



SUSTAINABILITY – What is needed to profit from the Source

Based on the INVERTO Sustainable Procurement Survey 2022



WHITE PAPER

INVERTO
A BCG COMPANY

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Introduction



The world is facing its greatest challenge: saving its future existence. Our earth and thus our livelihood has become sick due to the way we – governments, companies and people – treated it over the last decades. The impact is dramatic, all of us facing major climate crises, and the extinction of entire species. We are seeing the first populations already needing to be relocated – take the million-strong Jakarta as one of the most prominent examples.

There is a consensus that we all have no alternative but to take action, however there is still a great deal of discussion about how. **Regulations are taking steps forward.** In the Paris Agreement, the UN expressed its net-zero commitment to keep global warming to no more than 1.5°C by cutting greenhouse gas emissions: -45% by 2030 and reaching net zero by 2050. Since then, initiatives have been introduced, joined by thousands of companies, such as the Science Based Targets initiative (SBTi), a collaboration between the Carbon Disclosure Project,

the United Nations Global Compact, the World Resources Institute and the World Wide Fund for Nature (WWF), to set science-based climate targets. State governments follow suit and create legislative framework to achieve the goal. Take the European Supply Chain Act which obliges companies to observe climate protection in addition to human rights along the entire supply chain.

Companies should and have to lead the way when it comes to sustainability. A general consumer sentiment is strongly evolving towards firms which can provide more sustainable goods and services – be it vegan alternatives, low-packaging or recyclable products in consumer goods, e-mobility and renewable energy solutions or regionalization trends to name a few. **Being sustainable** is no longer an option, it is increasingly becoming **a license to operate** not only in the eyes of consumers but also of shareholders. >



While companies are well on their way in defining their corporate sustainability strategy and vision, the commitment vanes in breaking down strategies to entities such as procurement and translating them into actions. One fundamental problem is that the **decisive role of procurement in sustainability progress and success is still underestimated**. Procurement is no longer solely about purchasing goods and services from suppliers for the lowest price, but about helping create products that are lower risk and more sustainable. Due to geopolitical crisis, supply chains are starting to reconfigure to ensure greater resilience and sovereignty. This is **THE opportunity to join the resilience agenda with the sustainability agenda**: while companies reconfigure supply networks for resilience purposes, they can become more sustainable at the same time, for instance by relocating suppliers more locally and targeting countries with a more efficient energy mix.

INVERTO conducted a Sustainable Procurement Survey in summer 2022 to analyse the sustainability progress in procurement and the function's role in businesses. Around 90 companies – mainly from Europe but also further afield – took part. The

results clearly show that supply security and costs currently rank above ESG ambitions in light of inflation, geopolitical challenges and supply problems. **Awareness of the importance of sustainability is however, also there in procurement**. The goal of establishing environmentally friendly and socially responsible value creation ranks second among the most important tasks. Yet, when taking a closer look at the drivers for sustainability it becomes obvious that companies do no more than the law mandates in terms of sustainability.



/ Key questions asked in the INVERTO survey:

- What relevance does sustainability currently play and what are the main drivers for ESG compliance?
- How do companies succeed in becoming more sustainable?
- What role does procurement play in the sustainability progress?
- What sustainability targets do companies consider?

This white paper based on the survey results will show what you have to do to optimize and align your procurement function to become more sustainable.

Additionally, the **integrity of carbon neutral claims is compromised** by various issues, including scope coverage. While most companies state to work on developing nascent sustainability strategies, they generally do not address key emissions. It is true that not all companies have the same resources and/or ambitions but acting only on direct emissions (scope 1) or emissions from procured energy (scope 2) and only selected other indirect emission categories (scope 3) is insufficient to reach the -1.5C° IPCC¹ 2022 goal. Especially, given that scope 3 emissions can account for over 80% of GHG² emission footprints.

Companies' **commitment especially vanes when it comes to breaking down corporate sustainability strategies** and translating them into goals and concrete action: 39 percent of survey participants

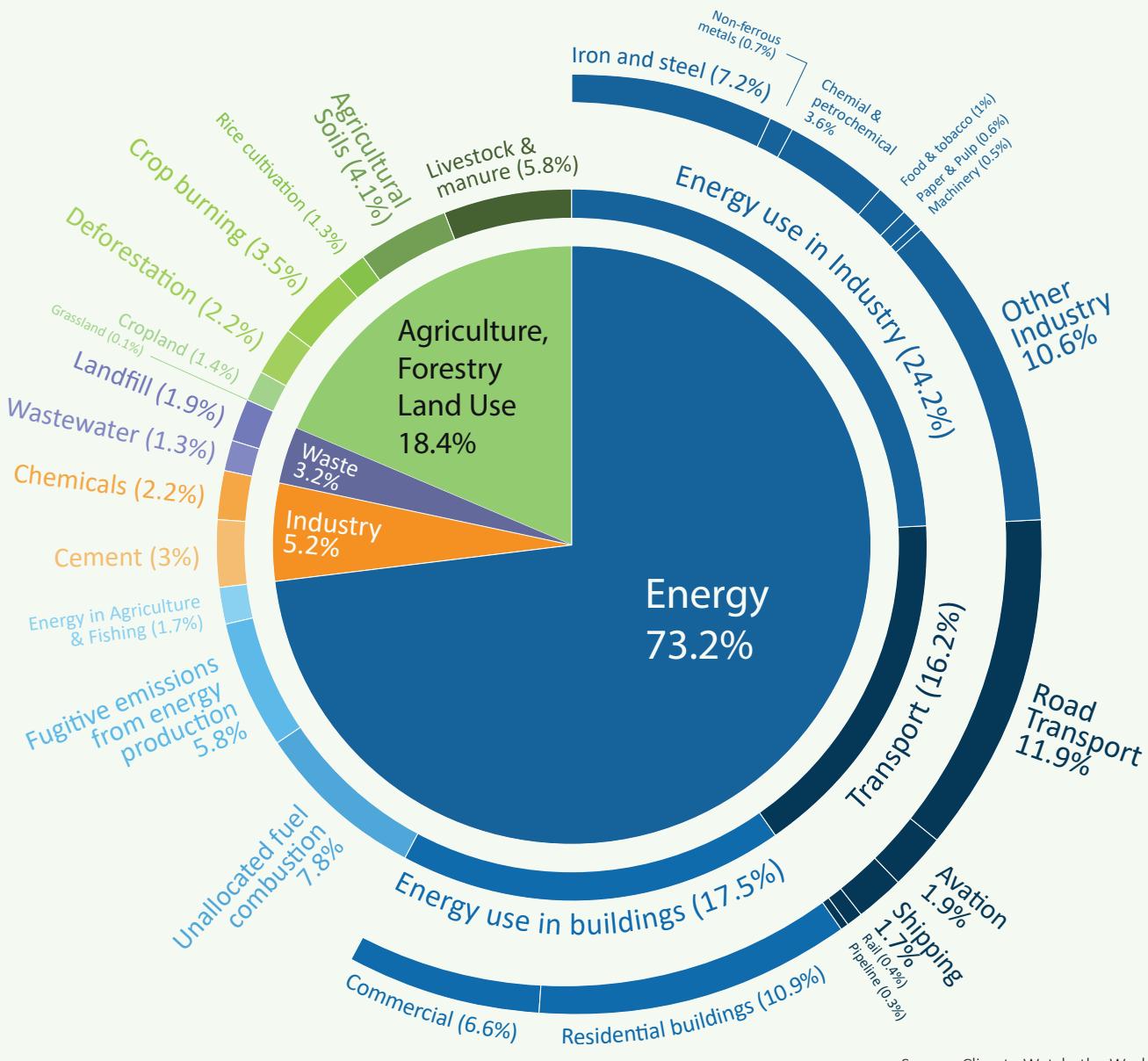
have not yet adopted a procurement sustainability strategy. In terms of concrete sustainability measures already taken, the picture is sobering as less than one-third of the study participants are concerned with waste avoidance, recycling or reducing water consumption. Even if targets are in place, controlling is missing to check whether ambitions are achieved. Lack of transparency in the supply chain, missing capacity and sustainability knowledge within companies further hinder progress.

Businesses need to act now. Only those acting quickly, transparently, and credibly will be able to stand apart from the competition, because only genuinely sustainable companies have a chance to remain competitive in the future. //

1 Intergovernmental Panel on Climate Change
2 Greenhouse Gas Protocol

Facts, figures & opinions

I Global greenhouse gas emissions by sector



*"Sustainability must not only be regarded as an individual initiative, but must also be firmly anchored in the company's business model."**

Cordula Richter, Global Organizational Change Lead at Quantis

* Quote from INVERTO Supply Management Insights Magazine 2023
"Actively drive Sustainable Procurement"

Companies that "Do good" also "Do well":



↗ Sales

increase

↗ Investor interest

increase

↗ Profitability

increase (2–5%)

↘ Capital cost

decrease (0.2–0.4%)

↗ Nextgen employees

greater interest¹

*"Sustainable Procurement is by far the most significant lever to improve products, drive innovation or even safeguard human rights (...) Our interest is not to work solely with perfectly sustainable companies, but also to improve things individually with each supplier. (...) Suppliers who meet very high sustainability standards have quite different privileges with us and we make this very clear."*²

Thomas Udesen, CPO at Bayer



"If CEOs address the carbon emissions of their suppliers, they can go a long way toward achieving their goal of net zero. Yet, up to 90% – depending on industry – of the carbon emissions generated by a company's supply chain are created by suppliers. The percentage for other sectors is similar ranging from 77% to 85%."

Daniel Weise, CEO at INVERTO and author of "Profit from the Source"

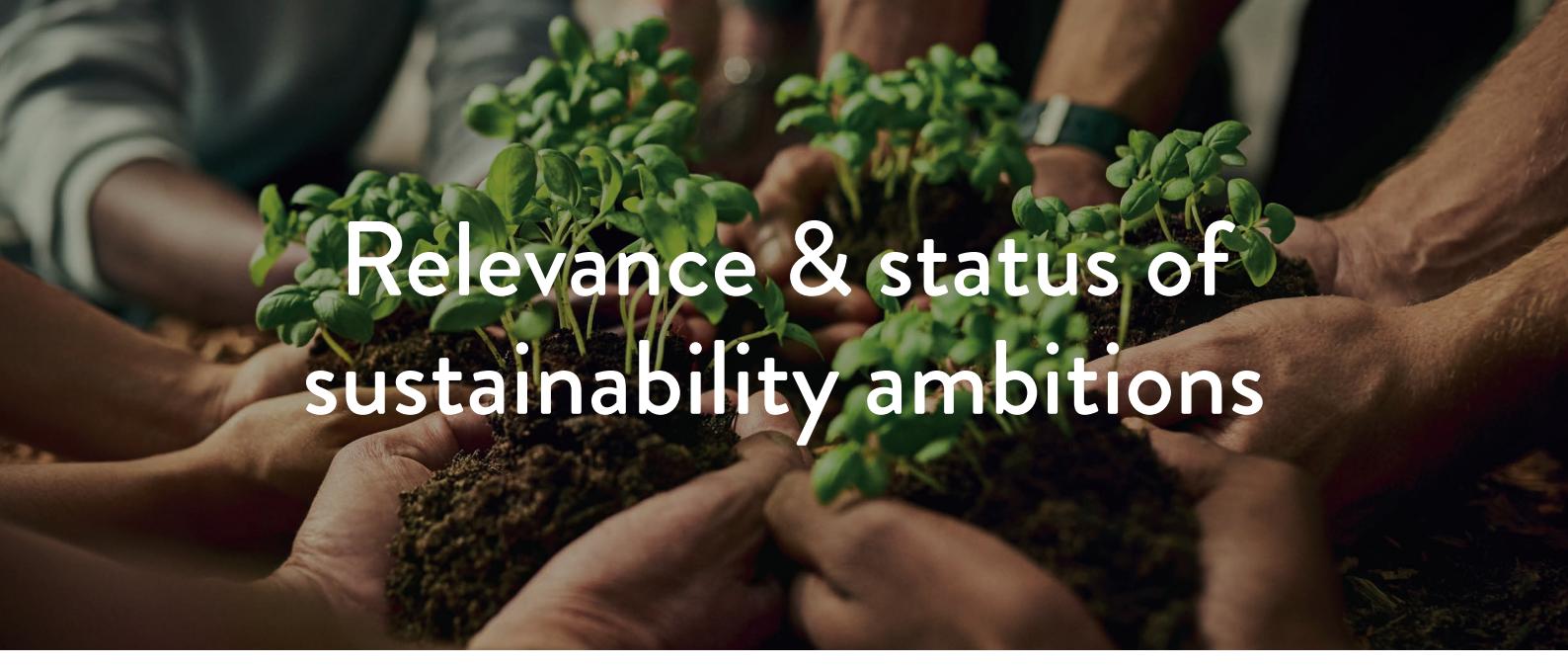
"Sustainable procurement is not necessarily more expensive than conventional procurement: Given the high energy prices for instance, strategies to reduce energy consumption and decarbonization usually also lead to cost savings."

Marianne Kaas Fürst, Principal at INVERTO



¹ 40% of millennials take ESG factors into account when choosing a job

² Quote from INVERTO Supply Management Insights Magazine 2023 "Actively drive Sustainable Procurement"



Relevance & status of sustainability ambitions

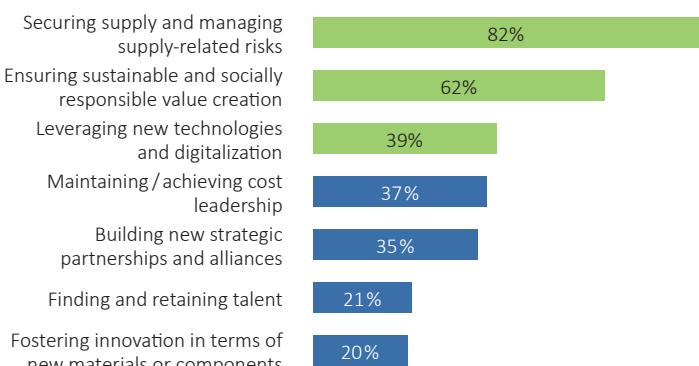
Despite crises, sustainability ranks high on business agendas

Companies are currently focused on business continuity, yet acknowledge the importance of sustainability in procurement

Security of supply and cost control are currently the main priority for companies. In view of the many challenges – geopolitical issues, COVID, inflation – it is not surprising that many participants are still struggling with securing supply and managing supply-related risks.

Despite those circumstances requiring continuous attention, **companies do recognize the importance of sustainable and socially responsible value creation** and rank it high on the overall business and procurement agenda.

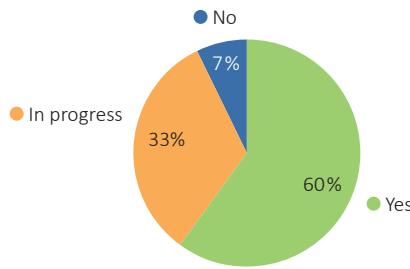
/ "What are the 3 most relevant procurement focus topics for your company?"



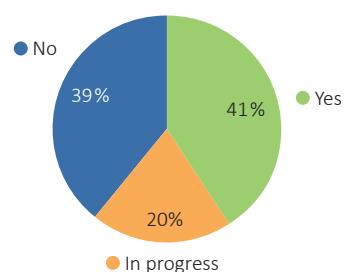
However, our survey shows that there is a **time lag between the adoption of sustainability at a corporate level before it gets down to the procurement level**. More than 90% of the companies that took part in INVERTO's study "Sustainability in Procurement" have a corporate sustainability strategy in place

or are currently formulating one. The study also revealed that 39% of businesses do not yet have a procurement sustainability strategy in place, or in progress. And if, respondents evaluate the alignment to the corporate strategy as improvable (31%), 17% aligned badly or are not aligned. >

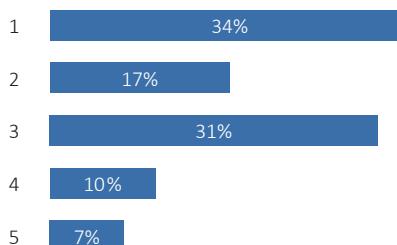
/ "Does your company have a corporate sustainability strategy in place?"



/ "Does your company have a procurement sustainability strategy in place?"



/ "How well is procurement aligned to the corporate sustainability strategy? (Evaluate from 1 to 5*)



* 1=very well aligned, 5=not aligned



In terms of ESG* many companies currently only do the "bare minimum"

1

The past few decades have seen a growing recognition of the urgent need to address sustainability challenges, with legislation on sustainability dating back to the early 1990s. However, it is only in recent years that we have seen a surge in corporate action towards CO₂ reduction targets and ESG standards. **So, what has changed or hindered them so far?**

First, the impacts of climate change are increasingly visible. Extreme weather events, the extinction of entire species,

and natural disasters are now occurring with alarming frequency, and the resulting damage has become impossible to ignore. This has led to a shift in consumer attitudes, with more people demanding that companies take responsibility for their environmental impact. As a result, there has been mounting pressure on governments to introduce more stringent regulations, and companies have been forced to respond to consumer demands for more sustainable products and services. >

* ESG=Environment, Social, Governance

2

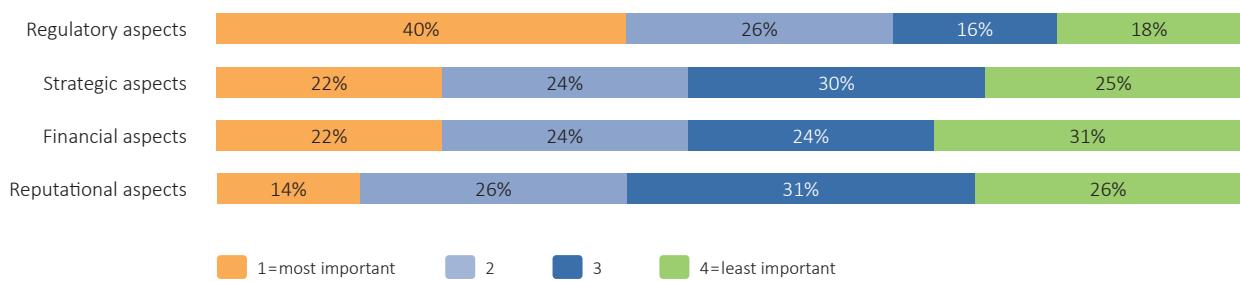
Second, the rise of social media has given consumers and NGOs a powerful platform to raise awareness and hold companies accountable for their actions. This has helped to mobilize public opinion and increase pressure on both governments and companies to act on sustainability.

Third, regulations are becoming more constraining and also more tangible. For example, the EU's "Corporate Sustainability Due Diligence", its regulation on deforestation, and the Carbon Border Tax create a clear legal imperative for companies to take action on sustainability, and failure to do so can have serious consequences for both their reputation and their profitability.

The results of our survey on the motivation of companies to become more sustainable reflect on the long-standing "lack of orientation", as well as its current prioritization within the business. In our survey, 66% of the companies deal with sustainability mainly because legislation obliges them to do so. 46% of the respondents cite their corporate strategy as the reason, while only 40% expect an image boost. ➤

3

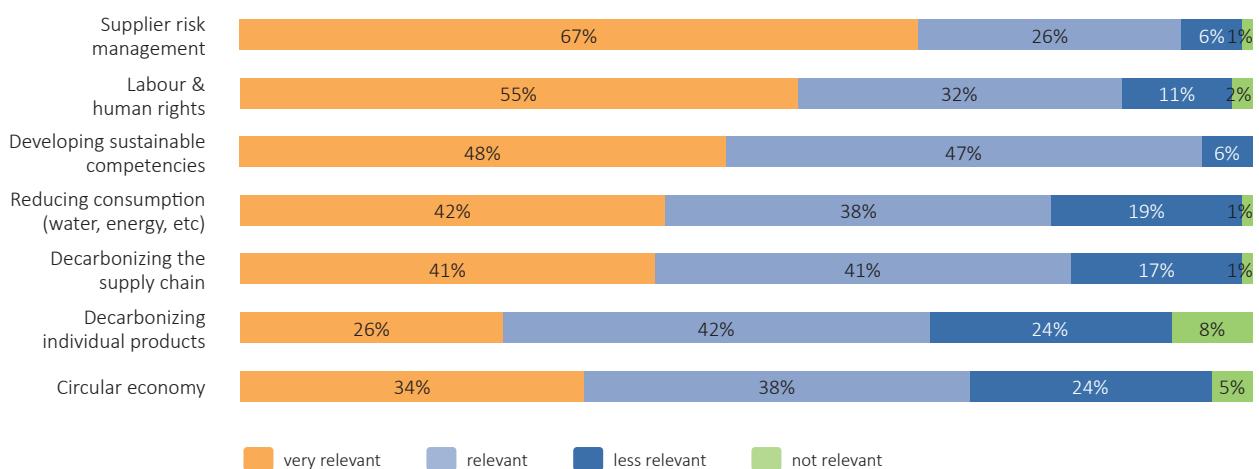
"What are your main drivers for focusing on sustainable procurement? (Rank from 1=most important to 4=least important)"



Commitment vanes when it comes to concrete action

Taking a closer look at the sustainability topics prioritized by procurement it quickly becomes clear that ambitions shrink and that companies choose the easiest route, passing on the remit to their suppliers. In the short- and medium-term they have no other choice. Globalization and growth have extended supply chains throughout the decades resulting in complex networks of partners. From this, transparency has suffered in many companies' operations. So, the **lack of concrete action is also for sure due to the increased lack of tangibility in decarbonization efforts.** >

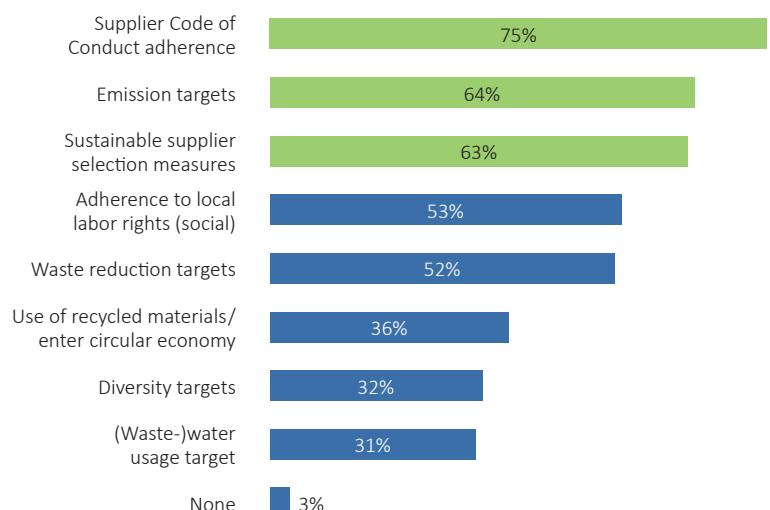
/ "Which sustainability topics are in focus in your procurement function?"



To establish a comprehensive overview on all operations, making it possible to track and control ESG matters, requires significant investments in new technologies, infrastructure, and personnel. Therefore, it is not surprising that **simple sustainability approaches prevail**: three quarters of all respondents have established a code of conduct for suppliers, and around one third select suppliers according to defined sustainability criteria. All in all, **when it comes to suppliers, it seems that companies address the sustainability topic in a very transactional manner**. In the long run it will be necessary to engage strategically with suppliers on a decarbonization partnership in order to progress.

Emission targets have been implemented by 64% of participants so far. Other ESG objectives such as adherence to local labor rights or waste reduction are in place by half of the respondents.

/ "Which sustainability targets has your company implemented?"*



* Multiple answers possible

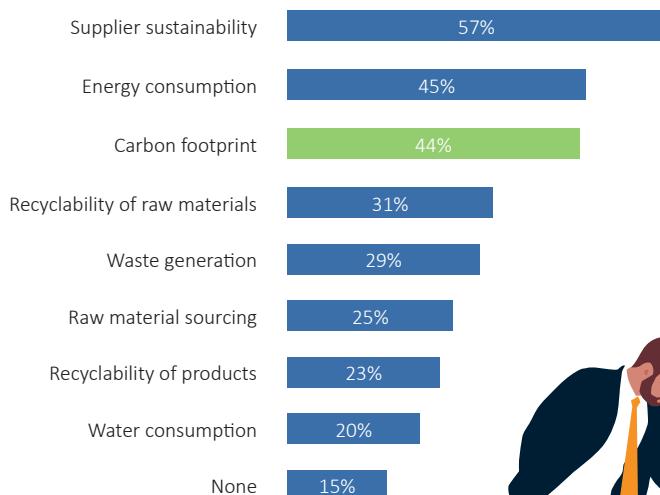


Emission targets and ESG objectives vary greatly, even in the same sector: Companies have different levels of ambition when it comes to reducing their emissions, they have different starting points or maturity levels and finally, businesses have different resources available to invest in emission reduction measures. For example, larger companies may

have more financial resources available to invest in renewable energy or energy efficiency measures, while smaller firms may need to prioritize other investments. To give a concrete example, in the mining industry, targets set by two main leaders differ by 50% while having the same objective timeline (2050). >

A lack of controlling and reliance on supplier sustainability pose questions around sustainability progress and impact

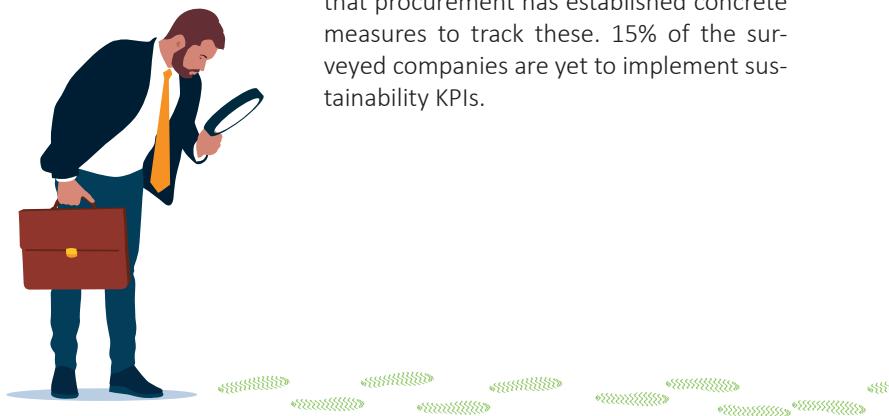
/ "Which sustainability KPIs does the procurement function track?"*



* Multiple answers possible

However, even if sustainability targets are in place, there is often a **lack of clear key performance indicators (KPIs)** that companies need to check whether they are achieving their ambitions.

While supplier sustainability is the most common sustainable KPI that procurement functions track with 57%, both energy consumption (scope 2) and carbon footprint (scope 3) are given too little consideration. Only 45% and 44% respectively state that procurement has established concrete measures to track these. 15% of the surveyed companies are yet to implement sustainability KPIs.

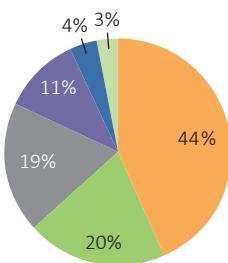


High decarbonization targets meet missing decarbonization KPIs

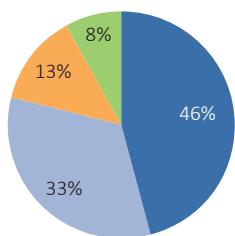
Although the majority of survey participants have defined an ambitious decarbonization target (56%), **only 44% have set decarbonization KPIs** (see chart above).

Emissions ambitions vary in level and time horizon: 20% of respondents have set a Net Zero decarbonization target, 44% have not yet set a specific target for the supply chain. One third have a reduction target of up to 40%. Around half of companies need to achieve their target within the next 5 years, and 79% within 10 years. ➤

/ "Which decarbonization target has been set for the supply chain?"



/ "Please specify by when this target needs to be met. In the next...?"



- No target has been set
- NetZero
- Emission reduction by up to -20%
- Emission reduction by up to -40%
- Emission reduction by up to -60%
- Emission reduction by up to -80%

- 2-5 years
- 6-10 years
- 11-20 years
- 21-30 years

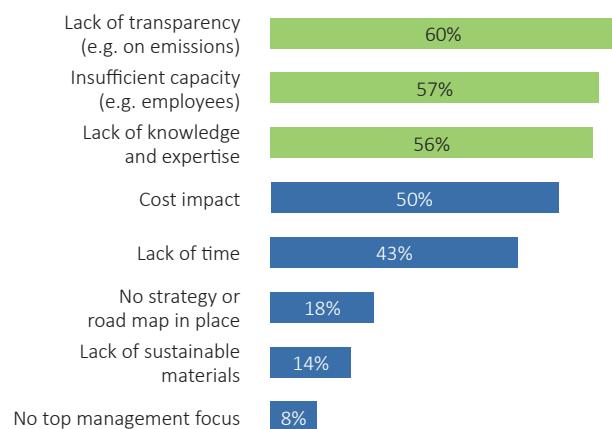
Procurement needs investment and supply chain transparency

Companies recognize the relevance of sustainability competencies in procurement. However, although procurement is one of the most important levers for ESG progress, they invest too little in financial and personnel terms to be able to build and develop the necessary capabilities: data/ resources/ expertise.

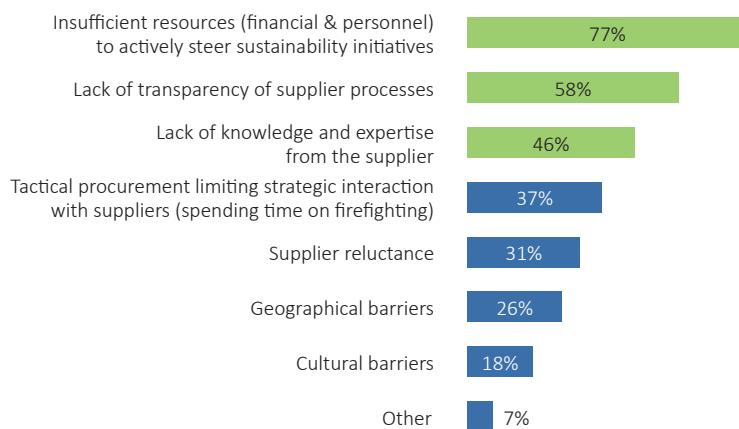


This is also confirmed by the majority of participants. When asked about the top three internal challenges for implementing sustainable practices, they mention the lack of transparency as the biggest challenge (60%) followed by insufficient capacity (57%) as well as lack of knowledge and expertise (56%). Cost impact ranks in fourth place and has been mentioned by half of respondents. 18% of participants state that so far no strategy or road map is in place.

What are the top 3 challenges for implementing sustainable procurement practices internally?*



What are the greatest challenges for implementing sustainable practices with suppliers?*



* Multiple answers possible

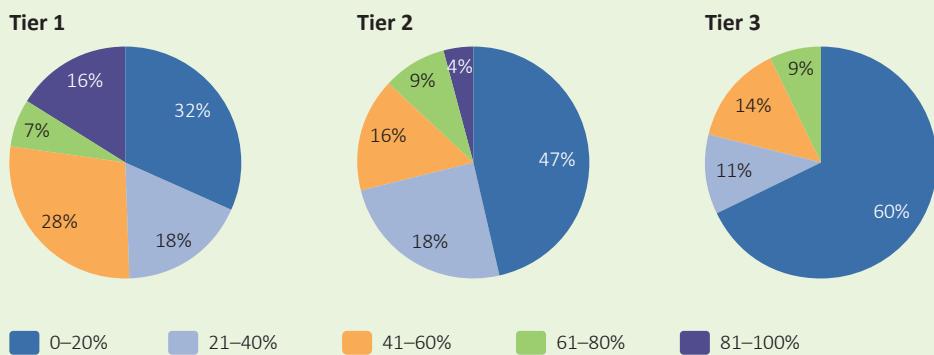
Speaking about challenges with suppliers, the biggest obstacle for implementing sustainability practices with suppliers is insufficient internal resources to steer sustainability initiatives (77%). A lack of transparency in supplier processes and a lack of knowledge and expertise from the supplier account for 58% and 46% respectively. One-third mention supplier reluctance as a challenge for sustainability progress, while tactical procurement is considered a constraint by 37%. ➤

The role of suppliers and supplier relationship management

Depending on the industry, up to 90% of carbon emissions generated by a company's supply chain is created by suppliers. The figures speak for themselves and illustrate how important it is for businesses to address the issue of sustainability with their partners along the supply chain.

So far, the majority of survey participants only cooperate with direct suppliers on sustainable procurement topics. There is little interaction with sub-suppliers: 47% are only in contact with up to 20% of Tier 2 suppliers. In terms of engagement with Tier 3 on sustainability issues, only 7% of respondents are in contact with 61-80% of their suppliers.

/ "What is the approximate share of suppliers (tier 1, 2, 3+) you are currently working with on sustainable procurement topics?"



For the future, companies must engage in closer dialogue with their partners along the supply chain and clearly communicate sustainability challenges and goals. Full transparency needs to be established to progress in sustainability efforts.

What can companies do on their side?

1

First, **making ESG aspects a stronger condition in supplier selection**. So far, labor and human rights practices have been considered by 70% of respondents. The environmental management strategy is considered by only 54%. Carbon footprint is incorporated by 50%. >

/ "Which sustainability measures do you take into consideration when selecting suppliers?"*



* Multiple answers possible

2

Second, **acknowledging the contribution that every business partner can make** in terms of sustainability progress.

To improve sustainability performance in the supply chain, survey participants mainly rely on their own “territory”. Internal product and process changes (61%) as well as procurement policy implementation and compliance checks (59%) are the preferred means.

Too little attention and acknowledgement is paid to the contribution of external players. Addressing them sufficiently in sustainability terms is not only about including ESG targets in supplier selection – which 53% of participants already do. It comes along with commitment in the form of auditing suppliers on their sustainability impact, but also providing training and incentives for them to improve. The former is common for 43%, the latter is practiced by only 23% of respondents.

Ultimately it comes down to **understanding each other's challenges, close collaboration**, finding solutions and jointly developing greener products and services.

Of course, here the wheat will be separated from the chaff: the capabilities and willingness to become more sustainable will vary from supplier to supplier. In the context of supplier relationship management, it is up to the company to analyze and **evaluate which**

/ "What are the main levers you use to improve sustainability performance in your supply chain? Select top 3"



partners are critical or strategically decisive to progress in ESG terms. Surely one partner or another will emerge as one, a business can or should do without in the future. Companies' financial, human and time resources should be committed according to the strategic relevance of the supplier. >



Sustainability isn't sufficiently embedded in the operating model

When considering the dimensions of mandate, supplier relations, employees & network and control to evaluate how well sustainable procurement is embedded into the operating model, the following picture is shown: while support for ESG matters is in general given at the highest level, areas in need of improvement are the support from employees, supplier trainings and the inclusion of carbon prices.

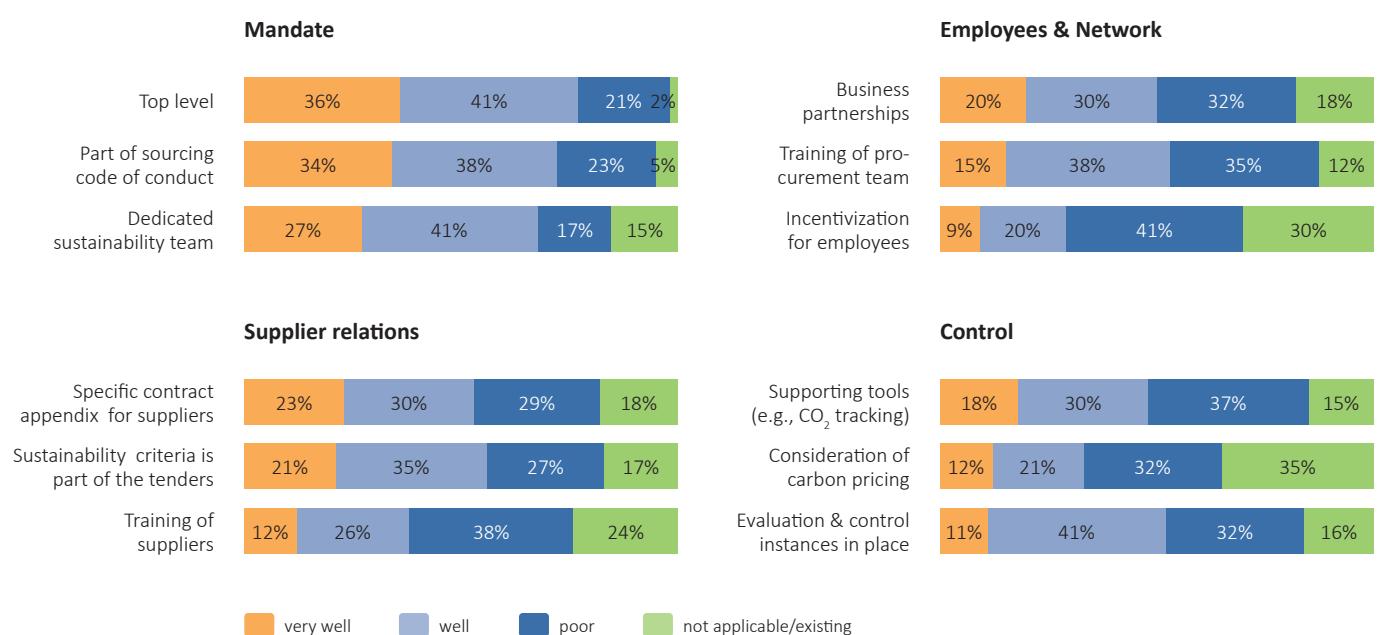
77% of respondents are of the opinion that there is (very) good support from the top level with regards to sustainability. 72% consider the embedding into the sourcing code of conduct as (very) good. More than two-thirds are also satisfied with the set-up of a dedicated sustainability team.

Over half judge sustainability training for their procurement teams as very good or good. Yet, 41% rate sustainability incentives for employees as in need of improvement.

Regarding supplier relations, the majority thinks sustainability is (very) well included in either contracts or in tenders. An area of improvement is the training of suppliers in sustainability topics (38%).

37% of respondents rate anchoring via systems & processes as poor. The same goes for evaluation and controlling. Only one-third is of the opinion that carbon prices are (very) well considered. >

/ "In your opinion: How well is sustainable procurement embedded in your operating model?



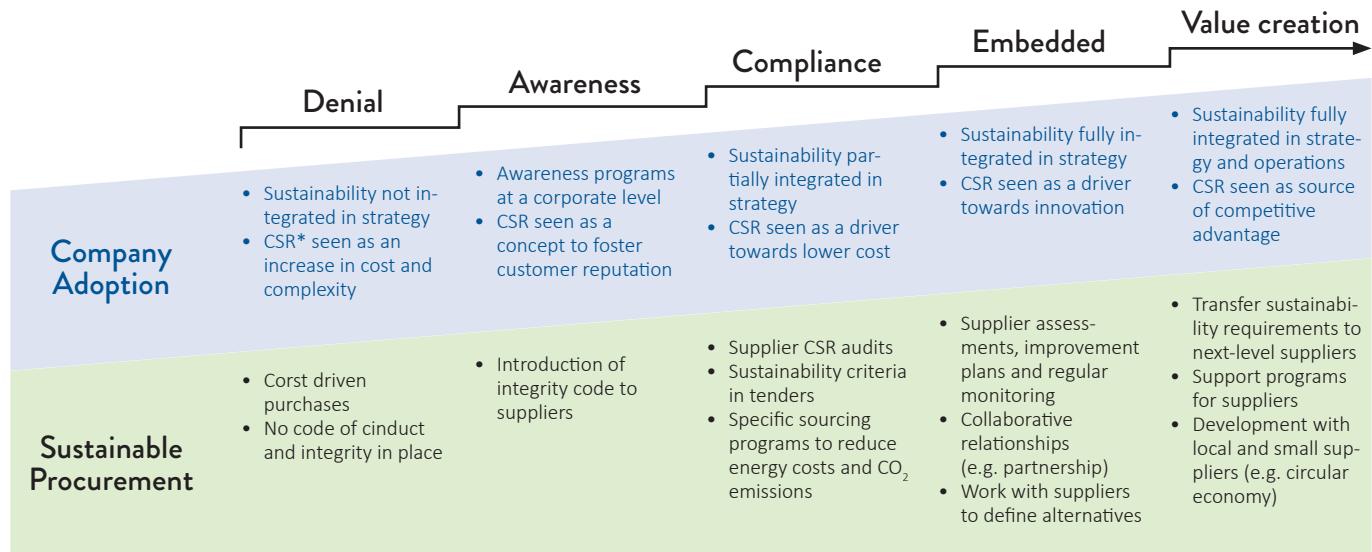


The importance of the “Source” & how to profit from it

Being sustainable is more a journey than a state. Starting points for sustainability and maturity levels differ among companies, sectors, size or location. There is no one-size-fits-all solution as it also greatly depends on the company's engagement and

resources. Each business must go into the details and decide which specific environmental, social and governance issues to prioritize, i.e. which ones will make a material impact on both business success and sustainable development.

/ Moving towards sustainable procurement creates competitive advantage



*Corporate Social Responsibility

Source: adapted from Sustainable Supply Chain, Springer

This isn't easy especially in the current context: In view of inflation and geopolitical crises ambitions and forces of consumers, shareholders and policy makers falter. Cutbacks are accepted and price considerations partly take precedence over sustainability efforts for end-consumers while resilience is at the top of

companies' agendas. However, in the long run all strive for the same goal, saving our future.

The road to more sustainability cannot be walked alone. Involving a wider internal and external range of stakeholders is key. Collaborations with suppliers are particu-

larly fundamental as they help to investigate and meet growing expectations of consumers, citizens, and investors. And here we are at the essence and decisive role of procurement – the "Source". ➤

Procurement's decisive role and sustainability drivers

Procurement has many levers and a powerful toolbox to offer for companies to become more sustainable. It can significantly play into decarbonization, less consumption of natural resources and less waste. Why is that and how can procurement contribute to a company's ESG ambitions?

Holistic decarbonization



The "Source" is at the forefront of Scope 3 upstream emissions with the understanding and the ability to reduce them. As Scope 3 is responsible for most emissions and the focus of sustainability risks, procurement can push forward transparency creation which is urgently needed to define a realistic decarbonization strategy and to bring about change. In a lot of industries, Scope 3 makes up the largest emission share – **it is sometimes the case that up to 90% of a company's emission can be classed as Scope 3** (see Automotive, Food, Fashion & FMCG industry in graph below). This means that, however hard a company tries, without procurement as a business partner it won't be able to significantly reduce its share. >

Emission Types

Scope 1



Emissions that the company causes directly, such as at its production facilities

Scope 2



Includes a company's own indirect emissions, such as gas or electricity

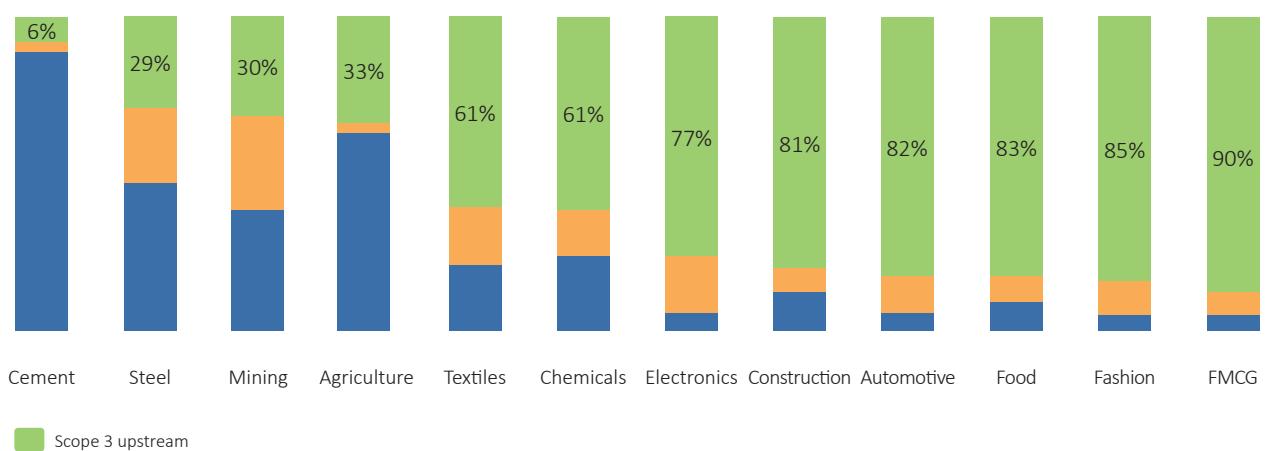
Scope 3



Denotes all the other emissions that occur in a company's value chain

/ Consumer product manufacturers have a wide Scope 3 footprint

GHG Scope 3 emissions in % of total emissions per industrial sector



Decarbonization might require a **redesign of a company's sourcing strategy**: for instance, finding suppliers located closer to the company and its markets. By shortening the length of the supply chain, companies can reduce not only the emissions associated

with transporting goods but also the time it takes to get the products to the customer. In the best case the suppliers are relocated to where the energy mix is also less carbonated. Or they find suppliers of low-carbon components, parts and raw materials.

Joint redesign of products and packaging

Becoming more sustainable could also mean a redesign of products, packaging and/or product portfolio. At this point R&D, Sales, Procurement and suppliers need to work hand-in-hand to develop or find greener solutions.

The following examples show how impactful this lever can become: Tesla for instance reduced the length of the wire harness in its electric vehicles to improve the manufacturability of a new automobile. This also made the vehicle less heavy and reduced the speed with which power drains from the electric battery. Efficiency rose and the impact on the environment was lowered*. At a DIY tool manufacturer, INVERTO incorporated

more recycled materials in the plastic parts without a loss of quality and saved almost 10,000 tons of CO₂e in annual emissions. The achieved CO₂e/kg reduction per product ranged between 45% and 82%! On top of the carbon reduction, costs were also reduced by an average of 18.3%.

Besides focusing on the products, companies need to take their packaging into account: be it in the form that packaging is 100% recyclable, made from recycled materials or require less resources in general. For more details on sustainable packaging, take a look at our **“Sustainable Packaging: Relevance, Challenges and Opportunities” white paper**.



* Compare „Profit from the Source“, page 180.

Procurement's decisive role in sustainability progress cannot be denied. Taking its knowledge, supply chain interconnection and ESG levers into account, the function needs to **take on a leading role in different areas throughout the company** and beyond to exploit the full potential:

Enhancement of internal processes and product development schemes



Procurement should take part in developing sustainability knowledge within the company and the procurement team to enhance competitiveness and value creation. It can prioritize sustainability in the procurement process by incorporating criteria into the supplier se-

lection process and requiring suppliers to meet sustainability standards. So far, less than one in two companies systematically integrates sustainable development criteria into their specifications. >

Sustainable partnerships to grow as one

Procurement may consider different long-term solutions oriented towards sustainability such as partnerships for NGOs or collaborations on sustainability with key suppliers. By understanding each other's challenges and requirements, new greener products can jointly be developed, alternative solutions be

found and eventually innovations stimulated. This can include investing in suppliers that are developing innovative solutions to reduce their environmental impact and encouraging suppliers to adopt sustainable practices by providing training and resources.



Measurement of suppliers' ESG contributions

Procurement may set up precise tools to monitor supplier environmental impact at the purchasing level. It can perform audits on suppliers' processes and put in place a clear roadmap and implementation plan considering the previous supply chain assessment with the end-result, targeting an improved corporate sustainability.

Re-thinking of fundamental strategies

Depending on its maturity, the procurement function can also drive sustainability progress through more innovative actions: >

1 | Incorporation of circular economy principles:

Procurement can play a key role in transitioning to a circular economy by incorporating principles such as designing out waste and pollution, keeping products and materials in use, and regenerating natural systems. This can involve working with suppliers to implement closed-loop supply chains and designing products with recyclability and reusability in mind.

2 | Co-financing projects and engagement with stakeholders:

Procurement can engage with stakeholders across the supply chain, including customers, suppliers, and employees, to foster collaboration and drive sustainable change. This can involve creating forums for sharing best practices and ideas, providing incentives for sustainable behavior, and creating partnerships to tackle sustainability challenges. In pooling funds and resources with partners along the supply chain – sometimes even with competitors – companies are able to share the financial burden of the initiatives needed to tackle the current environmental challenges in a collaborative manner.

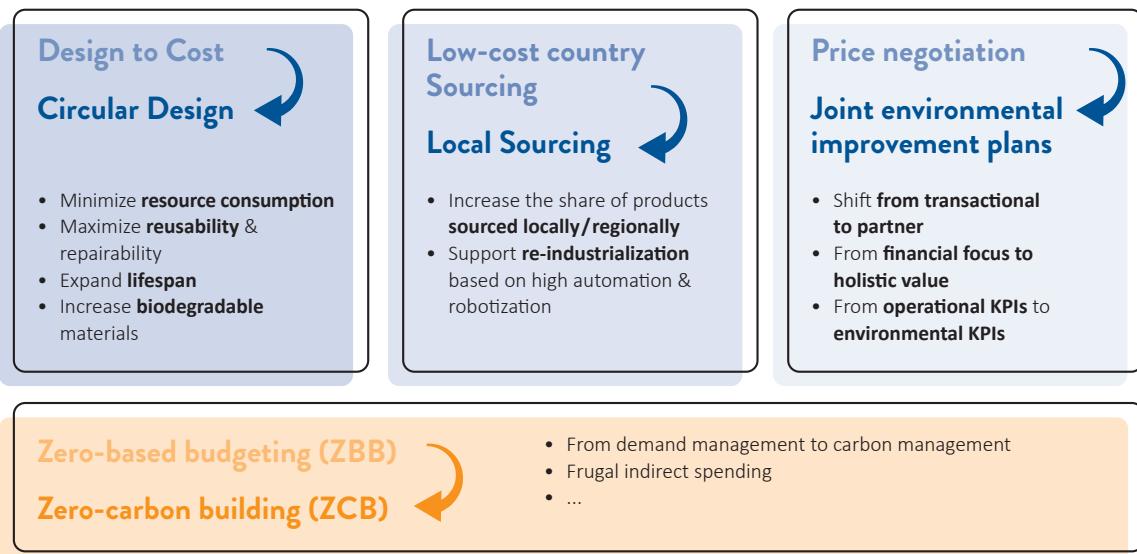
3 | Technology leverage:

Procurement can leverage technology to drive sustainable change, such as using data analytics to identify opportunities for reducing waste and energy use, implementing e-procurement systems to reduce paper usage and streamline processes, and using blockchain technology to increase supply chain transparency.

4 | Adoption of a lifecycle approach:

Procurement can adopt a lifecycle approach to sustainability, considering the environmental, social, and economic impacts of products and services throughout their entire lifecycle, from sourcing raw materials to end-of-life disposal. This can involve working with suppliers to reduce carbon emissions, using sustainable materials and production methods, and prioritizing products with longer lifetimes.

/ From procurement to sustainable procurement



"Procurement plays a vital role as a business partner, but it can take it a step further by directing the entire function towards sustainability, ultimately promoting environmentally conscious practices throughout the organization."

Denis di Vito, Managing Director INVERTO France



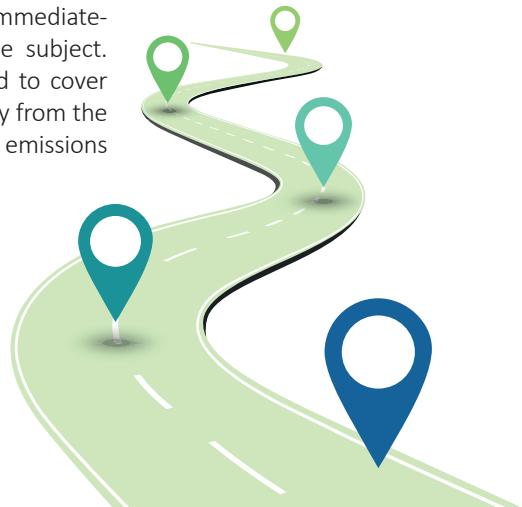
How-to become more sustainable step-by-step

1 | Holistic strategy definition and detailed break-down for all business units

If a company-wide sustainability strategy is to be successful, the issue has to be firmly anchored at the highest level. It also needs people to be responsible for driving its implementation. Besides internally, it is of utmost importance to look outside the company. Managers should consider their customers' wishes in detail, too. Yet, the corporate sustainability strategy must also reflect target groups' needs. If they have higher standards than regulations require, it is essential that this is reflected in your sustainability strategy and in ambitiously set targets.

Once the corporate strategy and sustainability targets are defined, they need to be drilled down to every business unit, including procurement. It is important to also set interim sustainability targets:

milestones that need to be achieved in two, four or ten years. This will make the change seem more manageable, and high expectations will not immediately dampen enthusiasm for the subject. These interim targets do, need to cover the full impact of your company from the outset, meaning inclusion of all emissions throughout the supply chain.



2 | Deep anchoring of sustainability into the operating model

The road to becoming more sustainable does not end with developing a vision and a strategy. It is about acting, operating, implementing a concrete plan throughout the organization, across all entities and all stakeholders. For procurement to deliver on ESG targets the following approach is recommended:

1

It all starts with **baselining and prioritization of categories**. This assumes that procurement is a substantial part of category management for targets and processes to be aligned! Otherwise, optimization will fail. Defining the status quo is often the point at which strategies fail.

Staying with the issue of CO₂ emissions due to its degree of efficiency. It is important to define a company's baseline, in other words current emission levels. Many companies make mistakes here, especially when it comes to emissions in the supply chain. They calculate the emissions based on expenditure for products (spend-based baseline), but this only creates an incentive to save. A combination of lo-

cation- and volume-based baselines is much more effective, for example calculating emissions based on suppliers' locations. Such a solution allows for a more adequate calculation of emissions.

Most important is to identify emissions per category and per supplier to assess which suppliers and categories are most critical. Based on this, companies should review where they need to work closely with suppliers on innovating and where they can let the category transform itself. >

/ Procurement and Category Management pave the road to sustainability implementation

1 | Baselining & prioritization of categories 2 | Detailed action plan per category 3 | Roadmap and operating model 4 | Implementation

Key activities

- Establish scope 3 upstream CO₂ baseline based on activity and country factors
- Map categories and suppliers in a heatmap
- Prioritize categories for further evaluation and improvement areas
- Identify abatement opportunities
- Supplier analysis per category
- Create long list of opportunities in cross-functional workshops based on category knowledge, lever library and benchmarks
- Involve suppliers for further abatement opportunities and costs
- Quantify and prioritize opportunities
- Finalize action plans per category
- Present and sign-off action plans
- Define and communicate KPIs management and category managers
- Combine actions plans for each category into one roadmap for short, medium and long term
- Define target operating model within sustainable procurement including toolbox
- Create and announce KPIs
- Executing on category roadmaps
- Change suppliers according to roadmaps where needed
- Conduct supplier workshops
- Tender/ negotiations including change of suppliers where needed
- Train category managers and suppliers
- Yearly review of roadmaps

Deliverables

- CO₂ upstream baseline activity and country factors
- Prioritized categories
- Long list of abatement opportunities
- Action plan per category incl. priorities, cost impact, risks and expected duration of implementation per opportunity
- One final roadmap
- Clear KPIs for management and category managers
- Target Operating Model within sustainable procurement
- Trainings conducted
- Delivery according to roadmaps

Step two is to **develop an action plan per category**. At this point, the cross-functional collaboration within a company is essential, in addition to the use of benchmarks, and the involvement of suppliers and NGOs to abate opportunities and costs. Only with this holistic approach can a quantification and prioritization of opportunities take place resulting in realistic action plans per category which include importance, cost impact, risks and expected duration of the implementation.

Once the action plans are ready, step 3 follows: The plans need to be combined into **one roadmap for the short, medium and long term and anchored into the operating model**. ESG requirements must become an integral part of supplier selection processes, tenders, supplier code of conduct and contracts. But they must also be considered in control and evaluation processes. Therefore, clear KPIs need to be defined and communicated to management AND category managers. Otherwise, sustainable development

cannot be tracked. KPIs can include for example energy consumption, waste generation, or the recycling quota for manufactured products and raw materials. Only then can companies ensure that sustainability doesn't recede into the background as soon as the global situation takes a slight downturn.

Following the three preliminary steps, the **implementation phase** can start with the execution of the category roadmaps. Open discussions and workshops with suppliers have to be conducted to work on solutions that are beneficial for all partners. Where needed, suppliers should be trained, or changed if necessary. Training will also be needed for category managers to ensure delivery according to roadmaps. How important internal and external support and commitment are to succeed in sustainability ambitions will be explained in the following section. >

The importance of internal and external commitment

The success with which a company meets sustainability standards depends on its relationships with suppliers and NGOs. **Open discussions with key partners** can help enormously to understand mutual challenges and requirements, in pushing ahead with measures, jointly developing greener products/solutions, and achieving targets together. Reaching out to NGOs is key to understand how sustainability measures impact different dimensions of business and environment, collaboration with auditing organizations for benchmarks and to set up goals.



Several significant advancements have been made in the guiding and governance of corporate climate strategies, including the Science Based Targets initiative's (SBTi) Net Zero Standard entering a new phase of implementation, and the International Standards Organisation (ISO) publishing guidelines for net zero targets. These third-party directions and tools can help companies implement plans to measure feasibility and provide global support towards achieving their sustainability goals.

With suppliers, sometimes a **revolution in supplier relationship management** is necessary as sustainability requires new governance. Procurement must be able to address its suppliers with appropriate

resources in proportion to their impact on Scope 3 emissions and their weight in the procurement activities. New routines are appearing where we expect suppliers to comply to requirements coming from certification providers, to agree to audits and openly share data on a regularly set basis. In any case, businesses must address their sustainable needs and opt for resource-minimal production where possible. They need to understand the benefits of the actions themselves. **Train your suppliers wherever possible and also incentivize their contributions to greater sustainability.** If suppliers can see a benefit in the change for themselves, they will be more willing to get involved and not just see the issue as an annoying obligation to comply with

your code of conduct. Price arguments are always helpful here. Developing and creating win-win initiatives is essential with suppliers in order to get their buy-in. For example, a supplier will be more inclined to commit to an objective of using green energy if, in return, a review of requirements allows for a simplification of the product, and thus a simplification of its own production. **Procurement can steer their partners towards initiatives via supplier development activities**, such as energy generation by installing solar panels as an alternative to purchasing electricity. Besides, the investment needed can be covered by low-interest ESG loans. >

Example of sustainability Win-Win-Win for Companies-Suppliers-Customers on the goal of net zero*



By addressing the carbon emissions of their suppliers, companies can go a long way toward achieving their goal of reaching net zero. But suppliers will also benefit. Take the steel industry as an example. If a steel company resolved to become net zero, it would need to increase prices by around 50% to cover the costs of upgrading or rebuilding its factories. If it worked closely with the automotive company buying the steel, the steel company would still be able to double its prices. The price for a typical €30,000 car would however rise by only €500. Simply because steel, as all raw materials, accounts for a fraction of the price paid by the consumer – even though it accounts for the bulk of the car's overall carbon footprint.

* Compare "Profit from the Source" page 173



Internally, the key is to **involve the whole organization all the way down to the individual employees.**

Every individual needs to know what the company defines as sustainable and what he or she can and should do personally to play their part. **Achieving sustainability targets should also be linked to bonuses:** a system that already works well for other KPIs. There is still work to be done in many companies, with 41% of study participants indicating that there is still potential for improvement when it comes to sustainability incentives.

To **strengthen the sustainability capabilities**, define the required skillsets for your teams. Train and educate them so that they are able to take up the challenge. To enforce sustainability competitiveness & value creation it is essential to continuously build up knowledge on the topic within the company and procurement team.

Beware: As effective as the top-down approach is for implementing a sustainability strategy, it is important that it doesn't result in autocratic rule. Procurement managers are

responsible for drawing up and kick-starting the strategy, but they can only implement it effectively with the help of their staff. Getting them on board and keeping them motivated is an important mission that will determine either success or failure.

To keep motivation high, **continuous feedback** is key. The same goes for **acknowledgement as soon as milestones have been achieved.** Therefore, companies need to closely monitor and support progress with sustainability measures in the supply chain in order to verify whether the defined interim targets are being achieved. This task in particular is a complex one if companies undertake to do it themselves. There are already established NGOs and auditing companies that can help to create effective monitoring systems and offer relevant training. They also bring expertise with them that cannot be gained within your own organization in the short term. **External partners can therefore be used to speed things up.** They are also useful sparring partners giving you an outside perspective. //



*"When we developed our sustainability strategy, it was very important to us that everyone had a say and was involved in the process, to make sure that sustainability also genuinely becomes an intrinsic part of our corporate culture. (...) We always try to set mutual sustainability goals with our suppliers so that we create win-win situations for both sides." **

Manish Bhasin, Global Head of Sustainable Procurement at Maersk

* Quote from INVERTO Supply Management Insights Magazine 2023 "Actively drive Sustainable Procurement"

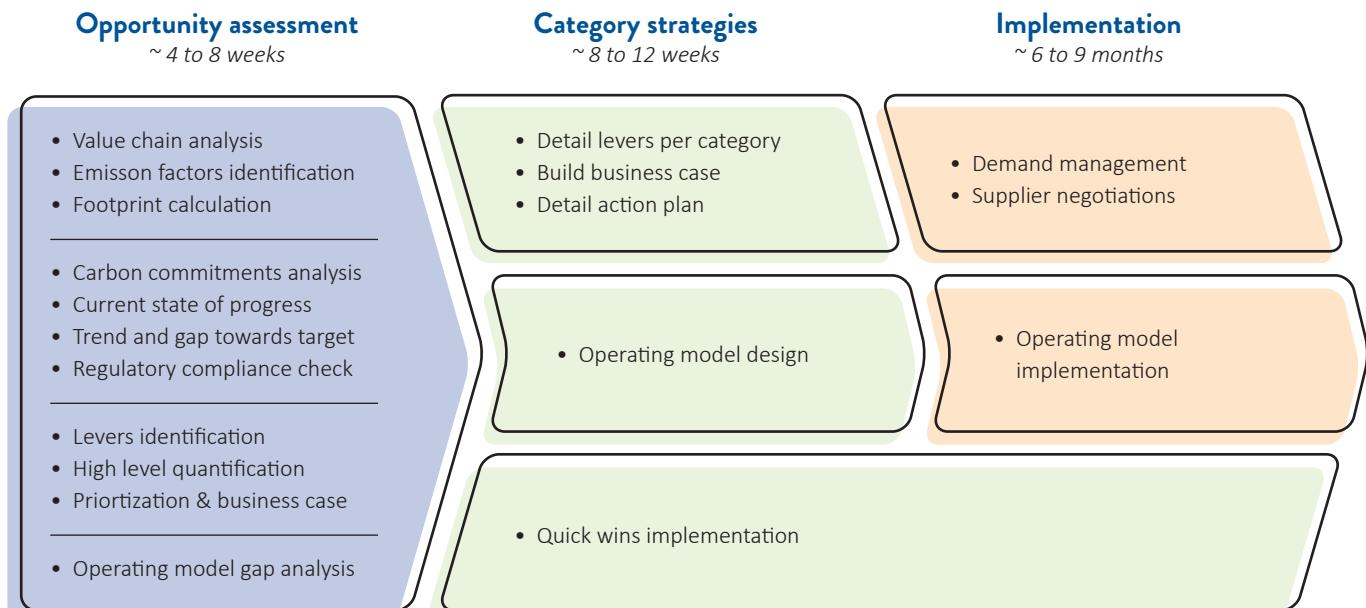


Conclusion

To progress and succeed with sustainability, businesses need overall supply chain commitment, a clear sustainability roadmap and the incorporation of ESG in the operating model. Procurement has a particularly key role to play, as it is the interface between business partners, suppliers and service providers – and therefore has the greatest leverage in succeeding in the transformation. Companies that fail to acknowledge this and do not adopt a procurement sustainability strategy are taking a big risk.

They may find themselves wrongfooted by regulation as well as under pressure from their more ESG-focused shareholders. It is therefore high time to devote the necessary attention to the topic and not only half-heartedly. Concrete action is required in collaboration with partners to develop clear measures. Collaboration is also required from everyone within the company. Only with internal and external commitment will businesses succeed in their sustainability ambitions. //

/ INVERTO's approach supports all stages of decarbonization and will be tailored to your specific requirements



Appendix

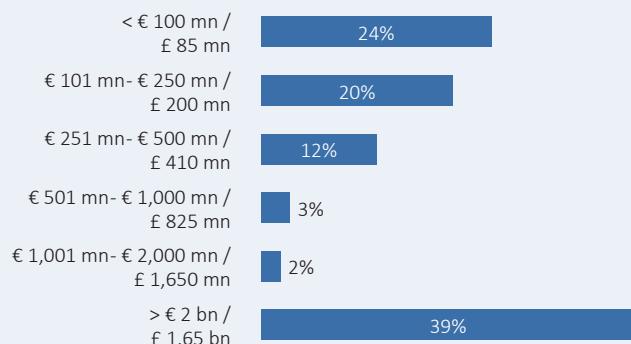
INVERTO Sustainable Procurement Survey 2022



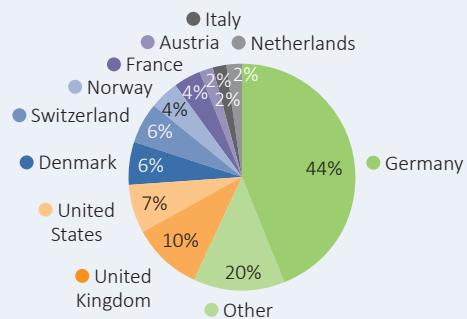
Method:	Online survey
Researcher:	INVERTO GmbH
Data:	Anonymized survey and evaluation
Participants:	89 participants across all roles in procurement, executive management and management board. 31 participants are managing directors, board members and decision makers
Runtime:	June 14th – July 24th, 2022

Around 90 procurement professionals and decision makers participated in the survey. 39% of the participants work in companies with a turnover volume of over € 2 billion.

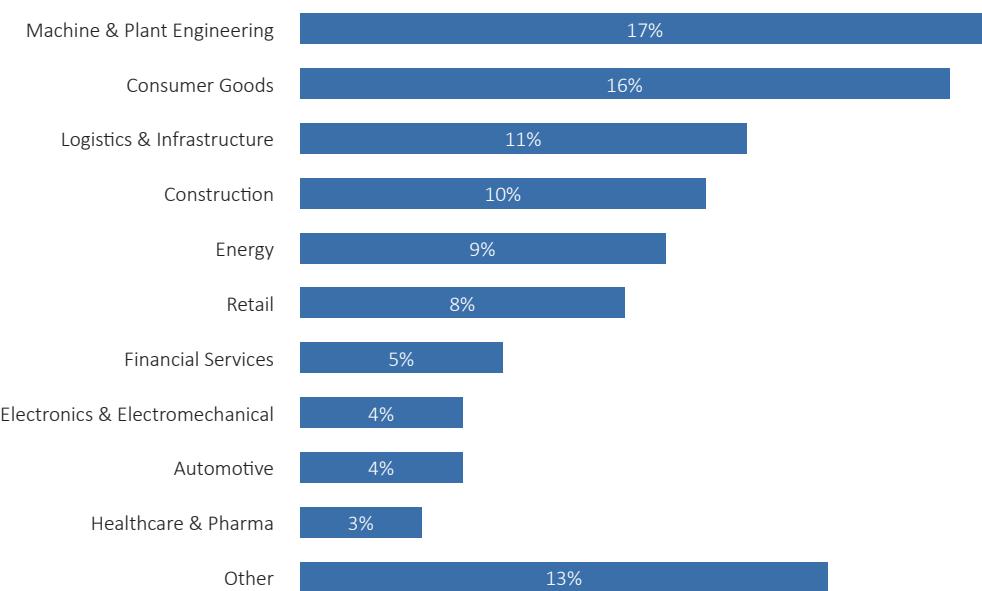
/ "Your company turnover in 2021?"



/ "Your company location?"



/ "Which industry do you operate in?"



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As an international management consultancy, INVERTO is one of the leading specialists in strategic procurement and supply chain management in Europe. The consultancy supports companies from strategy development to implementation and accompanies them in the digitalization of procurement. As a subsidiary of the Boston Consulting Group,

INVERTO identifies and realizes the potential for process optimization and cost reduction for its clients and supports the establishment of resilient supply chains that meet sustainability criteria. In comprehensive transformation projects, INVERTO is the trusted partner for improving the performance of the procurement organization.

INVERTO has over 400 employees in twelve locations in nine countries. The diverse, international teams have in-depth expertise in various industries and functions. Clients include international corporations and mid-sized companies across all industries, as well as the world's leading private equity firms.

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