

# The Business Value of Product Stewardship

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# Minimizing Business Risk

The call comes in after 4 p.m. on a Friday afternoon: Customs has held a product shipment. Perhaps the label does not meet hazard communication requirements, or some component of the product does not meet regulatory requirements. And so, the supply chain breaks.

While the manufacturer scrambles to address a product stewardship issue, the customer fumes. A sale may be lost or – worse still – a customer account. Perishable products may spoil while they wait in storage for the issues to be corrected. And that's just the beginning of the challenge.

Penalties for violating some product stewardship regulations are jaw dropping. Making or importing a product in the European Union (EU)? Consider the penalties under the regulation Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). A first violation can result in a fine of up to €1,000,000. Some countries in the EU impose criminal sanctions that can include prison terms for company executives.

This example of the consequences of gaps in product compliance illustrates why corporate executives must recognize regulatory compliance and managing products as potentially serious business risks.

Let's look at one of the other top risks – damaged corporate reputation – within the context of product stewardship.

The U.S. news magazine 60 Minutes aired a story on March 1, 2015, regarding the levels of formaldehyde in Lumber Liquidators laminate flooring.<sup>1</sup> The potential health effects of exposure to this carcinogen outraged consumers and regulators; as a consequence, the company's reputation suffered. The company stock price, which was at \$63.69 per share on February 13, dropped abruptly to a low of \$30.55 by March 13.

This decrease in stock price is not unique. A study on supply chain resilience published by the World Economic Forum<sup>2</sup> provides additional evidence of the value of product stewardship. Gaps in product compliance that leave a product shipment stranded in Customs disrupt the supply chain. As news of disruptions leaks, it can affect stock prices even before public announcement. The stock value of a publicly traded company drops by 7% on average when the public announcement of a supply chain disruption occurs and stock prices typically require months to recover.

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<sup>1</sup> <http://www.cbsnews.com/news/lumber-liquidators-linked-to-health-and-safety-violations-2/>

<sup>2</sup> [http://www3.weforum.org/docs/WEF\\_RRN\\_MO\\_BuildingResilienceSupplyChains\\_Report\\_2013.pdf](http://www3.weforum.org/docs/WEF_RRN_MO_BuildingResilienceSupplyChains_Report_2013.pdf)

# Essential Business Value

Product stewardship is essential to the success of a multinational business.

Product stewardship is at the core of your company's value generation. By managing your products' environmental health and social impacts, you will drive growth and minimize business risks.

Let's start by looking at the results of a recent survey of multinational business executives.<sup>3</sup> These results, which make the business case for product stewardship, are especially compelling because the survey designers did not intend to build a case for product stewardship. In fact, their report never mentions the phrase "product stewardship". The study authors simply wanted to identify the most crucial risks to multinational businesses and the greatest opportunities for growth. Nonetheless, the results of the survey make a powerful case for the potential return on investment in product stewardship.

The survey results show an interesting counterpoint between stewardship-related risks and opportunities (Figure 1). Regulatory compliance, a top business threat, grows increasingly important with the proliferation of product regulations in key market countries. This threat can stifle the growth opportunities in emerging markets if stewardship is not properly

<sup>3</sup> <http://www.ey.com/GL/en/Services/Advisory/EY-theres-no-reward-without-risk-grc-survey-2015-grc-survey-findings>

## Defining Product Stewardship

Responsibly managing the health, safety, and environmental aspects of raw materials, intermediate, and consumer products throughout their life cycle and across the value chain in order to prevent or minimize negative impacts and maximize value.

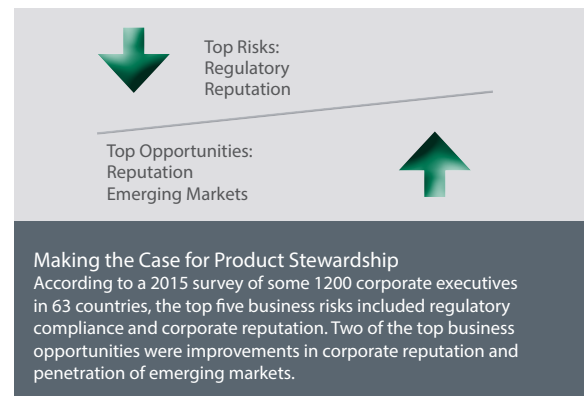
- *Product Stewardship Society*

Also known as:

- Product Sustainability
- Product Compliance
- Product Safety

managed. Corporate reputation emerged from the survey as both a top business threat and a crucial opportunity. When news – or sometimes merely rumors – about product safety flash across the internet, the results can make or break corporate profits.

Figure 1. Product Stewardship Related Risks and Opportunities

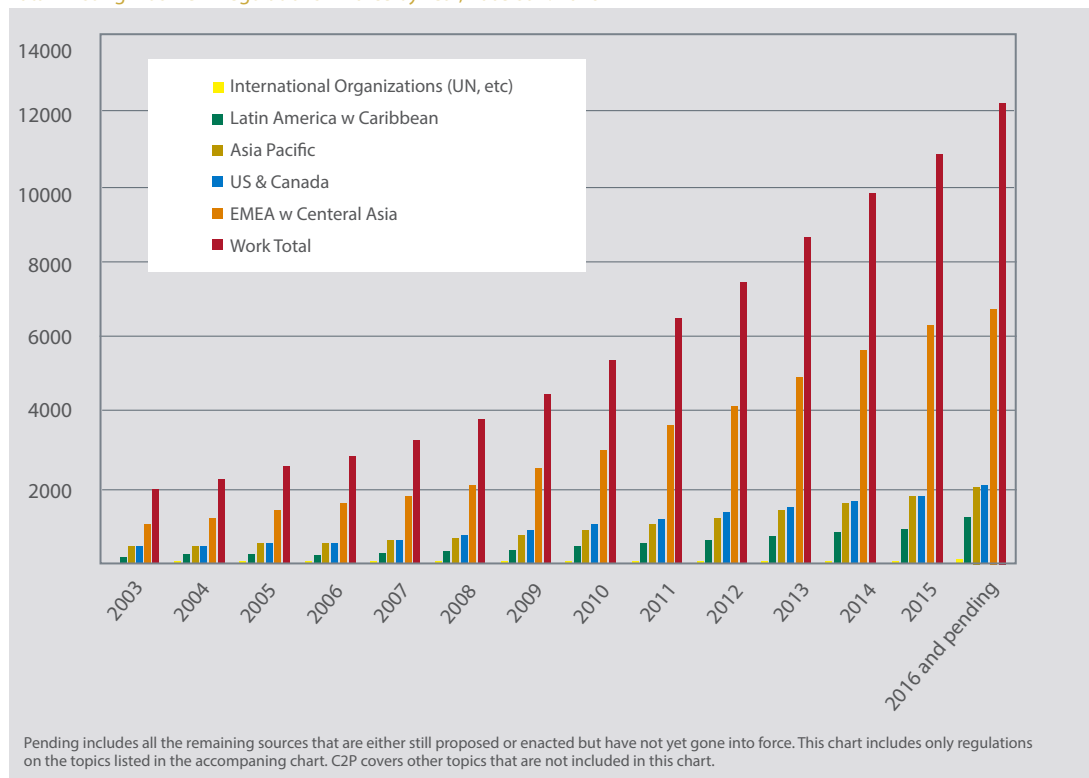


# Supporting Growth

Let's look more closely at how effective product stewardship can support business growth by supporting innovation and sales.

Products crossing international borders must meet an ever-increasing number of regulations (Figure 2).<sup>4</sup> Product stewards work with supply chain managers to track crucial information and address hazard communication, product registration, and product safety requirements. Effective compliance can open markets in new countries and support the introduction of new products.

Figure 2. C2P Global Regulations by Region: Cumulative Totals Total Existing Plus New Regulations in force by Year, 2003-Jan. 2016



Source: Compliance & Risks



**Business Challenge:** Speed new products to market to recognize the return on investment in product development.



**Strategy:** Coordinate compliance, recognizing differences in data requirements and regulatory nuance in different jurisdictions, as well as the relative costs of compliance versus sales in certain geographies.



**Case Study:** ERM anticipated and coordinated regulatory requirements to support the release of over 450 products of a chemical formulator as needed by customers in 75 countries.

<sup>4</sup>See: [http://www.complianceandrisks.com/public/growth\\_of\\_regulations\\_jan\\_2016.pdf](http://www.complianceandrisks.com/public/growth_of_regulations_jan_2016.pdf)

Beyond compliance, product stewardship can position a brand in the marketplace. Attention to product compliance, product safety, and sustainability can help many businesses grow when appropriately communicated to the public. Customers for a wide range of products increasingly insist on knowing about the stewardship of the goods that they purchase. In one recent consumer survey,<sup>5</sup> 58% of respondents said that they would pay more for a product from a brand known as environmentally friendly; 72% of respondents in the crucial target age between 15 and 20 were willing to pay more for products that come from companies committed to positive social and environmental impact.<sup>6</sup>



**Business Challenge:** Position a product for increased sales in highly competitive marketplace.



**Strategy:** Understand and meet customer sustainability and stewardship goals.



**Case Study:** A company making a crop protection product understood that its customers applied the product to a crop used to make bioethanol fuel and that the customers for that fuel were concerned about greenhouse gas emissions throughout the production of bioethanol. A Life Cycle Assessment (LCA) demonstrated that the crop protection product had minimal impact on the greenhouse gas footprint of the bioethanol fuel. Speaking to the sustainability concerns of the customer's customers helped to position the crop protection product for successful sales.

Finally, effective product stewardship supports business growth by merger or acquisition. The value of such deals often rests on the ability to sell products in crucial markets immediately after the transaction. Product stewards transfer registrations, update hazard communication, and manage the associated information transfer necessary to make those product sales.



**Business Challenge:** Effectively integrate acquisition of a chemical company to recognize value of the deal.



**Strategy:** Anticipate and affect transfer of product compliance to enable global product sales immediately after the deal.



**Case Study:** ERM developed and executed a post-merger plan to support compliance in the European Union, United States, China, Japan, and Korea; approximately ~4000 regulatory submittals allowed sales of products globally on the first day after the transaction closed.

<sup>5</sup> <http://www.nielsen.com/us/en/insights/reports/2015/the-sustainability-imperative.html>

<sup>6</sup> <http://www.nielsen.com/us/en/insights/news/2015/green-generation-millennials-say-sustainability-is-a-shopping-priority.html>



# Building Business Resilience through Effective Product Stewardship

There's no doubt about it: a robust, right-sized product stewardship program can protect and build business value.

While gaps in stewardship can have catastrophic consequences for a product, a reputation, and a company's bottom line, effective product stewardship can build a brand, open new markets, and support the commercialization of innovative new products.



## How to Learn More

Questions or comments? Email the author Kate Sellers at [kate.sellers@erm.com](mailto:kate.sellers@erm.com).



Kate, a Technical Director ERM, helps a wide range of clients develop and execute effective product stewardship strategies. Writing offers her the opportunity to explore technical issues from multiple vantage points; Kate's most recent book *Product Stewardship: Life Cycle Analysis and the Environment* (CRC Press, 2015) explores the mechanisms for and consequences of global chemical controls. Kate is the President Elect of the Product Stewardship Society.

## About ERM

Environmental Resources Management (ERM) is a leading global provider of environmental, health, safety, risk, social consulting services and sustainability related services. We have more than 160 offices in over 40 countries and territories employing more than 4,500 people who work on projects around the world. ERM is committed to providing a service that is consistent, professional and of the highest quality to create value for our clients. We have worked with many of the Global Fortune 500 companies delivering innovative solutions for business and selected government clients helping them understand and manage the sustainability challenges that the world is increasingly facing.