



WWF®

REPORT

INT

2017



Responsible sourcing of forest products

The business case for retailers

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WWF is one of the world's largest and most experienced independent conservation organizations, with over 5 million supporters and a global Network active in more than 100 countries.

WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature, by: conserving the world's biological diversity, ensuring that the use of renewable natural resources is sustainable, and promoting the reduction of pollution and wasteful consumption.

CONTENTS

EXECUTIVE SUMMARY	4
Top impacts of responsible sourcing for retailers	5
The road to responsible sourcing: Lessons for success	6
BACKGROUND:	8
What is responsible sourcing?	9
Expanding uptake of responsible forest product sourcing	10
METHODOLOGY	8
WHAT DRIVES THE BUSINESS CASE FOR RETAILERS?	14
Criteria for responsible sourcing policy and implementation	17
Deep dive: how retailers benefit from responsible sourcing	18
Risk management metrics	19
Legal compliance	20
Growth metrics	22
Customer relations	22
Market share and sales	23
Productivity metrics	24
Operational efficiency and cost savings	24
Human resources	25
TURNING CHALLENGES INTO OPPORTUNITIES	26
Product availability	26
Costs of implementation	26
Certification	27
CAPTURING THE VALUE OF RESPONSIBLE SOURCING	28
Six lessons for success	28
CASE STUDIES	30
Ikea	30
Bunnings	34
Migros	38
Kingfisher	42
REFERENCES	46

EXECUTIVE SUMMARY

Global policy attention on deforestation and forest degradation has increased in recent

years. Political leaders have recognized the critical role of forests in achieving the Paris Agreement, while creating a target on sustainable management of forests in the UN Sustainable Development Goals. National and regional governance bodies have also stepped up efforts to protect forest resources and eliminate illegal sources of wood and paper products.

A growing number of voluntary commitments have been made by businesses to reduce negative environmental impacts in their product supply chains. **As of 2016, more than 200 companies had made public deforestation-free commitments on timber and pulp/paper sourcing, including over 80 in the retail space.**

Although the large number of voluntary pledges made by companies is encouraging, progress remains too gradual and their focus too narrow. Most deforestation-free commitments are not time-bound and two-thirds of the commitments are not accompanied by public reporting of quantifiable progress. Going beyond deforestation-free, only one in four brand manufacturers and retailer members of the Consumer Goods Forum have made quantified and time-bound commitments to source all or a majority of the commodities needed for their business according to credible certification standards.

The current supply chain sustainability landscape indicates that retailers that embrace the full scope of sustainability – going beyond legality compliance and deforestation-free commitments – maintain a **competitive edge and stand to differentiate themselves from the rest in the forest sector.**

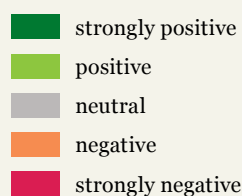
This report sets out to understand the business case for retailers to commit to and act on responsible sourcing of forest products, and shows that **retailers see a clear link between responsible sourcing and business opportunities.** It combines an extensive literature review with a survey of 54 retailers from 21 sectors and 20 countries. Follow-up interviews were conducted with representatives from retailers that have demonstrated long-term commitment to responsible sourcing of forest products – Bunnings, Kingfisher, IKEA and Migros.

What drives the business case for retailers?

- Over 80 per cent of companies reported **positive impacts through risk management and brand reputation.**
- Over 70 per cent saw **positive impacts on employee satisfaction.**
- Over 60 per cent saw **positive impacts on customer satisfaction and stakeholder engagement.**
- Operation/supply chain costs is the only area where most respondents reported negative impacts. However, quantitative cost – benefit analysis is rarely available.

Perceived impacts of responsible sourcing on business metrics

Key



Top impacts of responsible sourcing for retailers

✓ Risk management and brand reputation

Responsible sourcing is especially useful for managing risks around brand value and supply chain volatility. **Over 80 per cent of companies reported positive impacts on risk management and brand reputation.** These benefits are accrued through greater transparency in supply chains and establishing longer-term relationships with trusted suppliers.

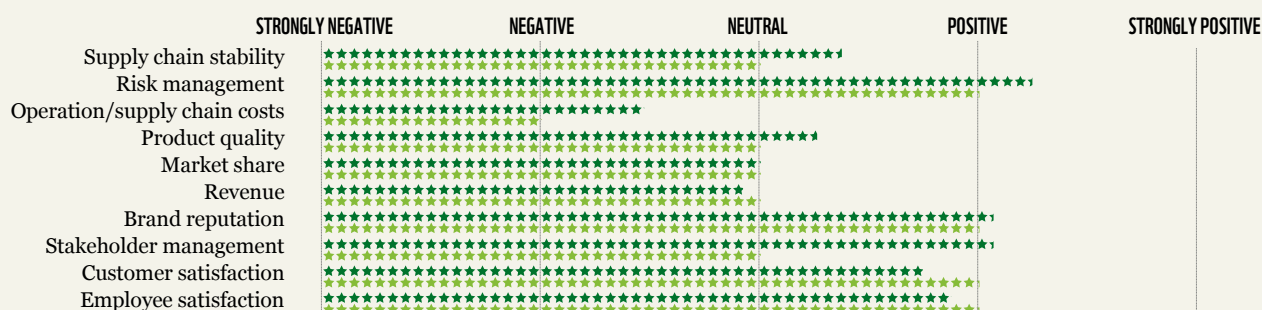
✓ Stakeholder management

Demonstrating their commitment to sustainability and social values through responsible sourcing helped companies **gain and maintain customers' trust**. Over 60 per cent of retailers saw **positive impacts on customer satisfaction and stakeholder engagement.**

✓ Potential productivity gains through employee satisfaction

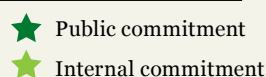
Over 70 per cent of retailers claimed sustainability commitments had a **positive impact on employee engagement**, indicating potential gains from higher employee satisfaction and retention.

Public commitment to responsible sourcing brings greater benefit than internal commitment alone for majority of the business metrics



Perceived impacts of responsible sourcing

Key



The road to responsible sourcing: Lessons for success

- 1 Public disclosure and measurable targets.** Publicly disclosed commitments that encompass broad sustainability criteria with measurable, time-bound targets and independent verification are associated with better implementation in practice. This, in turn, delivers greater benefits to companies.
- 2 From risk management to proactive problem solving.** The reputational and legality risks often serve as a catalyst for retailers to adopt sustainability policies and practices. But many progressive retailers are seeing the benefits of responsible sourcing, especially Forest Stewardship Council (FSC) certification, to proactively engage NGOs and policy stakeholders so they can identify and resolve contentious issues and mitigate impacts pre-emptively.
- 3 Bringing along the stakeholders.** Companies that reported positive impacts on employee satisfaction, customer satisfaction and stakeholder engagement shared common characteristics. They did not simply write a policy and demand certified products from their suppliers. Instead, they used their policies to educate suppliers, customers and employees and build more trusting, stable relationships.
- 4 Telling an authentic story.** Less than a quarter of sustainability commitments are accompanied by targets and progress disclosures and just 10 per cent of sustainability marketing of forest products includes substantiated claims. Responsible sourcing enables retailers to enhance their brand and corporate values, and to win consumer trust by demonstrating their integrity and authenticity.
- 5 Opportunities for win-win.** Although cost is often cited as a major barrier to implementing responsible sourcing, this research did not find it to be prohibitively high for retailers. Instead of paying premiums, retailers opted to work with suppliers to help absorb some of the added cost through various contractual arrangements and capacity-building support. Future opportunity lies in collaboration with suppliers to deliver greater value to consumers, so that sustainability initiatives can be rewarded through price mechanisms.
- 6 Measuring the business impacts.** Few companies had quantitative metrics to measure the business impacts of responsible sourcing. Although it is difficult to measure many of the intangible benefits, business-relevant metrics can be highly effective in garnering momentum and support across the organization.

WWF believes there is a strong business case for retailers to adopt responsible sourcing of forest products. However, stronger quantifiable data on the costs and benefits is needed.

WWF encourages all retailers to not only demonstrate and follow through on their commitments to responsible sourcing of forest products, but also measure and showcase their own business case to driver broader sector-wide transformation.

The power of public commitments

Companies with public commitments tend to:

- Have **much stronger policies**, and implement them more thoroughly.
- **Perceive greater benefits** than those that have only an internal commitment, or have made no commitment at all.
- See **increased customer and employee retention and reduced volatility in raw material prices.**



© Martin Harvey / WWF

Family shopping at a supermarket.

BACKGROUND: A SHIFTING POLICY AND COMPETITIVE LANDSCAPE

Responsible sourcing of wood and paper products is no longer a niche strategy for a handful of “green” companies; rather it is essential for businesses to stay

competitive in the marketplace. Retailers in particular have seen growing pressure from consumers, investors and civil society to address their sourcing practices.

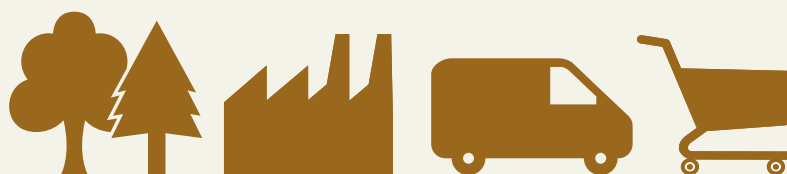


For companies in the timber and paper products value chain, what is considered “business as usual” has changed drastically over the last few years with heightened global policy attention on deforestation and forest degradation. In particular, retailers and end-users, due to their high visibility, have experienced pressure from consumers, investors and civil society to address these policy concerns through their sourcing practices.

For the first time political leaders around the world recognized the critical role of forests in achieving greenhouse gas emissions reduction targets in the Paris Agreement. Meanwhile, the UN Sustainable Development Goals (SDGs) created an explicit, ambitious and comprehensive target on sustainable management of forests.¹

Aligned with this international push toward halting deforestation and forest degradation, national and regional governance bodies have also stepped up their commitment to protect forest resources and eliminate illegal sources of wood and paper products. Developing countries have collectively made more than 100 forest conservation-related commitments within their Intended Nationally Determined Contributions.² Meanwhile, major timber markets are trying to tighten existing regulations like the European Union Timber Regulation (EUTR), for more stringent legality standards and greater transparency in the timber and paper products value chains.³

Within this policy environment, large businesses have generated a suite of voluntary commitments – mainly focusing on deforestation – to reduce their negative environmental impacts in their product supply chains. According to Supply-Change.org, which tracks over 600 companies’ public commitments to reducing deforestation, the majority of those that are active in timber and paper products value chains have made public commitments to eliminate or reduce deforestation. Of the more than 200 companies that have made public deforestation-free commitments on timber and pulp/paper sourcing, over 80 operate in the retail space.⁴ Furthermore, the number of deforestation-free commitments pertaining to timber and paper product sourcing that are publicly shared is growing steadily, from less than 100 to over 240 between 2012 and 2016.⁵



What is responsible sourcing?

Responsible sourcing refers to managing the supply chain to exclude wood-based products from illegal and controversial sources and increase products from well-managed sources.

For the purpose of this research, we define responsible sourcing practices as those meeting one or more of the following criteria:



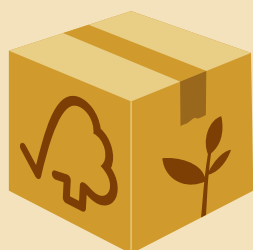
A

Having a publicly available responsible sourcing policy and exercising due diligence to manage the risk of non-compliance with the responsible sourcing policy;



B

Publicly disclosing targets and annual third-party verified progress on responsible sourcing;



C

Sourcing products from credible certification schemes, such as FSC, that verify that the timber originates from legal, well-managed sources. WWF considers FSC to be the most credible and rigorous forest certification scheme currently available to ensure environmentally responsible, socially beneficial and economically viable management of forests.

Responsible sourcing is not a one-time project, but a process of continuous improvement toward environmental and social sustainability of the company's core business practice. The main elements of responsible sourcing are policies, implementation and transparent performance reporting.

The Global Forest & Trade Network (GFTN), a WWF platform that seeks to promote responsible forest management and trade, offers clear guidelines on responsible sourcing in a transparent and credible manner. To learn more, visit the GFTN Guide to Legal and Responsible Sourcing: <http://sourcing.gftn.panda.org/>

Expanding uptake of responsible forest product sourcing

Although the large number of voluntary pledges made by companies is encouraging, the progress toward responsible sourcing is too gradual and its focus too narrow. Numerous investigations have found that most deforestation-free commitments are not time-bound⁶ and two-thirds of the commitments are not accompanied by public reporting of quantifiable progress.⁷ Going beyond deforestation-free, only one in four brand manufacturer and retailer members of the Consumer Goods Forum have made quantified and time-bound commitments to source all or a majority of the commodities needed for their business according to credible certification standards.⁸

Commitments are only meaningful if they are followed through. Companies sourcing forest commodities need to step up their efforts to publish quantified, time-bound action plans and progress reports detailing how they are achieving their commitments.

One of the reasons for the slow implementation of responsible sourcing is that, outside the “market leader” segment, many buyers of wood and paper products remain hesitant to commit resources to planning, establishing and improving their own due diligence above and beyond the legal requirements. They cite weak consumer demand and price sensitivity as well as cost and insufficient or inconsistent supply as challenges.

For retailers and end-users, ensuring that wood and paper products come from responsibly managed forests and tree plantations is no small task. However, downstream players, such as retail chains, are strategically positioned to drive sustainability practice and standards like FSC certification through their leverage over product supply chains and influence on consumer choices.⁹

A growing body of literature suggests that supply chain sustainability can benefit businesses in general through reduced risks and improved supply chain efficiency.¹⁰ Yet there are few compelling case studies on the specifics of how such benefits may be achieved through responsible sourcing in the forest sector.

This report sets out to understand the business case for retailers to commit to and act on responsible sourcing of forest products, and finds that **for retailers, responsible sourcing of wood and paper products is directly linked to business benefits and opportunities.**



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Rattan furniture being made at the Danlao Company factory in Vientiane Province, Laos. The furniture is exported to countries like Thailand and the US.

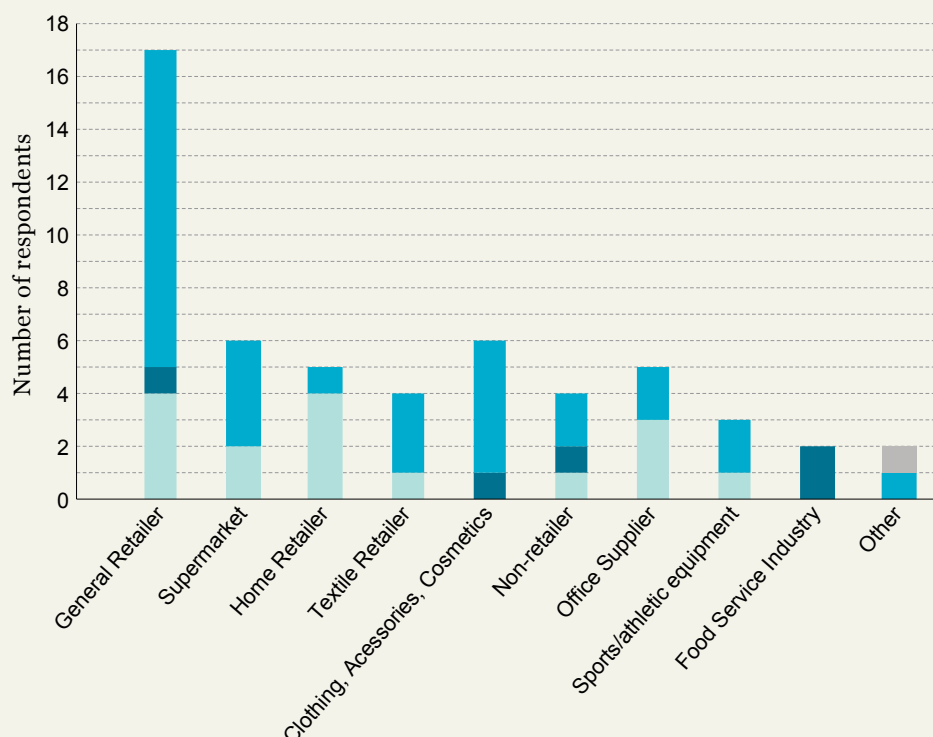
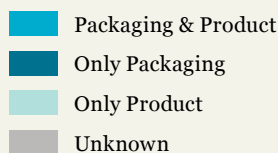
METHODOLOGY

This report combines a literature review with a retail sector survey and semi-structured interviews with select companies that have made significant investment in implementing responsible sourcing of wood and paper products.

- 1. Literature review:** A desk study was conducted to develop an inventory of the benefits and costs of responsible sourcing of wood and paper products, as well as cases in which eco-certification serves as an instrument for implementing responsible sourcing. The study reviewed recent publications from academic and non-academic sources on this subject, casting a wide net to capture as many concrete examples as possible. Limited references to other similar consumer product sectors are also included.
- 2. Retail sector survey:** Based on the literature review findings, a set of survey questions was developed to further validate information and gather specific accounts on the key benefits of responsible sourcing. The survey aimed to provide preliminary insights into key research questions, including:
 - a. What activities/initiatives have companies of diverse market segments undertaken to achieve their responsible sourcing commitments?
 - b. What are the main types and ranges of benefits and costs incurred by retailers as a result of these activities/initiatives?
 - c. What concrete cases are there of responsible sourcing commitments contributing to key aspects of business competitiveness?

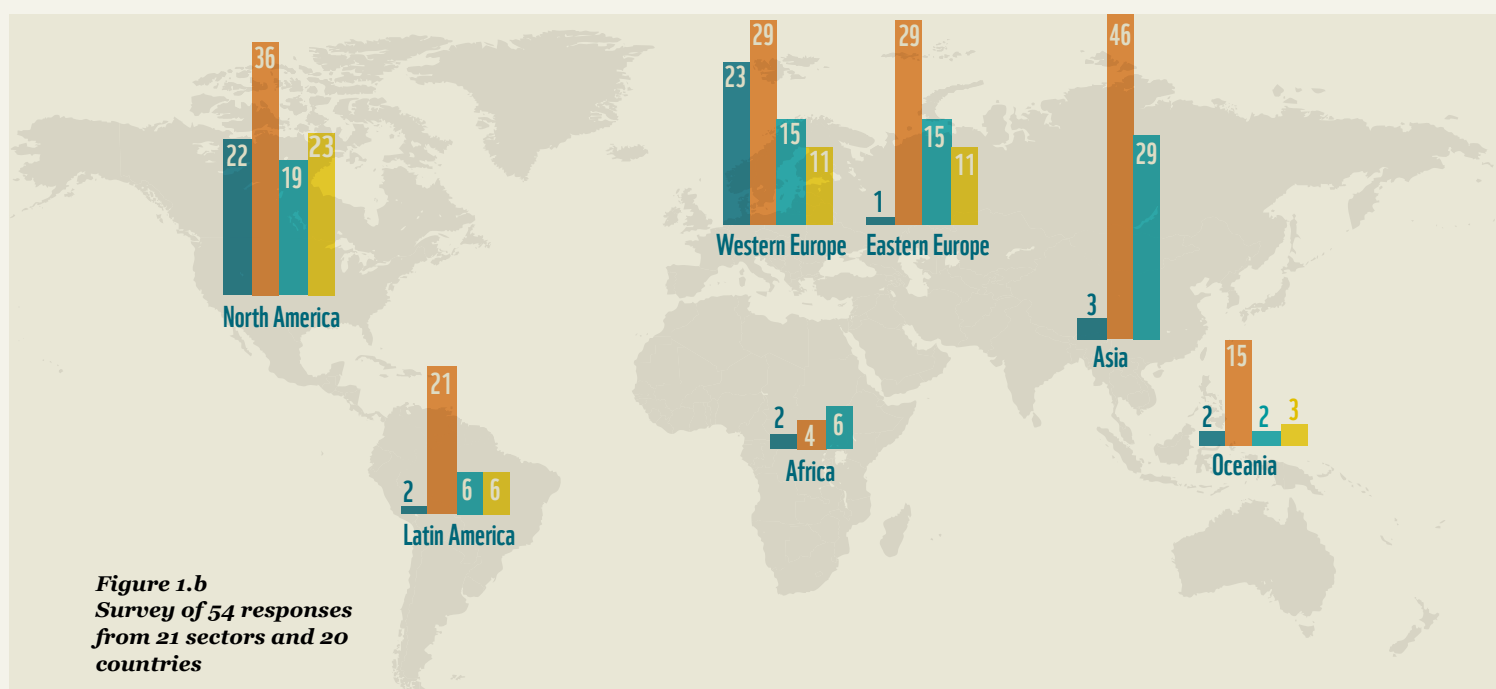
Figure 1A:
The number of
respondents by sector
and sourcing scope

Key



The survey was distributed to over 500 retailers, selected from different sub-sectors, including office supply, packaging, home improvement/DIY, home furnishings and general big-box retailers. The survey participant list covered a wide range of markets, including North America, Western Europe and emerging markets (e.g. China). The survey was conducted between June and September 2016, with participants' responses collected anonymously and analysed as aggregate data.

A total of 54 useable responses from 21 sectors and 20 countries were collected (figure 1). The results of the survey should be considered as indicative rather than reflective across the whole retailer space. In addition, the nature of the survey and its WWF branding may have introduced a level of respondent bias toward those who consider themselves to practise responsible sourcing.



Key

- Headquarter region
- Selling region
- Sourcing region – wood
- Sourcing region – paper

- 3. Interviews:** The semi-structured interviews aimed to capture more specific information about each retailer's experience with responsible sourcing of wood and paper products. Specifically, the interviews focused on:
- a. Concrete examples where responsible sourcing initiatives have contributed to business interest;
 - b. Challenges that the retailer faces in achieving its commitments;
 - c. Practical solutions for overcoming challenges.

Interview targets were selected based on the company's demonstrated commitments and performance over the long term, and to represent a wide range of markets and industries. A total of five interviews were conducted over the phone with representatives of Bunnings, Kingfisher, IKEA, Migros and Tesco. Particular efforts were made to capture quantitative information, such as monetary investment and returns, but in most cases benefits are related to less tangible factors that are difficult to quantify.

WHAT DRIVES THE BUSINESS CASE FOR RETAILERS?

Commitments disclosed publicly with measureable, time-bound targets and independent verification are associated with better implementation in practice; and more comprehensive implementation of responsible sourcing is linked to greater benefits.

A business case is a compelling, evidence-based argument showing that the benefits of adopting new practices will outweigh the costs over a specified time period. For retailers, the business case for sustainability generally links to value drivers in three domains: growing the business, improving productivity, and mitigating risks (figure 2). Within each domain, there are numerous metrics that in theory can affect a business's return on equity over medium to long term. The risk management metrics encompass various types of risks, including regulatory, reputational and supply risks. The productivity metrics concern the efficiency of business operations, including factors that affect labour productivity. Lastly, the growth metrics focus on markets and customers linking with both market defence and acquisition strategies.

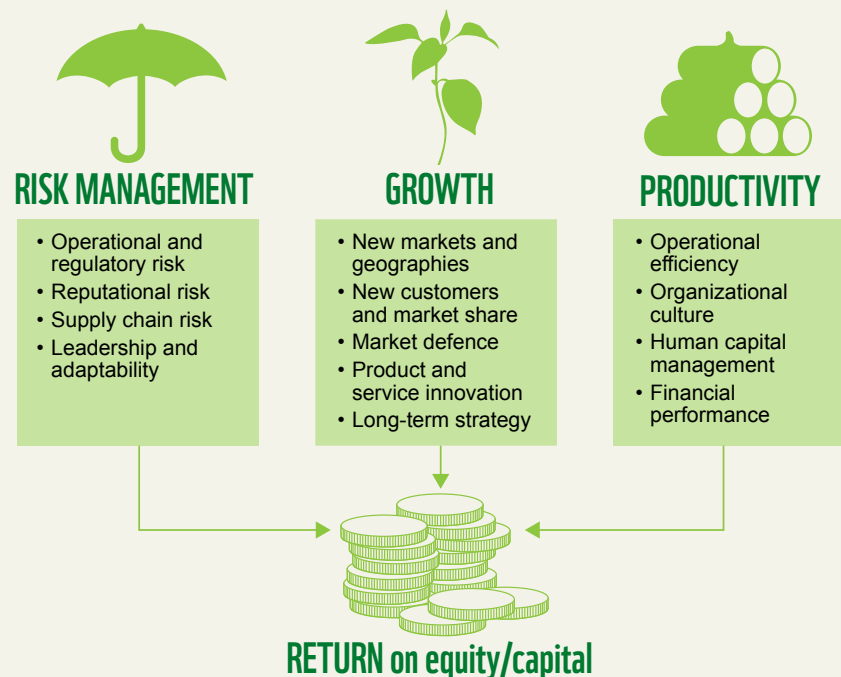


Figure 2: The value driver model: Linking sustainability to financial results

Source: WWF. 2016. Making the business case for sustainable commodities: A guide to good practice.

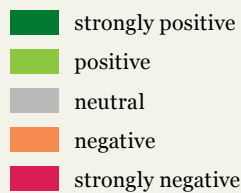
Risk management and brand reputation were the largest benefits of responsible sourcing, followed by customer satisfaction and stakeholder engagement

In the WWF global industry survey of 54 retailers, retailers appeared to perceive risk management metrics as the strongest driver of the business case for responsible sourcing. This was followed by growth metrics, such as revenue and sales, market share and customer satisfaction. Productivity metrics (e.g. operational efficiency, employee satisfaction and organizational culture) yielded a mixed response (figure 3).

Businesses were asked to rate perceived benefits on a scale of 1 to 5, where 1 is strongly negative and 5 strongly positive. Over 80 per cent of survey respondents reported positive impacts of responsible sourcing on their company in terms of risk management and brand reputation. More than 70 per cent reported positive impacts on employee satisfaction, and more than 60 per cent on customer satisfaction and stakeholder engagement. Operation/supply chain costs was the only area where the majority of the respondents reported negative impacts. A fraction of companies also reported negative impacts on revenue and supply chain stability as a result of implementing responsible sourcing.

Figure 3: Perceived impacts of responsible sourcing on business metrics

Key



To understand why benefits accrued, we investigated the content of responsible sourcing commitments and their implementation in detail. In the above-mentioned WWF survey, 80 per cent of retailers had responsible sourcing commitments in place, of which the vast majority made their commitment public (figure 4). While the survey sample is likely to be skewed as companies self-select themselves to participate, the results reflect overall industry trends toward public commitments to responsible sourcing of timber and paper products observed in other research.¹¹

80%
80 per cent of retailers in this survey response had responsible sourcing commitments in place, of which the vast majority made their commitment public

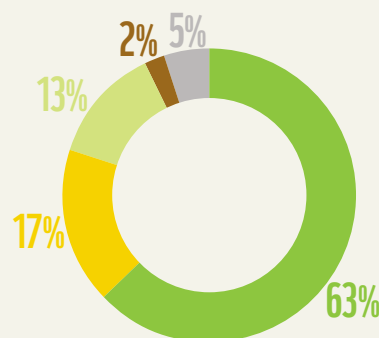
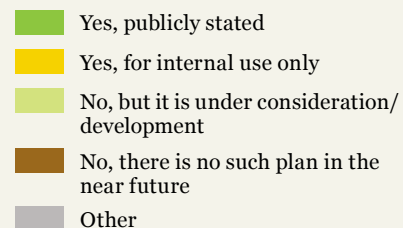


Figure 4: Survey response to responsible sourcing commitments

Key



Not all commitments are equal, however. Companies that have made public commitments had much stronger policies in place than those that do not make their efforts public (figure 5). The former were more likely to prefer certified and recycled products and materials. They were also more likely to set measurable and time-bound targets and disclose progress, and to have these independently verified (none of the internal commitments included independent verification).

Similarly, companies with public commitments were more likely to exclude wood from conflict areas, high conservation value areas, conversion, and unknown sources (figure 6).

Figure 5: What companies' responsible sourcing commitments contain

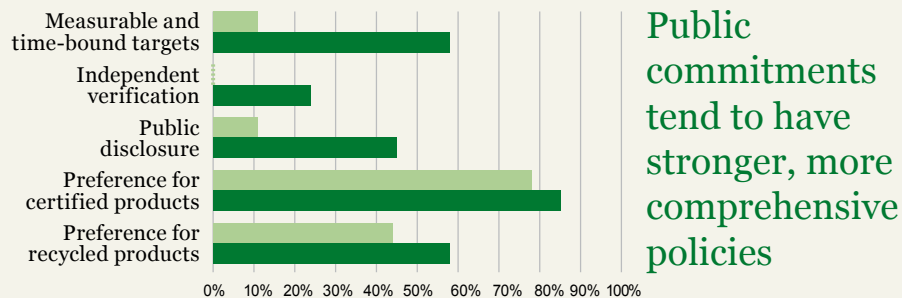
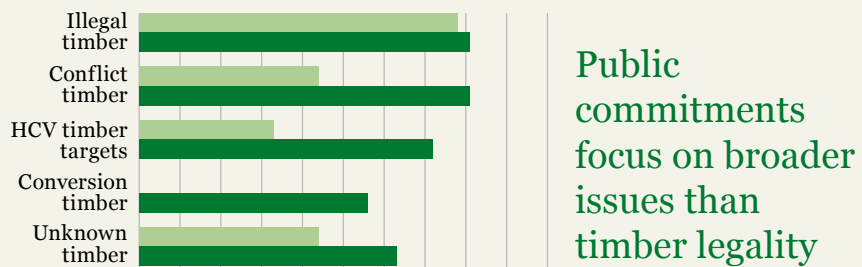
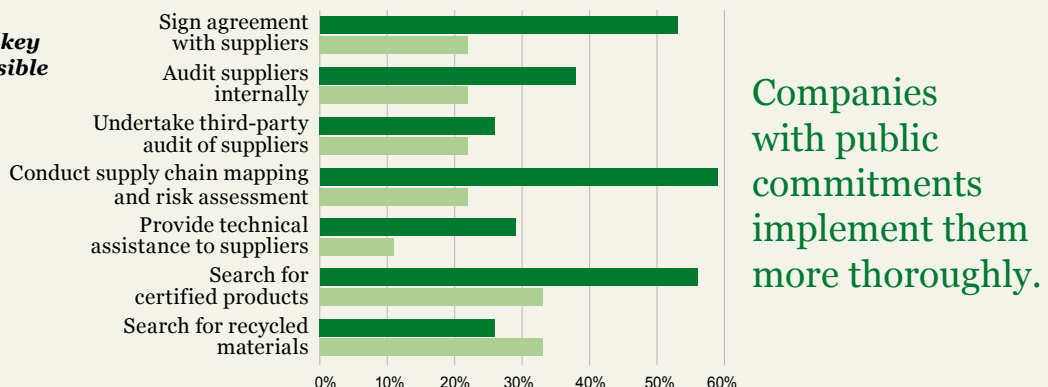


Figure 6: What companies' responsible sourcing commitments aim to exclude from supply chains



As well as having stronger policies, companies with public commitments implemented them more thoroughly (figure 7). More than half of the companies with public commitments had agreements with suppliers, conduct supply chain mapping, and look for certified products. They were also more likely to provide technical assistance to suppliers and ensure they comply with company policies through both internal and third-party audits.

Figure 7: Implementation of key elements of responsible sourcing



Public commitment
Internal commitment

Research elsewhere has shown that progressive retailers go beyond product labelling to actively engage with their supply chain across product groups to drive systematic environmental improvements.¹² WWF's analysis reinforces this, suggesting that engagement with suppliers can potentially lead to greater benefits associated with better risk management and stakeholder engagement.

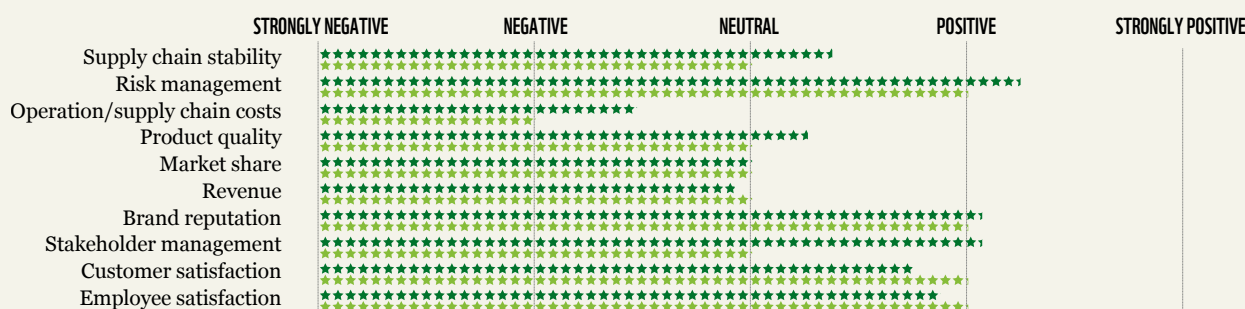


Figure 8: Perceived impacts of responsible sourcing

Key

- ★ Public commitment
- ★ Internal commitment

One of the key insights from the industry survey is that companies with a public commitment to responsible sourcing perceived greater benefits than those with an internal commitment, or no commitment at all. Although very little quantification was given in the survey response to verify the perceived costs and benefits, qualitative inputs suggested that retailers with public commitments have seen increased customer retention (especially in business-to-business sales) and reduced volatility in raw material prices (presumably due to longer-term contracts).

Criteria for responsible sourcing policy and implementation

POLICY

A sourcing policy defines all of the issues to be addressed and identifies what is acceptable to the purchaser. A good responsible sourcing policy contains the following:

- **Goals and targets** that are measurable and time-bound
- **Independent verification** of progress toward responsible sourcing targets
- **Public disclosure** of targets and progress of responsible sourcing
- Preference for **products and materials certified from well-managed forests** by independent verification or certification schemes
- Preference for **recycled products and materials**.

A policy should also specify the types of products not acceptable to the purchaser. These may include:

- Illegally harvested wood (**illegal timber**)
- Wood harvested in violation of traditional and civil rights (**conflict timber**)
- Wood harvested in forests in which high conservation values (HCVs) are threatened by management activities (**HCV timber**)
- Wood harvested in forests being converted to plantations or non-forest use (**conversion timber**)
- Wood for which the location of harvest is unknown (**unknown timber**).

IMPLEMENTATION

When implementing a responsible sourcing programme, an organization should draw up an action plan and define clear targets to serve as steps toward achieving the stated policy goals. Additionally, it should actively communicate its policy to suppliers and other stakeholders. The main steps at the implementation phase are establishing traceability and exercising due diligence, which include, but is not limited to, the following:

- Sign code of conduct **agreement with suppliers**
- Audit suppliers internally
- Undertake **third-party audit of suppliers**
- **Conduct supply chain mapping and risk assessment**
- Mitigate risk by, for example, **providing technical assistance to suppliers** to reduce environmental and social impacts
- Actively **search for certified products** from independent verification or certification schemes
- Actively **search for products made of recycled materials**.

DEEP DIVE: HOW RETAILERS BENEFIT FROM RESPONSIBLE SOURCING



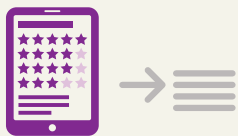
RISK MANAGEMENT



GROWTH



PRODUCTIVITY



Brand reputation

The early adopters of responsible sourcing have evolved from practising self-defence to taking pre-emptive measures against potential risks. They aim to mitigate environmental and social impacts before they become public relations crises.



Customer relations

All companies stated that being able to demonstrate their commitment to sustainability and social values through responsible sourcing helped gain and maintain customers' trust.



Operational efficiency and cost savings

Despite the added expense, retailers generally viewed these operational elements to be neutral or only moderate costs to their business.



Legal compliance

Carrying out due diligence in timber sourcing may be substantially less of a financial burden than the potential fines and reputational damage resulting from sourcing unknown or controversial timber.



Market share and sales

Responsible sourcing by itself is not directly associated with a change in retailers' market share or sales – but it serves as a market defence strategy where consumers' expectations on business ethics are high.



Human resources

Demonstrated commitment to sustainability may help create a sense of pride in people's work, which can contribute to productivity and retention.



Supply chain resilience

Responsible sourcing helps retailers minimize disruption in supply chains in the short term and ensures access to the raw materials they need at a stable price in the long term.

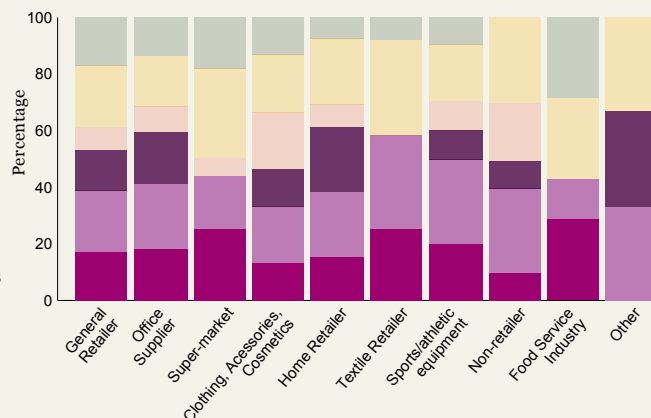


RISK MANAGEMENT METRICS

Risk is, by its nature, the most difficult business metric to quantify. Yet it is also the area that retailers considered the most important in terms of product sourcing (figure 9). This research finds that in the forest sector responsible sourcing is especially useful for managing risks around reputation, regulatory issues and supply chain resilience.

Figure 9. Drivers for responsible sourcing commitments across sectors

Key



Reducing supply chain and regulatory risks are the main motivations to pursue responsible sourcing.

Brand reputation



The early adopters of responsible sourcing have evolved from practising self-defence to taking pre-emptive measures against potential risks: they aim to mitigate environmental and social impacts before they become public relations crises.

For retailers, brand reputation is considered as one of the most valuable assets.¹³ In recent years, managing reputational risks has become increasingly important in light of heightened public and investor expectations for companies to reduce pressure on forests and to address climate change. A recent CDP report on global forest risks found that more than half of the companies surveyed identified reputational risks in their supply chains with the potential to cause a substantive change in business operations, revenue or expenditure.¹⁴

Responsible sourcing, when integrated into business practices, can enable retailers to better manage brand value and reputation by avoiding negative public relations, as well as maintaining and enhancing brand integrity.

According to the WWF survey and interviews, NGO pressure and negative press – or the fear of it – often act as a catalyst for retailers to adopt sustainability policies and practices. In the early days, companies adopted responsible sourcing as a defensive strategy and communications tool to fend off criticisms and boycotts. However, the early adopters of responsible sourcing have evolved to taking pre-emptive measures against potential risks and mitigate environmental and social impacts before they become public relations crises. Some companies have been using forest certification as a platform for stakeholder engagement, where they can engage in constructive multi-stakeholder dialogues and cooperation to resolve contentious issues.¹⁵

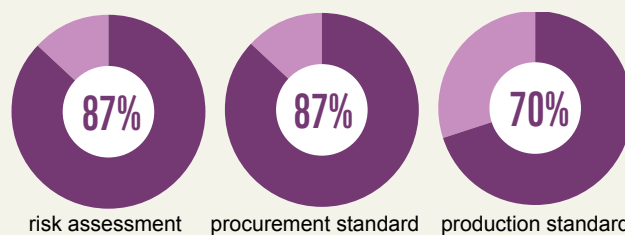
To successfully manage brand reputation a company must also be consistent about what it does, what it says, and what it sells. However, this is often not the case in the forest sector. An investigation by a civil society coalition led by Climate Focus found that few companies in the forest sector were acting on their responsible sourcing commitments: although most had policies in place, only 20-25 per cent had time-bound action plans (figure 10).¹⁶ If a company claims to be socially and environmentally responsible and yet does not follow through with its commitments, it is likely going to lose credibility in light of increasing public scrutiny of private sector commitments.

Figure 10: Discrepancy between responsible sourcing policies and implementation

Source: Climate Focus. 2016.

Key

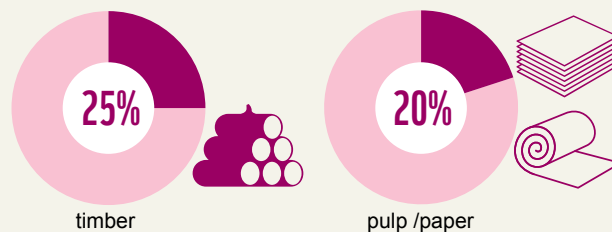
- Have policies
- No policies



Most companies have adopted policies or strategies to operationalize commitments

Key

- Have time-bound action plans
- No time-bound action plans



Yet, less than a quarter of the companies have time-bound actionable plans



Legal compliance

Although carrying out due diligence in timber sourcing can require considerable internal resources, it may be substantially less of a financial burden than the potential fines and reputational damage resulting from sourcing unknown or controversial timber.

Legality risk is often cited as an important driver of the business case for responsible sourcing. In particular, a few high-profile legality cases have caught the public attention: for example, Lumber Liquidators, North America's largest specialty retailer of hardwood flooring, paid a total of US\$13.2 million in fines for its import of flooring from China after pleading guilty to violations of the US Lacey Act.¹⁷

Setting up due diligence and traceability systems including staffing can require considerable resources – though no specific figures were given, in part because these costs tend to be embedded within overall operation costs. Despite the perceived high upfront costs, it can be substantially less of a financial burden than the potential fines and reputational damage resulting from sourcing unknown or controversial timber. Because legal compliance is one of the first steps toward responsible sourcing, the businesses we interviewed saw minimal added cost to move from legal compliance to more comprehensive responsible sourcing through credible certification. In fact, since legality is a basic principle of credible certification, sourcing certified timber provides added assurance of legality due diligence.

BACK TO
ALL METRICS
TABLE

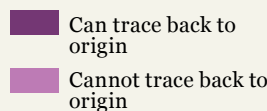
Home improvement retailer Kingfisher, for example, uses FSC as a means to save time on internal audits while achieving the same level of confidence in supply.¹⁸

In addition to avoiding fines and reputational damage, responsible sourcing can help companies proactively address the implications of future regulatory changes. Bunnings identified that while the Australian government has not yet implemented any major legislation regarding responsible forest product sourcing, the company will be well placed to meet future legislative demands should it do so.

Figure 11: Traceability systems often fail to go all the way back to the source

Source: Climate Focus. 2016.

Key



Supply chain resilience

Responsible sourcing helps retailers minimize disruption in supply chains in the short term and ensure access to the raw materials they need at a stable price in the long term.

Additionally, responsible sourcing allows retailers to build relationships with high-quality suppliers that they can trust and depend on. Some of the companies interviewed for this research work strategically with key suppliers, including through longer-term contracts, to encourage and educate them to gain certification or implement measures to meet standards, rather than source elsewhere, because they recognize the benefits of long-term relationships with suppliers. With a smaller pool of suppliers who work to the same sustainability standard, the supply chain becomes more stable and relationships with individual suppliers become stronger. Trusted, long-term suppliers are more consistent in quality and delivery and help mitigate short-term price shocks, which further strengthens supply chain resilience.

Beyond this, for retailers who have a significant dependence on forest products, it is of paramount importance to ensure enough wood will be available in the future to meet their business demands. Many important timber source countries are on the verge of depleting their reserves of forest available for production, and are not replacing harvested areas with an equivalent area of planted or naturally regenerated forest.¹⁹

Some retailers have begun to address this potential supply shortage, incorporating responsible sourcing into broader strategies to ensure access to the raw materials they need at a price they are able or willing to pay in the long term. An example of this approach is to combine responsible sourcing with proactive support of reforestation and responsible forest management certification, with the ultimate goal of leaving more trees on the ground than the company takes out.²⁰


**BACK TO
ALL METRICS
TABLE**



GROWTH METRICS

A retail business's long-term growth is driven by numerous factors, and to quantify the effects of responsible sourcing on these factors was difficult. Nevertheless, this research found that responsible sourcing had a positive impact on customer loyalty, presumably through better management of brand and reputation. It had limited impact on other growth metrics such as market share and sales.



Customer relations

All companies stated that being able to demonstrate their commitment to sustainability and social values through responsible sourcing helped gain and maintain customers' trust.

Relatively few retailers identified customer demand as a motivation for pursuing responsible sourcing in our survey, but those that implemented responsible sourcing unanimously reported positive impacts on customer relations. All companies stated that being able to demonstrate their commitment to sustainability and social values through responsible sourcing helped gain and maintain customers' trust. In one example, a company's internal market research revealed that its sourcing practices came up as the second most important issue identified by customers worldwide. Implementing responsible sourcing commitments and demonstrating progress toward them helps the retailer meet this consumer demand.²¹ This authenticity is believed to contribute to customer loyalty – even though metrics to measure customer loyalty are often absent.²²

While most retailers surveyed by WWF did not see the increased customer trust manifested in increased overall sales or market share, several large-scale global consumer surveys have found that trust is among the most influential factors in consumers' purchasing decisions.²³ Consumers tend to exhibit more loyalty to trusted brands and, everything else being equal, high levels of customer loyalty – measured by customer satisfaction – have been linked to moderate improvement in financial performance.²⁴



BACK TO
ALL METRICS
TABLE



Market share and sales

Responsible sourcing by itself is not directly associated with a change in retailers' market share or sales – but it serves as a market defence strategy where consumers' expectations on business ethics are high.

A 2015 global survey found that sales of consumer goods from brands with a demonstrated commitment to sustainability grew more than 4 per cent globally, while those without grew less than 1 per cent. This divide is even sharper for paper towels and bath tissue categories.²⁵ In this research, we found responsible sourcing by itself is not directly associated with a change in retailers' market share or sales revenue; instead, it serves as a market defence strategy against competitors in places where consumers' expectations on business ethics are high.

Companies noted that in the early days when there were few certified products in the marketplace, there was certain advantage to being seen as a market leader. However, in markets where the concept of sustainability has become mainstream, sourcing sustainable forest products is now expected practice. As a result, responsible sourcing practices and related marketing do not necessarily help retailers capture new markets, as lack of overall transparency means consumers cannot properly differentiate between market players, and this may not be their main shopping concern, even in more sensitive markets. However, there is a pronounced concern that if a company retreat from its sustainability commitment, it can risk losing customer trust.

Retailers tend to rely on credible certification, such as FSC, as the safest way to demonstrate their commitments. In itself, FSC certification may not necessarily pull new customers – but companies in markets where certification is expected risk losing customers without it, while being exposed to illegal deforestation or unethical practices within their supply chain. For Migros, FSC certification “*adds to the overall customer trust in the brand and company*”, while Kingfisher referred to the “*trust halo*” it provides.

Although responsible sourcing itself has no direct impact on sales, this research and others have found that sales of certified products are increasing. In one survey of US home improvement retailers, 62 per cent of the 132 respondents identified increased sales of certified forest products over the past five years, with 26 per cent reporting a significant increase.²⁶ Migros, which offers the largest range of FSC-certified products in Switzerland, saw sales of FSC products growing by 12.5 per cent in the past year. In total, the company's sustainable product sales increased by a third between 2012 and 2015. This increase in sales is largely driven by higher share of certified products in companies' product offerings, but evidence also points to increased customer preference for environmentally responsible products.²⁷





PRODUCTIVITY METRICS

For large retailers that manage numerous complex supply chains, the main drivers of productivity come from supply chain efficiency and human resource management. Our survey found that responsible sourcing could have modest negative impact on operational costs, with no clear benefits on efficiency. This is in part due to the lack of metrics to track efficiency and productivity. However, the cost was not significant enough to affect the business bottom line. By contrast, the majority of companies saw sustainability commitments as having a positive impact on employee engagement, indicating potential gains from higher employee satisfaction and retention.



Operational efficiency and cost savings

Despite the added expense, retailers generally viewed these operational elements to be neutral or only moderate costs to their business.



BACK TO
ALL METRICS
TABLE

Contrary to research by PricewaterhouseCoopers, which found sustainable supply chain initiatives contributing to cost reductions,²⁸ this research did not find evidence of cost savings or efficiency gains through responsible sourcing. In fact, the majority of survey respondents reported higher costs as a result of investment in expertise, training, changing systems and other human resource costs. This can be a substantial upfront expense, and is by far the largest cost incurred by retailers in pursuing responsible sourcing.

One company estimated that the cost of administering its responsible sourcing activities – including software development, human resources, NGO partnerships and travel – was around US\$1.5 million. It also cited potential additional ad hoc costs of up to US\$100,000 in consulting or other projects.²⁹

Because the mass-market retailers interviewed are operating in a highly competitive, low-margin environment, they generally did not pay a price premium for certified products, with some exceptions. Most stated that unless a certified product can compete on price it will not sell. There are a few product categories where premiums of up to 10-15 per cent were paid to suppliers, including indoor and outdoor furniture.

Despite the added expenses, retailers surveyed and interviewed generally viewed these operational elements to be neutral or only moderate costs to their business (see figure 3 above). Large retailers have found ways to off-set the costs, including system automation, consolidation of supply chains, and lower transaction costs through stronger relationships and secure longer-term contracts with suppliers.



Human resources

Demonstrated commitment to sustainability may help create a sense of pride in people's work, which can contribute to productivity and retention.



BACK TO
ALL METRICS
TABLE

Improving employee morale and work satisfaction is an area where the majority of WWF survey respondents saw positive impacts. Anecdotally, companies in the survey reported small increases in staff retention due to being perceived as a responsible business that cares about more than just profit. Companies may also use responsible sourcing as an employee engagement tool. Some have set up programmes to educate employees about environmental issues – one company reported an estimated 20 per cent increase in employee awareness and support of its sustainability initiatives. This finding echoes other research that finds employee engagement as the number one benefit achieved through product sustainability efforts (including responsible sourcing).³⁰

While the impact of employee engagement is difficult to quantify, the positive links between employee satisfaction and performance outcomes at individual and organizational levels have been extensively documented.³¹ A global workplace survey found that two-thirds of the 10,000 people surveyed across China, Germany, India, UK and US want to work for an organization with a powerful social conscience, while one-third of the 480 HR professionals from around the world reported that they were building their talent strategies around their organizations' social and environmental conscience.³² Researchers and company managers believe that demonstrated commitment to sustainability can attract talent and help create a sense of pride in people's work, thereby contributing to productivity and retention.



© Kingfisher

B&Q staff members

TURNING CHALLENGES INTO OPPORTUNITIES

Many buyers of wood and paper products are sceptical about the benefits of responsible sourcing on their business bottom line.

Reasons cited include weak consumer demand, price sensitivity, cost and supply-side challenges. Through our literature review, survey and interviews, we found ample evidence of companies finding solutions to overcome these challenges.

Product availability

The challenge: The availability of responsible forestry products appears to vary depending on product type and location. Timber itself was generally considered relatively easy to source, as was paper, while sanitary products are highly challenging. Within the sector, furniture made in Asia was difficult to source sustainably, mainly due to fewer suppliers and more complex supply chains. Additionally, indoor furniture, with particle board in particular, is considered challenging by some retailers.

Solutions: Large retailers may have significant leverage over their supply chains, enabling them to overcome shortage problems. For more challenging products, retailers reported engaging with the sector and suppliers, which helped drive innovation and encourage better practice. For example, as the largest household hardware chain in Australia, Bunnings was able to drive demand for certified supplies and help its suppliers get certified by engaging in long-term contracts that provide stability for both parties.

Opportunities: The lack of product availability can be a sign of market opportunity: retailers can take advantage of it to differentiate their product offering from competitors. When Migros started implementing its responsible sourcing policy in sanitary product lines, there were no certified products available. By persistently working with suppliers, the company has recently been able to start selling new certified product lines.

Costs of implementation

The challenge: As noted above, the biggest cost associated with responsible sourcing is the upfront set-up cost, which requires financial and human capital investment, as well as firm management commitment. Additionally, for products that are harder to source, retailers may need to pay a price premium to suppliers. For example, there was a reported 5 to 10 per cent average increase in unit price for certified furniture. In the mass-retail segments, where average profit margins are relatively low, this added cost may prove hard to manage for some retailers.

Solutions: The cost of implementing responsible sourcing can be reduced if it is integrated into supply chain management upgrades. Kingfisher moved to an automated system with traceability embedded, ensuring it does not incur further operational costs. Bunnings, on the other hand, consolidated its supply chain when implementing its responsible sourcing policies, reducing the number of suppliers and the complexity that came with it. Moreover, price premiums quoted by suppliers

were not always seen as a barrier. The retailers interviewed pointed to strategies to work with suppliers to recoup additional costs through preferential purchasing and longer-term contracts. Even where some increase is identified, this is generally reduced over time as markets become more mature and supply increases.

Opportunity: Despite a broad recognition of the benefits of responsible sourcing in terms of customer satisfaction, employee engagement, and reduced risk exposure, few companies in our survey had metrics and methodologies to measure such effects.

The lack of business-related metrics contributes to the widespread perception of high costs, while masking the benefits that tend to be embedded across various aspects of business operations. Companies in other sectors (e.g. food and beverage) have begun to develop and track business-relevant metrics for their sustainability programmes.³³ For example, Smithfield Foods Inc. uses a metric to track capital expenditure and cost savings on its Environmental Excellence Awards programme, which it publishes in its integrated report.³⁴ There is an opportunity for retailers to improve performance measurement for forest product sourcing, which would enable them to make a better case to investors and other interested stakeholders.

Certification

The challenge: FSC was identified as a trustworthy, reliable proxy for sustainability. For retailers, it reduces the effort required to independently ensure that the wood contained within their products is not only compliant with law, but also adheres to good practice, as widely agreed by NGOs, civil society and the media. However, many retailers acknowledge that FSC may be too ambitious a target for some suppliers. As a result, smaller suppliers, especially in developing countries, may sometimes be excluded, as they lack the resources to become certified.

Solutions: The retailers interviewed have all worked extensively with their suppliers to raise awareness about sustainability issues and ultimately guide them toward certification, rather than unilaterally imposing it on them. The result is more trust in business relationships, as suppliers see the company's support as evidence of commitment to a long-term relationship. Some retailers are also working to address the capacity challenge: for example, IKEA has worked with WWF to support more than 20,000 smallholders in Linyi, China to become FSC certified.³⁵

Opportunity: Retailers also see FSC certification as a useful tool to engage in dialogue with the NGO community and with suppliers. Many retailers initially used FSC as a defence strategy to protect their brands against negative social campaigns and media coverage, but have evolved into viewing FSC as a platform to proactively resolve issues and conflicts. In this regard, FSC is not so much a “seal of approval”, but rather a learning process and an opportunity for companies to learn more about their business and its surrounding environment.

CAPTURING THE VALUE OF RESPONSIBLE FOREST PRODUCT SOURCING

With the heightened policy attention on global forest issues and proliferation of deforestation-free supply chain commitments, responsible sourcing of wood and paper products

is no longer a niche strategy for a handful of “green” companies; rather it should be considered as an essential part of business operations to stay competitive in the marketplace.

Scrutiny of companies’ sourcing policies and their implementation by organizations like WWF, CDP, SupplyChange.org and others presents an opportunity for retailers that wish to stand out from the crowd to differentiate themselves in terms of performance against commitment. While hundreds of supply chain sustainability commitments have been made, most of them are narrowly focused on the single issue of deforestation and lack substantive plans. WWF’s research shows that when implemented properly, responsible sourcing practices can lead to improved performance across various business metrics, including risk management, customer relations, and employee engagement – even though few have been quantified.

The benefits of responsible sourcing identified by businesses are mostly qualitative, but in aggregate, over 80 per cent of WWF survey respondents reported positive impacts on business in terms of risk management and brand reputation. More than 70 per cent of respondents saw positive impacts on employee satisfaction, while customer satisfaction and stakeholder engagement were perceived to be positively impacted by more than 60 per cent of the respondents. Further case studies of select retailers reveal a number of key factors that enabled them to reap the benefits of responsible sourcing.

Six lessons for success

- 1. Public disclosure and measurable targets.** Responsible sourcing commitments that encompass broad sustainability criteria and are disclosed publicly with measureable, time-bound targets and independent verification are associated with better implementation in practice. This, in turn, delivers greater benefits to companies.
- 2. From risk management to proactive problem-solving.** The reputational and legality risks often serve as a catalyst for retailers to adopt sustainability policies and practices in the first place. But many progressive retailers are seeing the benefits of responsible sourcing, especially FSC, as a mechanisms to proactively engage NGOs and policy stakeholders, so that they can identify and resolve contentious issues and social impacts pre-emptively.
- 3. Bringing along the stakeholders.** Companies that reported positive impacts on employee satisfaction, customer satisfaction and stakeholder engagement shared common characteristics. They did not simply write a policy and demand certified products from their suppliers. Instead, companies used their policies to educate suppliers, customers and employees. In doing so, companies indicated

that they were able to build a more trusting and stable relationship with their suppliers, customers and employees. While such intangible assets cannot easily be translated into financial gains at individual company level, they could be one of the contributing factors behind these companies' long-term success. In fact, a review of over 200 published sources concluded that companies with strong sustainability scores tend to show better operational performance and face lower cost of capital.³⁶

- 4. Telling an authentic story.** Even in today's crowded marketplace for sustainability, more than three-quarters of commitments are not accompanied by targets and progress disclosure and up to 90 per cent of sustainability marketing of forest products is not substantiated by claims.³⁷ Retailers that are able to leverage responsible sourcing to enhance brand values recognized the importance to align their sourcing practices with other aspects of business operations, as well as with their corporate values. They also saw the opportunity to win consumer trust by demonstrating the integrity and authenticity of brands through responsible sourcing.
- 5. Opportunities for win-win.** Although the high cost is often cited as a major barrier to implementing responsible sourcing, this research did not find it to be prohibitively high for retailers. Part of the reason is that there is little to no premium paid to suppliers; instead, retailers opted to work with suppliers to help absorb some of the added cost through various contractual arrangements and capacity-building support. Future opportunity lies in collaboration with suppliers to deliver greater value to consumers, so that sustainability initiatives can be rewarded through price mechanisms.
- 6. Measuring the business impacts.** Few companies surveyed and interviewed by WWF had quantitative metrics to measure the business impacts of responsible sourcing. Although it is difficult to measure many of the intangible benefits, business-relevant metrics can be highly effective in garnering momentum and support across the organization (as often seen in the case of energy and water efficiency initiatives).

A logging company employee measuring felled wood at Pallisco logging company, East province, Cameroon. Workers check the length, diameter and quality of the wood and mark this on the log. They also mark the concession number, the area where the tree was felled and the date. Pallisco is 100% FSC certified, and is a member of WWF's Global Forest and Trade Network. The FSC standard requires timber to be traceable throughout the supply chain.



© Brent Stinton / Getty Images / WWF-UK

CASE STUDY 1

IKEA



“IKEA NEEDS TO SOURCE ALL OVER THE WORLD, AND IN COUNTRIES WHERE ENVIRONMENTAL AND SOCIAL CHALLENGES ARE HIGH, RESPONSIBLE SOURCING IS IMPORTANT FOR MANAGING THE RISKS.”

Andrea Perissinotto,
Wood Supply & Forestry
Specialist, IKEA

Company background

IKEA is the world's largest furniture retailer with 392 stores in 48 countries. In 2015, the company used more than 16 million cubic metres of wood in its furniture, DIY and decorative products. It also sources paper for its packaging and printed materials.

Sector	Home furnishings
Revenue	EUR 35.1 billion
Employees	163,600
Sourcing region(s)	Western and Eastern Europe, East and Southeast Asia, North America, and South America
Main markets	Europe, North America, Asia and Australia
Responsible sourcing since	1994
Share of responsible sourcing	FSC - 57% Recycled - 4%

Motivation for responsible sourcing

IKEA's decision to pursue responsible sourcing stems from its core business interest. First, IKEA's business is dependent on wood as raw material – two-thirds of all the products it sells contain wood, including bamboo. To keep the business viable, IKEA had to have a strong commitment on wood sourcing.

Second, IKEA is a global brand with high visibility. In a market research of 8,000 customers in eight countries, wood sourcing was identified as the second-most important issue for IKEA to address, with one in five interviewees saying it was a key issue. It is important that IKEA addresses this to build a brand that customers can positively associate with.

Overview of responsible sourcing activities

The IKEA supplier Code of Conduct, IWAY, sets minimum requirement criteria for wood used in IKEA products. It excludes wood from:

- Forests that have been illegally harvested;
- Forestry operations engaged in forest-related social conflicts;
- Intact natural forests or other geographically identified high conservation value forests, unless certified according to a system recognized by IKEA;
- Natural forests in the tropical and sub-tropical regions being converted to plantations or non-forest use;
- Genetically modified tree plantations.



© Thippakone Thammavongsa / WWF-Laos



**TWO
THIRDS**
OF ALL THE
PRODUCTS
IKEA SELLS
CONTAIN WOOD
(INCLUDING BAMBOO)

The IWAY also specifies what suppliers need to do in order to comply with the minimum requirements, including training, collecting wood origin data, traceability system, and identification and verification of high-risk sources. IKEA provides periodic training for business teams, IWAY auditors and suppliers on IWAY requirements and follow-up reporting. They also use third parties to deliver FSC training to suppliers and business teams on FSC forest management and chain of custody certification.

FSC is the only forest certification scheme that IKEA currently recognizes and it actively seeks FSC and recycled material. However, sourcing FSC alone is not sufficient to meet the company's demand for wood. Therefore, IKEA actively partners with global and local organizations to provide technical assistance to suppliers and their partners, upstream supply chain to secure responsible forestry and achieve FSC certification.

IKEA does not label certified material on the final products, with the exception of its catalogue, which is the largest FSC printed article worldwide. This decision is based on the IKEA's marketing strategy to make its own label encompass everything it stands for, including the Principles and Criteria of FSC.

Progress and achievements

As of beginning of 2017, 73 per cent of IKEA's total timber sourcing by volume came from recycled or FSC certified sources, and 77 per cent of IKEA's wood suppliers were FSC chain of custody certified. Its target is for 100 per cent by 2020.

In priority areas, where there is a higher risk of illegal or irresponsible forestry practices, IKEA sources 100 percent of its wood from FSC certified or recycled sources.

Business benefits and costs

Supply chain resilience: IKEA sources from all over the world, and sees responsible sourcing as vital for supply chain management.

In the short term, responsible sourcing allows IKEA to have more control over the supply chain, which is not only beneficial from a risk management standpoint, but is also useful for quality control purposes. Responsible sourcing improves reliability in supplies, allowing IKEA to ensure that their products from the source of origin to the point of sales meet its standards for quality, safety, and sustainability.

Increased traceability also has a positive impact throughout the supply chain. To comply with IKEA's requirements, suppliers have mapped sub-suppliers to see which are FSC-certified and which are not, and have helped those who are not actively engaged in seeking FSC certification. Many suppliers have realized that increasing their supply of FSC wood represents a better way to put themselves on the market and gives them a chance to expand. The more IKEA suppliers realize the benefits of taking control of their supply chain and sub-suppliers, the more resilient IKEA's supply chain becomes.

Risk management: Around 30 per cent of IKEA's wood sourcing come from high-risk trading areas – South-East Europe, Russia, China and South-East Asia – where there is a higher risk of illegal or irresponsible forestry practices. IKEA uses FSC certification to help ensure that the wood does not come from illegal or controversial sources in these regions. Because FSC is the only forest certification scheme that is credible, reliable and widely recognized by stakeholders, it is considered more effective as a risk management tool in countries where environmental and social challenges are large.

Sourcing costs: In some cases there is a price premium paid to suppliers for FSC certified materials, but this is considered a legacy from the past when FSC was less common in the marketplace. IKEA expects that with sustainable products becoming the norm, rather than a niche, the concept of paying a premium on responsible products will gradually disappear.

Moving forward

Because of the volume of IKEA's sourcing, the biggest challenge for the company is to have enough supplies every year to achieve its 100 per cent responsible sourcing target. IKEA is already starting to see the limits of FSC certified wood available in the markets it sources from – in Western Europe and North America, for example, the volume of FSC certified materials is limited by a stiff competition among certification systems. IKEA is working to increase the supply of responsible products in the short term through working with suppliers and to address long-term supply security challenge through vertical integration of supply chain by purchasing timberland in Europe.



© Michel Gunther / WWF

A great variety of bamboo species grow in China and are highly considered for their numerous values.

CASE STUDY 2

BUNNINGS



“RESPONSIBLE SOURCING IS ABOUT CONTINUOUS IMPROVEMENT AND LEARNING, AND HAVING SUPPLY CHAIN GROWING WITH BUSINESS TO DELIVER VALUE TO RELATIONSHIP AND LONG TERM EFFICIENCIES.”

Mark Gomm, Risk/
Sustainability Manager,
Bunnings

Company background

Bunnings is Australia’s largest home improvement and outdoor living retailer, with 340 retail and warehouse stores and trade centres across Australia and New Zealand. It sells a range of wood-based home improvement/DIY products, furniture and decorative products, as well as timber and wood-based fuels such as charcoals.

Sector	Home improvement
Revenue	AU\$ 9.5 billion
Employees	Over 40,000
Sourcing region(s)	Australia, New Zealand, Southeast Asia
Main markets	Australia, New Zealand
Responsible sourcing since	2002
Share of responsible sourcing	FSC - 33% PEFC - 50%

Motivation for responsible sourcing

The company’s journey began in 2001, when Bunnings commenced discussions with Greenpeace about illegal logging in Southeast Asia. They explained that the company could be exposed to illegal logging in its supply chain and that it had a role to play in improving the situation. This was a call to action for Bunnings. The company has a strategic agenda around creating long-term value for the communities it serves. Maintaining the brand’s integrity and protecting its reputation was important. Bunnings also felt that, as the biggest company in its sector in Australia, it had a responsibility and an opportunity to take a leadership position, and that failing to act could be a long-term threat to continuity of supply.

Overview of responsible sourcing activities

Bunnings published its first timber sourcing policy in 2003, setting ambitious targets of having 100 per cent of products certified by third-parties by 2007. Within a couple of years, it became apparent that this would not be achievable, as certification can be a long and complex process.

Based on an internal review that found 90 per cent of Bunnings’ purchase coming from Australian and New Zealand native and plantation operations, with the remaining 10 per cent comprised of tropical hardwoods, the company decided to focus its efforts on the tropical hardwood supply chains that pose higher risks, while establishing a verifiable legal basis across the supply chain. In 2007, as a participant in WWF’s Global Forest & Trade Network (GFTN), Bunnings began a stepwise approach, setting incremental, realistic targets for the short term with a long-term goal of certification.



© Bunnings

A Bunnings Warehouse store.



To achieve the targets, Bunnings instituted a number of changes. First, it consolidated its supply chains to fewer suppliers that were able to meet the company's sourcing policy requirements and large enough to influence change down to the forest level. Bunnings' approach is to work with suppliers rather than to "wave the stick". Some suppliers had little awareness of threats or of the chain of custody concept. Getting them to understand the long-term implications for their own sustainability was a big education exercise, says Mark Gomm, Risk/Sustainability Manager. Many suppliers were also nervous about releasing confidential information, fearing being cut off out of the loop. Bunnings worked to gain their trust and found a solution for them to only pass on high-level information that was not commercially sensitive. The company recognises that there are costs to suppliers of achieving certification: although Bunnings does not pay price premiums for certified wood, it gives suppliers the opportunity to recoup some of the costs through preferential purchasing, long-term contracts and larger volume orders.

Second, the merchandising team at Bunnings changed the procurement practices. They moved away from high-margin opportunistic buys, where sellers offload shipments at a discount – these ad hoc buys may be commercially attractive, but the products are often untraceable. Instead, the company concentrated on long-term contracts with established suppliers. To ensure all products met Bunnings' sourcing policy, buyers sometimes had to shift away from tropical native species to lower-risk species and plantations – even if the alternatives were less desirable than tropical hardwoods in terms of durability.

**“BUNNINGS IS A
VALUES-DRIVEN
ORGANIZATION - HOW
WE DRIVE OUR TEAM
AND OPERATE WITH
THE COMMUNITY NEED
ALIGNMENT WITH WHAT
WE DO, WHAT WE SAY,
AND WHAT WE SELL.”**

Mark Gomm, Risk/
Sustainability Manager,
Bunnings

Progress and achievements

Bunnings achieved its initial target of having all its timber verified as legal by a third party in 2009.

Since then, the company has been working on increasing the percentage of certified timber, focusing on suppliers who have the capacity to do so. The proportion of certified timber has been increasing by around 3-5 per cent per year. Today, one-third of Bunnings' timber is FSC certified, and another half is PEFC certified.

For many stakeholders FSC is seen as delivering the highest level of trust, but the volume of stock doesn't exist in some markets. One exception is outdoor furniture, where the target is for 100 per cent FSC certification. Native tropical timber also needs to be FSC certified. Bunnings considers FSC to provide the strongest risk mitigation in contentious areas where there are biodiversity and stakeholder concerns. Final products are not always labelled as certified, however, as this can increase costs and complexity for suppliers on some products.

Business benefits and costs

Supply chain resilience: For a company the size of Bunnings with hundreds of suppliers, the business benefits of more transparent supply chains and better relationship with trusted suppliers – though unquantifiable – can be substantial. Traceability and transparency in the supply chain allows the company to not only avoid legality risks, but also respond to potential risks of supply chain disruption due to social and environmental concerns. With a smaller pool of suppliers who share the same values and work to the same sustainability standard, Bunnings is able to establish a more stable supply chain, with long-term relationships. Trusted, long-term suppliers are more consistent in quality and delivery, which, can improve efficiency and strengthen resilience.

Stakeholder management: FSC has strengthened relationships with stakeholders such as Greenpeace and WWF. This has helped improve trust and credibility, and created a platform for discussion. Responsible sourcing aligns with the company's values, which resonates with employees and builds loyalty. The company's timber sourcing progress is recorded in its annual Community Report Card.

Operation costs: Tracing, analysing and monitoring supply chains is a complex, ongoing process: Bunnings has over 1,000 supply chains involving 60 tree species and 39 countries. The company has hired a timber supply chain analyst, and brings in consultants when necessary. As well as human resources, other costs include developing software to monitor supplies, travel and GFTN membership. In total, it costs Bunnings around AU\$2 million a year to administer its responsible sourcing activities.

Moving forward

Many small companies and companies in high risk regions do not have access to certification. There is a need to help small suppliers and suppliers from high risk regions overcome the barriers they face, so that they don't suffer as a result of being locked out of the certification market.



© Bunnings

Logs for export.

Driving certification in a difficult environment

Insufficient or inconsistent supply of certified products is often cited as a challenge for companies to implement responsible sourcing. Retailers can in fact use their purchasing power to influence the behaviors of their suppliers and sub-suppliers upstream.

One example is Bunnings' work with its Merbau/Kwila decking supplier, PT Wijaya Sentosa, operating a forest concession in West Papua, Indonesia. Merbau (*Intsia bijuga*) is a highly valuable tropical hardwood and a top target for illegal loggers in Papua. The supplier did not have access to certification because previously there was no auditor working in that challenging environment. Bunnings' sourcing commitment, along with technical support from WWF, paved the way for PT Wijaya Sentosa to

become the first large scale Indonesian forest operation to achieve FSC certification for Merbau/Kwila timber in early 2016. The certificate covers 130,755 hectares of lowland forest at Teluk Wondama in West Papua, serving as an important buffer zone against illegal logging and encroachment into two protected forest areas.

While the conservation significance of this work may not be easily understood by consumers, the certification has nevertheless benefited Bunnings, as the company is able to distribute unique high quality tropical hardwood decking with confidence and pride.

For more information, please visit: http://wwf.panda.org/who_we_are/wwf_together_possible/new_hope_for_new_guineas_forests/

CASE STUDY 3

MIGROS

MIGROS

“CUSTOMERS DO SPECIFICALLY REQUEST RESPONSIBLY SOURCED GOODS, AND I BELIEVE CUSTOMERS COME BACK TO MIGROS BECAUSE OF THE TRUST IN THE BRAND OPERATIONS AND EXPECTATION OF RESPONSIBILITY.”

Sandro Glanzmann,
Sustainability specialist,
Migros

Company background

Migros is Switzerland's largest retailer. It sells various forest-based products, including office supplies, tissue and sanitary products, timber-based home improvements/DIY products, wooden furniture and wooden toys.

Sector	General Retailer
Revenue	CHF 981.6 million
Employees	over 100,000
Sourcing region(s)	paper from Western Europe; wood from Western Europe and Asia.
Main markets	Switzerland
Responsible sourcing since	1998
Share of responsible sourcing Migros Retail	FSC and recycled - 79%

Motivation for responsible sourcing

For Migros, part of the reason for responsible sourcing is the alignment of its corporate identity as a cooperative retail with its business strategy that aims to position the company as the market leader in the Swiss retail space. Being a cooperative means that simply to “do the right thing” is rooted in the company's DNA, as reflected in a quote from the company's founder, Gottlieb Duttweiler: “the bigger the enterprise, the bigger its obligations to contribute to mankind.” The company is expected to balance between economic, ecological and social demands, and responsible sourcing is a strategy to meet these expectations and build long-term relationship with its stakeholders.

Overview of responsible sourcing activities

The Migros Group has been promoting FSC products for nearly 20 years, and continues to focus on responsible forest products sourcing as part of its sustainability strategy.

In developing its overall sustainability strategy, Migros asked the question: “where can we have the biggest influence in helping the environment and also in social terms?” The company evaluated its entire product lines and identified the highest revenue product groups, and the highest sales in product units. The company then traced back to the most important raw materials in its product lines and analysed any problems associated with these materials, as well as the best tools to overcome them. Wood is seen as an area where the company has a large footprint, and hence the opportunity to have a big influence. Credible standards such as FSC are seen as one such tool.



FSC logo painted on sustainable harvested logs. Uzachi forest, Oaxaca, Mexico

**SALES OF FSC
PRODUCTS IN 2015**
CHF 243.2m



**AN INCREASE OF
12.5%
FROM 2014**

In implementing responsible sourcing, Migros opts to work with existing long-term suppliers to encourage them to gain certification. The company's sustainability department works with buyers who have the individual relationships with suppliers, to resolve suppliers' concerns and promote enthusiasm for the change.

"Suppliers need to be keen to change as well," says sustainability specialist Sandro Glanzmann. "It cannot be just a push from Migros." A significant part of this is awareness raising – explaining to suppliers why Migros wants sustainable wood and paper, and why it will be valuable to them. Suppliers who are not certified must be able to demonstrate that they are meeting minimum standards, such as legality – certified suppliers have fewer questions to answer.

Another key component of Migros's strategy is to set responsible sourcing target for each buyer regarding FSC certified products, but give buyers the flexibility and discretion regarding which concrete product to have FSC certified. The company also encourages buyers to incorporate carbon footprint in their purchasing decisions, noting that wherever possible to choose products with the shortest transport distances. The combination of top-down target setting and bottom-up decision making helps to institute the corporate culture around sustainability.

Progress and achievements

Migros set a target of sourcing 75 per cent of all wood and paper products in its supermarkets from FSC or recycled sources by 2015. Currently 79 per cent of wood and paper products sold in Migros supermarkets come from sustainable sources (either recycled or FSC), exceeding the 75 per cent target set for 2015. This includes more than 2,000 products, representing sales of CHF 243.2 million in 2015.

Business benefits and costs

Growth in sales and markets: Migros's sustainable product sales increased by more than 30 per cent between 2012 and 2015. This included a 12.5 per cent growth in FSC sales between 2014 and 2015 due to improvements in the quality of FSC stationery.

The retail sector in Switzerland FSC is now the norm and customers expect it. Sandro believes this is a positive development for Migros. "The sector as a whole has matured significantly," he says. "The more the market grows, the easier it is to get certified and to buy certified goods."

Brand reputation: In Migros's day-to-day operations, sustainability is considered key to customer loyalty and trust. Customers expect responsible products, without necessarily expecting to pay a premium for them. This is closely tied to the company's corporate identity and value as a cooperative retail business.

While Migros does not have quantified data on the reputational benefits of FSC, its market research shows that trust in the brand is one of the strongest reasons why Migros customers come back. Customers do specifically request responsibly sourced goods, although this is usually in relation to food products. Responsible sourcing of forest products, and especially FSC certification, helps maintain the Migros brand integrity and customer trust.



© Migros

Migros supermarket.



© Bgstock/TEA

Migros supermarket.

Moving forward

Having achieved its 75 per cent target, Migros is actively working to expand the product range under its responsible sourcing coverage, including DIY and furniture products, as well as hygiene and sanitary products.

Indoor furniture is the most challenging target for Migros to achieve, due to a limited number of suppliers and complex supply chains. Increasingly furniture is sourced from Asia Pacific, where FSC certified products are more difficult to source. Furniture is also the one area where some suppliers still charge a premium of up to 10 per cent for FSC products.

Another challenging product category is hygiene and sanitary products. Just a couple of years ago Migros would be told sourcing sustainable sanitary products was not possible, with suppliers and industry suggesting they would not be available before 2020. However, Migros persisted, kept up an intensive dialogue and has recently been able to start sourcing certified sanitary products, with no additional cost.

CASE STUDY 4

Kingfisher



“IF YOU’RE ONLY FOCUSING ON RISK TO REPUTATION THEN YOU WILL BE LIMITED. MAKE SURE YOU UNDERSTAND WHAT THE VALUE OF RESPONSIBLE SOURCING IS – BE CLEAR THAT IT IS CORE BUSINESS. THAT CHANGES EVERYTHING!”

Jamie Lawrence,
Sustainability Advisor,
Kingfisher

Company background

Kingfisher plc is a home improvement company with nearly 1,200 stores in 10 countries across Europe. Headquartered in the UK, its brands include B&Q, Castorama, Brico Dépôt and Screwfix. It sources a wide range of wood-based products, such as doors, window frames, flooring, furniture and garden products.

Sector	Home improvement
Revenue	£11.2 billion in 2016/17
Employees	77,000
Sourcing region(s)	Southeast Asia, North and Latin America, Western and Eastern Europe
Main markets	Western and Eastern Europe
Responsible sourcing since	2006 (B&Q since 1994)
Share of responsible sourcing	FSC - 54% PEFC - 41% Recycled - 0.77%

Motivation for responsible sourcing

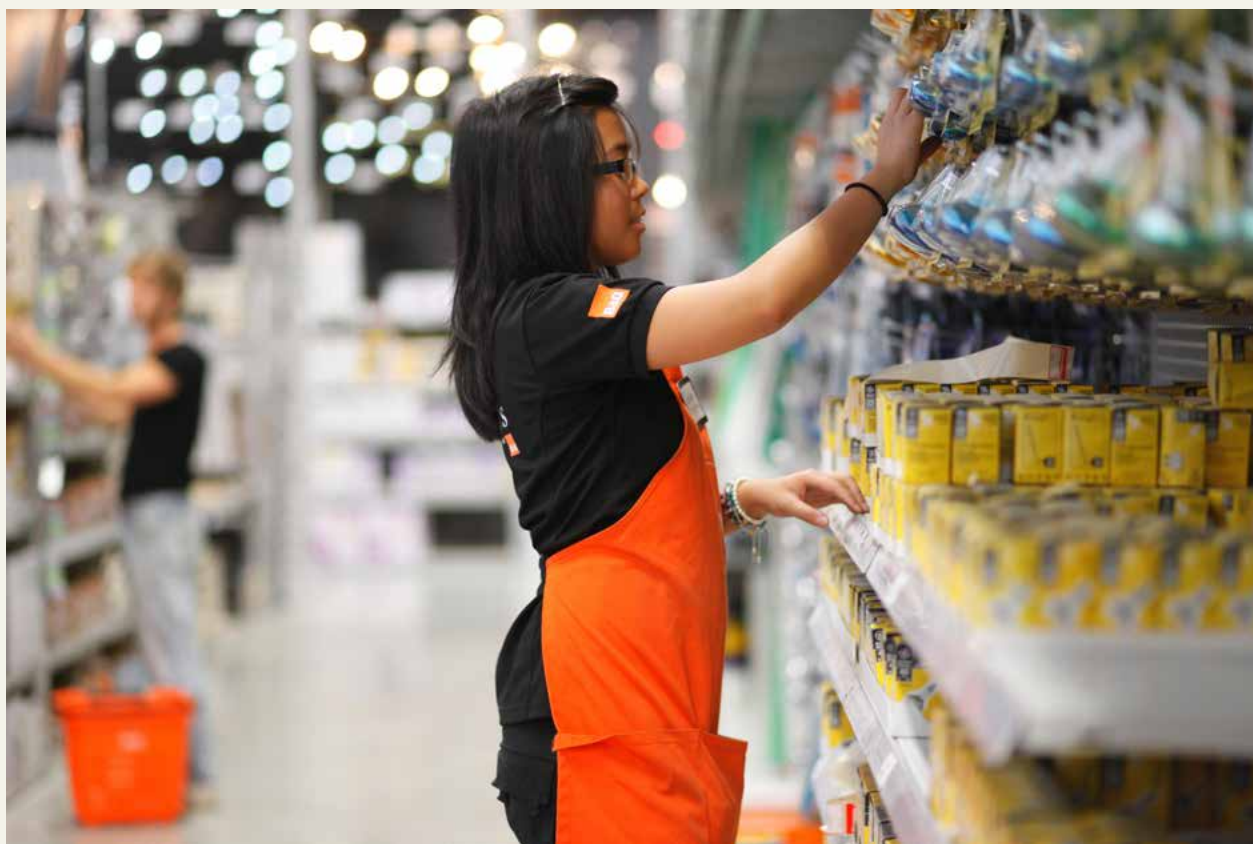
In the early 1990s, B&Q and other retailers had faced negative publicity after a high-profile NGO campaign linking traditional DIY products to deforestation. In response, B&Q became one of the founding members of FSC and the Global Forest & Trade Network, and has remained actively involved in both organizations. B&Q was one of the first companies to develop a responsible timber sourcing policy, and this became a blueprint for other businesses in the Kingfisher Group.

Wood is crucial to Kingfisher’s core business – approximately one in three products found in stores contain wood or paper. With timber consumption expected to double or triple by 2030, Kingfisher is concerned that insufficient replanting rates, market demand and expected forest yields in the regions it sources from may coincide to make long-term security of supply a challenge.

Overview of responsible sourcing activities

Kingfisher’s Wood and Paper Sourcing policy sets measurable and time-bound responsible sourcing targets, with independent verification and reporting on progress. The policy has been implemented for all forest products since 2008.

Kingfisher’s Timber Policy sets procurement standards limiting our sources of timber to proven well-managed forests and sets minimum standards for suppliers not yet working towards FSC or other certification schemes. The company uses a mix of internal and external audits to monitor compliance with the policy with a particular focus on higher risk suppliers, such as those sourcing from countries where there is a higher incidence of illegally logged wood entering the supply chain.



© Kingfisher

A B&Q staff member

To effectively integrated sustainability into product sourcing, Kingfisher pioneered supplier assessment tools based on sustainability criteria. One of Kingfisher Group's companies, B&Q, a founding member of FSC, implemented a vendor management programme called QUEST (QUality, Ethics and SafeTy) which was based on 10 key principles and incorporated sustainable development issues. For each QUEST principle, suppliers were awarded a grade from A-E. Grade A is reserved for "leadership, commitment and innovation" and a grade E a major problem that contravenes the B&Q environmental policies. New suppliers that did not reach the relevant grade are required to do so within one year. This approach forms the foundation of the centralised Kingfisher procurement model today.

Historically, Kingfisher has engaged with suppliers to improve the environmental integrity of its supply chains and supported them to pursue certification, for example through training workshops. Today, they increasingly expect suppliers to source responsibly. It does still provide outreach and technical assistance to help suppliers reduce their environmental and social impacts in some regions where certified markets are less developed. It also develops action plans, including targets for expanding the certification market through engagement activities. "Kingfisher operates across 10 different countries, all of, which are at varying stages of maturity in certification. Its local and centralised teams respond to local market conditions and customs to reinforce policies and standards" says in-house sustainability advisor Jamie Lawrence.

“RATHER THAN ASK ‘WHAT IS THE COST OF DOING THIS?’, A BETTER QUESTION WOULD BE TO ASK ‘WHAT IS THE COST OF NOT DOING THIS?’”

Jamie Lawrence,
Sustainability Advisor,
Kingfisher

Progress and achievements

Kingfisher’s target is for 100 per cent responsibly sourced wood and paper by 2020. This means credible third-party certified (FSC or PEFC, with PEFC only accepted for wood sourced from non-tropical countries), in-process towards FSC with a credible partner e.g. TFT or recycled timber. As of 2016, 96 per cent by volume (RWE) of Kingfisher’s wood & paper is responsibly sourced. By volume, 54 per cent of timber sourced is FSC certified, and 41 per cent PEFC certified, with the remainder being recycled or in progress to FSC.

Business benefits and costs

Supply chain resilience: Global timber shortages represent a material risk for Kingfisher, since it relies heavily on wood and paper products. Securing long-term relationships with suppliers, promoting sustainable forestry and supporting forest restoration are in the company’s long-term interests.

Kingfisher’s wood and paper procurement processes cover an assessment of risk, amongst other tools. The FSC certification framework provides safeguards and mechanisms to assist in on-going mitigation.

Reputation: Responsible sourcing of wood and paper products formed the starting point for Kingfisher’s corporate social responsibility journey, which has since evolved to cover a myriad of other topics such as energy, circular economy and ethical sourcing. This helps to build trust with customers and other stakeholders. As B&Q was one of the founders of FSC, using independent standards and certification as proxies to define and prove sustainability is a core part of Kingfisher’s heritage. Even where customers may not know exactly what FSC is, they understand that B&Q are doing something “good”, it builds consumer trust in the brand.

Involvement in FSC is also good for the company’s relationship with other stakeholders. It provides validation, amongst a wide spectrum of social, environmental and economic stakeholders that the company is operating responsibly, but also helps buffer against being targeted for negative campaigns. The FSC standard has widespread support among the civil society, which to a certain extent enjoys a position of credible media influence and engenders trust amongst public opinion.

Addressing communication gaps through multi-stakeholder collaboration

To address some of the communication challenges and knowledge gaps, in 2014, Kingfisher along with some of the other major industry players launched the Verification Impact Assessment (VIA) Initiative. The goal of the VIA Initiative is to deliver fact-based, business-ready data and analysis about on-the-ground impacts and related value of FSC certification.

Coordinated through ISEAL Alliance, the global membership association for sustainability standards, the VIA Initiative is convening a group of leading experts, advisors, academics and civil society professionals to develop and collectively endorse best-in-class methodologies for compiling and assessing evidence on FSC system.

For more information, please visit: <http://www.isealalliance.org/VIA>



© Kingfisher

Furniture sold at Kingfisher.

Operation costs: Kingfisher identifies human resources as the main cost of implementing its responsible procurement policies, with the need to bring in expertise and carry out staff training. There is also an ongoing review of systems and tools to ensure traceability of the supply chain. On the other hand, the company also acknowledges that some of the setup cost has been absorbed over time as the market develops and operations mature. The company has introduced new in-house, bespoke IT platforms and tools that help to automate data collection in wood and paper sourcing – including systems designed to “block” products that do not comply with its requirements. The company uses FSC as a trustworthy independent proxy for sustainability – to save time and resources compared to carrying out its own audits across a very complex and extended supply chain.

Moving forward

Even after 20 years of responsible sourcing practices, it remains challenging to communicate the environmental and social impacts of certification. Certification can attract increased level of scrutiny and, in cases when certification schemes have gone wrong, negative media attention has been aimed specifically at companies reporting progress (still a minority globally). There remains an untapped potential for Kingfisher to leverage sustainability as a vehicle to enhance its brands.

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Aerial shot of a winding river, Amazon rainforest, Loreto region, Peru.

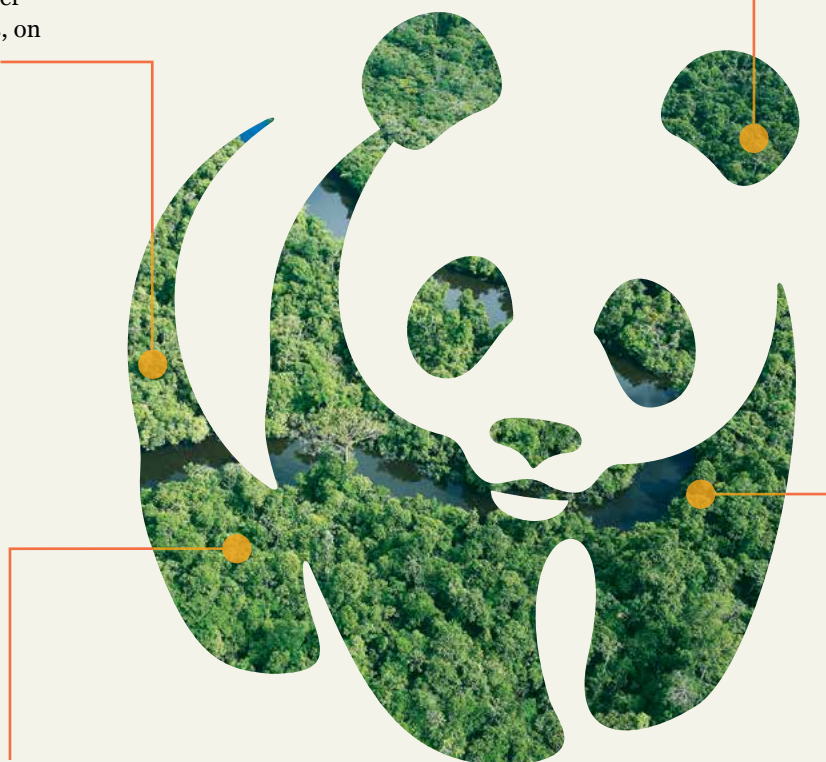
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