

# Making the Business Case for EHS Supply Chain Initiatives

NAEM Supply Chain Workshop

Jenni Cawein, Sr. Manager, EHS Engineering

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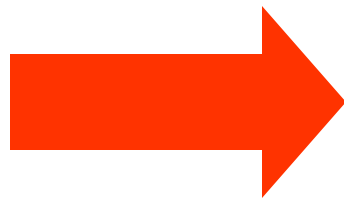
# Leading Supplier of Health Care Products

**IV, Kidney Dialysis, Blood Products, Vaccines, Oncology**



Baxter International Inc. (NYSE: BAX) is a global health care company that, through its subsidiaries, provides critical therapies for people with life-threatening conditions.

Why do we care about the EHS performance of our suppliers?



Risk  
&  
Cost

## Risk Management

- **Global environmental regulations**
  - A supplier not aware may result in non-compliance for Baxter – which could mean a costly recall.
- **Supplier's downtime (e.g. due to explosion) may be OUR downtime**
- **Stakeholders hold us accountable for suppliers' environmental and labor practices**
  - Customers, investors (esp. Socially Responsible Investors) frequently ask how we manage our suppliers' environmental systems.

## Suppliers can help us meet goals

➤ Reducing:

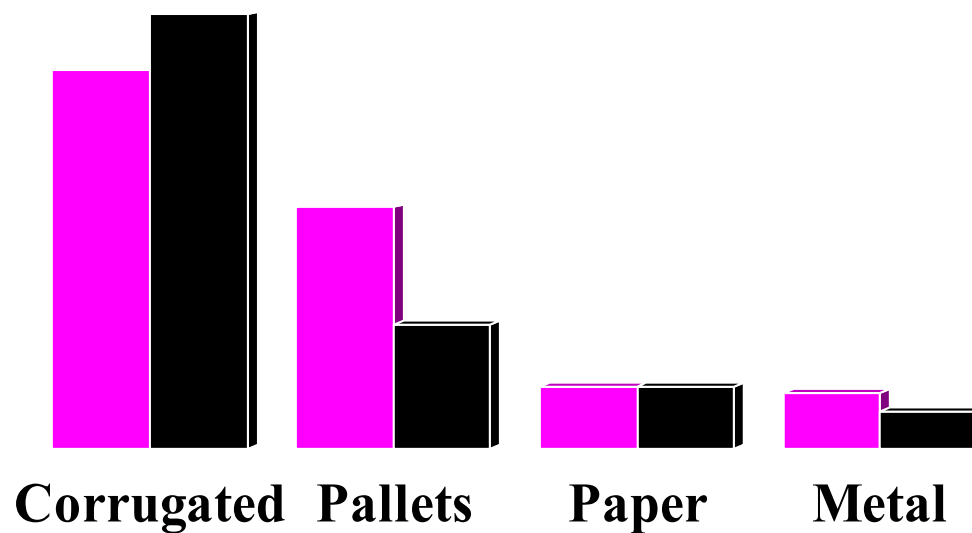
- Energy
- Packaging
- Waste
- Accidents
- Air Toxics
- Water
- Inventory



KEY  
ASPECTS  
for 2005



## BAXTER NORTH AMERICAN WASTE STREAMS



	2000 (MM lbs)	2004 (MM lbs)
<b>Corrugated</b>	<b>6.1</b>	<b>6.8</b>
<b>Wood Pallets</b>	<b>3.9</b>	<b>2.3</b>
<b>Paper</b>	<b>1.3</b>	<b>1.1</b>
<b>Metal</b>	<b>0.9</b>	<b>0.6</b>

# Baxter EHS Policy

## Our Commitment To People And The Environment

Adopted May 29, 1997

Baxter will be a global leader in Environmental, Health and Safety (EHS) management. This is consistent with Baxter's business interests, ethics and shared values.

Specifically, we commit to the following:

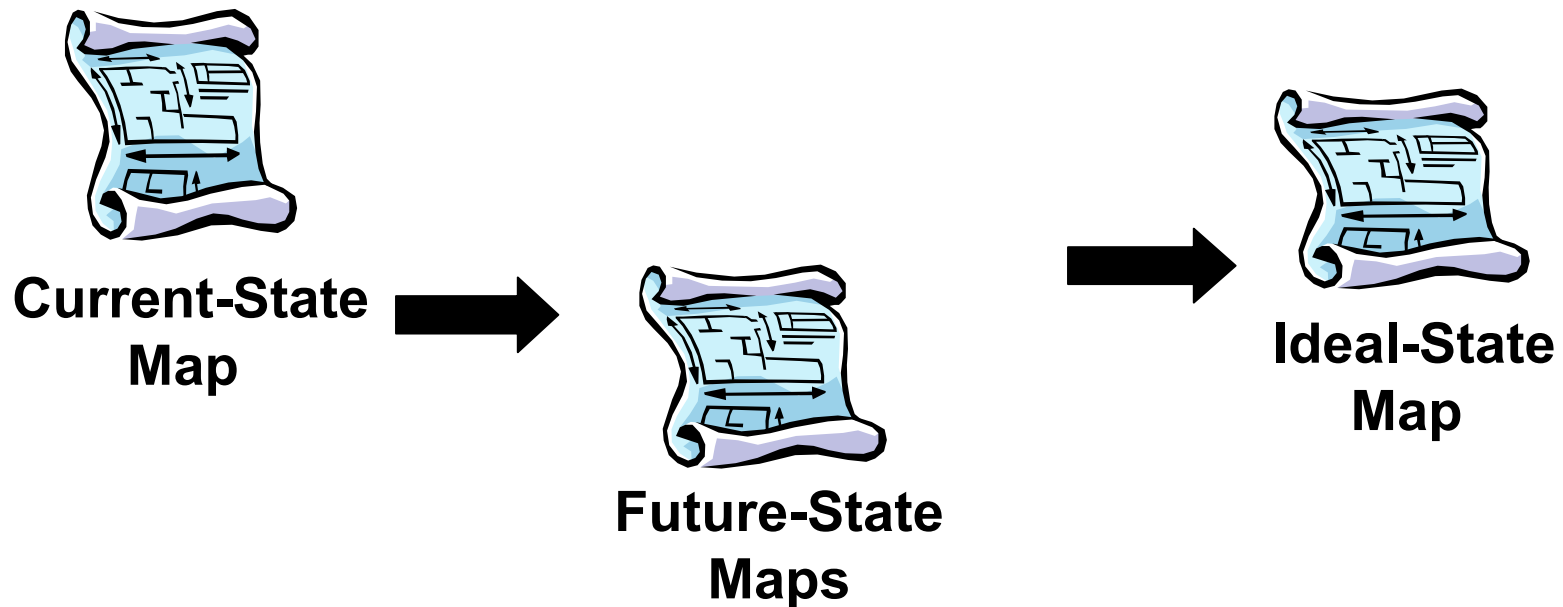
- ***Sustainable Development*** – We will strive to conserve and minimize or eliminate adverse EHS effects and risks that may be associated with our products, services and operations.
- ***Employees*** – We will provide a safe healthy workplace, striving to prevent injuries and illnesses, promoting healthy lifestyles and encouraging respect for the environment. We will ensure that our employees have the awareness, skills and knowledge to carry out this policy.
- ***Compliance*** – We will meet all applicable EHS laws and Baxter EHS requirements, including our own EHS management standards.
- ***Business Integration*** – We will integrate EHS considerations into our business activities.
- ***Customers*** – We will work with our customers to help them address their EHS needs.
- ***Suppliers and Contractors*** – We will work with our suppliers and contractors to enhance EHS performance.
- ***Community and Government*** – We will participate in community and government EHS initiatives.

Baxter commits to continuous improvements in environmental, health and safety performance. We will set goals, measure progress and communicate results.

Compliance with this policy is the responsibility of every employee.

# Baxter's LEAN manufacturing strategy

- Efficiency of supply chain important component





## Global cost-cutting measures

- Expensive for us to change raw material suppliers
- AND – if we can help suppliers find methods which save Baxter \$\$ (e.g. lower waste or energy cost), that will keep them more competitive.



So we know there's a business case...

- Risk
- Cost
- Investor pressure
- Company operational efficiencies

Now how do we educate purchasing and get them to do things?

# 1. Understand what they are hired to do and what is important to them.

- Purchasing professionals care about:
  - Pricing AND overall cost
    - Trend to consolidation (fewer suppliers)
  - Minimizing supply chain disruptions
    - On-time delivery
    - Consistent quality
  - Keeping suppliers HERE
- Find out as much about their goals as possible
  - Websites, staff meetings, ask!

## 2. Don't assume they know what you know

Why would they? But do assume that if they understood what you did, they would want to work with you.

## 3. Use concrete data and examples wherever possible

This was my key hook...

## 4. Don't "hit and run" and expect them to get it – develop a partnership and follow up!

## Our experience started in 2000

- Losing ground in nonhazardous waste goals (much of which came from supplier packaging)
- EHS had developed a Global EHS supplier questionnaire, but could not get Purchasing to do anything with it
- Phoned VP of Purchasing and asked to speak at next staff meeting
- Objectives:
  - › Understand them better
  - › A little education about sustainable development, business value and our EHS organization
  - › Open them up to a partnership
  - › Get them to do something!
- My hook was going to be the concept of “total cost of ownership” and the data we tracked. I knew they committed to reduce MRO supply cost....

Here is the presentation I used...

Let's go back to Feb, 2000

## Things I would add now...

- Use the Sony example (their supplier nightmare happened in Oct, 2001). Strikes fear in the hearts of multinationals!
- Use actual customer and socially responsible investor questionnaires (showing that they are asking how we manage our supply chain environmental performance).
- Use oil availability and China/India as illustration of rising cost of raw materials (did use that later...)
- Use growing trend of manufacturing moves overseas and importance of strengthening suppliers here – e.g. examples of suppliers finding new delivery systems (such as reusable totes) that eliminated waste for us to dispose AND saved the supplier money. Or lean manufacturing.
- Add more examples of successful partnerships (e.g. the Ford/DuPont painted car example), as well as successes we've had internally (Staples, plastic resin delivery by rail, etc.)

## Anyway, it worked (sort of....)

- Invited to participate on purchasing teams
- THEY started to add environmental aspects to contracts and to ask EHS advice about commodities and things they should ask
- So we were getting calls....
  
- BUT – still was not making progress on EHS questionnaire deployment
  - “why are we doing this again – just to say we’re doing it??”
  - Questionable value – which I FINALLY UNDERSTOOD!
  - Resulted in THEIR idea for supplier workshops and supplier EHS visits!!!! Now they could see some real value.



## After 5 years...

- We continue the journey but as partners
- The supplier questionnaire has been fully deployed here and in Europe
- Some are sensitized and notice things on the news
- They invite me to staff meetings now and then
- Despite significant pressures relating to escalation of cost of raw materials, suppliers moving overseas, etc., they support things like Green Suppliers Network...
- Because they understand the value to our business. And they know now I won't bring them anything that doesn't contribute real returns.

## My advice...

- Pre-planning is essential. Educate yourself, understand their objectives and tailor your message.
  - If you can't find specifics to your own purchasing guys, use the internet to find what purchasers are talking about in general.
- Use real data and real examples. Avoid fuzzy EHS “do-the-right thing” talk. Eventually you can use that, and then the combination becomes very powerful. But it will not hook them.
- Be persistent! This is a long-term relationship.