

## 3.3 Supply Chain Management



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*UPS has a highly distributed and diverse supply chain, with providers ranging from global multinationals to local small businesses.*

### Management Approach

During our assessment of potential suppliers, we survey the market and analyze supplier risks, including those related to economic, environmental, and social issues, if deemed necessary. As a service provider, the UPS supply chain is primarily dependent on goods and services that are highly regulated or commodity based, such as transportation, brokerage, and energy. As a result, UPS considers the supply chain to be resilient and at low risk against problems related to the environment, labor practices, and human rights. We do not currently disclose information related to screening or impact assessments, because we consider the information confidential. However, in 2016, we were not aware of any significant environmental, social, or labor concerns related to our suppliers.

We require suppliers with access to sensitive UPS data to execute a security agreement to ensure compliance with UPS privacy and security standards. Procurement professionals are located in our corporate, regional, and local offices to help suppliers understand and meet our requirements.

### Supplier and Stakeholder Engagement

As a service company, collaboration and supplier engagement are vital components of our approach to supplier management. We work with many governmental and nongovernmental organizations, as well as with suppliers, to develop and integrate sustainability best practices in our supply chain. Examples of our supplier engagement and collaboration include programs such as the Environmental Protection Administration SmartWay program, as well as the National Labs and Clean Cities programs supported by the Department of Energy. Clean Cities is a national network of coalitions that helps transportation stakeholders evaluate options and achieve goals around alternative fuels and vehicle technologies to reduce reliance on petroleum. UPS and key suppliers participate in these programs to create more sustainable supply chains, and we strongly encourage engagement among our purchased transportation suppliers.

### Supplier Diversity

In a majority of cases, our supply chain partners are locally based suppliers, due to the highly distributed nature of UPS's business. Spending with locally based vendors can create positive ripple effects throughout a community, beyond the immediate contract or relationship. A third-party study on the



### Valued Partnerships

Amy Winfield's company, Suburban Seating & Safety, supplies seats and safety equipment for UPS's fleet of vehicles. They keep the fleet moving with solutions that reduce maintenance needs so the UPS trucks can stay on the road and deliver to their customers. Amy joined the UPS Supplier Diversity Program during the process of becoming a certified woman-owned business. "Our partnership has certainly been enriched through the program. UPS has sponsored me to attend executive management programs, helped me navigate the landscape of large corporations, and facilitated new business introductions." She appreciates that the relationship with UPS's supplier diversity team ensures both parties maximize the value of the partnership. "Sometimes there is a misperception that business is won based on a company's woman-owned status," explains Amy. "Rather, it is earned by demonstrating unique capabilities and never taking a business partnership for granted. It is our proven reputation in doing so that earns us our long-standing business partnerships."

economic impact of our 2016 spending with small businesses, as well as minority-, women-, veteran-owned, and other diverse suppliers, found that UPS contributed more than US\$2.4 billion to the U.S. economy (U.S. GDP) and sustained more than 15,700 jobs in the supply chain and local communities. A breakdown of that US\$2.4 billion includes US\$989 million in direct economic benefit from suppliers' operations and activities; US\$653 million in indirect impact from the economic benefit and employment supported in the suppliers' respective supply chains from procuring goods and services; and US\$806 million in community impact from the wider economic benefits that arise when the suppliers' employees and those in their supply chains spend their earnings.

Overall, for every million dollars that we spend with small and diverse suppliers, 16 jobs are created with those companies in their local communities. In 2016, UPS spent approximately US\$989 million in procurement with small and diverse businesses in the United States.

We introduced key initiatives in 2016 with the goal of significantly increasing spending with diverse suppliers:

- Coordinating our effort to identify more diverse suppliers in areas including plant engineering, automotive, air and transportation; and
- Joining WeConnect International, a global network to identify and certify women-owned businesses outside the U.S. and connect them with the global supply chain. Our director of supplier diversity serves on its board of directors.

### Management of Third-Party Representatives

As our business grows, we are entering into more contractual relationships with third parties, such as agents, providers, outside service providers (OSPs), and authorized service contractors (ASCs), who may interact with government officials or outside parties on behalf of UPS. It is vital that all third-party representatives convey UPS's integrity and commitment to compliance when they represent our brand, products, and services in the marketplace.

We utilize a risk based third-party due diligence process which requires us to assess candidates' ownership, financial transparency, local licensure status, compliance record, labor practices, environmental practices, and more. This information is then recorded in our own proprietary global database to enable more effective ongoing monitoring and auditing of these third-party relationships.

The UPS Code of Business Conduct, which applies to UPS entities globally, governs our relationships with third-party representatives. We direct them to the Code as part of the Supplier's Principles Agreement provided during the proposal process, and they must certify they have read the Code and are aware that compliance with the Code is both expected and subject to audit.

To ensure the requirements of the UPS Code of Business Conduct are clear, we produce an Anti-Corruption Compliance Manual for Third-Party Representatives. This manual, available in 20 languages, further explains our expectations and requirements, including the need to report actual or suspected compliance violations.

## Our Supply Chain

As a provider of logistics and transportation services, we are an important component of our customers' supply chains. But we also have our own supply chain and work with vendors that help us provide our services. This graphic shows our major supply chain categories. Our most material categories include purchased transportation from third parties, such as airlines, railroads, ocean carriers, and other trucking carriers; energy to fuel our ground and air fleet; and air and ground fleet purchases and maintenance.

### Production Suppliers

Transport Process

#### Purchased Transportation & Energy



### Capacity Suppliers

Capacity Process

#### Vehicles, Aircraft, Facilities & Equipment



### Support Suppliers

Back Office Process

#### Financial, Administrative & Support Services



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## Our Supply Chain

As UPS is a service provider, our supply chain partners tend to be other service providers, rather than raw material or finished goods suppliers, and can be broadly grouped into three categories:

### Production Suppliers

Production suppliers, which represent the majority of our total procurement spending, provide purchased transportation services and energy to operate our global logistics network. At the regional and country levels, we regularly contract with a large pool of suppliers of transportation services, such as airlines, trucking companies, railroads, and ocean carriers, as well as suppliers of fuel for our vehicles and air fleets. A complete discussion of our approach to purchasing fuel can be found on page 70.

We also contract with third-party representatives that provide domestic delivery services in certain countries and territories on behalf of UPS. These third-party representatives may be referred to in other UPS documents or policies as agents, providers, outside service providers, or authorized service contractors. It is vital that all third-party representatives convey UPS's trustworthiness and commitment to compliance when they represent our brand, products, and services in the marketplace. We consider effective management of such representatives as material to our sustainability.

### Capacity Suppliers

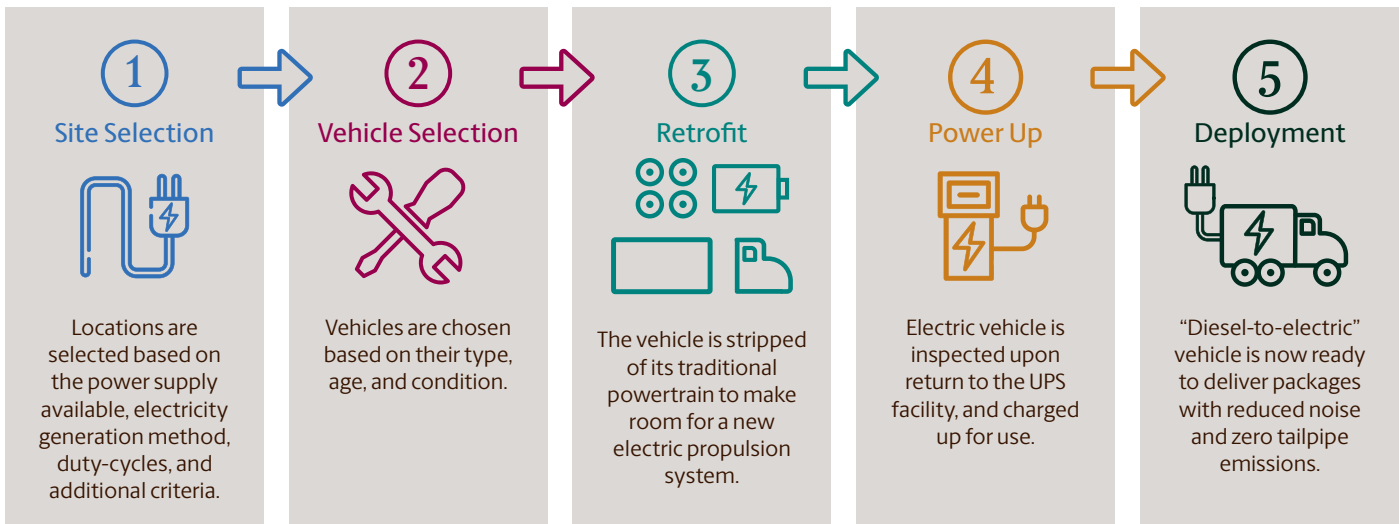
This category includes the equipment and facilities we purchase, build, and maintain. Our supply chain includes a number of suppliers of strategic, high-value assets that we purchase in limited numbers in select years, such as jet aircraft and alternative fuel or advanced technology vehicles. We work on a continual basis with original equipment manufacturers to design and develop our ground and air fleets in a way that minimizes their environmental impacts.

### Support Suppliers

We purchase standardized products and services that support our business. These suppliers provide products and services in the areas of marketing, advertising, human resources, shipping materials, and other professional services.

# How Diesel Goes Electric

We're expanding our fleet of alternative fuel vehicles by transforming diesel package cars into electric vehicles. The conversion not only eliminates tailpipe emissions, but also extends the life of package cars and the materials within them.



## Stakeholder Perspective



**Bastian Beutel**  
Managing Director, EFA-S

*Air pollution, noise, congestion, climate change — these issues are on the minds of policymakers in cities around the world, and they are the challenges that ElektroFahrzeuge-Stuttgart GmbH (EFA-S) is tackling every day. The European Union and other government bodies have passed laws to categorize vehicles according to their emissions levels and restrict high-emissions vehicles from accessing certain urban areas. Eventually, only noiseless, zero-emissions vehicles may be permitted to drive in European city centers.*

Many vehicle manufacturers have responded by developing electric vehicles to meet these new standards. But what about vehicles already on the roads? For many businesses, transportation fleets are a major investment, and replacing them is a complex affair. That's where EFA-S comes in. We can convert any diesel- or gas-powered vehicle to an electric one, which lowers vehicle emissions, reduces noise and allows businesses to meet many inner city transportation regulations.

Partnering with UPS has been a breakthrough for us. Although we are a small business, EFA-S and UPS share the same values of quality and continuous improvement, and we are able to provide a service not available elsewhere. In 2010, UPS asked for our help converting its P80 delivery van, which had been in operation in Bavaria since 1995. At the time, no electric vehicle existed in the 7.5-ton class, and all electric delivery vans that were available were compromised by significant loss of payload and loading capacity. Moreover, purchasing new package cars offered no solution for the many reliable and effective P80s UPS already had invested in. We managed to convert the vehicle without any restrictions, solving the challenges of both operational excellence and sustainability.

Six years later, in 2016, the 100th electric vehicle in UPS's European delivery fleet hit the streets of Paris, made possible by EFA-S. This model, the P45E, can carry up to 3.5 tons and has the body style that UPS package cars in Europe are known for. The vehicle relies on a combination of rechargeable batteries and kinetic energy recovery systems (KERS), which captures energy created when a vehicle brakes for later use. KERS has been used in Formula One cars and other racecars, but has not yet been widely adopted for other types of vehicles. We're proud to be making UPS a pioneer with this cutting-edge, sustainable technology.

Converting vehicles to electric not only eliminates emissions from exhaust — it reduces vehicles' life cycle emissions, most of which originate from production and disposal. Now, UPS' highly efficient, durable vehicles, which might otherwise have limited use in many European cities, can continue to travel the roads, deferring the need for investment in new vehicles.

UPS has ambitious plans to expand its alternative fuel and advanced technology fleet, and vehicles equipped with EFA-S technology are helping make that possible. The world of logistics is transitioning to more sustainable transportation models, and EFA-S is pleased to help UPS hasten that transition.