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Toolkit

TACKLING SUPPLIERS' EMISSIONS

A guide for procurers

In partnership with:

HRH THE PRINCE OF WALES ROYAL FOUNDING PATRON

CDP DISCLOSURE INSIGHT ACTION

The Prince's Responsible Business Network

TOOLKIT

HOW TO TACKLE SUPPLIERS' EMISSIONS: A GUIDE FOR PROCURERS

This guide, produced in collaboration with CDP (Carbon Disclosure Project), seeks to inform sustainability and procurement professionals on the best approach for managing Scope 3 emissions in their supply chains. It assumes a basic level of understanding of the Scope 3 emissions. For an introduction, see our 'Addressing Emissions in your Supply Chain' factsheet which is exclusive to BITC members.

Introduction

2021 will be remembered as a year of huge significance for climate change. Whilst wildfires and unseasonal floods have wrought havoc across the world, the Intergovernmental Panel on Climate Change (IPCC) has stated unequivocally that global heating is almost entirely man-made. Nations and leaders are urgently preparing for the COP26 Climate Conference in Glasgow – the most significant since COP21 in Paris – whilst grappling with the social and economic recovery from the ongoing effects of COVID-19.

Meanwhile, the groundswell of business action on climate change has continued to grow, with over a third of BITC members having committed to Race to Zero at time of publication (September 2021). However, for many businesses, 2021 will also be the year that they stretched climate ambition beyond their own operations, to begin to take on the complex challenge of driving down greenhouse gas emissions generated by their suppliers (Scope 3 emissions).

On average, greenhouse gas emissions generated in corporate supply chains are 11.4 times greater than operational emissions. In some sectors this is even higher, like Retail (28.3x), Apparel (25.2x) and Services (21.2x).[i] Little doubt remains that businesses must engage their supply chains if they are to meet their net zero ambitions, so it is encouraging to see that over 1,700 companies are setting science-based targets which incorporate material Scope 3 emissions.[ii]

To realise the transformational potential for businesses to influence their suppliers, we need to rapidly scale supplier engagement. But action can be challenging, with data being hard to find and emissions often 'buried' further down supply chains. However, as climate-related risks increase, costs associated with managing them will rise too:

BITC MEMBERS REFERENCED IN THIS BRIEFING

- Tesco
- Salesforce
- MIcrosoft
- KPMG
- Google
- Currys
- Santander
- JLL
- The Co-operative Group
- Danske Bank

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the snapshot of close to 8,000 suppliers submitting to CDP collectively estimate an increase in costs to their buyers of $120bn over the next five years[iii]. At a time when companies are also reviewing how supply chains should be reimagined in the wake of COVID-19, there is an opportunity to use climate action to build greater resilience and deliver a green recovery.

The solutions to supply chain decarbonisation exist and can be deployed without significant costs to consumers. Around 40% of emissions in the eight most carbon-intensive supply chains could be decreased for the equivalent of less than €10 per tonne of CO2, through measures like circularity, materials efficiency, and renewable energy.[iv]

This places procurement professionals and their teams in the driving seat to mobilise huge change in the face of the climate crisis. For many, this is a new challenge requiring additional knowledge, skills, partnerships, and innovation. The distributed and devolved nature of supply chains makes taking action complicated, but also presents huge opportunities, from driving efficiency to spurring innovation and more collaborative relationships.

This toolkit is designed to show how procurement teams, supported by sustainability colleagues, can unlock faster progress on tackling supply chain emissions, demystifying some of the concepts which we know some businesses find hard to interpret.

It outlines three key elements of successful supply chain decarbonisation:

KNOW: Gather data to measure, map, and target emissions in your supply chain

GROW: Increase engagement with your suppliers to collectively tackle their emissions

GO: Drive emissions down through projects and investments that reduce emissions

This toolkit is aimed at those who are broadly familiar with the issues associated with Scope 3 emissions and want to get started on their journey of tackling them. For an introduction to these concepts and to gain a better understanding of how they might impact your business, please see BITC's Guide to Responsible Sourcing, Addressing Emissions in Your Supply Chain Factsheet and CDP's briefing How can companies address their scope 3 greenhouse gas emissions?.

KNOW: MEASURING, MAPPING AND TARGETING EMISSIONS IN YOUR SUPPLY CHAINS

Building a picture through Scope 3 screening

The first step in tackling Scope 3 emissions linked to procured goods and services is to build a picture of where in your supply chain these are generated, at what scale, and any actions currently in place to manage them. Carrying out a Scope 3 screening exercise like this is the first step and should cover the full extent of your Scope 3 emissions. These include both 'upstream' categories, such as procured goods and services, and 'downstream', such as emissions related to the use of your products.

There are lots of free tools available to help you take these first steps, including the Greenhouse Gas (GHG) Protocol's Scope 3 Evaluator. Others include the International Standards Organization's (ISO) GHG emissions reporting standard (ISO 14064-1), or more sector specific tools like 'PAS2080: Carbon Management in Infrastructure'.

These sorts of high-level screenings of your Scope 3 emissions usually rely initially on the use of secondary data to identify 'hotspots' within your supply chain. These might include emission-intensive product categories (e.g. fertilisers within agricultural supply chains), major suppliers with high spend levels and suppliers from high-emitting sectors (e.g. cement) or locations. This process aims to create an extensive picture of your carbon footprint outside your own operations and identifies areas of impact to focus on. Screening is also an important first step for any company looking to set a science-based or Net Zero Target, as it will enable you to understand the:

- magnitude of GHG emissions based on secondary data;
- level of influence over each category;
- levels of risk exposure to emissions that are harder to abate;
- stakeholder interest; and
- sector-specific significance

However, this picture will be a first estimate based on assumptions and generic emission factors not directly linked to individual suppliers' actual or current impact. The only tools available to you to reduce emissions in this scenario is to change your spend pattern or anticipate sector-wide changes.

Eventually, companies must turn to primary data (e.g. energy meter readings), collected directly from their suppliers, to build a real-time picture that can change annually to reflect the ongoing work to reduce emissions in their supply chains. This is where engagement through procurement teams becomes central to setting and achieving targets, as outlined in the next section.

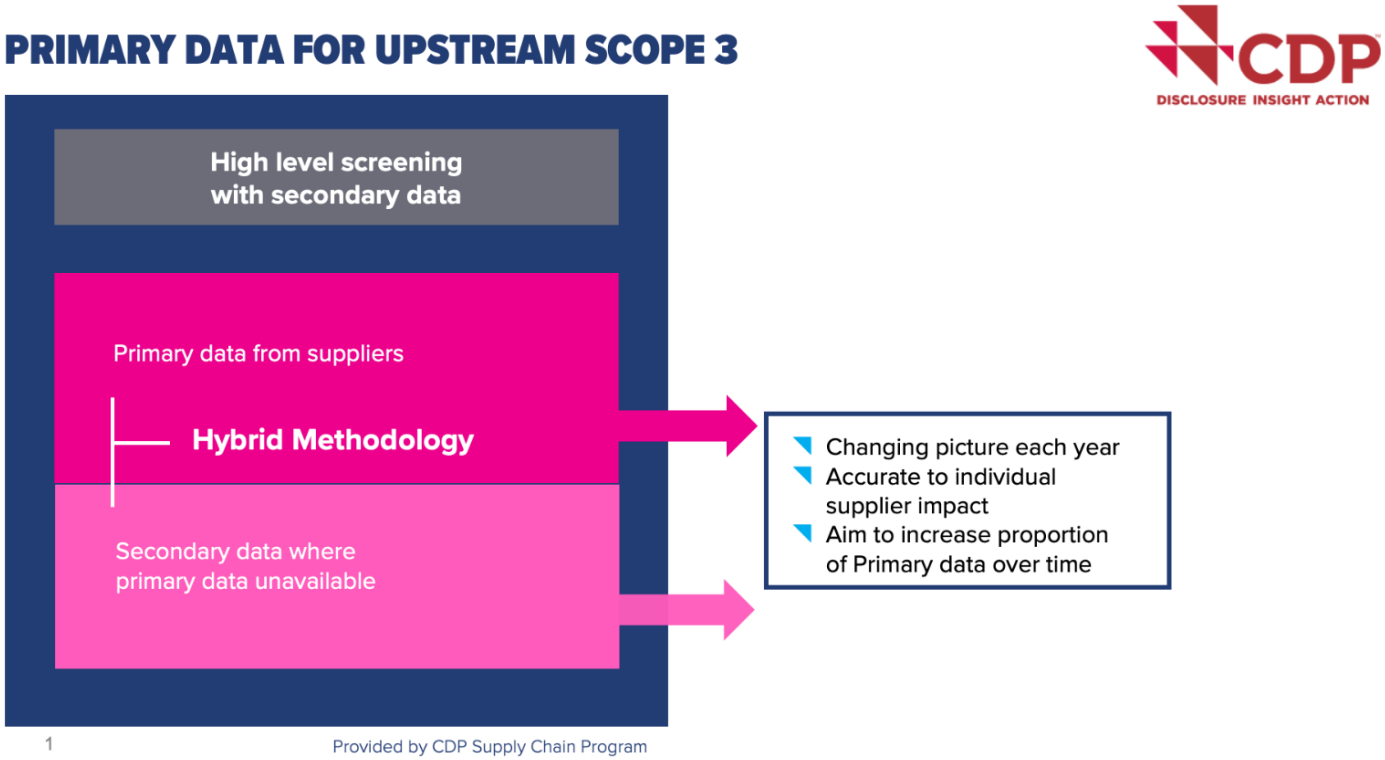
Setting targets for supply chain emissions (Supported by EcoAct)

Increasingly, stakeholders, such as investors and customers are assessing companies on whether they have targets in place that have been approved by the Science Based Targets initiative (SBTi). In most cases, this is likely to mean a target that addresses Scope 3 emissions – including your supply chain.

In order to set a Scope 3 target meeting the requirements of the SBTi, the following steps should be taken:

1. Conduct Scope 3 inventory for material categories.
2. Assess materiality of Scope 3 categories.
3. Select appropriate modelling methodology and model Scope 3 SBTs.
4. Sign off and submit to SBTi.

Steps 1 and 2 above are achieved through a Scope 3 screening process, and subsequent primary data collection, as outlined in the previous section.



For step 3, the SBTi has provided four methodology options to help companies set their Scope 3 targets. The significance of a company's emissions in their value chain, along with the company situation (growth rates, sector, strategy) will help dictate the most suitable target method. The table below describes the individual requirements of each of the Scope 3 target methodologies.

Target Type	Requirement	Minimum ambition 2019-2030
Absolute Reduction	Absolute reduction in line with at least a 2.0°C scenario	13.5% absolute reduction across chosen categories
Physical Intensity	2% linear annual reduction in emissions per output unit whilst maintaining no absolute emissions growth	22% reduction in tCO_2e per output unit and no emission growth
Economic Intensity	7% year-on-year reduction in emissions per value added (e.g. gross-profit)	55% reduction in tCO_2e per value added
Supplier Engagement	66.6% of suppliers (by emissions) to set SBTs within 5-year period	n/a

For companies with a large Scope 3 footprint, it is important to demonstrate the feasibility of reducing the emissions outside of the company's direct control. A company that is early in the process of developing a Scope 3 footprint will often calculate emissions based on spend data and industry benchmarks. This type of data provides a good overview of *where* the hotspots are but will not necessarily reveal *how* those emissions can be tackled.

Supplier Data Gathering and Materiality – Worked Example

You find that Category 2 (Capital Goods) accounts for 90% of your Scope 3 emissions.

⬇

You examine procurement spend on IT equipment as a starting point and identify that it accounts for 90% of your spend on capital goods.

⬇

Breaking down the data further, you find that 80% of the spend annually is for laptops.

⬇

Digging deeper, you identify that 70% of your laptops come from Supplier A.

⬇

You engage Supplier A to understand what the product carbon footprint is for the model you buy, and they provide you with the Life Cycle Assessment (LCA) data.

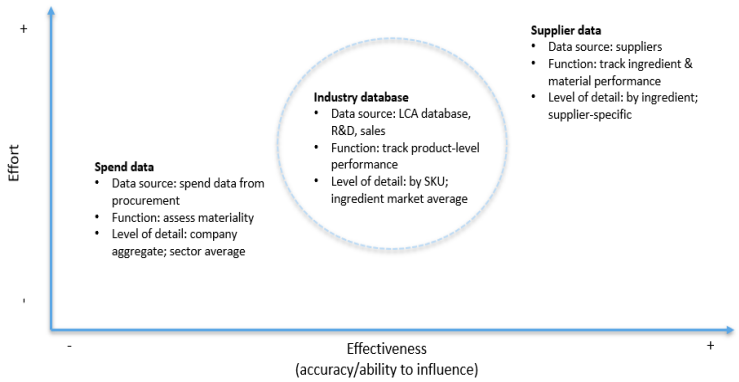
⬇

Now you have actual data on your Scope 3 Category 2 emissions.

⬇

From here, you can begin to assess your options to mitigate those emissions: procure a laptop with a lower carbon footprint from Supplier A or another supplier; opt for remanufactured rather than new laptops; extend the renewal period between each new purchase; improve maintenance.

Accepted by the SBTi as a valid methodology to determine what emission sources should be included in the target, this method less time and effort but is limited in its ability to measure the impact of emission reduction opportunities in the value chain. Industry databases (e.g. LCA) and supplier data can be much more effective in both identifying emission reductions and accurately understanding the progress made towards the target. This is illustrated in the figure below.



There is an increasing drive towards engaging with suppliers to reduce Scope 3 emissions. The SBTi have the option to set Scope 3 targets through supplier engagement – and 66.6% of suppliers (by emissions) need to set science-based targets (SBTs) within a 5-year period. This is driving a shift in how companies approach Scope 3 reductions, with a collaborative approach becoming increasingly popular. In some instances, investors or customers will have a policy of not investing in or working with companies who do not have a science-based target.

Understanding how an SBT for your supply chain should be calculated and then delivered against, begins with workshops with procurement and sustainability teams to understand which suppliers are material from a business perspective. For example, procurement teams may be in the process of disengaging with a certain supplier or have prior knowledge of sustainability risks with certain organisations. Suppliers should then be mapped to a matrix of materiality and level of influence to identify those more likely to contribute to the achievement of the target.

FOCUS ON: Currys

To enable Currys to set a meaningful, science-based target that would be certified by the Science Based Targets Initiative (SBTi), it needed to establish its value chain emissions.

Currys was guided by the Greenhouse Gas (GHG) Protocol's Corporate Value Chain (Scope 3)

Accounting Standard. In this Standard, Scope 3 emissions are broken into 15 categories but not all categories are relevant to every organisation. The first step was to establish which of these categories were material to the business.

Relevant data was then gathered for these categories for the 2019/20 financial year from both internal business areas and external suppliers whose scope fell within each material category. Where possible, suppliers own data was used, otherwise emissions were calculated using relevant source data and emission factor databases. For example, emissions from purchased goods and services were gathered from a mixture of publicly available supplier emissions data (such as CDP) but also spend-based emission factors using the Comprehensive Environmental Data (CEDA) database. Once Currys had established a methodology, it then calculated the more recent years' dataset.

Unsurprisingly, the outcome of the project indicated that over 99% of its emissions sat within Scope 3. As a tech retailer the nature of the products sold means that the biggest Scope 3 category for the business is 'Use of Sold Products'. The data Currys now have is enabling the business to prioritise its focus on the areas of its supply chain which have the biggest impact and to develop strategies to help reduce the biggest emissions' sources.

Currys published its Scope 3 emissions' data in its 2020/21 Annual Report and had now set a target to reduce absolute Scope 3 GHG emissions from purchased goods and services and use of sold products by 50% by 2030.

From this process, Currys learned that Scope 3 measurement is a process of continual improvement. Instead of trying to get 100% of it done from the outset, the Company learned that it is best to get the best data as a starting point and then build on this year on year, gaining more accurate primary data across a wider range of suppliers to eventually get the full picture of emissions in its supply chain. Crucially, this will make tackling these emissions easier in the future.

For selected suppliers, supplier assessments should be undertaken to understand the maturity of their sustainability strategies. Suggested emissions' reduction and collaboration initiatives can then be tailored to each maturity level based on the findings of the assessment (i.e. requesting an SBT from companies which have never calculated a carbon footprint might not lead to effective engagement, and vice versa).

MATURITY LEVEL 5 (Very High)	Suppliers that integrate sustainability in their business strategy and financial planning. Sustainability is a key component of the company's core values, seeking to influence the community in which they operate.
MATURITY LEVEL 4 (High)	Suppliers that have already established ambitious reduction targets and have initiatives to achieve them.
MATURITY LEVEL 3 (Medium-High)	These suppliers have quantified their environmental impact beyond their own operations and have initiatives to tackle a number of climate-related issues but have yet to implement ambitious emission reduction targets.
MATURITY LEVEL 2 (Medium)	Suppliers that have quantified and report their environmental impact but have not yet established ambitious targets.
MATURITY LEVEL 1 (Low)	This level includes any supplier which is at the very early stages of the carbon management process.

For further detail on setting targets, refer to the SBTi Corporate Manual.

GROW: DESIGNING AND DELIVERING A SUPPLIER ENGAGEMENT PROGRAMME

Designing an effective supplier engagement programme

Once supply chain emissions have been screened and additional primary data gathered where possible, procurement and sustainability teams can begin to plan how to engage their suppliers. Ideally an SBT covering supply chain emissions will already have been set, but engagement can begin in parallel with, and complement, the target setting process.

STEP 1: Supplier identification

There are a range of considerations to think about when selecting which suppliers will be targeted through your engagement programme. As a starting point, SBTi recommends focusing on Tier 1 suppliers covering around 65-70% of total spend, with a view to increasing that to 80% through time. However, the screening and subsequent data collection may have flagged other hotspots in companies or sectors beyond Tier 1, and it is best practice to include those organisations where possible.

Procuring companies typically have the greatest influence over Tier 1 suppliers and will typically form most of the engagement. It is important to consider – across all tiers – other factors that may influence the effectiveness of your engagement, such as likelihood of cooperation, strategic importance of a given supplier relationship, sophistication of a supplier's existing approach, and geography. For example, smaller businesses may actually benefit more from support and engagement than larger multinationals with large sustainability budgets and teams. Similarly, companies from countries where energy is typically fossil fuel-based may need greater attention than those in areas where the renewable energy transition is more mature.

These factors will need to be weighed up alongside the procuring organisation's own strategic priorities, levels of procurement spend, existing relationships and sector-wide trends. The final list of suppliers should cover the majority of the emissions that need to be tackled and offer a good level of responsiveness and influence.[v]

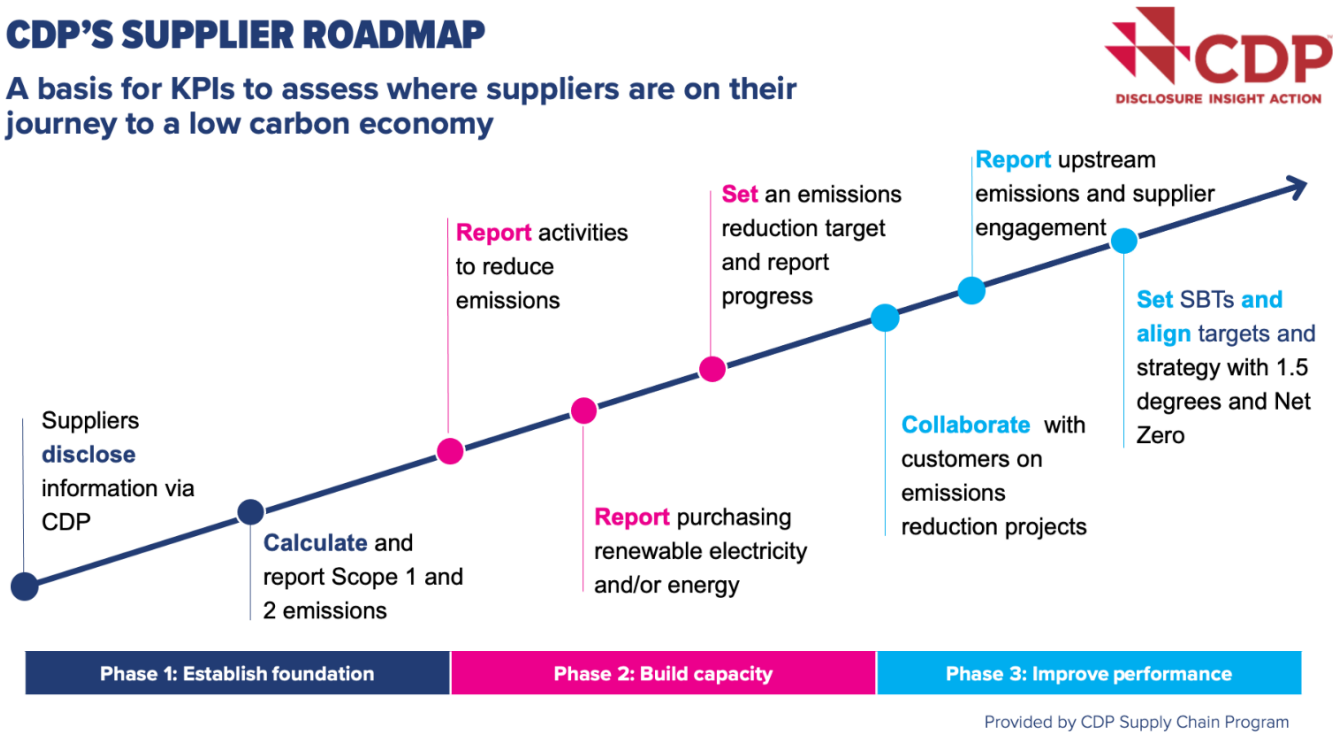
STEP 2: Design engagement approach

There are three basic approaches to supplier engagement to consider:

1. **Enforcement:** Stipulating minimum performance requirements through contracts and tenders.
2. **Being supportive and building capacity:** Use softer techniques like supplier communications, knowledge sharing and lobbying to promote action amongst suppliers, without any contractual implications.
3. **Introducing competition:** Assess and share supplier progress on emission reduction and wider sustainability performance to drive competition between supply chain partners.[vi]

The approach you choose will depend on your business context. Enforcement is most effective for companies with a high degree of influence over their suppliers – for example, where the purchasing organisation is the primary client for the supplier but is less effective and may damage relationships where influence is lower.

Building capacity and being supportive has wide supplication across supply chains, whilst introducing competition will be most effective where there is already significant competition within or across categories.



Provided by CDP Supply Chain Program

All approaches should be designed in consultation with existing suppliers to ensure buy-in and to increase chances of success. Develop engagement scenarios to test with suppliers through surveys, workshops and one-to-one conversations. The programme should be launched with visible support from leadership, such as the procuring company's CEO or Chief Procurement Officer.

Data and monitoring

When aiming to track and meet an ambitious target, companies not only need emissions data but also insights into the actions suppliers are taking to reduce their emissions. Provision of a sustainability policy is not enough in this instance and procurement teams must work with sustainability functions to put together a set of key performance indicators (KPIs) to monitor supplier progress.

Purchasing organisations can choose to collect data either through a data collection platform or in-house. For large or complex supply chains, an automated platform is advisable, with many options now available.

Requesting that suppliers disclose emissions data to CDP is an increasingly common approach. WWF also provide a useful overview of Carbon Accounting and Reporting tools, whilst SupplyShift and The Carbon Trust are other alternatives.

Some companies will ask high-level questions as part of the request for proposal (RFP) processes to screen suppliers on emissions, energy, and targets but also to set expectations around the importance of climate change to their business relationship.

Best practice is to then seek more granular data from your top spend group for use in Scope 3 calculations and target tracking. CDP's Supply Chain Program facilitates supplier data collection and engagement through CDP's annual questionnaire. This is aligned with global standards and data and analytical support are also provided.

You do not have to engage every single supplier. Focusing on Tier 1 suppliers covering 65-70% of spend is usually a good starting point for those with an SBT. You can also include any low-spend but high-impact suppliers to ensure that you are meeting the scope of your target. CDP's Supply

Chain Program advises that companies should look to attain 80% of spend or more as their engagement program matures.

Operational and process adjustments

Regardless of the method, data collection should be an annual process. Although you may not start off using data on climate impact to influence decisions, purchasing organisations should be moving towards integrating climate-related data into existing processes and tipping procurement favour towards suppliers striving to lower their emissions.

Ideas for integrating data into procurement processes

- ✓ Weighted scorecards - for RFPs, supplier onboarding, existing suppliers
- ✓ Factoring climate KPIs against cost, quality etc. in contract renewal discussions
- ✓ Annual feedback on performance against chosen KPIs and steps for improvement
- ✓ Benchmarking suppliers within categories
- ✓ Using insights from data for discussion in supplier appraisals or reviews
- ✓ Create a sustainability metric for at-a-glance Category Manager assessment

Procurement teams do not need to become climate change or emissions experts to support sustainability goals. Integration of data into processes should be designed with ease of understanding in mind. Scorecards or performance metrics work well for this or even a simple traffic light system for KPI performance. Including the provision of emissions data or transparency around climate impact in contracting language can work well for high-impact or high-risk suppliers.

Collaborating

Collaboration between customer and supplier as well as between purchasing organisations within a sector can help increase the pace of change.

Identify suppliers making progress in decarbonisation and emission reporting. Ask them to share their learnings with other suppliers at events, in supplier forums or through case studies. Openness about what barriers or obstacles they encountered along the way is key to generating value from these interactions for suppliers who are further behind.

As mentioned above, online platforms offer a smart way to allow suppliers to engage with one another, as well as the procuring organisation. These can also double as knowledge sharing hubs, places to share successes and announce new programmes. Tesco's Supplier Network platform aims to share knowledge and expertise, build a more sustainable supply chain and create and develop innovative solutions for over 5,000 suppliers, whilst promoting action at scale.

Recognising third-party standards can make it easier for suppliers to align with your goals. Global standards like ISO14001 (Environmental Management System), ISO50001 (Energy Management) or Cradle to Cradle (Sustainable Products for the Circular Economy). These can be embedded in procuring companies' tender documents or broader policies like Supply Chain Charters or Sustainable Procurement Standards.

Join forces with your peers to streamline the ask you are making of suppliers. Industry collaboration is particularly effective at establishing expectations and aligning collective ambitions. Whether through industry bodies and associations, or by forming new initiatives, industry collaboration should seek to define the expectations for suppliers and to encourage and incentivise the adoption of best practice behaviours such as emissions reporting, target setting and switching to low-carbon technology. Where possible, direct joint engagement with large, influential, or high-impact shared suppliers allows purchasing organisations to take a stand without compromising business relationships and can drastically speed up the rate of change.

Networking with other companies, not just in your sector but also in un-related sectors, can bring fresh perspectives to how you approach supplier engagement and decarbonisation. CDP's Supply Chain member roundtables and industry working groups aim to bring companies together to make collective progress. BITC's Climate Action

Leadership Team and Net Zero Carbon and Circular Economy Taskforce also shape programmes for collective action on climate.

Making sure your suppliers are fit and ready for a low-carbon future is an iterative process. The more often companies share their challenges and experiences to reach workable solutions, the quicker we move towards our collective goal: a Net Zero global economy by 2050.

FOCUS ON: Telefónica UK

Telefónica UK has identified that the majority of its Scope 3 emissions come from its supply chain as a result of purchase. In response, the Company has been running a Supplier Engagement Program.

"We've been working for two years with our most important suppliers on the Supplier Engagement Programme. Working with them to enable them to set more ambitious reduction targets is proving very rewarding because it allows us to learn and innovate together.

"Each supplier defined objectives related to the management of its footprint in diverse fields such as energy, emissions, transport, product (life cycle analysis), carbon pricing and "100" initiatives (use renewable energy as indicated by the RE100 initiative or have all electric vehicles, following the EV100). We're also continuing to support suppliers that have already undertaken to reduce their emissions in the implementation of their projects and we're launching new joint ones.

"Similarly, in 2020 we created a sectoral working group as part of the Joint Audit Cooperation (JAC) initiative to drive climate action in our supply chain as a Telco sector. We've assessed the climate maturity of the strategic suppliers of the 15 companies that form part of the conglomerate and initiated several lines of work to increase their level of ambition, in addition to providing training for the most relevant Chinese companies in partnership with CDP and GSMA."

Camilo Guarin Garcia, Expert on Climate Change, Telefónica UK

Based on: https://www.telefonica.com/en/web/responsible-business/article/-/blogs/telefonica-a-supplier-engagement-leader-for-helping-suppliers-to-reduce-their-co2-emissions

Capacity building

The object of climate KPIs will be new to many of your suppliers so be prepared to invest time in ongoing capacity building. Include topics like GHG accounting, switching to renewables, and target setting in supplier conferences or as online learning sessions. This can help suppliers get up to speed quickly. Creating a hub of materials or useful links for ongoing development can also support any live or virtual sessions you run.

KPMG's sustainable procurement programme is key to achieving their Net Zero science-based target as over 90% of emissions come from suppliers. They were the first of the big 4 accountancy firms to launch an approved science-based target, which includes Scope 3 emissions.

KPMG encourages suppliers to respond to CDP, whilst supporting and working with its supply chain to reduce collective impact (e.g. sustainable products, remove single use plastic). Since 2018, it has provided suppliers with tailored feedback each year, which includes whether KPIs have been met and giving recommendations based on their survey responses. A summary of results is also shared annually to help suppliers benchmark themselves and to be transparent about KPMG's own score and ambitions. The programme has successfully:

- Doubled the number of suppliers requested to report climate change data to KPMG via CDP in 2020 and seen a year-on-year improvement in response rate, up 81% following KPMG's SBT launch.
- Jointly reduced the environmental impact KPMG and their suppliers have.
- Suppliers have fed back that, as a result of KPMG's supplier webinars on the environment, ESG is now firmly on their board room agendas.

Engagement has been key to improving supplier response rate, data quality and overall commitment to the ESG agenda. KPMG launched its science-

based target to suppliers through a webinar with board level speakers from the business including the Vice Chair, Head of Corporate Responsibility and Chief Procurement Officer – this webinar shared the ambition to be Net Zero and how the Company planned to work with suppliers to achieve this. KPMG also hosts regular events such as educational workshops aimed at supporting SMEs, and category-specific roundtables which take advantage of their convening power. Regular communication throughout the year has also improved commitment. From introductory emails explaining why carbon emissions data is being sought, to a simple thank you for reporting to CDP, to Supplier Managers including CDP data and ESG reporting in supplier meetings, KPMG and its suppliers have identified multiple opportunities to reduce their collective impact.

Existing platforms are also available for use. For smaller suppliers, The SME Climate Hub is the industry's current go-to collection of support materials. The recent Emission Possible project by WWF UK is a comprehensive set of tools and guides targeted at companies just starting on their emissions reporting journey. CDP has recently developed an education platform with introductory courses on the intersection of business and environmental management.

Capacity building isn't only for suppliers. Procurement teams can benefit from short sessions to discuss why supplier emissions are so critical to your company strategy and targets and to outline the role of procurement in reducing supplier emissions. As the primary interface with suppliers, Category and Relationship managers play a critical role in engaging suppliers, ensuring that climate action does not slip down the agenda and that individual suppliers are regularly supported and challenged on performance. Regular training and support for this group is best practice.

Sustainability is ever evolving and full of acronyms! Cheat sheets and jargon busting glossaries can provide transparency and better allow Procurement teams to facilitate conversations with suppliers. Briefing sessions at the start and end of data collection periods provide a space to share success stories and insights from the data with Category and Relationship Managers. Use these meetings to highlight suppliers that might need further engagement and improvement too.

Cascading targets

Cascading the adoption of emission reduction targets down your supply chain is a critical piece of the puzzle when it comes to tackling Scope 3 impact. When supplier ambition levels are aligned with yours, it increases accountability and secures a downward trajectory for your shared emissions.

CASCADING TARGETS CHECKLIST – CDP RECOMMENDS

- ✓ Highlighting SBTs and Net Zero as a necessary next step for mature suppliers
- ✓ Knowledge sharing from your own organisation's experience and challenges
- ✓ Holding workshops or discussions to signpost key information and best practice
- ✓ Measuring commitments to set targets vs approved or active targets
- ✓ Monitoring supplier progress towards targets set
- ✓ Celebrating suppliers with approved science-based targets

FOCUS ON: Salesforce

In FY21, 66% of Salesforce's value chain (Scope 1, 2, and 3) greenhouse gas emissions resulted from suppliers, making upstream emissions especially relevant to climate action activities. Salesforce aims to use its customer voice, promoting sustainability throughout the supply chain.

Salesforce has recently launched a Sustainability Exhibit, a document that places binding commitments upon suppliers to take action on climate in a way that is both rigorous and appropriate for a supplier's size, which they are beginning to incorporate into procurement contracts. Not only will rolling out the Sustainability Exhibit help achieve science-based targets, but it will also help Salesforce to further integrate sustainability into every aspect of the supply chain.

Salesforce has shared the Sustainability Exhibit publicly and encourage others to adapt it to incorporate into their own supply chain procurement contracts.

Lessons that Salesforce has learnt through this process include:

- Meeting and collaborating with internal stakeholders to convey the value and necessity of sustainability is critical to adoption.
- Meeting a supplier where they are at may require taking different negotiation approaches that are tailored to suppliers in challenging industries. For this reason, Salesforce is willing to remove or postpone obligations for less mature suppliers.
- Developing communications aimed at initial engagement with suppliers and providing helpful tips for supplier contract negotiators helps create a more sustainable supply chain generally.
- Activating and training the procurement team on this new language and how to incorporate it into supplier agreements was a critical first step before engaging suppliers.
- No two suppliers are the same. Engaging a supplier based on where they are in their own sustainability journey is key to success and ongoing partnership.
- Enabling the procurement team and suppliers on how to successfully navigate sustainability requirements is a must - which is why Salesforce created the Sustainability for Salesforce Supplier Trailhead module. It's publicly available too!

GO: TAKING ACTION TO COLLECTIVELY REDUCE EMISSIONS

Investing in supplier innovation

Reducing emissions in line with 1.5 degrees will require a step-change in available technologies and current ways of doing business. Purchasing organisations have a part to play in championing the need for, and encouraging increased supplier investment in, innovation.

Encouraging innovation by providing opportunities for suppliers to suggest projects or product innovations with mutual emission reductions benefits. This could be a dedicated platform, a select part of supplier review meetings, or part of existing supplier data collection.

There are three key things to keep in mind for best results.

1. Specifying a timeline for project deployment or payback supports making ideas a reality.

2. Defining what your company considers a viable proposal for emissions reduction innovation – in terms of cost, emissions scope, emissions source, specific product, category, or sector – brings the best proposals to the fore.

3. Putting in place a process to take any selected projects forward, and to assess the impact during and after the project, creates concrete outcomes.

If you cannot put a resource towards stimulating innovation directly, seek out and celebrate ongoing and independent supplier innovation. Have open conversations with suppliers in high-impact sectors such as manufacturing or aviation on their investment in research and development or request annual updates on their adoption of new technology such as alterative airline fuel or carbon capture. You can also use your convening power to facilitate innovation knowledge exchange for business-critical suppliers in difficult-to-decarbonise sectors.

FOCUS ON: Tesco & Santander

Tesco is the first UK retailer to offer its supply base sustainability-linked supply chain finance in a move they hope will encourage more suppliers to sign up to science-based emission reduction targets. Through this voluntary programme, Tesco suppliers will be offered preferential financing rates via Santander's supply chain finance platform in return for action on tracking and improving their environmental impact.

The rates will be based on each supplier's carbon data disclosure, emission reduction targets and progress against sustainability goals, which will be independently verified. Tesco also provides online tools and support to help suppliers enrol in the scheme. To ensure that the measurements remain relevant, the scope of the sustainability data requirements will be regularly updated in line with market best practice and Tesco's own sustainability commitments. The rates are tiered – gold, silver, and bronze – with differing levels of disclosure required to receive them. These tiers also differ across small, medium, and large suppliers so that it is accessible to all businesses, regardless of size.

This is the first time that sustainability-linked supply chain finance is being offered anywhere in the UK, and to date, a significant majority of Tesco's suppliers have signed up. For many businesses the incentive has started them on their Net Zero journey.

Key learnings for Tesco and Santander as part of this project were the importance of tailoring their approach and also being open to providing support to smaller suppliers. This allowed small and medium-sized suppliers – who were less advanced in their approach – to fully participate and get started on their individual journeys towards meeting their climate targets.

Circular procurement and business models

The Circular Economy is a term used to describe the concept of a value chain, or an entire economic system, which is designed to maximise the value of products and materials while in use, then to recover and repurpose them at the end of their lives, ultimately eliminating waste. This reduces demand for finite natural resources, and regenerates natural systems.

By virtue of requiring fewer virgin materials to be extracted, processed, and transported, there is enormous potential to reduce greenhouse gas emissions. The Ellen MacArthur Foundation estimates that while action energy efficiency and grid decarbonisation will be able to achieve 55% of the emissions reduction necessary to limit global temperature rises to 1.5 degrees by 2050, the remaining 45% reduction will have to come from tackling the overlooked emissions associated with carbon intensive products and food.[vii]

Meanwhile, Circle Economy estimates that circular strategies could cut global greenhouse gas emissions by 39%[viii] and Green Alliance identifies that the circular economy could deliver 80% of the emissions' reduction needed to meet the UK's fifth carbon budget (2028-2033).[ix] Crucially for procurement teams, the World Economic Forum report circular economy and material efficiency as being both the lowest cost and most mature levers to reduce supply chain emissions.[x]

BITC's member-only Accelerating to Net Zero with the Circular Economy Factsheet outlines how each business will find its role in the circular economy in a slightly different way dependent upon which stage in the value chain the business operates. This will influence the types of circular business models which will be most relevant and, therefore, the practical steps which need to be undertaken to integrate circular approaches. While it is impossible to give a comprehensive set of actions, here are some which are most relevant to embedding circular approaches to reduce supply chain emissions.

Product manufacturer

- Source circular material inputs from lower carbon sources, including by-products from other businesses, recycled materials and renewable materials – see circular procurement section below.
- Speak to recycling companies to find out what happens to your products at the end-of-life and how your organisation's product could be better designed to overcome any barriers to recyclability – this could help to identify opportunities to reduce product complexity in terms of the number of materials used and the number of suppliers that materials are sourced from.
- Consider how your organisation can design your products with a longer lifespan, e.g. improving its reparability. Reducing the

frequency with which customers need to replace items will reduce the amount of new products which need to be made, thereby reducing the amount of material used.

Product retailer / distributor

- Use your position as an interface between manufacturers and customers to encourage suppliers to adopt circular approaches to design and production – see circular procurement section below – while promoting more circular options to your customers.
- Consider if product-as-a-service models are a service which you could offer; this may be appropriate for long-lasting but infrequently used items. This will enable you to source less frequently from your supply chain, and keep assets in use for longer, thereby reducing overall lifecycle emissions.

Product user (all businesses will be product users)

- Embed circular economy considerations within your organisation's strategy and procurement process.
- Ensure that the use phase of the product's lifecycle is managed in a circular way – this will reduce the number of products that you need to source.
- Invest in and help to upscale innovative start-ups that will create new circular products and services that your organisation can use.

At each stage in the value chain, procurement can be used to select circular products and materials. Whereas traditional procurement often focusses solely on the acquisition of required products, circular procurement takes a more long-term view aiming to meet the buying organisations needs in a 'circular' way and reduce the amount of material consumed and waste generated. This requires consideration of how the items will be used and managed at end-of-life to be embedded within the procurement process, which will involve close collaboration with colleagues across the organisation. BITC has developed a comprehensive Circular Procurement Guide for further information. Please note this guide is available for BITC members only.

FOCUS ON: JLL

JLL UK recently relocated its Northwest office in Manchester, aiming to deliver JLL UK's most energy efficient workspace and to use the project to measure and establish a baseline for embodied carbon in office fit-outs.

A key element of the strategy was to upskill the project team in their understanding of the circular economy and to embed these principles into the design, procurement and fit-out itself. This led to a new design approach that included:

- implementing life-cycle thinking into design and specification;
- eliminating materials where not needed, e.g. exposed services, less partitions, self-finishing surfaces;
- reusing products from existing office where possible, e.g. desks, chairs, and AV equipment;
- procuring over 200 remanufactured and reuse items;
- specifying new products with a high recycled content, including desktops for the reception, kitchen and meeting rooms which are made from recycled yoghurt pots and plastic packaging;
- repurposing materials from the old office, including glass table-tops from the previous office which were laser cut and now serve as signage; and
- specifying low-carbon flooring material from Interface which is Cradle to Cradle Certified®.

The impact was a reduction in embodied carbon from 185kg CO2e/m2 in a standard office fit-out to 120kg CO2e/m2 in the Manchester office.

FOCUS ON: The Co-operative Group

Business in the Community supported The Co-operative Group to run a circular procurement pilot at its Borough Green store in Kent as part of the Interreg ProCirc project.

BITC worked collaboratively with Co-op colleagues and their fit-out contractor to develop a circular ambition for the project, to identify specific opportunities for applying circular principles, as well as applying the Ellen MacArthur Foundation's Material Circularity Indicator tool on the project.

The refit is being carried out in Q3 2021 and is expected to result in an increase in the amount of assets that are retained or refurbished rather than being replaced and an overall reduction in new materials used compared to a typical refit project. The biggest impact is that a greater focus on longevity will increase the time needed between future refits, resulting in fewer refits being needed and an associated reduction in future waste and embodied carbon. The Co-op is already considering how it can apply the approaches more widely across its estate to leverage the impact of this project.

Construction will take place in November and Co-op will then mainstream approaches developed in the pilot into their standard project management for refits.

Internal carbon pricing

One way to drive greater focus and urgency around supply chain emission reductions is to put a financial price on them as they are generated – this is known as internal carbon pricing (ICP). This internalises the cost of the negative impacts they create in the world in a tangible way. If procurement teams and suppliers have to pay more as their decisions, products or services emit more, there is an added incentive to prioritise low-carbon alternatives.

ICP for emissions management in supply chains is not widespread yet but has a lot of potential. In 2019, 9.9% of respondents to CDP's carbon pricing questions stated that supply chain management was an objective when choosing to set an ICP.[xi]

ICP for supplier engagement is especially effective as a financial incentive for suppliers to change their footprint. Using an ICP changes the competitive advantage of a supplier who is focused on low-carbon approaches or reducing their emissions intensity. Uses and applications of ICP are incredibly variable, ranging from shadow price in procurement decision-making to the funding of low-carbon innovation[xii]

Many organisations seek to reinvest the funds generated through a carbon price into green projects, like renewable energy or research and development for lower-carbon products or services.

FOCUS ON: Microsoft

Microsoft has been leading the way on carbon pricing, having introduced a 'carbon fee' in July 2012. The decision was taken alongside its initial commitment to become a carbon neutral business. It was driven by the desire to create a simple mechanism that would encourage employees across different business divisions and markets across the world to prioritise reducing their emissions.

This has led to the creation of upper limits for CO2 emissions in company cars within its Global Procurement Group. Microsoft then engaged with car dealers and manufacturers in its supply chain to secure the highest possible discounts for low-emission models. As a result, the average CO2 value of Microsoft's company cars in Europe dropped from 172 g/km in FY10 to 129.5 g/km in December 2014 (covering >6,600 cars).

Microsoft is now seeking to go further and cascade its carbon fee to its suppliers' emissions, further incentivising them to reduce their own operational footprint.

The company plans to use its carbon fee to part finance a $1bn climate innovation fund to help develop carbon reduction and removal

technologies. Whilst this is a very large example, the same principles of carbon pricing can be applied in a business of any size.

Adapted from https://download.microsoft.com/download/0/A/B/0AB2FDD7-BDD9-4E23-AF6B-9417A8691CF5/Microsoft%20Carbon%20Fee%20Impact.pdf

Supporting your supply chain to transition to renewable energy

As this toolkit has demonstrated, reducing Scope 3 emissions in the supply chain should be done in a holistic way including energy management practices and making the link between resource use and embodied energy. Supporting suppliers to transition to renewable energy should not be the *only* approach that is taken, but it is a highly effective method to substantially reduce Scope 3 emissions.

Whilst many energy suppliers in the UK offer the option to purchase renewable electricity through a green tariff, there is inconsistency in what a 'green tariff' entails.[xiii] In addition to this, suppliers may be in countries where purchasing green tariffs is not possible, due to a lack of renewable energy capacity; Power Purchase Agreements can be used as an alternative. These are contracts in which an organisation agrees to buy electricity generated at a specific energy production facility, at an agreed price, for a set duration of time.

Benefits of supporting suppliers to adopt Power Purchase Agreements include:

- Directly increasing the amount of renewable energy being generated on the grid.
- Provides resilience against cost and supply fluctuations.
- The highly visible nature of renewable energy investment sends a strong signal to policy makers and other businesses, helping to influence further renewable generation.

In its Guide to Integrating Renewable Electricity into your Supply Chain, RE100, The Climate Croup, and CDP, recommend the following ten tips in order to design and develop an effective programme for increasing the use of renewable energy by your suppliers.

1. Build a comprehensive analysis of your supply chain electricity consumption and the renewable electricity potential for the major suppliers within it.
2. Set ambitious and fact-based public targets for your supply chain.
3. Ensure that your organisation is fully aligned behind ambitious targets, with support from key procurement decision makers.
4. Be prepared to invest sufficient resources in supporting suppliers to move to renewables.
5. Look for leaders in your supply chain to demonstrate what is possible.
6. Pick the right incentives for suppliers.
7. Build in the right kinds of support for your suppliers to be successful.
8. Be prepared to innovate, and collaborate with other companies with ambitious supply chain targets to overcome shared barriers.
9. Learn from pioneering companies and look for collaboration opportunities.
10. Report on progress and on challenges related to supply chain targets.

Encouraging greater adoption of renewable energy in specific countries

The renewable energy landscape varies greatly between different countries and there are challenges in countries such as South Korea, China, Indonesia, and Vietnam, where many suppliers are based. Suppliers in these countries may be hesitant to engage in renewable energy programmes given the potential lack of availability they face. Several organisations such as Google (see case study), IKEA and BT have engaged with suppliers in these regions to develop innovative solutions, such as investing in on-site renewable projects with key suppliers. Specific energy expertise on these markets should be sought and engaging with policymakers may be required to overcome barriers.

FOCUS ON: Google

A new programme has been launched within Google to help provide suppliers with the tools and expertise they need to develop renewable energy solutions. Google is also working to transform electricity markets in key regions to create pathways for renewable energy procurement that enable thousands of suppliers, manufacturers, and other companies to access clean energy.

Google's efforts to champion clean energy policies and market solutions around the world also benefit other companies. In 2015, Google began asking for the opportunity to buy renewable energy directly from a specific generating facility in Taiwan. In January 2017, after two years of careful consideration, the Taiwanese government amended its Electricity Act to allow direct renewable energy purchasing for customers. This will open the door for companies seeking to expand infrastructure, while advancing a clean-energy future.

As a part of achieving its vision, Google committed to invest approximately $150 million into renewable energy projects in key manufacturing regions. The investment commitment, alongside partners, aims to catalyse roughly $1.5 billion of capital into renewable energy. With these investments, they expect to help generate renewable energy that is equivalent to the amount of electricity used to manufacture Google consumer hardware products. You can find further information on Google's renewable energy investments here, and an Edie explainer on Corporate Power Purchase Agreements here.

Based on:

https://sustainability.google/progress/projects/supply-chain-energy-emissions/
https://www.blog.google/outreach-initiatives/sustainability/hardware-sustainability-progress/

Supplier incentives

There are a number of ways you can incentivise suppliers to adopt behaviours in line with your decarbonisation expectations.

Offer annual supplier awards

Highlight what is important to your company; is it emissions transparency, adopting renewables, setting targets, investing in low carbon technology? But don't just celebrate leaders. Consider 'most improved' or 'first step' awards to bring SMEs and beginners along.

Implement a standardised supplier rating linked to decision-making Base this on supplier-provided data and KPIs linked to rapid decarbonisation. Deploy either as a stand-alone climate rating or as part of a wider rating system. Transparency and feedback are key to making a rating a carrot not a stick.

Set 'Leadership' pre-requisites for awarding desirable contracts

Examples include that suppliers on high-value or flagship projects must have an SBT, or suppliers over a specified spend threshold must report emissions and engage their value chains.

Consider subsidising or funding positive actions

Short-term and targeted support can catalyse change. Especially useful for SMEs, niche product categories, or suppliers struggling to adapt. What obstacles are there to decarbonisation for these groups? How can you grease the wheels in mutually beneficial areas? Examples include paying for first energy audits, creating innovation funds, providing initial training in emissions reporting.

FOCUS ON: Danske Bank (UK)

Danske Bank's Climate Action Programme was born out of an ambition to support client businesses, that are typical SMEs operating in Northern Ireland, in how they might begin to approach and navigate the challenges presented

by climate change. While this is a customer focussed project, the approach provides a good example of a capacity building programme which could be offered to suppliers.

The programme was developed in collaboration with Business in the Community Northern Ireland and provides a practical set of modules, each with tangible and positive outcomes, which are applicable to any business type and sector. The programme has four main objectives:

- Understanding the business case for action on climate
- Knowing your starting point and baseline
- Envisioning your target and your journey to reach it
- Making a public commitment on emission reductions

The programme has resulted in tangible commitments from participating businesses to reduce their scope 1 & 2 emissions by between 30-50% by 2030.

Danske Bank's key learnings in designing and delivering the programme include:

- There is significant appetite for businesses to engage in tools to help navigate climate transition
- It is important to build core carbon literacy prior to moving on to establish baseline carbon foot-printing.
- Having a requirement to incorporate measurable emissions reductions commitments is a key aspect of the programme.

CONCLUSION

This toolkit provides an introduction to the practicalities of:

- knowing more about the emissions generated by your supply chain;
- growing your engagement with suppliers to enable them to reduce emissions on your behalf; and
- going further by delivering projects that make an impact on your supply chain missions.

It is not exhaustive but offers a starting point for procurement and sustainability teams to create effective strategies to reduce emissions on their pathway to Net Zero.

For further support on this issue, we recommend contacting BITC's Environment Advisory Services team via your Relationship Manager (BITC Members) or via webeditor@bitc.org.uk (Non-Members).

They offer a variety of workshops and advisory support in areas like target setting and supplier engagement.

For enquiries about CDP's Supplier Programme or disclosure services, please contact Hannah.Doughty@cdp.net or cdpuk@cdp.net.

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