

# PPAI Product Responsibility Summit™

Understand  
Sustainability

# The Impact Of International Due Diligence Obligations

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# The Impacts of ESG Due Diligence Obligations

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# ELEVATE: The "S" in ESG...with a focus on supply chain

## Profile

- + **Founded:** 2004
- + **Our People:** 950+
- + **Customers:** 350 global corporates
- + **Website:** [www.elevatelimited.com](http://www.elevatelimited.com)

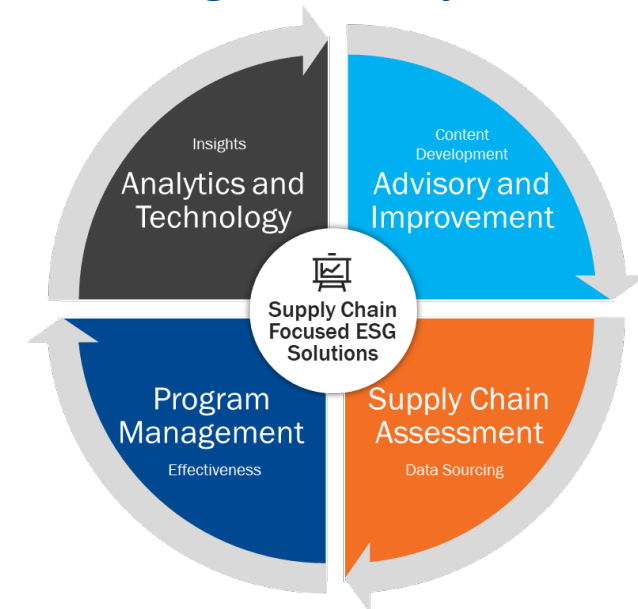
## Overview

- + ELEVATE is the global market leader in ESG, sustainability and **supply chain services**.
- + Our focus is on delivering **ESG program effectiveness** and impact to the world's leading companies and their supply chains.
- + We design, build and manage data-driven sustainability linked programs that drive positive impact, with assessment, advisory, program management and analytics solutions.
- + Key differentiators include curated customer programs, end-to-end service ecosystem, thought leadership, local on-the-ground site visits, worker-voice integration, unique country and product risk landscape and analytics platform, vendor and supplier ESG ratings, and investor-ready ESG reporting.

## Key Sectors

- |                      |                      |
|----------------------|----------------------|
| + Apparel            | + Finance            |
| + Automotive         | + Food & Agriculture |
| + Consumer Goods     | + Healthcare         |
| + Electronics        | + Industrial         |
| + Energy & Utilities | + Retailer           |






## End to End Integrated Ecosystem



# LRQA, owned by Goldman Sachs PE, acquired ELEVATE

## About LRQA

Our portfolio of solutions enables our clients to:

-  Assure assets and management systems
-  Be cyber resilient
-  Achieve product integrity
-  Navigate the energy transition and achieve net zero
-  Source responsibly

Solving critical business challenges and enabling them to focus on growth



# Supply chain ESG risks are front-and-center

## Disruptions



## Governments and Regulators



## Civil Society



## Business Risks

1. Financial – Lost revenue from detained shipments, storage costs, fines
2. Brand Value – High profile negative disclosures and impact to consumer loyalty and buying behavior
3. Financial – Share price and cost of capital

## News & Technologies



## Investors



## Brands & Retailers



# Human rights related legislation is on the rise across the globe

...the big difference being enforcement thru detained shipments

The scope of national laws are expanding to require that human rights **protections are embedded** in companies' strategies

Regulatory actors are putting increased pressure on companies to be transparent about **who is responsible** for their human rights activities and labor rights

Companies are required to **understand, map, and disclose their global supply chain**, especially geographic risks related to forced labor

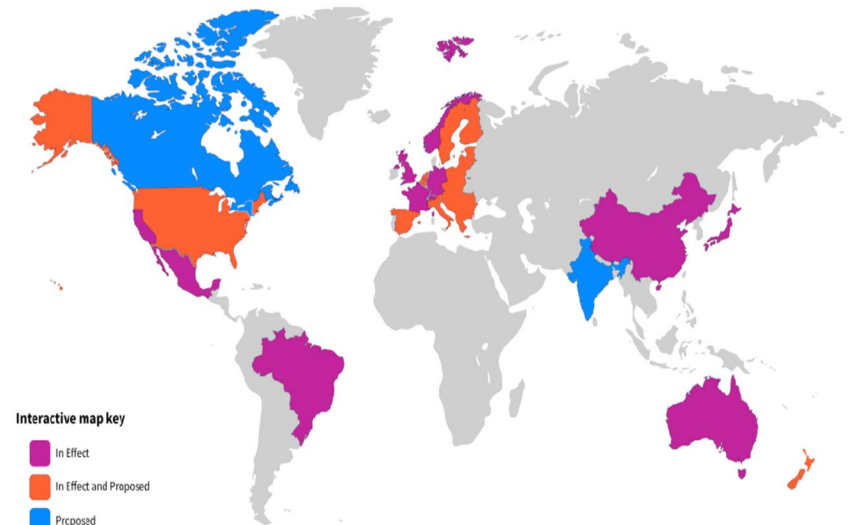
**Proactive supplier engagement** is becoming a major part of socially responsible labor programs, and with increased WROs and other enforcement, increasingly necessary

## Supply chain due diligence legislation map

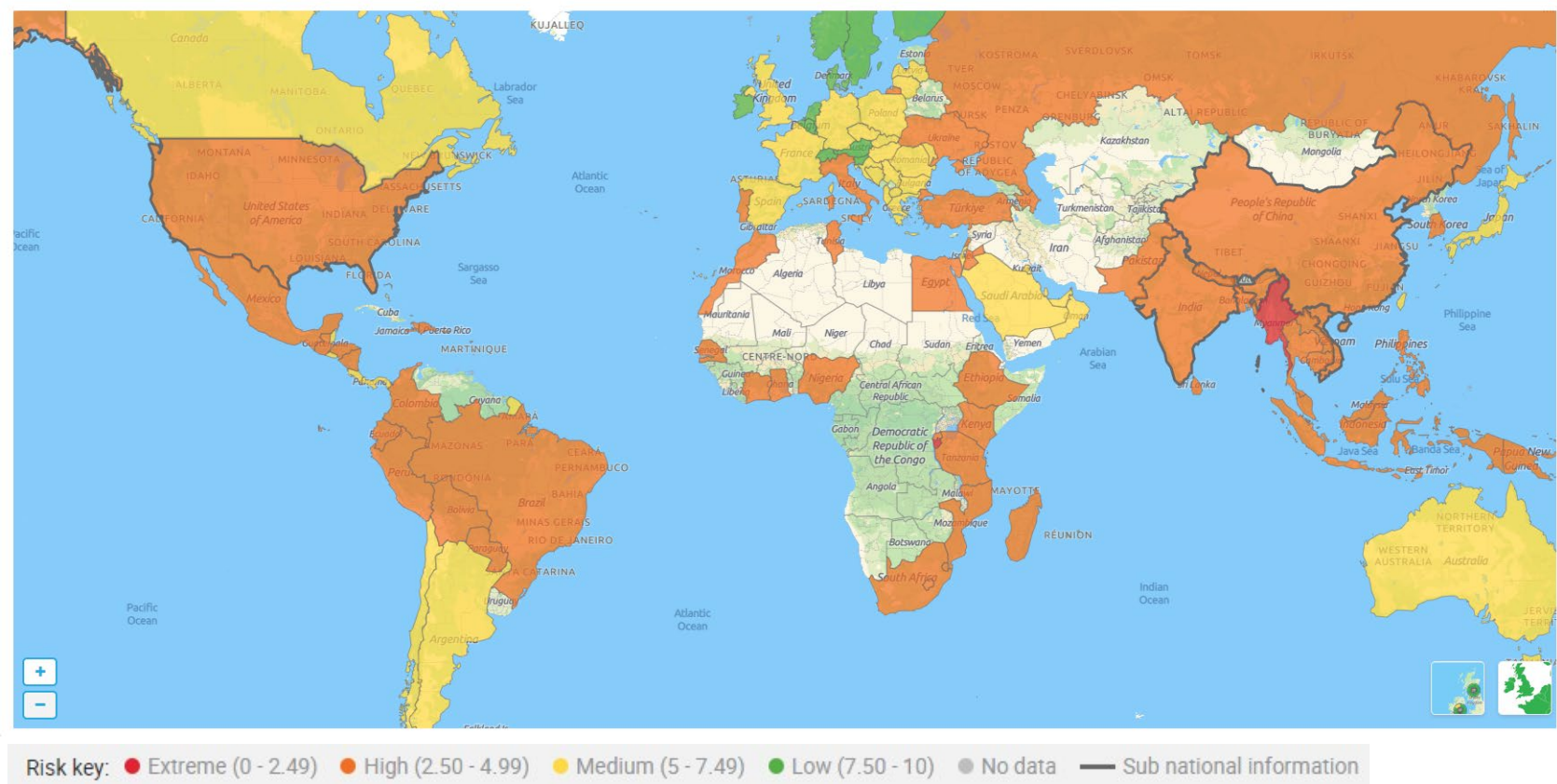
Supply chain resilience: how do we achieve it? Most businesses are under-equipped to respond to the unpredictability of market volatility and global events that further impact the supply chain ESG risk landscape. We are here to give you the breakdown of the most significant laws impacting businesses and help your company stay prepared for any active or upcoming legislation.

Use our interactive map below to learn more about these laws in each highlighted country:

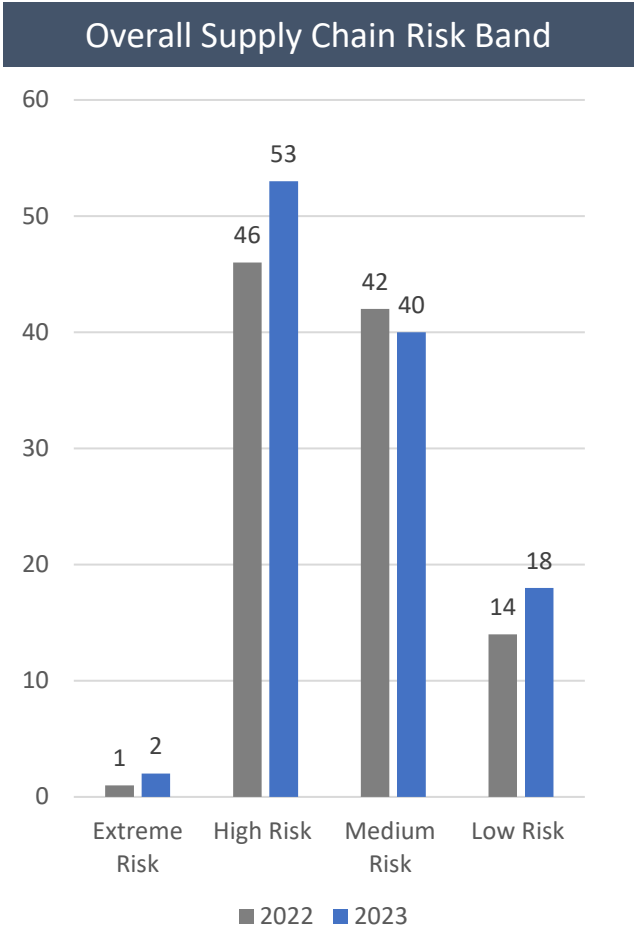
Choose a jurisdiction ▼



# 2023: Half of all sourcing countries are now high risk



- + 110+ countries rated for supply chain risk
- + Increase in # countries / regions rated extreme and high risk
- + All key sourcing countries observed an increase in risk in 2023





# Supplier Due Diligence Transformation Principles

A responsible sourcing program should be guided by the following transformation principles:

## 100% visibility

Despite the size of the supplier or amount of business (e.g., Tier 1, 2, 3 and beyond)

## Mutual recognition

Develop a framework and decide which suppliers are eligible through segmentation. Plan for quality assurance measures when you lose visibility

## Structure & efficiencies

Sizing the team and structuring to manage buyers shifting agenda but also creating efficiencies to support the workload.

## Rigorous prioritization

Who are the most and least important suppliers, which ones pose the highest risk, and action that needs to be taken and investment required

## Integrating management systems review

Develop a clearer understanding of supplier capabilities. Insight into the management systems and documentation infrastructure of suppliers to (a) avoid seized shipments and (b) get seized shipments released as quickly as possible. Consider strong vendors to own responsibility of their suppliers.

## Investor awareness

Recognition that social standards are being driven by investor requirements

## Deeper dives

More effort to dig into factories and the effectiveness of their suppliers where appropriate

## Responsible sourcing

Create a comprehensive review of suppliers and their factories using social responsibility, environmental, food safety, solvency which can be used to support sourcing decisions

## Communication

Support internal alignment and awareness for all stakeholders through robust communication strategy

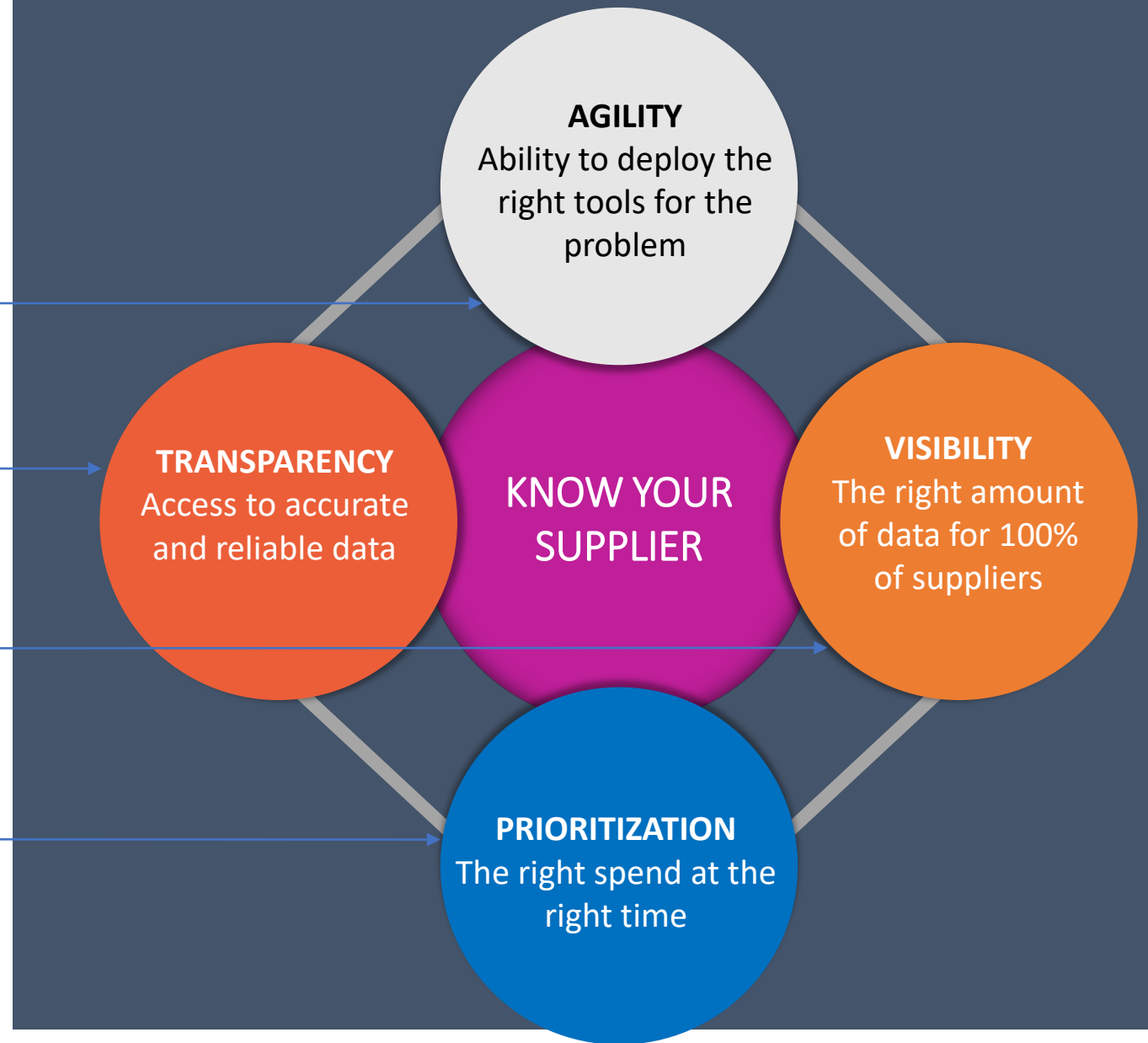
# Evolving Responsible Sourcing Program Requirements

One size fits all audit is not enough

Transparency where transparency can be achieved is going to be critical to stakeholder confidence

Due diligence at both supplier and facility level and beyond is now a “need to have”

A methodology to allocate resources is even more important now than before the pandemic



# Poll Everywhere - Voting Directions

- On your phone, text **PPAI** to **22333**.
- If it's multiple choice, when the question is asked, type in the letter corresponding to your answer.
- If it's a word cloud, when the question is asked, type in your word(s).
- Hit send and wait for the results.



# What is the annual revenue of your organization?







# Does your company sell to customers based or have offices in the EU?

Yes



No





## Which of the following is the biggest challenge in your company's supply chain activities?

(A) Supply chain mapping



0%

(B) Auditing factories/CAP Management



0%

(C) Requesting/gathering environmental information



0%

(D) Internal resources to conduct due diligence activities (time, money, etc.)



0%

(E) Getting suppliers to engage in a positive way



0%



# Scenario Example 1

Promotional Products Supplier (importing, warehousing & decorating)

- Private Equity Owned Company
- \$150,000,000 Annual Revenue
  - 100 Factory Partners
    - 30 Direct Factory relationships/70% spend
    - 70 Factories producing products purchased via intermediary trading company/30% spend
    - Max container cost - \$100K
  - Social auditing approach – collecting audit reports completed (BSCI, SMETA, etc.) and performing audits on key factories based on spend and customer request
  - Not actively collecting sustainability information in the supply chain (i.e. carbon footprint data) at this time outside of large end customers requiring HIGG FEM data
  - Distributor partners/End Users – Selling to distributors that are both private and public; selling to distributors whose end users that are Fortune 500 companies

# Scenario Example 2

## Promotional Products Distributor

- Privately owned company
- \$75,000,000 Annual Revenue
  - 300 promotional product suppliers (US & Canada based companies)
    - No direct relationships with factories overseas
    - Estimate approx. 700 factories producing products
    - Average order value \$1,500.00
    - Largest order size \$50,000.00
  - Social auditing approach – reliant on supplier auditing program; requests factory audits from suppliers when large customers require upon request
  - Not actively collecting sustainability information in the supply chain (i.e. carbon footprint data) at this time
  - 10 customers are Fortune 1000 companies; also selling to another 20 publicly traded companies



# Scenario Example 3

Promotional Products Supplier (importing, warehousing & decorating)

- Privately owned company
- \$30,000,000 Annual Revenue
  - 25 Factory Partners
    - 12 Direct Factory relationships/80% spend
    - 13 Factories producing products purchased via intermediary trading company/20% spend
    - Max container cost - \$75K
  - Social auditing approach – collecting audit reports completed (BSCI, SMETA, etc.) and requesting audits based on customer request
  - Not actively collecting sustainability information in the supply chain (i.e. carbon footprint data) at this time outside of large end customers requiring HIGG FEM data
  - Distributor partners/End Users – Selling to distributors that are both private and public; selling to distributors whose end users that are Fortune 500 companies

## Q&A & Closing Remarks

YOUR FUTURE. OUR FOCUS.

LRQA

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