



Sustainable Sourcing: A New Approach to High Performance in Supply Chain Management

by Craig Bush

>
accenture

High performance. Delivered.

• Consulting • Technology • Outsourcing



Sustainability is about minimizing a business' negative impacts on people, societies and the environment while maintaining or enhancing value for customers, business partners and shareholders. In effect, it's doing good and doing well at the same time.

Clearly, the sustainability mission can take a company in many different directions. However, Accenture sees sustainability as an engine to drive high performance, and organizations committed to high performance nearly always recognize the integral connection between sustainability and the supply chain. For example, early adopters of sustainability principles may have already leveraged supply

chain innovation to effect sustainable product design and manufacturing—developing environmentally conscious products and processes. Supply chain technologies and processes are also the heart of sustainable physical asset management—extending green operations through greater adherence to power usage, water consumption, waste output, cooling requirements and lighting/heating issues. And finally, sustainable end of product life—supply chain initiatives relating to waste treatment, raw materials and environmentally sensitive disposal—also calls for supply chain mastery.

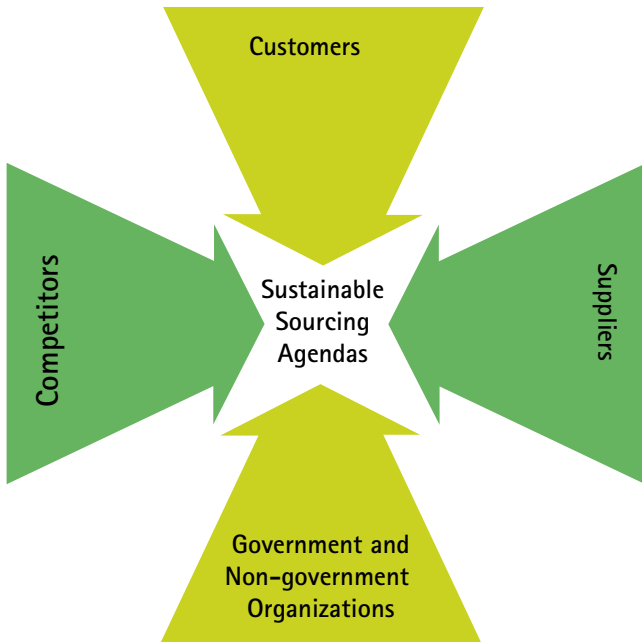
"The sustainability mission can take a company in many different directions. However, high performers nearly always recognize the integral connection between sustainability and the supply chain."

Many companies that focused early and intently on sustainability also made it the cornerstone of highly effective marketing campaigns aimed at consumer and business markets. Much of this low-hanging marketing fruit has now been picked. Yet most companies still have enormous potential to leverage sustainability to do good (for people and the environment) and do well (financially).

But what aspects of supply chain management are most worth emphasizing? The simple answer is all of them: product design, planning/forecasting, manufacturing, order management, transportation, distribution, service management and reverse logistics. However, there is no supply chain space that is more lucrative or untapped than the application of sustainability principles to sourcing and procurement: the subject of this Accenture Point of View.

"There is no supply chain space that is more lucrative or untapped than the application of sustainability principles to sourcing and procurement."

Sustainable Sourcing: Why the Time is Now



As noted in the graphic above, the pressure to increase sustainable sourcing capabilities is hitting companies from all sides:

Customers not only are demanding a greater variety of products; they are seeking more sustainable (environmentally and socially friendly) products as well. As a result, companies are building sustainability credentials to keep customers who have developed new sensibilities and to attract a growing pool of new customers with similar leanings. Research confirms that a growing percentage of people will pay a premium for products associated with (or branded) "Fair Trade," "Organic," "Ethical," "Recyclable," "Recycled Ingredients," "Locally Produced," and "Women- or Minority-Owned/Operated."

Competitors are forcing the issue by emphasizing sustainability-based differentiation and customer loyalty.

Suppliers influence the equation in numerous ways. Global sourcing

potentially raises the carbon footprint and there is also the risk of dealing (often inadvertently) with unethical far-shore vendors. A single supplier acting in an anti-green, non-sustainable fashion can seriously undermine its customers' branding and reputation-building efforts. One need only look at the recent furors caused when international retailers and manufacturers were found to be using suppliers whose employees worked in substandard conditions or received unfairly low wages.

Government and non-governmental organizations also weigh in directly (e.g., through carbon emissions limits and disposability laws, and indirectly via the media, and human rights and advocacy groups). The former often involve significant financial incentives (e.g., in the form of fines or contract access) while the latter speak more directly to the value of brand and reputation ("corporate assurance").

In addition, **new standards for environmental and social**

responsibility are being introduced constantly, and it is in every company's best interests to understand how their operations will be affected and to what extent customers, shareholders and business partners will demand adherence. A few examples include EMAS (the European Union's Eco-Management and Audit Scheme); ISEAL, an international non-profit organization that codifies best practices for designing and implementing social and environmental standards; and ISO 14001, which defines requirements for the design, specification and implementation of environmental management systems.

The Power of Sustainable Sourcing

"Companies can't be leading edge in sustainability if they aren't leading edge in sourcing and procurement."

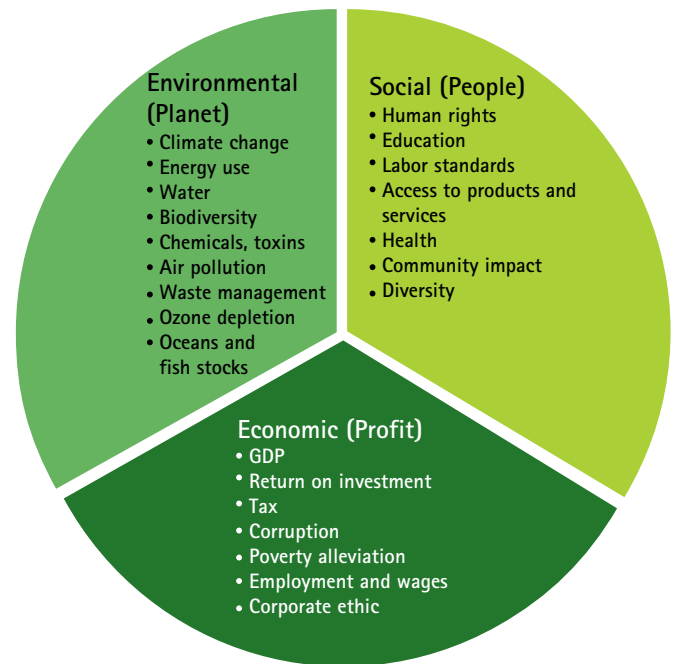


Figure 1: Sustainability affects all industries and governments, encompassing an integrated agenda of environmental, social and economic issues ("planet, people and profit").

In recent years, sourcing and procurement has evolved from a relatively obscure back-office function to a widely recognized source of cost savings, relationship building and competitive advantage. Accenture's ongoing research to identify the characteristics of a high-performance business confirms that a relationship exists between procurement mastery and superior financial performance. Indeed, the research found that procurement masters achieve procurement savings that are 30 percent higher than low performers. Yet, masters' procurement organizations cost about half as much to run. As a result, the emphasis leading companies place on sourcing/procurement people, processes, technologies and relationships have risen. Sustainable sourcing embodies that new potential.

Think of sustainable sourcing as a process of purchasing goods and services that takes into account the long-term impact on people, profits

and the planet (Figure 1). Sustainable sourcing considers how products are made, where and from whom they (and their components) come from, how they are transported, and how they are ultimately disposed of. Companies excelling at sustainable sourcing strive to ensure that their products and components meet or exceed environmental and social expectations. At the same time, they know their actions are helping to:

- **Grow revenue**—introducing new or differentiated products and services, and complying with the environmentally driven shifts of key business partners.
- **Reduce costs**—applying "need" or "demand suppression" to reduce acquisition costs (e.g., sustainability-minded customers generally expect less packaging); increasing resource efficiency; rationalizing assets and suppliers; and cutting disposal costs (e.g., by removing hazardous materials from the design).

- **Manage risk**—achieving "corporate assurance" by understanding and proactively managing brand and reputation; anticipating regulatory shifts; culling irresponsible or noncompliant vendors; and developing innovative approaches to capturing socially conscious consumers and meeting regulations.
- **Build intangible assets**—enhancing brand and nurturing a reputation for social and environmental responsibility.

Organizations that excel in sustainable sourcing typically have a more integrated business model. They understand that most business functions play a role in increasing shareholder value, so they're careful not to make cost-reduction their sole sourcing and procurement mission. They know, in other words, that companies can't be leading edge in sustainability if they aren't leading edge in sourcing and procurement.

A Practical Approach to Sustainable Sourcing



As noted above (Sustainable Sourcing: Why the Time Is Now), myriad forces have converged to make sustainable sourcing a vital area of cost savings, revenue growth and competitive differentiation. Now and well into the future, companies focused on high performance must work to ensure that their sourcing and procurement operations address a more-complete universe of financial, environmental and social responsibility.

So what must companies do to make this happen? What, in other words, are the tenets of high performance in sustainable sourcing?

The first sustainable sourcing cornerstone is a **commitment to get, and stay, ahead of the curve**. Companies opting to wait and see—taking a reactive approach to carbon-emission reduction, supplier rationalization, and social and enviro-friendly branding—could soon be forced to make elaborate and costly changes that fit neither their operations nor their timetables.

The natural extension of this commitment is a **tighter and more structured alignment between the sourcing function and the company's business objectives**. Sustainability policies and practices rank high on the strategic agendas of a great many companies. But as noted earlier, these agendas focus most often on reducing energy consumption and carbon emissions associated with production.

Policies that emphasize integration of internal and external customers are key. High performers in sustainable sourcing seek to expand market share by securing new sustainability-conscious customers, and by working with them to identify product and service enhancements and opportunities. Tighter working relationships with internal customers are part of this equation. Every company is familiar with the functional silo analogy; but not enough apply it to relationships among product development, manufacturing and sourcing/procurement. Leaders

in sustainable sourcing excel at ensuring early-stage input into design, development and production. They regularly influence the nature, content and source of parts, materials and components.

New forms of supplier partnerships also are needed to promote the development of economically viable products, and to help expedite the culling and rationalizing of suppliers that a sustainable sourcing strategy nearly always implies.

An expanded view of costs is equally essential. Most companies are accustomed to structuring sourcing and procurement operations around lowest cost. If they're particularly progressive, they may even think in terms of total cost of operation (TCO). Yet few TCO approaches address carbon emissions costs; branding and image costs; the financial impact of dealing with socially or environmentally irresponsible suppliers; the environmental costs of packaging, palletizing and display materials; or



"Few TCO approaches address carbon emissions costs; branding and image costs; the financial impact of dealing with socially or environmentally irresponsible suppliers; the environmental costs of packaging, palletizing and display materials; or the legal, moral and financial costs associated with disposal."

the legal, moral and financial costs associated with disposal.

New proficiencies in spend analysis are needed to implement and maintain a sustainable sourcing program. At most companies, unfortunately, spend visibility is limited to "spend by vendor" and "spend category," and these are not detailed enough to create the insights required to manage the new (TCO-related) cost buckets noted above. Leading-edge procurement technology—using spend analysis capabilities to acquire, update, consolidate and share information—is often key to maximizing visibility and therefore managing sustainable sourcing's more-complex tradeoffs. In addition, many of today's procurement tools have "green rules" embedded in them. These can further streamline a company's ability to quantify and compare a product or component's lifetime environmental impact.

Lastly, high performers in sustainable sourcing will have **the ability to perceive and manage risk in terms**

that are different from their less-progressive peers. They will understand the politics and changing environmental and social policies of the countries and customers to whom they sell. Conversely, they will not only know their suppliers' products and capabilities, but also the extent to which those suppliers, products and capabilities comply with local, regional and global regulations and expectations. Chances are also good that high performers will use more-innovative and stringent audit and enforcement functions within procurement—metrics for understanding environmental and social performance, and tracking compliance levels.

Figure 2 recasts the above capabilities as milestones: with various capabilities (executive and operational) residing along a continuum from basic to advanced, and balanced against a stage-based timetable. Of course, each company will develop its own set of capability and timetable

decisions, and few will move forward in precisely the same way. In some companies, for example, C-level executives are well plugged in to sourcing and procurement; they are confident that buyers have competent tracking and executing mechanisms and are working in accordance with strategic goals. However, the executives themselves might be only minimally attuned to the need for new approaches to sustainability. Alternatively, other companies may have a communication disconnect between corporate decision makers and operations people. In this case, even the most forward-looking executive goals are not carried through to sourcing and procurement.


Category	Basic (0 years) 			Advanced (3-5 years)
Executive Level Objectives				
Organizational Buy-in	Sustainable sourcing champion identified within procurement function	Sustainable sourcing responsibilities built into all procurement function roles	Sustainable sourcing responsibilities combined into cross-functional teams	Wide-ranging employee buy-in to sustainable sourcing responsibilities
Executive Buy-in	Procurement function leadership support in place	Program coordinator in place for sustainable sourcing principles	Senior management buy-in to sustainable sourcing principles	CEO and senior management buy-in with high degree of support
Rewards	No internal rewards available	Annual review process includes sustainable procurement	Internal award events in place to recognize best practices	External supplier and employee award events in place
Governance and Performance Tracking	No governance structure in place to support sustainable sourcing	Rudimentary governance structure in place to support sustainable sourcing	Sustainable sourcing policy in place	Robust sustainable procurement policy and governance structure in place
Operational Objectives				
Performance Monitoring	Limited tracking of performance	Information-gathering capabilities in place	Information-gathering capabilities and risk-measurement in place	Performance tracking connected to corporate objectives
Training	No training course structure in place (individuals are self trained)	Standard training courses available within procurement function	Multiple training courses available, including "train the trainer"	Multi-level/discipline training available
Performance Measurement	Supplier evaluations based only on cost, quality and delivery measures	Sustainable sourcing criteria included within selection process	Supplier performance measured/audited and communicated to suppliers	Innovative supplier-development initiatives in place

Figure 2: Sustainable sourcing capabilities have multiple levels that can, and most often should, be implemented over time according to the needs of each organization.

Sustainable Sourcing Case Study: State Government

In July 2007, the governor of a large southern state directed his agencies to reduce greenhouse gas emissions by 40 percent by 2025. The agencies responded by first developing an "environmentally preferred products" list to increase the visibility and purchase of green products by state government. They also created a process to identify, evaluate and approve green product labels/standards and then solicit from the state's vendors those products that meet the approved labels/standards. Mechanisms for data collection, report design and assumptions-tracking then were developed to ensure a consistent, metrics-driven sourcing process.

Key Challenges

" Clearly, the best way to win is for companies to fully understand the tradeoffs; align actions with corporate objectives; communicate fully and openly with stakeholders; and (most important of all) develop enlightened, comprehensive approaches to defining and calculating total cost of ownership."

The potentially off-putting side to sustainability is that it could be more expensive in the short term—something that shareholders never take kindly to. Companies might find it necessary, for example, to pay more to a supplier that guarantees to meet customers' social or environmental requirements. In addition, the cost of buying could rise as more goods are sourced from nearshore locations to ensure social compliance or reduce transportation-related carbon emissions.

Clearly, the best way to win is for companies to fully understand the tradeoffs; align actions with corporate objectives; communicate fully and openly with stakeholders; and (most important of all) develop enlightened, comprehensive approaches to defining and calculating total cost of ownership. Total cost of ownership typically includes total acquisition costs combined with lifecycle costs:

- **Total acquisition costs** are composed mainly of purchase price—generally 60 to 90 percent. Other cost elements

may include transportation, materials handling and storage; training (for new suppliers, products or services); technology testing and approval; supplier qualification; and supplier retooling costs (for new or customized products).

- **Lifecycle costs** may include maintenance and spares costs; warranty coverage and administration; software and other upgrades; quality; ease of doing business with the supplier; and the cost of asset disposition at the end of a product's or service's useful life.

As noted earlier, sustainability also requires a deep understanding of carbon emissions costs; branding and image costs; the financial impact of dealing with socially or environmentally irresponsible suppliers; the environmental costs of packaging, palletizing and display materials; and the legal, moral and financial costs associated with disposal.

Understanding level and sequence

of change is another challenge: On the one hand, sustainable sourcing is the foundation upon which most companies' environmentally and socially conscious programs should be built. Therefore, a company's core sourcing and procurement capabilities are the prerequisites of a sustainable sourcing program, and must be firmly established prior to a sustainability initiative. On the other hand, many of sustainable sourcing's differentiating capabilities (supplier-, performance- and knowledge management; supply risk management; compliance measurement) are true leading-edge practices and thus must be built on a more advanced foundation. Understanding "what" and "when" is complicated.

A final challenge is accurately quantifying business impact: How, specifically, will the company benefit from more environmentally, socially or economically sound methods? To what extent should suppliers assist in this regard? And what is the likely effect

of changes on a particular product's complete lifecycle: from design and engineering to service and disposal?

Based on financial, social and environmental cost-benefit ratios, each company can decide what type and level of sustainability progress should/could be made. Think of it as an organization-wide, tradeoff-based "3D business case," as illustrated in Figure 3. Varying a particular transportation source or mode for example, might produce a quantifiable financial or service-related benefit. But is this a smart tradeoff when balanced against several additional tons of carbon emissions? Or what about justifying the supply-chain-wide replacement of incandescent bulbs with (initially higher cost) compact fluorescent lights to reduce energy consumption (including cooling costs associated with bulb-generated heat)? To answer correctly, we need to fully understand the impact on our reputation, our balance sheet, our customer satisfaction and our share

price if we fail to acknowledge or meet our sustainability commitments. The key mission is to balance tradeoffs among customers, financials and the sustainability agenda.

Sustainable Sourcing Case Study: Major Utility

A large Canadian utility determined that sustainable sourcing was among the most viable ways to advance its commitment to environmental and social responsibility, while enhancing its own economic well being. As a result, it worked to factor new criteria into its supplier evaluation criteria, including sustainability of logging practices, contaminated waste cutbacks, reductions in greenhouse gas emissions, use of alternative clean fuels, and suppliers' commitments to social responsibility and environmental policies.

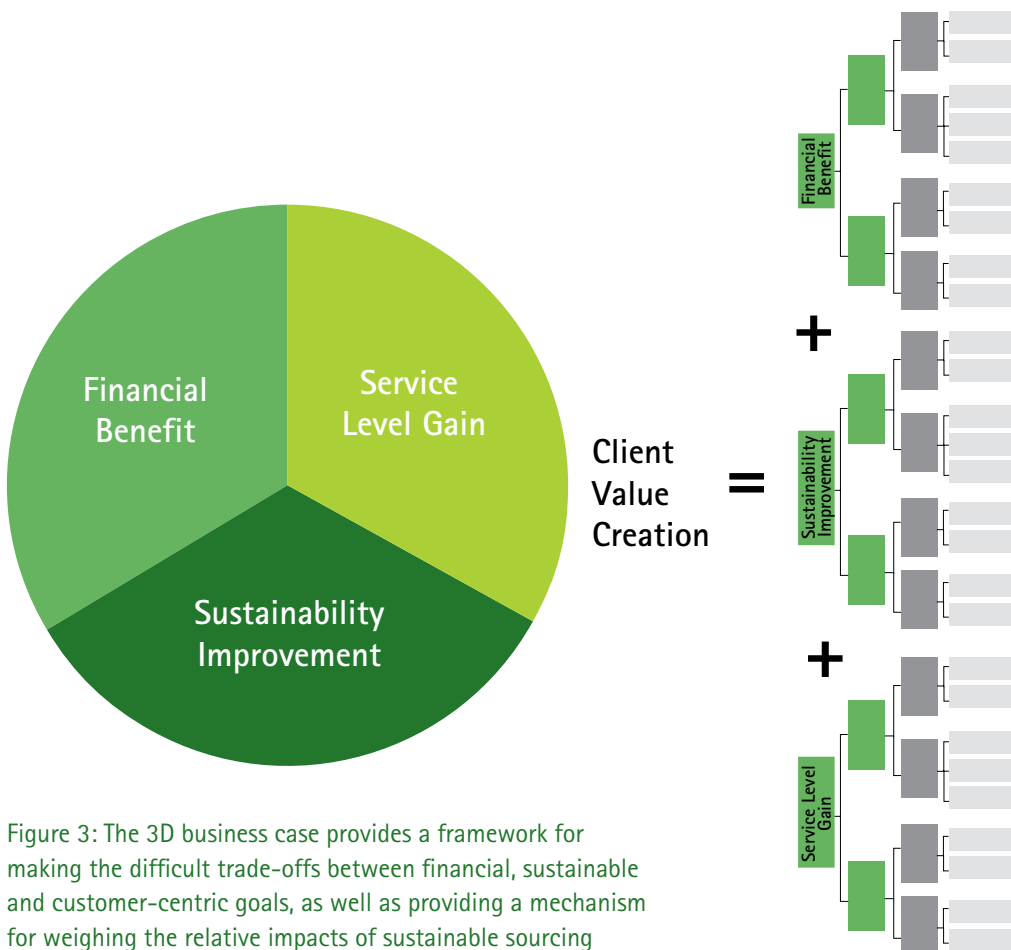


Figure 3: The 3D business case provides a framework for making the difficult trade-offs between financial, sustainable and customer-centric goals, as well as providing a mechanism for weighing the relative impacts of sustainable sourcing initiatives on a company's bottom line.

High Performance Means Making the Right Choices

Enough consumers and governments have signed onto the idea that corporations are largely obligated to make it a priority. However, companies bent on high performance will go even further—viewing sustainability as an opportunity and thus working to ensure that it 1) **aligns with their business imperatives** (such as growing new business, optimizing assets and protecting long-term interests); 2) **creates value** via emissions reduction, materials safety, waste reduction, land sustainability, water-use optimization, energy reduction and social improvements; and 3) **is underpinned by rigorous strategic analysis**, program management and performance measurement.

Supply chain leadership, innovation and a commitment to enlightened sustainable sourcing will be needed to meet the above conditions. However, the rewards are not only great; they stand every chance of growing further as more companies accept the sustainability imperative. Still, those that lead will clearly outpace those that follow, thus reaping the best opportunities to grow revenue, reduce costs, manage risk and build intangible assets. In effect, high performers will work harder and smarter to seek out opportunities for doing good and doing well.

Sustainable Sourcing Case Study: Telecommunications Company

One of the world's largest media companies recently committed itself to a series of sustainability initiatives. One program focused on the reuse and recycling of the digital set-top boxes (STBs) it supplies to customers. More than 1,000 tons per year have since been diverted from landfills. Recycling of STB containers was increased and all polystyrene inserts were replaced by recyclable cardboard. The company also set out to reduce the packaging content of its modems by two-thirds—resulting in 80 fewer truckloads of packaging per year.

