Embedding PROJECT

Key Takeaways: Sustainable Procurement

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Here are some key points from our conversation on procurement and supply chain sustainability, anchored in the research from our Sustainable Procurement Wheel.

INTERNAL ENGAGEMENT

- **Cross-functional alignment is needed.** It is important for sustainability teams to support their procurement and supply colleagues to understand potential risks in the value chain and help to find alternatives and opportunities for supplier engagement. It is also important to help build a common understanding of strategy, goals, policies, and zero tolerance thresholds. This will help resolve tensions between multiple objectives such as carbon reduction, upholding human rights, and supplier price and reliability.

SUPPLIER ENGAGEMENT

- **Pre-screening suppliers is becoming more important and more common.** A recommended starting point is to ask, 'Have you completed a materiality assessment?' Suppliers that attend to their most salient issues are supporting you as well. In cases where supplier options are limited, you will need to meet your suppliers where they are and support improvements.
- **Build relationships to facilitate tier 1 engagement.** Instead of sending cold requests for information, find people within your supplier network who are interested in sustainability. When sending out letters or notices to suppliers, try requesting a meeting so you can gain a better understanding of their efforts and constraints. Enter the meeting with curiosity and a “let’s work together” frame. Mutual Benefit is key when asking for information or commitment from suppliers.
- **Avoid duplicating requests.** Work with suppliers to reduce transaction costs and duplication on both sides. This can be done by partnering with industry peers to ask for the same information and using common formats.
- **Avoid overloading suppliers.** For example, asking them to address water, carbon, waste, and human rights all at the same time won’t be feasible at the beginning. Consider which issues are most material for different categories and focus there. This means engaging different suppliers on different priority topics.

- **Focus on collaborating rather than coercing suppliers.** Remember you cannot control them, you can only influence them. Use soft leadership to engage suppliers, especially when your own buying power is low. Avoid language that might project righteousness or place blame. Instead, try softer language like, "I've noticed" or "Have you considered." Suppliers may be ESG curious, and if so, you can support them similar to a consultant.
- **There is a soft skills knowledge gap.** We heard from Chief Procurement Officers that procurement and supply chain teams may need to build additional skills that support more collaborative relationships with suppliers as well as building the foundational sustainability knowledge needed to feel confident to have sustainability conversations with suppliers.
- **Building the capacity to go beyond tier 1 is crucial.** To influence indirect suppliers, a clear understanding of the business case is required. Keep in mind that risks occurring lower down the supply chain can flow upward to affect buyers and can be a key source of reputational risk.
- **Direct procurement sustainability processes do not always apply neatly to indirect procurement**. Expanding these processes to indirect procurement can be a challenge. The priorities and competencies that you have built around sustainably sourcing your core materials and services may not translate into the categories that you need for indirect procurement. Start with trying to gain alignment on the core strategic objectives and work to adapt procedures from there.

ADDRESSING CLIMATE

- **Scope 3 progress.** For many companies, climate is their most advanced supply chain sustainability issue. Despite this, many companies are still at the early stages of calculating scope 3 emissions. This is often driven by outside pressures such as tender requirements, or being asked for sustainability credentials from supply chain partners.
- **Tariff impacts on emissions.** Disruptions caused by tariffs have become challenging from a logistics optimisation perspective. Many companies are experiencing disrupted sourcing, and maintaining their commitments to reduce scope 3 emissions can conflict with the urgent need to get materials and product to where they need to be.

ADDRESSING NATURE

- **Nature requires its own approach.** We are seeing that nature has a variety of different measures and key performance indicators compared to climate. Land-dependent companies (and companies who rely on supply chains that are very land-dependent) are undertaking nature risk assessments and are beginning to leverage the TNFD framework. In particular, they are working on the 'Locate, Evaluate, and Assess' part of Leap. The 'Prepare to Report' piece comes later; once companies have a sense of their impacts and risks, they can build a strategy and start to take action against it.
- **We're seeing significant investments in location-based data.** For example, companies are starting to integrate GIS systems into procurement and supply chain systems.
- **We're also seeing a lot of no-go commitments**. These include deforestation-free sourcing or commitments against land conversions. In the interim, we are seeing companies leverage certifications as a first step in trying to embed protecting nature deeper into their supply chain. Companies need to be careful that they don't over rely on voluntary standards and external rankings; they still need to be doing sufficient due diligence.

ADDRESSING HUMAN RIGHTS

- **Ensuring a living wage is a priority.** This is one of the most powerful actions that a company can take to respect human rights, as inequities in power and wages continue to create and perpetuate situations of vulnerability.
- **Ensure fair negotiations.** It is important to audit negotiation practices to ensure they do not create downward price pressure on suppliers, eroding their efforts to uphold human rights, pay fair wages, and make progress on decarbonisation and protecting nature.
- **Traceability is a key challenge.** We are seeing companies make an increasing number of commitments to improve materials traceability. There's a recognition that not having visibility down into the lowest levels of the supply chain becomes a significant barrier in making those improvements.
- **More investment needed to monitor supply chains.** One of the biggest things we're hearing is that companies need more on-the-ground resources around monitoring and supporting their value chains.
- **Tariff disruptions are increasing traceability challenges.** For larger companies, changes that may come because of US tariffs include potential shifts in the locations of suppliers. It's important for these companies to be attentive to the fact that frontline workers may be left behind. It is increasingly important to consult and collaborate with suppliers to ensure that purchasing practices are not exacerbating human rights risk.