



Productive Chains



Walmart Brazil
**Sustainability
Dialogues**

Building the Supply Chain
of the Future

Walmart  **Brasil**

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The dialogue as base for sustainable productive chains.

THERE ARE CURRENTLY THREE MAJOR CHALLENGES: FINANCIAL CRISIS, SOCIAL INEQUALITY AND ENVIRONMENTAL INEQUALITY AND THESE CHALLENGES UNDERGO THE THREE SUSTAINABILITY PILLARS: ECONOMIC, SOCIAL AND ENVIRONMENTAL. NOWADAYS, IT IS MORE THAN CLEAR THAT THERE IS NO LONG-TERM FINANCIAL SUCCESS WITHOUT THE PROPER CONSIDERATION TO THE TWO OTHER PILLARS. AND COMPANIES, INCREASINGLY NOTICE THE STRATEGIC IMPORTANCE OF ADOPTING A SUSTAINABLE MANAGEMENT AS PART OF ITS PERSISTENCE.

IN THIS NEW ECONOMICAL DEVELOPMENT ERA, THE RELATIONS BETWEEN PRODUCTION AND CONSUMPTION WERE ALSO RENOVATED. THERE ARE NEW LOCAL AND GLOBAL DEMANDS FOR THE ENTIRE PRODUCTIVE CHAIN – THAT SET OF PROCESSES, ACTIVITIES AND OPERATIONS THAT TRANSFORM THE RAW-MATERIAL INTO PRODUCTS AND SERVICES DESIRED BY FINAL CONSUMERS. ALL CONNECTIONS OF THIS CHAIN NEED TO BE ALERT TO THE NEW DEMANDS FOR SUSTAINABILITY IN PURCHASING, PRODUCTION, LOGISTICS, SALE, AFTER SALE AND AFTER USE RELATIONS.

THE RETAIL INDUSTRY, MAINLY SUPERMARKETS, WHICH REPRESENT THE BRIDGE BETWEEN THOSE WHO PRODUCE AND THOSE WHO CONSUME, PLAYS AN IMPORTANT ROLE IN THE DISSEMINATION OF GOOD SUSTAINABILITY PRACTICES - SPECIALLY BECAUSE IT COULD POSITIVELY INFLUENCE SUPPLIERS AND CONSUMERS.

AT WALMART, SUSTAINABILITY IS AN INTEGRATING PART OF ITS CORPORATE GUIDELINES. THE COMPANY BELIEVES THAT A SOCIAL AND ENVIRONMENTALLY CORRECT CONDUCT ENHANCES THE ECONOMICAL PERFORMANCE AND ACCOMPLISHES ITS MISSION OF PROVIDING A BETTER LIFE FOR ITS CUSTOMERS. THE CONCEPT INSPIRES NEW BUSINESS APPROACHES, FOCUSED ON PRODUCTIVITY AND COST REDUCTION, BUT COMPULSORILY REQUIRES THE PARTICIPATION OF THE ENTIRE PRODUCTIVE CHAIN.

IN THIS CONTEXT THE ROLE OF EACH ORGANIZATION THAT PARTICIPATE IN PRODUCTIVE CHAINS RESPONSIBLE FOR THE AVAILABILITY OF PRODUCTS FOR FINAL CONSUMERS IS, CURRENTLY, PART OF THE PROBLEM, BUT IT IS ALSO CERTAINLY PART OF THE SOLUTION. AND FOR THIS REASON WALMART HAS BEEN DEDICATING SPECIAL ATTENTION TO THE SUPPLIERS CHAIN – FROM ORDERING SUSTAINABLE PRODUCTS TO THE TECHNICAL SUPPORT OFFERED FOR THE IMPROVEMENT OF SMALL PRODUCERS. BUT IT IS NECESSARY TO INCREASE THIS WORK, DISCUSS WITH ITS SUPPLIERS THE SEVERAL ASPECTS RELATED TO THE SEARCH OF SOLUTIONS FOR THE CONSTRUCTION OF PRODUCTIVE CHAINS OF THE FUTURE, COMMITTED WITH SUSTAINABILITY, THIS DOCUMENT FACILITATES THIS DIALOGUE AND INVITES YOU TO THESE CONTEMPLATIONS.

1. Presentation

The Society's current social and environmental challenges increasingly need the support and operation of companies in the search for solutions that become part of the business and of the environment where they are included. The environment is a living and dynamic system, which changes and adjusts in the attempt to maintain its balance. As all living systems, its elements are mutually dependent and it is in this context that companies start to invest differently and focused on long-term results.

Paying attention to the present without losing sight of the future means worrying about the **sustainability** of the world we live in. The concept was created 25 years ago, at a UN report, which showed for the first time the need to change production and consumption standards to ensure the planet's sustainable development.

One of the premises of sustainability is the need to maintain the balance between the three pillars: economic, social and environmental, as today it is more than clear that there is no long-term financial success without the proper attention to the other two pillars that could bring stability and equilibrium.

We are facing a moment where there are no ready solutions or models to be followed and repeated. Who would venture to say which one is the best course to be taken in order to fight global warming? And how to eradicate the extreme poverty that still exists?

In this new economic development era, relations between production and consumption of products / services have also been renewed. There are unprecedented, local and global demands, for the entire productive chain. All links in this chain need to be alert to their purchase, production, logistics, sales relations, after-sales and after-use relations.

The **Corporate Social Responsibility** (CSR) increasingly reinforces the need of companies adopting guidelines addressed to sustainable development. In the last few years, the number of companies concerned about implementing more "humanistic", management strategies has been increasing.

Philanthropy, pure and simple, has been providing space to well-structured social investments, connected with the nature of business and which brings benefits both to the company and to various interest groups with which it relates: consumers, employees, suppliers, the community where it operates, but also the government and society (Ethos Institute). Each of these interested parties has its importance and generates impacts on the business at the same time as it is impacted by the company's operations.

The concept was created at the Our Common Future Report also known as Brundtland Report, produced in 1987. The report showed for the first time the need to change production and consumption standards to ensure the planet's sustainable development which will only be possible by "meeting the needs of the present without compromising future generations' capacity of satisfying their own needs".

With the power of influence of the business sector on its suppliers, employees and customers it is natural that changes come from companies. From them, these actions spread and are able to humanize the relation between people and the environment.

Many consumers want companies to show standards that are more human and to incorporate social and environmental criteria in the goods and services they offer. (PARENTE, 2000, p. 107). Many retailers are starting to adjust to the new needs of their consumers and the various changes in business environment.

"It is the type of management that is defined by the ethical and transparent relation of the organization with all publics with which it relates and by setting goals compatible with the society's sustainable development, while preserving environmental and cultural resources for future generations, respecting the diversity and promoting the decrease of social inequalities." (Ethos Institute)

2. Social Responsibility and corporate actions

2.1 CORPORATE SOCIAL RESPONSIBILITY (CSR) TOPICS

According to Ethos Institute, companies can develop CSR actions in 7 different topics that cover the various groups of interest with which the organization relates direct or indirectly.

Find out about the 7 CSR topics:

1. Values, Transparency and Governance
2. Internal Public
3. Environment
4. Suppliers
5. Consumers and Customers
6. Community
7. Government and Society

According to the activity sector, specific challenges are presented and often can only be overcome with a joint strategy involving several companies, representative associations, civil society, NGOs and governments.

Find below, actions related to each of the CSR topics, which can be developed by the retail sector:

Values, Transparency and Governance

- provide information in a language accessible to suppliers and customers

Internal Public

- Adjust structure to hire the elderly and the disabled;
- Train employees to properly serve the elderly and the disabled;
- Guide employees to accomplish the legislation related to the responsible commercialization of products, for example, regarding the sale of alcoholic beverages to minors.

Environment

- search for alternative products that use less raw materials and inputs in their manufacturing process;
- identify suppliers that adopt clean technologies in productive processes;
- identify alternative logistics that generate less greenhouse gas emissions;
- advise customers about conscious consumption and recycling of packages

Suppliers

- encourage the formalization and professionalization of small suppliers;
- create partnerships to improve customer service from the solution of problems to replying suggestions provided by customers.

Consumers and Customers

- revise procedures based on customers complaints;
- take co-responsibility for failures or defects in products and services it commercializes.

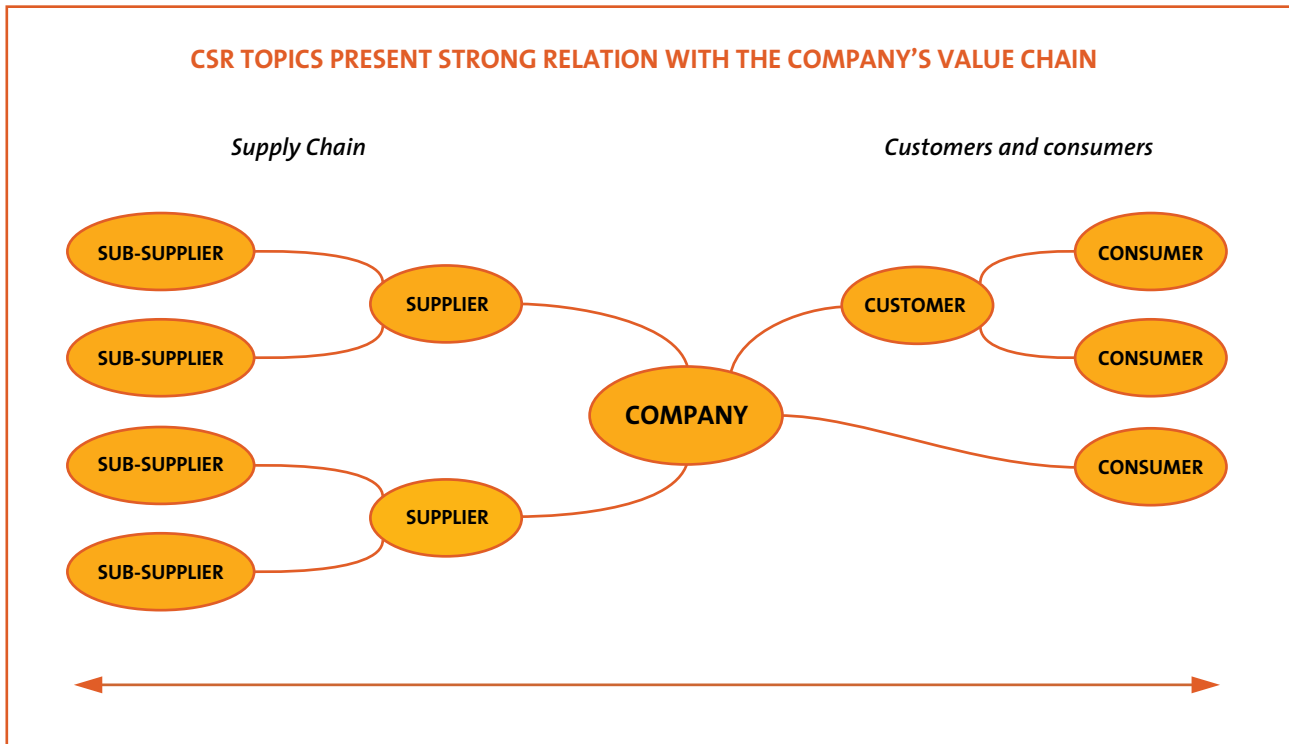
Community

- generate opportunities for local suppliers and retailers;
- comply with laws regarding silence, loading and unloading of goods, waste disposal and use of public space.

Government and Society

- have formal instruments, based on ethic principles to guide the relation with consumer protection agency.

It is possible to see that many of the items mentioned have strong relationship with the company's value chain (see table next page).



But what is a value chain?

The *value chain* of any organization comprises two large blocks: the suppliers chains or supply chain and customers or final consumers. All organizations, regardless of the sector, size and region, comprise that own value chain.

In short, it can be said that the value chain is a sequence of activities that begins with the origin of resources and ends with the disposal of the product by the last consumer - a recycler or any other user that prolongs the product life.

Researchers state that the value chain is often confused with the supply chain. Actually, the supply chain is included in the value chain of a company. While the supply chain is concerned with the logistics of supplies until the arrival in the production line, the value chain monitors this movement and continues until the delivery of the product to customers, or even the last consumer.

It is important to understand the role of each of the links in the chain, even those with which the

company has no direct commercial relation or those who cannot even imagine they are involved in the chain. It could be a supplier from direct or indirect supplier, but with strong influence and involvement in the product or service that the company acquires. When we are talking about large multinationals we also talk about global value chains, often placed in locations where their product or service is not even marketed.

Michael Porter, Harvard professor with several articles on strategy and competitive advantage, defines value chain as “the set of activities that add value to a product or service from the initial stages of project/ production to the final consumer service.”

3. Productive chains and their mutual dependences

3.1 THE DIFFERENT CHAINS

From computer to trainers

Let's imagine a product that is currently present in many homes and businesses, the computer. The technology of the chip and some components were probably developed in Silicon Valley, USA. However the assembly of the equipment should have happened in some production line at a factory in China, with parts, such as the chip, produced there or coming from other locations, such as India.

You can buy your computer from the Internet, in some Brazilian website, and along with the equipment, useful applications will be marketed for your day-to-day. If you have any questions on how to use the application or the computer you can use the call center and customer relationship and be assisted by an operator in Mexico. Complex, no?! Very, but when everything goes right you do not even realize the complexity that lies behind each purchase every day. But if something goes wrong it will be enough for the ties of the chain to start becoming visible.

As for example, as it became visible to the whole the fact that a sporting goods manufacturer, was a giant due to the use of child labor in its productive chain, similar to slave labor practiced by its suppliers in Asia. The information disclosed in 1998, made the company's shares plunge. Fighting the degrading and inhuman work is one of the major challenges of globalized commerce, in which companies, to become competitive, transfer their production lines to countries without adequate labor laws or with faulty surveillance mechanisms.

Even though a company is not legally responsible for its suppliers, it is co-responsible for social and environmental impacts caused by its value chain. With the growing society's awareness, the increase in rules and legal requirements to meet and more information for consumers about their purchase

decision power, companies should be alert to their suppliers. Not simply to avoid problems, but also to identify opportunities.

A simple tomato

In order to add "value" to the chain, all links must be committed to reducing the damages caused by their operations and transform their activities in a way that they can benefit society, while strengthening their business strategies.

Let's think about the agricultural production chain. This chain probably starts at the sketch board of a researcher, who creates varieties of more resistant tomato seeds, and ends in the Brazilian Vinaigrette Salsa for the barbecue on Sunday. Have you ever wondered how many processes are included in this chain?

Between the sketch board and the barbecue there are inputs and services essential to rural production such as fertilizers, pesticides, farm workers, equipment, machinery, rural credit, that is, a whole chain within the farms.

Continuing the process, there will be transportation, storage, industrialization (if the tomatoes become sauce), packaging, distribution, marketing, and commercialization. Each of these activities has its own *supply chain*.

The supply chain could then be defined as all stages, productive processes and relationships essential to produce a product or service format that will be delivered to customers or final consumers. However, the sustainable productive chain is the one that cares and adopts sustainable measures in all of these processes, including social relations needed to meet the basic path of a productive chain, without forgetting the people and environment where it is introduced.

Now imagine how many opportunities are present in each stage of this process.

The researcher could bring useful information about improved grains. The producer could adopt more productive cultivation practices that decrease the area necessary for planting. Financing agents could analyze social and environmental aspects of productive activity and provide a credit with different fixed interest rates for those standing out in this aspect. The industry could reduce its industrial residues and work with the reuse of what would be discarded. Package industries could search for innovation and alternatives to reduce the size of packages without losses for customers and with advantages in transportation. The marketing industry could increasingly be concerned about passing on the information in a transparent and correct way when promoting the sale of product/service announced.

3.2 THE IMPACTS OF THE RETAIL MARKET

The retail industry plays an important part in the dissemination of good sustainability practices, especially supermarkets, which represent the main bridge between those producing and those consuming. Due to its strategic position, the industry could positively influence suppliers to adopt new production models, for example, and, on the other end, working with consumers, making educational campaigns about conscious consumption or selective garbage collection, for example.

The reach and spread of this influence could be measured by the number of existing supermarkets in Brazil. According to the Brazilian Supermarket Association (Abras), between 1996 and 2000, more than 17 thousand new points-of-sale were opened, reaching the mark of 61.3 thousand stores - an increase of 40% in the number of stores.

In 2007, the supermarket retail already represents 5.2% of GDP (Gross Domestic Product) in Brazil, it employed more than 700 thousand employees, there were approximately 74 thousand point-of-sales/stores, reaching 18.8 million of m² of sales area.

There are no conclusive studies about the range of these impacts, but researchers estimate it represents around 5 to 10% of total impacts of the supply chain that supports its operations.

In order to maintain a store operating, the supermarket uses a lot of water, power, cleaning and maintenance products, it accumulates large amounts of disposable packages. In order to maintain this same store with a good mix of products and services available for customers, it demands fruits, vegetables and greens, for example, which need to come from farms, in addition to manufactured products that generate other productive chains and new environmental aspects.

In order to reach the store, consumer travelling by car or bus also consumes fuel and generates greenhouse gases, expanding the circle of environmental impacts. At the cashier, this same consumer packs the purchases in plastic carrier bags and at home depends on the refrigerator power to cool the milk, butter, cheese and yogurt, depends on gas to cook the products, this consumer will also need plenty of water to use in washing powder, detergent, toothpaste. Then, packages are discarded, increasing the amount of solid waste on the environment. The documentary *The story of stuff* (see box on the side) gives a brief and interesting view about this process.

Aware of its responsibility in this scenario, the supermarket industry has been developing corporate social responsibility initiatives and influencing their productive chains to also adopt sustainability practices. The large supermarket groups are engaged in efforts to reduce environmental impacts of their operations and assist in the social and economic development of communities in their surroundings. The table on page 12 shows the main environmental aspects of the supermarket retail industry.

THE STORY OF STUFF

The documentary The Story of Stuff became a classic about the productive chain, because it shows in a didactic, entertaining and critical way the history of stuff we buy from the beginning to the disposal. You can watch it on youtube and on the link www.storyofstuff.com.

*Invariably everything we buy goes through the same linear system, divided into five steps: **Extraction**> **Production**> **Distribution**> **Consumption**> **Waste***

At each stage it can be observed the excesses that could be done against the environment. When we talk about extraction, we are actually talking about the exploitation of natural resources that can be carried out in a predatory way or in a way to preserve such resources, not only for extraction but for future generations. And the caution we should have here is not simply regarding the resource directly extracted but to the surrounding environment, animals that live there, flora and fauna that may be unique, a biome that could depend on that resource to keep its balance and local economies.

On the next stage, the production, the major question regards the productive process adopted and the pollutants that will be externalized, that is, they will not be absorbed and therefore discarded, causing damage to the environment. In this case people, communities, cities are affected by the generated pollution. It could be sound, or residue pollution that go to rivers, the air or the soil, affecting the surrounding immediately or persisting for years or decades.

In distribution we are not concerned whether the products offered there were produced in a near region or if they crossed the ocean. A little radio from where the mineral was extracted in South Africa, Iraq's oil, China's plastic and production in Mexico. And how can the radio be so cheap? Actually, the environment and the people who were part of the process before the radio was put on sale may not have preserved their resources and rights preserved properly. Otherwise he

could not be cheaper than a radio produced here in the country.

The unstoppable consumption does not exist without constant stimulation. Cars are released every year, new models of cell phones are launched with features we do not even fully understand, clothes get in and out of fashion every season. Another point is that everything today is extremely disposable, not simply cups and plates made with this purpose, but also items that should have greater durability. It seems like every year computers, televisions become more obsolete, even new ones. And around it all there is a gigantic advertising industry. It is impossible to read a newspaper, a magazine, watch your favorite TV show without bumping into advertisements of various products.

Consider: What were the last 10 things you bought, except for food and drink? How long will they last, or when will they be discarded? How much packaging came associated with each thing? How much did you really need them to live?

Now the waste. In general we do not really think about where all the garbage we produce daily goes. Nor we care about the amount of disposable material that comes along with the things we buy. Have you ever thought about putting your various purchases made in different stores, in the bag from the first you shopped at? Today, some supermarkets already sell reusable bags and grant discounts for each plastic bag not used.

Well, all these steps can be improved, refined, have its processes and procedures reviewed in order to preserve more natural resources and respect human beings and animals. However, tasks like these do not depend on the wish of a single organization, but it does depend on the partnership of several companies commercially related and that belong to the same productive chain. Together, they can make these five steps more socially responsible.

ENVIRONMENTAL ASPECT OF THE SUPERMARKET RETAIL INDUSTRY

COVERAGE	ASPECT
AT THE POINT OF SALE	<p><i>Fossil fuel – transportation of merchandise and employees</i></p> <p><i>Water Consumption</i></p> <p><i>Electric Power Consumption</i></p> <p><i>Consumption of natural gas for cooking</i></p> <p><i>Consumption de gases that destroy the ozone layer – refrigerant gases</i></p> <p><i>Consumption of materials</i></p> <p><i>Greenhouse gas emission – operation of equipment and vehicles</i></p> <p><i>Generation of solid residues - packaging waste</i></p> <p><i>Generation of solid residues – defective products waste</i></p> <p><i>Generation of solid residues – use of paper in offices</i></p> <p><i>Generation of hazardous solid residues – maintenance of equipment and facilities</i></p> <p><i>Soil use – sealing of soil surfaces</i></p>
IN THE SUPPLY CHAIN	<p><i>Greenhouse gas emission - transportation of merchandise and inputs</i></p> <p><i>Electric power consumption - production, processing and transportation of products</i></p> <p><i>Generation of solid residues - Packaging</i></p> <p><i>Generation of solid residues – Loss of products due to unsuitable transportation and conditioning</i></p> <p><i>Use of agrochemicals (agrochemicals, pesticides and herbicides)</i></p> <p><i>Generation of liquid effluents - fertilizers, agrochemicals, herbicides (agriculture)</i></p> <p><i>Generation of liquid effluents – manufacturing of products</i></p> <p><i>Greenhouse gas emission - agriculture</i></p> <p><i>Atmospheric emissions- industrial production</i></p>
AT FINAL CONSUMER	<p><i>Sale of organic products</i></p> <p><i>Sale of certified forest products</i></p> <p><i>Training and awareness of customers for conscious consumption</i></p> <p><i>Collection of customers’ recyclable waste</i></p> <p><i>Sale of products that reduce water consumption</i></p> <p><i>Sale of products that reduce electric power consumption</i></p> <p><i>Reduction of secondary packaging</i></p> <p><i>Generation of solid residues - food</i></p> <p><i>Generation of solid residues - Packaging</i></p> <p><i>Generation of liquid effluents</i></p> <p><i>Greenhouse gas emission – transportation to the point of sale</i></p>

Sources: Yuri Nogueira Feres based on CONFEDERATION OF THE FOOD AND DRINK INDUSTRIES OF THE EUROPEAN UNION, 2008; DAVIES; KONYSKY, 2000; HELLER, M. C.; KEOLEIAN, G. A, 2000; ASSOCIAÇÃO PAULISTA DE SUPERMERCADOS, 200-; FUNDAÇÃO GETÚLIO VARGAS - FGV; INSTITUTO ETHOS, 2005.

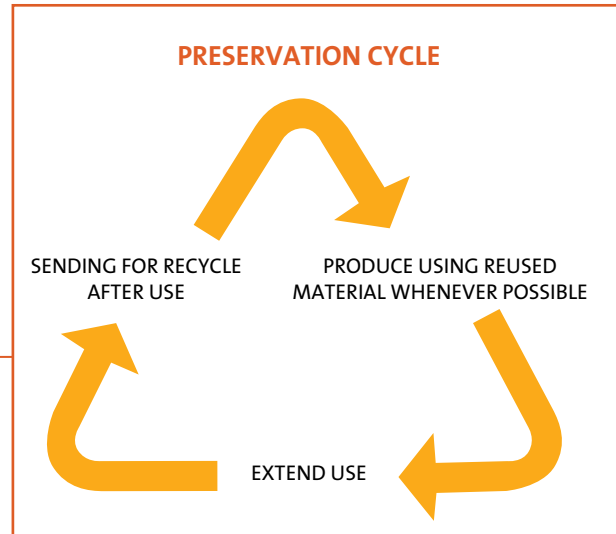
3.3 THE RETAIL CONNECTIONS

The supermarket takes advantage of its role as retail modifier in the value chain to influence both suppliers and consumers. As an intermediary between production and consumption, it has the potential to make partnerships that facilitate the adoption of more “sustainable policies” in every link of its value chain.

In the illustration below it is possible to identify the different connections existing in the retail chain.

When we analyze this we detect another important issue: the chains are neither linear nor exclusive. The *cycle* that opposes the linearity is visible in the possible connections of both the directions in the chain, back and forth. Therefore, extracting, processing, using and wasting are substituted by a cycle in which one makes the most to tries to preserve the environment.

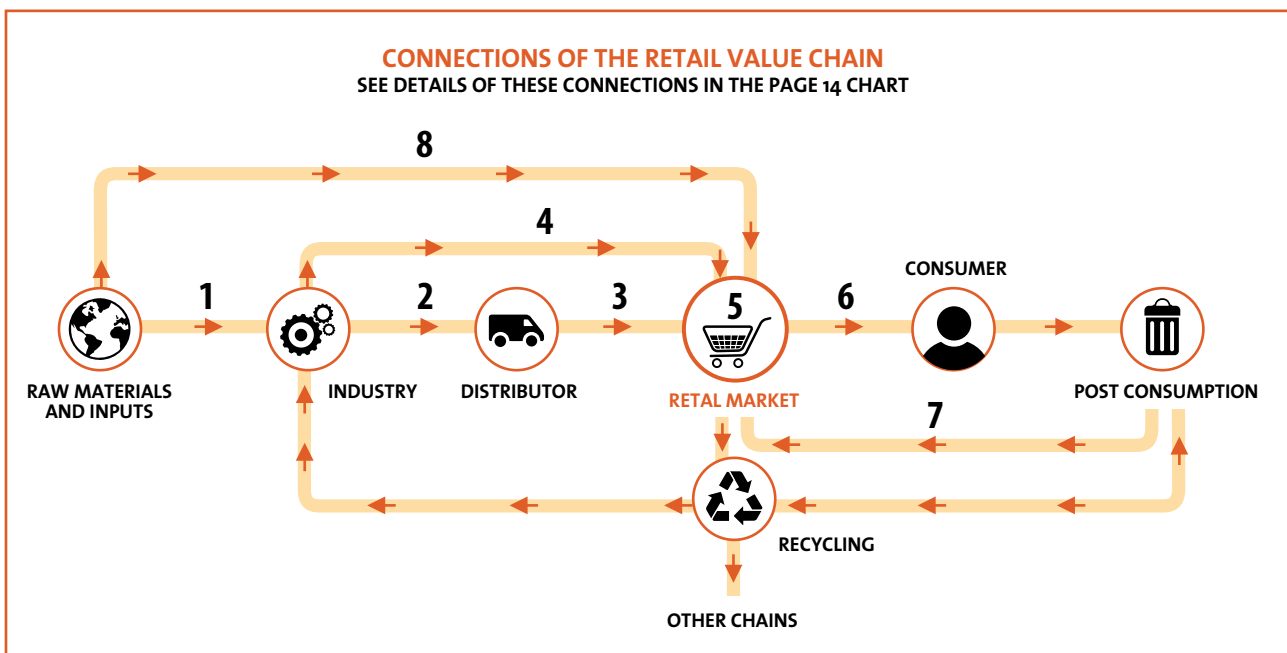
Chains are not exclusive either, as companies can, by ways of partnerships, establish one or more exclusive suppliers/customers, but they will certainly be sharing one same supplier or customer with other companies and even with their competitors. But this is extremely positive in the CSR, as when one company decides to formalize commitments and values and develop a management program



Source: Sustentabilidade na Cadeia de Valor, 5º Seminário de Responsabilidade Social no Varejo, 2007.

addressed to sustainability, it is working not only for its own business, but for the society as a whole. Just like throwing a stone into the lake, the corporate social responsibility actions cause oscillations that move the entire water surface.

For the good or for the bad, whatever is done by any of the links of the chain will affect the others. There are risks, but also opportunities in such systemic connection. Research Luiz Macedo, from the Centro de Excelência em Varejo [Retail Excellence Center] of FGV-EAESP, depicts in the picture below the possibilities of acting in a responsible and sustainable way in the retail universe.



Source: Sustentabilidade na Cadeia de Valor, 5º Seminário de Responsabilidade Social no Varejo, 2007.

DETAILS ON THE RETAIL VALUE CHAIN CONNECTIONS	
<i>Opportunities of action in corporate social responsibility and sustainability</i>	
CHAIN	GENERAL QUESTIONS
<i>Joint liability of all those involved in the value chain</i>	<ul style="list-style-type: none"> - Responsible use of resources in the manufacture and functioning of the products - Decent work conditions for this involved in the several stages of the value chain - Transportation (reduction of greenhouse gas emissions) - Search of alternatives for packaging and solutions for reverse solutions of products (post consumption)
CONNECTION	SPECIFIC QUESTIONS
1. Producer-Industry	<ul style="list-style-type: none"> - Method of extraction and production of raw material - Development of small farmers
2. Industry-Distributor	<ul style="list-style-type: none"> - Alignment of values and commitments with farmers - Disruption of relationships where those with more power predominate and construction of synergies - Alignment of values and commitments - Disruption of relationships where those with more power predominate and construction of synergies
3 and 4. Distributor – Retail and Industry - Retail	<ul style="list-style-type: none"> - Method of product manufacturing - Development of small suppliers - Alignment of values and commitments with farmers - Disruption of relationships where those with more power predominate and construction of synergies - Sustainable purchases - Development of partnership in CSR projects.
5. Retail	<ul style="list-style-type: none"> - Sustainable stores (eco-efficiency in constructions and equipment used - Promotion of products with CSR in the point of sale (fair trade, local and regional products, etc.) - Alternative packaging, made with sustainable materials, for Products (for instance, reusable bags for the transportations of goods - Transportation (development of alternative routes for delivery of products - Waste collection station (post consumption)
6. Retail-Consumer	<ul style="list-style-type: none"> - Education for conscious consumption (purchase, use and waste) suitable - Customer service (availability of service channels for technical assistance and information service about products) - Incentive to selective garbage collection and recycling
7. Post Consumption Recycling	<ul style="list-style-type: none"> - Possibilities of reverse logistic - Supplies for other production chains
8. Raw material and Inputs-Retail	<ul style="list-style-type: none"> - Development of small farmers (local, regional, etc.)

4. Relationship with stakeholders

Convened in Stockholm, Sweden, in 1994, the Global Governance Commission already stated that “there is no alternative except for working together and use the collective power to created a better world”. Based on such statement, the following definition came up: “Governance is the totality of the several ways through which individuals and institutions, public and private, manage their common problems. It is a continuous process by means of which it is possible to adjust conflicting or different interests and accomplish cooperative actions”.

After 15 years, companies, suppliers, governments, NGOs, associations and consumers still learn to live with the differences and make an effort to find a common way to adjust interests.

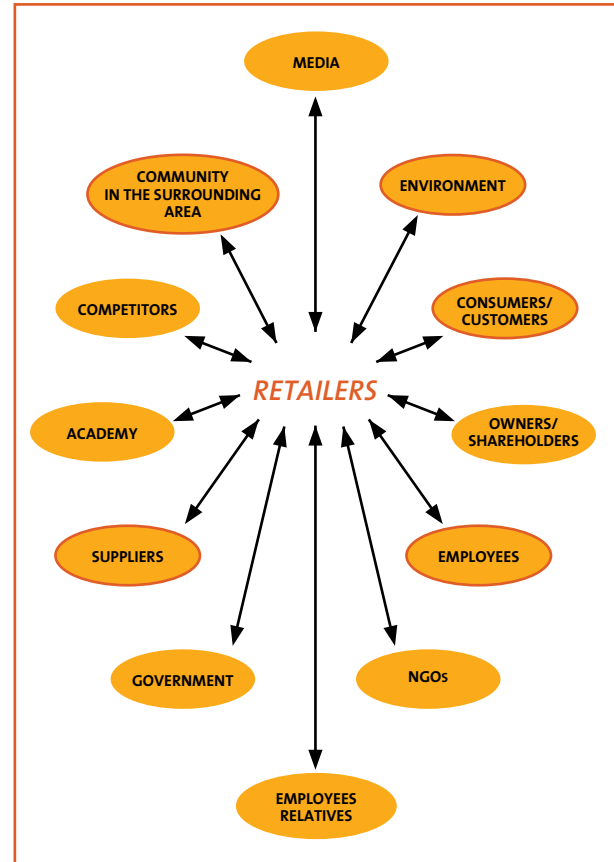
Dialogue and partnership are words of order that become relevant when one wants to reach the level of sustainable development. It is not possible to reach a good understanding without listening to all parties interested in the business. The large supermarket retailers have adopted the practice of increasing the relationship with all their audiences (*stakeholders*). The purpose is to encourage, positively stimulate the chain, for the adoption of the sustainability principles.

Many times, this dialogue it is this dialogue that lead to path to be followed. Strategies are interlaced with the purpose of assuring to the organization a transparent and long-lasting relationship with the groups that directly or indirectly linked to it.

In general, the audiences of interest of a company may be divided into three groups:

- **Supply-suppliers and consumers chain;**
- **Internal audience – owners or proprietors, partners, shareholders, employees and their families;**
- **External audiences - the community, competitors, the media, the environment, the government and the society in a broader way.**

The retail company has a very strong link with the surrounding unit, with the environment, with its consumers and customers, with their suppliers and the employees, as represented in the Figure below.



Source: Responsabilidade Social no Varejo's Program – GIVEV/FCV-EAESP, 2005.

“Any individual or group that may affect the business, through their opinions or actions, or that may be affected by it: internal audience, suppliers, consumers, community, government, shareholders, etc. There is a growing trend to consider stakeholder anyone who deems himself as such, and in each situation the company should try to map the stakeholders involved.” (Ethos Institute) The usual definition of the word stakeholders found Portuguese is “interested parties”.

4.1 INFLUENCING THE VALUE CHAIN

Most business decisions related to the corporate social responsibility and to the sustainability are made taking into account their relationships with the stakeholders. According to Ethos Institute, the companies want to establish partnership relationships with those that may help them deliver more value to the community and to the other interested parties. Likewise, the companies like to take part in organizations that are related with their shareholders based on the same values that guide their relations with collaborators, suppliers or customers. That is, the governance has to work in the global sphere, but also at home.

There is no point undertaking commitments with different publics, without a clear agenda of principles and values approved by all of them. This implies a work of ants, which involves clarification, communication and understanding among the parties. This partnership relation has to be built, based on work and mutual trust, because values and commitments cannot be imposed, they need to be agreed upon among the network of relationships.

The construction of the relations with suppliers to strengthen the sustainability principles should start with a proposal of sharing among those involved, with no pressure of the stronger part over the weaker one.

It is not enough for a company to aspire and program internal guidelines, to achieve excellence in corporate social responsibility. The practice should be extended to the suppliers, for instance. Otherwise, the company risks damaging its corporate image, compromising its competitiveness, because of the inefficiency of its value chain. It is not possible to classify a company as socially responsible if its coal suppliers, for instance, burns native forests and uses child labor.

That is to say, reaching new levels in the practice of sustainable development starts to be a task not only of an isolated organization, but of the entire value chain of which it is part. For this reason,

many business groups have established strategic partnership with their suppliers network in the search for better socioenvironmental results. Whether giving technical support to agricultural producers, or ordering sustainable products to manufacturers of different sizes.

Sustainable product is the one that presents better environmental performance along its life cycle, with equivalent or better function, quality and satisfaction levels, if compared with a standard level (Guia de Compras Públicas Sustentáveis - FGV Editora) [Sustainable Public Purchase Guide – Publisher FGV]. Nonetheless, there are products that do not meet the definition above, but which present socioenvironmental aspects and criteria in their production and commercialization that make them better than the standard product.

Based on the challenges and risks associated to the productive chain the large companies privilege partners that respect:

- *the applicable legislation (see annex)*
- *the correct remuneration and correct working hours*
- *non-tolerance to forced or slave work in the supplier's productive chain*
- *the Child and Adolescent Statute*
- *Human Rights*
- *healthy work environment*
- *Environmental and Forest Legislation*

4.2 THE POWER OF CONSUMERS

As a consequence of the nature of their business, companies will always target consumer public, seeking to attract, serve and meet their needs. And consumers are becoming increasingly aware of the companies' responsibilities and demanding from them attitudes that are compliant with the present times. Those who do not understand these new demands from their target public and fail to run to adapt to them will lose competitiveness, customers and money.

Just like the retail market has the privilege of having direct contact with customers – and can make use of such closeness to influence them in several realms -, consumers know they have the purchase decision power. Every time they choose a certain product from the gondola, instead of another, they are giving their approval to that manufacturer and to the value chain to which it is related. It is then, when deciding what will be put in their cart, that consumers evaluate the products and services, for what they actually represent.

The supermarket has the role of meeting that demand, offering in their product portfolio healthier options – vegetable with no agrochemicals, organic products, for instance – and other socially responsible, like the ones certified with the Fairtrade seal.

The advance of the movements of consumers all over the world has made the purchase process more rational, the price-benefit relation better evaluated and people more capable of exercising their rights as consumers. These changes of behavior have been mapped by several studies.

According to the Akatu Institute for Conscious Consumption, which developed the Finding Conscious Consumer Research (2003), the first individuals seeking to consume in a more conscious way are surfacing, they are changing from “citizen-consumer” to “consumer-citizen”. This includes the search for a balance of individual needs, environmental and social in the three stages of consumption: purchase, use and waste. Thus, consumers start to consider the product or service efficiency together with the impacts on the environment and on the society and to be distinguished based on their differentiated behavior.

In the survey Companies Social Responsibility – Perception of Brazilian Consumers, for instance, released by Akatu Institute and Ethos Institute in 2008, this fact was made clear: nearly 80% of consumers are interested in finding out what companies are doing in the corporate social responsibility area.



Source: Shutterstock

Consumers are increasingly demanding regarding quality and aware of their choices

In April 2009, another survey, now addressed to companies, reveals that the most companies are adopting sustainable practices to their management, because of consumers' pressure. Made by Deloitte, a consulting and audit company, the online survey heard 115 companies operating in Brazil to identify their practices, visions and concerns related to sustainability. In most of them the theme is part of the business agenda and appears in all phases of the productive chain.

Companies have been challenged to change their portfolio of products or production processes required by customers or consumers, for sustainability matters. Environmental controls, as well as legal requirements, also have major impact on activities and companies concern about the implementation of sustainable measures. The research also shows that sustainability is a key factor in the choice or selection of suppliers, with a broad set of practices required by companies when hiring them.

The segments of the 115 companies:

- 53% of industry,
- 45% of services
- 2% of livestock

Among the good practices adopted it can be pointed out:

- the rationalization of the use of natural resources (76%);
- social responsibility programs for employees (72%)
- residues management programs (69%).

That is, the adoption of sustainable practices is a matter of business survival. The day in which consumers will consider companies as social and environmental agents and not just as productive agents is very close.

Consumers nowadays are not only concerned with the best quality and lowest price of products and services. They are now practicing and demanding from companies a more responsible attitude in all of their activities. New values are being considered and, now, it can be noticed that companies that do not know how to serve them will not resist the pressure

of these new changes, as they will compromise their sustainability in the market.

The other side to this story is that supermarkets, by means of educational campaigns and information and data about products that generate lower environmental impacts, could improve the environmental performance of its customers. The retail market plays its influencing potential as privileged intermediary, providing them awareness about the extent of the damage and benefits caused to the community and environment in their consumption decisions.

4.3 THE STRENGTH OF CERTIFICATIONS

Rules, standards and initiatives

Currently, there are numerous guidelines, references, national and international standards, tools, rules and regulations that handling several topics related to corporate social responsibility and sustainability.

Many of these instruments facilitate the purchasing process, as they control aspects of raw-material extraction and manufacturing of products making it a useful tool to guarantee the purchase of products that respect the environment and society without the need of visits, audits or issuance of additional corroborating documents.

Get to know a little more about each one and their aspect that is directly related to the supply chain:

EMPRESA AMIGA DA CRIANÇA PROGRAM

Empresa Amiga da Criança Program [Child Friend Company Program] encourages private social investment in actions for childhood and adolescence, and supports companies in the qualification of its actions, so they are in line with the Child and Adolescent By-Laws. When recognized as "Amiga da Criança" [Child Friend], the company can use the seal on its products.

www.fundabrinq.org.br

Brazilian seal not-certified.

FAIRTRADE

It guarantees the payment of fair prices to producers and an additional cost that should be used for the improvement of social and economic conditions, always respecting the environment.

www.fairtrade.net

Certifiable International Standard.

SUSTAINABLE AMAZON FORUM

Its mission is to mobilize leaders from various segments of society, promote dialogue and cooperation to articulate actions, targeting at a fair and sustainable Amazon. Gives priority to the discussion of topics indicated in the plenary session of its foundation: building a culture in favor of sustainability, building good productive practices commitments, appreciation of traditional knowledge, stimulating scientific and technology development for sustainability, demanding state actions for protection of rights, supporting sustainable development, promoting dialogue between organizations and networks of the Amazon countries.

www.forumamazoniasustentavel.org.br

FOREST STEWARDSHIP COUNCIL

It is a voluntary tool that certifies the origin of forest raw materials in a product. The certification ensures that the company or community manages its forests according to environmentally correct standards, socially equitable and economically viable.

www.fsc.org.br

Certifiable international standard.

SECTOR AND THEME CORPORATE PACTS DETERMINE THE COMPANY'S PUBLIC COMMITMENT

Pact for Integrity and Fight Against Corruption, Pact for the Eradication of Slave Labor, Livestock Pact, Soybean Pact, Wood Pact.

www.ethos.org.br

National, volunteer, non-certifiable agreements.

ISO26000

It is a social responsibility guideline rules that is still under construction, with completion scheduled for 2010. The main topics are: human rights, labor practices, community social and economic development, consumer issues, environment, fair operating practices and organizational governance.

www.iso.org/sr

International rule not certifiable (under construction).

CAFÉS SUSTENTÁVEIS DO BRASIL PROGRAM

Cafés Sustentáveis do Brasil Program [Brazil Sustainable Coffees Program] an initiative developed by the Associação Brasileira de Indústria de Café [Brazilian Association of Coffee Industry] (ABIC), which through partnerships aims to promote sustainability and quality throughout the coffee chain, from the agricultural process, through processing, to the roasting process.

www.abic.com.br

Certifiable Brazilian standard.

EARTH LETTER

"Code" of ethical and moral rules, with guidelines and practical goals for mankind to advance in the process of creating a world based on sustainable development. It covers four topics grouped into 16 principles, two of which have strong relation with the supply chain.

5th Protect and restore the integrity of Earth's ecological systems, with special concern for biological diversity and natural processes that sustain life.

6th Prevent harm to the environment as the best method of environmental protection and when knowledge is limited, take the prudence path.

7th Adopt production, consumption and reproduction standards that protect Earth's regenerative capacities, human rights and community well-being.

10th Ensure that economic activities and institutions at all levels promote human development equitably and sustainably.

www.earthcharter.org

Global initiative adopted by companies, not certifiable.

CSR ETHOS INDICATORS

Self-diagnostic tool for companies to assess their CSR practices in seven topics, and one that handles with suppliers

<http://indicadores.ethos.org.br>

Brazilian tool with translation to Spanish, not certifiable.

INSTITUTO BIODINÂMICO

It guarantees conformance with national sanitary, environmental and labor laws of the company and its raw materials suppliers. It also acts in South America and altogether it offers 13 types of seal.

www.ibd.com.br

Certifiable Brazilian standard.

SA8000

It includes requirements connected to labor issues focusing on employees and suppliers, child labor, forced labor, health and safety, freedom of association and right to collective negotiation, discrimination, disciplinary practices, working hours, remuneration and management system.

www.sa-intl.org

Certifiable international standard.

GLOBAL PACT

Initiative developed by the United Nations (UN), aiming at mobilizing the international corporate community for the adoption, in its business practices, of fundamental and internationally accepted values in the areas of human rights, work relations, environment and fighting corruption reflected in ten principles.

<http://www.pactoglobal.org.br>

Global initiative where the company becomes signatory of ten principles, not certifiable.

GLOBAL REPORTING INITIATIVE

International guidelines for the creation of sustainability reports contemplating environmental, economic and social data. From the set of indicators, four are strongly connected to the supply chain, to the themes of human rights, forced labor or slave-like labor and child labor.

www.globalreporting.org

Certifiable international standard.

BRAZILIAN ASSOCIATION OF TECHNICAL STANDARDS

The NBR 16001 standard establishes the minimum requirements related to a social responsibility management system, which allows the organization to formulate and implement a policy and objectives that take into account the legal requirements and others, its ethical commitments and its concern with: fostering citizenship; fostering sustainable development; and transparency of its activities. Among the covered aspects, the one that is directly connected to the supply chain is the “promotion of sustainable development, production, distribution and consumption standards, contemplating suppliers, service suppliers, among others”

www.globalreporting.org

Certifiable Brazilian standard.

4.4 SHARING EXPERIENCES

Not only in retail but in all economy sectors, the demand for good corporate social responsibility initiatives has been growing. As most companies do not have the expertise in such practices, following the example of those which have already tread this path is a way of playing safer. With this spirit, the Programa Tear (Tecendo Redes Sustentáveis) was born, the methodology of which aims at increasing competitiveness and sustainability of small and medium-size companies (PMEs) and increasing their market opportunities; the methodology was created for the first edition of the program, sponsored by the Ethos Institute and by Fundo Multilateral de Investi-

mento (Fumin), of Banco Interamericano de Desenvolvimento (BID).

To reach these targets, strategic companies in seven sectors of the economy, with advanced experience in corporate social responsibility (CSR), anchored the program. They selected between 15 and 20 PME's in their value chain (amongst suppliers and clients), with which they committed to work for the incorporation and increase of a socially responsible management in internal processes and in the relationship with the interested parties.

The seven sectors involved were: sugar and alcohol; civil construction; energy; electricity; mining; petroleum and gas; steel metallurgy; and retail.

Besides being attached to the anchors, the institutions and regional and sectorial corporate entities have contributed towards the dissemination of the work methodology to other companies and value chain.

The program had the direct participation of nine large companies that work as anchors and 108 PME's belonging to the eight marked value chains, also involving other 800 companies during the mobilization actions. It also counted on the partnership with sectorial, regional and national corporate entities.

Some of the results found:

Better incorporation of sustainability in management;

- 100% of the PME's formalized their Mission by incorporating the sustainability theme
- 10% of the PME's implemented their Code of Conduct in year 1. This number increased to 63% in year 2
- 51 cases filed in the Ethos Practices Bank that reports on CSR practices carried out from the program (governance, internal audience, environment, supplier, client, community).
- Altogether, 1098 action plans were formalized and 712 were implemented, 320 of which were related to the Millennium Development Objectives
- In year 1, 50% of the PME's had put together their socio-environmental report. In year 2, 87% of the PME's had put together their socio-environmental report.

Strengthening of commercial relationships with involved partners

- 4 groups aligned, during the Tear meetings, specific demands related to the relationship in the value chain (anchor-PME's)
- 95% of the PME's are happy with the commercial relations kept with the anchor company.
- 66% of the PME's affirm that the CSR measures implemented contributed towards the improvement of their commercial relations with large companies
- After the first work meeting, several participating suppliers, which competed with each other in the same service or product, became partners in the construction of a new way of doing business



Source: Shutterstock

Loom: the art of build summing

Access to new mechanisms and development of new products and services

- Through the analysis of their strengths and weaknesses and mapping of the interested parties some PMEs created strategies, implemented and obtained positive results such as:
 - balance between revenues vs. client
 - incorporation of socio-environmental aspects in the development process of their final product or service rendering
 - identification of value added to their current product/service

Productivity and competitiveness increase.

- 130 new clients and 57 new suppliers were included in the commercial relations due to their participation in the Tear Program
- 71% affirm that they improved their commercial relations with their value chains

BENEFITS PERCEIVED BY COMPANIES WITH THE IMPROVEMENT OF RELATIONS OF THEIR VALUE CHAIN

	# of companies	%
Better dialogue or conflict settlement	55	66%
Better sales negotiation	31	37%
More commitment to deadlines	24	29%
More commitment to quality	40	48%
Increase of sales volume	26	31%
Reduction of risks and problem	43	52%

THE PERCEPTION OF COMPANIES ON THE IMPACT OF TEAR AND ITS ECONOMIC INDEXES

	# of positive answers	%	
The implementation of actions arising from the participation in the Tear program brought cost reduction for companies	55	66%	PRESENT
The implementation of actions arising from the participation in the Tear program brought revenue increase for companies	31	37%	
There was cost reduction in the company due to external factors to its business	24	29%	
There was revenue increase in the company due to external factors to its business	40	48%	
It is said the implementation of actions arising from the participation in the Tear program will bring cost reduction for the company	26	31%	FUTURE
It is said the implementation of actions arising from the participation in the Tear program will bring revenue increase for the company	43	52%	

5. Dilemmas, challenges and benefits

Adding value to the chain

There are many reasons for a company to try to develop and contribute towards its supply chain, the most recurrent of which are:

- Driving suppliers to professionalization and adequacy to market standards;
- Fostering joint training activities;
- Identifying payment and negotiation conditions that comply with the small suppliers' financial competence;
- Creating discussion forums and conversations on the theme related to the commercial relation and established partnerships.

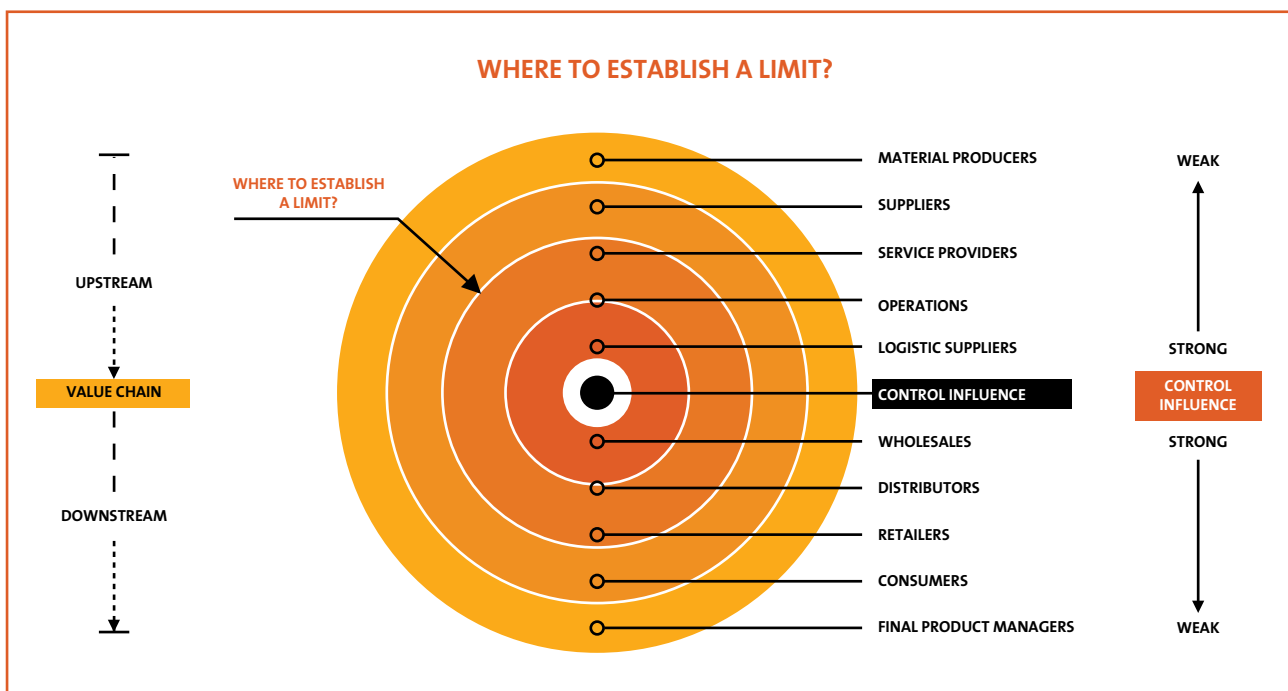
However, there are also many difficulties and dilemmas imposed to companies that want to tread this path:

- Adopting some certification standard or not?
- Will micro and small suppliers be able to meet the short- and medium-term demands?
- Will large suppliers accept the commitments and carry out the work in partnership?

- Establish the balance between CSR stimulus and demands made towards suppliers with the advances in their own practices in their routine, especially in the relationship with them (Change starts at home!).
- How to combine ethical principals in the agreements? Is it necessary to have external verification processes?
- Final decision for the replacement of the supplier which has not aligned with or met the requirements by lack of interest or by not being included in the placed proposal.
- How to work with the supply chain in a partnership that replaces the relationship of power that has been historically considered, even in the eyes of the suppliers themselves?

What must be the acting and control limits of its chain? How to prioritize the suppliers that will be worked on? This is one the starting points for any work strategy with the supply chain (see chart below).

There are no ready answers or guarantees of success to any of these points, but for such, in any panorama it is important to establish a conversation channel and mechanisms to identify the suppliers' major difficulties.



There are some specific moments that change into opportunities to establish the conversation with the links of its supply chain:

- *At qualification, which can be contemplated for some suppliers or in specific programs;*
- *At registration, the entry point for the supplier in the company;*
- *At selection (when not done at registration), to align and establish that said CSR criterion will be analyzed during the quoting/competition process;*
- *At contracting, period that precedes service performance or delivery of product to which it is being contracted;*
- *At evaluation, period after service performance or delivery of product to which it is being contracted;*
- *At dissolution, period in which a contract is terminated, especially if there is some important return or alignment to be carried out, which differentiates it from daily terminations; and*
- *At any time, whenever the company adopts liabilities or corporate policies that are directly related to the suppliers.*

Advantages to the supplier

Suppliers also benefit in many ways:

- *Corporate training;*
- *Know-how (or expertise) transfer and technology;*
- *If the supplier takes part in some program or initiative that counts on the on-site meetings, it will also benefit from:*
 1. *developing better commercial bonds and improving relationships;*
 2. *exchanging experiences with other suppliers;*
 3. *contributing, in a structured manner, to the consultations and proposals of the company that coordinates the program or initiative.*

Advantages to the company and the supplier

There are aspects in which two sides of the chain benefit from:

- *better incorporation of sustainability in its own management;*
- *more transparency and alignment of ethical values in commercial relations;*
- *access to new mechanisms and development of new products and services;*

- *competitiveness and productivity complying with sustainability criteria;*
- *sharing of common horizons;*
- *establishment of partnerships;*
- *model and reference for the development of programs in its segment;*
- *visibility and projection (both nationally and internationally, depending on the positive impact raised);*
- *contribution towards the society and planet's sustainability.*

6. Conclusions

To manage such complex productive chains towards sustainable practices, companies have great challenges ahead. A great obstacle to this vision is the difficulty in implementing sustainable development. But with the effort and will of a group of leading companies, eager to break traditional structures, it is easier, first of all, to encourage suppliers and clients to think sustainably.

For researcher Luiz Carlos de Macedo, of GVcev – FGV Retail Excellence Center, the market must be open and trained for a new form of development. “It is commendable that there are already corporate organizations leading new ways of doing business, with high standards of corporate responsibility and with more awareness of their impacts. But, on the other hand, maybe humans – who are an essential part of the system and agents of changes in society and in companies – are not yet aware of how difficult the task of thinking about the sustainability process is. As a result, a profound reflection on the theme becomes essential, especially when it is based on the daily practice”, he says.

Practicing social responsibility means taking ethical postures and increasing the business vision, integrating sustainable practices to corporate guidelines, in such a way as to make them part of the company’s daily routine.

Retail represents one of the sectors with the best potential to contribute towards the society improvement. Either by the possibility of positively influencing the two ends of the productive chain – the supplier and the consumer -, or by its inclination in transforming reality around it and establishing sustainable bonds in the value chain, not only disregarding its economic and commercial objectives, but also being concerned about the environmental impact of its products and services and playing its role in the improvement of the citizens’ life quality.

Lastly, it must be pointed out that retail has many important points that must be taken into account so

that the sector can consistently develop towards responsible and sustainable survival.

Among them: the need to adequate a number of companies to the labor and tax legislation; the eradication of child labor from its value chain; and the excessive use of packaging, which leads to a great volume of residues from post-consumption disposal.

7. WALMART AND ITS PRODUCTIVE CHAIN

To understand the weight of its role in the good operation of the productive chain, Walmart has been trying to positively influence all the links in the chain. By adopting responsible and sustainable practices in its daily operations, Walmart has been encouraging suppliers to adapt to the new era. Not only those that provide products to the gondolas, but also those involved in the logistics and store construction areas.

Being a leader in sustainability and being the best channel between the consumer and the suppliers are two of the strategies of the company in Brazil. Here, where it arrived in 1995, the retailer operates in several retail fronts: hypermarket, supermarket, neighborhood markets and wholesale. It has 345 stores spread in 17 States and in the Federal District and 75,000 associates.

To be able to manage simultaneously this set of productive chains, Walmart also invests in the relation with the supply chain: from ordering *products with differentials in sustainability* to strategic partners, to giving technical support so that small producers can develop. The retail group extends to the productive chain the socio-environmental commitments it undertakes, investing in raising awareness, in multiplying good practices, in exclusive meetings for suppliers and in other focal points.

These are the ones that present the best environmental performance throughout their lifecycle, with similar or better function, quality and level of satisfaction, if compared to a standard-product (Sustainable Public Purchase Guide – FGV Editora).

7.1 INCENTIVE TO GOOD PRACTICES

Since 2005, the company is guided by global environmental targets, organized in three pillars: Climate and Energy, Residues and Products.

- *The Climate and Energy pillar concentrates energy consumption reduction actions and technology use and practices that are more efficient and have lower impact as far as logistic systems and constructions are concerned.*
- *The Residues pillar focus on the improvement of management, with the reduction of the consumption of raw material, reusing and recycling materials and the correct final disposal of discarded material.*
- *In Products, the company has been working with its suppliers to consider the environmental and social features of products, assessing the production process and transportation of goods.*

Based on the challenges and risks connected to the productive chain, Walmart privileges partners that respect:

- *the applicable legislation*
- *the correct remuneration and the correct working hours*
- *non-tolerance of forced or slave labor in the supplier's productive chain*
- *the Statute of the Child and Adolescent*
- *Human Rights*
- *healthy work environment*
- *Environmental and Forestry Legislation*

7.2 PRODUCERS' CLUB

At Walmart, an example of successful partnership is the Producers' Club, an initiative that reaches over 3 thousand small and medium-sized farmers in nine States. They get assistance from agronomists, who teach the best planting and business management techniques. The program also gives guidance on logistics, good labor practices and care with the environment and commercialization. Thus, the participants guarantee the sale of their products at a fair and correct price, eliminating the intermediaries in the chain.

Producers' Club: fair and correct price, quality products

This is a business model that gives visibility to the producer, by allowing their access to the retail market through the doors of the Walmart Brazil group. The result is better-structured work in the field with impacts in all the local economy.

The program, that started six years ago in the South region, already gathers 3,5 thousand producers that supply nearly 850 items to the produce, market, fish market, cold-cuts and grocery sections.

QUALITY IN THE TWO ENDS OF THE CLUB CHAIN

Being part of the Producers' Club guarantees the sale of products for a fair price without intermediaries and with the Producers' Club Seal, an important differential in the dispute for the clients' attention at the gondolas. Walmart promotes annual audits to certify the products. The monitoring involves all the production phases, in themes connected to the environment, hygiene, food safety, relationship with employees and collaborators, and legal and tax aspects. Besides the seal, the products receive special signposting in the stores, so that consumers can perceive their sustainability differentials.



Source: Wal-Mart Brasil

Producers' Club: fair and correct price, quality products



CONSCIOUS GROWTH

The preserves and red fruit jams produced by the couple Evandro and Marinês Andreazza, from Caxias do Sul (RS), can be found on Walmart shelves in São Paulo and in the South region. What was only a profitable way of using the excess of the strawberry, blackberry and raspberry production became a business. Thanks to the partnership with Walmart and the technical support from the Producers' Club, the daily production leaped from 100 kg to 800 kg, which demanded hiring more employees - previously they had only one, today there are 30. The variety of sweets also increased from three to 16. "With incentives and guidance to adequate to strict standards, we have slowly grown, continuously and consistently", Andreazza highlights.

Their growth was connected to the concern with social and environmental issues. "Besides complying with Walmart's demands, we use our own tracking methods, which allow us, for instance, to identify the suppliers who are involved in the production of each batch", he explains.

7.3 REGIONAL FOCUS

Walmart understands that respecting and meeting the needs of each region is essential to the business. That is why it invests in the participation of regional suppliers in the formation of its stores: they already represent 15.5% of the grocery products and 71.1% of perishable items of the company's purchase in retail. In different Walmart stores in the whole country, one can find regional products and services, the result of the wealth of cultural diversity in Brazil.

7.4 VALUABLE PARTNERSHIPS

In its relationship with its suppliers, Walmart adopts a mutual encouragement model and integrated growth, aiming at consolidating a sustainable business network from an economic, social and environmental point of view. The transparency and open-hearted communication strengthen the bonds with the partners.

In recurrent meetings or theme forums, the companies align and share values and targets, exchange experiences and seek new opportunities of joint development. There is also a semiannual forum that gathers Walmart executives and the main suppliers to debate on the development of joint business plans.

At the beginning of 2008, Walmart embraced the sustainability theme in the meetings with suppliers. As a result, it was easier to map out each partner's initiatives, clarify doubts on the reach and nature of such initiatives and disseminate the interest and concern with the theme among companies of several sizes. Since then, suppliers have been continuously encouraged to adopt corporate social responsibility practices and to carry out innovative experiences in partnership with Walmart. From one of these meetings, Walmart developed, together with Coca-Cola, the recycling stations project, which is currently present in 290 of its stores.

In one of these forums, ten suppliers were invited to propose a complete sustainability Project for at least one of their products or categories. The objective was to assess and improve the product or category lifecycle, considering their environmental impacts and establishing better practices:

- **Carbon neutralization**
- **Residue management**
- **Sustainable transportation**
- **Packaging efficiency**
- **Cleaner/more eco-efficient production**
- **Community integration by means of garbage pickers cooperatives**

Source: Walmart Brasil



2.962 PRODUCTS WITH SOCIOENVIRONMENTAL VALUES

Currently, nearly 3,000 products with sustainability differentials are available at Walmart. Walmart was also the pioneer in offering sustainable products developed by partner companies, such as Hanesbrands (Zorba), Procter&Gamble (P&G), Unilever, Estrela and Kimberly-Clark. An example is Zorba Bambu: Hanesbrands's ecological men's underwear was the first product with sustainability differentials in Walmart's textile line in Brazil, commercialized since 2007. Manufactured with 94% bamboo fibers and 6% elastane, it has a soft touch and deodorant properties.

7.5 PRIVATE LABEL

Walmart makes the best efforts so that the products that are commercialized within its private label embody sustainability differentials. Some examples are the Top Max Cleaned soap, the recycled telephone, French fries and the cartonated packaging of some products.

Cooking oil soap

Top Max Cleaned soap is made of used cooking oil that clients deposit in the recycling stations at the stores and of oil recovered from its own kitchens. Besides avoiding that such post-consumption oil is thrown into the environment (where it is highly contaminating), the final product has the same quality of a conventional product, is free of phosphate and also has a very accessible price.

Recycled telephone

Developed by manufacturer Ibateli by request of Walmart's procurement department, the telephone is made of recycled components from computer cabinets, and is the newest item in the list of products with sustainability differentials under Walmart's private label.

Packaging with fewer solvents

Negotiations with BIG, Nacional and Mercadorama's private label French fries suppliers resulted in the modification of the packaging printing system, eliminating the use of solvents and decreasing greenhouse gas emissions.

FSC packaging

Since 2008, both the flexible stick packaging and the cereal boxes under the GreatValue private label are certified by the Forest Stewardship Council (FSC), which guarantees that the cardboard used is a by-product of wood coming from sustainable management forests. The principles of the FSC's forest certification for sustainable forest management are:

1. **Compliance with the national laws and international agreements.**
2. **Maintenance of property rights and responsibilities.**
3. **Observing the rights of the indigenous peoples.**

4. *The respect of labor rights and local communities.*
5. *Fostering the efficient use of several forest benefits.*
6. *The existence of a Forest Stewardship Plan with clear objectives.*
7. *Biodiversity conservation.*
8. *The result and evaluation of this type of management.*
9. *Conservation of forests with high ecological value.*
10. *The management of forest crops be carried out by following the previous criteria.*

7.6 OTHER LINKS IN THE CHAIN

In the retail industry, Walmart activities represent nearly 8% of the direct impact over the environment, and the remainder is distributed among other agents in the value chain, such as suppliers and clients. By means of the relationship with all of its audiences (*stakeholders*), Walmart tries to stimulate in a positive manner all the chain to adopt the sustainability principles. The company is aware of the risks and opportunities imbedded in the different connections of its complex value chain. And it fosters actions to encourage each one to do their share.

“Any individual or group that may affect the business, by means of their opinions or actions, or that can be affected by it: internal public, suppliers, consumers, community, government, shareholders, etc. There is an increasing trend to consider those who consider themselves as stakeholders as such, and in each situation, the company must try to map out the involved stakeholders.” (Ethos Institute)

Transportation

In 2008, to engage suppliers in the environmental impact reduction targets of the operations, Walmart promoted the 1st Sustainability Forum in Transportation. The event gathered carrier partners, representatives of the car industry, fuel distributors, consulting firms and environment bodies. Based on the debates, it was possible to outline new programs that will be implemented over the coming months and years, which includes from the use of more sustainable ma-

terials in the manufacturing of cars, to modifications in the current vehicles focusing the reduction in fuel consumption. Carriers learned more about what is new in sustainable initiatives in transportation, under the categories of energy, vehicle, operations and socio-environmental responsibility, and were also able to share their own experiences with other suppliers.

Building

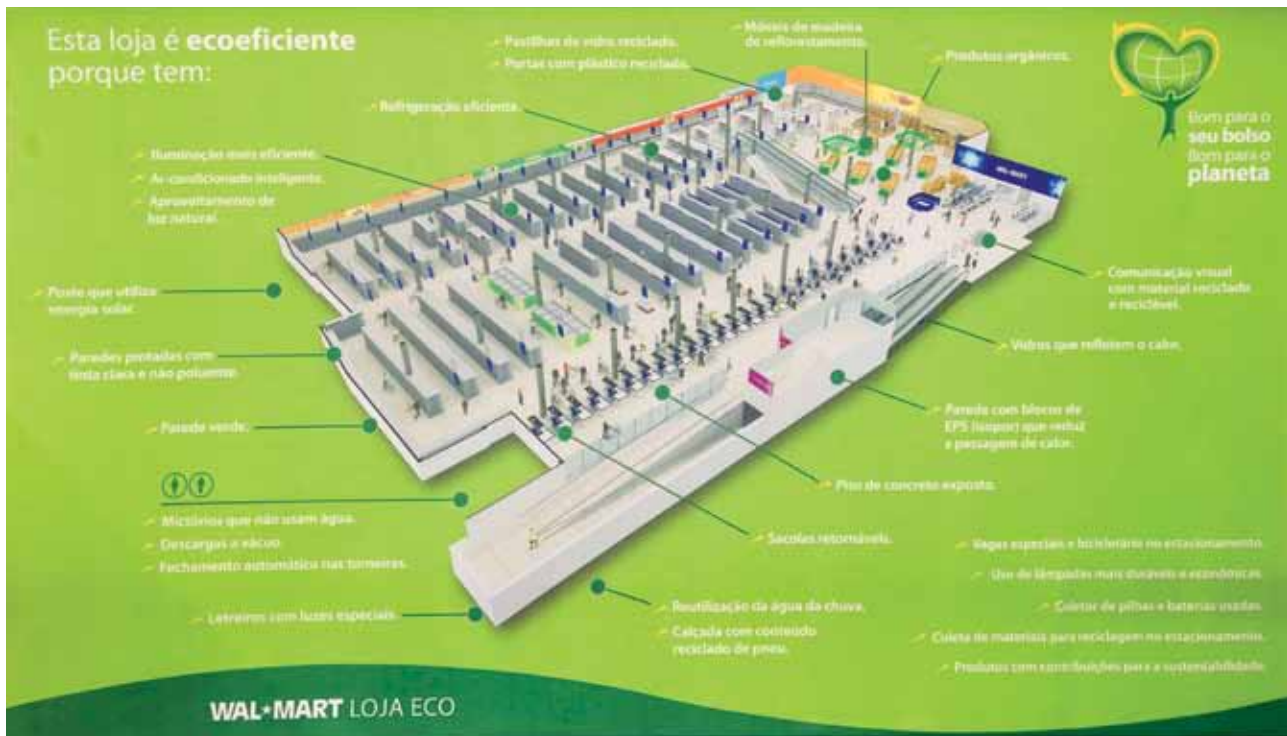
Within its target to advance in sustainability in all the levels in the chain, Walmart proposed to its store builders to imbed water and energy consumption reduction technologies. The store in Campinho, in Rio de Janeiro, was the first one to adopt the whole eco-efficiency concept, followed by Walmart Morumbi, in São Paulo.



Source: Walmart Brasil

CAMPINHO, THE FIRST ECOEFFICIENT STORE

At the façade wall, a climbing plant that reduces external heat absorption into the store was planted. The wall was build with blocks made of polystyrene, a thermal insulator that is seven times more efficient in preventing the penetration of the heat than conventional concrete insulators. This technology allowed saving energy as a result of the less frequent use of air conditioning - besides contributing towards diminishing the heat emanated by the store, which leaves the surrounding areas cooler.



Innovative productive chains for the construction of more sustainable stores.

Mirrored by the experience gathered in the construction of the Campinho/RJ unit in 2008, Walmart opened the first eco-efficient store in São Paulo, in the neighborhood of Morumbi, in April 2009. The new store – which will use up 25% less energy and 50% less water – bears 62 socio-environmental initiatives, implemented with the creative partnership of several productive chains, in the project and in the construction of the energy areas, water resources, lighting, sewage, recycling, civil construction and urbanism, and locomotion, among others.



Industrialized food, stationery articles and clothing: new productive chain generating more sustainable products.

8. ANNEX

BRIEF EXPLANATION ON THE DIFFERENT INDUCTION MECHANISMS FOUND IN THE MARKET.

- *Legislation: laws, decrees, and other legal instruments applicable in Brazil;*
- *Certifiable self-regulation: national and international standards liable to auditing and certification; and*
- *Non-certifiable self-regulation: principles, norms and other market initiatives, that can be volunteered or not.*

We do not have specific legislation for the supply chain, but there are several laws with strong relationship with suppliers and themes connected to CSR. Therefore, much of what we see in the contractual clauses, ethical conduct codes and other instruments adopted by companies to call the attention to a certain critical and relevant point is already found in the Brazilian legislation. See some examples below.

Regarding:

- *The respect to Human Rights; in the introduction of the Brazilian Federal Constitution quoting part of the text “XLI – the law shall punish any discrimination against the fundamental rights and freedom”.*
- *Forced labor: in the Consolidation of Labor Laws (CLT) in article 483 “a) services beyond one’s strength are requested, prohibited by law, against the good moral conduct, or beyond the labor agreement”; under ordinance n°540/2004 article 2 which refers to the inclusion of the violator in the Registry of Employers who have kept workers in slave-like conditions; and in decree law n°2.848/40 of the Penal Code which refers to a penalty and fine for the violator regarding the different situations that can be imposed to workers and characterize slave-like labor.*
- *Child labor: in the Brazilian Federal Constitution, in its articles 6 and 7; in law n° 8.069/90, which is the Statute of the Child and Adolescent, which establishes, among others, criteria for child labor; in the Consolidation of Labor Laws (CLT) in articles 402 and 403; and also, Brazil has decree n° 4.134/02 which enforces Convention n° 138 and Recommen-*

ation n° 146 of the International Labor Organization on the Minimum Age for Work Admission.

- *Management of environmental impacts: in articles 23, 24, 170, 186, 225 of the Federal Constitution it is made clear that the environment must be preserved, pollution must be controlled and natural resources must be used in a proper way; the Brazilian Civil Code also states it in its article 1.228 that refers to property rights and use; in law n° 6.938/81 that establishes the Brazilian Environmental Policy, its means and formulation and application mechanisms, and other provisions; in decree n° 99.274/90 that regulates the creation of Ecology Stations and Environment Protection Areas and on the Brazilian Environmental Policy; in law n° 9.605/98 that establishes penal and administrative sanctions arising from malfeasance and damaging activities to the environment; and other decrees that enact the United Nations Framework Convention on Climate Change and Kyoto Protocol.*
- *Reduction, reuse and recycling: in several CONAMA resolutions to specifically deal with some products and residues such as tires, batteries, health services residues, civil construction residues, empty pesticide and lubricant oil packaging.*
- *Competition: in the Federal Constitution in its articles 146-A, 170 and 173; in law n° 8.884/94 that transforms the Administrative Council for Economic Defense (Cade) in Autarchy, establishes the prevention and repression to breaches against the economic order and other provisions; and also law n° 8.137/90 that defines crimes against the tax and economic order and against consumer relations.*
- *Compliance with tax and legal obligations: provided for in several instruments such as the Federal Constitution in its articles 5, 30, 48; in law n° 5.172/66 of the Brazilian Tax Code; and law n° 8.137/90 that defines crimes against the tax and economic order and against consumer relations.*
- *Fight against corruption: provided for in the enactment of the United Nations Convention against Corruption, adopted by the United Nations General Assembly on October 31, 2003 and signed by Brazil on December 9, 2003; in the Inter-American Convention Against Corruption; in the Convention on Combating Corruption of Foreign Public Officials in International Commercial Transactions; and in the*

Brazilian Penal Code that establishes penalties for acts of passive corruption, active corruption, active corruption in international commercial transactions and traffic of influences in international commercial transactions.

- *The productive chain: we have a single legislation that deals with this point specifically, and that is law 8.078/90 that refers to the Consumer's Defense Code and its articles 3 that specifies what a supplier is, article 12 on the manufacturer/producer/constructor's responsibilities either in Brazil or abroad, article 18 on the solidary liability of suppliers durable or non-durable consumers' products, article 19 on the supplier's responsibility for the product as far as quantity and labeling is concerned, article 25 that deems invalid any contractual stipulation aiming at exempting or extenuating the previously established obligations.*

Regarding the relationship with consumers, there are specific items that have been regulated and guaranteed on:

- *Access to proper information: it is present in the Consumer's Defense Code where it establishes consumers' protection; and also in the Brazilian Federal Constitution in its article 150.*
- *Sustainable consumption: it is also present in the Consumer's Defense Code in article 51 "By operation of law, it shall be deemed null any contractual clauses related to the provision of products and services that: XIV – violate or cause the violation of environmental norms; XV – fail to comply with the consumers' protection system."; and in law n° 8.137/90 that defines crimes against the tax and economic order and against consumers' relations, and other provisions.*
- *Right to appeal and claim: present both in the Brazilian Federal Constitution in articles 5 e 6 and in the Consumer's Defense Code, in a more detailed manner in its articles 18, 26, 35, 41 and 44.*
- *Respect to privacy: present both in the Brazilian Federal Constitution in article 5 and in the Consumer's Defense Code, in a more detailed manner in article 43.*
- *Consumers' education: set forth in the Consumer's Defense Code, article 4.*

The abovementioned articles of laws and decrees can be read in full in the publication Social Responsibility Essential Criteria and their Induction Mechanisms in Brazil, as well as management practices of several companies that are also described therein. (http://www.ethos.org.br/_Uniethos/Documents/criterios_essenciais_web.pdf).

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