



Disney ILS Overview

ISM CSSR Conference
November 5, 2010

Disney Business Models

Consumer Products



Partners: Licensees

Customers: Retailers (Wal-Mart, Target, etc)

Park Merchandise & Stores



Partners: Licensees & Vendors

Customers: Park & Store
Guests

Operational Sourcing



Partners: Vendors

Customers: Disney Business
Leaders



ILS Focus Areas and Challenges

Our approach to International Labor

Standards focuses on:

- ▶ *Integration within our business operations*
- ▶ *Education of licensees and vendors*
- ▶ *Monitoring of the factories to assess working conditions*
- ▶ *Remediation activities that encourage and promote sustainable practices*
- ▶ *Collaboration with a wide range of external stakeholders on common objectives*
- ▶ *Public policy to support labor standards improvement*
- ▶ *Transparency of the program's activities to facilitate education, learning and evolution*

We face several ongoing challenges:

- ▶ *Size and scope of operations*
- ▶ *Limited influence*
- ▶ *Inconsistent or absent industry standards*
- ▶ *Ineffective government enforcement*
- ▶ *Noncompliance*



What We Are Doing About It

Our goal is to have a supply chain that mirrors Disney's own desire to operate as a responsible business. As a result, we have committed additional resources to revising and updating the ILS program to meet the challenges of our global supply chain.

▶ *Greater Supply Chain Ownership*

To improve the social performance of our supply chain we encourage our licensees and vendors to assume greater ownership of their monitoring and remediation work with the factories they select. This is a sizable task given that we had approximately 8,000 licensees and vendors over the course of 2008. This will allow us to shift some of our resources from factory assessment work to identifying root causes of noncompliance and working to build systemic solutions that can promote improvements. We believe that one of the ways we can utilize our size and brand is to support industry-level and multi-stakeholder approaches to labor standards issues.

▶ *Stakeholder Engagement and Collaboration*

We can best achieve our ILS goals through policies that focus on reduction of duplicative efforts, on collaborative efforts that result in positive outcomes, and a willingness to be transparent about our challenges and key successes.



Introducing.....

Tony Lowe
ILS Audit Manager
Guangzhou China



Disney International
Labor Standards Group

**In exploration of
a solution to Corporate Responsibility challenges**

Tony Lowe, Audit Manager

November 2010

ILS program brief

□ Objective

- To foster safe, inclusive and respectful workplace wherever Disney products are made
- To build brand reputation

□ Key milestone (2008 CR report)

- 1996-2000: Program establishment
- 2001-2007: Monitoring and learning
- 2008 going forward: Strategic focus (program evolution)

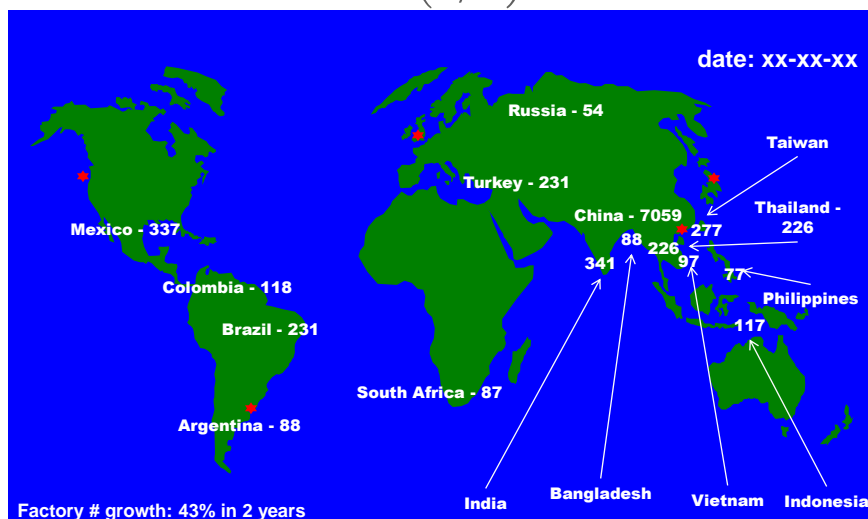
□ Scope

- Anything that uses Disney IP
- All Disney entities worldwide, licensees, vendors, and manufacturers

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Fact sheet – China (1/2)



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Fact sheet – China (2/2)

4倍

中国的变化有多快? 答案是: 一个中国年等于4个美国年或4个英国年, 也就是说, 在中国的生活变化是在美国或英国的4倍之多。而从经济增长来看, 非洲东南部小国马拉维1年的经济增长只约等于中国7个小时的增长。

Business - Modern Weekly Oct. 6, 2007

4 times The speed of changes take place in China is four times faster than changes in the U.S. or U.K. meaning the changes of life you experience in China for one year takes you four years to experience the same in the U.S. or U.K.

Note 1 : Shenzhen government official website

Demography of non-resident in Shenzhen city¹

- 1979: 0.5% (population: 314.1K)
- 2001: 82% (7,245.7K)
- 2008: 74% (8,768.3K)

Legal infrastructure

- Aspirational standards
- Changeable interpretation
- Can be prioritized

High non-compliance rate²

- Health & safety: 92%
- Overtime hours: 89%
- Wage, social benefits: 80%

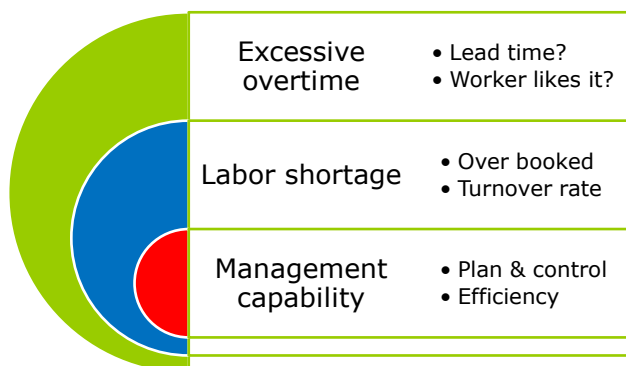
Note 2: analysis of internal audit result in FY09

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Remediation focus

- Audit – good tool but was used for the wrong purpose
- Pass & fail – simple but drives short term unintended behaviors



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Case study –

Management enhancement / Root Cause Analysis (RCA)

The process

- ❑ Define unwanted outcome
- ❑ Measurement
 - KPI setting
- ❑ Analysis
 - Root Cause Mapping
 - Apply RCA tools
- ❑ Improve & Control
 - Human Resources function
 - Industrial Engineer
 - Data collection and analysis
 - Mini-improvement project
 - Implement PDCA process

Quantitative outcome

- ❑ Improved ability to attract workers
- ❑ Smaller turnover and more stable workforce
- ❑ Improved productivity by 19% while wage increase 1.3%
- ❑ Worker earned a little more income with 3.2% less hours
- ❑ Workers are trained by 25% more

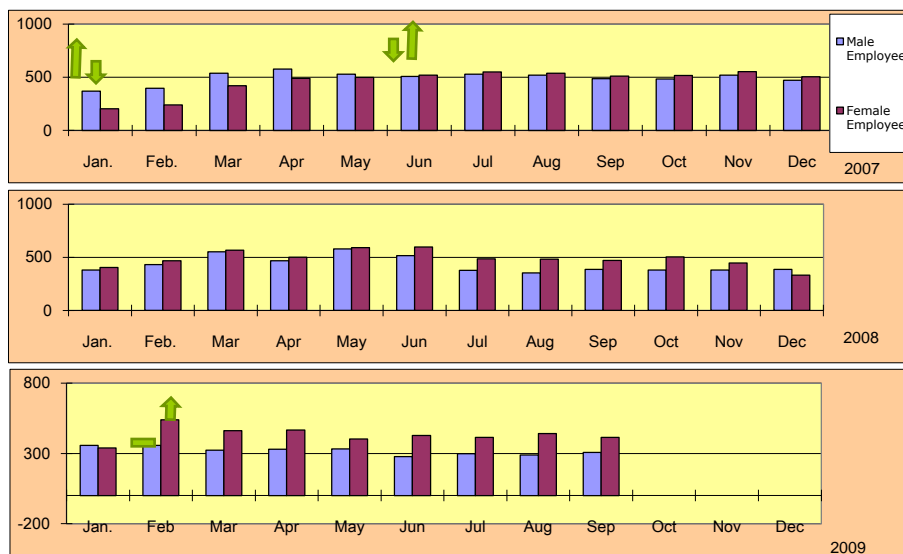
Qualitative outcome

- ❑ Improved communication & living condition (survey)

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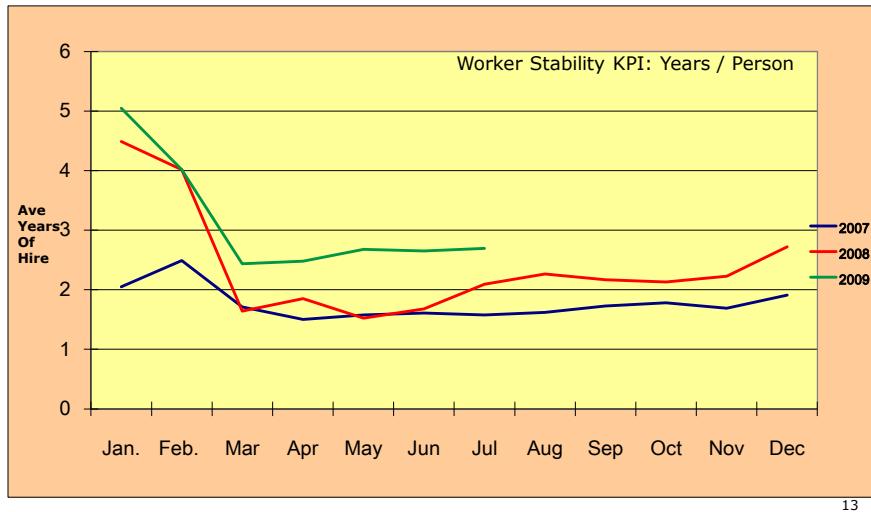
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Case study – worker gender percentage



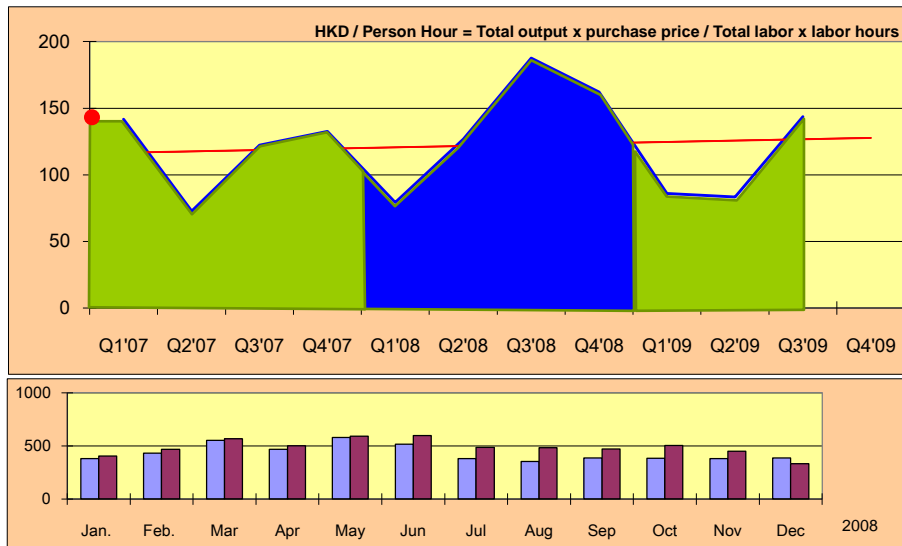
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Case study – workforce stability



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Case study - productivity



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Case study – observation



A broken bucket was fixed with packaging tape

- ☐ Data analysis
- ☐ New industrial engineer
- ☐ Administration manager
- ☐ Staff turnover
 - Project coordinator
 - Industrial engineer
 - Plant manager
- ☐ Family member is an issue
- ☐ Owner's mindset
 - Spend by orders → every penny saved is profit
 - Invest into people for the future → not get use to

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Food for thought

Readiness of your partner

	Brand	Licensee	Agent	Factory
Corporate Responsibility	Yes	Y/N	No	No
Reputation	Yes	Yes	Y/N	No
Be accepted in community	Yes	Yes	Y/N	Y/N
Business Security	Yes	Yes	Yes	Y/N
Revenue	Yes	Yes	Yes	Yes

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Summary

- ❑ Changing environment gives birth to a series of different behaviors and thought process
 - Rules are confusing, unknown and unpopular
 - Extremely practical and flexible decision is the survival kit
- ❑ Evaluate the readiness of your organization and your partners to share the same priority for being socially responsible
 - Beyond compliance vs. compliance driven
 - Motivation to trigger breakthrough from within – what is it for them
- ❑ Creative performance metrics and measurement to make intangible concept and effort tangible
 - CR effort appears in various forms depending on different environment
 - Metrics should be defined positively and be transparent
 - Evaluating supplier by comparing performance among their peers, more relevant and apple to apple
 - Establish feedback mechanism, quantitative and qualitative, to understand whether your CR effort encourages the desired result

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Disney Parks Supply Chain Management Merchandise Sourcing and Technical Design

ISM – 2010 Sustainability & Social
Responsibility Conference
November 4 – 5, 2010

Overall Retail Perspective

- 🐭 Disney Theme Parks Retail in the US ranks #44 amongst the top 100 US Specialty Retail Operations in terms of Gross Revenues
- 🐭 Because of our high penetration of small carts and kiosks, we rank #91 on list in terms of square meters per location which yields.....
- 🐭 The NUMBER 1 ranking in the Specialty Retail industry in terms of revenue per square meter!

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In a Volatile and Uncertain World

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Regulatory Changes

48 112.411
Cd
Cadmium

82 207.2
Pb
Lead

0 80 200.59
1
Hg
Mercury

NEW MATERIAL
BPA Free
Does Not Contain Bisphenol-A or Phthalates

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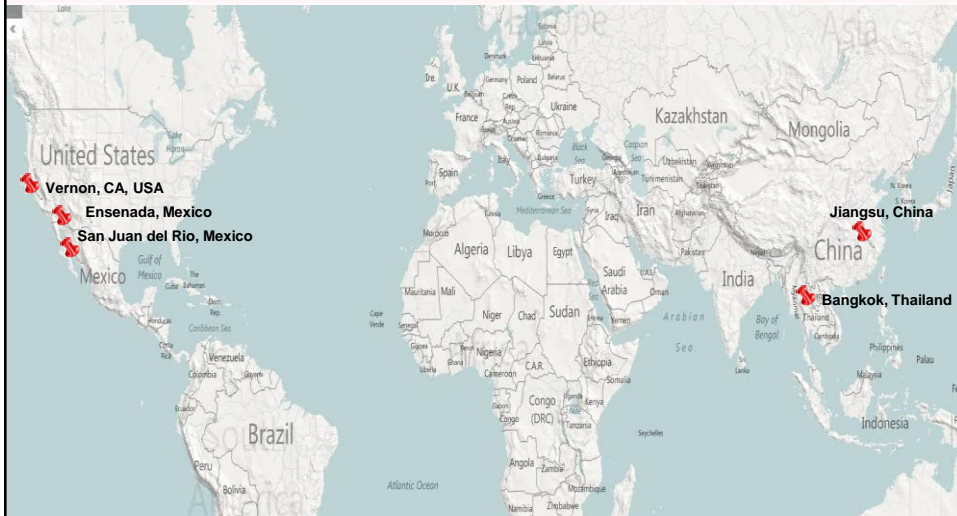
Focus on Strategic Supplier Partnerships Key

80%
Volume "A"
Suppliers

2008-2010
↓43%
In Total
Suppliers

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Diversification: Supplier Example



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Supplier Scorecard

- Financials
- COGR%
- Quality
- Delivery
- Design Support

Supplier
Score

Risk Score

- ILS Compliance
- Regulatory
- Quality Control
- Management
- Financial Health
- Infrastructure
- Political/National Disasters

- On-time payments to 3rd party suppliers
- Factory Capacity Level
- D and B Report
- Workforce Impact/Changes

Financial
Health
Score





ERI Score

- Environmental Policy
- Water Usage
- Energy Efficiency
- Sustainability
- Carbon Emissions

LEGEND		
	Poor	Excellent
Risk Score	0	100
Financial Score	0	5
ECO	0	100
Supplier Score	0	100

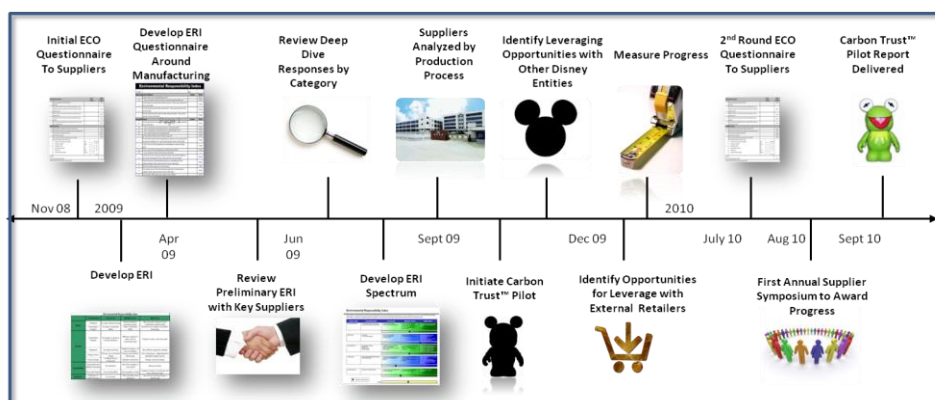
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Environmental Responsibility Index Spectrum

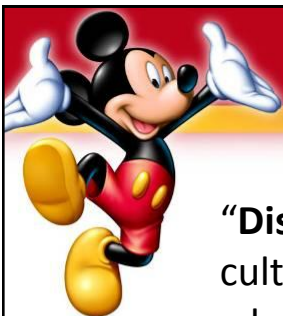
Focus Area		Considerations
Environmental Policy		<ul style="list-style-type: none"> • Commitment towards Eco policies • Environmental goals and benchmarks
Water Usage		<ul style="list-style-type: none"> • Treatment • Conservation Program
Energy Efficiency		<ul style="list-style-type: none"> • Conservation Program • Equipment • Energy Source • Factory Design
Sustainability		<ul style="list-style-type: none"> • Responsible Raw Material Acquisition • Recycling Program
Carbon Emissions		<ul style="list-style-type: none"> • Reduction of Harmful Gasses

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Our Environmental Journey



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“**Disney** has always had a strong culture, rooted in our deep **pride** in what we do every day and a firm understanding of the enormous **responsibility** that comes with being stewards of a top global brand.”

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