

MAKING THE BUSINESS CASE FOR EHS: New Report Shows Value in Actively Managing Chemicals



Companies are being pushed by environmental laws, consumer demand and other forces to be more aware of the chemicals they use in their own products and to reduce the number or amount of hazardous chemicals when possible. But companies may not be as active in monitoring the chemicals in the products or materials that they get from their suppliers. And without this knowledge, they may be blind to certain hidden liabilities. A new report from the Inter-Organization Programme for the Sound Management of Chemicals (IOMC) and the United Nations Environment Programme develops the business case for knowing the chemicals in products and across supply chains. It details the costs that companies pay for not knowing or not acting upon the knowledge of hazardous chemicals and the benefits of knowing the chemicals in products and using safer substitutes, providing case studies as concrete examples.

Passive v. Active Strategies

The IOMC report discusses the two main strategies used to manage chemicals in

products and supply chains by companies and purchasers that are downstream from chemical manufacturing and use chemicals by virtue of the products they purchase:

Passive strategy. The dominant chemical management strategy for downstream users is the 'Passive Strategy.' Companies taking this approach comply with government regulations, such as those barring certain chemicals from being present in a product over defined thresholds, and nothing more. These companies don't have robust oversight measures or proactively look for chemical risks in their products.

In the short-term, the passive strategy saves money because the organization isn't investing in systems, staff or third parties for chemicals management beyond meeting regulatory requirements. But this approach has serious flaws, explains the report. It leaves companies vulnerable to the hidden liabilities of 'chemicals of concern' that is, chemicals that, due to their inherent hazardous properties, present a known or reasonably suspected risk to human health and/or the environment in products and supply chains, and unprepared for swiftly changing market demands and regulations. As a result, such companies may incur significant costs 'monetary and otherwise' by failing to invest in due diligence chemicals management. For example, a chemical crisis can result in fines, lost market share and value, impaired brand reputation and product recalls.

Active strategy. An alternative approach for companies is the 'Active Strategy,' which involves the proactive management of chemicals in products and supply chains to stay ahead of regulatory and market demands. Companies using this strategy integrate chemicals management into product design, material selection and supplier engagement. Chemical safety become yet another element to be considered in products along with costs, performance and other sustainability attributes. These companies make upfront investments ahead of regulatory and market demands and invest in systems for knowing chemicals in products and supply chains.

The active strategy creates long-term value for companies and shareholders by:

- Enhancing brand reputation;
- Increasing sales;
- Creating innovative products;
- Increasing supply chain reliability; and
- Avoiding the high costs of chemical crises.

Case Studies

Simply stating that the passive strategy is costly in the long-term isn't nearly as compelling as real-life examples of how this approach costs companies. So the IOMC report includes case studies to support its position, such as these two examples that highlight the market costs of failing to address consumer demands for safer chemicals in products:

- In 2009, Johnson & Johnson lost significant sales in China when groups in the US found formaldehyde and 1,4-dioxane in some of its baby products, including shampoo. Consumers, when informed of the presence of the chemicals in these products, chose to avoid the Johnson & Johnson brand. Tens of thousands of consumers in China stopped buying its products, thousands of stores dropped its products and its market share for baby

products declined almost 10%.

- SIGG USA (a subsidiary of SIGG Switzerland) filed for bankruptcy in 2011 with \$13 million in liabilities due to failure to disclose Bisphenol A (BPA) in its water bottles.

The report also includes case studies of companies that employ the active strategy and the benefits they realized from this approach:

Seagate Technology PLC. Seagate, a manufacturer of data storage devices, realized many benefits from knowing chemicals in products. Every time a new hazardous chemical emerges due to regulations or market forces, its staff simply search its chemicals management database to see if the chemical is present in any of its products, enabling the company to quickly respond to new substance restrictions with current resources. As more and more chemicals of concern emerge, the data collection costs remain relatively stable for Seagate instead of varying widely up and down. An unintended benefit of Seagate's chemical management data system is a much more thorough understanding of its suppliers and the quality of their products. By knowing in detail the chemistries of its suppliers' products, Seagate can quickly identify when changes are being made to the materials in its components.

Coastwide Laboratories. A manufacturer of cleaning products and division of Staples, Inc., Coastwide Laboratories realized significant benefits when it invested in a new product line based on safer chemicals. Recognizing the changing market demands, its Sustainable Earth brand became the primary driver behind the company's rapid growth during the early 2000s: net operating income averaged double to triple the industry norm, sales rose 8%, market share grew to about 16% of the regional market and new customers rose 35%.

Shaw Industries. Shaw Industries, a manufacturer of flooring products such as carpets, invested in safer chemicals for carpet backings. By replacing polyvinyl chloride (PVC) plastic and its phthalate plasticizer with safer alternatives, the company reduced the weight of carpet backing by 40% and quickly captured market attention. In fact, its production capacity tripled by 2000 and, by the end of 2002, sales of its new EcoWorx products exceeded those of PVC-backed carpets.

BOTTOM LINE

As the case studies illustrate, the demand for increased chemical transparency up and down the supply chain grows every day. From consumers to retailers to regulators, awareness of hazardous chemicals in products and supply chains is driving companies to disclose information on the chemicals in products and select inherently safer chemicals. The IOMC report concludes that these are the companies that are leaving behind crisis-driven change and creating long-term value for themselves, their shareholders, the public and the environment through proactive chemical management. For more information on how your company can become proactive, see 'Hazardous Substances: Take 7 Steps to Switch to Safer Chemicals.'

Insider Source

'The Business Case for Knowing Chemicals in Products and Supply Chains,' IOMC, United Nations Environment Programme, Dec. 2014