

+ELEVATE

Responsible Sourcing Management Model



About an Effective Responsible Sourcing Function

An effective Responsible Sourcing program integrates social and environmental responsibility into supply chain management. It does so by recognizing that the fundamental role of the supply chain is to ensure that companies have the right products at the right price, from suppliers who deliver on-time, with quality manufacturing programs, and can help companies meet customer expectations. Therefore, an effective Responsible Sourcing program strengthens the supply chain by making it more predictive and adaptive to changing market needs, helping the company develop resilience, mitigate risk, improve efficiency, and better manage supplier relationships. This Management Model is intended to illustrate how retailers can more effectively pursue these goals.

About the Responsible Sourcing Management Model

The Model is a tool developed by ELEVATE to help identify the management practices that will improve efforts to responsibly source private label products. The Model is only intended to act as resource for companies' responsible sourcing programs. Given the differences in company operations, supply chains, products, strategies, and other critical factors, each company will need to identify the practices that address their unique circumstances. Therefore, not every tactic identified in the model is appropriate for every company.

The Model is divided into five sections, including:

- Strategy and Commitment
- Communicating, Reporting and Engaging
- Internal Alignment
- Supplier Monitoring and Engagement
- Transparency & Traceability

The Model divides initiatives into those that are Core, Proactive, or Strategic. All programs will have elements that fall into each of these categories:

- *Core*: These elements are the building blocks for effective Responsible Sourcing. They are primarily focused on risk mitigation.
- *Proactive*: These elements indicate a move toward understanding and addressing business impacts in the supply chain. They begin to go beyond a risk-focus, to consider the opportunities for supply chain performance improvement.
- *Strategic*: These elements holistically consider industry risk and impact, and address a “net positive” supply chain impact. They represent forward-thinking and integrated business planning and processes.



A few notes on the focus of this model: The Model concentrates on Responsible Sourcing programs in place for private label product and; the Model primarily focuses on efforts at tier one suppliers, but also incorporates elements to manage responsibility for upstream suppliers.

| Dimensions | Core | Proactive | Strategic |
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| Strategy and Commitment | | | |
| Strategy | <ul style="list-style-type: none"> Responsible Sourcing strategy is focused on risk mitigation and legal compliance Primary program activity is factory audits and re-audits | <ul style="list-style-type: none"> Responsible Sourcing strategy is integrated into broader Corporate Responsibility strategy Strategy is focused on training and capacity building Strategy addresses current risks and impacts to the business Strategy considers industry leading practices and stakeholder expectations | <ul style="list-style-type: none"> Responsible Sourcing strategy is integrated into the corporate sourcing strategy Strategy is focused on systemic change (e.g., addressing factory issues, as well as local laws & enforcement, education, management, etc.) to improve working conditions and environmental impacts in supply chains Strategy is responsive to current and anticipated risks, and impacts to the business on a global scale Responsible Sourcing program aims to be innovative and an industry leader |
| Materiality / Risk Identification | <ul style="list-style-type: none"> Ad hoc efforts to identify business risks and impacts in the supply chain | <ul style="list-style-type: none"> Responsible Sourcing risk identification is integrated into broader Corporate Responsibility risk identification process Risks and impacts identified based on detailed segmentation factoring in country, sector, and business performance / opportunity risk | <ul style="list-style-type: none"> Formal risk / impact assessment conducted to identify and prioritize risks and impacts in supply chains Risk assessments conducted before new country, product, or sector entry |
| Goals | <ul style="list-style-type: none"> Program goals focus on number of factory audits and are set annually | <ul style="list-style-type: none"> Responsible Sourcing goals align with broader Corporate Responsibility goals Goals are focused on expanding program to address risks and opportunities Three to five year road map in place | <ul style="list-style-type: none"> Sets public-facing, outcome-oriented goals Goals focus on making systemic change in supply chains Five to 10 year road map in place |

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| Governance and Executive Engagement | <ul style="list-style-type: none"> Board is updated on an ad hoc basis Sourcing executives have minimal awareness of Responsible Sourcing efforts | <ul style="list-style-type: none"> Responsible Sourcing and Corporate Responsibility teams are integrated and leverage similar governance structures Responsible Sourcing reports to Board on strategy and outcomes at least annually Sourcing executives are aware of Responsible Sourcing processes and procedures, and ensure they are followed | <ul style="list-style-type: none"> Board is engaged and periodically receives report on strategy and outcomes, and are actively involved in setting strategy if appropriate Responsible Sourcing is included in Corporate Code of Ethics and Business Practices Sourcing executives integrate Responsible Sourcing into their processes and procedures |
| Responsible Sourcing Team Staffing | <ul style="list-style-type: none"> Dedicated staff for Responsible Sourcing functions Responsible Sourcing is a subset of traditional corporate Product Safety, Testing and/or Quality team(s) | <ul style="list-style-type: none"> Responsible Sourcing has dedicated staff and reports into senior leadership Responsible Sourcing team size is appropriate to address the most relevant functions Participates in multi-stakeholder partnerships to scale the program beyond the direct capacity of the Responsible Sourcing team | <ul style="list-style-type: none"> Responsible Sourcing is key component of the whole-of-business effort (along with Sourcing, Merchandising, Marketing, and others) to manage suppliers as strategic, long-term business partners Leverages other Sourcing functions to drive responsible sourcing practices |
| Responsible Sourcing Policy (Code of Conduct) | <ul style="list-style-type: none"> Supplier Code of Conduct (CoC) addresses various social and environmental aspects CoC available to suppliers on company website | <ul style="list-style-type: none"> CoC incorporates all relevant dimensions of recognized industry standards CoC developed with input from Legal, Sourcing, and other critical executives CoC communicated to suppliers along with guidance on requirements and implementation Vendor contracts refer to CoC | <ul style="list-style-type: none"> Company is working toward harmonizing CoC with industry peers and credible standards, and includes leading and/or aspirational environmental and social standards CoC developed with input from external stakeholders CoC includes outcome-oriented social and environmental indicators that auditors can objectively check against (e.g. factory capacity to respond to volatility) |

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| Communicating, Reporting and Engaging | | | |
| Reporting and Communication | <ul style="list-style-type: none"> Minimal information about Responsible Sourcing program provided on company website | <ul style="list-style-type: none"> Makes aggregated audit results, and summary of monitoring and enforcement mechanisms publicly available Publishes Supplier Code of Conduct Publicly discloses where select products are made, without factory-specific details May disclose some anecdotal factory-specific information | <ul style="list-style-type: none"> Explains challenges of executing the program in the supply chain through a number of channels (e.g., website, reports) Publishes list of factories and locations, with stories, photographs, or other information Require public supplier reporting to increase transparency and drive improved performance |
| Stakeholder Engagement and Collaborative Involvement | <ul style="list-style-type: none"> Communication with NGOs on an ad hoc basis Collaboration with other retailers/brands on individual supplier issues | <ul style="list-style-type: none"> Actively involved in efforts to develop industry-wide standards Collaboration with industry groups for practice sharing and specific issues Aware of stakeholder concerns and expectations, and develop program elements in response Regular communication with a small set of external stakeholders, but no formal relationship or project partnerships | <ul style="list-style-type: none"> Formal partnerships with NGOs on Responsible Sourcing initiatives Leading efforts to develop industry-wide standards |
| Consumer Education and Marketing | <ul style="list-style-type: none"> Corporate site includes some basic information for consumers | <ul style="list-style-type: none"> Responsible Sourcing team partners with Marketing to craft consumer messaging about the company's Responsible Sourcing strategy or stories from workers and/or factories in the supply chain | <ul style="list-style-type: none"> Responsible Sourcing is an integrated component of consumer marketing Point-of-purchase marketing provides consumers with information about Responsible Sourcing initiatives |

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| Internal Alignment | | | |
| Legal, Compliance, and Government Affairs | <ul style="list-style-type: none"> Responsible Sourcing and Legal/Compliance teams communicate on ad hoc basis Company complies with applicable laws and regulations relating to sourcing as they are enacted | <ul style="list-style-type: none"> Responsible Sourcing partners with Legal, Compliance, and/or Government Affairs departments to monitor pending legislation and plans accordingly for compliance | <ul style="list-style-type: none"> Company actively engages government and other stakeholders to shape policy conversations relating to Responsible Sourcing |
| Finance | <ul style="list-style-type: none"> Suppliers are paid on time and in compliance with payment terms | <ul style="list-style-type: none"> Payment terms reflect social performance and do not place undue burden on supplier financing Suppliers are able to leverage receivables to obtain favorable financing | <ul style="list-style-type: none"> Help suppliers gain access to financing opportunities for capital improvements, training, and/or remediation |
| Sourcing | <ul style="list-style-type: none"> Sourcing involved when a supplier fails an inspection Supplier turnover is actively monitored Responsible Sourcing provides Sourcing with insight into supply chain risks and opportunities that support sourcing strategy Sourcing teams are trained on Responsible Sourcing program, process and tools | <ul style="list-style-type: none"> Selection of suppliers includes Responsible Sourcing approval process, including a pre-production audit Sourcing maintains supplier scorecards that give Responsible Sourcing equal weight to other major considerations Responsible Sourcing has authority to limit purchase orders at noncompliant suppliers | <ul style="list-style-type: none"> Sourcing relies on Responsible Sourcing team expertise as vital to strategy and decision-making Sourcing monitors purchase order units placed against supplier capacity Responsible Sourcing provides demonstrated benefit to Sourcing in terms of risk mitigation, strengthened supplier relationships, improved systems at supplier factories Sourcing compensation packages incentivize responsible practices Stable factory base of key suppliers |

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| Merchandising | <ul style="list-style-type: none"> Merchandising interacts with Responsible Sourcing on an ad hoc basis | <ul style="list-style-type: none"> Merchandising is trained on connection between purchase order pricing, delays, changes and Responsible Sourcing practices at factories Delays and changes to purchase orders do not place undue burden on suppliers | <ul style="list-style-type: none"> Merchandising compensation packages incentivize responsible merchandising practices Merchandising seeks opportunities with suppliers to showcase responsible social and environmental performance to consumers |
| IT and Analytics Systems | <ul style="list-style-type: none"> Responsible Sourcing has access to complete list of active suppliers Program management, measurement, and tracking is heavily reliant on Excel Basic analytics to identify high risk / opportunity regions or suppliers | <ul style="list-style-type: none"> Responsible Sourcing has robust systems to track suppliers and audit data Systems in place to prevent purchase orders from being placed to unauthorized suppliers Basic analytics to prioritize Responsible Sourcing efforts | <ul style="list-style-type: none"> Responsible Sourcing and purchase order systems are integrated Systems in place to track component suppliers and volume, and to detect and prevent unauthorized subcontracting Sophisticated analytics take into account region, supplier type, historical data, and supplemental data to identify supply chain risks and opportunities |
| Other related functions (e.g. Corporate Giving/Foundation, Sustainability, etc.) | <ul style="list-style-type: none"> Responsible Sourcing and related functions have regular interaction but efforts are not formally coordinated | <ul style="list-style-type: none"> Responsible Sourcing and related functions coordinate goals and objectives but operate independently | <ul style="list-style-type: none"> Responsible Sourcing and related functions have shared goals and objectives that are aimed at being a responsible global citizen and achieving a positive impact in the communities where the company operates |

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| Supplier Monitoring and Engagement | | | |
| Supplier Incentives | <ul style="list-style-type: none"> Disincentives for noncompliance, including charge backs, decreased orders, and/or other methods | <ul style="list-style-type: none"> Suppliers are incentivized for compliance through a variety of mechanisms, possibly including increases to purchase orders Suppliers are not penalized for transparency, but should show commitment to improvement Suppliers that consistently demonstrate poor performance are phased out | <ul style="list-style-type: none"> Suppliers that demonstrate commitment to, or ownership of, Responsible Sourcing are given preferred supplier status |
| Monitoring | <ul style="list-style-type: none"> Audits 100% of supplier facilities without taking into consideration the level of risk at each facility | <ul style="list-style-type: none"> Audits suppliers according to a risk profile Performs mix of supplier self-assessments and on-site audits on a regular basis according to supplier risk profile Works closely with suppliers to remediate Responsible Sourcing issues Supplier audits are entered into sharing system (e.g. Sedex, Fair Factories Clearinghouse) Audit content is aligned with an internationally accepted standard | <ul style="list-style-type: none"> Employs expert auditors (in-house or third-party) to monitor suppliers according to supplier risk profile Supply chain is segmented and approach is tailored based on volume, risk, product category, etc. Within the bounds of antitrust concerns, audits are shared with other brands/retailers and remediation is coordinated |

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| <p>Capacity Building (Training and Development)</p> | <ul style="list-style-type: none"> • Remediation addressed through Corrective Action Plans (CAPs) and re-audits • Performing internal training with Merchant, Sourcing, and Buying teams so they understand how their efforts impact responsible sourcing outcomes | <ul style="list-style-type: none"> • Regular supplier awareness building to highlight expectations and train on company's CoC • Formal remediation and capacity building programs in place for key suppliers • Training provided to owners of vendor companies to improve management of Responsible Sourcing | <ul style="list-style-type: none"> • Supplier performance improvement programs fully integrate business and social performance • Participation in multi-stakeholder efforts to drive change throughout the industry / region • Implement innovative approaches that seek to improve both working conditions and overall business performance at suppliers • Remediation plans and capacity building are integrated |
| <p>Factory Worker Engagement</p> | <ul style="list-style-type: none"> • Initiatives developed on ad hoc basis, primarily in response to specific issues or violations | <ul style="list-style-type: none"> • Worker grievance mechanisms (e.g., hotlines) in place to receive violation claims • Worker surveys are used to tailor approach to worker engagement | <ul style="list-style-type: none"> • Responsible Sourcing works with supplier management to incorporate worker engagement programs, that have a positive impact on worker wellbeing and improve factory performance, as a standard practice • Worker engagement programs are integrated as part of the core toolkit for managing factories. • Engagement with local stakeholders, including NGOs and government to address local worker needs |

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| Environmental Impacts | <ul style="list-style-type: none"> Reacts to evidence of supplier noncompliance with applicable local environmental regulations | <ul style="list-style-type: none"> Utilizes mechanisms to identify “hot spots” in supply chain for targeted environmental improvement opportunities Tracks supplier sustainability performance Encourages vendors to report and improve on sustainability metrics (e.g. energy, waste, water) of their operations and/or products Focus is on improving energy and water efficiency | <ul style="list-style-type: none"> Encourages sustainable manufacturing practices for all products and suppliers Relevant departments test and actively partner with research groups or vendors to design next generation equipment for sustainable performance Focus is on eliminating waste and all harmful chemicals and byproducts |
| Transparency & Traceability | | | |
| Raw Materials | <ul style="list-style-type: none"> No active efforts to track raw materials beyond what is legally required | <ul style="list-style-type: none"> Ad hoc efforts in place to source certain materials in a sustainable fashion Supports adoption of certifications, sustainable practices, and/or traceability programs (e.g. Textile Exchange, Better Cotton Initiative, FSC, MSC, etc.) | <ul style="list-style-type: none"> Strategic, risk-based approach to raw material traceability Reviewed lifecycle analysis on critical products to make more sustainable raw material choices Company has set targets for purchasing certain key materials (e.g. cotton) more sustainably |
| Component Suppliers | <ul style="list-style-type: none"> Engages component suppliers based on legal requirements Limited insight into order volume for component suppliers | <ul style="list-style-type: none"> List of key component suppliers is maintained and Responsible Sourcing expectations have been communicated Monitoring and capacity building initiatives in place at highest volume component suppliers | <ul style="list-style-type: none"> System in place to track volume for high-risk component suppliers Highest risk component suppliers are included in Responsible Sourcing program scope Ensure suppliers cascade the CoC to the next tier in the supply chain |