

RILA Issue Brief:

The Value of Sustainability in Retail Merchandising



Retail merchandising departments play a critical role for the company, determining the products to sell while reducing costs and minimizing supply chain risks. Sustainability represents a lever for merchandising to reduce risks and costs by increasing visibility and efficiencies along supply chains.

Benefits of Sustainability for Merchandising

Addressing sustainability issues in the supply chain, such as the use of restricted chemicals or palm oil from tropical forests, requires retailers to know much more about their products and suppliers. For merchandising, this increased transparency can offer predictability and visibility into cost components. It can also help minimize or avoid the costs of supply chain disruptions. Market capitalization can decrease more than ten percent from poor supplier

Over three-quarters of the total environmental impact from products on retail shelves occurs deep in the supply chain, including greenhouse gas emissions from agriculture, manufacturing, transport, refrigeration; the destruction of forests to grow crops and raise animals for food, apparel, and personal care products; chemical exposures and discharges from agricultural practices and the manufacture and dyeing of textiles; biodiversity losses from removing forests and large-scale agriculture; and human rights issues and labor practices.

practices, including costs of supply chain disruptions from noncompliance with environmental regulations. For example, electronics manufacturer Seagate works with suppliers on Full Material Disclosure for all of its products, and cites two key benefits:

- **Reduced costs.** By collecting data on all chemical ingredients in its products, employees are able to search Seagate's chemicals database every time a new regulatory or consumer concern emerges. If data shows Seagate suppliers use the chemical, the company is able to respond quickly. Seagate concludes that the system provides a timely, low cost method to comply with regulations and market demands—as more customers and regulators request data, the costs of data collection for Seagate have remained stable.
- **Increased supplier reliability.** Seagate's chemical management data system unexpectedly provided the company with much more visibility into its suppliers, and the quality of their products. Seagate knows, in detail, the chemistries of its suppliers' products and can quickly identify when changes are being made to the materials in its components.



Figure 1 Key priorities for merchandising are among the motivations for retailers to engage product suppliers on sustainability. Source: RILA’s 2015 retailer benchmarking.

Meeting sustainability commitments often begins with mapping supply chains, followed by direct engagement with key suppliers to request information, and providing training on specific company requirements or collaborating with suppliers on solutions. This increased engagement provides a number of benefits for merchandising. It reduces supplier risks by establishing platforms for information exchange and longer-term relationships. It also offers opportunities to [renegotiate supplier agreements](#) and terms, position key suppliers as more of a partner, and share cost savings from joint improvements. Marks & Spencer goes so far as to connect its direct suppliers of palm oil with the refiners and processors that meet its performance expectations.

Keys to Success

Merchandising can benefit most by focusing first on one topic or product category before applying the acquired knowledge across other topics or product categories. For retail, priorities may include a high volume supplier or widely used commodity, such as palm oil, beef, or cotton. Setting an ambitious and time bound target—for example, one hundred percent sustainable sourcing or zero discharge—is an effective way to bring suppliers to the table, foster meaningful collaboration, and provide transferrable knowledge.

Merchandising professionals can tap into existing forums where retailers and suppliers are collaborating to improve the performance of supply chains and redefine purchasing terms. For example,

retailers, buyers, and producers—representing between ten and twenty five percent of the global production of soy, cotton, sugarcane, salmon, shrimp, and other commodities—participate in [roundtables convened by WWF](#). This type of retailer collaboration provides clear signals to suppliers and creates incentives for supplier action.

How Does Sustainability Enhance Merchandising?

In retail, merchants often begin with questionnaires to engage with their suppliers. A product category survey, created by Walmart and many of its largest suppliers, aims to identify the critical improvement points for dozens of categories of products. Incorporated into Walmart’s [Sustainability Index](#), the survey has been deployed to several thousand suppliers. “Our [merchants are the key point of leverage](#) in working with suppliers to communicate our priorities and to push for improvements. When buyers discuss Index scores and strategies for improvements with their suppliers, it communicates our priorities and allows us to engage entire product categories,” explains Zach Freeze with Walmart’s General Merchandise and Softlines group. Rob Walton adds that the Index “is really giving buyers information to help inform decisions and compare products.”



Figure 2 Retail product supply chain relationships are more transparent and collaborative. Source: RILA Supplier Engagement Report.

Retail initiatives that focus on priority topics for the industry, and closely align with merchandising’s business goals, include:

- **Chemicals.** Retailers and brands have committed to [zero discharge of hazardous chemicals](#) from supply

chains and products by 2020. Asking suppliers to disclose chemical ingredients triggers a wave of requests upstream, and the resulting transparency leads to retailers’ increased vulnerability. Helping to build high performance in key supply chains can generate cost savings, and reduce the likelihood of noncompliance or interruptions to supply.

- **Food and Agriculture.** [Twenty nine retailers](#) have a significant stake in, and large-scale influence on, the **global** cattle supply chains that provide both food and fashion items. By collectively identifying unacceptable and preferred practices—as has been done with [palm oil](#), [cotton](#), and other [high impact](#)

[global commodities](#)—retail can contribute a strong voice in establishing preferred supplier practice and secure access to quality supply.

- **Palm Oil.** Retailers struggle to map complex, opaque supply chains and establish a chain of sustainable supply. At first, [Marks & Spencer](#) removed palm oil from some products. When sustainable palm oil quantities rose, it shifted its focus to procurement. Over time, suppliers provide more accurate information to merchandising as more retailers pose questions, map supply chains in detail, and train key suppliers.

Additional Information

Leadership Steps for Merchandising and Sustainability. RILA and the CRC’s [Retail Sustainability Management Leadership Model](#) includes a dimension on supplier engagement to enable retailers to benchmark their activities:

Supplier Engagement for Responsible Sourcing	
Initiating	<ul style="list-style-type: none"> • Supplier code of conduct addresses 3 plus environmental aspects • Audits suppliers according to a risk profile or in response to problems
Progressing	<ul style="list-style-type: none"> • Incorporates key sustainability considerations into initial supplier onboarding and ongoing sourcing decisions • Supplier code of conduct incorporates all dimensions of recognized industry standards (e.g., SA8000) • Delivers some training or guidance to suppliers on sustainability opportunities • Performs mix of internal and external audits on a regular basis according to supplier risk profile • Works closely with suppliers to remediate sustainability issues
Excelling	<ul style="list-style-type: none"> • Assesses all suppliers according to sustainability criteria • Supplier code of conduct includes measurable sustainability metrics that auditors can objectively check against • Employs expert auditors to check suppliers according to supplier risk profile • Tracks supplier sustainability performance quantitatively over time • Actively collaborates with suppliers to capture shared savings through improvements in sustainability performance • Develops remediation plans in collaboration with supplier and closely monitors quantitative progress against them
Leading	<ul style="list-style-type: none"> • Sourcing/merchandise teams use sustainability scorecards as integral part of sourcing decisions • Hosts annual “Sustainability Summit” with key suppliers/vendors • Encourages vendors to improve and report on sustainability metrics (e.g. energy, waste, water) of their products, possibly leveraging services like CDP Supply Chain • Works closely with suppliers to monitor subcontracting arrangements
Transforming	<ul style="list-style-type: none"> • Encourages sustainable manufacturing practices for all products and suppliers, with a focus on ensuring suppliers’ financial viability • Relevant departments test and actively partner with research groups or vendors to design next generation equipment for sustainable performance • Defines and executes on appropriate actions with suppliers failing to meet performance criteria

Additional relevant resources, case studies, and collaborative opportunities are listed below.

Resources <i>Educational tools</i>	Case Studies <i>Retailer deployment examples</i>	Get Involved <i>Collaborative opportunities & other resources</i>
<ul style="list-style-type: none"> • FMI Sustainable Sourcing Guide • Guidance on Operational Practice and Indicators of Forced Labour • Ceres Water Stewardship & Supply Chain Risk Program & Risk Tool • Sustainable Palm Oil, Retail Transparency Toolkit 	<ul style="list-style-type: none"> • Beauty & Personal Care Supply Chain Information Sharing, retail working group • Dannon Pledge to Retail Customers on Sustainable Milk Supply • Marks & Spencer Improving Palm Oil Sourcing • Forest 500 Retail Assessment & Guide to Deforestation-free Supply Chains 	<ul style="list-style-type: none"> • How 100 Big Brands Can Save Biodiversity • Global Roundtable for Sustainable Beef • Deforestation Resolution, Consumer Goods Forum • Better Cotton Initiative

Visit www.rila.org/sustainability for more tools and resources.