

# ESG supply chain sentiment in the news

As consumer demand shifted and labour shortages became apparent, supply chain issues first rose to prominence during lockdown. Problems continued to dominate headlines last year too, as business models were disrupted and many companies incurred increased costs.

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Since then however, some sectors – particularly Consumer Staples – have rebounded and demonstrated marked improvement. Through sentiment analysis data from August 2022 – August 2023, it's possible to gain an insight into what companies across several sectors experienced, and explain why sentiment towards supply chains is broadly on the up.

## Consumer Staples

The Consumer Staples space has seen the most improvement in the past year in terms of supply chain sentiment. A key reason for this is the consumable and perishable nature of consumer-staple products, which leads to higher inventory turnover than with other sectors. These companies have several additional inventory cycles to experiment and fine-tune their supply chains.

Another factor is high visibility from consumers, which provides these companies with a greater incentive to implement new methods to cut costs

and reduce carbon footprint.

One case study worth exploring further is Walmart, which has been busy improving its supply chain. Walmart has been using AI to run simulations and predict consumer behaviour during sales-boom events like Black Friday to anticipate supply chain needs. Walmart is also planning to open in 2025 its first-ever beef facility, which will create more than 600 new jobs in Olathe, Kansas. This is part of Walmart's larger goal to establish an end-to-end beef supply chain. The company also announced an updated seafood policy in June that will provide greater transparency and monitoring of fishing activities in the supply chain to reduce risks such as illegal fishing.

Walmart is also partnering with Pepsi on a seven-year regenerative agriculture initiative. This plan is expected to reduce emissions of 4-million metric tons of carbon dioxide by 2030. Regenerative agriculture encompasses various land-management practices, such as improving the co-existence between agricultural land and wilderness vegetation, fostering carbon sinks, and encouraging wildlife habitation.

Employing these methods can promote soil health, pollination capacity, and overall environmental health. Many companies have invested in regenerative agriculture practices in recent years, including major grain producers.

## Materials and Industrials

When compared to Consumer Staples, both Materials and Industrials sectors have been slower to rebound in supply chain sentiment. This is most likely due to the capital-intensive nature of these sectors. The majority of materials and industrial companies build and aggregate machinery and vehicles from other specialized parts. The parts themselves can be expensive, hard to obtain, or in many cases, both. Furthermore, there is high demand for some materials and components with an emphasis on sustainable development.

Indeed, supply chain issues are still affecting large manufacturers of aircraft and other vehicles. Boeing had been expected to deliver 51 new aircraft to Ryanair in April, but it was unable to complete the delivery until July due to supply chain issues. Boeing receives payment upon delivery of the aircraft, so as Airways Magazine points out, "supply chain problems create cash flow problems". From a business perspective, supply-chain risk is still relevant for companies such as Boeing and other aircraft manufacturers.

There was also recent supply chain news involving General Electric relating to Materials and Industrials. GE plans to improve the wind turbine supply chain

through a *joint venture with Toshiba* in Japan. Based on online news data, wind turbines are still a major segment for GE, and this latest development with Toshiba further supports that idea. GE is actively working to improve its supply chain with this latest venture, and clearly there is room to do so.

## Consumer Discretionary

Supply chain sentiment in the Consumer Discretionary space has also taken time to bounce back. This is due primarily to the variable nature of the automotive industry, coupled with an increasing demand for electric vehicles. Electric vehicles—a relatively new consumer good compared to internal combustion engine vehicles—require their own supply chain, and that supply chain is still growing and evolving.

One example is Tesla, which has been working on reducing its need for *cobalt*. The company has also produced its first *cyber truck*, but has had to delay mass production due to supply chain issues. Tesla is also exploring *expansion into India*, a bold move considering that Tata Motors already produces EVs in India at a fraction of the cost compared to Tesla. For example, a Tata Motors EV is about \$10,000 compared to a Tesla that can range from \$45,000 to \$90,000. Tesla will not only need to compete with the Indian manufacturer on price, but also figure out how to set up its supply chain.

Time will tell how successful Tesla will be in shoring up that supply chain. But the fact that it is also focusing on water, and not just on the rare earth minerals needed for production, is a good sign, as water use is becoming a growing concern in the ESG space.

## More sector rebounds on the way

While Consumer Staples sentiment has had the greatest rebound in the past year, it's also clear there has been a concerted effort from the Materials and Industrials sectors and the automotive industry within the Consumer Discretionary sector to promote sustainable development through clean technology and EV production. Sentiment has rebounded for those sectors as well, but at a more sluggish rate due to capital constraints and high demand.

In the coming months, it will be worth keeping an eye on legislation – particularly the Inflation Reduction Act – which may help spur activity in these sectors. EU rollouts around carbon taxation on imports may also increase innovation further.

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