Transparency in Supply Chains

The essential building block for a future-ready ESG reporting

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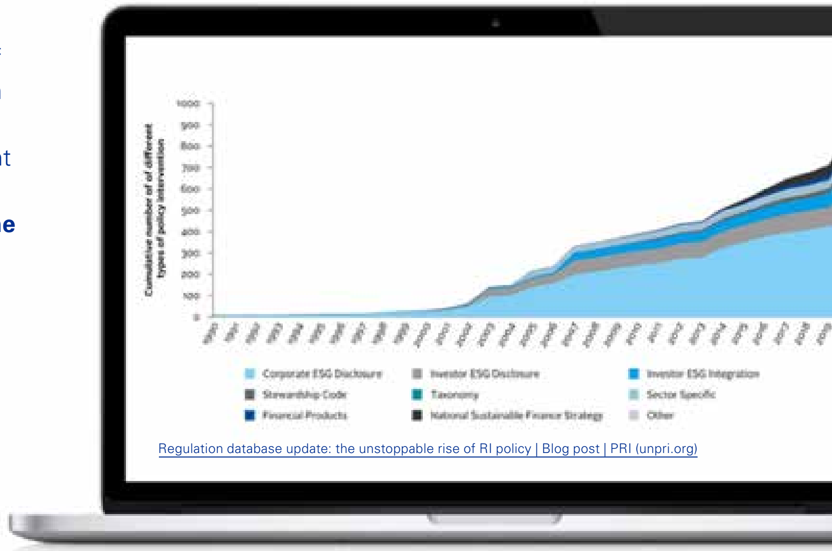
Contents

1 Increased scrutiny for more transparency

Non-transparent supply chains and limited traceability of supply chain operations can generate **business disruption** and are perceived as a threat. In recent years, a rapid customer interest shift, COVID-19 and an increased amount of regulations accelerated the need for companies to provide **more transparency on product origins across the supply chain**. Additionally, companies are increasingly under scrutiny from governments, consumers, NGOs, investors and other stakeholders to develop **an integrated ESG reporting approach**, building on the foundation of supply chain transparency.



Regulation database update: the unstoppable rise of RI policy | Blog post | PRI (unpri.org)

Pressure from investors

"We can use risk in a **more clever way**. Increasing the number of divestments for ESG reasons has been **very profitable**, very good for the fund in **reducing risk**."

Nicolai Tangen
CEO of Norge Bank Investment Management

"Climate change has become a **defining factor in companies' long-term prospects** – a risk that markets to date have been **slower to reflect**. But awareness is rapidly changing, and I believe we are on the edge of a fundamental **reshaping of finance**."

Larry Fink
Chairman and CEO of BlackRock

"For us, ESG-investing is an essential **risk management tool**, which helps reduce possible drawdowns by measuring **extra-financial factors** and steering clear of **sudden negative events**."

Michael Lewis
Head of Sustainable Finance Research at DWS Investment

"Integrating sustainability into investment decisions helps make risks **measurable and avoidable**. In addition, ESG investment analysis increases the exposure for companies with very **forward-looking business models**."

Ingo Speich
Head of Sustainability & Corporate Governance at Deka Investment

Pressure from consumers

60%
of consumers are **willing** to incorporate **environmental issues** in their **buying behavior**; with an **even higher share among the young**.[1]

88%
of consumers are **informing themselves** about sustainability, **product origins**, and want brands to help them be more **environmental and ethical**.[2]

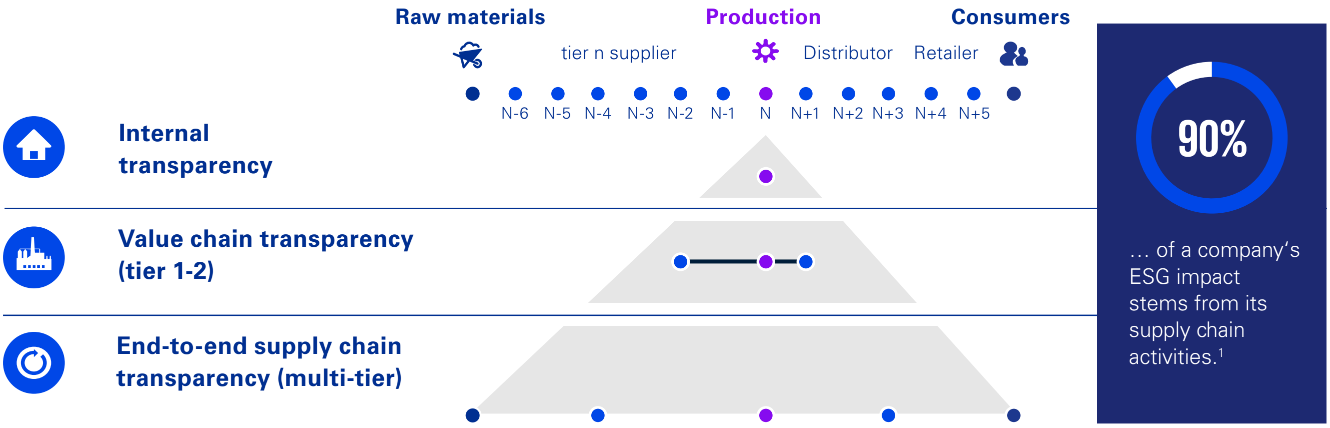
85%
of people indicate that they have shifted their **purchase behavior towards being more sustainable** in the past five years.[3]

80%
of young consumers intend to **buy only sustainable products** or at least as much as possible. More than 20% of these consumers will also try to **persuade others to do the same**.[1]

Source: [1]CreditSuisse, [2]Forbes, [3]Businesswire, DWS, Deka, Norges Bank, Blackrock

2 Benefits of end-to-end transparency

Levels of transparency



Benefits by transparency level

1	**Internal transparency**	• The benefit of internal transparency is to **enable process optimization** and **efficient decision-making** across functions.
2	**Value chain transparency (tier 1-2)**	• The main value of tier 1-2 transparency is to provide a better service, resulting in **revenue uplift** and improved **operational efficiency**.
3	**End-to-end supply chain transparency (multi-tier)**	• **End-to-end supply chain transparency** is the ability to show consumers as well as other stakeholders the origin, **environmental footprint and social aspects** along the **entire supply chain**. • It provides **reassurance** to internal and external stakeholders about **supply chain risks**, e.g. child labor, fair wages, deforestation, carbon neutrality as well as **improved brand perception and customer loyalty**.

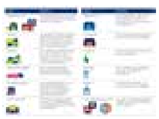
The drive for transparency across the entire supply chain (multi-tier) requires the involvement of multiple stakeholders. When different business entities successfully collaborate, **value is realized across key business functions**. Benefits can differ per stakeholder group and per commodity. For instance, for cocoa, the **avoidance** of **child labor**, deforestation, quality control and **consumer brand perception** are **critical benefits**, while for other commodities **operational excellence criteria** (e.g. just-in-time delivery), **avoidance of cost of recalls** (e.g. due to contamination), controlled foreign exchange exposure and optimized stocks are stronger benefits.

Source: [1]World Economic Forum

3 Achieving supply chain transparency

Mapping end-to-end supply chain processes, stakeholders, roles & responsibilities

1

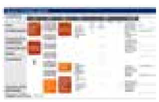


Stakeholders
Definition of all stakeholders within the supply chain, assignment to role profiles

2

Roles
Definition of the individual roles and their relevance, tasks and responsibilities within the supply chain e.g. as per GS1 Global Traceability Standards methodology

3



Processes
Definition of the individual process steps within the supply chain, including stakeholders and roles

4

Interaction model
Mapping of stakeholders and process interaction model based on a RACI matrix, e.g. as per GS1 Global Traceability Standards methodology

5

Data

- Tech stack definition for supply chain mapping, transparency & digitalization
- Data register for certificates, labels, surveys, audit reports, KPI, GHG, supply chain risks

Value chain mapping to identify pain and trust points

Supply chain transparency projects are 'data-hungry' and there is a tendency to start collecting all possible types of data. The biggest risk is that companies aim to collect too much data and especially data for which suppliers or farmers have very little incentive to collect. As a result, companies have to overinvest in follow-up, chasing and data cleansing because without corresponding incentives, suppliers and farmers will provide poor data.

Therefore, the value chain mapping to collect the common issues ('pain points') between participants in the chain is a **first step to set the data & information requirements ('trust points')** that **determine the specifications** of the **supply chain transparency solution**. It also helps assess to what extent it is possible to share (some of) the cost for the solution with suppliers.

4 One step further towards ESG reporting

The journey towards ESG reporting starts with **checking ESG reporting regulation applicability** as well as agreeing on your ambition. Based on that, material topic areas as well as relevant KPIs can be identified, **building the foundation** before they are **integrated into the existing management report**.

Pre-Readiness Assessment
- Assess regulatory scope e.g. in the EU and in Switzerland

Materiality
- Assess initial materiality assessment, taking into account applicable ESG reporting requirements, e.g. CSRD, GRI SRS
- Identify non-material report contents

Gap Analysis
- Gap assessment taking into account the applicable ESG reporting requirements, e.g. CSRD

Governance & Resources
- Holistic further development of governance structures
- Create a resource plan for the fulfilment of the reporting requirements

Survey & Frameworks
- Set up a process to collect information
- Consider relevant frameworks (e.g. GRI, TCFD)

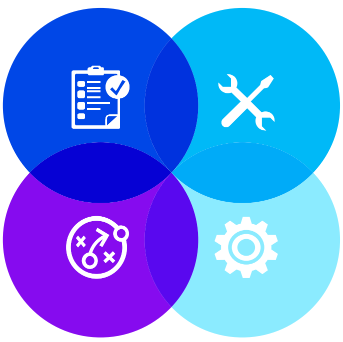
Audit Readiness
- Prepare an external audit of the non-financial reporting

Integration into the management report
- Prepare the integration of reporting into the management report

KPMG can help you in multiple ways on your journey towards ESG reporting, from **assessing applicable non-financial reporting requirements** (e.g. CSRD, Swiss CO, SEC), to identifying **specific gaps in your current reporting** and providing guidance on how to **address these gaps** in practice.

Reporting regulation applicability
We can help you review to what degree you are in scope of new reporting regulations, e.g. CSRD, Swiss CO, SEC, how the requirements of such regulations compare to your current practice and identify the gaps within your existing reporting framework.

Reporting strategy
Upon having identified the regulatory reporting frameworks that will apply to you and the respective gaps, we can support you in developing a strategy, determining material areas to report on as well as defining KPIs for the respective disclosure areas in scope.



Data & systems design
Once you are clear which KPIs you will need for reporting on a regular basis, we can help you design the processes and systems including roles & responsibilities required to collect and aggregate such data on a regular basis e.g. carbon accounting systems.

Data & systems implementation
After the design for processes and systems to collect the required non-financial data is in place, we can assist you in the implementation phase, e.g. selecting systems vendors, working with tech vendors to implement the respective solutions.

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