced by brand and price.² Perhaps it is no surprise then that in a recent survey of 'sustainability experts', 78 per cent of respondents "think that businesses have a duty to offer sustainable product lines instead of, rather than as well as, unsustainable ones."³ And as Alan Knight, sustainability expert and long-term advisor to blue chip companies, has demonstrated, consumers in fact expect 'ungreen' choices to no longer be an option.⁴ Retailers already edit out some choices for consumers, so why shouldn't this editing be based on social and environmental criteria as well?

An emerging trend

Like Tesco, other retailers and manufacturers are adopting ambitious sustainability plans for their supply chains — or converting entire product lines to certified sources — and eliminating some of the reliance on consumer demand.

Sainsbury's, for example, has switched to Fairtrade bananas for all price categories; Cadbury has similarly made its flagship brand, Dairy Milk, 100 per cent Fairtrade certified. Other companies, such as Unilever, are adopting supplier codes of practice to clean up their supply chains. One of the most comprehensive schemes is 'Plan A' by Marks & Spencer, which sets out 180 targets (to achieve by 2015) that commit the company and its suppliers to, among other things, reduce emissions and waste, use sustainable raw materials and trade ethically.

But what is the motivation behind such moves? Perhaps it is a recognition that sustainability is a growing concern for many businesses and not just a luxury to be marketed at premium prices. Social and environmental impacts can not only damage a company's reputation, they also pose considerable financial and operational risk. For example, in West Africa, climate change threatens to undermine the security of cocoa supplies. By directly managing their supply chain, companies can help mitigate these risks and also identify opportunities for adding value as well as reducing costs.

Collaborate with suppliers

Shifting to direct supply chain management can reduce a firm's environmental impact without the need for consumers to choose a more sustainable product over

an alternative. It immediately offers more scope for upscaling and potentially drives others retailers and manufacturers to follow suit.

But if this change is to support social benefits as well as environmental ones, it must be sensitive to the impact on suppliers, especially those in developing countries. Just as many certification schemes have excluded the poorest producers who can't afford the cost of getting certified, attempts to directly manage supply chains shouldn't be about simply getting rid of producers who can't immediately comply.

In an increasingly supply-constrained world, it will be impossible for retailers and manufacturers to simply demand sustainability without co-investing in the costs and sharing the burden of risk, both of which are typically highest for small-scale producers. Companies must look beyond the top 100, or even 1,000, suppliers in their sustainability drive to include all suppliers, including those that operate on a small scale in developing countries. Collaborating with industry peers can help companies be more inclusive — by paving the road to greater scale, higher efficiency, and less burdensome buyer-specific demands for suppliers.

It is also vital that retailers and manufacturers 'walk the walk' rather than just 'talk the talk' on sustainability. Over the past two decades there has been a gradual move towards 'private environmental governance' in which certification has played a central role. Many eco-labels and certification schemes publish their criteria and are independently checked, which helps reassure stakeholders that claims to sustainability are genuine. Manufacturers and retailers must be similarly transparent in their direct management of supply chains.

Next steps

There appears to be a broader trend of companies moving away from consumer choice towards embedding sustainability into products. This should be cautiously welcomed. Such measures are likely to prove to be more successful in mainstreaming sustainable consumption. But we must be careful and ensure that both environment and development concerns are reconciled.

Credible and transparent collaborative approaches are needed to tackle sustainability in supply chains. As companies take sustainability decisions into their own hands, public reporting on progress and sustained scrutiny of claims will be essential.

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■ ¹ Such as certified tea, coffee and cocoa, which have market shares of 7.7%, 8% and 1.2% respectively: See www.iisd.org/pdf/2010/ssi_sustainability_review_2010.pdf ■ ² Osborne, S. 20 April 2012. The myths of supermarket selling: Are the big food retailers reading us all wrong? *The Independent*. See www.independent.co.uk/life-style/food-and-drink/features/the-myths-of-supermarket-selling-are-the-big-food-retailers-reading-us-all-wrong-7661663.html ■ ³ GlobeScan. 2011. Sustainability experts back 'choice editing' to hasten transition to sustainable consumption. Featured Findings Thursday November 2nd 2011. See www.globescan.com/commentary-and-analysis/featured-findings/78-sustainability-experts-back-choice-editing-to-hasten-transition-to-sustainable-consumption.html ■ ⁴ Knight, A. 2012. Choice editing versus informed consumer choice. See www.dralanknight.com/my-narrative/choice-editing-versus-informed-consumer-choice