



Responsible Sourcing Manual Helps Companies Establish Supply Chain Transparency

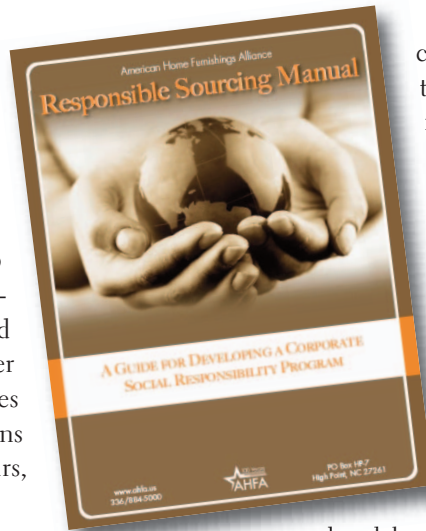
LAST MONTH AHFA RELEASED ITS NEW *Responsible Sourcing Manual*, a guidance document that helps home furnishings companies establish comprehensive corporate social responsibility (CSR) programs.

“Whether your company is ready to embrace complete supply chain transparency or not, there are a number of good reasons to get to know your suppliers better and to promote more sustainable practices throughout your supply chain,” explains AHFA’s vice president of regulatory affairs, Bill Perdue.

The industry’s largest companies now have little choice in the matter, he adds. The new California Transparency in Supply Chains Act, which went into effect January 1, requires large manufacturers and retailers (those with \$100 million or more in sales) to provide supply chain disclosures on their corporate websites. Specifically, this regulation requires companies to tell consumers what policies they have in place, if any, to prevent human trafficking and slavery in their supply chains.

But even if the California law does not apply to your company, Perdue says the following trends in the global marketplace make supply chain knowledge imperative:

- **Legal risks.** The Gibson Guitar raids last year remind our industry that failing to hold suppliers accountable can make a



company liable to fines and criminal sanctions if their products are found to contain illegally sourced wood.

- **Reputational risks.** Environmental organizations are continually identifying new high priority environmental and social issues associated with global manufacturing. Individual companies – particularly those with high profile brands – can become the target of “brand-jacking” campaigns. But the industry’s reputation as a whole would also be at risk if large, profitable retailers or manufacturers were found to be ignorant of poor working conditions,

slave labor or environmental waste involved in the overseas production of residential furnishings.

- **Operational risks.** As the *Responsible Sourcing Manual* points out, encouraging suppliers to implement standards related to labor and environmental practices is not only an ethical decision, but also a mechanism to help ensure business stability. As incomes grow throughout the developing world, the pressures for cleaner environments and better working conditions will continue to build. Companies with production facilities in China have found this to be the case throughout the past year. In the fall, hundreds of protesters in eastern China targeted a solar panel factory that was linked to a large fish kill in a nearby river. And throughout the

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FRONT BURNER *Issues and events that are a priority in February*



DON'T MISS THE SUMMIT

There is still time to register to attend the 2012 Sustainability Summit, the only event in the home furnishings industry dedicated to helping companies meet and exceed their sustainability objectives. In addition to keynote speaker Michael Lynch, managing director

of NASCAR Green Innovation, the program features presentations on eco-friendly furniture packaging innovations, new recycling alternatives, sustainability reporting, the benefits of third-party certifications and EFEC and Sustainable by Design case histories. PLUS, the second day of the Summit program is devoted to key environmental compliance issues, including supply chain transparency, CPSIA testing requirements, Lacey Act compliance and more. ★



AHFA Sheds Light on Rocky Compliance Landscape

WHEN THE NEW CALIFORNIA TRANSPARENCY IN Supply Chains Act took effect on January 1, Furniture Brands was ready to comply. On the first day of 2012, our company website and all of our brand websites included a link on the home page to the Furniture Brands supply chain policy, which includes a formalized “Manufacturing Code of Conduct.”

That Code of Conduct includes, among other things, a requirement that our overseas suppliers “will not use any forced or involuntary labor, whether prison, bonded, indentured or otherwise.”

Like many of you, we conduct on-site audits of our suppliers in the developing world to evaluate their compliance with our prohibitions on using child or forced labor and, in keeping with the requirements of the new California law, this fact is also posted on our websites. The website copy also explains how we train our employees on social compliance issues and what the consequences are for any supplier that does not comply with our requirements.

California law now requires that every company selling products in the State of California with global sales in excess of \$100 million must comply with the California Transparency in Supply Chains Act. So, along with Furniture Brands, this regulation applies to more than 3,000 companies. Among them are manufacturers, as well as retailers, including Wal-Mart, Target, Macy’s, Sam’s Club, Williams-Sonoma, JCPenney, Crate & Barrel, R.C. Willey and Jerome’s among others. In order to provide accurate disclosures on their retail websites, these companies need supply chain information from *all* of their vendors. This, clearly, extends the impact of the California law a little deeper into our industry.

And, with a similar federal law already proposed, this social responsibility-focused regulation is likely to have national impact in the near future.

At Furniture Brands, we were able to prepare for the January 1 compliance date of the California regulation, in part, because of information supplied to us by AHFA. A May 2011 article in *Furniture Executive* provided a good introduction to what was coming. A follow-up webinar in August featured



expert compliance advice and offered insight into consequences that might await companies that fail to comply.

Two of our managers participated in that August webinar. It compelled them to review our current policies and determine whether our company had any deficiencies. Our attorney was able to review any changes and have the required statements ready for posting on all our websites by the January 1 deadline.

Since there are no fines in the enforcement strategy for the California regulation, the consequences of non-

compliance are limited to the possibility of some bad publicity – but bad publicity could easily lead to lost customers.

All of this reinforces the very important fact that, in today’s regulatory environment, we frequently *don’t know what we don’t know* – until AHFA sheds the light. Out of curiosity, AHFA’s Vice President of Communications, Pat Bowling, told me she checked the websites of the top 25 sources for the U.S. furniture market on January 6 to see how many met the requirements of the new California law. She found that **100 percent** of the non-AHFA-member companies on the list had thus far failed to comply, while only 40 percent of the AHFA member companies were out of compliance.

AHFA has begun 2012 with a focused campaign to build our membership. A stronger and broader membership base will help ensure that we continue to get the information we need – like the guidance on the California Transparency in Supply Chains Act – when we need it. I encourage you to invite other companies to join us in AHFA membership, to benefit our entire industry.

Of course, membership alone does not guarantee that you will be fully apprised of the impact of every regulation on your business. You may want to take advantage of the full range of webinars, educational conferences and informational materials supplied by AHFA. I encourage you to register today for the February 22-23 Sustainability Summit in Raleigh, N.C., which will include an entire day devoted to compliance issues related to the environment – from supply chain transparency to CPSIA to formaldehyde emissions.

– Ralph

Responsible Sourcing

Continued from page 1

country's manufacturing hubs of Shenzhen and Guangdong, thousands of workers at auto, apparel, shoe, watch and electronics factories have gone on strike or staged protests over the past year demanding more pay and better working conditions.

"Even without all of this 'risk,' the fact is that consumers are getting more interested in where their products are coming from," Perdue explains. That interest has led major brands – like Patagonia, IKEA and, most recently, Coca Cola – to go to great lengths to add transparency to their supply chains, telling consumers the story behind how their products get to the retail store. Coke will



soon release a "Trace My Coke" application showing "what goes on behind the scenes" in the production of its beverages and the environmental impact of that global process.

AHFA's 28-page *Responsible Sourcing Manual* outlines the benefits of supply chain transparency and CSR programs in today's global marketplace, defines key program components, provides tips on implementation and governance and outlines a process for assessing and monitoring suppliers.

A "resources" section provides sample supplier codes of conduct as well as an overview of key regulations helping to define the role of social responsibility in corporate America today.

The new manual is available to AHFA members in a downloadable PDF format for \$49. An online order form can be found on the AHFA website at www.ahfa.us.

AHFA produced the *Responsible Sourcing Manual* in conjunction with UL Responsible Sourcing, a company formed in August 2011 when Underwriters Laboratories acquired the quality assurance business of STR Holdings, a global leader in providing consumer product quality assurance testing, auditing, inspection and responsible sourcing services. STR Quality Assurance has developed and implemented supplier monitoring programs for over 60 major brands and retailers, as well as over 500 manufacturers in a wide variety of sectors.

AHFA also received assistance from a member-company task force that participated in developing and reviewing the manual. The task force included Ann Clepper, marketing manager for Legacy Classic; Roger Jones, vice president of global logistics for Century Furniture; Rod Miller, director of environmental affairs for La-Z-Boy; Leanne Teasdale, sourced products manager for Flexsteel Inds.; and Grace Weaver, manager of international trade/regulatory compliance for FBN Logistics. ★

SUSTAINABLE BY DESIGN COMPANIES HAVE HEAD-START ON CSR PROGRAMS

AHFA's new *Responsible Sourcing Manual* has been distributed at no charge to all participants in the Sustainable by Design program, which includes social responsibility as one of four key pillars of sustainable supply chain management. The program requires companies to develop policies that:

- Define the corporate commitment to human rights and internationally-recognized labor standards;
- Facilitate compliance with existing and emerging legal requirements related to social responsibility (including the Lacey Act and the California Transparency in Supply Chains Act);
- Identify the company's potential impact on communities and manage any potential risk; and,
- Address the impact of the company's products on health and/or safety.

The *Responsible Sourcing Manual* provides a step-by-step guide to establishing a corporate social responsibility program that meets all four of the above requirements.

"To be honest, this program requirement received little attention when we developed Sustainable by Design in 2008," AHFA's Bill Perdue explains. "Although the concept has received considerable attention in recent years – primarily due to the Lacey Act amendment and the new California supply chain transparency law – most home furnishings companies still have a pretty outdated notion of 'social responsibility.'"

As AHFA began developing the *Responsible Sourcing Manual*, staff realized it would be relevant to many member companies – not just those trying to meet the requirements of the Sustainable by Design program.

"Now we have a baseline tool to help our members accomplish basic social responsibility objectives, even if they are not Sustainable by Design program participants," states Perdue. ★

HOW RISKY IS YOUR SUPPLY CHAIN?

TODAY'S HOME FURNISHINGS SUPPLY CHAINS ARE extremely complex, and there can be several stops around the globe before a product heads for retail distribution. Simply knowing which social and environmental issues to monitor in various sourcing countries may seem like an impossible task.

Internal sourcing teams may have a good sense of what's happening in facilities over which your company has direct control, but what about secondary suppliers?

Also, internal teams may be unaware of social or environmental issues impacting other industries that could spill over into home furnishings production.

To help fill this information gap, AHFA commissioned UL Responsible Sourcing to profile the top five furniture producing countries to identify both existing and emerging sourcing and social risks. These profiles can help AHFA member companies engage in informative conversations with their suppliers and alert their sourcing specialists to risk areas that may need increased attention.

A "subscription" to the Country Risk Profiles comes with purchase of AHFA's new *Responsible Sourcing Manual*. The profiles, which are available to AHFA member companies only, will



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be updated on an annual basis or as needed.

For each of the five countries – including China, Mexico, Malaysia, Indonesia and Vietnam – UL Responsible Sourcing provides a risk rating and ranking according to the company's proprietary Country Risk Index, a quantitative composite of internationally recognized indicies along with UL RS-developed indicies. The Index reflects social, economic, political and labor conditions that impact the probability of

violations with social compliance programs.

Each profile also provides:

- An overview of the labor context, including the regulatory, political, economic and social environment;
- The country's violation frequency as found during assessments conducted in 2011 by UL RS; and,
- Any potential risks specific to the furniture industry.

Three of the five countries profiled, including China, Indonesia and Vietnam, scored as "high risk" in the UL RS Country Risk Index. The profiles for these countries explain the complex social, political and economic conditions at play and how they pose significant challenges to companies' supply chains. ★

Should Furniture Industry Develop Standardized Law Label?

DEVELOPING A STANDARDIZED LAW LABEL FOR THE FURNITURE industry is key to reducing the cost of compliance with a growing number of labeling requirements, Jim Chester, CEO of Assured Products Group, told AHFA members during a webinar last month.

In "Law Labels Made Easy," Chester explained why compliance with current labeling requirements is anything but "easy" for home furnishings manufacturers and importers.

Chester said the top mistakes companies make that result in labeling fines are a missing or inaccurate "declaration of responsibility" or "declaration of quantity." Fitting the required labeling and sales information within the specified parameters also trips up many companies.

"California and New Jersey are the most aggressive" in assessing fines, he reported.

Chester also predicted that an increasing number of importers will find their products held up at ports of entry in the coming year as some 40 different regulatory agencies have a hand in clearing products for entry. From APHIS (Animal and Plant Health Inspection Service – in-

involved in Lacey Act enforcement) to the CPSC (Consumer Product Safety Commission – enforcing safety labeling of products like bunk beds and cribs) to the EPA (Environmental Protection Agency, which anticipates implementing a federal formaldehyde label), federal agencies will be monitoring incoming products in force.

In addition, separate state requirements make labeling issues even more complicated. California has Proposition 65 and CARB (formaldehyde) labeling requirements, while the State of Washington and other states are considering similar regulations, especially for identifying the presence of chemicals commonly used as flame-retardants.

"At the end of the day, a standardized label is going to be the way to reduce the cost of compliance," Chester concluded. His company offers a labeling program that helps companies identify the correct size of label, the correct font size on that label and the correct content for that label. They also offer a comprehensive markings review that reduces complexity and cost while assuring conformity. For more information, contact Chester at jchester@apgrp.com. ★



MSU Professor Offers Expertise at March Manufacturing Summit

CLAY WALDEN HAS MORE THAN 20 YEARS EXPERIENCE IMPLEMENTING quality and productivity improvements within a variety of companies. He'll turn his knowledge and experience to the home furnishings industry when he presents at AHFA's Manufacturing Summit on March 21 at the Franklin Center on the campus of Mississippi State University.



Dr. Clay Walden

Walden currently serves as the director and research professor of Mississippi State's Center for Advanced Vehicular Systems (CAVS). Since joining CAVS, he has managed over \$5 million in externally funded contracts primarily focused on improving manufacturing performance within the State of Mississippi. He has a Ph.D. in industrial engineering from MSU and recently completed a dissertation titled, "A Taxonomy-Based Assessment Methodology for Small- and Medium-Size Manufacturers."

Walden has authored more than 100 publications on



Jerry Epperson



Bill Perdue

topics ranging from lean manufacturing and Six Sigma to assessment methodology and simulation optimization. His Summit

presentation will focus on a simulation model for furniture production.

Registration for the Manufacturing Summit is available on the EVENTS page at www.ahfa.us. The \$99 registration fee includes a light breakfast, lunch and refreshments during breaks. The program runs from 9 a.m. to 4 p.m.

Also on the agenda is Jerry Epperson, who will present his annual industry overview, this year focusing on the impact of China on domestic operations. AHFA's Bill Perdue will present a regulatory update and Franklin Furniture Corp. will present an EFEC environmental improvement case study. ★

UPCOMING WEBINARS *Mark your calendar for these upcoming webinars:*

Lead in Leather. 1 p.m. Thursday, February 9. If your company sells leather or bonded leather, the lead limits established by the Consumer Product Safety Improvement Act apply to your products. The lead in paint and coatings requirement (16 CFR 1303) applies to coatings on bonded and pigmented leathers. Learn more in this one-hour webinar presented by Mary Martha McNamara, an attorney whose practice focuses on regulatory and legislative issues affecting consumer products, along with Mary Toro, Director of the Regulatory Enforcement Division, Office of Compliance, at the Consumer Product Safety Commission.

"Made in America" Standards. 1 p.m. Thursday, March 8. Importers face an array of confusing regulations when it comes to labeling products. For example, an imported product might not have to be marked with a foreign country of origin for Customs purposes but could be sold to the U.S.



government because it meets the requirements of the Buy American Act. However, just because it is eligible for sale to the U.S. government does not necessarily mean it could carry a "Made in the USA" label, because it might not satisfy the relevant Federal Trade Commission rules. James Kearney, an attorney with

Womble Carlyle Sandridge & Rice in the firm's Washington, D.C. office counsels clients with respect to country of origin determinations, U.S. Customs laws and FTC "Made in USA" standards for labeling and marketing. He'll sort through the regulatory challenges and answer questions during this one-hour webinar.

Registration for all webinars is available online at <http://university.ahfa.us>. ★



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2012 CALENDAR

FEBRUARY 22-23	SUSTAINABILITY SUMMIT Renaissance Raleigh North Hills Raleigh, NC
MARCH 21	MANUFACTURING SUMMIT Franklin Furniture Center Starkville, MS
MARCH 27-28	AHFA BOARD OF DIRECTORS Ritz-Carlton Pentagon City Washington, D.C.
APRIL 21-26	HIGH POINT MARKET
MAY 6-8	HOME FURNISHINGS INDUSTRY CONFERENCE Westin Mission Hills Palm Springs, CA
JUNE 3-6	SHOWTIME TEXTILE MARKET High Point, NC
JUNE 14	AHFA SCHOLARSHIP GOLF TOURNAMENT Lake Hickory Country Club Hickory, NC
JULY 18	SPECIALIZED FURNITURE CARRIERS ANNUAL MEETING Embassy Suites Kingston Plantation Myrtle Beach, SC
JULY 17-19	ICFA PREVIEW SHOW Merchandise Mart Chicago
JULY 20-21	GLOBAL SUPPLY CHAIN CONFERENCE Embassy Suites Kingston Plantation Myrtle Beach, SC
JULY 30-AUG. 3	LAS VEGAS MARKET
AUGUST 22-25	INTERNATIONAL WOODWORKING FAIR Georgia World Congress Center Atlanta
SEPTEMBER 20-23	INTERNATIONAL CASUAL FURNITURE & ACCESSORIES MARKET Merchandise Mart Chicago
OCTOBER 13-18	HIGH POINT MARKET
NOVEMBER 8-10	AHFA ANNUAL MEETING Florida location TBD

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