



Finding the Supply Chain Carbon Lever

Workshop Summary

May 13, 2013

Key takeaways

Major themes across the discussions in the room and over lunch focused on the following:

- Supply chain offers one of the greatest levers for driving GHG emissions reductions. And a lot of need—and opportunity—for practical supplier reductions exists in China and other emerging markets.
- A key ingredient to helping suppliers reduce emissions is measurement. However, in order for companies to play a productive role in driving real supply chain carbon reductions, they need to measure the right things, and they need to complement “surveying” with activities and investments that build supplier capacity for energy efficiency and GHG management.
- To get this right, companies need to understand materiality and effectively prioritize. This means defining the following before getting started: (a) the relative importance of climate among other sustainability issues, (b) the relevance of supply chain in the context of wider Scope 3 management, and (c) practical opportunities to make the most impact within their supply chain. This helpfully guides consideration about whether/how the company intends to play a role in driving real, additional reductions (and in turn, the resources needed to make it happen).
- For supplier engagement to bear fruit, companies need to align key business and sourcing teams in support of their objectives and make strategic use of coalitions and third-party services to minimize redundancies and share costs and insights.
- Supply chains are vast. In turn, while greater transparency is generally desired, many feel that constant surveys—which often focus on collecting basic information—waste suppliers’ time, resources, and ultimately their appetite to engage. They are also time-consuming for the buyer.
- Several purchasers that have more sway over a large supplier and purchaser/supplier collaborations could reduce the total time and investment by each company. In this regard, collective action can be a useful tool for building capacity within the supply chain. Industry in association with NGOs can drive training and auditing, as well as defining best practice and what information should we be asking for.
- Encouraging and then publicizing public disclosure for KPIs that are most meaningful would go a long way to making the process more efficient. There is need and interest in finding more creative ways to use collaboration in focusing on driving greater transparency and actual performance in supply chains.

Discussion #1: The Scope 3 Impact Opportunity (WRI)

Summary: Presentation of common challenges and themes from WRI survey of companies on value chain GHG management. Overview and discussion about the business case for Scope 3 emissions management and the GHG reduction potential of managing value chain emissions.

NEW OPPORTUNITIES GENERATED WITH SCOPE 3 INVENTORIES

Examples of projects that have generated business value:

- Discovered that waste management was incorrectly reporting and cost saving identified. Not a GHG benefit, but value chain benefit emerged.
- Discovered multiple people in same company getting different rates from suppliers.
- Duplicative spend discovered, less GHG specific but financial savings.
- Consolidate the supply chain: eliminate the redundancy that occurs when multiple people within a company buy the same product from the same supplier.
- Provides a platform for negotiation with suppliers.
- Used it to figure out who their suppliers are. Many buyers won't want to admit that they don't know who their suppliers are.

MAKING THE CASE TO INVEST IN SCOPE 3 INVENTORY AND EMISSION REDUCTIONS

- Use a top down approach, starting with the VP or high-level staff to buy into the idea, then internally propagating that sentiment down the ranks of the organization.
- Start at the top. Example: Put together a climate strategy, got CEO buy-in. With support from the CEO, pushed it down through organization. Early recognition that it was good for business. As a result of their efforts, external evaluation of the company has improved. There has been a positive impact from a marketing perspective, though it is difficult to quantify.
- CDP report – reporting scope 3 and seeking higher score is motivational. CDP: Because CDP surveys have a section for scope 3, it helps to make the case to do a scope 3 assessment. Objective of submitting a more complete report after first year reporting becomes a motivator.
- The fact that CDP publically calls attention to its worst responders and non-responders is also motivation for improving scores by conducting a scope 3 assessment.
- Translate the emissions to dollars, bottom line – show cost savings for investments in scope 3
- Organizations are seeing pressure at the consumer level to reduce their greenhouse gas emissions, which in turn makes them more attractive from a marketing perspective.
- Use "hero stories" or areas of major savings due to the report. Hero stores: stories that are easy to understand for those not familiar with sustainability.
- Conducting scope 3 analysis helps to identify who suppliers are. For one company, it took a year to perform the inventory, but company was able to identify entire supply chain.
- Interest in carbon neutrality claim, requires some companies to look at scope 3 to make this claim. Attendees also motivated by CDP.
- GHG Protocol has mature model, and it is standardized. Compelling argument to work in this space rather than other aspects of sustainability.
- View managing scope 3 emissions as an operations issue, not a reporting/compliance issue. Scope 3 emissions can be seen as a proxy for energy.
- This is an operational issue and should be embedded in processes. It is a proxy for energy. Action with suppliers from the sell side rather than the buy side is not yet occurring. Most companies, especially in larger organizations, don't know all of their suppliers.

Challenges include:

- It can be easier to obtain data and information about carbon emissions than energy use.

- Most contact with suppliers takes place on the sales side. This makes communication about emissions difficult. Sales is not the right department to talk to.
- Many suppliers have not done scope 1 and 2 according to corporate standard.

HOW TO PRIORITIZE REDUCTION INITIATIVES

Following a scope 3 inventory, some say there are variety of options, but there is often a lack on one main, obvious place to look at. How do you make the decision about where to focus?

- Comes down to cost savings; where savings seen soonest.
- US General Services Administration (GSA) did a pilot program with 80 small businesses focusing on recognizing cost savings and suggesting market advantage that can be clearly and immediately enunciated.
- Focus on showing results quickly and tangibly.
- Prioritize based on cost; “hot spot” products, so that they can focus on reducing their carbon footprints.
- For companies that are service providers (such as data providers), their supply chains are small, so they have less influence to drive change - even when they give money to encourage them for renewable energy installations, on-site renewables, etc.

Which suppliers did your company prioritize among the various options for reductions, given that no one activity rises to the top as obvious priority?

- GSA & EPA have a pilot program with 80 small businesses (GSA’s suppliers). They focus on areas where these companies can find cost savings, and show results quickly and tangibly.
- This is often transportation & logistics.
- Driving down product carbon footprint is a priority.
- CDP Action Exchange identifies suppliers likely to work on reduction, and gives them access to organizations that can help them with energy efficiency.
- Data analysis with the University of Minnesota is helping CDP to learn which companies are most likely to reduce emissions if pushed to do so. Report will be out soon.

Discussion #2: Approaches to Driving Supplier Reductions (BSR)

Summary: Overview of measures that drive supplier performance with carbon emissions reduction, which includes managing to suppliers’ ambitions, collecting information that is actionable, and determining how to improve suppliers’ ability to take the next step – the “three A’s” of measurement. Facilitated discussion on challenges and what companies need to overcome barriers to drive reductions.

MOTIVATIONS FOR ENGAGING WITH SUPPLIERS

The supply chain is one of the strongest levers for reducing impacts, and suppliers have significant potential for saving on energy costs. However, companies and their leaders are inherently driven by different objectives, so it is important to ensure that the case for action is built in different ways that could appeal to a wide range of individuals. Different drivers and issues include:

- Desire for high CDP scores, where reputational risk is at the forefront, given that CDP identifies the biggest companies within sector that were non-respondents.
- Efficient and scalable information-sharing. Companies want to streamline data systems. The Electronics industry has done this by working together to collect data from shared suppliers, and

coordinating on data gathering and reporting. This provides a uniform voice across industry that reducing emissions is important to them.

- Strengthening supplier relationships. Many companies have pointed to the problem of supplier “survey fatigue” and have called for focusing on motivating suppliers to disclose information publicly, rather than focusing on surveys.
- Responsiveness to customers. Many customers have been asked by *their* customers to respond.
- Innovation. Scope 3 management has potential to drive innovation. In this way, Tier 1 suppliers are still a small part of scope 3, but can have big opportunities for innovation opportunities.
- GHG reductions. While the above aims might also drive GHG reduction, some companies are focused specifically on actual emissions reduction.
- These companies are finding that a critical role is to understand what prevents suppliers from going further – e.g. level of commitment, financial analysis, or technical energy efficiency resources – and to help address them. These companies find it key to organize conversations with suppliers that produce right information for interventions by getting data that tells what is needed to suggest action.

Companies will see some of these as more important than others, though most need to balance multiple objectives. Also, a key question is whether and where it is most effective for coalitions to work together to build capacity. The answer to this appears to depend on the extent to which objectives can be shared.

OBSTACLES TO ACHIEVING SUPPLIER ENGAGEMENT OBJECTIVES

While companies are doing a lot around supply chain, as is evidenced in CDP reporting and activities around lifecycle assessment and supplier engagement, there remains a gap between what the reductions we want suppliers to make and what they are actually making. Obstacles include:

- Suppliers are heterogeneous. This means that some questions can be asked and answered in a standardized way, but other questions will vary depend on who is asking it.
- Suppliers are getting fatigued. One service provider company present used to have a survey, but they discontinued their proprietary supplier survey because there were just so many surveys already out there, and the company did not want to contribute to supplier fatigue. They collect public data that is publicly available, but that does not cover many of the smaller suppliers.
- Suppliers have their own expectations. They often think there should be opportunity to increase prices - a “green premium.”

SUPPLIER ENGAGEMENT TO IMPROVE CARBON PERFORMANCE

There are many activities around supply chain and lifecycle decisions. One of the most overlooked is supplier collaboration. Without effective collaboration, forces are working against you. However, there are many elements to strategy overall: strategic intent, internal alignment, supplier selection, supplier collaboration, mode(s) of information sharing, program design, and program implementation.

Strategic intent: need to determine whether/how energy and climate are material and top priority for suppliers and what priority is among other issues of concern, such as animal rights; human rights.

- Internal alignment. Several companies at the workshop talked about the need for alignment with everyday business activities. But at present this is generally done by driving the program from CEO level, and incorporating it into personal development program for the year.
- Embedding considerations of carbon emissions in the purchasing group is how to find innovation opportunities, and then aligning that with R&D and marketing, as well as identifying innovation opportunities in product development and usage.

- Supplier selection. One company conducts supplier segmentation by risk vs. impact assessment. They looked at the top quadrant of highest risk vs. highest impact. They followed the 80-20 rule based on spend.
- Sustainability is not the number one priority. It is one of 5 pillars. Strategic model looks at key suppliers, and then at actionable work with those specific suppliers. They are struggling to develop actionable metrics for sustainability. It is especially difficult to measure performance, when efficient suppliers are not making large improvements like the poor companies.

Three priorities were discussed for driving GHG reduction.

Priority #1: Improving suppliers' ability.

Those working with suppliers directly are hearing that they want help. If you look at what many companies are doing, they are asking questions—"taking" information—but not necessarily "providing" much back.

As one example, a survey for the electronics industry revealed that suppliers wanted help for energy efficiency, specifically for practical, onsite, individualized tools.

More case studies are not that helpful, unless they are industry specific. Case studies that show that Company X found a business case is not that helpful. It's too general. More studies are not helpful unless they focus on a particular sector. The focus of the studies needs to be more specific.

Priority #2: Focusing on information that is actionable

If you look at what it takes for suppliers to invest in energy efficiency improvement, there are a lot of different things, and some of the most important are not "technical", nor are they what is typically measured—they are about the supplier's organizational willingness and ability to commit.

- Organizational factors, such as senior support, appropriate teams and incentives in place, and an enabling organizational structure, are most important because they set the stage for how technical issues are managed.
- One organization did an Environmentally-extended Input-output analysis of products, (not just climate, but all environmental impacts), in order to prioritize.
- How does carbon data influence the corporate team? 80% of suppliers are small businesses, so capacity building needs to be specific and proven methods. So the organization developed the community of practice, which developed a stepping stone of education for their suppliers.
- By using Yes/No questions, they can more quickly provide suppliers with educational materials more closely tailored to their expertise and interest.

If you do not have the following, money spent on technical solutions may be wasted.

- From supplier perspective, clarity/transparency about your use of GHG and other data could increase your response rate. Express WHY you are requesting specific data and explain WHAT you intend to do with the data you receive. Is it altruistic? Is it for procurement assessment?
- Companies are getting approached about many environmental/social/health impacts. Is there a means of making the climate/carbon case for these issues/surveys as well? Consumers asking for it – choosing to put it out front

Priority #3: Understand and improve suppliers' level of ambition

Most fundamental issue is that supplier has a true ambition to do this work and invests accordingly, and if not, address their level of commitment before going further. If suppliers don't have true ambition to improve, then simply surveying their impacts will not have a positive effect. And not all suppliers are willing to provide data and engage.

- One company focuses on a few KPIs for CDP Supply Chain engagement. They ask suppliers: Do you report to CDP; do you report & allocate emissions to us; do you set targets? Are you willing to partner with us? They are not tracking quantitative reductions in emissions from suppliers.

- Conversation needs to shift towards growth – how you can grow your businesses together. Just focusing on pricing misses a key part of the conversation that needs to be had.
- Competitive pressure: award an innovative company- one that is reducing their GHG emissions- a particular amount of their business. Their competitors are motivated by this and begin to innovate in a similar manner.
- Suppliers are interested in growth and opportunity. If financial incentives do not work, access to the VPs or high-level staff at your organization might. Creating relationships with the decision makers at your organization goes a long way to fostering change and emissions reductions.
- Each year, this organization holds a "suppliers summit." At this summit all the suppliers can establish a dialogue with the high-level staff of their organization.
- Recommend getting emissions data from a single database.
- Competitive pressure and supplier diversity to create competition helps manage the issue of cost/premium etc. Innovations by small suppliers can drive innovation in larger suppliers.

Ways to motivate:

- Frame this subject as how you can grow your business instead of focusing on the cost reductions.
- Provide access to the senior management at the buyer. Just a meeting with the VP actually made the difference.
- Be very clear to suppliers about why they are receiving the questionnaire.
- Bring suppliers together regularly (e.g. once a year).
- Let them know what is important to you in choosing suppliers.

Discussion #3: Experiences with Supplier Engagement—Focus on China (BSR)

Summary: Sharing of insights on how companies are engaging suppliers in China on carbon reduction, approaches that are leading to real and demonstrable reductions, and the myths and misnomers around working with suppliers in China to improve energy and carbon performance. Facilitated discussion will address how companies engage Chinese suppliers to meet carbon reduction targets.

- Seeing the ROI is imperative.
- A challenge is that some suppliers feel that electricity and other data are proprietary.
- Companies often overlook the need for accurate data, which they assume suppliers provide, but data are often not accurate.
- Although companies want to find ways to “share” in energy efficiency savings with suppliers, there are few examples of arrangements that make this constructively work.
- Supplier size is often correlated to cost and benefit of energy auditor coming to work on it
- Factors impacting suppliers: size, sector, location, ownership , relationship with buyer – particularly trust, maturity.
- Important to be mindful of the time investment required to make transition to low carbon corporate operations.
- Aggregated data are easier to collect.
- Common perspective from suppliers: not that important to submit accurate data. Year on year comparison can show lots of red flags.

PERSPECTIVES FROM CHINA-BASED SUPPLIERS ON BUYER ENGAGEMENT

- Suppliers feel inundated with surveys and requests for “compliance”.
- Suppliers want practical energy efficiency tools, especially individualized onsite assessments.
- Suppliers want to charge a “green premium”.
- Common issues where responses vary: interpretation of energy as an “environmental” or “sustainability” issue, comfort with sharing energy information, and view of access to capital being an obstacle to investment in energy efficiency.

FACTORS TO CONSIDER WHEN ENGAGING WITH SUPPLIERS IN CHINA

- Supplier size: Suppliers are vastly different in size of energy use. This is significant because the investment needed to understand and manage varies greatly based on their size.
- Supplier sector. Different sectors are more energy intensive (e.g. printed circuit board fabrication) and less energy intensive (e.g. laptop assembly and warehousing) and host different kinds of activities and issues. The point is that you should not necessarily focus on one of these, but you should look for ways to bundle activities.
- Supplier maturity. BSR has led several initiatives to collect supplier information, and found that a random sample of suppliers reveals that they are all at different levels of maturity.
- For example, you might have the following groups: (a) companies that have an energy manager, (b) companies that are advanced, with ongoing GHG management, and (c) companies that you don't hear back much from when you write emails.
- It is helpful to encourage them to develop action plans that address the problems/opportunities that they have, wherever they are on the maturity curve.
- Supplier location: supplier location bears on local technical resources (hence cost) and regional policy/incentives (hence payoff).
- Ownership: whoever owns the factory makes can make a big difference willingness and ability to engage. Private companies are often more responsive to supplier engagement requests than State Owned Enterprises, for example.
- Relationship with the buyer: the supplier's perception about the importance of the relationship with the buyer and its level of trust play a large role in collaborating on energy efficiency issues.
- Sustainability team may not be as effective if they are working with suppliers in a silo without involving the business and sourcing teams.

Conclusions

- Some companies are leaders even if they are not that far along. Need more models for successful supplier engagement.
- Companies are finding it challenging to influence suppliers. Sectors need to simplify, streamline process, and use influence.
- Integrate GHG's into larger value chain management.
- We need to build capacity in small and medium enterprises, and build business case.
- Mapping the value chain is a useful exercise.
- Need to bring more companies into discussion and develop roadmaps and toolkits for engaging with suppliers.