Creating value through strategic supply chain partnerships

Natural Logic, Inc.
February 2003

Introduction

- **Natural Logic has been closely observing supply chain environmental practices and partnerships -- monitoring projects, benchmarking companies, and developing new initiatives for clients.**
- **Over the last three months, we interviewed senior EHS, Supply Chain and Sustainability executives across a broad range of sectors in order to learn more about perceived challenges and opportunities**
  - High Tech, Pharmaceuticals, Chemicals, Food and Beverage, Shipping, Forest Products, and Health care
  - Qualitative rather than quantitative approach - looking for common themes and insights regarding major challenges and opportunities
- **This report:**
  - contains an overview of our **findings** from these interviews,
  - identifies some **key implications**, and
  - proposes a **potential approach to capturing the opportunity**

Summary of findings (I)

- **There is growing interest in the opportunity to significantly increase the business impact of environmental and social initiatives by focusing on key customer/supplier relationships.**
  - Provides a means to engage key decision-makers across the business
- **This is being driven, in part, by powerful market trends that increase the attractiveness of a proactive approach to supply chain issues and opportunities.**
  - Increasing customer awareness of life cycle environmental and social impacts, creating demand for action 'upstream' along key supply chains.
  - Regulatory trends creating more compelling case for action, e,g., product take-back, content requirements, etc.
- **While most companies report that they still employ an ad hoc, reactive approach to supply chain partnerships, a few leaders are showing the way forward with more strategic approaches.**
  - Pro-active supplier partnership initiatives driven in part by EHS and/or sustainability issues.
  - Systematic approaches to leveraging EHS/Sustainability skills and expertise to enhance customer relationships, build market share.

Summary of findings (II)

- **A number of critical skill gaps and organizational barriers need to be overcome in order for more companies to take full advantage of strategic supply chain opportunities**
  - Supplier/customer relationships often confined to sales/procurement staff and processes
  - Significant gap between people who understand issues/opportunities (e.g., EHS, Sustainability) and other relevant decision-makers
  - Extreme complexity and fragmentation in many supply chains
- **A well-conceived strategic partnership approach can address many of these obstacles and create significant value for suppliers/customers**
  - Systematic approach to identifying and developing new solutions that focuses on areas of greatest business leverage and environmental impact
  - Expanded field of view: **NOT** "How do we improve our own performance?" but **RATHER** "How can we develop the market positions of ***both*** companies?"
  - Taking advantage of broader company strategies and platforms for performance improvement
  - Extended role for EHS/Sustainability: proactive advisor and member of customer account teams

Strategic supply chain partnerships

What are they and why do they matter?

Representative Programs

Customer Partnerships

Create new offerings in partnership with business customers who also seek to leverage environmental and social leadership

- Design for Environment
  - ✓ De-materialization
  - ✓ Substitution
- New product/service models

Supplier Partnerships

Catalyze introduction of supplier offerings that help both companies achieve significant business, environmental and social objectives

- Environmentally Preferable Purchasing
- Functional outsourcing
- Design for Environment
- Radical resource productivity

Desired Benefits

- **Dramatically improve cost structure**
  - Lower direct costs, e.g., operations, procurement
  - Lower indirect costs, e.g., permitting, disposal, insurance, lost time, etc.
  - Reduced contingent liabilities, e.g., likelihood of a spill, lawsuit, etc.
- **Significantly enhance brand-building and marketing efforts**
  - Address needs and perceptions of customers and other stakeholders
- **Achieve superior product benefits**
  - Increased share and revenue growth
  - Enhanced customer loyalty
- **Leverage success to improve integration of business, environmental and social objectives**
  - Sr. mgmt. participation and support
  - "Self-funding" approach

Expanded supply chain or life cycle approach is critical starting point

NGO/public stakeholders taking broad view of corporate impact…

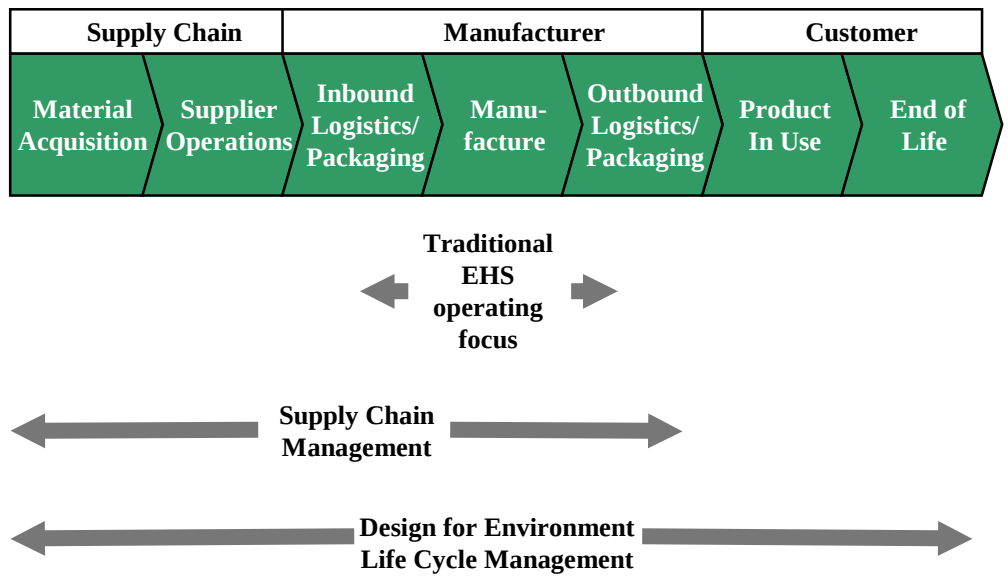
Diverse impact categories…

- Conversion of wetlands
- Deforestation
- Degradation of marine habitat
- Greenhouse gases
- Air pollution and chemical emissions
- Soil degradation
- Water-born pollution
- Etc.

…evaluated across entire value chain

- From materials extraction to product end-of-life

…leading many companies to do (or consider doing) the same



Market trends driving the need for more proactive, systematic approach

- **Customers increasingly aware of life cycle impacts and holding companies accountable for activities across total value chain**
  - Overseas labor conditions (Nike)
  - Global timber sourcing — sustainable vs. old-growth (Home Depot, Staples)
  - Fair Trade movement
- **Consolidation in retail channels creating more powerful leverage points for NGO/public action on environmental and social issues**
  - Consumer electronics, food/supermarkets, home improvement, office products, Wal-Mart
- **At the same time, globalization and competitive trends in many industries creating need to deal with larger number of smaller suppliers who lack EHS/Sustainability values and infrastructure**
  - China and other emerging markets
  - Extensive outsourcing/contract manufacturing in pharmaceuticals, high tech, apparel

Other trends suggest significant rewards for those who get it right

- **Corporate environmental leaders represent significant market; many seeking support on environmental initiatives**
  - Growing number of major corporations committed to environmental and social responsibility initiatives in their business and supply chains
    - 1400 members of Business for Social Responsibility, 160 members of World Business Council for Sustainable Development, 39 members of Global Environmental Management Initiative
  - Many companies also committed to major greenhouse gas (GHG) reductions through voluntary climate initiatives
    - World Resources Institute, Pew Center for Climate Change, CERES, World Wildlife Fund (WWF) and the US EPA
- **Environmentally Preferable Purchasing (EPP) programs gaining significant momentum**
  - Universities, state and local governments
  - Emerging as major sales differentiator in European market

Other trends mean new pressures, costs and opportunities

- **Regulatory trends in certain industries and regions are creating more compelling business case for action**
  - e.g., electronics product take-back and recycling requirements in the EU
  - Kyoto process for GHGs
- **Other emerging supply chain certification schemas — labor practices, ethical trading, CSR, etc — add cost and uncertainty to piecemeal approaches, e.g.:**

Government
- UK Ethical Trading Initiative
- EU proposed Codes
- EU Parliamentarians demand
- US ISO CSR demand

Intergovernmental Organisations
- UN Global Compact
- OECD Guidelines
- ILO Declaration of Principles & Laboour Stds
- APEC Business Code of Conduct

Industry
- Caux Round Table
- ICC Charter for Sustainable Development
- International Code of Ethics for Canadian Business
- Corporate Social Responsibility
- ICC Rules of Conduct on ICC
- GEMI Sustainability Development

NGO
- Global Sullivan Principles
- SA8000
- IRRC (FTSE 4 Good) Principles for Global Responsibility
- Open Trading Initiative
- International League for Human Rights - Human Rights Auditing Standards and Procedures Projects
- Amnesty International Human Rights
- Oxfam Campaign for “basic rights”
- CERES Principles - SRIndex
- Global Reporting Initiative
- China Principles

Academic
- Charter of Common Responsibilities in Business (University of Friborg)

Looking ‘upstream’: current state of supplier management initiatives

- **All companies have some form of process and tools for managing EHS/Sustainability aspects of supplier performance, usually with a basic compliance focus**
  - Environmental and social issues and concerns generally integrated into supplier screening criteria, quality audits, etc.
  - Heavy focus on safety/risk issues
- **Many companies also have “strategic partnerships” in place with a small number of major suppliers, although EHS/Sustainability tends to play a very minor role**
  - Number of key relationships cited range from 1-2 to 100
  - Approaches to environmental and social issues generally described as reactive, focused on specific problems as they arise
- **A small number of companies are developing more systematic, pro-active supplier partnership initiatives driven in part by environmental and social issues**

Examples: proactive approach to supplier environmental performance

Forest Products Manufacturer

- **Involved in developing industry certification program for sustainable forestry practices (Sustainable Forestry Initiative)**
  - Includes Landowners' Assistance Program to drive enhanced practices through highly fragmented supply chain of small producers
- **Initially a response to downstream pressure through major retailers**
  - Home Depot boycott and emergence of Forest Stewardship Council
  - Staples and Office Depot developing common paper procurement standards in response to more recent NGO pressure
- **Now actively assessing opportunity to drive incremental sales/revenue**

Express Mail Company

- **EHS played significant role in driving long-term partnerships with key suppliers to co-design solutions in major impact areas**
  - **Packaging:** working with key suppliers to develop a re-usable letter package
  - **Transportation:** deep supply chain engagement on more efficient vehicle design
- **Efforts supplemented with selective NGO partnerships to leverage technical resources or establish standards for industry practice**
- **Initiatives justified in pure business terms, e.g. cost savings – little/no environmental positioning**

Basic EHS compliance remains significant concern in some sectors

Example: Pharmaceuticals

- **Highly regulated products and production processes**
- **Relies on large number of small suppliers for critical inputs**
  - Lack EHS values and infrastructure taken for granted at larger companies
- **Competitive trends in the industry have driven significant amount of outsourced production**
  - Further increases burden of communicating requirements and monitoring performance
- **Therefore often significant investment just to achieve minimum acceptable EHS standards**
- **Several companies are therefore developing supplier certification systems in an attempt to reduce risk and simplify/standardize the process**

Looking ‘downstream’: current state of customer-focused initiatives

- **Very few companies have formal processes for integrating environmental and social factors into customer relationship management, product development or marketing**
- **Where EHS/Sustainability experts do get involved, role is generally described as reactive or ad hoc**
  - It is up to the customer account team to involve EHS, which they tend to do only on an occasional basis in response to a specific customer request or issue
- **At the same time, a growing number of institutional customers are asking for support on their environmental/social initiatives**
  - Retailers asking for OEM promotional dollars to be allocated to special environmental/social projects as part of contract re-negotiation
  - Major magazine publisher requires each vendor to support at least one of their major environmental programs
- **A few leaders have begun to develop more systematic approaches to leveraging EHS/Sustainability skills and expertise to enhance customer relationships**

Examples: systematic approach to enhance customer relationships

Chemicals Manufacturer

- **Traditional EHS management and review process in place for 80-100 key strategic partners**
- **Product Stewardship program explicitly addresses issues "outside the company gates" as well as in-house development and production**
- **Formal innovation process tackles such issues as sustainable packaging and sustainable materials for key customers**
  - Described as both proactive and reactive: roughly equal mix of ideas initiated by company itself vs. by its major customers
  - Significant complexity created by need to tailor approach to different segments, e.g., construction, auto, pharmaceuticals, etc.

Food/Beverage Producer

- **Company anticipates increasing customer demand for support on environmental objectives**
  - EHS issues increasingly seen as "influencer" across all institutional segments
  - Not yet a direct consumer issue, but company conducting tests for early signals
- **Support takes different forms**
  - Financial contributions
  - Provision of environmentally preferable packaging and refrigeration/dispensing equipment
- **EHS also developing tool kit to make institutional sales force more effective**
  - Approach also designed to overcome current EHS capacity constraints

Summary: most organizations feel they have a long way to go

- **Ad hoc, reactive approach taken by most companies almost ensures that opportunities will appear too small to warrant senior management attention and support**
- **Very few EHS/Sustainability organizations are taking advantage of broader company strategies and platforms for performance improvement**
  - Formal innovation processes
  - Quality/Six Sigma
  - Corporate Citizenship/CSR programs
- **Most companies therefore feel they are leaving a substantial amount of unrealized value on the table**
  - Objectives generally defined in terms of "keeping out of trouble"
  - Therefore stronger on specific, risk-related and cost issues than on systemic issues such as design for environment or even waste management/prevention
  - Very few companies have realized — and measured — direct customer/revenue benefits from their leadership positions

Why is this so?

Key obstacles cited (I)

- **People within companies who see these issues and opportunities often lack resources and support to investigate and develop supplier/customer opportunities**
  - E.g., EHS/Sustainability typically perceived as support function
- **Limited capacity in EHS/Sustainability at most companies impedes ability to extend role and drive pro-active approach**
  - For example, Product Stewardship often part-time focus of a single person, even at visible sustainability leaders
- **Extreme complexity driven by fact that supply chain management (SCM) practices differ by region, business unit, and customer segment**
  - No device for prioritizing efforts - strains limited capacity
  - Makes it harder to drive systematic approaches across corporation

Why is this so?

Key obstacles cited (II)

- **Highly fragmented value chains make it harder to initiate change in industries such as high tech/electronics and pharmaceuticals**
  - Diversity of incentives
  - Greater need for complex coordination between partners and competitors
- **Partnership-based strategies and management practices are newly emerging capabilities at many companies**
  - Relatively superficial contact at senior levels, even with key partners
- **Sales force typically "owns" customer**
  - R&D, production, etc. not involved in helping to serve them better
  - Nobody gets full picture of customer needs and compromises
- **Similarly, Purchasing often only department to have significant contact with suppliers**
  - Some get supplier help with R&D, production
  - Very few enlist suppliers in business development and customer management

Why is this so?

Key obstacles cited (III)

- **Business opportunities looked at through lens of existing products, processes and customers**
  - Perception that vast majority of customers still not asking for it
  - Challenge common to all innovation initiatives, not just environmental
- **Often unclear whose job it is to drive innovation and change in this area**
  - Who's got the resources and how can they be leveraged to best effect?
  - Chain of critical functions commonly not integrated
- **Degree of difficulty further increased by current business conditions, with necessary focus on short-term performance improvement**
  - Heavy focus on cost-cutting vs. strategic investment risks "leaving money on the table"

What is to be done?

Overcoming the obstacles (I)

- **Develop systematic, proactive approach to identifying and developing new solutions and business models**
  - Get the right people in the room: convene broadly cross-functional teams to address common opportunities
  - Ask the right questions: frame opportunities in terms of finding greatest mutual business value rather than solving a problem
  - Focus on building relationships: approach as long-term, ongoing process rather than "one-off" event
- **"Go where the energy is" — link environmental/social SCM and relevant corporate programs**
  - Existing supply chain initiatives (e.g., Customer/Supplier Discovery)
  - Corporate Citizenship/CSR
  - Safety/License to Operate/Business Continuity
  - Quality/Six Sigma
  - Innovation
  - Major capital programs (e.g., construction/refurbishment of facilities, post-merger integration)

What is to be done?

Overcoming the obstacles (II)

- **Provide training and development opportunities to improve integration of environmental/social SCM and core business issues**
  - Train critical business functions (e.g., product development, customer account management, etc.) in environmental/social SCM and "life cycle thinking"
  - Identify opportunities for "cross-staffing" of EHS/Sustainability and other core business functions

    "I need the equivalent of me in every business…challenging, questioning, looking at trends and opportunities and new markets…"

    » Director of Sustainable Development, leading chemical manufacturer

- **Expand field of view: include potential new businesses that could be created to capture supply chain opportunities, in part by studying existing cases for best practices and innovation seeds; e.g.:**
  - Chemical management services
  - Logistics/supply chain solutions
  - Outsourced waste site inspection and management

What is to be done?

Overcoming the obstacles (III)

- **Focus! — on areas where you have significant leverage to drive change through the value chain**
  - Where you represent significant market share or percentage of spending
  - Not overly constrained by regulatory/technology requirements, e.g. generic/shared inputs vs. specialized
- **Focus! — on areas of greatest environmental 'footprint'/impact**
  - Assess relative magnitude and significance by using whole-systems, total life cycle approach (LCA)
  - Assess relative urgency of action based on scientific, market and regulatory drivers

A potential approach to developing Strategic Supply Chain Partnerships

Phase 1. Rapid Diagnostic

Review of strategy & market priorities
Market/sector identification

Value chain analysis
- **Structure/economics**
- **Leverage points**

***Streamlined* LCA**
- **Major flows and impacts**

High leverage supply chain opportunities identified

Phase 2. Stakeholder Discovery

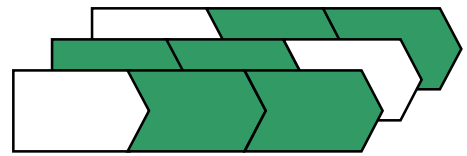
Customer/Supplier Discovery
- **Strategy/objectives**
- **Economic benefits**
- **Unmet needs/compromises**
- **Innovation opportunities**

Stakeholder dialogue
- **Key issues and opportunities**

Business plan development

Business plan for selected partnership opportunities

Phase 3. Pilot Development and Launch



Pilot selected program in specific market/segment
- **Detailed pilot design**
- **Syndication**
- **Implementation planning**
- **Launch**

Use pilot to validate approach
- **Measurable results**

Significant new joint business development

Phase 1: Rapid Diagnostic

- **Review company strategy and current initiatives**
  - Market/sector priorities
- **Value chain analysis**
  - Industry structure and economics
  - Leverage points
  - Key market trends
- **Streamlined life cycle/footprint analysis**
  - Major flows/impacts
  - Boundaries and interdependencies
- **Overlay business/financial/environmental impacts**
  - Financial benefits
  - Key leverage points for action

Identifying market/sector priorities

Issues to Address

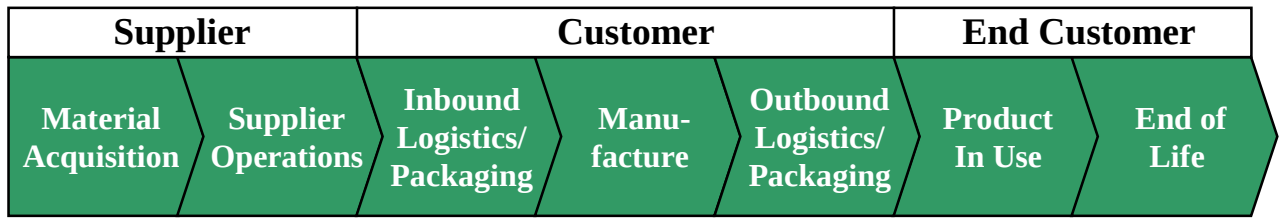
Sample questions

- **Do any current strategic partner relationships stand out as good starting point for this approach?**
- **Where are greatest untapped opportunities e.g., to increase sales/market share, etc.?**
- **Which sectors have most significant environmental/risk issues?**
- **Where is organizational support greatest?**
- **Other factors?**

Illustrative opportunities

- **Address embedded energy/carbon, water and/or materials issues in key customer inputs and packaging**
- **Address greenhouse gas (GHG) opportunities for companies for whom it is large portion of footprint**
  - Transportation; air, sea, road
  - Energy
  - Indirect purchases at service companies
- **Assemble group of non-competing but "linked" customers with cross-cutting issues and/or target market interests; e.g.:**
  - Transportation
  - High performance buildings
  - Sustainable materials

Systematic value chain analysis is key to identifying leverage points for action…



Specific Analyses

Evaluate overall industry structure and trends

- Degree of industry concentration
- Economics, including key profit drivers
- Major competitive trends

Evaluate economics of each layer of value chain

- Size/profitability
- Concentration

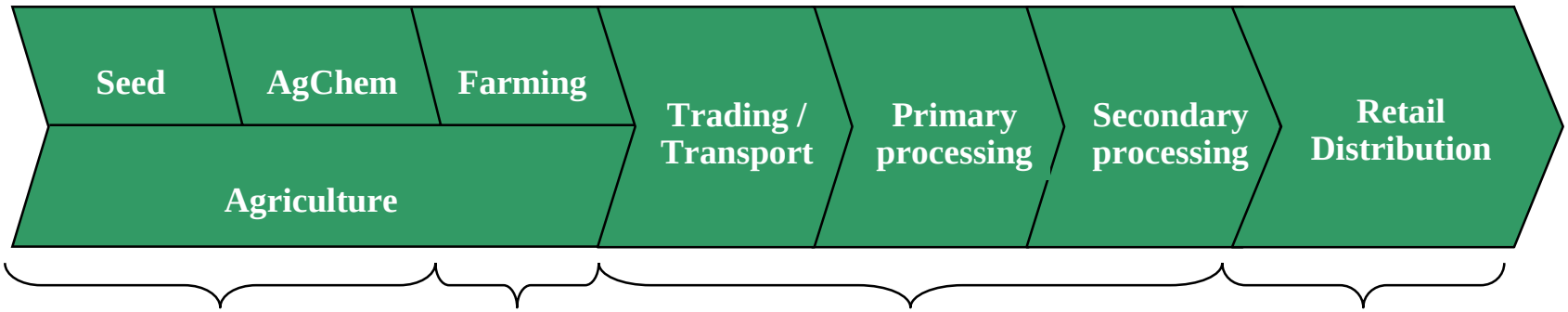
Assess potential impact of intervention at each layer of value chain

…and understanding difficulty of creating change in various sectors

Factor	High degree of difficulty	Low degree of difficulty
Geographical Complexity	• Distinct local solutions required • Demand in many countries • Different regulatory environments • Different vendor sets	• Single global solution • Demand in few countries only • Uniform regulatory regime • Single vendor set
Barriers to Switching	• Few substitute vendors • Little product standardization • Entrenched infrastructure • User reluctance to switch	• Large number of substitutes • Operational ease of switching • No user reluctance
Behavior Barriers	• Many people must change behavior • Major savings generated through demand and specifications management requiring quality trade-off's, compliance mgmt. etc.	• Limited behavior change required • Major savings from price reduction
Dispersion of Vendors/Users	• Multiple users and vendors placing orders independently	• Few vendors and users with potential for further volume price reductions
Organizational Effectiveness	• Lack of coordination and accountability for key procurement activities	• Coordination and clear accountability

Example: Food industry (I)

Assessing potential impact at different layers of value chain



Potential to impact:	Access to growers, but limited power over what they buy Potential for educational role or altered product offering	Area of greatest impact on biodiversity Conservation largely at odds with individual farm economics	Most direct link to farmers Potential to track origins of crops, but would be difficult on a global scale Little visibility with consumers, except for final-stage packagers	Closest to the end consumer, but furthest from farmers Potential to benefit from consumer positioning
Key issues:	Distribution channel likely complex in many developing countries	Highly fragmented Individuals desire access to land	Global flows vary hugely by crop with some exported and others not Limited consumer visibility Potentially limited ability for individual players to influence farmers	Current influence limited largely to developed world Multi-nationals only a small fraction of consumption of many commodities

Result: Analysis directed efforts to change behavior in fragmented farming layer

Example: Food industry (II)

Several factors dictate which layers have greatest potential

Factor	Impact
Concentration of producers	• Large scale producers far easier to coordinate and identify than small scale • Large scale also more likely to respond in "economically rational" way
Amount exported	• High export crops more easily impacted by multinational corporations • Can have impact further along value chain
Consumer visibility of crop in end product	• Consumer pull can be more easily created for specific actions when product is closely linked to the commodity grown
Concentration of companies within layers of value chain	• Layers with fewer players will be easier to affect change with - greater visibility into practices - greater influence by individual players up and downstream - potentially less commoditized, allowing greater freedom - higher likelihood of achieving consensus for coordinated action - easier to to identify and work with players from a resource perspective

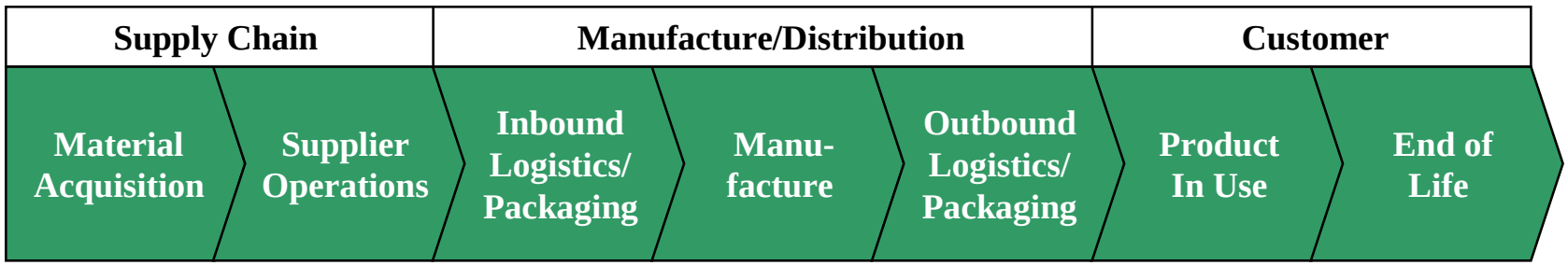
Food industry example (III)

Chose specific partner based on demonstrated ability to execute change

- Executive level commitment, strong champions
- Participation from multiple business units
- Genuine commitment to reducing environmental impact
- Organizational and cultural flexibility
- Significant financial commitment
- Market impetus for change (opportunity to differentiate, potential efficiency savings, consumer pressure, etc.)

Assessing ecological impact across the value chain can be highly complex...

Selected Potential Metrics



• Energy, water, land used

• Emissions, effluents, solid waste

Material Acquisition	Supplier Operations	Inbound Logistics/ Packaging	Manu-facture	Outbound Logistics/ Packaging	Product In Use	End of Life
• Mass and composition • Habitat loss • Toxicity • Etc.	• Throughput • Productivity • Non-product output • Etc.	• Amount • Efficiency • Shipping materials • Etc.	• Throughput • Productivity • Non-product output • Etc.	• Amount • Efficiency • Shipping materials • Etc.	• Mass and composition • Performance productivity • Energy efficiency • Etc.	• Recyclable content • Take back volumes • Remanu-facturing • Markets • Etc.

…so leverage "life cycle thinking" and tools for effective 80/20 approach

- **Difficult to understand total footprint with existing tools and approaches**
  - Very complex – risks "analysis paralysis"
  - Data – scarce, uneven availability, imprecise
  - Sensitivity analysis
  - Apples & oranges
  - Significant – per element – time and expense
- **Streamlined life cycle analysis – i.e., "life cycle thinking" – is often sufficient**
  - Leverage intelligent stakeholder process to resolve boundary issues
  - Class-based, qualitative & quantitative approaches
    - e.g., Business Metabolics™, The Natural Step™
  - "Good enough for folk music" assessments
    - Analyze for business decisions, not "academic" study

Phase 2: Stakeholder Discovery

- **Broad stakeholder engagement**
  - Structured interviews/brainstorming with key stakeholders to establish broad field of view
    - Including community members, activists, researchers, NGO's, etc.
- **Customer/supplier discovery process**
  - Team conducts "deep dive" analysis of value chain economics
    - Strategy/objectives, economics, compromises, etc.
  - Convene "summit" meeting to explore major opportunities for joint business development
    - Senior management, cross-functional team, key customers/suppliers
    - Incorporate stakeholder findings to draw participants out of their box
  - Initiate regular working sessions
- **Create business plan for 2-3 potential pilot initiatives to capture opportunities identified**

Discovery adds value to *existing* quality and SCM programs

- **Expand field of view to entire value chain *and beyond***
- **Prioritize opportunities using new set of lenses**
  - **NOT:** "How do we improve our own performance"
  - **RATHER:** "How can we develop the market positions of ***both*** companies?"
- **Detailed and rigorous process for capturing maximum mutual benefits**
- **Leverage tools from existing quality and SCM programs**
  - e.g., process mapping, cross-functional teams, etc.
- **Provide business case and platform to test and implement opportunities**

Process begins with stakeholder engagement to expand field of view

- **Intensive, multi-disciplinary design laboratory with cross-functional teams from different organizations**
  - Critical when the solution lives not in a single organization but among a number of interested parties.
  - Process encourages all members to cross fertilize the process with solutions to problems that may relate to, but are not typically addressed by, their specialty.
- **Objectives:**
  - Benefit from the available connections and interdependencies that can be identified in an integrated, or whole system, design approach.
  - Provide for a rich exchange of ideas and information that allows for truly integrated solutions to take form.
  - Have every member of composite design team understand the issues that the other members need to address, enabling more thorough and integrated solutions.
- **Results:**
  - Discovery process is accelerated, innovation enhanced, decisions are verified, adversity is diminished, organizational issues and nuances are anticipated, and planning process is expedited

Convene high-level relationship "summit" to kick-start collaboration

Specific activities

- **Establish rules of the game**
- **Understand one another's business in depth**
- **Understand the current relationship**
  - Strengths
  - Success stories
  - Compromises/dissatisfactions
- **Brainstorm new opportunities**
  - Leverage insights from stakeholder engagement
  - Beyond cost savings to building new business together

Key Success Factors

- **Secure participation from people beyond sales & purchasing - people who care about growth and strategy**
  - Senior management presence is critical
- **Overcome historical price focus and skepticism**
- **Demonstrate potential tangible value from custom research, reduced cycle time, etc.**
- **Do your homework**
  - Internal fact base
  - Competitor best practices

Set the stage with rigorous analysis of current situation

- **Review relationship history and current status**
  - Volume of business
  - Penetration in organization
  - Relationship “process map”
- **Conduct deep dive on customer/supplier business**
  - Strategy and key business objectives
  - Economic “tear-down”, including profit drivers, cost-to-serve, etc.
  - Core capabilities
- **Assess competitive and market trends**
  - Market structure and economics
  - Key competitor strategies and economics

Sample questions

How well do we know our key customers and suppliers?

- How do ***they*** make money?
- What are their key business and environmental objectives, and how can we help?
- What compromises do they endure in working with us?
- What drives our suppliers' cost to serve us?
- Which of our desired enhancements can serve as a platform for suppliers to improve business with other customers as well?
- How can we help our customers better serve their customers?

How well do we work together?

- How often do we involve people beyond sales and purchasing in customer and supplier issues?
- How many joint teams currently work on common objectives?
- Do we share any market research?
- How closely are our IT systems tied together?
- When was the last time we gave them a new idea about their business?

Match partner needs with your unique capabilities

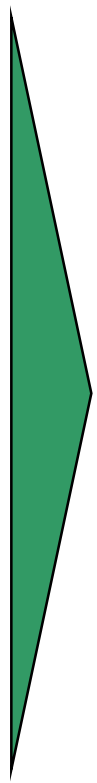
- **Conduct rigorous self-assessment**
  - Capabilities and needs, of all parties
- **Identify overlooked core capabilities that could add value to customers**
  - Deeper understanding of “upstream” issues and opportunities
  - “Product-to-service” models, a la Xerox document management
  - Design/materials science to aid recycle/re-use efforts
  - Energy management/efficiency expertise
  - Hazmat handling/substitution
  - Waste reduction technologies and processes
- **Build on current centralization/standardization trends**

Finally: design specific initiatives around desired mutual benefits

(Illustrative)

Potential customer programs

- **Enhance customer's 'Design for Environment' initiatives**
  - Substitution
  - De-materialization
  - Closed loop
- **Dramatically improve customer cost structure**
  - New product-to-service models
  - Lower direct costs, e.g., operations, procurement
  - Lower indirect costs, e.g., time to market, permitting, disposal, insurance, lost time
  - Reduced contingent liabilities, e.g., likelihood of spill, lawsuit



Benefits to supplier

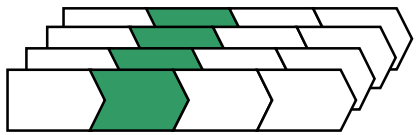
- **Significantly enhance brand-building and marketing efforts**
  - Address needs and perceptions of customers and other stakeholders
- **Achieve superior product benefits**
  - Increased market share and revenue growth
  - Price premium
  - Loyalty

Phase 3: Pilot Development and Launch

- **Detailed pilot design**
  - Value proposition and key marketing messages
  - Partner objectives, roles and commitments
  - Success criteria (sales/share metrics, transferable learning, etc.)
  - Timing and scope
  - Operational requirements
  - Tracking/monitoring
- **Syndication of pilot design across relevant stakeholder groups**
  - Within company and partner organization
  - External
- **Implementation and launch**
  - Measure, assess, revise, repeat

Wide variety of approaches offer different challenges and benefits

Horizontal



Description: Partners within same layer of industry value chain (competitors)

Example: Bring together major auto manufacturers to incorporate "green" information into joint procurement database

Pros/Cons
- **Instant critical mass**
- **Can't leverage differentiation incentive**

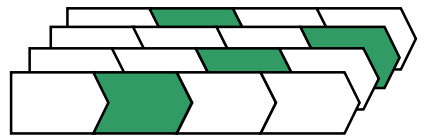
Vertical

Description: Partners that represent different layers of value chain within same industry (trading partners)

Example: Work with major food retailer, wholesalers and growers to implement new agricultural practices

Pros/Cons
- **Leverages natural relationships**
- **Likely slower impact**

Cluster



Description: Partners based on logical groupings across industries (common processes or technology)

Example: Work with chemicals manufacturer and small group of key customers to drive development of 'sustainable' common input, e.g., recyclable fiber, plastics

Pros/Cons
- **Instant critical mass drives business case**
- **Complexity may slow impact**

Example: Global energy company

Program Background and Objectives

- **Global energy company looking for creative ways to grow business while meeting aggressive GHG reduction commitments**
- **Significant corporate/fleet customer also seeking convenient and cost-effective GHG reduction opportunities**
- **Program champions brought customer into initial discussions and thereby achieved immediate 'platform' for engagement with senior management at both companies**

Benefits of Strategic Partnership Approach

- **Partners co-designed innovative "Climate Neutral" fleet program**
  - Customer executives use the card to buy fuel
  - Energy company invests in carbon offset projects to eliminate the impact of driving with purchased fuel
  - Shared offset costs/credits at corporate level
- **Program brought from concept to pilot in months – not years**
- **Demonstrated market share increase sets stage for scale-up and roll-out to other customers**

Strategic Supply Chain Partnerships

Summary of key elements and benefits

- **Based on mature, proven supply chain 'Discovery' process…**
  - Leveraging existing skills and processes
- **..while adding new ecological/sustainability "Lens" as powerful new source of innovation**
  - Looking at business through new eyes
- **Identifying/brokering new product and market opportunities**
  - The key to creating new business value
- **Platform to directly and immediately engage senior management**
  - Enable shorter decision cycles
  - Rapid prototyping and quantitative validation
- **Build business and brand value**
  - Increase market share, revenue, profit, brand loyalty
  - Reduce environmental footprint, related risk factors

Natural Logic

Building profit and competitive advantage through exceptional environmental performance

Strategy:

Value generation

Strategic Sustainability™ Consulting
Strategic Supply Chain Partnerships™
Marketing and product development
CSR reporting as strategic business tool
Sustainable economic development
Life cycle thinking

Design:

Collaborative Innovation

Integrative design process / charrettes
Green / High performance buildings
LEED training and process management
Green materials research / specification
Permaculture systems: design with nature
Building / Site / Natural system integration

Tools:

Metrics, Dashboards, Reporting

Business Metabolics™ benchmarking software
Key Performance Indicators development
CSR Reporting Power Tools
EcoAudit Toolkit
EQE Checklist

Operations:

Advanced resource productivity

Integrated EcoAudits: process efficiency
Environmental Management Systems
Evaluation & implementation
Green building operation protocols
Profit Discovery processes

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We're interested in your comments.