

Corporate Social Responsibility in Supply Chain Management: A Case Study on NTUC FairPrice Cooperative Ltd

Singapore

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Executive Summary

NTUC FairPrice Cooperative Ltd is the leading supermarket retailer in Singapore. The company is known as a “supermarket with social conscience.” Its supply chain activities focus on developing effective strategies to improve product quality and safety by working closely with its suppliers in implementing standards and good CSR practices.

Singapore imports 95% of its vegetables from other economies since the local farms cannot meet the local demand. FairPrice itself imports about 80% of its vegetables. Sellers need to ensure that the vegetables are safe for consumption and its supply is ample.

FairPrice invested in a fresh food distribution center in 2002 to enhance its ability to move its stock faster and maintain freshness quality. The Good Agricultural Practices for Vegetable Farming (GAP-VF) certification ensures that local suppliers meet the standard but the certification does not cover overseas suppliers. FairPrice needs to encourage these overseas suppliers to adopt similar standards.

The standard applied to organic vegetables is even higher. FairPrice works with Agrifood Technologies Pte Ltd to develop an in-house certification program that would provide assurance of the integrity of the organic produce.

FairPrice participates in the Pekan Baru project, a collaboration of the Indonesian and Singapore governments. FairPrice purchases 50 tons of vegetables per week from Pekan Baru. As the sole importer of the vegetables produced in Pekan Baru, FairPrice provides more work and income for more than 500 farmers and many operators along the supply chain.

The project also involves technology transfer which helps the farmers to implement good agricultural practices and get higher yields of better quality vegetables. Pekan Baru farmers learned the technology on cold chain management which makes it possible to maintain the freshness of vegetables while being transported from the farm to FairPrice distribution centers.

With quality assurance, FairPrice packages the vegetables under its house brand, Pasar. Branding the vegetables under Pasar has helped to market and increase demand for vegetables from Pekan Baru since FairPrice is a trusted brand in Singapore.

CSR is a journey and FairPrice continues to strive to be the best place to shop, the best place to work, and the best corporate citizen.

Introduction

In the retail sector, companies compete for the consumer’s money by looking at the marketing mix of 4Ps – Product, Price, Place and Promotion. These are traditionally the four factors that retailers consider in their marketing strategy. However, due to globalization and better consumer awareness, retailers need to address another 3Ps - People, Planet and (not only) Profit.

Consumers no longer just buy what is displayed on the retail shelves. They are asking questions as to how the products have been produced, and what has been their impact on society and the environment. For retailers to compete effectively in the market today, they need to assure consumers that what they put on the retail shelves are ‘ethical products’.

In the supermarket retail industry, product quality (e.g. freshness, taste) and safety are two of the key concerns. If consumers in Singapore are in doubt about the product quality and safety of any retailer, they have alternative sources such as vendors in local fresh produce markets. Hence, to

compete effectively, supermarket retailers need to look at how and not just what they are doing in business. By examining the opportunities and challenges in the context of Corporate Social Responsibility (CSR) within the supply chain, businesses can sharpen their competitive edge and be good corporate citizens.

Company Profile

Established in 1973 by the labour movement, NTUC FairPrice Cooperative Ltd has grown from its first shop set up to moderate the price of sugar and rice to being the leading supermarket retailer in Singapore. It employs over 5,000 and runs a retail network of 216 outlets comprising 76 FairPrice supermarkets, one FairPrice Finest, two FairPrice Xtra (Hypermart), three Homemarts, 19 FairPrice Xpress and 116 Cheers Convenience Stores. FairPrice's founding mission was to moderate the cost of living for the ordinary households in Singapore. Over the years, FairPrice's mission has evolved to its present mission which is to moderate the costs of a good life. Essentially, FairPrice's aim is to be:

- the best place to shop,
- the best place to work, and
- the best corporate citizen.

To be the best place to shop, FairPrice focuses on maximizing consumer satisfaction which is based on its brand promise of delivering value, quality and service. Key to this commitment are its procurement practices. FairPrice's product sourcing takes into account consumer feedback and needs, and market trends. It sources from established and reputable companies. It always tries to diversify its sources of supply, particularly for essential items. It also develops its own range of house brand products to offer consumers an alternative to national brands.

FairPrice plays a strong role in establishing the price of essentials in Singapore. During the avian flu outbreak that resulted in the ban of egg imports from the region, FairPrice responded swiftly to the crisis by putting in place precautionary measures to curb profiteering. To prevent arbitrage, FairPrice took unpopular but necessary measures in restricting the purchase of eggs. To further alleviate the egg shortage, it imported Australian and New Zealand eggs as alternatives. Even after the ban on Malaysian poultry imports was lifted, FairPrice continued its efforts in working with business partners to peg chicken and egg prices at a reasonable level. Through this, FairPrice helped restore egg prices to pre-ban levels.

To be the best place to work, FairPrice is a unionized employer that has good labour-management relationship. FairPrice takes a holistic approach in providing for employees well-being and opportunities for growth and development. FairPrice received the Work-life Excellence Award 2006 conferred by the tripartite committee on Work-life Strategy Singapore, in recognition of its programs to help employees balance personal commitments and work responsibilities.

FairPrice contributes to the community through its own initiatives such as its annual Used Textbooks project, its Million Dollar Food Voucher Scheme for the needy and the provision of study grants to children of needy members. It also engages its network of suppliers to support its community efforts such as Heartstrings Buys, a fund-raising drive for the Community Chest.

To promote environment protection, FairPrice launched the 'Love Nature' reusable bags to encourage its customers to reduce their reliance on plastic bags when shopping for groceries and necessities. In addition, the company participated in the 'Bring Your Own Bag Day' to encourage

shoppers to bring their own shopping bags instead of using plastic bags. Cashiers at the retail stores have been trained to pack more items in each bag to reduce the consumption of plastic bags.

As a good corporate citizen, FairPrice was cited as the “supermarket with a social conscience” by the Far East Economic Review in a 2000 survey report. In September 2005, FairPrice signed the UN Global Compact (UNGC) to support the initiative of the Singapore Compact movement to establish a UNGC network in Singapore and help raise awareness among more companies of the key principles of CSR which it upholds. FairPrice was also conferred the President’s Social Service Award in 2005 in recognition of its contributions to society. As a responsible food retailer, FairPrice is both a Case Trust accredited member and a Food Safety Partner of Agri-Food & Veterinary Authority (AVA) the economy-wide food safety authority of Singapore. FairPrice also supports pro-family initiatives and prides itself as a pro-family business retailer.

It was voted one of the best loved pro-family retailers in the Singapore 2006 contest organized by the Ministry of Community Development, Youth & Sports. In another survey conducted by the Reader’s Digest in 2006, FairPrice was voted in by consumers and won the Trusted Brand Gold Award for the supermarket chain category in Singapore.

The Supply Chain

Singapore has only 256 licensed farms covering 746 hectares¹ which cannot supply enough fresh meat, fruits and vegetables to meet the demand of its population of 4.4 million. Singapore imports 95% of its vegetables worth S\$314 million since local farms can meet only 5% of the demand for vegetables. It imports vegetables from Australia, China, Indonesia, Malaysia, Thailand, The United States and Viet Nam. With Singapore’s high dependence on imported fresh vegetables, local sellers such as supermarkets need to ensure that the imported food is safe for consumption and its supply is ample.

FairPrice invested S\$25 million on a 130,000 square feet fresh food distribution center in 2002 to better manage its supply chain for fresh food. The setting up of the fresh food distribution center enhances the ability of FairPrice to move its stock faster and maintain freshness quality.

The distribution center also provides the right infrastructure to improve the handling process of fresh food, thus reducing spoilage. Good temperature management and storage management are critical in maintaining the quality of food and preventing cross-contamination. FairPrice is committed to maintain a high standard of food safety and hygiene at the fresh food distribution center by getting the center to be Hazard Analysis Critical Control Points (HACCP) certified.

From the distribution center to the retail stores, FairPrice uses refrigerated trucks to transport the vegetables. At the store, temperature checks are conducted again before putting the vegetables on the retail shelves.

FairPrice works with the relevant authorities to develop standards. One such initiative is the implementation of the technical reference standards on cold chain management for chilled pork in 2005. The standard was developed by AVA and SPRING Singapore, the economy-wide standard body, together with FairPrice. It provides strict receiving, storage and display guidelines to ensure that the quality of the pork is not compromised. With the implementation of the standard,

¹ Good Agriculture Practices for Vegetable Farming, Agri-Food and Veterinary Authority of Singapore. November 2006.

consumers are assured that they are purchasing safe and fresh pork from FairPrice. The standard is now applied industry-wide.

On 07 September 2007, SPRING Singapore, working with AVA and the relevant stakeholders, launched the Technical Reference (TR) on Cold Chain Management for vegetables (TR 24: 2007) to ensure their freshness and safety. FairPrice was among the first supermarkets to work with the standard body to pilot and test the TR guidelines. FairPrice is now looking into the implementation of the guidelines to narrow gaps in the supply chain of fresh vegetables.

Occupational safety and health at the distribution center is also a critical issue. Since the temperature of the cold storage rooms at the center can be as low as sub-zero degree Celsius, FairPrice provides proper clothing to keep employees warm. In addition, FairPrice does not allow employees to work more than 20 minutes inside the frozen warehouse that has temperature of sub-zero degree Celsius; another team takes over every 20 minutes.

With FairPrice managing its own supply chain from distribution center to the retail stores, the company ensures that its operations are of high standard for both consumers and employees. However, FairPrice also wants to make sure that within the supply chain, its suppliers are able to meet its stringent standards in producing and managing fresh vegetables. They also have the challenge of making sure that the process of producing food products is in line with CSR principles.

FairPrice imports about 80% of its vegetables from diverse sources in China, Indonesia, Malaysia, Singapore and other places. In Singapore, FairPrice works with its local suppliers to encourage them to adopt Good Agricultural Practices for Vegetable Farming (GAP-VF) developed by AVA. Local suppliers voluntarily participate to be GAP-VF certified inasmuch as the benefits of business growth outweigh the cost of certification.



The objectives of GAP-VF certification scheme are:

- To promote a globally recognized food safety system at source,
- To promote shared responsibility in food safety, and
- To provide a form of product differentiation mechanism and sharing benefits with stakeholders.

Though the primary objectives of GAP-VF focus more on the food safety issues, it also includes factors that take environment issues into consideration. An environment impact assessment needs to be carried out to determine if the land is suitable for farming. If not suitable, the farmers would be advised to implement appropriate preventive measures. The farm would also need to construct the farm structures and layout in accordance with national regulations for safe buildings and sustainable environment. While farming, the environment must not be polluted by the use of farm chemicals and any unwanted agrochemicals must be properly disposed of in accordance with the national regulations.

The standard also provides guidance on the usage of agro-chemicals such as pesticides and fertilizers to prevent contamination and integrate pest management (IPM) and nutrient management so that the farmers can carry out sustainable farming. If the soil becomes toxic, the land would no longer be used for farming and this would affect the livelihood of the farmers and workers. **Table 1** summarizes the components of GAP-VF standards.

The adoption of GAP is a global movement of growers who wish to develop opportunities in export markets. FairPrice works closely with its foreign farm suppliers to adopt similar GAP-VF standards in ensuring a supply of good quality vegetables for export to Singapore. The increase in

purchases from FairPrice is a good incentive for encouraging these foreign farmers to adopt good agricultural practices which are critical in ensuring safe food production and environmental sustainability in Asia.

FairPrice does not focus on vegetables alone. As a retailer, a lot of products on their shelves are pre-packed. For these pre-packed products, FairPrice conducts factory audits on factories to ensure that food safety is adopted in their preparation process and premises using the criteria enumerated in **Table 2**.

Table 1:
Components of GAP-VF Standard

Components
Farm Location
Farm Structure
Farm Environment
Farm Maintenance
Farming Practices/Methods/Techniques
Farm Management

Source: Agri-food & Veterinary Authority of Singapore

Table 2:
10 Criteria of Factory Audit by FairPrice

Factory Selection
Receiving and Storage
Processing Area
Machine and Equipment
Weighing Scales
Product Safety
Personal Hygiene
Pest Control
Documentation
Risk Level

The process of ensuring food safety in the premises is one of the key areas of focus. FairPrice audits the plants on their cleanliness and hygiene to make sure that the food chain flow is compliant with the relevant food safety standards. In addition, the company conducts audits to determine if the workers are properly trained to handle the products. Thus FairPrice observes the whole process, from preparation to product packaging, to ensure product safety.

Evaluating the above and other factors, the auditors rate the suppliers as low risk, medium risk or high risk. If companies are assessed to be in the high risk category, FairPrice advises them to address the relevant factors before they supply products to FairPrice.

In recent years, the demand for organic vegetables has increased despite their higher cost. Organic vegetables cost more than three times the price of non-organic vegetables. In its desire to provide fair market prices for consumers, FairPrice applies higher standards for organic vegetables than for non-organic vegetables.

Organic products need to adhere to certain organic principles and standards to be considered as authentic. According to the International Federation of Organic Agriculture Movements (IFOAM), the four principles of organic agriculture are as follows:²

- Principle of health
 - Organic agriculture should sustain and enhance the health of soil, plant, animal, human and planet as one and indivisible.
- Principle of ecology
 - Organic agriculture should be based on living ecological systems and cycles, work with them, emulate them and help sustain them.

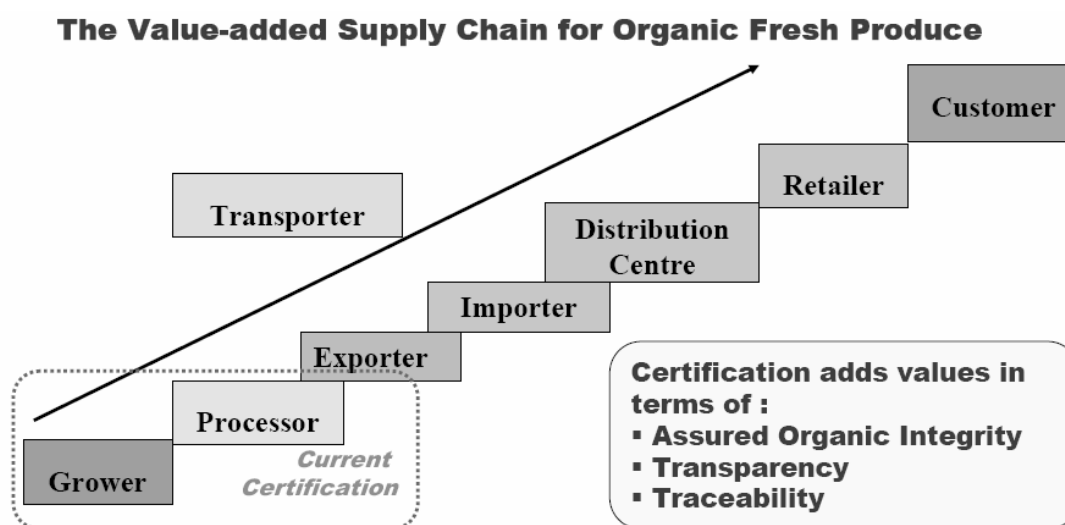
² Website: <http://www.ifoam.org>.

- Principle of fairness
 - Organic agriculture should build on relationships that ensure fairness with regard to the common environment and life opportunities
- Principle of care
 - Organic agriculture should be managed in a precautionary and responsible manner to protect the health and well-being of current and future generations and the environment.

In essence, organic vegetables need to adhere to CSR principles. FairPrice only purchases organic vegetables which are certified by the relevant certification bodies such as Australian Certified Organic Private Limited, the United States Department of Agriculture (USDA) and Organic Thailand, Ministry of Agriculture.

However, as most of the certification schemes cover only up to the processor stage (**Figure 1**), the integrity of the organic vegetables may be affected while in transit among the different players of the organic supply chain. FairPrice is working with Agrifood Technologies Pte Ltd to develop an in-house certification program known as NTUC FairPrice Organic Certification Program (NOCP) to close this gap. The certification adopts accepted organic guidelines from IFOAM and CODEX to suit the regional context. The certification provides assurance of the integrity of the organic produce on the retail shelves.

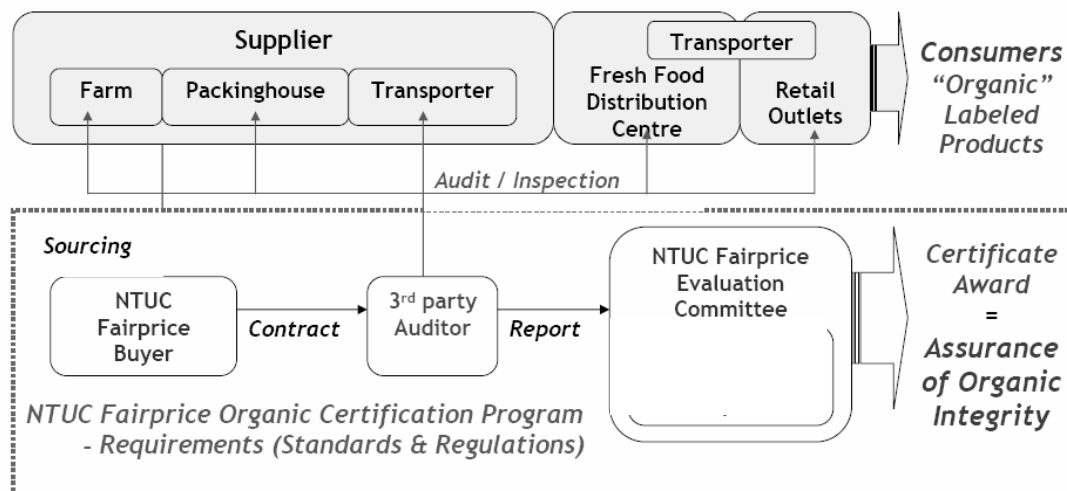
Figure 1:
Supply Chain for Organic Fresh Produce



Source: Agrifood Technologies Pte Ltd

In the certification process (**Figure 2**), FairPrice engages a third party auditor to audit and inspect the supply chain of organic vegetables from the beginning to the end. The auditor inspects the farm and the processing plant, even if the suppliers may have already complied with other standards. The auditor also checks on the process of transporting and handling of organic vegetables to the distribution center and then the retail stores. The auditor submits a report to the FairPrice evaluation committee which awards certification to the organic vegetables.

Figure 2:
NTUC FairPrice Organic Certification Programme Requirements



Source: Agrifood Technologies Pte Ltd

Through various efforts, FairPrice has improved its supply chain management of vegetables to deliver fresh and safe vegetables to consumers. FairPrice, as a good corporate citizen, has also taken part in a government-to-government collaboration between Singapore and Indonesia which has made positive impact on the community.

The Pekan Baru Project

In 2000, the Singapore and Indonesian governments collaborated to establish a vegetable project in Pekan Baru, Riau Province, Indonesia. The main objective of this project was to transfer technology on protected cultivation of leafy vegetables from Singapore to Riau farmers so that they could export vegetables such as *xiao bai cai*, *bai cai*, Chinese cabbage and *cai xin* to Singapore. This project would allow more diverse food supply sources for Singapore which had experienced food shortages due to supply shocks, such as flood and adverse weather.

Pekan Baru was selected as the site for the project because it was centrally located within Riau's traditional harvesting grounds of vegetables. It also had available land and labour, as well as a favorable environment for vegetable cultivation which made it ideal for agricultural purposes.

On 22 October 2001, the governor of Riau Province, Saleh Djasit and AVA chief executive officer, Dr Ngiam Tong Tau, signed a Memorandum of Understanding (MoU) for the vegetables project. The MoU entailed transfer of agriculture technology and cultivation techniques from Singapore agricultural technicians to their Indonesian counterparts.

The Riau Province Agricultural Services, Dinas Pertanian Tanaman Pangan (DPTP) and AVA were tasked to provide technical assistance on good agricultural practices and post harvest technologies to farmers in Pekan Baru for the production of quality vegetables for exports.

FairPrice was the sole importer of fresh vegetables from the Pekan Baru farms, purchasing 50 tons per week of fresh vegetables from the area.

Case Study: Singapore

The Pekan Baru project created more work and income for more than 500 farmers and many operators (packers, transporters) along the supply chain. Each farm in Pekan Baru was about 2,000 square meters and there were five farms within one hectare net-protected planting area. The farmers usually worked independently of each other. AVA encouraged the farmers to adopt good agricultural practices similar to GAP-VF because product quality is one of the primary concerns of bulk purchasers like FairPrice.

The seeds used for the crops were imported from Singapore. Farmers were taught to build their own net covered growing houses for protected crop cultivation which prevent insect infestation and protect vegetables from direct rainfall that could damage the leaves and expose the crops to diseases. Thus, the overall benefit was a reduction of agro-chemical usage and the production of high quality and safe vegetables for export. Farmers were also taught IPM and crop rotation and how to harvest and grade the crops. Hand-holding programs were held to teach the farmers proper techniques of farming.

With better farming techniques, farmers at Pekan Baru have been able to improve farm productivity and sustainability and lessened the likely occurrence of soil depletion with crop rotation.

Another key area of technology transfer was the setting up of the agri-processing center at Pekan Baru. Through AVA, Indonesian farmers covered by the project, learned cold chain management technology which is critical in maintaining the freshness and safety of vegetables. Investing in cold chain management technology has reduced spoilage, improved the quantity of vegetables that could be sold, and increased the income of farmers.

All the harvests from the farms are labelled with each farmer's name and area. Refrigerated trucks collect the vegetables from the farms and transport them to the processing center.

At the processing center, workers trim and sort the vegetables in the packing room where temperature is maintained at 18 degrees Celsius. All workers in the packing room are properly protected with warm clothing. After packing, the cartons are properly labelled, sealed and stored before being transported to Singapore.

The use of total cold chain management makes it possible to transport fresh vegetables from the farm to the FairPrice distribution center for more than 20 hours without affecting their quality.

As a whole, the Pekan Baru project has benefited various stakeholders: Indonesia and Singapore economies, farmers at Pekan Baru, the environment, the consumers and FairPrice.

Indonesia and Singapore

Former Singapore Minister for Trade & Industry, BG George Yeo, had said that the project opened a new area of cooperation between Indonesia and Singapore (EDB, 2002). Indonesia benefited from exporting vegetables to Singapore, while Singapore benefited from diversifying its food sources.

Farmers at Pekan Baru

The project had created work opportunities for the local community farmers, packers and transporters. In addition, the farmers have gained knowledge of good agricultural practices and can get higher yield of better quality vegetables. With better farming techniques and post-harvesting skills, the farmers can produce more vegetables and reduce spoilage. Furthermore,

FairPrice purchases directly from the agri-processing center which minimizes the use of middlemen. As a result, the farmers can generate higher income.

Environment

By adopting good agricultural practices such as crop rotation, IPM and protected crop cultivation, farmers are able to carry out more sustainable farming. Teaching the use of netted houses for crop protected cultivation on the farms, and proper pest control reduces the use of pesticide which has negative impact on the soil and vegetables.

Consumers

Consumers can now be assured that they can purchase fresh and safe vegetables from FairPrice. They also know that they are supporting a community by purchasing the vegetables from FairPrice. With FairPrice's commitment to provide best products at best prices, consumers know that what they purchase from FairPrice is always value for money.

FairPrice

FairPrice needs reliable supply of fresh vegetables since local sources alone cannot meet the daily consumer demand. With lessons learned from the Nipah virus in the late 1990s, FairPrice needs various sources of fresh food products. Through its participation in the Pekan Baru project, FairPrice was able to find new and steady supply of vegetables. Being one of the main buyers from Pekan Baru, FairPrice has encouraged the suppliers to improve the quality of vegetables.

With quality assurance in place, FairPrice has the confidence to package the vegetables from Pekan Baru under its house brand, Pasar. Branding the vegetables under Pasar has helped to increase demand for vegetables from Pekan Baru since FairPrice is a trusted brand in Singapore.

Conclusion

Through its participation in the Pekan Baru project, FairPrice added another source of high quality and safe fresh vegetables. FairPrice understands that they have a stake in the success of the project.

The various assistance provided to the farmers at Pekan Baru has enabled them to produce quality vegetables to complement supplies from other sources like China and Malaysia. FairPrice can explore further opportunities to work with the farmers and help them to be more productive and earn more income. With the increased demand for organic fresh vegetables in Singapore, the farmers at Pekan Baru may also practice organic farming in the future.

FairPrice has been in the forefront of various initiatives such as developing standards and supporting community projects. The company has recognized the strategic value of being a good corporate citizen. By identifying the gaps in their supply chain, FairPrice has been able to improve it and thus win the trust of the consumers.

While FairPrice's core mission continues to be to moderate the cost of living, it is also committed to look after the people, the planet, and then the profit. CSR is a journey and FairPrice continues to strive to be the best place to shop, the best place to work, and the best corporate citizen.

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