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The Importance of an Ethical Supply Chain

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"Businesses that can show leadership in ethical, sustainable sourcing—and can effectively communicate and demonstrate that leadership to customers— will build a competitive advantage as public support for such behavior continues to grow."

Introduction

Shopping habits changed overnight when the COVID-19 pandemic hit. Businesses and consumers alike had to quickly adapt to the new realities of lockdowns, social distancing and massive supply chain disruptions. In-store shopping plummeted. Online ordering and deliveries skyrocketed. And, with choices often limited, consumers changed their purchasing preferences and priorities.

While some buying habits are now returning to normal, others are changed permanently. One change in particular stands out: consumers' rising demand for ethically and sustainably produced goods.

It's clear that companies need to understand customer expectations around ethical supply chains. But they should also see this for the opportunity it is.

Shoppers have shown a growing preference for ethical and environmentally friendly products, with demand increasing over the past decade or so. Many compromised on those preferences—opting instead for convenience or availability—when the pandemic upended business as usual.

As retail markets have started to recover, consumer interest in ethical, sustainable shopping has come roaring back. In fact, that interest appears likely to have a big and lasting impact on how consumer businesses will need to operate from now on. To meet these expectations, businesses will not only need to source, produce, ship and distribute their products responsibly—they'll have to be able to demonstrate that to customers in a transparent way.

This means being able to show their goods don't exploit slave labor or child labor, don't harm sensitive ecosystems or endangered species, and minimize greenhouse gas emissions and other climate impacts.

In the spring of 2021, OpenText surveyed 27,000 consumers across 12 countries to learn their views on the importance of ethical buying and sustainable supply chains. The goal was to understand how those views might have changed during the pandemic and what this means for businesses. Our survey found that consumer expectations for ethical shopping will not only recover but will far outstrip pre-pandemic levels.

Businesses need to be ready for this change because it's coming, ready or not.

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What customers expect

While there were some variations in responses across different age groups and regions, the survey results overall show that businesses need to act on consumers' rising expectations for ethical behavior, sustainability, and transparency. Many customers already felt strongly about such practices before the pandemic, but their shopping habits have evolved.

Going forward, consumers are increasingly likely to make their buying decisions based on ethical business practices.

The evolution of customer buying priorities

Our survey shows that before the pandemic a majority of people across markets had made it a priority to buy from businesses with "ethical sourcing strategies in place." That was true whether they were buying clothing, electronics, food or other goods.

On average 75 percent of respondents across both Europe and North America said they prioritized ethical sourcing "sometimes," "frequently" or "always". While men and women didn't differ much in their responses, younger respondents showed greater support for ethical buying than older ones, with 84 percent of 18-to-24 year olds saying they made ethical buying a priority, compared to 68 percent of respondents ages 65 and older.

However, after the arrival of COVID-19 lockdowns and other restrictions, many people's shopping habits changed. With many essential goods in high demand and short supply, ethical commitments sometimes took a backseat to availability.

Across geographies, a majority of respondents said the pandemic changed their priorities on ethical sourcing. The proportion saying that it remained important "sometimes," "frequently" or "always" declined to 62 percent in both North America and Europe. The decline was consistent across demographics too, with 73 percent of 18- to-24 year olds, and 53 percent of those ages 65 and over, saying ethical sourcing remained a priority.

Even as they placed less importance on ethical sourcing during the pandemic, consumers were alert to the wider impacts of their buying choices. Asked in our survey whether they became more aware of their waste impact during the pandemic, a significant number of respondents agreed or strongly agreed: 78 percent in India, 54 percent across North America and 56 percent across Europe (Figure 1).

And with many people unable or unwilling to go to stores during lockdowns, the number ordering goods online from home skyrocketed. And, every item arriving on their doorsteps also meant more packaging to dispose of.

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"**Consumers will find it hard to forget those mounds of cardboard boxes, packing peanuts, bubble wrap, plastic film bags and air pillows.**"

When asked if their shopping experiences during COVID-19 made them more mindful of where they buy from and the impact of their purchases, many respondents agreed or strongly agreed. Across both Europe and North America, an average of 50 percent agreed or strongly agreed (Figure 2). The impact was most noticeable among 25-to-34 year olds, with 63 percent saying they had become more mindful of their impacts.

Across Europe, 86 percent of survey respondents said they plan to prioritize buying from companies with ethical sourcing strategies. The response was similar in North America: 83 percent of people agreed they would do so sometimes, frequently or always (Figure 3).

Post-pandemic, that mindfulness is likely to drive consumers' ethical shopping expectations to new heights.

What does all of this mean for businesses? As they look to the future, they must shine a brighter spotlight on their supply chains, putting a sharp focus not just on ethical sourcing and sustainability, but on transparency.

Consumers will expect companies they buy from to do the right things—and to be able to demonstrate clearly how they are doing so.

Consumer expectations for ethical sourcing

Not only do more consumers than ever feel strongly about buying products that are ethically and sustainably sourced—a significant number came to this belief in just the past year. This has significant and undeniable implications for companies of all kinds. More and more, businesses will be feeling increased pressure to live up to the rising expectations of consumers.

But, how they do this will vary from business to business? Finding the right approach means a business must first understand the ethical drivers and preferences of its target audience, transforming supply chains for ethical sourcing and sustainability is not a one-size-fits-all task.

One interesting finding from our survey is the number of people who say they would be willing to spend more for a product if they could be certain it was ethically sourced and/or produced. Support for higher-priced ethical goods ranged from 70 percent in Japan to 94 percent in India; in North America it was 78 percent and in Europe it was 81 percent. (Figure 4).

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Our survey also found that many consumers—a majority across all countries and regions—would be willing to travel at least some distance from their homes to pick up packages if that could reduce the carbon footprint of last-mile deliveries (Figure 5).

Companies will need to craft their strategies based on the countries and regions in which they operate, their customer demographics, the unique features of their products, and other factors.

The challenge ahead

Our survey highlighted that consumers feel strongly that the responsibility for ethical, sustainable shopping doesn't lie just with them. They believe retailers should clearly identify which products are—or are not—ethically sourced.

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The proportion of respondents who voiced this opinion ranged from 77 percent in the US to 91 percent in Brazil; while across Europe it averaged 84 percent (Figure 6).

> In fact, many people agree that governments need to introduce regulation that holds businesses more accountable for the social and environmental impacts of their supply chains.

Our survey found that agreement or strong agreement with this statement ranged from 56 percent in Japan to 80 percent in both Brazil and India; with strong support for regulation among 35-to-44 year olds (Figure 7).

Looking ahead, a key consideration for retailers will likely be a requirement that their suppliers abide by an ethical code of conduct. Our survey suggests this could be particularly important in countries such as Brazil and India, where support for such requirements is high (83 percent and 79 percent, respectively). This will likely also apply to organizations in other regions, with consumers across North America (66 percent) and Europe (68 percent) indicating they believe that businesses have a responsibility to ensure their suppliers abide by an ethical code (Figure 8).

> Businesses need to investigate the unique needs of their markets and then be ready to respond to those needs.

The more responsive they show themselves to be, the more likely they are to build a reputation for ethical and sustainable behavior with customers.

In general, people also believe that businesses should embed aspects of the circular economy into their processes—minimizing waste by including reuse, repair and recycling in the supply chain. (Figure 9).

Reflecting this belief, many respondents agreed that businesses that can't currently monitor sourcing and suppliers should rethink their supply chains to build in ethical controls. The numbers agreeing or strongly agreeing ranged from 56 percent in Japan and 57 percent in the US to 74 percent in India and 75 percent in Brazil (Figure 10).

> Consumers are also increasingly likely to express their beliefs through their purchasing choices.

How can these responses now guide businesses?

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"Many of these are designed to make it faster and easier—via automation and the cloud—to manage and track supply chain performance, identify ethical trading partners, and analyze sourcing and supply chain data."

Strategies and technologies for ethical supply chains

From the COVID-19 pandemic to climate change and the disruptions it is already bringing, the world is changing in big ways—and consumers are paying attention. More than ever before, they expect businesses to stop making global problems worse, and to start trying to make them better. And one important element of those solutions will be building ethical, sustainable supply chains.

After your business makes a decision to change in this way, you'll discover a variety of tools and technologies that can help you transform supply chain processes for greater transparency and sustainability.

Machine learning, predictive analytics and artificial intelligence (AI), for example, can help your organization analyze large volumes of structured and unstructured data to gain insights into partner behavior across supply chains. Your company can also use these advanced technologies to monitor customer sentiment across contact points and social media channels.

The Internet of Things (IoT) is another technology you can use to build your reputation for ethical and sustainable business.

Through the deployment of sensors across devices, systems and processes, IoT platforms can improve visibility and transparency across supply chains.

OpenText provides a wide variety of solutions that can help businesses strengthen their ethical sourcing activities. For example, OpenText™ Trading Grid™, a central repository of all suppliers connected to our global business network, allows procurement teams to simplify and accelerate ethical sourcing activities. This allows companies to search our global network for suppliers or business partners that meet specific ethical sourcing criteria.

Companies can also use the OpenText™ IoT platform to track the end-to-end movement of shipments as these progress through the supply chain. This is important for gaining visibility into the provenance of goods and making sure parts, goods or ingredients are bought from the correct sources.

OpenText™ Magellan™, an advanced analytics and artificial intelligence solution, allows companies to derive more meaningful insights from what is happening across a supply chain, for example, by using historical consumer buying data to predict the demand for certain ethical products in the future.

Finally, OpenText™ Identity and Access Management ensures that business applications and associated data are protected from external security threats. They offer people-centric solutions that improve person-to-person collaboration across the supply chain—an often overlooked requirement in today's digital business.

To learn more about how to transform your supply chains to meet consumers' growing interest in ethical, sustainable business, contact OpenText™ Business Network.

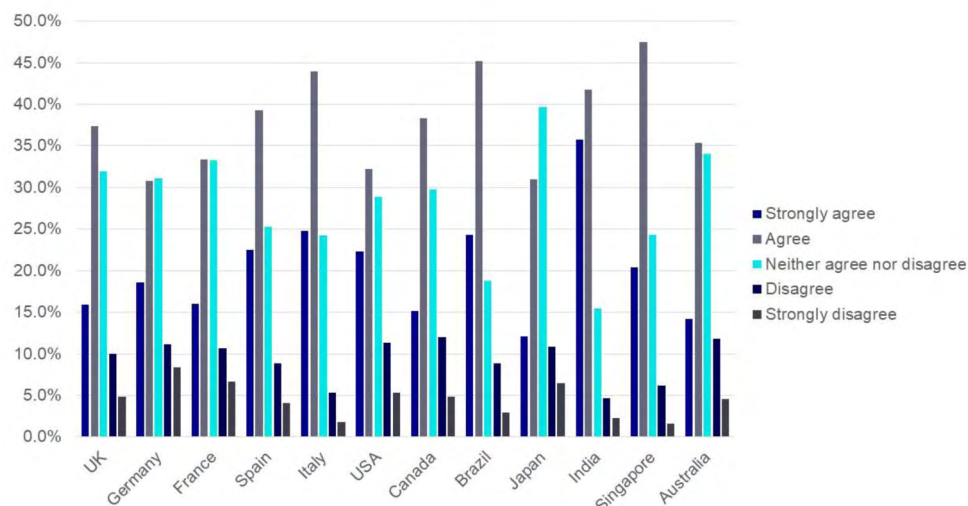# opentext™

Research findings

Figure 1. I have become more aware of my waste impact during COVID given the increase in deliveries to my door.
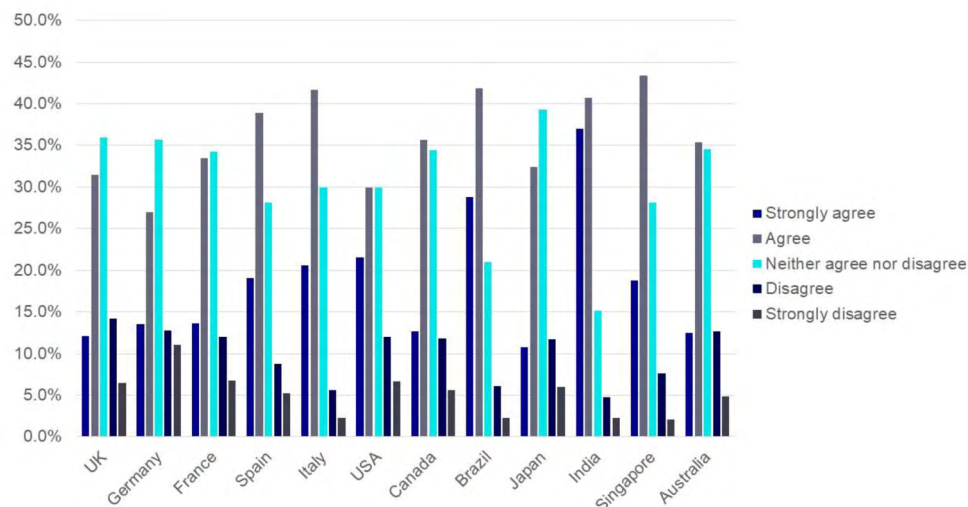

Figure 2. COVID has made me more mindful of where I buy from, and the impact of my purchase.
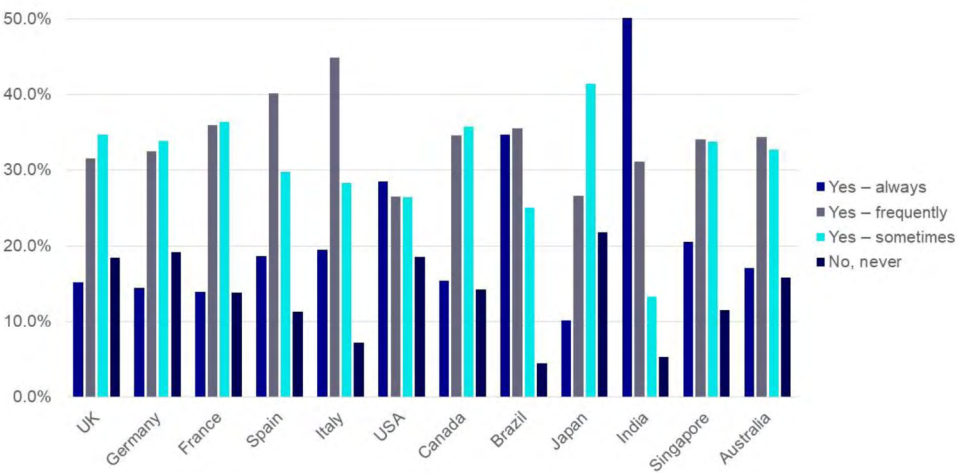
Figure 3. When shopping after the pandemic/COVID, do you plan to prioritise buying from companies that make it clear they have ethical sourcing strategies in place?
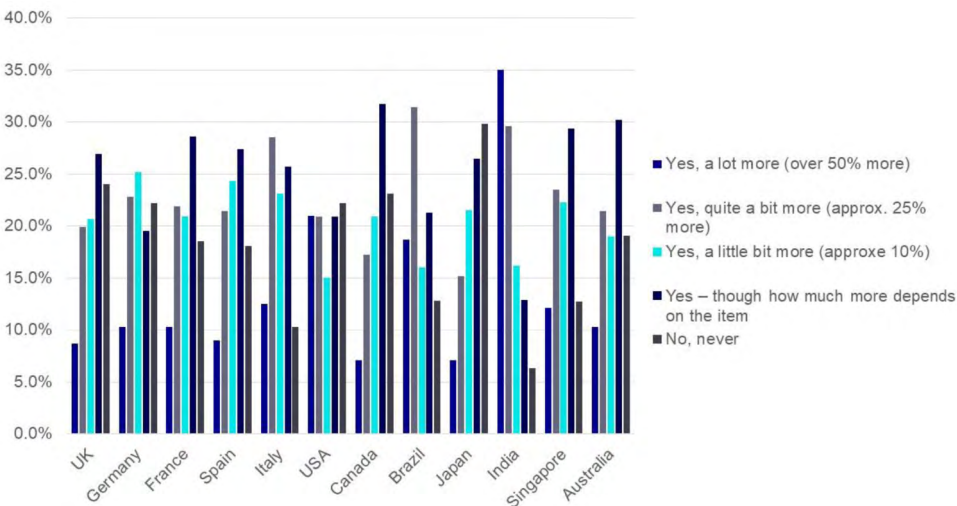

Figure 4. Would you be willing to spend more on a product if you could be sure it had been ethically sourced and/or produced?

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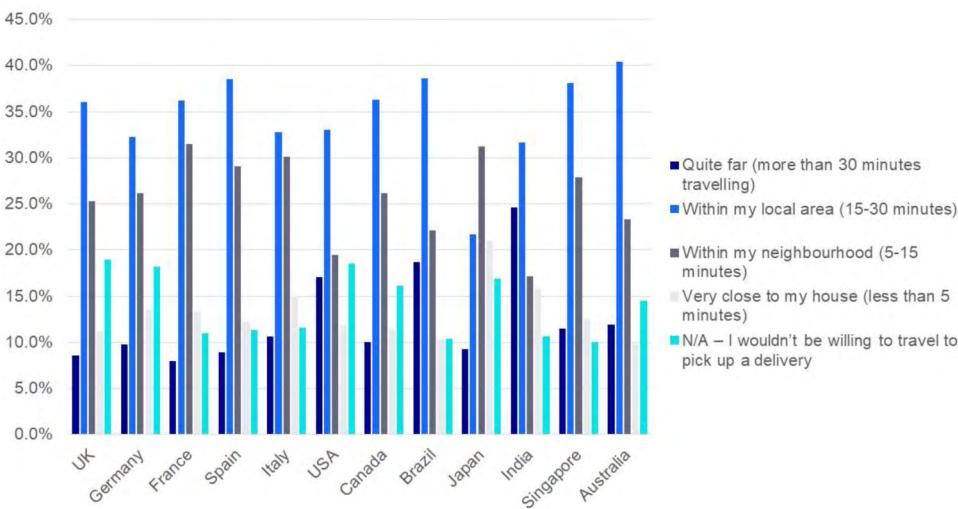
Figure 5. How far would you be willing to travel to pick up a package (e.g. an item bought online) rather than having it shipped directly to your door?
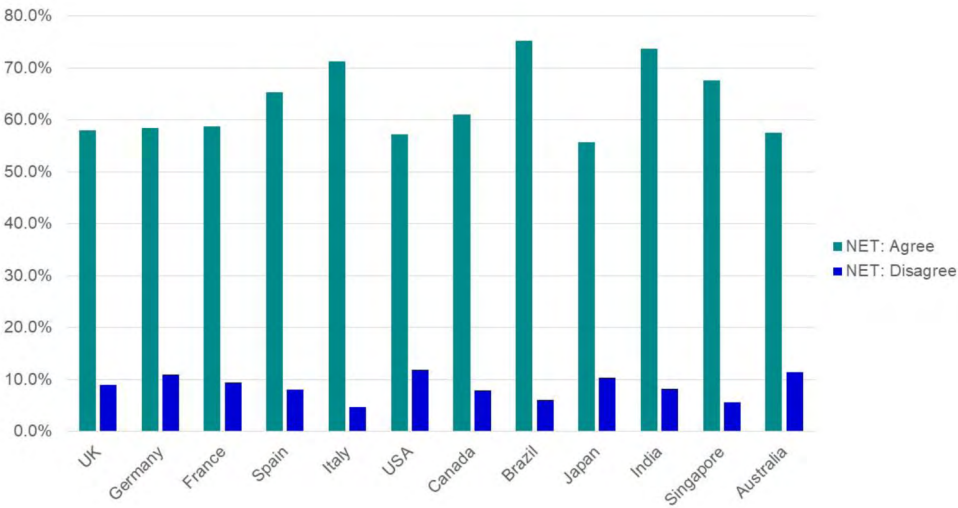

Figure 6. Organisations which cannot monitor where goods have come from and don't know whether their suppliers are sourcing raw goods/components in an ethical way need to rethink their supply chain now to build in ethical controls.
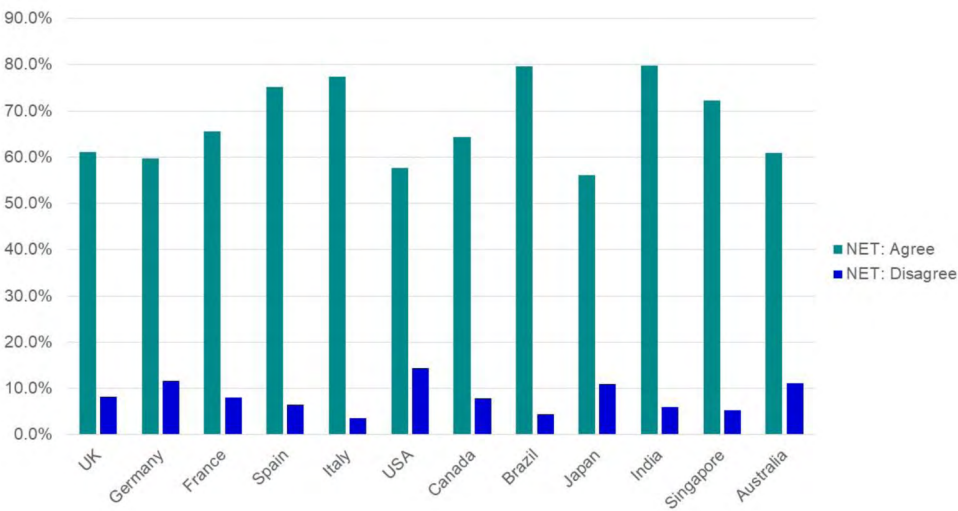
Figure 7. Government needs to introduce regulation which holds businesses more accountable for responsible sourcing.
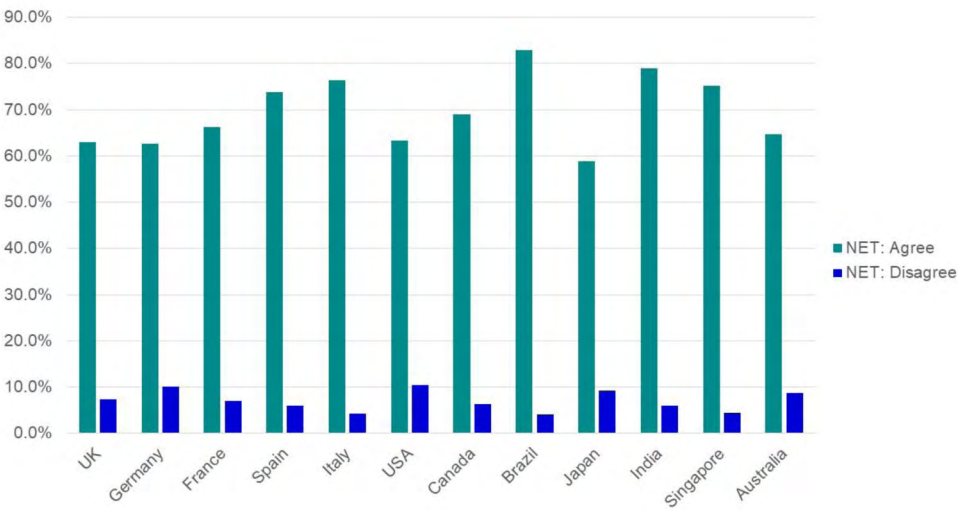

Figure 8. Businesses have a responsibility to ensure their suppliers abide by an ethical code of conduct.
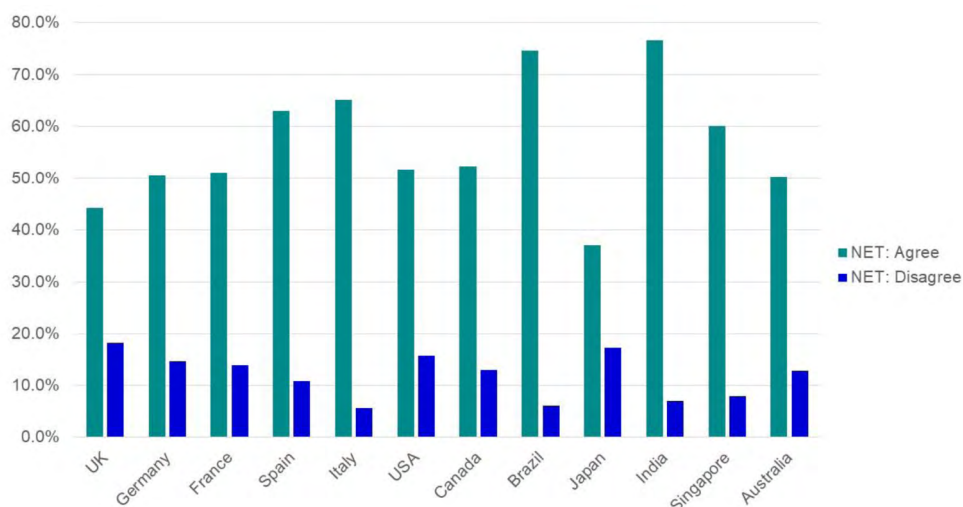
Figure 9. I prioritise buying from brands that embed some aspect of the circular economy in their processes (e.g. reducing waste and a greater focus on re-using and recycling materials).
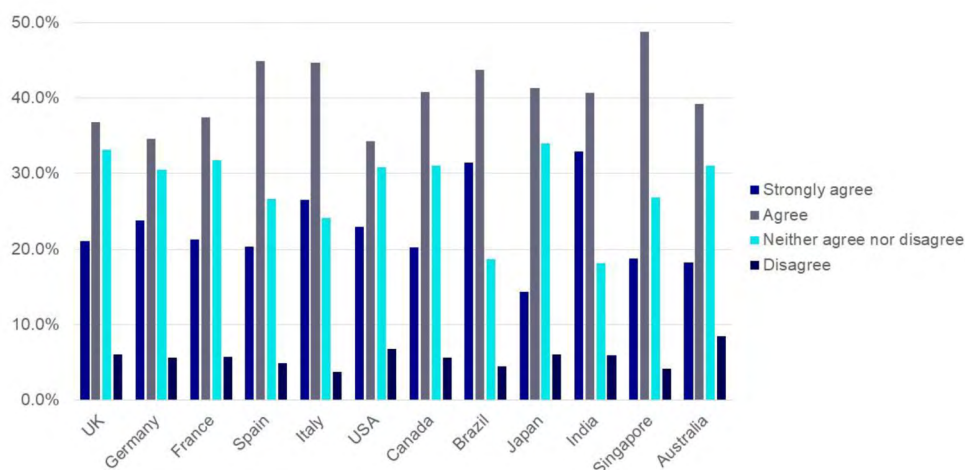

Figure 10. Organisations which cannot monitor where goods have come from and don't know whether their suppliers are sourcing raw goods/components in an ethical way need to rethink their supply chain now to build in ethical controls.

About OpenText

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