

EXECUTIVE SUMMARY

Global policy attention on deforestation and forest degradation has increased in recent

years. Political leaders have recognized the critical role of forests in achieving the Paris Agreement, while creating a target on sustainable management of forests in the UN Sustainable Development Goals. National and regional governance bodies have also stepped up efforts to protect forest resources and eliminate illegal sources of wood and paper products.

A growing number of voluntary commitments have been made by businesses to reduce negative environmental impacts in their product supply chains. **As of 2016, more than 200 companies had made public deforestation-free commitments on timber and pulp/paper sourcing, including over 80 in the retail space.**

Although the large number of voluntary pledges made by companies is encouraging, progress remains too gradual and their focus too narrow. Most deforestation-free commitments are not time-bound and two-thirds of the commitments are not accompanied by public reporting of quantifiable progress. Going beyond deforestation-free, only one in four brand manufacturers and retailer members of the Consumer Goods Forum have made quantified and time-bound commitments to source all or a majority of the commodities needed for their business according to credible certification standards.

The current supply chain sustainability landscape indicates that retailers that embrace the full scope of sustainability – going beyond legality compliance and deforestation-free commitments – maintain a **competitive edge and stand to differentiate themselves from the rest in the forest sector.**

This report sets out to understand the business case for retailers to commit to and act on responsible sourcing of forest products, and shows that **retailers see a clear link between responsible sourcing and business opportunities.** It combines an extensive literature review with a survey of 54 retailers from 21 sectors and 20 countries. Follow-up interviews were conducted with representatives from retailers that have demonstrated long-term commitment to responsible sourcing of forest products – Bunnings, Kingfisher, IKEA and Migros.

What drives the business case for retailers?

- Over 80 per cent of companies reported **positive impacts through risk management and brand reputation.**
- Over 70 per cent saw **positive impacts on employee satisfaction.**
- Over 60 per cent saw **positive impacts on customer satisfaction and stakeholder engagement.**
- Operation/supply chain costs is the only area where most respondents reported negative impacts. However, quantitative cost – benefit analysis is rarely available.

Perceived impacts of responsible sourcing on business metrics

Key

- strongly positive
- positive
- neutral
- negative
- strongly negative



Top impacts of responsible sourcing for retailers

✓ **Risk management and brand reputation**

Responsible sourcing is especially useful for managing risks around brand value and supply chain volatility. **Over 80 per cent of companies reported positive impacts on risk management and brand reputation.** These benefits are accrued through greater transparency in supply chains and establishing longer-term relationships with trusted suppliers.

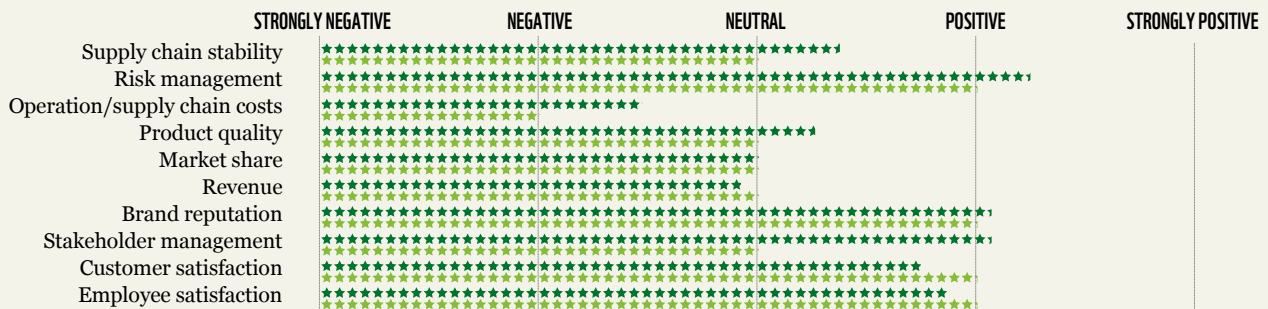
✓ **Stakeholder management**

Demonstrating their commitment to sustainability and social values through responsible sourcing helped companies **gain and maintain customers' trust.** Over 60 per cent of retailers saw **positive impacts on customer satisfaction and stakeholder engagement.**

✓ **Potential productivity gains through employee satisfaction**

Over 70 per cent of retailers claimed sustainability commitments had a **positive impact on employee engagement,** indicating potential gains from higher employee satisfaction and retention.

Public commitment to responsible sourcing brings greater benefit than internal commitment alone for majority of the business metrics



Key

- ★ Public commitment
- ★ Internal commitment

Perceived impacts of responsible sourcing

The road to responsible sourcing: Lessons for success

- 1 Public disclosure and measurable targets.** Publicly disclosed commitments that encompass broad sustainability criteria with measurable, time-bound targets and independent verification are associated with better implementation in practice. This, in turn, delivers greater benefits to companies.
- 2 From risk management to proactive problem solving.** The reputational and legality risks often serve as a catalyst for retailers to adopt sustainability policies and practices. But many progressive retailers are seeing the benefits of responsible sourcing, especially Forest Stewardship Council (FSC) certification, to proactively engage NGOs and policy stakeholders so they can identify and resolve contentious issues and mitigate impacts pre-emptively.
- 3 Bringing along the stakeholders.** Companies that reported positive impacts on employee satisfaction, customer satisfaction and stakeholder engagement shared common characteristics. They did not simply write a policy and demand certified products from their suppliers. Instead, they used their policies to educate suppliers, customers and employees and build more trusting, stable relationships.
- 4 Telling an authentic story.** Less than a quarter of sustainability commitments are accompanied by targets and progress disclosures and just 10 per cent of sustainability marketing of forest products includes substantiated claims. Responsible sourcing enables retailers to enhance their brand and corporate values, and to win consumer trust by demonstrating their integrity and authenticity.
- 5 Opportunities for win-win.** Although cost is often cited as a major barrier to implementing responsible sourcing, this research did not find it to be prohibitively high for retailers. Instead of paying premiums, retailers opted to work with suppliers to help absorb some of the added cost through various contractual arrangements and capacity-building support. Future opportunity lies in collaboration with suppliers to deliver greater value to consumers, so that sustainability initiatives can be rewarded through price mechanisms.
- 6 Measuring the business impacts.** Few companies had quantitative metrics to measure the business impacts of responsible sourcing. Although it is difficult to measure many of the intangible benefits, business-relevant metrics can be highly effective in garnering momentum and support across the organization.

WWF believes there is a strong business case for retailers to adopt responsible sourcing of forest products. However, stronger quantifiable data on the costs and benefits is needed.

WWF encourages all retailers to not only demonstrate and follow through on their commitments to responsible sourcing of forest products, but also measure and showcase their own business case to driver broader sector-wide transformation.

The power of public commitments

Companies with public commitments tend to:

- Have **much stronger policies**, and implement them more thoroughly.
- **Perceive greater benefits** than those that have only an internal commitment, or have made no commitment at all.
- See **increased customer and employee retention and reduced volatility in raw material prices**.



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Family supermarket shopping. A mother looks at spreads with her children. Many spreads and other food products are likely to contain or have been made using palm oil.