Sustainable procurement – future proof your business

CIPS Member Webinar
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Welcome and Introduction

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Leading global excellence in procurement and supply
Sustainable procurement – future proof your business
How to focus effort on the right areas to get the biggest impact

1 May, 2013

Hugh Jones, The Carbon Trust
About the Carbon Trust

› The Carbon Trust is an independent, expert partner of leading organisations around the world, helping them benefit from business opportunities in sustainable green growth.

› We are a not for profit company with mission is to accelerate the move to a sustainable, low carbon economy.

› We advise businesses, governments and the public sector on their opportunities in a sustainable, low carbon world

› We measure and certify the environmental footprint of organisations, products and services

› We help develop and deploy low carbon technologies and solutions, from energy efficiency to renewable power
Topics

› The case for action – Managing the ‘new normal’
› An engagement-led approach to sustainable practices in the supply chain
› Client examples
› Summary & conclusions
The ‘new normal’ means new challenges

Trends & Drivers – Supply chain risks are changing

› After the predictable and relatively benign conditions for the business world over the past 20 years, the uncertainty and volatility of recent years is considered the ‘new normal’

› Reflecting this change, there has been a quantum shift in the volatility of major supply chain procurement indices¹
  › currency exchange rates
  › commodity prices
  › shipping costs
  › financial indices


The ‘new normal’ means new challenges

Trends & Drivers – Vulnerability to ripple effects in global SC

› Increased globalisation and fragmentation of supply chains increases their exposure to disruptive extreme events and complicates assessing risk down the value chain
› Modern lean supply chains are particularly vulnerable to disruption as they rely on minimal component stock levels and create strong dependencies within supply chains, i.e. geographically distant events can have strong ripple effects
› Recent tragic examples of extreme events leading to supply chain disruptions are the 2011 tsunami in Japan and flooding events in Thailand
   › After the plant of the sole supplier of a particular break part to Toyota was destroyed during the Fukushima disaster, the automobile manufacturer had to shut down 18 plants for nearly two weeks, causing an economic loss in the order of $325 million.
   › With all four major hard disk drive manufacturers severely impacted by the floods in Thailand, the global PC and laptop market faced a significant squeeze in supply

Trends & Drivers – Vulnerability to ripple effects in global SC

Modern lean supply chains are particularly vulnerable to disruption as they rely on minimal component stock levels and create strong dependencies within supply chains, i.e. geographically distant events can have strong ripple effects. Recent tragic examples of extreme events leading to supply chain disruptions are the 2011 tsunami in Japan and flooding events in Thailand. After the plant of the sole supplier of a particular break part to Toyota was destroyed during the Fukushima disaster, the automobile manufacturer had to shut down 18 plants for nearly two weeks, causing an economic loss in the order of $325 million. With all four major hard disk drive manufacturers severely impacted by the floods in Thailand, the global PC and laptop market faced a significant squeeze in supply.
The ‘new normal’ means new challenges

Trends & Drivers – We live in a resource-constrained world...

› **The economic impact** - Rising commodity prices, population growth, economic growth will put a strain on business resource procurement

› 80% projected rise in steel demand from 2010 to 2030\(^1\)

› **147% increase in commodity prices since 2000\(^2\)**

› Up to 3 billion more middle-class consumers will emerge in the next 20 years\(^3\)

The ‘new normal’ means new challenges

Trends & Drivers – Crop yield decline due to climate change

The ‘new normal’ means new challenges

Trends & Drivers – Resource constraints - Your suppliers are also vulnerable to the impact of commodity price increases

Source: OFGEM Energy Market Scenarios Project Discovery; Carbon Trust analysis
The ‘new normal’ means new challenges

Trends & Drivers – Resource constraints - Your suppliers are also vulnerable to the impact of commodity price increases

Construction Material Price Indices Jan 2013 relative to 2005

- Cement
- Ready-mixed concrete
- Concrete blocks & flagstones
- Clay Bricks
- Insulating materials
- Paint

Source: ONS Monthly statistics of building materials and components: January 2013
The ‘new normal’ means new challenges

Trends & Drivers – Need for smarter supply chain management

› **Understanding risks in the supply chain** – Visibility is the first step to effectively managing risks in a modern supply chain

› Global supply chains are highly complex and exposed to diverse risks

› Creating visibility beyond tier one suppliers is critical to adequately assess risks in the supply chain

› Effective management of supply chain risks requires an approach that allows you to prioritise between suppliers and supplier categories
Why look at supply chain carbon emissions?

› Sustainability and the environmental impact can be measured in a multitude of ways. Carbon acts as a common currency to account for all aspects of the economic value of enhancing your environmental performance.

› Measuring and mapping the carbon emissions in your supply chain provides you with a view on where in your supply chain risks are aggregated and allows you to identify dependencies.
Why look at supply chain carbon emissions?

Global trade flows are reflected in the flow of carbon
Measuring carbon flows provides a map of your global supply chain

Why look at supply chain carbon emissions?

› The environmental impact –
  › Businesses, as they create value through their products and services, do two things, they:
    › Consume natural resources
    › Generate waste and by-products

› A by product of this value creation process is the generation and release of carbon emissions - lots of them
  › This is leading to an accumulation of carbon dioxide in the atmosphere
  › Resultant issues such as weather disruption, is putting additional stress on increasingly global supply chains.
Why look at supply chain carbon emissions?

- Optimising the use of the raw materials in the creation of products and services is central to business strategy.
- Taking a ‘carbon lens’ to your supply chain can uncover new opportunities to reduce carbon emissions and:
  - Reduce supply chain climate risks
  - Cut business costs – 1tCO2 saved equivalent to:
    - £200-450 of energy efficiency (gas, electricity, diesel) saving
    - >£10 reduction in UK environmental taxes
Leading organisations are already engaging suppliers...

Source: Carbon Trust – Business Advice – Survey of 100 multinational company senior supply chain managers Aug 2011
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› Client examples

› Summary & conclusions
Challenges in developing & implementing a Supplier Engagement Strategy

Where should you start?
› What’s your baseline i.e. Scope 3 boundary?
› What’s your target i.e. absolute or relative?
› What data do you need and when so as to monitor performance?
› What’s the accuracy and completeness of your data?

Which suppliers should you engage with?
› How will you categorise your supply base?
› What’s the incentive for them to engage with you?
› How do you work with your suppliers to go beyond engagement to actually deliver tangible reductions?
› What information do your buyers need to facilitate their discussions with suppliers?

What approach should you take and what’s the business case?
› How do you maximise returns?
› When do you invest / co-invest?
› What other support can you provide?
› Who pays?

How can your business measure success?
A methodology for supplier engagement

1. Identify supply chain hotspots

2. Categorise suppliers

3. Baseline your upstream supply chain footprint & set targets

4. Implement tailored engagement strategy for each supplier category

5. Monitor & Report Progress against your target

Supported by Software
1. Identify ‘Hotspots’ by Spend Category...

› **Objective** – Identify hotspots

› **Rationale** – Prioritise areas that can have the biggest impact fastest (80/20)

› **Approach** – Use the appropriate type of value-chain footprinting methodology (spend or quantity) to ‘hotspot’ those suppliers that make the largest contribution to your upstream Scope 3 footprint
...and by Life-Cycle Stage

- **Objective** - Identify carbon ‘hotspots’ across the life-cycle of products

- **Rationale** - Understand what the most carbon-intensive processes are. Enables you to reach beyond Tier 1 suppliers

- **Approach** – Use modelling to footprint the life-cycle of products; this will identify where the carbon ‘hotspots’ and how far along the cycle the majority of emissions come from.
2. Categorise Suppliers

- **Objective** – Organise suppliers into one of the 3 groups to ensure a more targeted intervention in engaging with the suppliers to help them reduce emissions

- ** Approach** – Rank suppliers and then group them into the 3 categories:
  - Strategic Suppliers
  - Majority Suppliers
  - The Rest

- **Criteria?** – spend, carbon emissions, relationship, likelihood to engage, other?

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**Categories of Suppliers**

1. Strategic Suppliers
2. Majority Suppliers
3. The Rest

- No.: <50, 50-100s, >100s-1000s
3. Baseline your Upstream Scope 3 Footprint

- **Objective** - Put in place a rigorous means of baselining, targeting and monitoring reduction performance of key suppliers. Expand year on year to improve data quality & scope.

- **Rationale** – Baseline to understand and set foundation for monitoring real impact.

- **Approach** - The use of Value Chain carbon footprinting software is the best way to do this. For example - Credit360 Value Chain Manager.
### 4. Engage your suppliers...

**Strategic Suppliers – Proactively targeted - Working together**

| Who They Are? | • Control significant proportion of your supply chain’s carbon footprint – Not always Tier 1 suppliers  
|              | • Supplier product/services core to value proposition  
|              | • Supplier has access to skills/resources to develop own operational carbon strategy |
| Approach     | • Proactively targeted by your buyers. MOU’s agreed  
|              | • Collaboration opportunities will be explored where benefits can be shared  
|              | • Knowledge sharing to maximise development of closer relationship and associated mutual benefits developed |
| Benefits for your business | • Strategic alliance to reduce costs & environmental risks  
|              | • Working together to achieve emission reduction targets  
|              | • They take more responsibility to reduce energy costs  
|              | • They mitigate environmental risks  
|              | • Long-term year-on-year improvements that can be measured |
| Benefits to Suppliers | • Achieve/maintain preferred supplier status  
|            | • Reduce own costs and carbon emissions by developing and implementing a carbon strategy  
|            | • Long-term year-on-year improvements that can be measured |
...Engage your suppliers...
Majority Suppliers – Supporting change, promoting best practice

**Procurement**
- Procurement policy
- Selection support
- Monitoring support
- Draw on sustainability team for procurement support

**Online Partner Hub**
- Blogs, comment
- Webinars and Events

**Advise**

**Certify**
- Reward with accreditation
- Carbon Trust Standard
- Carbon Trust Water Standard
- Media Focused Case Studies

**Implement**
- Surveys and opportunity appraisal
- Detailed scoping
- Supplier sourcing
- Tendering
- Finance

**Content**
- Sector packs: sector specific overview, best practices and checklists
- Online training tools
- Data collection/analysis
- Engagement workshops

Implement a tailored and more widespread approach
...Engage your suppliers
The Rest – Reactively managed, signposted to resources

… to Detailed and Technical

From High Level Business…

- Understand risk, opportunity and impact
- Best practices, factsheets and checklists

Energy Awareness and Efficiency Seminars For Value Chain

Sector Specific Packs
- General overview
- Opportunities, payback, ROI
  - Best practices
  - Technologies
  - Checklists
  - Services
  - Case studies
5. Monitor & report on progress – Measure results

- **Objective** – Monitor performance against targets.

- **Rationale** – Good data supports business cases for action and measurable results builds trust & credibility.

- **Approach** - The use of Value Chain carbon footprinting software is often the best way to do this.
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With a majority of its carbon footprint and over £10.6 billion of spent with its 18,200 suppliers worldwide, BT Group was looking to engage them to reduce its carbon emissions.

BT looked to influence its supplier base and introduced a Climate Change procurement standard.

The Carbon Trust helped BT hold day long workshops with its suppliers designed to help them with their own carbon reduction policies and share best practice.

“The workshops are one of the ways we’re aiming to inform and inspire suppliers by demonstrating the business benefits of energy efficiency and carbon reduction. The potential for cost saving is obvious but, in addition, the low carbon economy provides businesses with great opportunities for innovation and smarter products and services.”

Gabrielle Ginér, Programme Manager of BT’s Better Future Programme
Challenge:
› Investigate how to engage with suppliers to help them cut energy consumption, reduce waste and enhance their environmental and economic performance – reducing Whitbread’s exposure to cost and supply chain risk

Carbon Trust work:
› Created heat map of Whitbread’s value chain footprint to prioritise investments to effectively reduce carbon, costs and risks
› Categorised Whitbread suppliers to enable those with highest material impact to be engaged

Outcome:
› Provided confidence for Whitbread to set and publically disclose its supply chain carbon reduction targets
› Enabled the selection of priority suppliers for their supplier engagement strategy
› Identified financial exposure to different raw materials, which led to development of risk mitigation strategy and tangible business case for action
The Carbon Trust has also worked with over 3,000 public bodies
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Supply chain sustainability helps you to manage risk, cost, and reputation

Sustainability **IN** the Supply Chain

Sustainable practices are effective ways to improve:
- reputation
- cost reduction (energy or waste)
- competitive advantage (customers who discern)

Goal

Sustainability **OF** the Supply Chain

Supply Chain security is paramount, there may be hidden risks and interdependencies at various levels:
- climatic event or change impact
- raw materials supply or price volatility
- geographical/geopolitical concentration
- supplier concentration

Benefits

- Hotspotting and footprinting value chain impacts
- Contextualise and cost out sustainable practice:
  - carbon reduction, water stewardship, etc.
  - Robust basis for business decision making
  - Quantification, disclosure and certification
- Create stronger supplier relationships
- Build a “Value Chain Enterprise”

How to Get There

- Hotspotting and footprinting value chain risks
- Reveal hidden interdependencies and concentrations
- Map hotspots to climate risks or stress
- Profile risks right out to Tier 3, 4 and 5 suppliers
Q & A

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Please email any further questions to:
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