

Supply chain review: 2012

INTRODUCTION

Pearson purchases goods and services valued at over £2bn each year. This total includes our investment in research and development such as our advances to authors and the development of new digital products and services.

Pearson was a founder signatory to the UN Global Compact in 2000. We were clear from the outset that we would use our influence with our suppliers to improve standards for their employees and the communities in which they operate. So, in 2001, we made a series of commitments that covered labour standards and human rights as well as environmental responsibility, and extended these to cover our supply chain. These commitments, together with the Pearson code of conduct, remain the guiding principles against which we judge our actions and performance today.

Labour standards and human rights

We have set out the commitments that we expect from all our suppliers. Specific clauses relating to these standards are an integral part of our contracts for key suppliers. These standards include the rejection of forced and compulsory labour, a respect for diversity, a minimum age to work on Pearson projects and compliance with environmental and other regulations.

Last year, we reviewed our process for managing compliance with our standards. Building on best practice across the group, we have adopted a single global policy and approach. This sets out our own standards as well as how we approach risk assessment, supplier visits, third party audits and management of non-compliance. This year, we have developed a single approach to assessing supplier risk.

Last year, we introduced a new Vendor Relationship Management (VRM) online system to manage many aspects of our vendor relationships, including proof of certifications and accreditations for existing suppliers and as a condition of business for potential suppliers. Labour standards and environmental responsibility are fully integrated into that system. This is a global system and will, in time, allow an easy insight into opportunities for improvement as well as areas of risk.

Compliance with our standards – independent third party auditing

Our production departments this year continued our programme of visiting suppliers all across the world. These visits are an opportunity to reinforce our commitment to the abolition of child labour and all forms of forced and compulsory labour, as well as environmental responsibility.

We also work with industry partners on these issues. Our policy requires that suppliers based in high risk countries will undertake an independent third-party audit before they are approved as a supplier and to agree to regular review audits as an existing supplier. Our aim is that these audits help improve business practice.

Environment - paper

Our books, newspapers and magazines all use paper. We lead the way in investing in new technology to provide opportunities for our customers and readers to access our content digitally. Nevertheless, we expect that our use of paper will continue to be an important means for delivering our products.

We source paper primarily from North America and Scandinavia. Paper is a priority environmental issue for us. We:

- First adopted and publicly disclosed our environmental policy with regard to paper sourcing in 2003;
- Collect and map data on the forest of origin, certification systems applicable and recycled content for the papers we purchase;
- Talk about our guidelines with our key paper suppliers when we meet and as part of our contract discussions;
- Discuss our approach to paper purchasing with customers, environmental groups, investor analysts and other interested parties;
- Retain Forest Stewardship Council (FSC) chain of custody certification allowing books to carry the FSC label for Dorling Kindersley and Penguin in the UK;
- Hold FSC chain of custody accreditation for our businesses in North America;
- Hold regular training sessions for our production teams around the world on both labour standards and environmental responsibility issues. The latest session took place for the combined production teams of DK, Penguin in the UK and Pearson International in 2013.

In addition to the standards we set ourselves through our paper purchasing guidelines, we also have a responsibility to use fewer resources where we can. This delivers both environmental benefits as well as cost savings.

Our commitment	How we measure progress	
To use FSC papers where we can and our own grading system	We track and report the FSC volume we purchase and the grading system we use to meet our requirement to purchase from known, responsible Sources	Chart as Page 43 of AR
To be ever more efficient in how we use paper as the most significant natural resource for us	We track the total metric tonnes of paper we use and how that compares to revenue The paper used per £1m of non-digital revenue increased in 2012 reflecting a shift to digital services	Chart as Page 42 of AR

CASE STUDY

Pearson is a SFI Partner in Forest Conservation

SFI Partners in Forest Conservation aims to certify ten million acres of forests across the United States and Canada by the end of 2017. To find out more about the programme and how it aims to conserve forests right across North America, visit <http://www.sfiprogram.org/>

Environment - print

Less than 0.5% of Pearson products in 2012 were printed by our own operations. We currently have one small digital print operation in the US. This operation provides short-run and print-on-demand products, typically custom client applications and in support of our testing business.

Late in 2012, the FT announced that it would resurrect a dormant subsidiary St Clement's Press and take over as third-party operator of its former printer Newsfax (Bow). Newsfax entered administration earlier in 2012. This means that an element of the FT printing will be in-house for 2013.

In addition to our general approach to supplier responsibility, we ask our printers for additional reporting in key areas. We have for a number of years maintained a printer register of environmental performance. Last year, we incorporated this into the roll out of the new Vendor Relationship Management (VRM) system across Pearson.

Environment – distribution and shipping

Our books are produced around the world, requiring shipment from the printers to our distribution centres. We outsource road distribution and shipment of our products to third party carriers. We have worked with suppliers on consolidating shipments to maximise container loads and monitor environmental performance as part of the contractual arrangements. Inventory management performance metrics covering all book businesses worldwide are in place including internal reporting process by facility.

Working with industry partners

We believe that working with industry partners in setting social and environmental standards is a responsible approach to improving global practice. This approach has many benefits including:

- Reducing the burden on the supplier - they only complete one audit instead of several, different processes. This is particularly important for smaller suppliers;
- In many of the markets where we operate, Pearson alone has insufficient influence with suppliers to enforce a set of standards;
- The sector working together helps set terms of trade and reinforce the importance of non-financial measures of performance.




Some of the most important industry initiatives:



- We were a founder member of the group of publishing companies in the UK that established PreLIMS - a common social accountability standard. We also recognise the ICTI Care Process;
- We are a member of the World Wildlife Fund (WWF) Forest & Trade Network and through this group, work with WWF and other company members to improve environmental standards of paper purchase;
- Helped found Publishers database for Responsible Environmental Paper Sourcing (PREPS), an industry collaboration to map the environmental characteristics of paper.

- Worked to set up Publishing Industry Product Safety (PIPS), an industry partnership to map the safety of components in our products.

Pearson was the first company to endorse PREPS, PIPS and PreLIMS globally.

Plans

	2012 Plans		2013 Commitments
Paper	Develop a global strategy to maximise and grow our commitment to Forest Stewardship Council (FSC)	 Ongoing. Strategy on hold pending completion of Penguin Random House	Pearson UK to seek to secure Forest Stewardship Council (FSC) accreditation by 2015
	Using 2008 as the baseline year, to reduce the metric tonnes of paper required to generate £1m of non-digital revenue by 25% by the end of 2012	Achieved a 20% reduction against a target of 25%. We again reduced volume of paper purchased	Set a new target pending completion of Penguin Random House
Vendor relationship management	Roll out vendor relationship management system to existing and new suppliers and report on take-up	 Ongoing. VRM now covers over 1,000 vendors with 20% of our total supplier community registered or on the path to registration.	Continued roll out vendor relationship management system to existing and new suppliers and report on take-up
Printer	Integrate environmental metrics into key data marts within the vendor relationship management system starting with paper and print	 Achieved. Environmental metrics integrated in paper marts and printer survey	Embed social and environmental risk based assessment into vendor management process

-  Target achieved
-  Target ongoing