RESponsible sourcing: future of Indian retail

Retailers can play a crucial role in addressing deforestation and promoting sustainable supply chains by encouraging responsible sourcing of commodities. By adopting initiatives like making time-bound commitments, developing no-deforestation policies, and adopting voluntary standards and certifications, retailers can move towards sustainable supply chains while holding companies accountable, write Karishma Vohra, Sanjana Das, and Vishal Dev

Forests are vital to the planet as they provide critical ecosystem services, and are amongst the largest, most cost-effective climate solutions available today. Over 1.6 billion people depend directly on forests for their income, employment opportunities, and for sourcing commodities. However, increased demand of certain raw materials has implications on the health of forests. It is estimated that almost 10 million hectares of forests are lost every year.

The loss of forests often has a devastating impact on communities and indigenous people, biodiversity, and climate change. This makes deforestation one of the most significant global environmental challenges today.

The World Resources Institute (WRI) estimates that seven commodities, which include cattle, palm oil, soya, cocoa, rubber, wood, and coffee account for 57 per cent of all tree cover losses associated with agriculture between 2001 and 2015. Forest-linked commodities including soya and palm oil (including their derivatives) are used in a wide range of food products and other consumer goods. Transforming their supply chains towards sustainability has the potential to significantly reduce deforestation and resulting climate change while providing sustainable livelihoods for communities.

Companies involved in the food and consumer goods sector have committed to removing deforestation from their supply chains through various declarations. Despite this, several company commitments are yet to be met and to
achieve this, the need for creating an enabling environment through public and private sector partnership cannot be overstated. Retailers, being the intermediaries between manufacturers and consumers, have the opportunity to play a key role in bringing about this transformation through encouraging the shift towards responsible sourcing of commodities that form an important component of the ingredient list of their products.

**CONSUMERS ARE DEMANDING SUSTAINABLE PRODUCTS**

Over the years, we have witnessed a global increase in consumer awareness for environment-friendly products. A global survey by IBM on ‘Balancing Sustainability and Profitability’ of 16,000 global consumers in 10 major economies highlights that around 51 per cent of the respondents feel that environmental sustainability is a more important criteria for them now, particularly after the pandemic. Meanwhile, 49 per cent of the consumers claim that they have paid a premium for products that have been branded as ‘sustainable’. The same trend has been witnessed in the Asia-Pacific region, including in India, as highlighted by a recent study by Bain & Company (2022), which states that around 94 per cent of Indian consumers are willing to pay more for sustainable products; 52 per cent of them plan to spend more in future for the sustainable products; and 20 per cent cite environmental and social benefits as top purchasing criterion.

Such trends are likely to exert pressure on retailers to meet the demand of consumers, and put forth an opportunity for them to play a critical role in acting as a ‘bridge’ between sustainable production and consumption.

**RETAILERS: A DRIVING FORCE FOR RESPONSIBLE SOURCING**

It is estimated that supply chains of 94 per cent of Fortune 1000 Companies were disrupted by the pandemic. With an increase in online shopping and e-commerce platforms, the industry has witnessed a steady growth. The global retail industry is expected to reach USD 18.33 billion in 2028, growing at a CAGR of 17.7 per cent (2021-28).

The Indian retail market is estimated to reach USD 2 trillion by 2032, while the e-commerce industry is expected to cross USD 350 billion by 2030, growing at a CAGR of
23 per cent. This growth is mostly driven by the socio-demographic and economic factors such as urbanisation, income growth and the increasing number of nuclear families. It is also estimated that around 85 per cent of global retailers regard responsible sourcing as a sustainability pillar for the grocery segment. This coupled with increasing consumer demand for sustainable products and strong investor push strengthens the case for responsible sourcing in retail supply chains.

Various initiatives can be undertaken by retailers globally to move towards better practices. Making time-bound commitments, developing NDPE (No Deforestation, No Peat, No Exploitation) policies for sustainable sourcing, publicly disclosing progress through disclosure tools, adopting voluntary standards and certifications, joining regional platforms and coalitions, are some of the steps that retailers can take in order to transition towards sustainable supply chains.

Sustainability certifications, which ensure that the ingredient in their product has been sourced in an environmentally and socially responsible manner, such as the Forest Stewardship Council (FSC) for sustainable timber & paper, Roundtable on Sustainable Palm Oil (RSPO) for sustainable palm oil, and a Roundtable on Responsible Soy (RTRS) for sustainable soya are increasingly being adopted by retailers to demonstrate their commitment towards deforestation and forest conversion free sourcing practices. Global retailers such as Marks & Spencer have 100 per cent of palm oil RSPO certified, while more than 98 per cent of the wood used by IKEA is FSC certified. The retailers also have tremendous influence on their suppliers including the consumer goods and F&B manufacturers in order to push them towards sustainable procurement practices through monitoring, engagement and capacity building.

Traceability, which means understanding where the product came from and how it was made is a crucial factor in disclosing sourcing information to stakeholders. It
enables consumers to ensure that the ingredients in the products they purchase does not contribute to deforestation while holding companies accountable, making it easier to identify those that are purchasing, and utilizing sustainable and deforestation-free raw materials. With palm being an integral ingredient in more than half of all retail products, be it personal care including shampoo, lipstick, toothpaste, soap, or cookies, savories etc, it becomes crucial to ensure that the palm sourced is environmentally and socially sustainable. In this context, the WWF’s Palm Oil Buyers Scorecard (POBS) is a tool that assesses palm oil buyers across the supply chain and evaluates the progress they have made towards sustainable palm oil, thereby encouraging traceability and transparency in the sourcing practice. The 2021 edition of the POBS assessed a total of 227 companies from across the world out which 63 were retailers. Global retailers like IKEA, Tesco, Marks & Spencer, and Indian companies like Godrej report on the POBS as well as on the RSPO’s Annual Communication of Progress. POBS helps companies using palm oil in their products to identify opportunities for improvement in their own policies, operations, and sustainability efforts. It enables benchmarking against peers and the ability to demonstrate progress over the time while commending the leaders driving transformation towards sustainable palm oil.

**SUSTAINABLE PALM OIL PROCUREMENT GUIDE**

While global retailers have been leading the way towards sustainable sourcing of forest and agricultural commodities, it is also important to highlight that this concept is new in the Indian market. However, Indian retailers are now slowly and gradually understanding the need for taking action towards sustainable supply chains. WWF-India has been supporting companies on this journey and one such tool that helps retailers & companies deliver positive impact is The ‘Sustainable Palm Oil Procurement Guide for Conscious Buyers in India’. The guide which was launched at Retailer Association of India’s Retail Leadership Summit is a guidance tool outlining steps in line with the Accountability Framework Initiative’s 12 core principles that palm oil using companies in the Indian market can adopt to develop transparent and sustainable supply chains. The guide also highlights best practices and can prove to be a stepping stone for companies who want to start their journey towards responsible sourcing of palm oil.

**WAY FORWARD**

There is an urgent need to rethink business models, processes and systems to build sustainability and resilience in the supply chain, especially in case of forest and agri-culture-linked commodities such as palm oil. While, there has been a lot of progress made by global retailers to transition towards sustainable supply chains, it is also imperative to highlight that there has been a certain level of momentum witnessed in the Indian market. For example, Reliance has a rigorous due diligence process for its suppliers in order to ascertain the compliance of their suppliers with labour and human rights, health and safety, environmental protection, ethical conduct, business integrity and confidentiality laws and standards. On the other hand, Aditya Birla have developed a ‘Sustainability 2025 Strategy’ with a particular focus on product design and development, customer centricity and supply chain by leveraging innovation and technology. These initiatives pave the way for a sustainable retail sector, encouraging more and more companies to take action towards responsible sourcing through collaboration within the value chain and bridging the gap between demand and supply of sustainably sourced products.

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