Harnessing ESG Data for MDM: A Strategic Advantage

pivotree™ | STIBO SYSTEMS
MASTER DATA MANAGEMENT

Introduction

As consumers, investors, and governments increase their focus on corporations' environment, social, and governance (ESG) practices, the demand for disclosure of ESG-related metrics in financial reporting has grown exponentially. ESG data can significantly impact brand perception and marketing ventures in addition to meeting regulatory requirements. ESG data is directly linked to Corporate Social Responsibility (CSR) initiatives and intrinsically provides value in how corporations impact the environment, communities, and individuals at a local and global scale.

As more governments negotiate legislation around sustainability reporting, companies must adapt to the shifting landscape to maintain a strategic advantage. Clearly, there is a growing demand globally for ESG disclosure. Our goal in this paper is to define ESG data, explore how to identify relevant ESG metrics, and discover the benefits of mastering ESG data in MDM.

The International Financial Reporting Standards foundation (IFRS) provides a single, universally accepted set of accounting standards for financial disclosure. In 2021, their Sustainable Finance task Force, IOSCO, released a report indicating that the current state of sustainability disclosure is inadequate for investors. This led to the creation of the International Sustainability Standards Board (ISSB) under governance of the IFRS. In May 2022, the SEC filed a proposal to enforce reporting standards based on the recommendations of the ISSB: The Enhancement and Standardization of Climate-Related Disclosures for Investors.[1]

The EU has released a similar proposal for corporate sustainability reporting.[2]

New Zealand, the UK, and Japan have already announced that they will require public companies to report in accordance with the final report from the Task Force for Climate-related Financial Disclosure (TCFD)

> ESG data can significantly impact brand perception and marketing ventures in addition to meeting regulatory requirements.

What is ESG Data?

From carbon reporting and sustainable packaging materials to pay equity and representation in leadership to privacy compliance for customers — these are just a few metrics that can be quantized in ESG reporting. A multitude of standards exists for ESG disclosure. A non-exhaustive list includes:

- United Nations Global Compact
- International Financial Reporting Standards
- EcoVadis
- GS1
- TCFD (Task Force on Climate-Related Financial Disclosure)
- GRI (Global Reporting Initiative)
- Global Plastic Action Partnership
- Global Recycled Standard
- Dow Jones Sustainability Index

Organizations like GRI provide sets of standards broken down by industry (e.g., coal, oil, gas, agriculture, aquaculture, and fishing), as well as governance reporting standards such as anti-corruption, occupational health and safety, and tax. Not all ESG standards and assessments are relevant for every busines. Different criteria may apply depending on the industry, business model (retailer, wholesaler, distributor, manufacturer), or geographic location. It's crucial that an ESG governance organization be established within the company and a framework put in place to identify standards and assessments that will aid in meeting the company's disclosure requirements and goals.

Dynamic global supply chains mean products contain raw materials and parts sourced from factories worldwide. ESG data can track environmental and labor practices in a complex environment at different points and levels of the supply chain: Supplier, manufacturer, factory, and ship-point. Individual products can also be assessed against standards.

The global fashion industry contributes to 10% of global CO_2, and grocery retail accounts for 2% of all electricity use worldwide. These are just two examples of the far-reaching environmental impact of retail operations.[3,4]
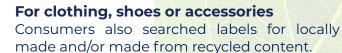
Sustainability Practices Influence Purchase Decisions

Consumers often assess an organization's commitment to sustainability by reviewing the labels, designations and other information on packaging. According to a Gartner Consumer Priorities Survey in 2022[5], 75% of consumers who had purchased a sustainable or eco-friendly product said they had looked at the sustainability information on the product's packaging, making it the most important factor influencing their decision.

For food or beverage products
Consumers are more likely to examine labels to see if those items are organic, recyclable and/or locally made than to look for other sustainability attributes.

For clothing, shoes or accessories
Consumers also searched labels for locally made and/or made from recycled content.

For beauty, grooming and personal care products
Consumers searched for green or eco-friendly products, which refer to products that are good for the environment. Consumers also looked for refillable or reusable products on labels and packaging.

ESG in MDM

Managing ESG in MDM involves more than simply moving data into a software system. ESG data management requires organizational support and commitment to create a sustainability oversight group within the company. A transparent chain of ownership needs to be designed with data stewards specializing in ESG and disclosure information.

The relationship between a company and its suppliers is paramount to success in retail and distribution. Gaps in supplier data, or data errors, can enact a serious financial toll in daily business operations.

MDM focuses on creating a single source of truth for multi-domain business-critical data and therefore, it's the perfect location to store supplier data. Supplier MDM enables an organization to track vendor company information through complex relationships between data points (parent companies, subsidiaries, ship points, factories, contacts, addresses, etc.). Supplier MDM provides a simplified system for onboarding, managing, and governing supplier master data. Vendor ESG naturally fits into this framework as it relates to sourcing products, base parts, and raw materials.

Business teams can manage and update supplier data directly in MDM. Data stewardship allows the organization to correct bad supplier data easily through a robust user interface. Data quality tools can be used to identify, quantify, and assess missing or low-quality data through completeness scoring and sophisticated business logic. Having a single location to master supplier records reduces effort across the organization.

True multi-domain Master MDM isn't just the independent storage and mastering of multiple data domains such as supplier, B2B or B2C customer, or location. It necessarily involves the co-relationship of multiple domains of master data. Vendor, product, and customer data can not only exist in the same system but they can be related together to deliver a complete 360-degree view of product data from supply-side to sell-side. The synthesis of multiple domains enables teams to assess gaps in the supply chain more quickly and reduces cross-platform effort in managing and fixing data errors.

Large-scale enterprises often have multiple ERPs or supplier onboarding platforms containing duplicated data due to incremental acquisitions. MDM can assist with aggregating and deduplicating supplier data to ease the transition to a single, unified business organization. As the single source of truth for supplier data, it can also function as a hub for communication of supplier data throughout the organization to disparate business platforms.

MDM's role in aggregating, mastering, governing, and distributing supplier data naturally makes it the ideal location to store ESG assessment and disclosure information.

> MDM is the perfect location to store supplier and vendor data as well as ESG assessment and disclosure information

Supplier MDM Helps Manage Risk

Suppliers' lack of transparency or non-compliance can lead to brand or reputational risk and financial damage. This is why supplier risk assessment is a central focus of Supplier MDM.

The ESG/sustainability framework in MDM is independently compatible with multiple verticals including Product and Vendor natively. Still, it can expand to include additional verticals depending on the demand for disclosure. Once assessments and certifications have been identified from the selected standards organization(s), they can be created directly in MDM using the prescribed model. Assessments are built up from a collection of criteria that can give a pass or fail result. These can be summed to produce a pass/fail result for the assessment in its entirety based on criteria weightings.

Product assessments can be created to evaluate products against a selected standard. For example:

- Fairtrade Textile Standard
- bluesign® PRODUCT
- Forest Stewardship Council
- Circular Product Data Protocol
- Global Recycled Standard

Lifecycle assessments can be used to track inputs (raw materials, parts) and outputs (water, electricity, CO_2) throughout the entire lifecycle of a product, from fabrication to retirement. Parts and raw materials that make up the bill of materials can also have their inputs and outputs tracked recursively to render the net environmental impact.

Supplier assessments can be used to track the compliance of business partners with a selected standard. These may include:

- EcoVadis
- Fairtrade Factory
- CSRHub
- CDP

A library of assessments can be compiled over time using the sustainability model. Assessments can help generate trust scores and various ratings for vendors for internal reporting and disclosure.

Product
Assessments

Lifecycle
Assessments

Supplier
Assessments

Practical ESG Goals for CPG and Retail Companies

Adapted from *Keys to CPG Growth: Digitalization and Sustainability*, a Stibo Systems publication

CPGs and Retailers are realizing an immediate market need to accelerate their sustainability strategies and provide data transparency of sustainability goal achievement to their stakeholders.

Review your vision and take a stand for sustainability

While most CPG and Retail companies already have had sustainable goals such as recycled packaging content and becoming more energy efficient, they are being compelled to lead more in this effort and take more aggressive goals that make a difference. Goals that were made five years ago may no longer be relevant, compelling, or important to stakeholders and don't reflect the urgency of ESG improvements. How should organizations proceed with all these challenges?

Define a long-term set of ESG goals and where you as a brand can make the biggest impact. For example, beverage companies with plastic containers may have more of an impact on plastics and reducing plastics which will reduce waste in the ocean. Meanwhile coffee and tea brands may have more of an impact supporting organic and fair-trade harvesting to positively impact the original farmers around the world. Strategic choices will have to be made to tie to your brand's ethos while making a difference.

Align corporate and brand go-to-market strategies by integrating your key goals and tactics, such as: building loyalty among new generations, making brands more purposeful for existing customers, innovating with products that are better for the health of your customers and the world, supporting specific consumer groups, etc.

Partnership in your ecosystem is important because no brand is an island and by understanding what is important to your consumers, employees, retail partners, suppliers, communities, and associations, you can make sure you deliver value to your key stakeholders. By understanding not only what is important but also their specific goals, together you can accelerate the achievement of common goals.

Tying to digital strategy is important when considering ESG goals as investments are likely in place or planned in the CPG and Retail organization to connect better with consumers in digital channels, share data among partners and improve the efficiency of the operations. Adding the layer of ESG tactics and use cases and opportunities only enhances the ROI of the investments that have already been made in digital transformation strategy.

Building blocks are important because for a CPG or Retail company to deliver on ESG goals, work needs to be done differently. Alignment is required, and more data needs to be used and ultimately trusted. There is a growing number of sustainable rating companies that provide 3rd party reviews of supplier operations in a standardized way that can be used to evaluate and manage suppliers. What other technologies and business processes are needed to be developed to ensure that the company is communicating their goals to stakeholders and capturing progress?

Transparency and measurement are the elements of the successful end game for CPG companies. Only by using the collaborative workflows and governance around the data-specific KPIs tied to the original goals, will CPGs be able to measure the results and transparently share them with their partners, employees, and end consumers.

How Can Pivotree Help?

Data Strategy:
We help businesses develop actionable data strategies and practical roadmaps to boost revenues, improve performance, or enhance customer experience. We'll work with you to develop your business objectives and organization to processes, content, technology and governance.

PIM/MDM:
Pivotree implements market- leading Product Information Management (PIM) and Master Data Management (MDM) solutions that allow you to control every aspect of your master data. Ensuring accuracy, consistency, compliance and reduced time and costs, our MDM solutions power better business decisions and drive enhanced end consumer engagement.

Why Pivotree

Pivotree designs, builds, and manages frictionless commerce experiences for brands and their customers around the world. When customers trust they can find, buy and get the products they want, when and how they want — we call that experience frictionless commerce. And Pivotree is leading the way. As a global collective of talented people passionate about shaping the future of frictionless commerce, Pivotree provides end-to-end solutions and services in Commerce, Data Management, and Supply Chain for hundreds of brands worldwide.

Contact one of our experts for more information on how to master your ESG data.

salesinfo@pivotree.com
1-877-767-5577
www.pivotree.com

Author:
Richard Mackay
Solution Architect

Richard Mackay is a PIM/MDM Solution Architect with a passion for developing comprehensive enterprise software solutions. Richard started his career at Stibo Systems, delivering implementations for leading Retail, Manufacturer, and Distributor brands. At Pivotree he is focused on addressing gaps in data quality and governance processes for our customers.

[1] Proposed Rule: The Enhancement and Standardization of Climate-Related Disclosures for Investors

[2] DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting

[3] https://unfccc.int/news/un-helps-fashion-industry-shift-to-low-carbon

[4] https://www.weforum.org/agenda/2021/03/data-driven-action-through-iot-empowers-sustainability-in-food-retail/

[5] Product Sustainability Attributes That Matter to Consumers, Gartner, 15 December 2022, ID G00778085