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Consumer Industry

How ready are you for the CSDDD?

EU Due Diligence Legislation:

Impact on Procurement and Supply Chain Management & Steps to Compliance

Agenda

INVERTO conducted a holistic survey with 681 participants on the impact of national corporate sustainability due diligence legislations

Survey

- Study on the impact of **national corporate sustainability due diligence legislations**, and the new European directive (CSDDD) on Procurement and Supply Chain Management: Are companies aware and prepared?
- Data collected by Verian from 10/11/2023 - 03/12/2023
- Online survey with **21 questions**

Sample

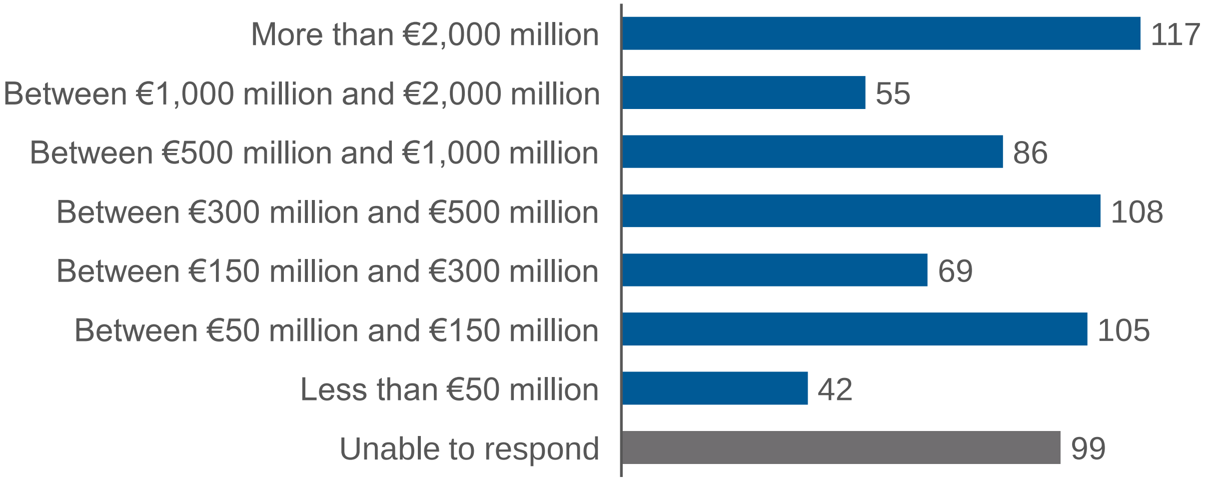
- Managing directors, board members, managers and other persons with procurement/supply chain responsibility in companies with **more than 500 employees**
- **681 respondents**, 351 from France and 330 from Germany exemplary for EU member states
- **Thereof 117 respondents from the Consumer industry**

Collecting and processing of data

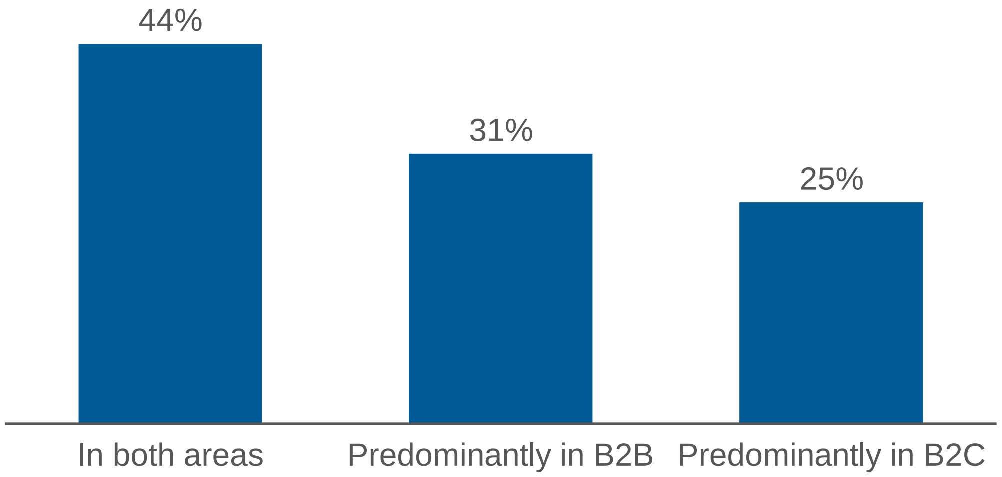
- The data was processed with the following filter on "Sectors" to assess "consumer-focused businesses":
  - **Consumer goods**
  - **Retail**
  - **Textile and luxury goods**
  - **Hotel & Catering**
  - **Leisure**

Survey participants come from a diverse range of industries, with 17% working in the Consumer industry[1]

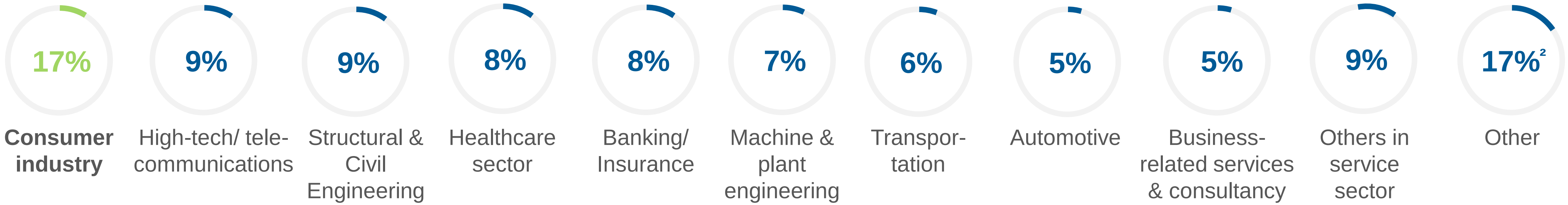
What was your company's annual turnover in 2022?



In which of these areas does your company operate?

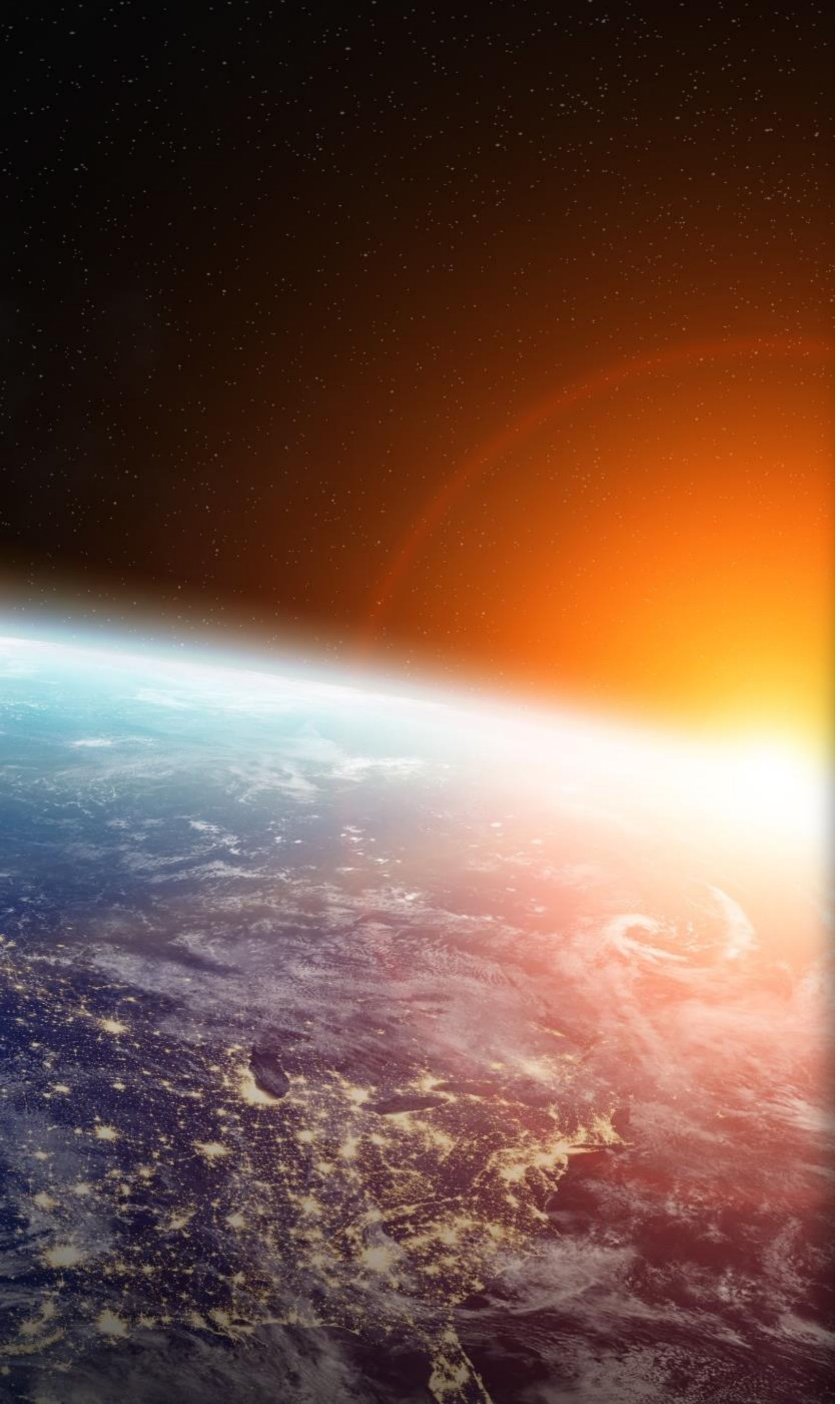


Which industry do you operate in?



[1]Consumer industry comprises: Consumer Goods, Retail, Hotel & Catering, Textiles & Luxury, Leisure
[2]Others: Services for private individuals, Pharmaceutical, Utilities, Aerospace/defense, Personnel services, Travel, other industrial sector, other commercial sector

Agenda



Due diligence as an obligation to promote human rights and environmental protection

- The European Corporate Sustainability Due Diligence Directive (CSDDD) complements the Corporate Sustainability Reporting Directive (CSRD) introduced in 2024
- The aim is to oblige companies to **monitor and minimize their negative impact on human rights and the environment**
- **The Directive enters into force on 25 July 2024** after its publication in the Official Journal of the European Union. Member States will have two years to transpose the Directive into national law and communicate the relevant texts to the Commission. One year later, the rules will start to apply to companies, with a gradual phase-in between 3 and 5 years after entry into force, i.e., July 2027 to July 2029

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The European Corporate Sustainable Due Diligence Directive is the result of more than 10 years of reflection

2013

April 24, 2013
Rana Plaza collapse in Bangladesh with 1,100 fatalities

2017

March 27, 2017
French law concerning the due diligence obligations of holding companies and contracting companies

2019

November 13, 2019
The Netherlands passes a law banning the provision of goods and services by child labor

2021

June/July 2021
Norway passes a law on due diligence

2023

January 1, 2023
German due diligence law takes effect

June 1, 2023
The European Parliament votes in favor of the CSDDD[1]

December 14, 2023
The European Parliament, the EU Council and Commission reach an agreement on the directives

2024

January 1, 2024
Entry into force of the CSRD[2] adopted by the European Parliament in 2022

May 24, 2024
CSDDD approved by member states

July 25, 2024
Entry into force of the CSDDD after being published in the Official Journal of the European Union

Trigger
Relevant legislation

[1] CSDDD: Corporate Sustainability Due Diligence Directive
[2] CSRD: Corporate Sustainability Reporting Directive

CSRD and CSDDD - two European directives to raise companies' awareness of their social responsibility

	CSRD: Commitment to transparency[1]	CSDDD: Due diligence (status July 2024)[2]
	CSRD establishes extra-financial reporting obligations to encourage corporate sustainability	The CSDDD establishes the legal responsibility of a company in cooperation with their direct suppliers, which includes the identification, prevention and mitigation of social and environmental impacts
Key data	Effective from: 01/01/2024 Vote: 2022	Effective from: 27/07/2026 - after 2 years time to transpose the Directive into national law. In-scope companies will be required to comply within a staggered timeline ranging from July 2027 to July 2029.
Companies	• Companies affected as of 01.01.2024: > 500 employees; turnover > € 40mn and € 20mn balance sheet total • Companies affected as of 01.01.2025: > 250 employees; turnover > € 40mn and € 20mn balance sheet total • Companies affected as of 01.01.2026: Listed SMEs except micro-enterprises	• *Three years after entry into force*: EU companies and parent companies > 5,000 employees; turnover (global or generated in the EU) > € 1.5bn • *Four years after entry into force*: EU companies and parent companies > 3,000 employees; turnover (global or generated in the EU) > € 900mn • *Five years after entry into force*: - EU companies and parent companies with > 1,000 employees; turnover (global or generated in the EU) > € 450mn - Franchise companies based in the EU with turnover > € 80mn if at least € 22.5mn generated through license fees (For non-European franchise companies, thresholds refer to turnover generated in the EU)
Parameters	Companies have to: • Provide detailed information on their environmental, social and, governance impacts • Publish reports on the risks and opportunities associated with these aspects • Use a standardized electronic reporting format	Companies have to: • Identify and manage impacts on human rights and the environment, including prevention, mitigation of potential risks and remediation of existing impacts • Establish grievance mechanisms, monitor the effectiveness of the measures and report transparently

[1] Source: https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en#legislation
[2] Source: https://eur-lex.europa.eu/

The directives require companies to introduce preventive and corrective measures to avoid possible sanctions

Companies are expected to take measures to fulfill their due diligence obligations

- **Incorporating** due diligence into corporate guidelines
- **Identification** of actual or potential negative impacts of its own activities and those of its subsidiaries on human rights and the environment
- **Avoiding or mitigating** potential impacts and stopping (or minimizing) actual impacts with action plans tailored to the company's activities, contract amendments, project-, investment- or management adjustments
- **Establishing and maintaining** a procedure for complaints and internal warnings
- **Ongoing review** of the effectiveness of security guidelines and measures
- **Public communication** about the Due Diligence Directive

Monitoring measures and sanctions in accordance with the CSDDD[1]

Each state is required to set up a national supervisory authority to monitor and investigate companies' compliance with the regulations, and to sanction companies.

- Inspections and investigations
- In the future, companies will be held accountable for damages caused by CSDDD violations
- Fines of up to 5% of a company's global net turnover

[1] Source: https://eur-lex.europa.eu/

The European CSDDD guidelines go beyond the guidelines of national regulations

Germany – Current regulations

1. Companies based in Germany as of 2023:
   - Number of employees > 3,000
2. Companies based in Germany as of 2024:
   - Number of employees > 1,000

France – Current regulations

1. Companies based in France:
   - Number of employees > 5,000
2. Foreign companies based in France:
   - Number of employees > 10,000

EU – New regulation (gradual phase-in from July 2027 – 2029)

- *Three years after entry into force*: EU companies and parent companies > 5,000 employees; turnover (global or generated in the EU) > € 1.5bn
- *Four years after entry into force*: EU companies and parent companies > 3,000 employees; turnover (global or generated in the EU) > € 900mn
- Five years after entry into force (from July 2029):
  - Companies in the EU and third-country companies operating in the European Union: > 1,000 employees; turnover > € 450mn
  - Franchise companies based in the EU; turnover > € 80mn if at least € 22.5mn generated through license fees
- Note: Temporary exclusion of the Financial sector from the scope of the Directive

Germany – Current parameters

- The companies' due diligence measures cover **the entire supply chain** - from raw materials to the final sales product
- The requirements are graded according to the company's size

France – Current parameters

Identify, assess, mitigate, alert and monitor risks within:
- Subsidiaries
- Subcontractors
- Suppliers

EU – New parameters: the activity chain

Identify, assess, prevent, mitigate, end, and remedy the negative impacts of its activities on people and the planet and on its partners, in particular with regard to:

- Production
- Procurement
- Transportation
- Warehousing
- Planning
- Distribution

The activity chain comprises the activities of the upstream and parts of the downstream value chain. In the downstream value chain, transportation, storage and distribution are only considered in direct business relationships, whereas the disposal of products is completely exempt from audits.

Agenda

Consumer companies are receptive to more stringent regulations, despite difficulties related to a lack of transparency and information

Consumer companies prioritize the financial performance of procurement (priority 1) ahead of ESG aspects (priority 4).

As the study shows, the main challenges faced by the Consumer industry over the past 3 years have been resolving supply bottlenecks and stock issues (56%), shortages in manpower (55%), raw material shortages (52%), and a lack of alternative suppliers (43%).

37% of respondents from the Consumer industry claim that they are not well informed about the current or new EU regulation. This lack of awareness is also shown by the 34% of respondents not knowing whether the current national legislation affects their company.

The results show a lack of sufficient knowledge and awareness on the regulations which is hindering the active implementation of the directive. This is also supported by 39% of respondents stating that they have not received adequate training on the CSDDD.

At least 80% of respondents feel that their company already has or is in the phase of implementing due diligence requirements. This is mainly driven by regulation (motivation 1), before corporate social responsibility (motivation 2) or consumer perception (motivation 3).

Actions taken include annual company reports, optimizing processes to assess and mitigate human rights and environmental risks and developing compliance policies. Nevertheless, for 30% of respondents, these actions are hindered by a lack of understanding of the regulation, and a lack of transparency in their supply chain.

In the long term, 74% of Consumer companies expect a positive impact regarding social and environmental responsibility from the EU directive.

However, 26% of Consumer respondents are concerned about a loss of competitiveness, which is slightly more than the average across other sectors. Nevertheless, companies are realistic about the need to invest in the short term to make this transformation a success.

Upgrading skills is the number one expectation of companies: through training, recruitment, and external expertise.

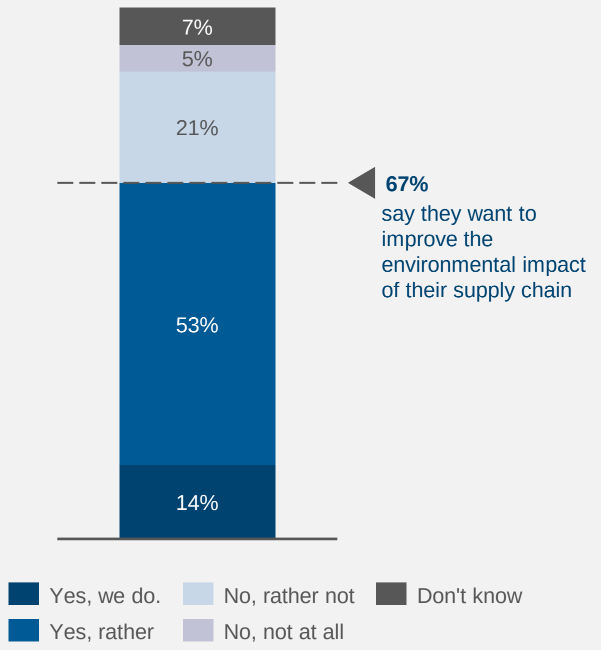
28% of respondents from the Consumer industry also report a need for better monitoring tools, and a need to closely work with external stakeholders (NGOs, investors…). Procurement and Supply Chain managers can act upstream and actively deploy supplier data monitoring to guarantee their ability to meet the CSDDD's criteria.

Agenda

While 67% of Consumer respondents want to improve the environmental and social impact of their supply chain, only 31% include it in their top 3 priorities

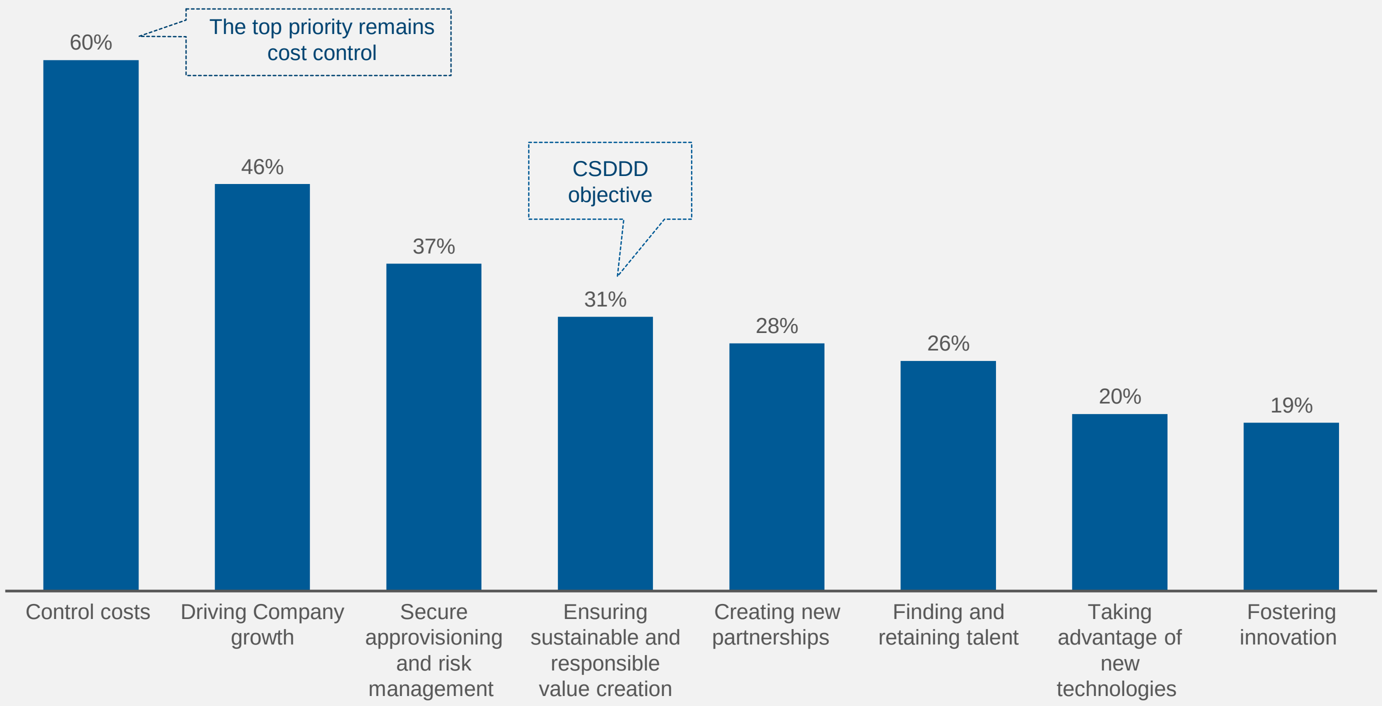
Topic awareness

Do you feel that improving your supply chain in terms of its environmental and societal impact is a priority?



Order of priority

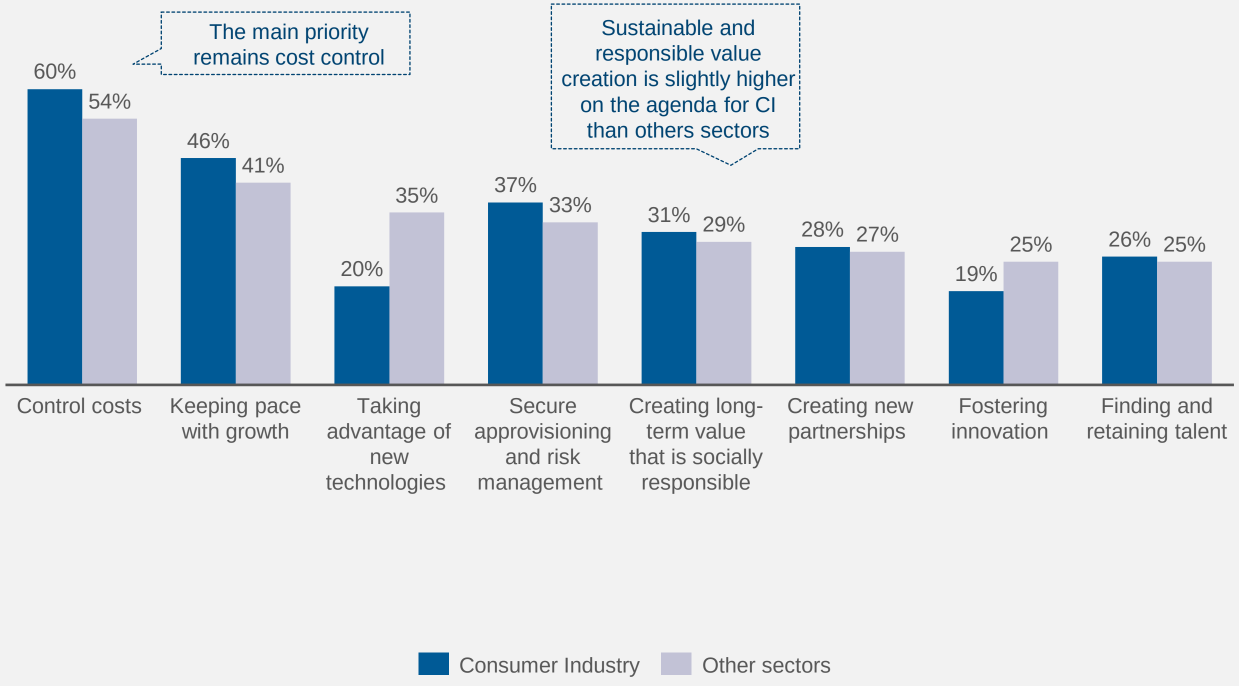
What are the top three purchasing priorities facing your company? (max. 3 choices)



In the Consumer industry, social responsibility is deemed as a medium priority, however companies' awareness of relevant legislation is 14% below average

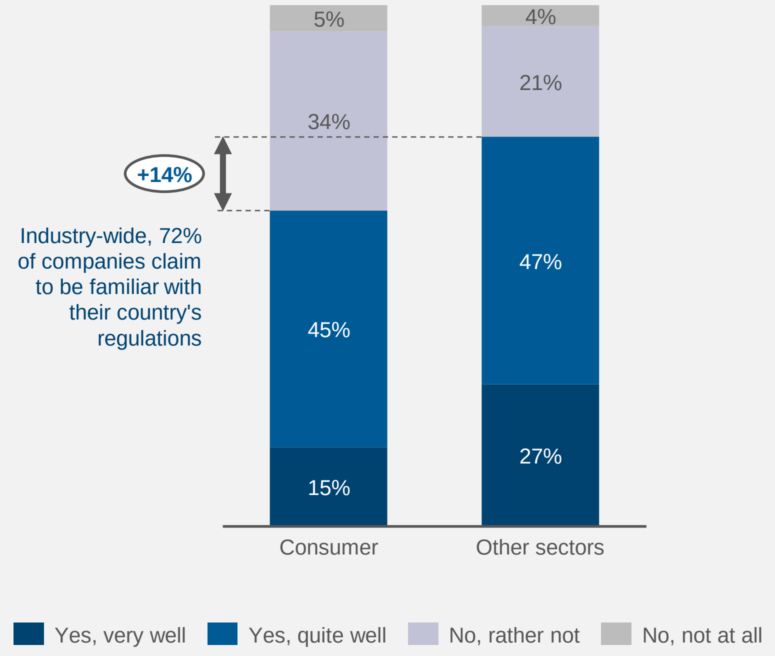
Priority ranking (Consumer vs. other sectors)

What are the top three procurement priorities your company is facing? (max. 3 choices)



Awareness of national regulations

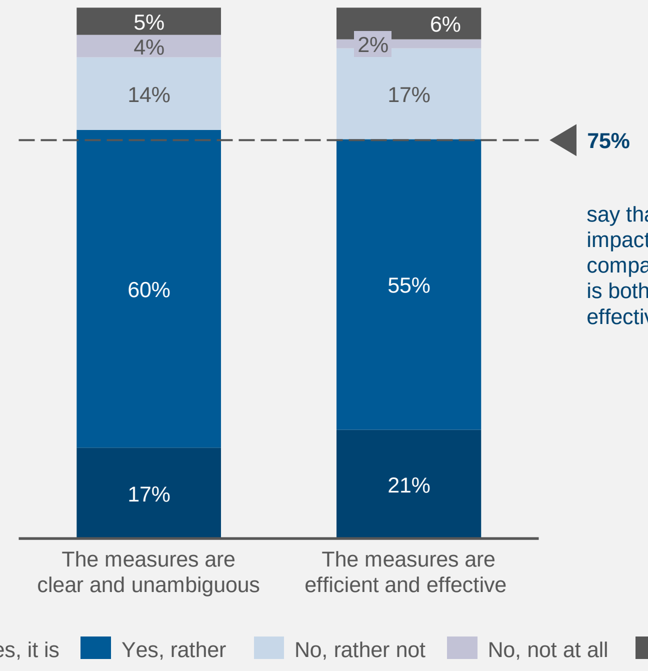
At your level, are you familiar with the national legislation already in place on duty of care?



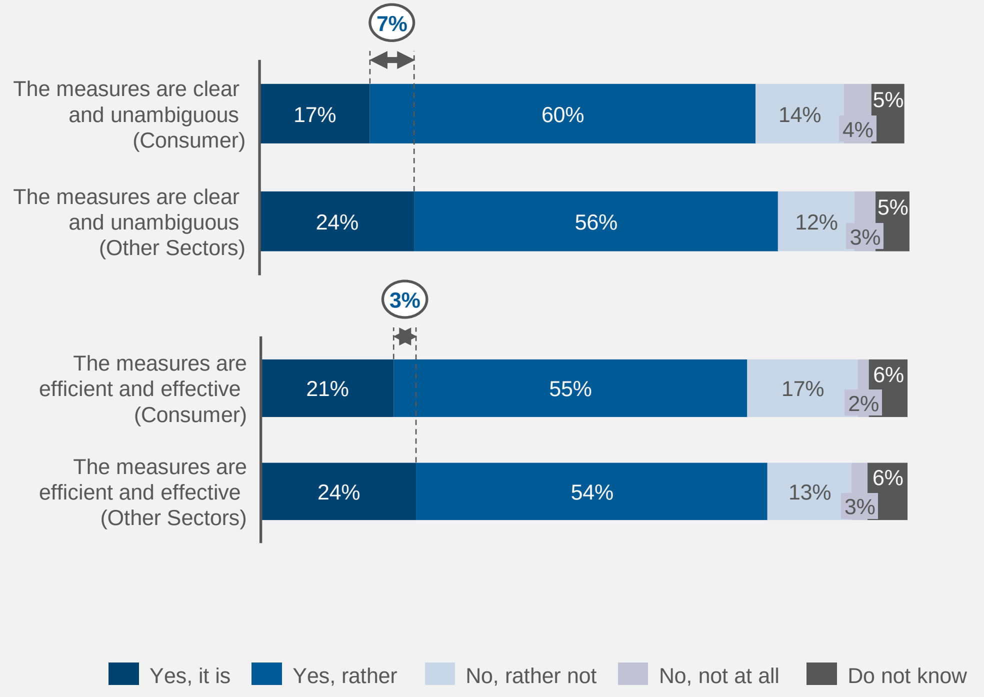
Employees from the consumer industry find their supply chain impact measures more ambiguous and less effective than average of other sectors

Perception of internal policy for managing and measuring supply chain impacts

What do you think of your company's policy for managing and measuring supply chain impacts?



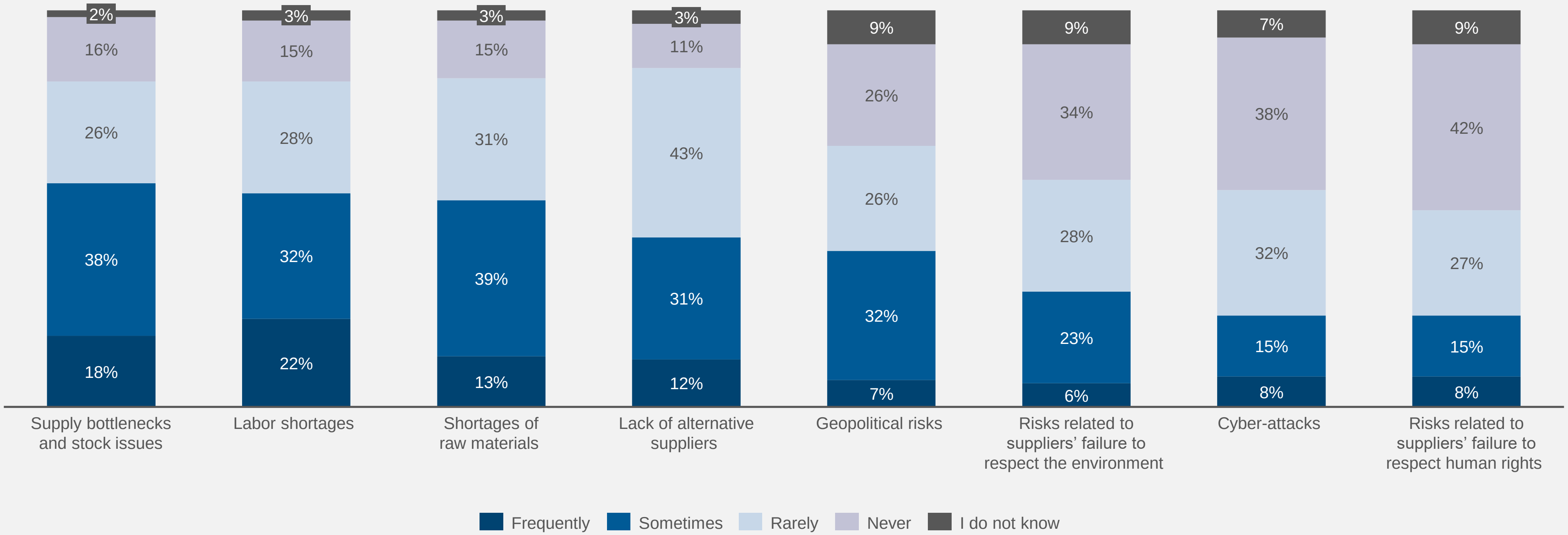
Focus: Consumer vs. average all sectors



Over the past 3 years, Consumer supply chains have been weakened by supply bottlenecks, shortages of labor and shortages of raw materials

Major supply chain weaknesses

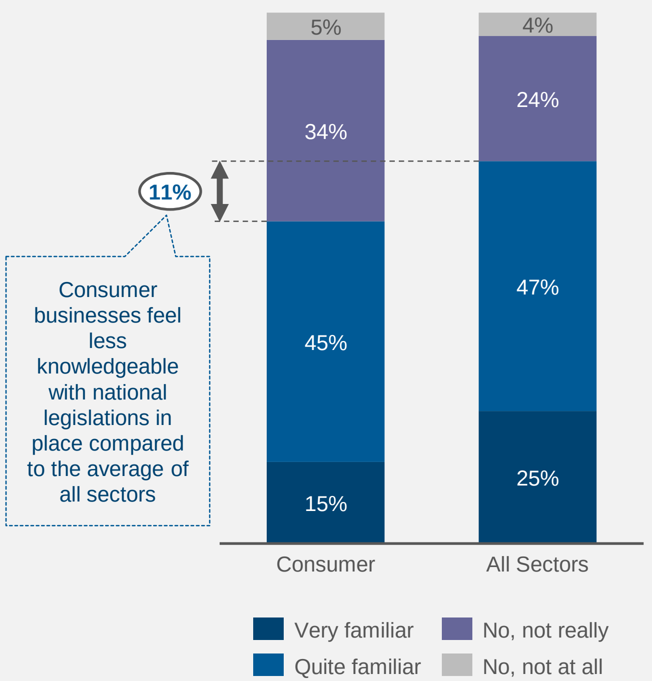
Over the past 3 years, has your supply chain been affected by the following risks and challenges?



Respondents from consumer businesses consider themselves less familiar with current legislation than all sectors’ average

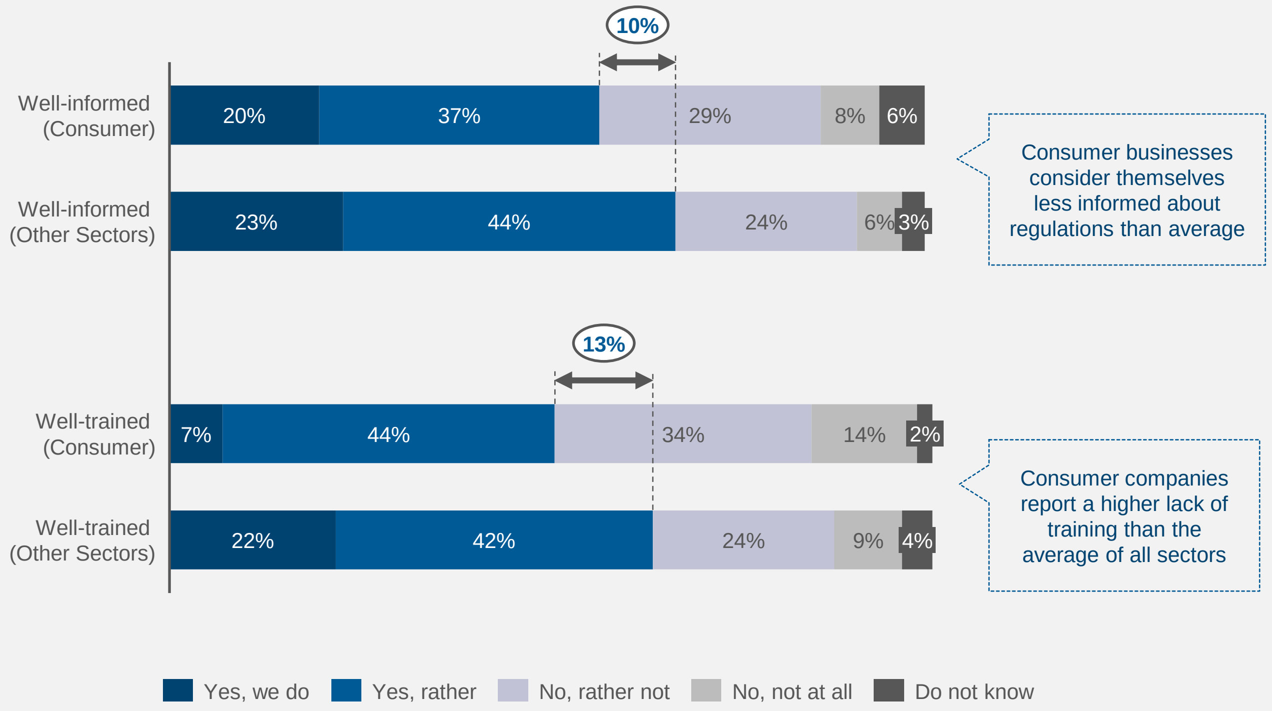
Awareness of current legislation

At your level, are you familiar with the national legislation already in force for due diligence?



Level of information on regulatory changes

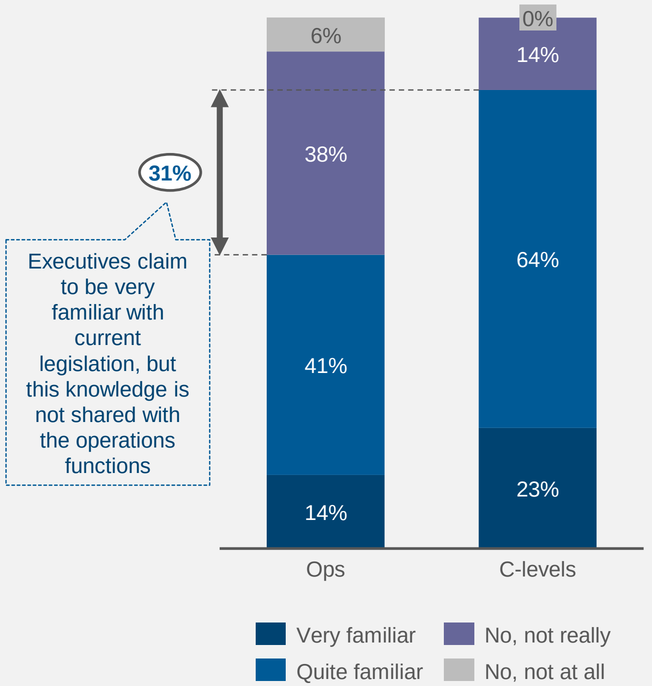
Concerning regulatory changes and developments related to due diligence, would you say that you feel:



C-Levels in consumer sector report a significantly higher awareness of current regulation and changes than operations functions

Awareness of current legislation

At your level, are you familiar with the national legislation already in force for due diligence?



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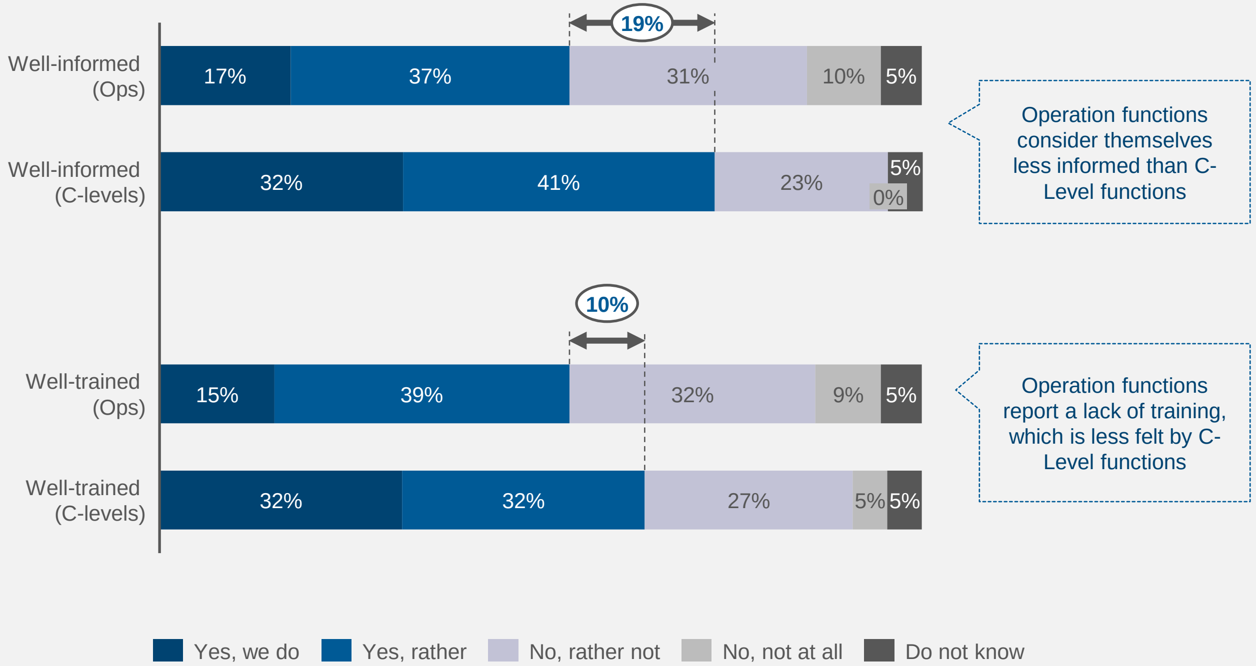
Concerning regulatory changes and developments related to due diligence, would you say that you feel:



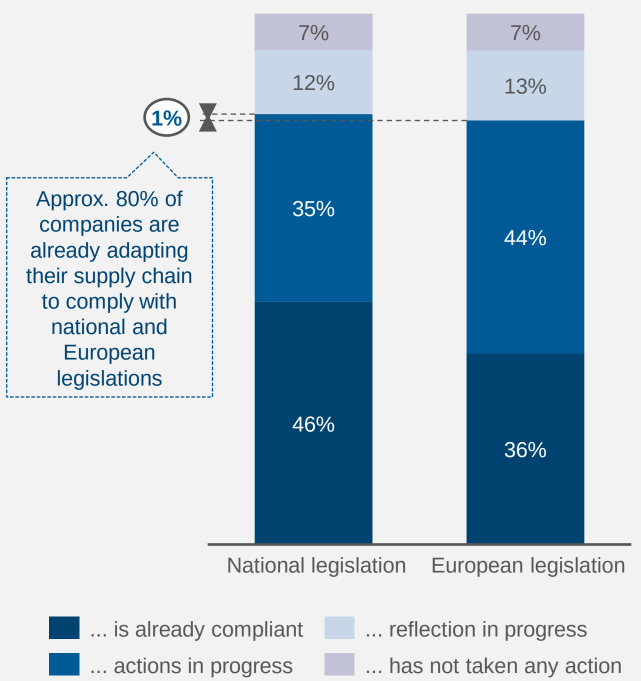
C-levels: CFO, COO, CPO, CEO
Ops: All employees except C-levels

Level of compliance with regulations | Consumer

Although 80% of Consumer companies are already adjusting their supply chains, 7% have not yet taken action, neither for national nor for European legislation

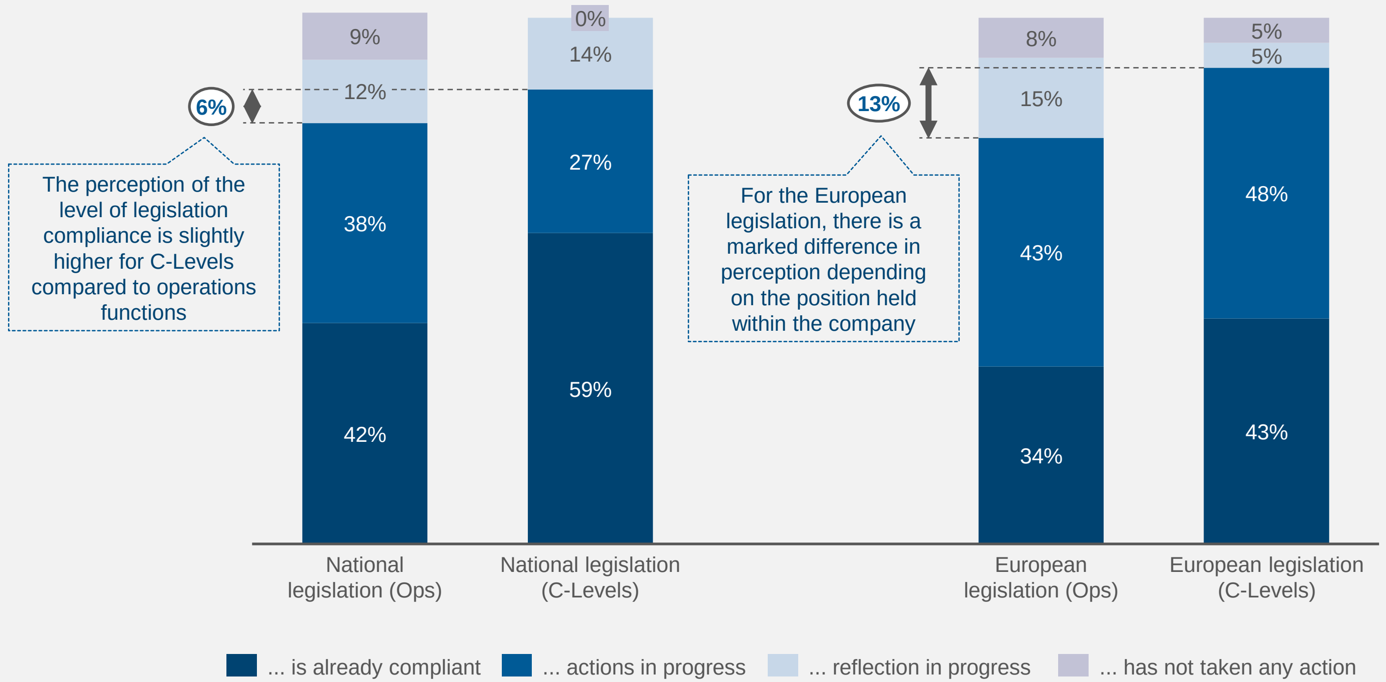
Perception of company preparedness for regulations

When it comes to adapting the supply chain to the duty of care, what type of situation your company encounters?



Perception of preparedness by position

When it comes to adapting the supply chain to duty of care, what type of situation your company encounters?

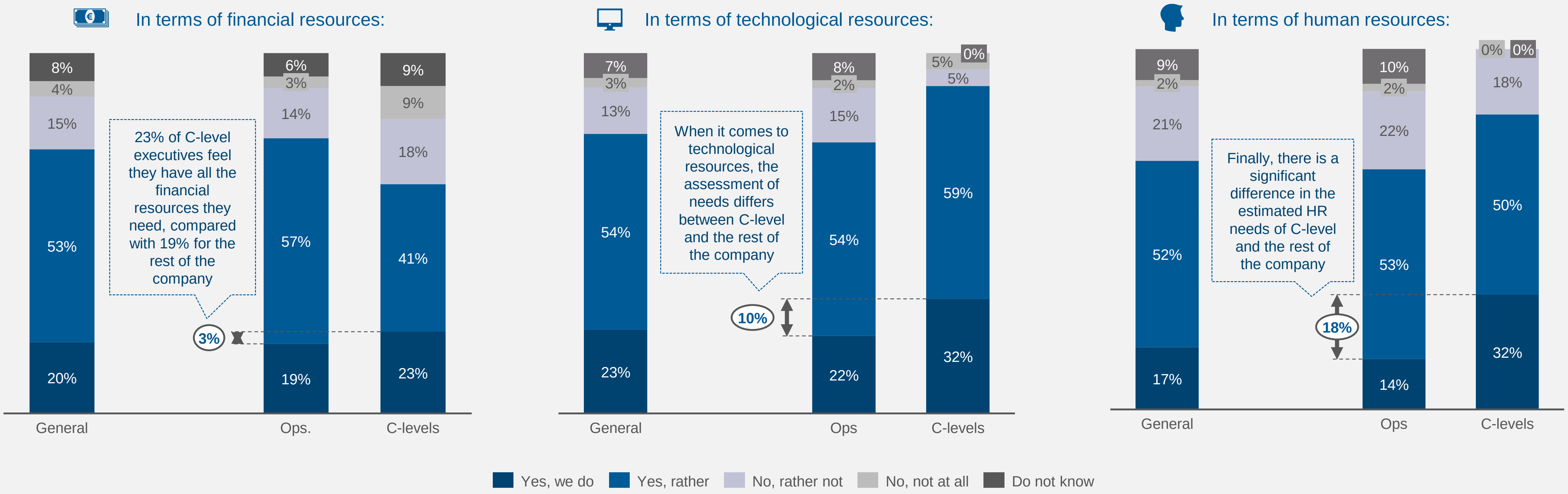


C-levels: CFO, COO, CPO, CEO
Ops: All employees except C-levels

Companies believe they have the tools they need to comply with regulations: Estimated HR requirements is the most divisive topic

Assessment of internal resources for compliance

Does your company have the needed resources to ensure compliance with the new EU regulations?

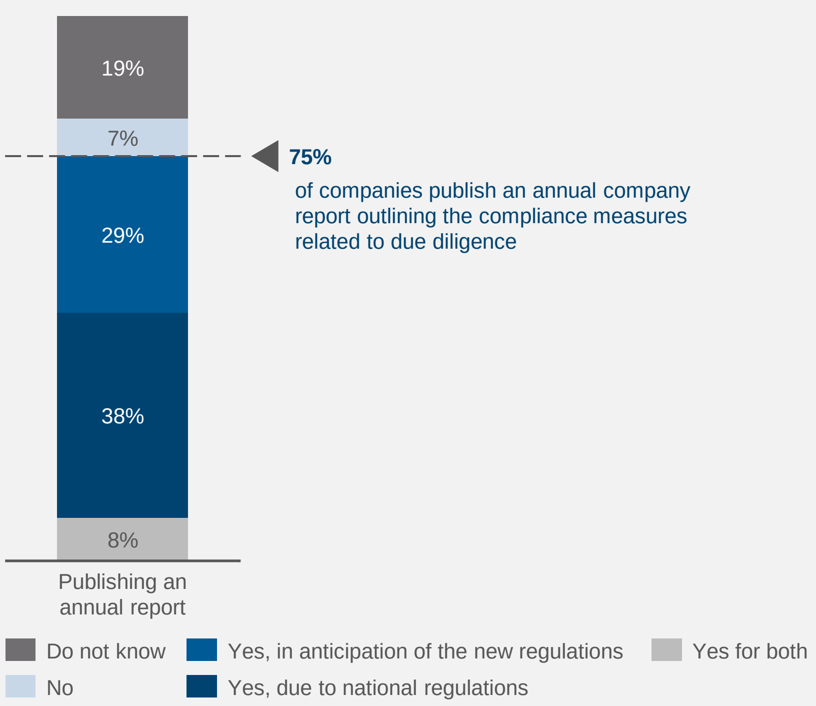


C-levels: CFO, COO, CPO, CEO
Ops: All employees except C-levels

Complying with legal obligations and taking social and environmental responsibility are the main motivators for companies to achieve compliance

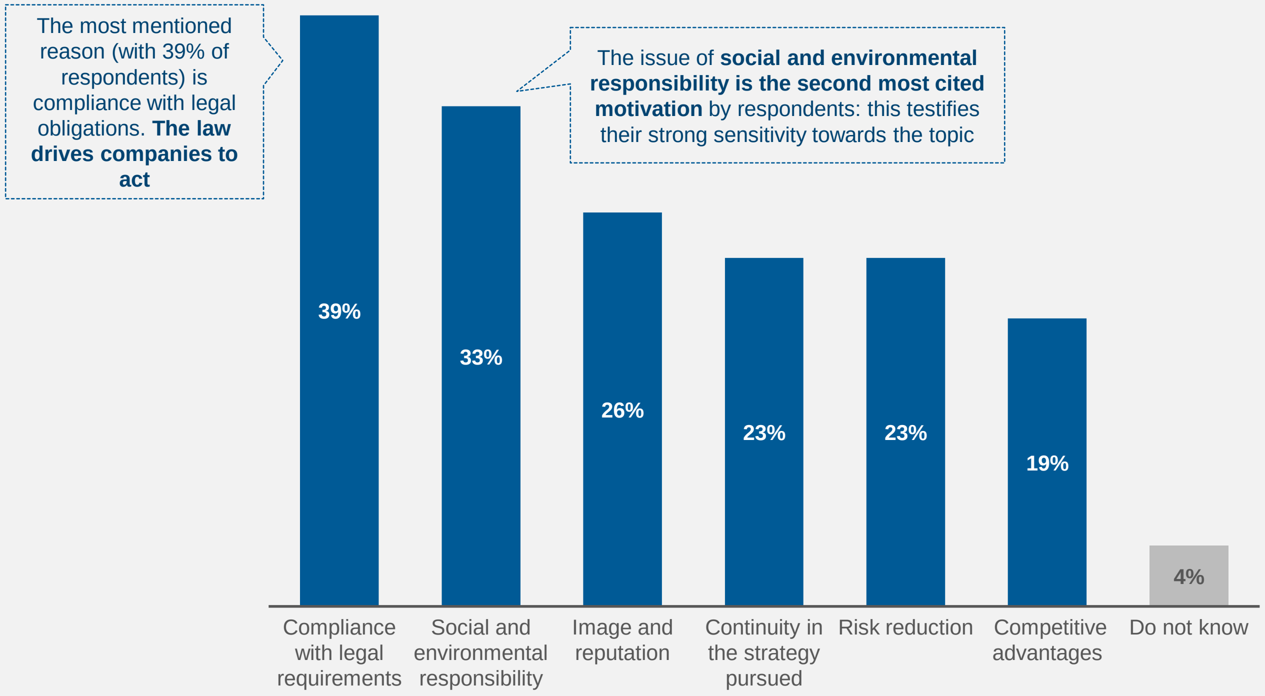
Example of implemented actions

Companies in the panel which have taken at least one action to comply with legislations at national or European level



Reasons for implementing measures

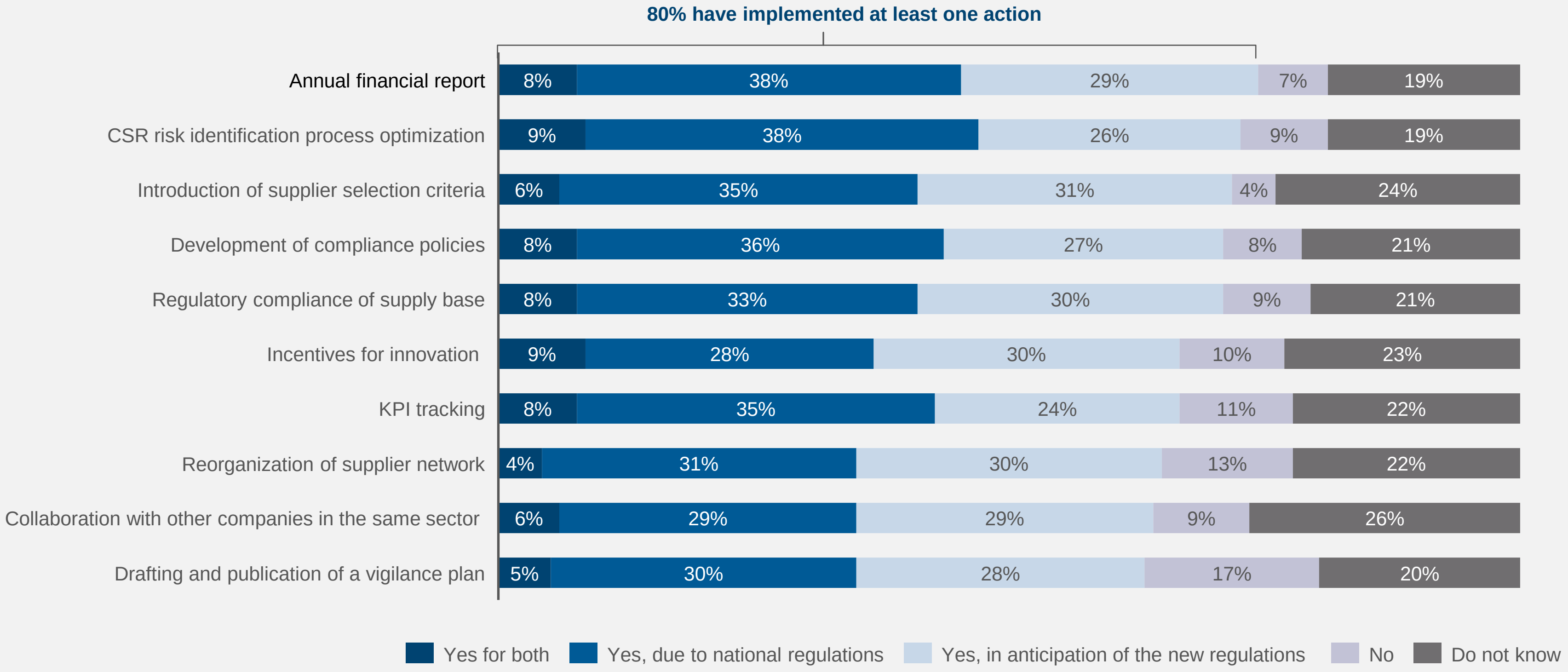
For what reason(s) has your company implemented these actions? (2 choices max.)



Numerous measures are already in place or planned to comply with national and European legislation, however study results suggest a lack of internal visibility

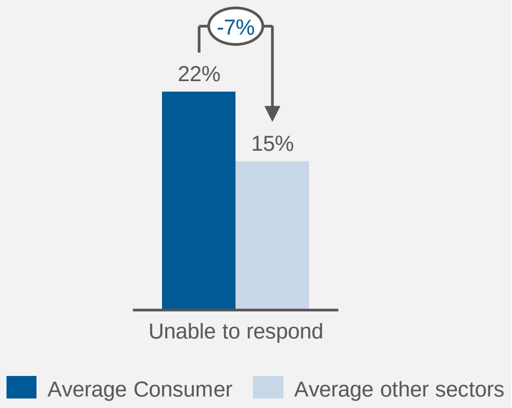
Compliance actions

Which of the following measures has your company considered or already taken to achieve compliance at national or European level?



The proportion of respondents who do not know whether the listed actions have been implemented suggests a **lack of visibility and internal communication**.

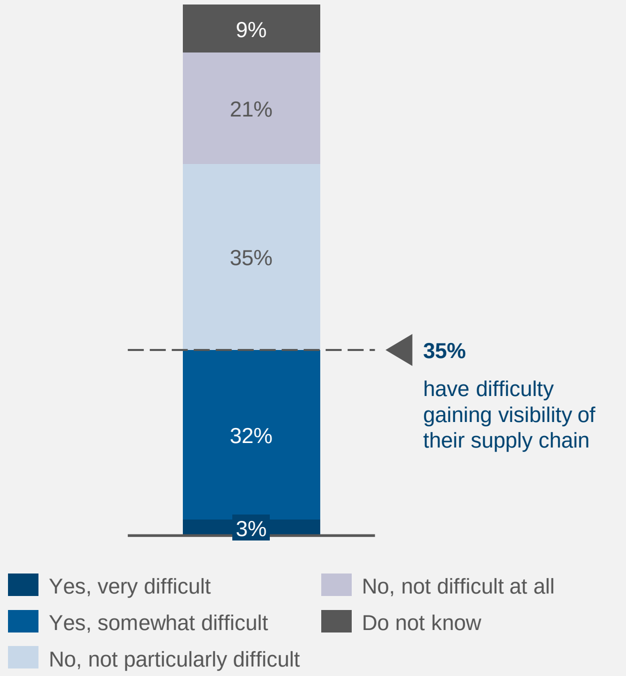
For the Consumer Industry, this is 7% higher than average.



Difficulty to understand the regulation and a lack of transparency in the supply chain is holding back companies' compliance efforts

Stakeholder transparency

Do you have **difficulties to get full and transparent visibility on procurement/supply chain management**, and on the level of compliance to human rights and the environment from your suppliers?

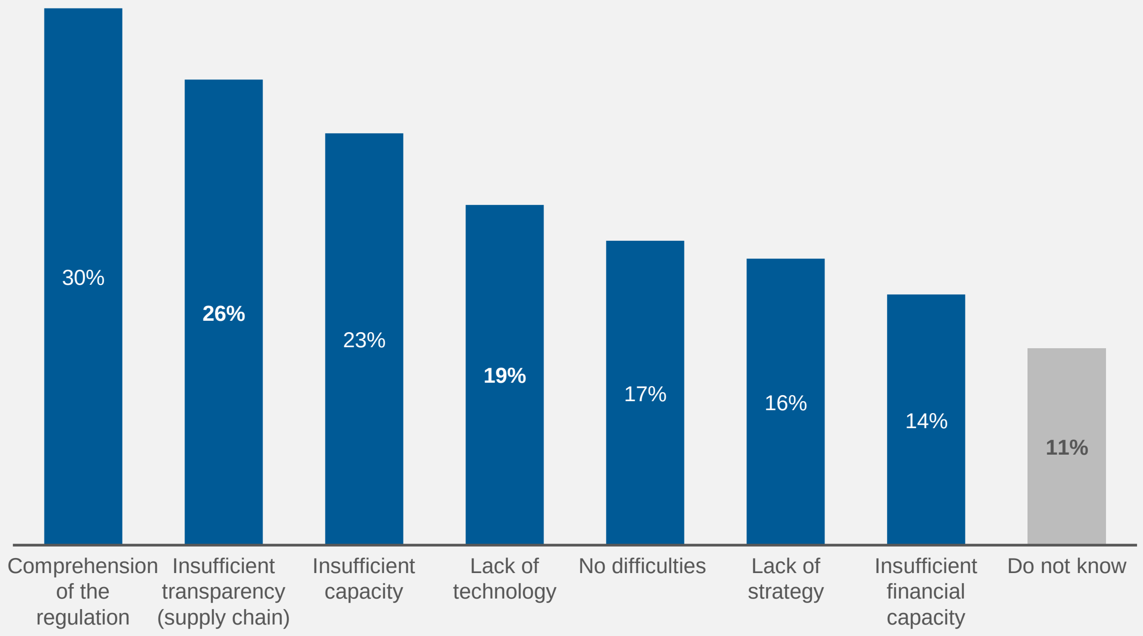


Barriers to concrete action

Which are the most common challenges facing your company when it comes to implementing the measures? (multiple answers)

The main obstacles to concrete action are a **lack of understanding of the regulation** and **insufficient transparency of the supply chain.**

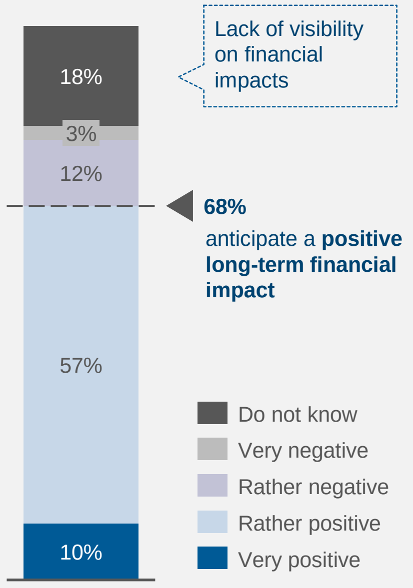
As a result, companies find it **hard to identify the levers to create an impactful strategy**.



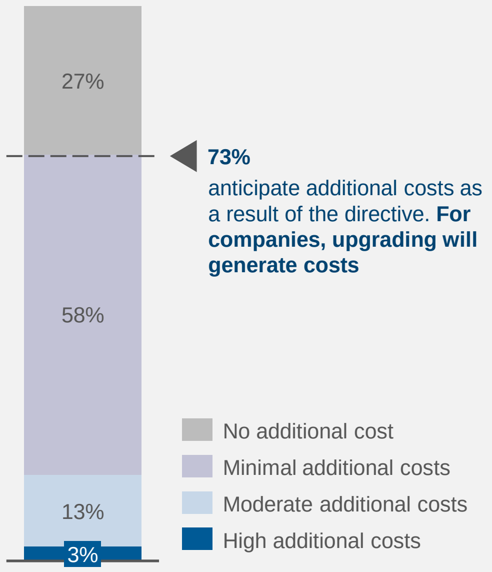
Despite the additional costs and potential competitive disadvantages, the new regulations are seen as a chance to leverage long-term positive impacts

Estimated financial impact

In the long term, what financial impact do you anticipate from this new European directive in relation to ROI?

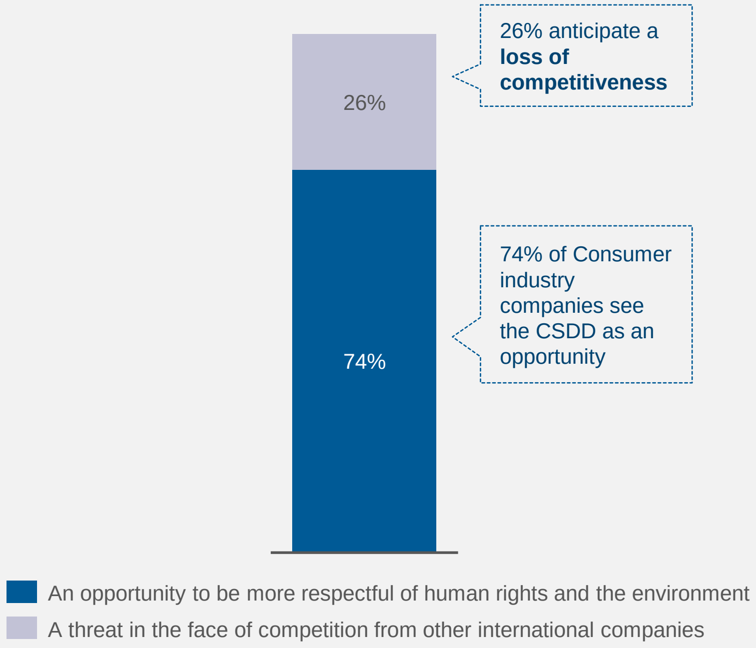


In your opinion, this new European directive will bring to your company ...



Perception of impact

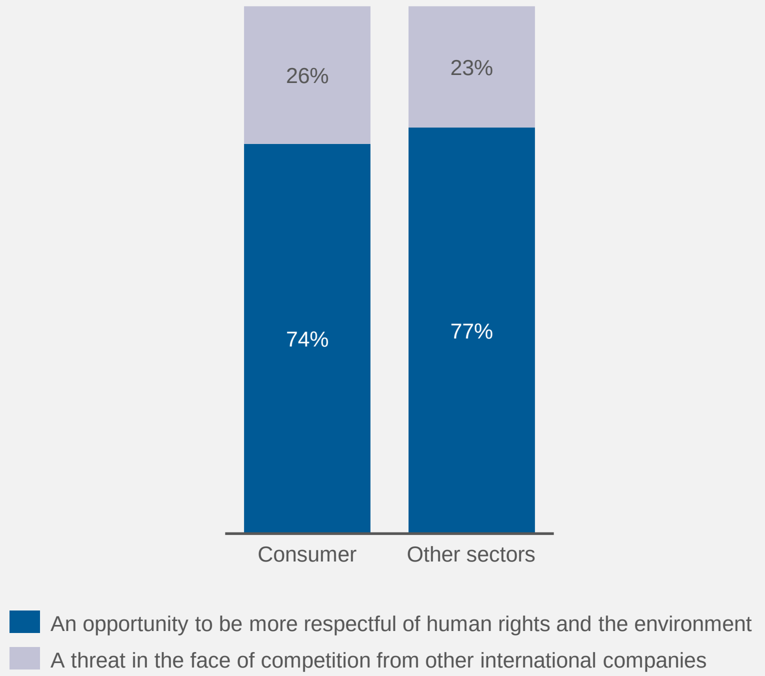
For your company, in your opinion, these new regulations are rather…



For large companies, compliance is associated with higher expected costs – Consumer companies are more concerned about a loss of competitiveness

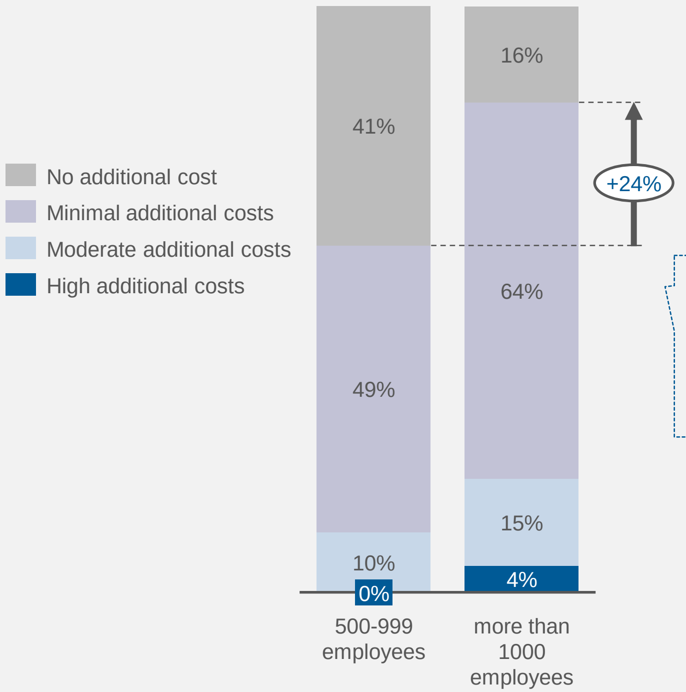
Focus on sector

How do you see the new regulations for your company?



Focus on company size

How do you feel compliance with the new EU directive will impact your company in terms of costs?

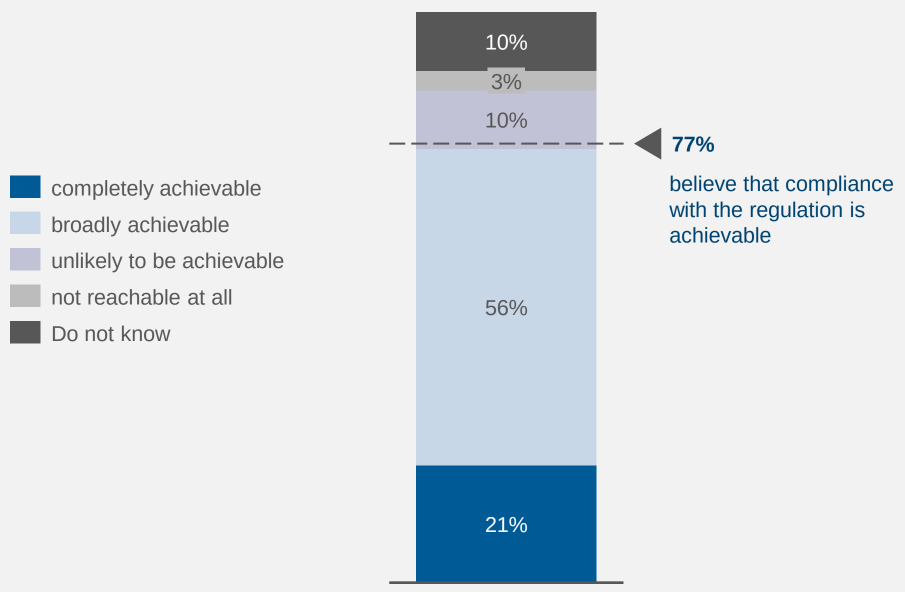


Additional costs are expected for both large and small companies. However, the costs are significantly higher for large companies.

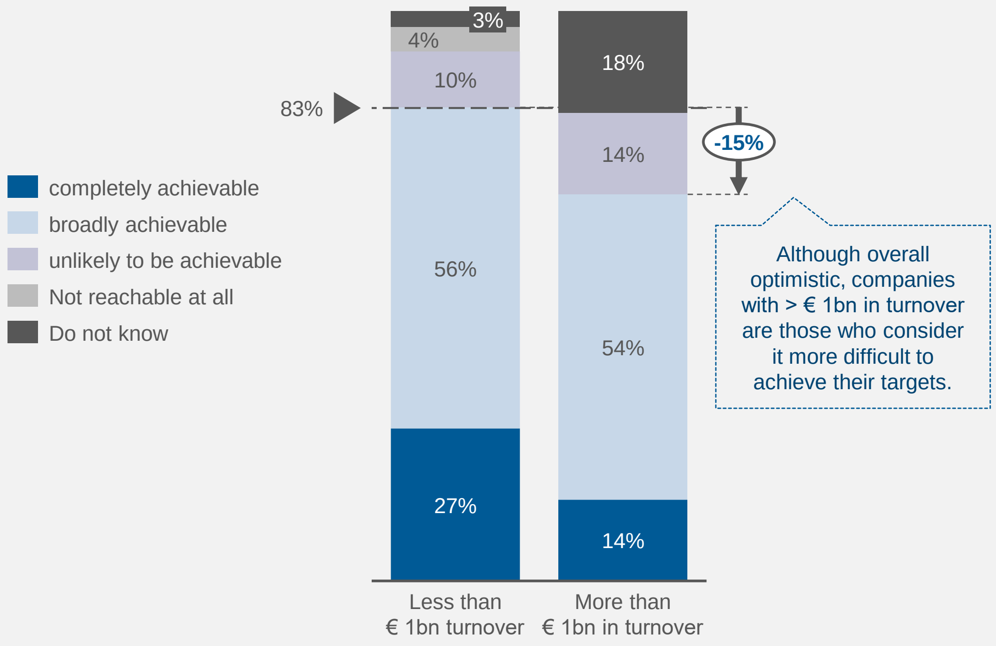
77% of Consumer companies are confident that compliance is achievable; doubts exist among companies with a turnover higher than € 1 billion

Implementing the directive

In your opinion, complying with the duty of care regulations is, for your company a target that is…



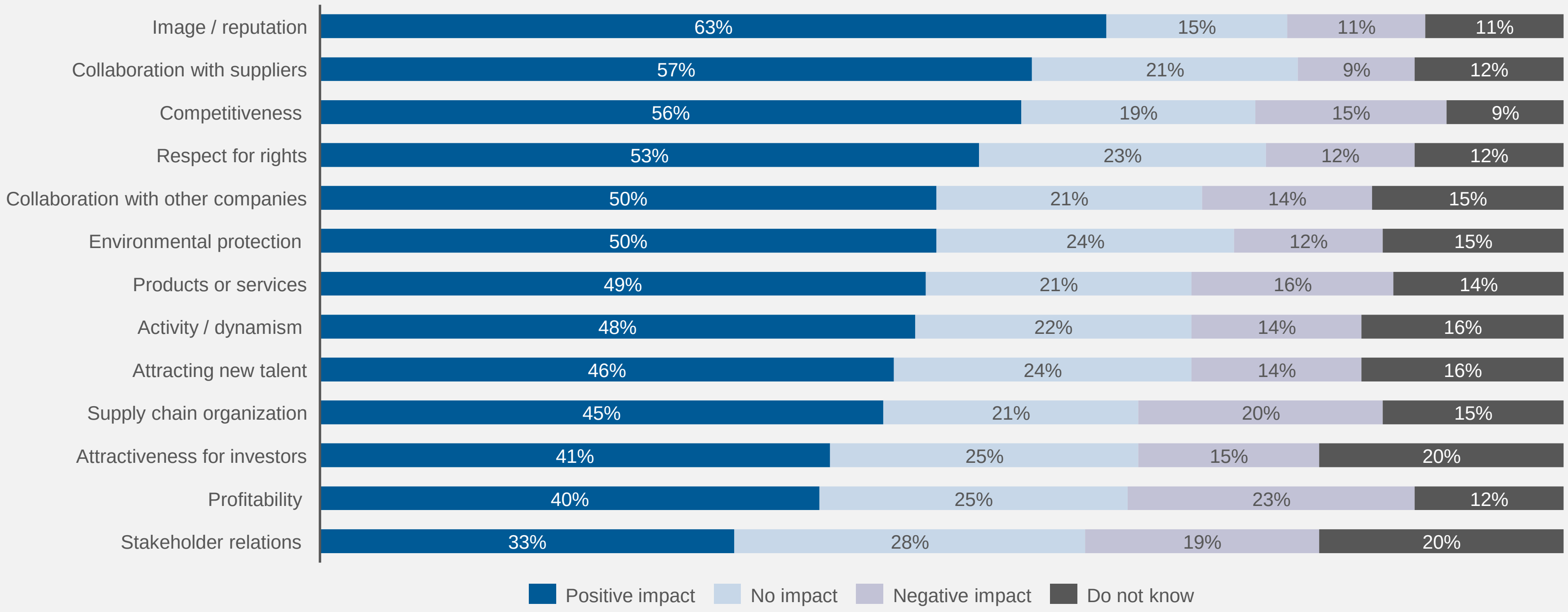
Focus: Turnover



Overall, Consumer companies anticipate a fairly positive impact from regulations, particularly on their image and collaboration with suppliers

Anticipated impact on the company

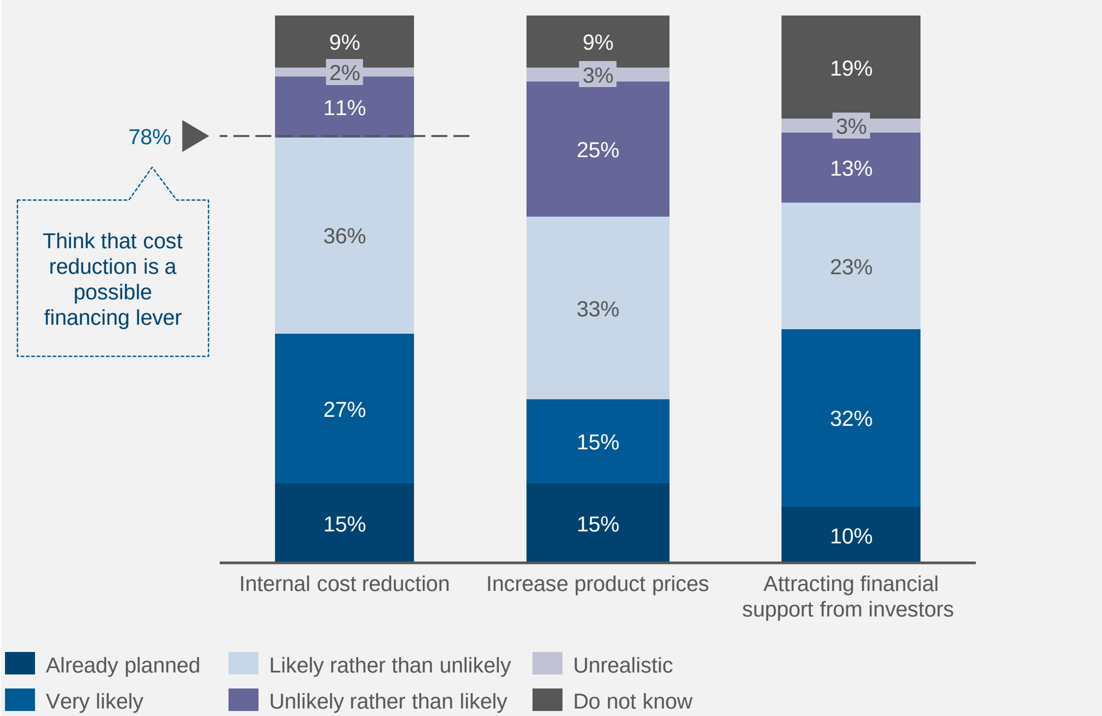
In your opinion, will the introduction of more stringent supply chain duty of care regulations have a positive, negative or no impact on...



78% of Consumer respondents consider cost reduction as the main lever to reach compliance, while trainings aid in the adoption process

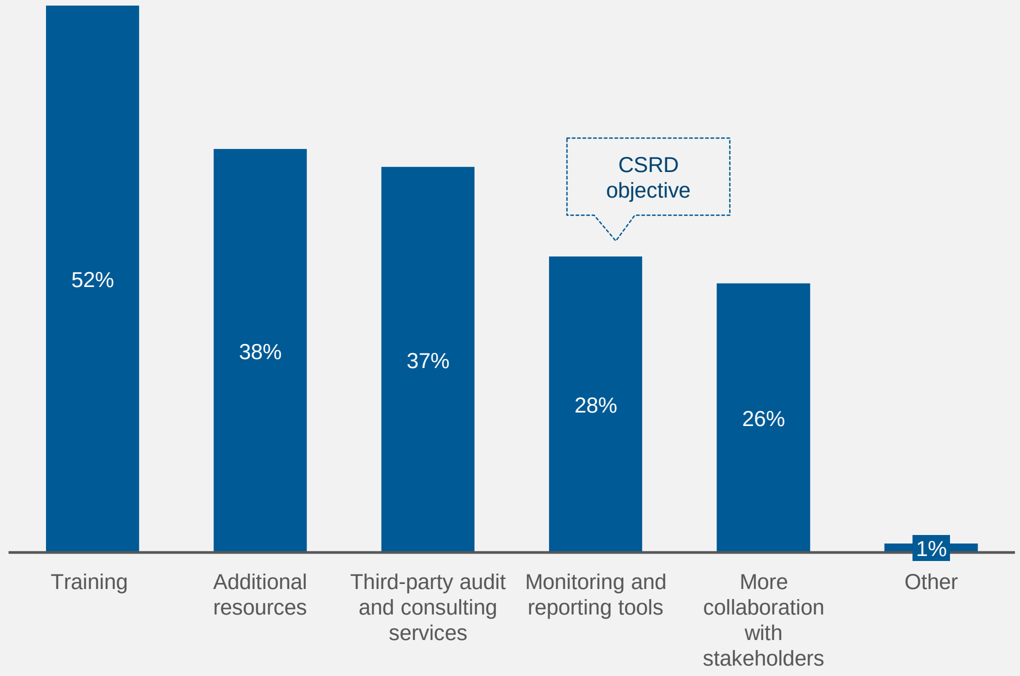
Financing compliance measures

Do you believe the following levers can be used to finance and support the implementation of and compliance with the new regulations in your company?



Required support

What form of support do your procurement and supply chain management in particular require to overcome the challenges posed by the new EU rules and regulations?



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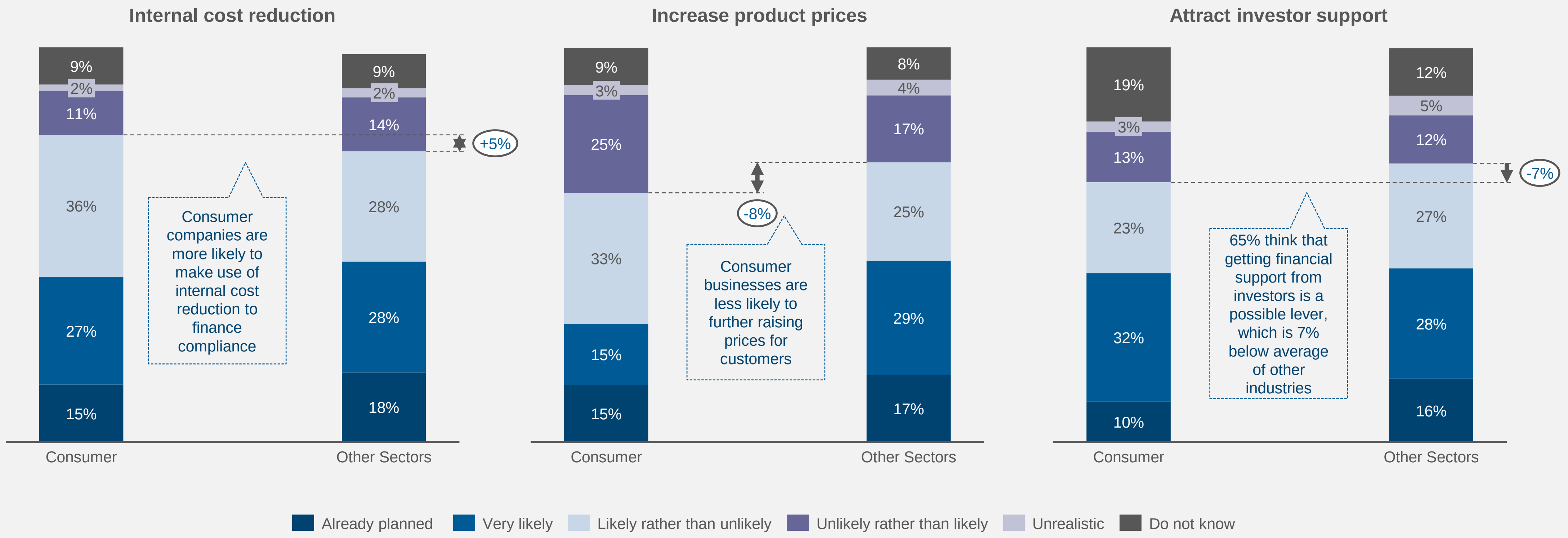
Consumer businesses are less likely to further raise prices as a means to finance and achieve compliance

Financing measures to achieve compliance

Do you believe the following levers can be used to finance and support the implementation of and compliance with the new regulations in your company?



Agenda

Recommendations for Action

The CSDDD is an opportunity for Consumer companies to optimize their supply chain, provided they invest in operational performance improvement.

In the shifting landscape of the EU's regulatory environment, Consumer companies face the dual challenge of adapting to the Due Diligence Directive while navigating an increasingly complex market: inflation has been a critical issue, while consumer spending habits have dampened. Shopping methods have changed, with a notable pivot from physical shops to digital platforms. Moreover, the luxury sector, heavily reliant on Chinese consumption, is predicted to face significant challenges within the next two to three years. The volatility in raw material costs, in particular in food commodities, further complicates this scenario, underscoring cost management as a fundamental concern.

Consumer companies are favorably positioned to meet the EU's Due Diligence Directive

When it comes to ESG, consumer companies are notably further advanced in their initiatives compared to their counterparts in other sectors. This advancement is driven by several factors, including stringent legal requirements in the food industry and a growing demand for transparency from consumers. The industry's engagement with circularity, particularly within the textile sector, reflects a proactive approach to sustainability. This well-established foundation in ESG positions consumer companies favorably to meet the EU's Due Diligence Directive requirements, offering a strategic advantage in navigating the evolving regulatory demands.

Digital knowledge transfer & investments in operational excellence are decisive to make the difference

During the last years, consumer companies have made significant strides in integrating new technologies. Investments in digital marketing and online marketplaces have been substantial. While digitalization in these areas has been strongly advanced, it is now decisive to transfer the digitalization knowledge onto an operational level, going hand in hand with investments specifically in Procurement, SCM, and Manufacturing.

*An explanation of the principle can be found here: [Double materiality: Broadening corporate sustainability reporting to encompass societal and environmental impacts | Cambridge Institute for Sustainability Leadership (CISL)]

Recommendations for Action

The CSDDD is a door opener to gain visibility and control over the entire supply chain, provided strategic measures are taken

Setting up a performance plan

To successfully adapt to the new CSDDD measures, it is essential for companies to proactively develop a cross-functional performance plan that effectively combines cost control, ESG commitment, and increased resilience.

Proactive procurement initiatives

To ensure that they are not penalized by the new measures, procurement departments must act independently and proactively, taking the initiative with their senior management. This involves updating procurement data, gaining a deeper understanding of their supply chain, and drawing up a dual materiality matrix*.

*An explanation of the principle can be found here: Double materiality: Broadening corporate sustainability reporting to encompass societal and environmental impacts | Cambridge Institute for Sustainability Leadership (CISL)

Recommendations for Action

Enhance ESG integration

In anticipation of the CSDDD, Consumer companies must prioritize the integration of ESG criteria into their supply chain management. They must establish clear ESG performance indicators and engage suppliers in sustainability efforts to better align with the CSDDD's objectives and sector aspirations for sustainable supply chains.

Strengthen supply chain resilience and compliance

Given the sector's exposure to supply chain risks, Consumer companies must develop a strategic framework for resilience that includes diversifying supplier bases, near/friendshoring, implementing rigorous risk assessment processes, and enhancing cybersecurity measures.

Increasing supply chain transparency

In order to comply with the CSDDD, consumer businesses need to introduce new measures to increase their supply chain transparency. This can in turn reveal new cost reduction and value-added opportunities that can be exploited for the benefit of the company.

*An explanation of the principle can be found here: Double materiality: Broadening corporate sustainability reporting to encompass societal and environmental impacts | Cambridge Institute for Sustainability Leadership (CISL)

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www.inverto.com/CSDDD