



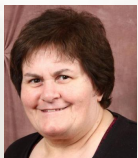
Corporate Responsibility Association (CRA)
**Global Supply Chain Dynamics and
the Changing Risk Management Agenda**
Part Two - Wednesday, February 11, 12 Noon EST



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Strategic Sourcing Group; TD Bank Group



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Supply Chain Operating Context

- ▶ High capital requirements
- ▶ Lagging utilization rates
- ▶ Volatile energy costs
- ▶ Expanding global distribution networks
- ▶ Capacity shortfalls
- ▶ Inadequate responses to product demand
- ▶ Infrastructure limitations
- ▶ Security concerns
- ▶ Complex supply chain integration requirements

Traditional models:

- Constrained and compartmentalized procurement personnel
- Focused primarily on squeezing excesses out of the supply base – at any cost
- Little view, or will, toward transforming how one thinks about EBITDA (earnings before the deduction of interest expenses, taxes, depreciation, and amortization) and profitability
- Resistance to focusing on delivering differentiated value creation for the end customer

New Models Emerging

Proactive Bottom-Line Value Creation:

- ▶ Requires the will to change the nature of your supplier relationships - and strengthen your procurement organization
- ▶ Accounts for all stakeholders in the chain
- ▶ Necessitates new approaches to supplier contract negotiation and procurement organizational structure
- ▶ Procurement professionals become the leaders in a new collaborative communications model to serve all supply chain interests
- ▶ Suppliers are re-orientated to new formulas for achieving a lower cost basis in direct materials
- ▶ Integrates best practices from a wide range of models/sources/contexts/industries
- ▶ Enables an ability to achieve new efficiencies from a more organic enterprise development process; in turn, more dependably enriches the capital base

Ultimate Goals

- ✓ More efficient processes and operations
- ✓ Strengthened productivity
- ✓ Enhanced resiliency with less downtime
- ✓ Improved revenue
- ✓ Optimization of the top and bottom line
- ✓ Greater empowerment of the end customer



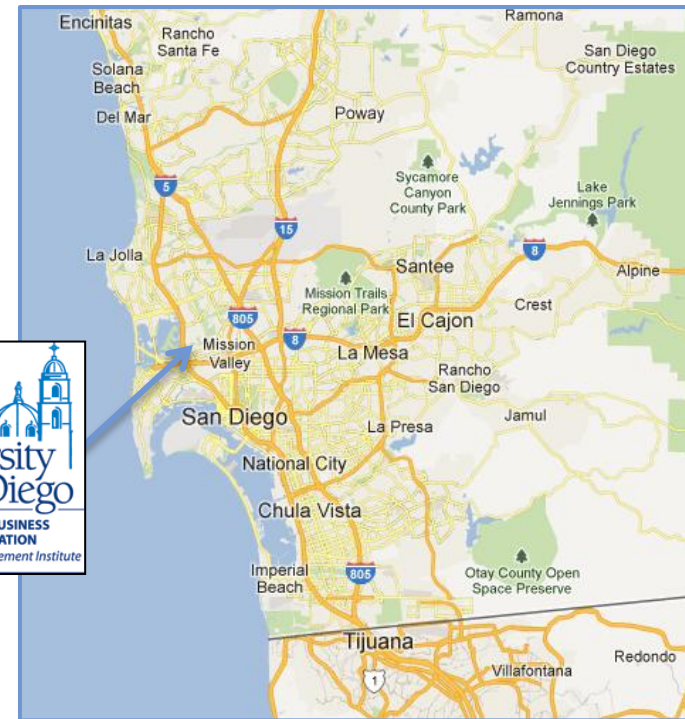
Global Supply Chain Complexities and the Changing Risk Management Agenda II

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USD & SCMI

- SCMI founded in 1999
 - Offering supply chain management education since 1986
- Committed to develop and disseminate logistics/SCM knowledge & best practices in three areas:
 - Collaborative Relationships
 - World-Class Education
 - Applied Research
- Board of 25 companies provides support and guidance



Complexity Drives Up Cost

Scenario: Too many suppliers

While maintaining multiple suppliers for every purchase requirement was often seen as a way to create competition and guarantee access to supply, we now realize that a supply base that is too large in terms of numbers creates many adverse consequences, including costs that are unnecessarily high.

What are some of the potential benefits of a rationalized supply base (i.e. the benefits of fewer suppliers)?

Benefits of Fewer Suppliers

- ✓ Fewer contracts or PO's to write and negotiate
- ✓ Fewer material releases and receipts
- ✓ Less effort to process and handle material receipts
- ✓ Easier material traceability
- ✓ More attention can be given to select suppliers
- ✓ Fewer accounts payable transactions
- ✓ Fewer RFQ's/RFP's to manage
- ✓ Improved supply base quality and delivery
- ✓ Lower unit costs by leveraging purchase volumes

How Supply Chains Become Complex

- ✓ Engineers gone wild
- ✓ Marketers gone wild
- ✓ Faster product development
- ✓ Decentralization and reorganizations
- ✓ New programs
- ✓ Building in bureaucracy
- ✓ Mergers and acquisitions
- ✓ Complex jobs = job security
- ✓ Complacency
- ✓ Going global

How Going Global Creates Complexity

Longer pipelines in distance and time

Increased risk (damage, theft, etc.)

Different shipping terms (INCOTERMS versus U.C.C. terms)

Increased use of agents and other third parties

Extensive documentation requirements

Delivery variability

Reduced ability to plan due to longer cycle times

Increase in supply chain “touch” points and handlers

Multiple modes of transportation required

More challenging to identify the true (total) cost of ownership



Ways to Battle SC Complexity

- ✓ Simplify product designs
- ✓ Standardize and reuse components
- ✓ Organizational structure to reduce complexity
- ✓ Become more rational
- ✓ Empower employees
- ✓ Standardize and redesign processes
- ✓ Create low-dollar purchase systems
- ✓ Streamline contract reviews
- ✓ Apply value analytic techniques
- ✓ Create complexity-related performance measures

Components of Risk Management

- **Internal Environment**
 - The tone of an organization, including risk management philosophy and risk appetite, and ethical values
- **Objective Setting**
 - A high-level view of how much risk you (management and the board) are willing to accept
- **Event Identification**
 - Internal and external events affecting achievement of an entity's objectives
- **Risk Assessment**
 - Likelihood and impact

Event Identification: Supply Chain Risk

Type of Risk	Examples
Supply Risks	Disruption of upstream inventory; uncertain schedules; challenges with technology access; potential for price escalation; innate quality issues; compounding product complexity; frequency of material design changes
Operational Risks	Disruption of operations; inadequate manufacturing or processing capacity; high levels of process variation;
Demand Risks	New product introductions; variations in demand (fads, seasonality, and new product introductions by competitors); chaos in the system (the Bullwhip Effect on demand distortion and amplification)
Security Risks	Information systems security; infrastructure security; freight breaches from terrorism, vandalism, crime and sabotage
Macro Risks	Economic shifts in wage rates, interest rates, exchange rates, and prices
Policy Risks	Actions of national governments like quota restrictions or sanctions
Competitive Risks	Lack of history about competitor activities and moves
Resource Risk	Unanticipated resource requirements

Risk Assessment

Consequence

Likelihood

	Extreme	Very High	Moderate	Low	Negligible
Almost Certain	Severe	Severe	High	Major	Moderate
Likely	Severe	High	Major	Significant	Moderate
Moderate	High	Major	Significant	Moderate	Low
Unlikely	Major	Significant	Moderate	Low	Very Low
Rare	Significant	Moderate	Low	Very Low	Very Low

Boeing 787 Dreamliner Risks

- Financial
 - Huge capital commitments
- Market
 - Plane must sell for many years
- Technology
 - Find and implement the latest technology in commercial aircraft?
- Production
 - Millions of parts and thousands of suppliers
 - Firm delivery and quality requirements



What Went Wrong? (just one example)

Cost control over supply chain

- Outsourced 60% of manufacturing to 50 “strategic partners”
- Main segments (e.g., wings, fuselage, stabilizer) produced by different suppliers and countries
- Nuts and bolts - Alcoa (one supplier) fails
- Ripple effect created logjams, temp fixes, workarounds, and delays
- Then the battery problem grounded the fleet!



Global Supply Chain Complexities and the Changing Risk Management Agenda (Part II)

Third-Party Supplier Risk Management and Responsible Procurement

February 11, 2015

- Overview TD Bank Group
- TD Strategic Sourcing Group & Mission
- Drivers of Strong Supplier Risk Management
- Procurement Corporate Responsibility at TD
- Responsible Procurement Journey
- Recent Impacts
- Responsible Procurement: What's Ahead

- **Headquartered in Toronto, Canada**, with more than **85,000 employees** in offices around the world, The Toronto-Dominion Bank and its subsidiaries are collectively known as TD Bank Group (TD). TD offers a full range of financial products and services to approximately **23 million customers worldwide** through three key business lines:
- **Canadian Retail** including TD Canada Trust, TD Commercial Banking, TD Auto Finance (Canada), TD Wealth (Canada) and TD Insurance
- **U.S. Retail** including TD Bank, America's Most Convenient Bank, TD Auto Finance (U.S.), TD Wealth (U.S.) and TD's investment in TD Ameritrade
- **Wholesale Banking** including TD Securities
- TD had CDN\$945 billion in assets on October 31, 2014. TD also ranks among the world's leading online financial services firms, with approximately **9.4 million active online and mobile customers**. The Toronto-Dominion Bank trades on the Toronto and New York stock exchanges under the symbol "TD".
- The Toronto-Dominion Bank is a chartered bank subject to the provisions of the *Bank Act* (Canada). It was formed on February 1, 1955 through the amalgamation of The Bank of Toronto, chartered in 1855, and The Dominion Bank, chartered in 1869.



TD Strategic Sourcing Group & Mission



- ✓ ~ 200 SSG Employees / +10 NA locations
- ✓ Global mandate
- ✓ Strategic Sourcing
- ✓ Supplier Risk and Performance Management
- ✓ Procurement Corporate Responsibility
- ✓ Procurement Infrastructure
- ✓ Enterprise procurement tools
- ✓ +20,000 Active Suppliers
- ✓ ~\$5.7 Billion Sourceable Spend

Collaborating with our business partners,
create sustainable competitive advantage for TD Bank Group
by optimizing the value of all third party spend and key suppliers to meet needs,
reduce total cost and
mitigate supply-related risks

Drivers of Strong Supplier Risk Management

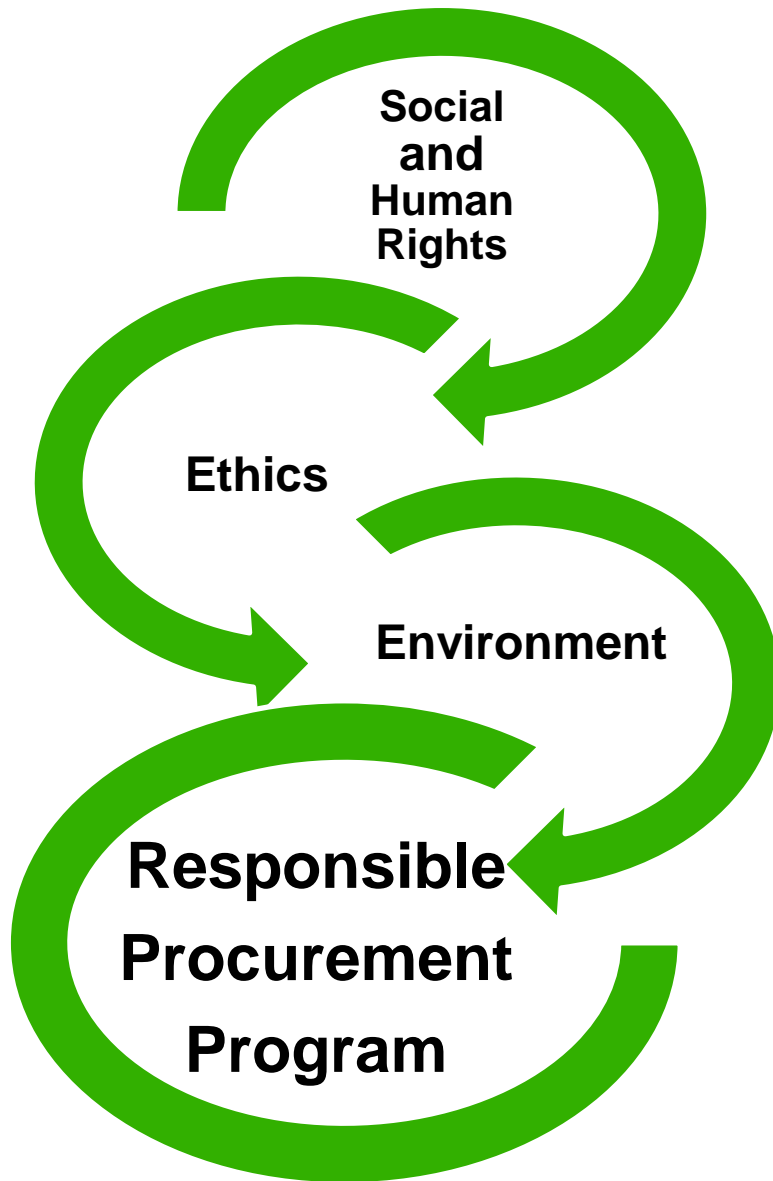


Internal

- ☐ Supports our mission to ***deliver legendary customer experiences***
- ☐ Aligned with our risk appetite where ***we only take risks we can understand and manage***
- ☐ ***Impacts Bottom Line*** and our profitability

External

- ☐ Regulatory
 - *Office of the Controller of the Currency (OCC)*
 - *Office of the Superintendent of Financial Institutions (OSFI)*
 - *Consumer Financial Protection Bureau (CFPB)*
- ☐ Competitors
 - *Those who do it well have a competitive advantage*
- ☐ Customers/Shareholders
 - *They expect that this is done well*



Supplier Diversity Program



Changing Landscape> expanding footprint, supply chain complexity

Evolving Risk Environment> regulatory, reputational

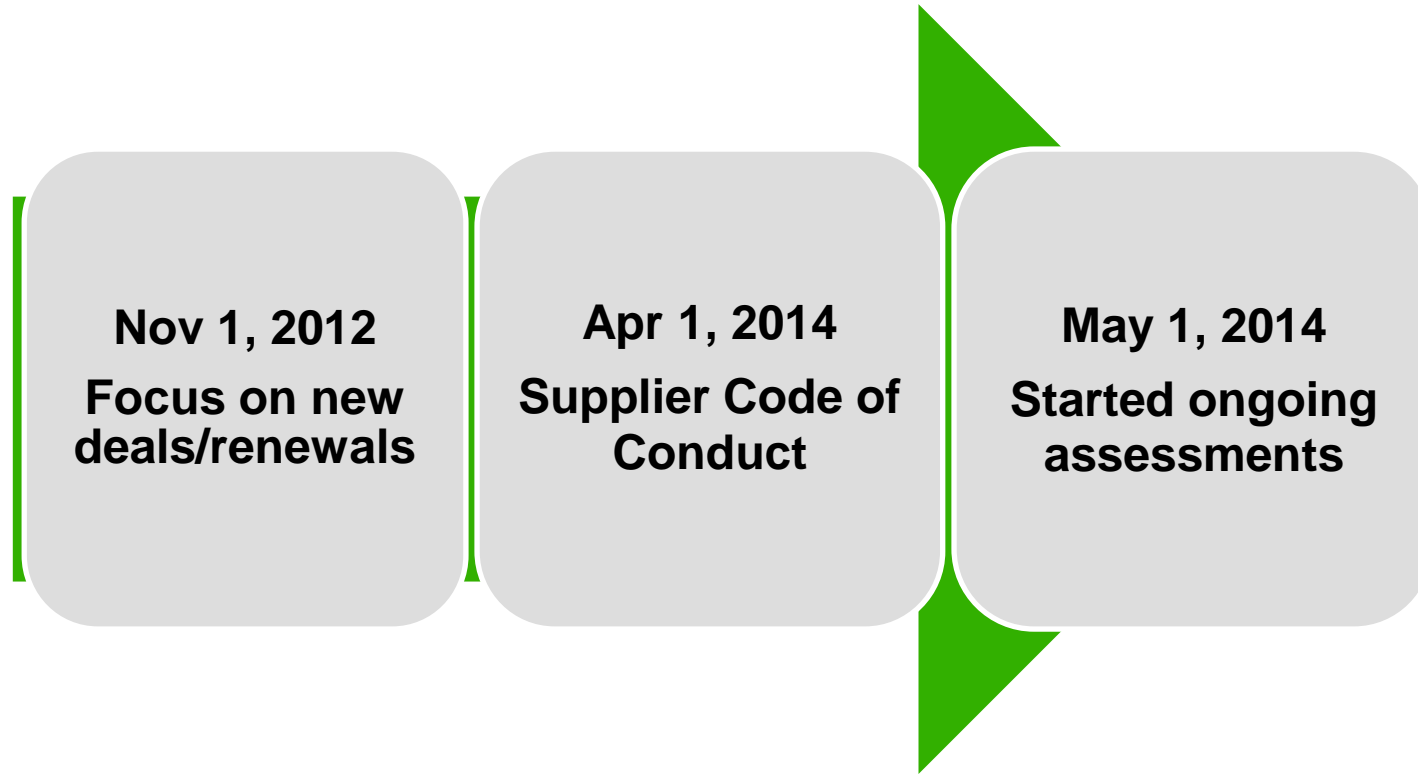
Focused Development

Responsible Procurement Policy: Initial Scope



- For new deals, renewals, extensions and single sourcing where Strategic Sourcing is involved, a Responsible Procurement Questionnaire (RPQ) must be filled out by all prospective suppliers to provide information about their policies and practices on
 - ☐ Corporate responsibility performance
 - ☐ Health and Safety policies and performance
 - ☐ Human rights and labour practices
 - including effective abolition of child and forced labour;
 - Anti discrimination
 - Diversity and inclusion
 - ☐ Code of conduct and ethics
 - ☐ Anti-bribery, anti-corruption
 - ☐ Environmental sustainability efforts
- Depending upon the product or service being sourced, additional questions and scrutiny may be required
 - ☐ risk matrix approach considers the social, ethical and environmental risks inherent in the commodity, industry, geographic location etc.
 - ☐ increased scrutiny as suppliers move through to final selection

Responsible Procurement Program: Being Better



Risk based approach > spend, industry and geography

Evaluation methodology advanced > operations, products and services

Embedded Responsible Procurement

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Suppliers with improved Human & Labor rights policies and procedures (including anti-discrimination, Child & Forced Labor)

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Suppliers with improved Health & Safety policies & procedures

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Suppliers would not participate

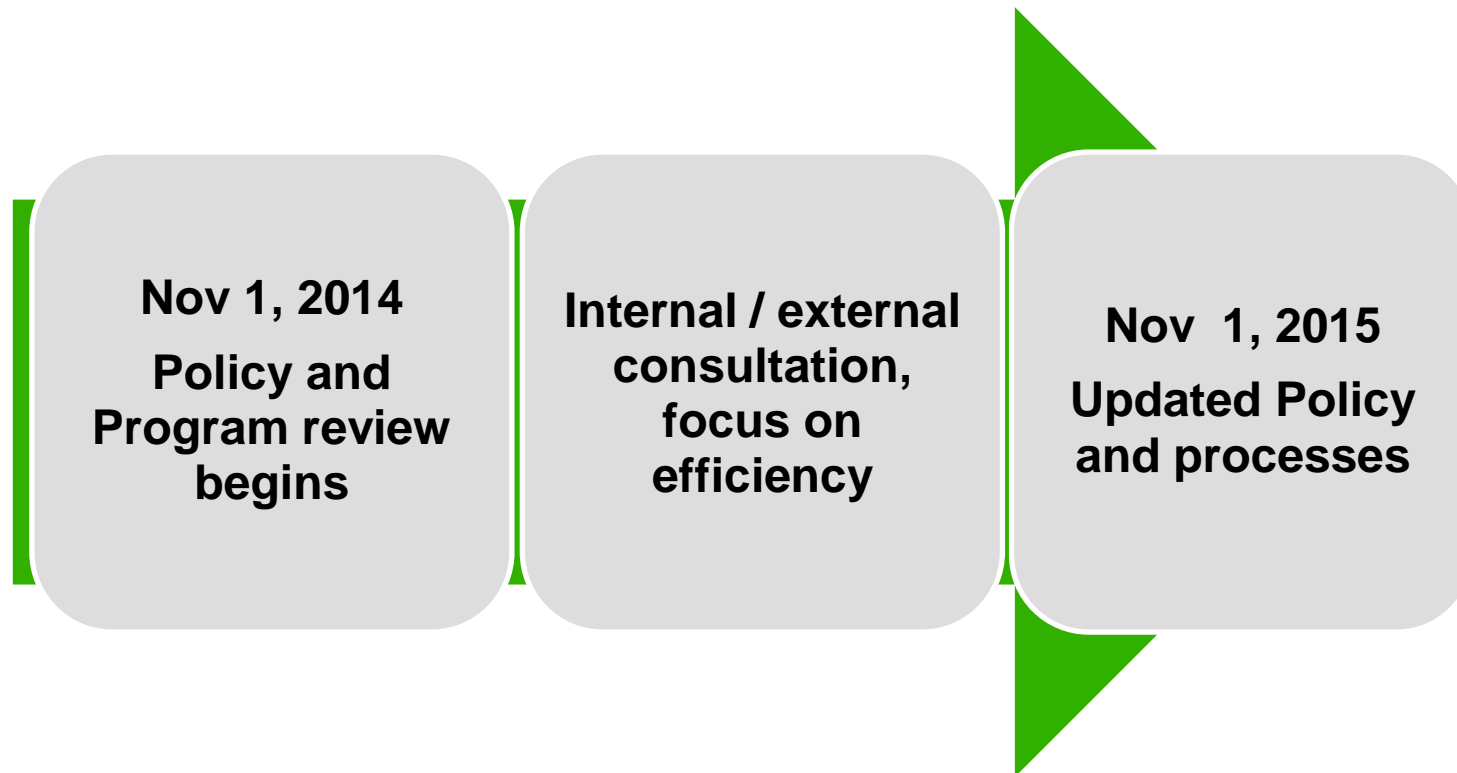
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Suppliers with improved Environmental policies and procedures

7

Suppliers with improved Ethical policies and procedures

Responsible Procurement Program: What's Ahead



Confirm Risk based approach > spend, industry, geography

Enhance methodologies > operations, products, services

Entrenched Responsible Procurement

THE LATEST DEVELOPMENTS IN LABOR, EMPLOYMENT, AND OCCUPATIONAL SAFETY & HEALTH



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THE RISE OF GLOBAL WORKER ADVOCACY GROUPS (WAGS)

- “Auditing” for local law compliance
- **But** for WAGs, local law compliance is not good enough – they will typically seek compliance with U.S., other western or “global” labor standards
 - Creates cultural issues
 - Impact on competitiveness
- Common topics for WAGs
 - Union Organizing
 - Collective Bargaining
 - Wage/Hour
 - Benefits
 - Discrimination/Harassment
 - Occupational Safety & Health

THE RISE OF WAGs

Tactics

- Pressure *up* the supply chain
- Public demonstrations
- Social media
- Traditional media
- Legal action



IN THE U.S.: ACHIEVING DIVERSITY IN THE SUPPLY CHAIN WITHOUT DISCRIMINATION



- Goals v. Quotas
- Potential reverse discrimination claims
- The future of affirmative action plans

OCCUPATIONAL SAFETY & HEALTH

Hottest Issues

- Machine guarding
- LOTO
- Fire safety
- Chemical exposures
- PPE
- General safe (or unsafe) working conditions
- Earthquakes, floods, etc.
- Workplace violence



OCCUPATIONAL SAFETY & HEALTH

- The Latest News: GHS for HazCOM
 - Automatically changes chemical information disclosure (labels and SDS) and it makes such disclosure more uniform
 - Easier to audit supply chain
- Protection against catastrophic disruption in the supply chain: facility failure, natural disasters, pandemics, violence (internal, external, terrorism, civil unrest)

DEVELOPMENTS IN LEGISLATION – THE VIEW FROM CALIFORNIA

CTSCA (California Transparency in Supply Chains Act)

- Signed into law in 2010, compliance required by January 1, 2012, but we are only really now starting to see pressure to comply (public shaming)/enforcement ramp up
- Covers retailers and manufacturers with 100 million or more in annual worldwide gross receipts



DEVELOPMENTS IN LEGISLATION – THE VIEW FROM CALIFORNIA

On its face it is a website disclosure law, requiring companies to disclose what they are doing (or not doing) with supply chain risks of human trafficking and slavery in the following areas:

- Verification of supply chain risks
- Conduct of audits of product supply chains (and if audit was independent and unannounced)
- Certification by suppliers regarding materials in the products
- Internal accountability standards and procedures
- Training

DEVELOPMENTS IN LEGISLATION – THE VIEW FROM CALIFORNIA

- CTSCA has not really caught on quickly in other jurisdictions
- An interesting question as to what CTSCA progeny will look like – beyond website disclosures



DEVELOPMENTS IN LEGISLATION – THE VIEW FROM CALIFORNIA

California AB1897, effective Jan. 1, 2015

- Client employers now *jointly responsible* for the wage/hour and workers' compensation requirements of a staffing agency or labor contractor
- Client employers *cannot delegate* Cal/OSHA responsibilities to a staffing agency or labor contractor
- There are some exceptions, but the law is very confusing

Join in!
Questions and Comments



Joel Sutherland



Marcia Seymour



Jeff Tanenbaum



Art Stewart

Global Supply Chain Dynamics and the Changing Risk Management Agenda

Thanks to Today's Panelists!

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