

Sustainability is the number one challenge for the corporate world. Until now, plenty of heat has been generated about its potential impact on business, although few companies have taken action commensurate with this. Could this be about to change as companies wake up to the opportunities resulting from placing integrated environmental, social, and corporate governance (ESG) at the heart of their strategy? The procurement function, by connecting with stakeholders and creating coalitions along the entire supply chain, is uniquely positioned to accelerate transformation to address ESG commitments and create higher value.

Almost everyone now recognizes that business has a very big role to play in responding to the UN Paris Convention on Climate Change. Without business on board, the world will miss the Paris targets. At the same time, almost every company also knows it needs to increase its own sustainability on multiple dimensions. This urgent need has yet to translate into consistent and proactive action.

In Oliver Wyman

SUSTAINABILITY AT THE TIPPING POINT

The story about why business needs to respond to the sustainability challenge in all three

SEEING ESG THROUGH THE PROCUREMENT LENS

The procurement function is the number one driver of the real gains to be made in ESG.

MOVING SUSTAINABILITY OFF THE WISH-LIST

TRACK

1. Convert ESG-related company ambitions into procurement strategy objectives

When companies make ESG commitments, they then need to be transposed into the processes of the procurement function. The question to ask is, what will these commitments mean for the procurement teams and their suppliers if the company aims to be carbon neutral in ten years time? The answer to this question will take the form of metrics and targets.

and key performance indicators (KPIs) can be added to link directly to core procurement activities. For instance, a company might include such objectives as a zero-plastic packaging sourcing.

The targets then need to be turned into KPIs and other metrics, by which the business can challenge itself and its partners against the new ESG standards. The KPIs support the

two). This will not only ensure that the company fully understands where it is starting out

applying these metrics, the company will also be able to compare its progress with its peers. This, in turn, will help it to identify best practices.

2. Build a robust baseline

used across the entire company and that achieves full transparency on the supply chain. Much of what needs to be targeted will be hidden from immediate view. As one CPO says, "the dirty part of our production is purchased."

In order to build a true and clear picture of the ESG impact along the entire supply chain it is important to focus on all suppliers, not just those in tier 1. However, establishing solid metrics even for the carbon impact of tier 1 suppliers can prove to be a quite a challenge due to the

When selecting the initial cohort of suppliers to be assessed, it is important not to make spend per supplier the only criteria for selection. The place to start is by prioritizing the suppliers that are the most important to the supply chain in terms of their respective ESG risk.

ACT

3. Revisit your category strategies and supply base

The time is already past when a category strategy's sole aim is to deliver the most cost-

regulations are coming to have an increasingly strong impact on the supply base.

is robust, it needs to be assessed against a broader spectrum of criteria, within which ESG will claim increasing prominence. These twin objectives, of building resilience and ensuring ESG compliance, will together push procurement toward a more local and more robust supply base.

The aim should be to integrate procurement into the circular economy, rethinking the supply

negative ESG impact. Innovation will be necessary to achieve this goal. CPG companies, for

longer be acceptable in the future to sell products in prime petrol-based plastics.

4. Embark, engage, and innovate with your suppliers

There needs to be consistent messaging to all suppliers in communicating the company's sustainable procurement objectives. The messages need to be clear, frequent, consistent, and sustained.

interaction with suppliers is essential both to get their buy-in to the goals and to ensure that possible.

impact on supply chain ESG.

innovation throughout the entire supply ecosystem.

successful innovation but has the capabilities to transmit appropriate new technologies and processes to its partners and suppliers.

Producing innovation is a joint responsibility, as is sharing the burden of investment. It is

supply chains for recycled or biodegradable plastics — it is not feasible for a single company working on its own to achieve this goal but is something that can be readily attained with full, joint, industry commitment.

All innovation in procurement needs to be appropriate, as well as technically feasible. It is important to consider whether or not what you are asking of your suppliers runs the risk

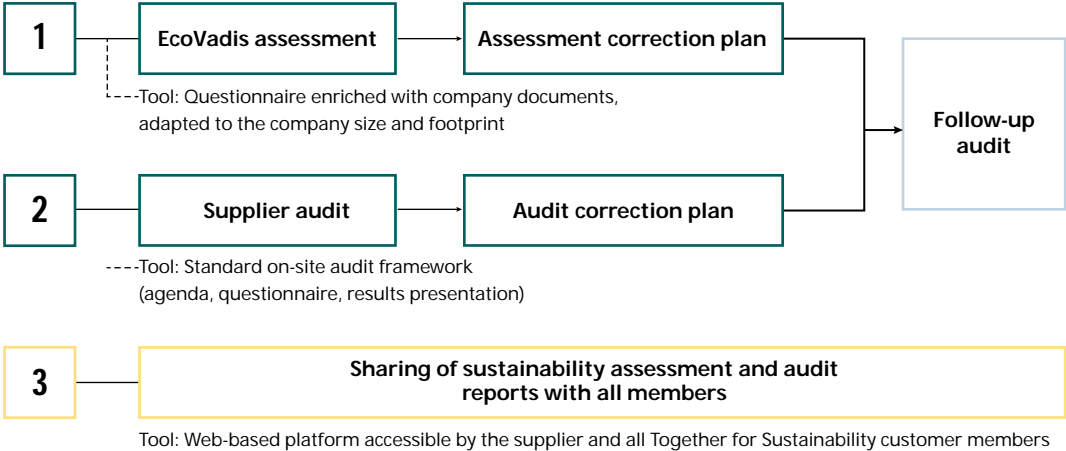
have the resources to comply with all your various demands as well as those from their other clients.

IMPACT

7. Champion change internally across all business functions and initiatives

Within the organization, procurement teams have the know-how to understand the needs of the business as a whole including its functional requirements, as well as any potential

Exhibit 2: A unique process to assess suppliers CSR compliance



emissions within the calculation. This approach ensures that the company's overall business orientation is towards more sustainable options.

The impact of an EPL approach can be profound. One footwear and apparel manufacturer, for instance, produces its own EPL sheet to evaluate its hidden environmental costs. Its approach combines non-market evaluation techniques, ecosystem assessments, and supply chain

impact the responsibility of its tier 4 suppliers. It has since used the approach to set up a new managerial paradigm in working with its multiple stakeholders to mitigate its environmental impact and drive more environmentally responsible supplier selection. The ingenuity of this approach has ensured that it has received international attention from a wide variety of sources, including business, NGOs, the media, and academia.

Ultimately, no company can claim to have fully integrated ESG into its strategic objectives without aligning personal incentives with its collective success to ensure those responsible for achieving these goals are properly motivated.

10. Embed sustainability into core procurement processes

To achieve integration of ESG into the procurement processes requires ensuring that sustainability commitments and objectives are well-connected with the actual decision-progress.

The key enabler for achieving this is to ensure all the core procurement processes are ESG-achieved.

Companies will have to identify vendors and

Through strategic partnerships, organizations can foster innovation and shape new industry solutions and standards by creating new value space and new technical solutions, for

CPOs will have to make sure that their approved vendor lists position them for this strategic approach, by using the right selection criteria and prioritization methodology in order to

includes ESG considerations. Core processes do not currently support this level of assessment and these methodologies will need to be developed.

The objective is to ensure that the approved vendor list of those invited to tender for supply is based on criteria that include ESG as a key factor in the assessment. This requires a consistent and systematic approach that optimizes the vendor panel on all its dimensions, including those of ESG.

non-compliance with ethical principles or the use of child labor in manufacturing. Failure to comply with these criteria automatically leads to decisions to review the relationship and, in cases of continued non-compliance, to end it. However, very few companies today have a similarly stringent approach to all ESG criteria. What is required is to put in place standards so that, when a rating falls below a certain threshold, this eliminates that particular supplier from being considered for business.

As has been demonstrated in certain categories and commodities following the start of the

help support a more sustainable and more resilient business. Companies will shape the industry by partnering with some of their key suppliers to move towards better long-term solutions.

