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Outline of Strategy: reshape your supply chain within Bangladesh via the creation of self-sufficient, independently owned, ethical manufacturing plants in impoverished rural areas.



As Canada's largest retailer, Loblaw Companies Limited has a unique opportunity to help Canadians through its various products and services while offering a strong commitment to Corporate Social Responsibility.

Loblaw currently carries many CSR and CSV programs within their food, health, and home retail practices such as: Community and Food Bank programs donations, Waste reduction and diversion, waste-to-energy program -> thermal treatment to produce steam -> drive a turbine generator to create electricity, reducing carbon footprint (use of solar panels, energy reduction by 3%, environmental superstore cutting discharges from refrigeration units by 85% and reduced carbon emissions by 15%, energy needs are met 25% by wind turbines)

However, given that Loblaw's wants Joe Fresh to become a CSV world leader while tackling a global expansion, we are going to focus in incorporating Loblaw's current values with Joe Fresh's current opportunities after the factory collapse in modifying current CSR tactics and approaches to CSV.

CSV now: Become a leading voice in the response, intent to improve factory standards

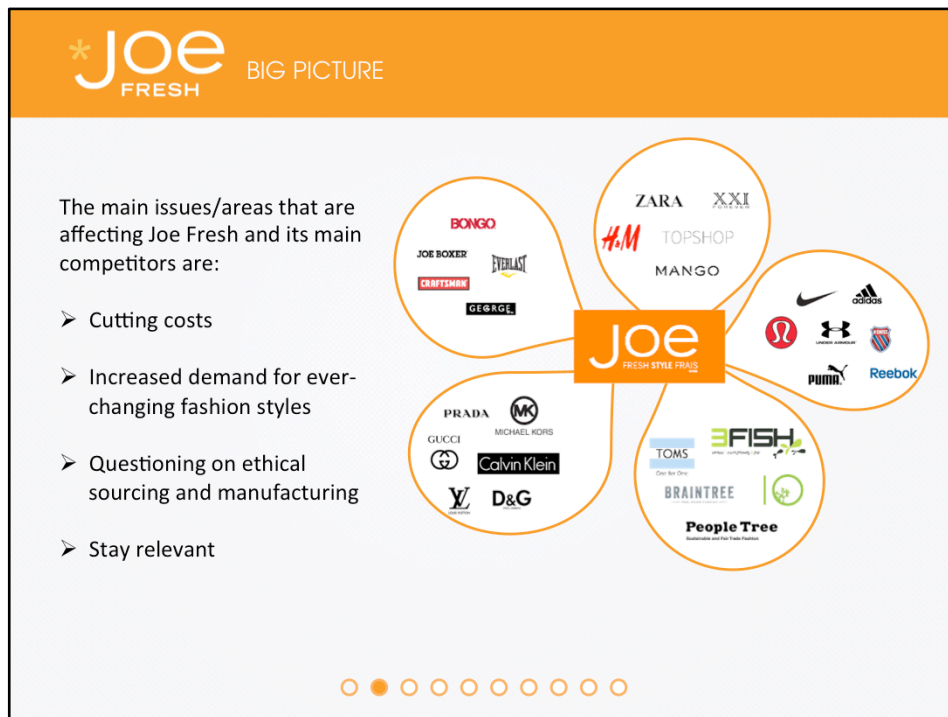
CSR: Worker relief and compensation, early signing of the Accord on Fire and Building Safety,

We will outline how Loblaw can incorporate their value principles and their commitment to transparency, accountability and sound corporate business with current opportunities presented to Joe Fresh in order to create a competitive advantage through the creation of shared value.

Sources:

http://www.loblaw.ca/.../6.%20.../Loblaw_eng_2013_CSR_May_20.pdf

<http://www.loblaw.ca/.../Media-Cen.../announcements/default.aspx>



By analyzing the current environment we have identified Joe Fresh's main competitors and the key issues that affect their current environment. We have analyzed the big picture in order to understand what it is that we need to focus on moving forward in order to create tangible and viable strategies that help Joe Fresh become a leading brand through value that has not been created in the retail industry in Bangladesh. This industry is driven by consumers adoption of their brand, and consumers want to relate to the brand and understand it in order to embrace it and buy their clothing.

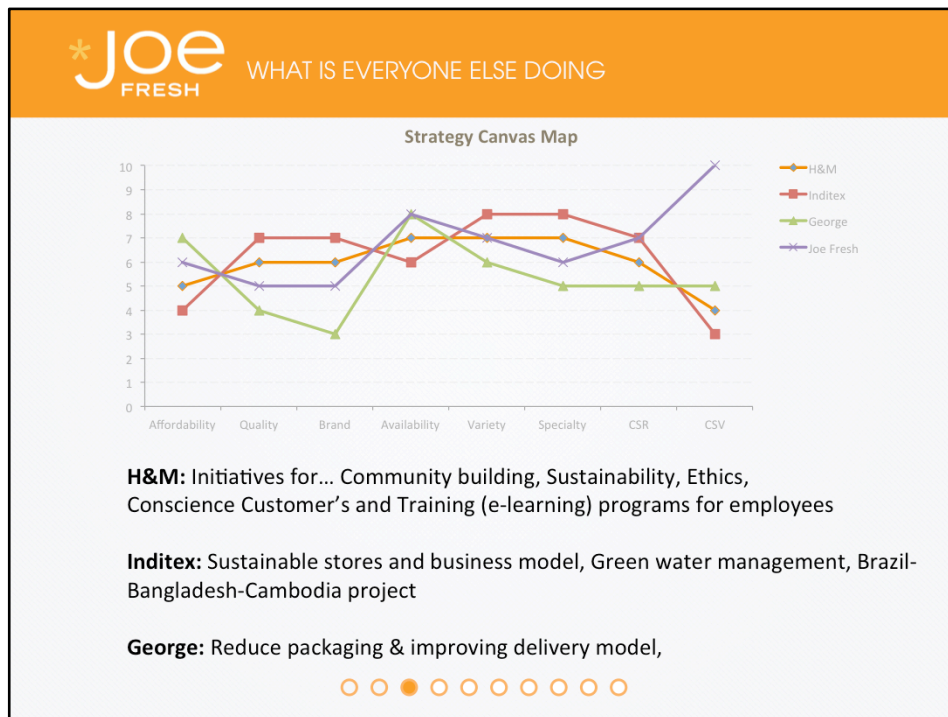
In order to understand where Joe Fresh lies within the fashion industry we segmented it into 5 categories: activewear, ethical, designer, superstores, and fast fashion. After thorough analysis we believe Joe Fresh lies between fast-fashion and superstores: given that they do compete with retailers like H&M in price and quality, and with superstores like George in terms of the expansion and reach obtained through Walmart, as Joe Fresh does so with Loblaws.

Given this statement, we believe that the main issues affecting the fashion industry are:

- Cutting costs given price competition
- Increased demand for ever-changing fashion styles
- Questioning on ethical sourcing and manufacturing
- Stay relevant and not be left behind

Sources:

- <http://sharedvalue.org/about-shared-value>
- <http://www.businessoffashion.com/2012/11/joseph-mimrans-fresh-approach.html>



The Blue Water Strategy Canvas Map was used above to ensure that the competitors we chose to focus on and the sector of the industry we decided to place Joe Fresh in were in fact aligned (to a particular confidence level) with one another. The strategy canvas map above shows a consistent trend between all of the fashion companies which is what we had hoped for as we continued an analysis of each companies CSV and CSR programs.

H&M: What they claim are shared value initiatives, however, create only a marginal benefit to the companies bottom line. Some examples would be community building programs, sustainable practices in factories and stores, ethical training for employees, conscience customer decision making initiatives and e-learning programs for their employees.

Inditex, the Spanish conglomerate which currently manufactures clothing for Zara, Pull & Bear, Massimo Dutti and the likes has devoted many resources in become a CSR contributing company, however, much like H&M there exists no significant CSV programs that truly increase the bottom line of the company's balance sheet. Instead they do a lot of social responsibility programs in impoverished countries.

George, the Walmart department store brand is likely the greatest competitor to Joe Fresh. Unlike the others, Walmart as a whole has made many contributions to a greater CSV program for example their reduction of individual shipping packaging that has reduced waste in to the environment and actually made it easier to get the goods from point A → B.



CSV VS. CSR

“ Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. ”

- Still a very early concept.. Many companies have yet to adapt to the concept
 - Safety & Hiring Disabled imposes constraints = higher costs
- *Expansion Approach:* expanding both economic and social value, not redistributing
- ex. CSV approach to “Fair Trade Coffee”



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Difference between CSR and CSV

- CSR is about responsibility, CSV is about creating value
- CSR is widely perceived as a cost center and not a profit center
- CSR is a redistribution of preexisting wealth CSV is creation of new wealth

What are the key components of CSV?

Reconceive Products and Markets

- Rethink the business around unsolved customer problems or concerns, not traditional product definitions
- Identify customer groups that have been poorly served or overlooked by the industry
- Think in terms of improving lives, not just meeting customer “needs”

Redefine productivity in the Value Chain

- Procurement that enhances supplier capabilities and efficiency
- Improving energy, water and resource efficiency across the value chain and minimizes logical intensity
- Enhancing the productivity and wages of lower income employees
- Recruiting that represents the diversity of customers and the communities where a company operates

Build Supportive Clusters

- A cluster is a geographic concentration of related companies, organizations, and institutions in a particular field that can be present in a region, state, or nation.
- Clusters arise because they raise a company’s productivity, which is influence by local assets and the presence of life firms, institutions and infrastructure that surround it
- Clusters increase productivity and operational efficiency, stimulate and enable innovation

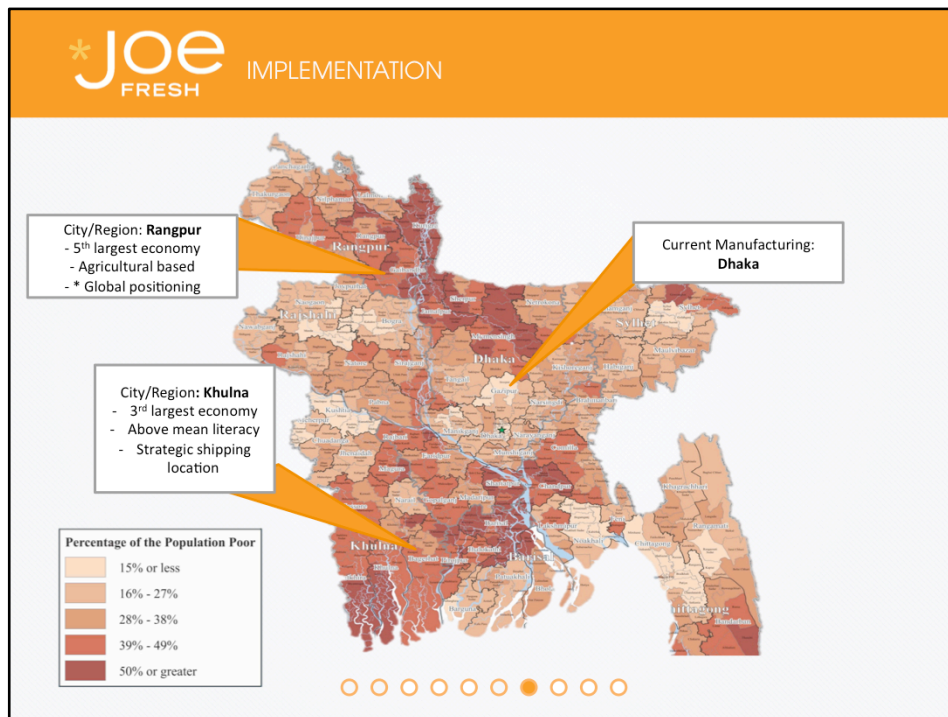


Here we want to narrow in on the different areas of business and the supply chain of Joe Fresh. We believe that the best area to create shared value is with production and manufacturing given the recent incidents in Bangladesh and more importantly the need for change in the garment manufacturing industry in general. There are many issues with transparency in terms of the gap between an apparel company and where and how the garments the are produced. By focusing in on the area, Joe fresh can identify and target issues that need to be fixed and create value in Bangladesh and the broader garment manufacturing industry.



Our strategy, as stated above, creates a win-win for both workers in Bangladesh and Joe Fresh as it plans to roll out its expansion plan. We have modeled our strategy on the concept of mill towns, in which one industry/factory/company moves in to a particular location and becomes the backbone to that economy, providing ethical working environments and equal employment opportunities. Our strategy focuses on setting up shop in regions of Bangladesh that are particularly struggling right now. The current manufacturing hub of Bangladesh- Dhakar is the least poor region in the country simply due to the amount of workers employed in the textile industry in that city (as seen on the following slide). Therefore, we have chosen two particular locations in which we believe would be great spots to test out our strategy, becoming major player's in that regional economy and hopefully better the lives of even a small group of people within that region.

There are many win-win situations that further backup our strategy. For Joe Fresh and Loblaw's as a whole, there will now be a direct supply chain in Bangladesh for the company which is especially important as it plans to open in 23 new countries before 2019. As well, the CEO and Head Designer of Joe Fresh have stated that the safety and ethical practices of their manufacturing process is the companies number one concern right now, and in following this strategy Loblaw's would have complete control over its manufacturing process, or at least the final stages of it that lie within Bangladesh.



The map above is a coloured poverty percentage map for the country of Bangladesh. As you will notice the lightest most region of the country is Dhaka where the large majority of the countries almost 5000 garment factories are situated.

As part of our strategy we have chosen to build our independently owned CSV promoting factories in the cities of Khulna and Rangpur.

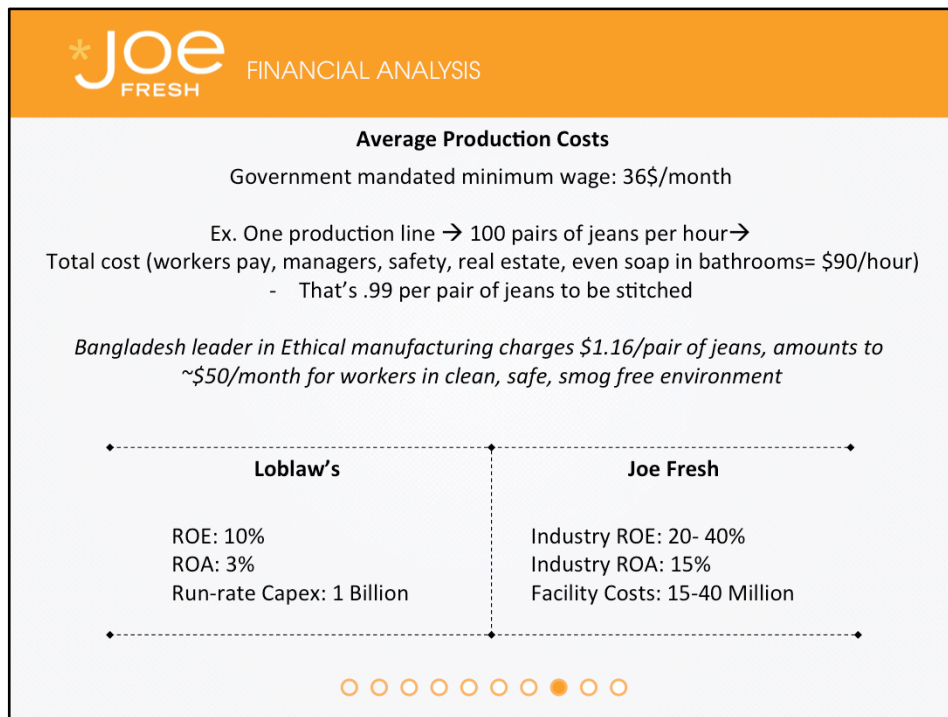
Khulna:

- 5th most populous region with an above average literacy rate vs. the rest of the country
- 3rd largest economic zone
- Strategic shipping location as it is off the Bay of Bengal
- Food processing and ship building economy

Rangpur:

- 5th largest economic zone
- Agriculture sector has faced some problems over the last decade, Bangladesh government is seeking new industries to setup shop in this region
- Seen as the countries best globally positioned region for exports
- Suffers from extreme poverty, primarily due to the collapse of the agricultural sector in the last 10 years

Map from WorldBank.org



So next we wanted to narrow down on the financial implications on margins. It is important to not that the government mandated minimum wage in Bangladesh is \$36 per month. In terms of actual production, you are looking at an all in cost of 99 cents per pair of jeans produced. When we look to how this changes under circumstances that would be considered ethically managed – by this we mean clean/safe working environments and increasing the wages to \$50 per month, this moves production cost up to \$1.16 per pair of jeans. So when we look at the actual impact on margins and costs, the cost benefit trade off is well worth it.

Now we want to take a step back and look at how this is creating value for you, Loblaw's. Now when we look at the current state of your company, you are generating return metrics of roughly 10% return on equity and 3% return on assets which makes sense because you are primarily a grocery chain. When you look at the return metrics of the apparel industry, we see numbers that are much higher with averages of ROE at 40% and ROA at 15%. As a company, you want to be investing money in areas that will ultimately lead to accretion and that is exactly what you are doing by expanding into new countries with Joe Fresh. With this new and ethical approach to manufacturing and production, not only are you investing a segment of your company that is clearly the most attractive in terms of valuation – you are also driving fundamental change in an industry that desperately need it. Not to mention, building a facility will cost anywhere from 15-40 million dollars and have the balance and liquidity to easily do this with run-rate capex of 1 billion and 1 billion of cash on your balance sheet.

Source: <http://www.bloomberg.com/news/articles/2013-06-05/ninety-cents-buys-safety-on-22-jeans-in-bangladesh>

Financial data sourced from CapIQ



2015: Lead the Movement

- Lead the movement, see the collapse not only as a tragedy, but as the opportunity to create change
- Keep producing clothes with Bangladesh manufacturing partners (100%)

2016: Planning and logistical phase of new factory development

- Market research on the two suggested cities in Bangladesh
- Create work safety programs on how to increase workers skills from the beginning of production

2017: Begin construction of two new factories as test

- Have special manufacturing team look into transparency and correct audits in current manufacturing plants to foresee what issues and remedies are to be expected and mitigate risks
- Begin workshops in towns to help workers get training and begin R&D section to create sustainable value by allowing each facility to improve the techniques used by workers to increase competitive advantage and workers safety.

2018/2019: Roll out expansion, assess effectiveness of additional factories in meeting global demand for product

- Begin production in facilities in Bangladesh (10/90)
- Make sure that other production facilities you partner with meet the new safety measures outlined by The Accord and the new regulations imposed to secure safety
- As expansion is growing keep internal audits of the manufacturing plants in Bangladesh and be transparent
- Have internal, team that is going to be in Bangladesh, focus on tailoring skill building and training to the specific needs of the towns targeted

2019: Continue advocacy for other companies to follow suit.

- Expansion continues, track and make changes where necessary

One-Line Strategy: Reshape our supply chain within Bangladesh via the creation of self-sufficient, independently owned, ethical manufacturing plants in impoverished rural areas.

Measurements of Success:

- Ability to meet Joe Fresh expansion demand
- Company sales, job placements
- Safety and workplace improvements, supply from facilities
- Track progress, compare with past results, take action to improve them



Sources:

- http://www.fsg.org/Portals/0/Uploads/Documents/PDF/Measuring_Shared_Value.pdf



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- http://www.fsg.org/Portals/0/Uploads/Documents/PDF/Measuring_Shared_Value.pdf

LEVELS OF SHARED VALUE	BUSINESS RESULTS	SOCIAL RESULTS
Reconceiving product and markets: How targeting unmet needs drives incremental revenue and profits	<ul style="list-style-type: none"> Increased revenue Increased market share Increased market growth Improved profitability 	<ul style="list-style-type: none"> Improved patient care Reduced carbon footprint Improved nutrition Improved education
Redefining productivity in the value chain: How better management of internal operations increases productivity and reduces risks	<ul style="list-style-type: none"> Improved productivity Reduced logistical and operating costs Secured supply Improved quality Improved profitability 	<ul style="list-style-type: none"> Reduced energy use Reduced water use Reduced raw materials Improved job skills Improved employee incomes
Enabling cluster development: How changing societal conditions outside the company unleashes new growth and productivity gains	<ul style="list-style-type: none"> Reduced costs Secured supply Improved distribution infrastructure Improved workforce access Improved profitability 	<ul style="list-style-type: none"> Improved education Increased job creation Improved health Improved incomes

Report from FSG, a consulting company that works on measuring social impact

The Way We Do Business

Here is a snapshot of the impact we have had over the past seven years.



Launched our first CSR report.

Opened our first environmental flagship store – Real Canadian Superstore in Scarborough, Ontario.



\$3 million



Provided a \$3 million gift to fund the Loblaw Chair in Sustainable Food Production at the University of Guelph.

Launched our PC Free From line of beef, pork and poultry – animals raised without hormones and antibiotics.



Announced our sustainable seafood commitment, changing the way seafood is sourced.



Completed four rooftop solar panel projects. By year-end 2014, we will have one of the largest rooftop solar panel portfolios in Canada.

2.5 billion
FEWER BAGS

2007



Introduced the PC GREEN Reusable Bag.

2008



3 million

Introduced our national recycling program for plastic flower pots and flats. More than 3 million containers were collected and recycled that year.

2009

1.3 billion
FEWER BAGS



Achieved our initial target of saving 1 billion plastic shopping bags from being used.

2010

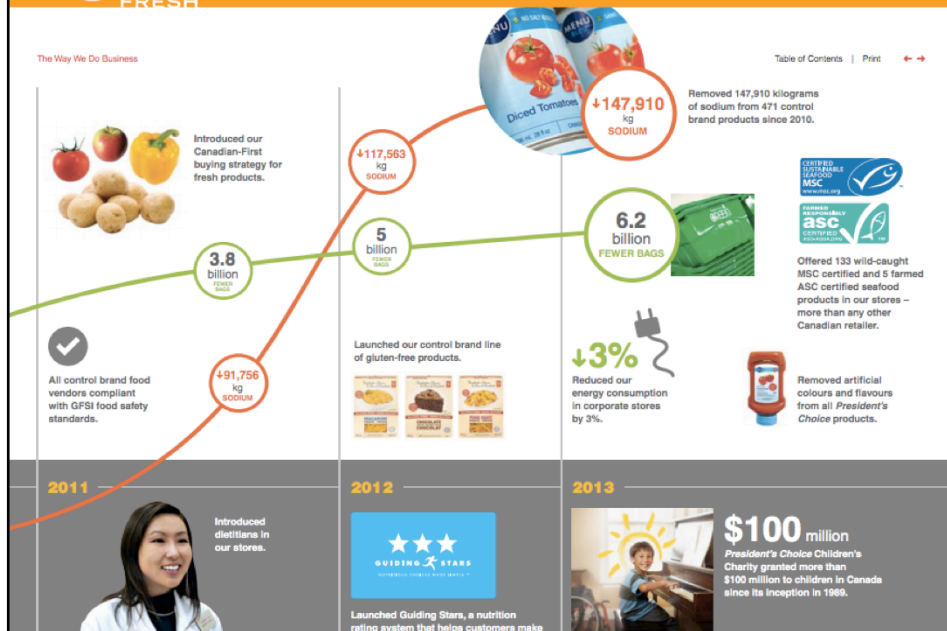
+30,666 kg
SODIUM



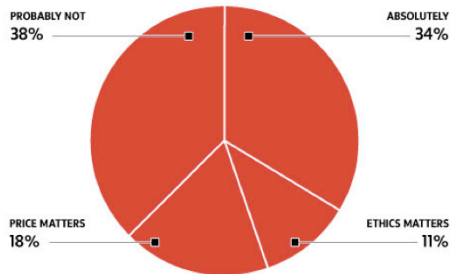
Made a commitment to reduce sodium in our control brand products as part of Health Canada's recommended sodium reduction guidelines.

The Way We Do Business

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**WILL THE BANGLADESH FACTORY COLLAPSE
CHANGE YOUR BUYING BEHAVIOUR?**

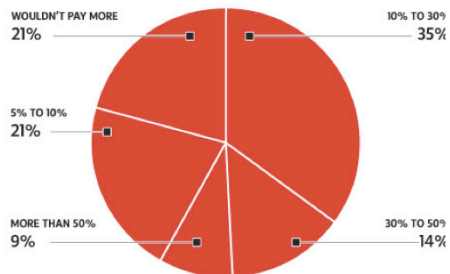


THE GLOBE AND MAIL

Shopping habits

The majority of the 383 readers who participated in our online poll said the Bangladesh factory collapse was "probably not" a tipping point that would change their buying behaviour. They do, however, want retailers to change their labour practices. Another 18 per cent said it would not change their shopping habits.

**HOW MUCH MORE WOULD YOU BE WILLING TO PAY
TO ENSURE YOUR CLOTHING WAS ETHICALLY MADE?**



THE GLOBE AND MAIL

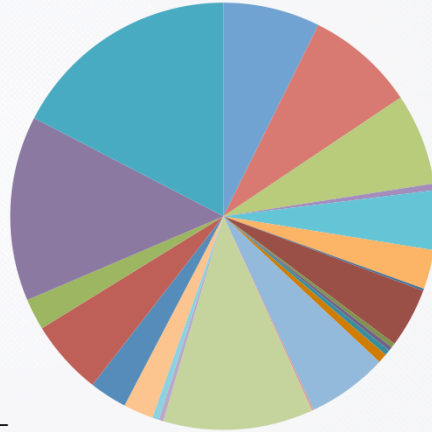
Money talks

We also asked our readers to put their money where their mouths are and determine how much more they'd be willing to pay for ethically made clothing. Nearly 80 per cent of the 383 respondents said they'd pay more, but not that much more. Only about a quarter of our readers said they'd pay 30 to 50 per cent more.

<http://www.theglobeandmail.com/news/world/what-makes-bangladesh-made-clothing-so-cheap/article11578175/>

FACILITY COSTS BREAKDOWN	COST	%
Substructure	865000	5%
Frame and Upper Floors	975000	6%
Roof	815000	5%
Stairs	60000	0%
Extrenal Walls, Windows, and External Doors	528500	3%
Internal Walls and Partitions	350000	2%
Internal Doors	20000	0%
Wall, floor, and ceiling finishes	530000	3%
Fittings and furnishings	40000	0%
Sanitary fittings	35000	0%
Disposal Installations	48000	0%
Water Installations	84000	1%
Space heating and air treatment	720000	4%
Ventilating Systems	16000	0%
Electrical Installations	1340000	8%
Gas Installation	40000	0%
Lift Installations	60000	0%
Protective Installations	267000	2%
Communications	336000	2%
Special Installations	670000	4%
Builders work in connection	280000	2%
External works	1650000	10%
Preliminary and contingencies	2049000	13%
In Euro's	11,778,500.00	
Currency	16,372,115.00	100%

\$ 16 million estimate



Source: http://www.aecom.com/.../Co.../GlobalManufacturing_CM_June11.pdf