

SUPPLY CHAIN TRANSPARENCY: A Shield For Your Brand

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Problem of Practice: There have been many crises – product recalls, negative publicity, regulatory scrutiny, etc. – that established brands have had to weather – and these naturally affect consumer perception. Recent research by Mollenkopf and team reveals an innovative way of brand stewardship during a crisis – being transparent about the sustainability of your supply chain.¹ Such transparency can help protect your brand and rebuild consumer trust if there is a negative event. For product managers and brand managers, this is good news. A practical question then arises – how much transparency is enough? Being transparent and communicating that to consumers requires management of energy and resources. Here is how to build trust through transparency – and the pitfalls to avoid



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IS TRANSPARENCY GOOD MARKETING?

Brands today not only need to deliver value to consumers, but also need to demonstrate that their products and services are sustainable. Why? Consumers today are willing to pay up to 10% more for products from companies that provide visibility into sustainable manufacturing and procurement practices: aka supply chain transparency (SCT).² And business have responded: From industries as diverse as hotels, packaged foods, apparel and automotive manufacturing, companies have increasingly built more sustainable supply chains and shared their sustainable practices with customers.

Take the case of outdoor apparel designer and retailer, Patagonia. It started the Footprint Chronicles initiative, which enables consumers to not only see Patagonia’s suppliers and factories that make its products, but also details about the operating and labour conditions of its vendors.³ Similarly, global beauty brand The Body Shop revamped its store design and website to demonstrate its commitment to sustainability.⁴ In both cases, consumers’ perception about the brands changed to ones that care about their values and commitment to environmental sustainability.

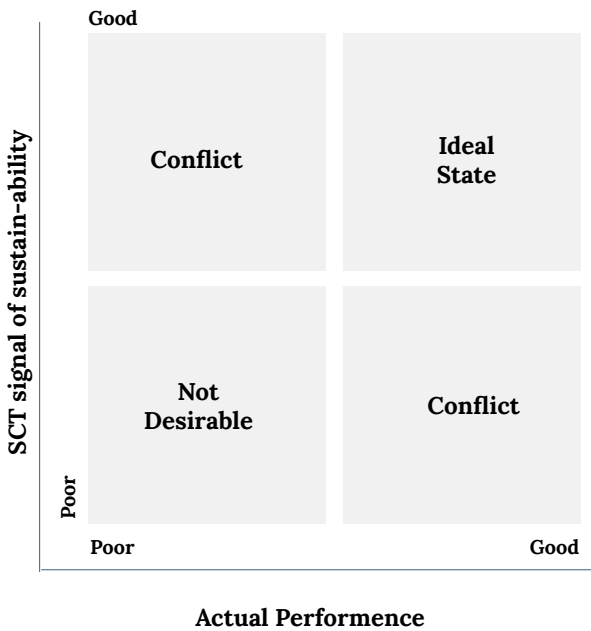
Many more brands now believe that publicising their sustainability efforts gave a positive signal to their consumers. As per the study, SCT goes beyond pulling customers in the front door; it also helps brands rebound from a negative event like a product recall, temporary ban, or news of regulatory scrutiny. Specifically, the research team studied what happens when consumers are exposed to mixed signals about a brand – the negative signal of a product recall, along with the positive signals provided by the company of sustainable supply chain practices. They found that the positive signal significantly helped a brand bounce back from negative publicity.

TRUST REQUIRES TRUTH

Bouncing back from a negative signal is tough, even for a well-established brand. In 2021, IKEA, a global name in furniture retail, which prides itself for its ethical wood-sourcing initiatives and certifications, was linked to the illegal sourcing of Russian wood by Earthsight, a watchdog for the environment.⁵ When IKEA attempted to mitigate the impact of Earthsight’s finding, its efforts were received with distaste.⁶

The mix of positive and negative signals were conflicting, a classic example of incongruent signalling. One of the main concerns for the public was, “Does IKEA have sustainable and safe supply chains, as it claims?” Conflicting signals create ambiguity for customers in understanding product quality and impacted making purchase decisions.

So, how could IKEA have recovered trust after the negative signal of illegal wood sourcing? According to the research (summarized in Figure 1) if the company had continued to send a positive signal of high SCT, it could have had a favourable effect on consumer perception. The research shows that consumers have a favourable impression when a company acknowledges its failure and makes efforts to improve its supply chain quality and sustainability, even if it may fall short in its efforts sometimes.



In contrast, Starbucks, a global chain of coffeehouses, is an example of how a consistently positive signal of high transparency can dampen negative signals in consumers’ minds. The international coffee chain runs a 'Bean Traceability' program, which allows customers to trace the origin and journey of their drinks.⁷ This tells consumers that the brand aims for strict inventory and quality control. Product recalls during three consecutive years (2021, 2022,

and 2023) have done little to damage the brand’s overall reputation.⁸

HOW MUCH TRANSPARENCY IS ENOUGH?

Besides transmitting consistent messaging around the sustainable practices of the brand, the question arises – how much transparency is enough? The research found that having some (even if low) level of transparency significantly helps in mitigating the effects of a product recall. Consumer perceptions about the sustainability of the brand recover to prior levels, as long as a history of effective messaging was in place, and continued during and after the negative event. This is of practical relevance during management of a brand in crisis; it is all too easy to put aside business-as-usual and focus just on fire-fighting. The research suggests otherwise – maintenance of the positive signals matters – for all levels of SCT.

The next question – especially for brands that are not immediately associated with sustainable supply chains – is how to develop adequate SCT? There are multiple methods to build SCT, but all of them share certain core principles. First, identify the supply chain risks and set goals for mitigating them. A good way to do this is to visualise your supply chains like VF Corp, a shoe brand, which prepared a map of the supply chain for its Vans Checkerboard Slip-Ons to visualize the flow of materials, suppliers across multiple levels and process frameworks involved.⁹

The next step is to collect actionable information and engage with the stakeholders across the supply chain. For instance, the retail giant Walmart actively collects and analyses data from its suppliers to ensure compliance with sustainability and quality standards, thereby improving its inventory control.¹⁰

Finally, clearly convey these efforts to your consumers through tailored branding and marketing programmes like the beverage company EVIAN, which adopted SCT messaging

In 2015, regulators in India reported that some samples of Maggi noodles contained excessive levels of lead and monosodium glutamate, a flavour booster. This caused market share in the Indian instant noodle market to drop to 42% in June from a commanding 77% in January 2015. Adopting the above model of SCT initiatives, Nestlé relaunched Maggi and recaptured 60% of the market share by the end of 2018

as part of their packaging.¹¹ Others like Adidas – a global brand in sports apparel and shoes – have online programs such as the ‘Open Source’ initiative that lets customers trace the materials used in thier products.¹²

Technology has been and will remain a crucial tool for SCT. Compliance across the supply chain can be monitored and tracing efforts can be effectively undertaken using mobile technology and artificial intelligence. Consider the example of the packaged foods giant Nestlé, which uses blockchain technology to allow consumers to dissect and visualise supply chain information.¹³ This helped the company maintain its brand reputation worldwide despite major product recalls in 2015¹⁴ and 2021.¹⁵

Today, customers can access a wealth of information from multiple sources with just a few clicks. This gives companies the opportunity to inform customers of their efforts at sustainability – helping not only their upfront sales but also protecting their brand against any mishaps. It is important to remember that SCT should not be used as a band-aid during a crisis; nor should it be used as greenwashing. Instead, SCT should be viewed as an ongoing program that adds to a repository of trust – acting as a buffer during hard times, and beyond.

RREFERENCE:

¹ Featured in the March 2022 issue of the Journal of Operations Management; authors Diane Mollenkopf, Simone Peinkofer, and Yu Chu identified in their article: “Supply chain transparency: Consumer reactions to incongruent signals”, that transparent communication on supply chain sustainability has a positive impact on consumers’ trust in a product, even in the face of a product

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