Quantifying the benefits linked to Sustainable Procurement is often challenging but practices of leaders demonstrate that this is a **key lever to wide-spread adoption**

Sustainable Procurement:

Time to measure value creation!

Whitepaper based on the 2013 – HEC / EcoVadis
Sustainable Procurement Barometer

6th edition

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SUSTAINABLE SUPPLY MANAGEMENT

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Executive Summary

Since the first report 10 years ago, the **HEC Sustainable Procurement Benchmark** attempts to measure the evolution of practices of global procurement organizations (Part I). Realizing that quantifying the benefits associated to Sustainable Procurement remains a critical challenge, Part II will propose a framework for better Sustainable Procurement value measurement. The 2013 edition, which surveyed practices of 133 large multinational companies across 24 countries, identified the following trends:

Sustainable Procurement now solidly entrenched in Procurement priorities

For 93% of respondents, Sustainable Procurement is considered a critical or important objective for their companies and stands in their Top 4 priorities. The Sustainable Procurement initiative is driven by 3 different sets of factors: risk and compliance, external demands (i.e. clients and investors) and value creation drivers. The importance of these factors varies depending on geographic areas considered.

Same goal, different drivers

For instance, in North America Sustainable Procurement is more driven by "compliance" (potentially linked to recent regulations on conflict minerals, corruption, human rights) and "cost reduction". Contrariwise, in Europe, "risk management" and "client requirements" are the leading drivers.

Companies are looking beyond supplier risk management…

Risk management remains a critical driver with 80% of companies implementing a "Code of Conduct" and 58% focusing only on high risk suppliers. However, more and more companies realize that Sustainable Procurement is also about monitoring performance, integrating CSR into their RFP processes (79%) or Supplier Relationship Management (SRM) processes for strategic suppliers (72%)

… with a heavier weight given to CSR criteria.

Companies formally integrating CSR in supplier selection processes are increasing (91%, as compared to 76% in 2009) even though only 1/3 of companies have defined a minimum weight for CSR (in average 10%).

Even though challenges remain...

The main challenge is related to conflict between short-term savings and long-term CSR objectives (80% of companies). Including individual CSR performance objectives in buyers' appraisals is now a more widespread practice (40% of companies), however advanced tools such as Total Cost Models integrating sustainable development criteria are still fairly uncommon (20%).

…measuring benefits is on the top of the CPOs agendas.

55% of the surveyed companies measure some type of Sustainable Procurement benefit, mainly cost reduction (48%), minimized risk (41%) and environmental benefits (35%). However only 7% of companies are able to fully translate benefits in financial terms. The study identified a framework and a number of cases with clear financial impact still the challenges remain to develop a holistic approach to quantify benefits of Sustainable Procurement.

Benchmark 2013

The 2013 edition, which surveyed practices of 133 large multinational companies across 24 countries, identified the following trends.

1.1 Objectives and main factors

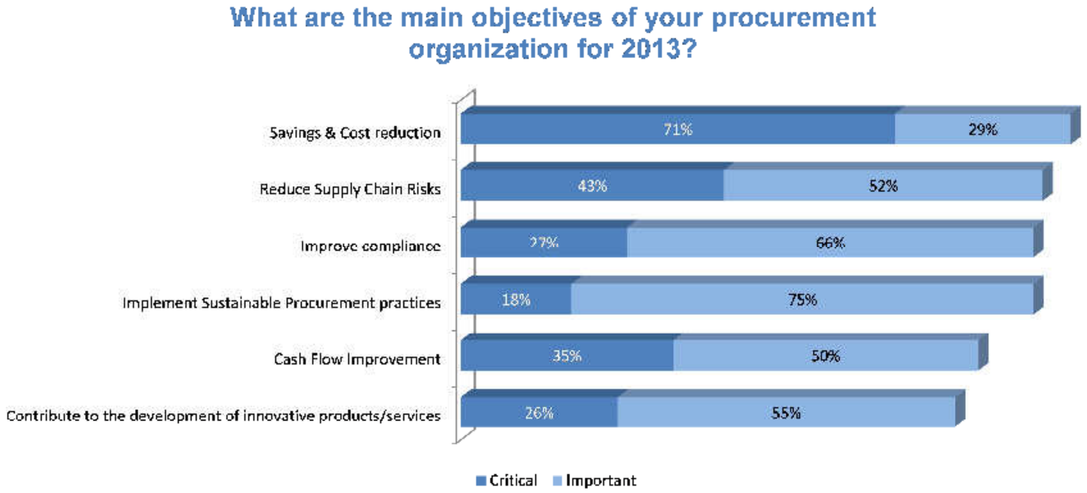


Figure 1: Main objectives procurement organization for 2013

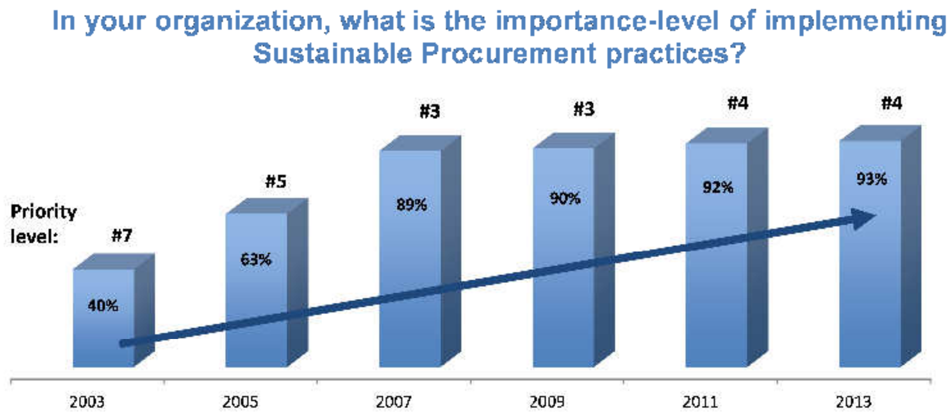


Figure 2: Importance-level of implementing Sustainable Procurement practices

Ten years ago, when the first study was carried out, Sustainable Procurement was an emerging topic. Over the years its relevance has been constantly increasing, today being recognized among the top 5 objectives within procurement organizations, along with the needs for cost reduction, risk management and compliance improvement

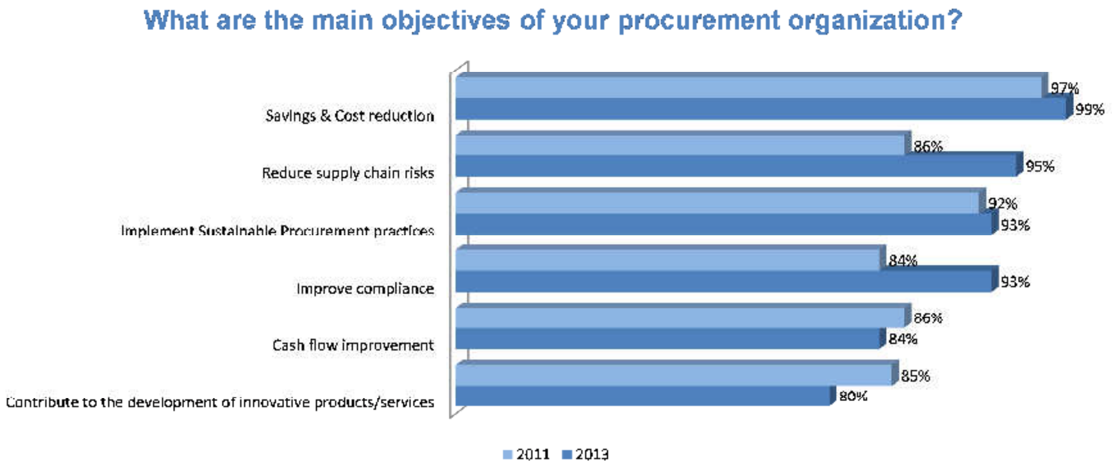


Figure 3: Main objectives of procurement organizations: 2013 versus 2011

Comparing these results with the 2011 study, there are some significant increases in the importance of “Reduce Supply Chain Risks” (+10%) and “Improve compliance” (+9%), the latter potentially linked to North American companies which are facing the recent introduction of new regulations (see below). The development of innovative products/ services still lies as a lower priority, proving that procurement functions still do not play a primary role in the value creation process.

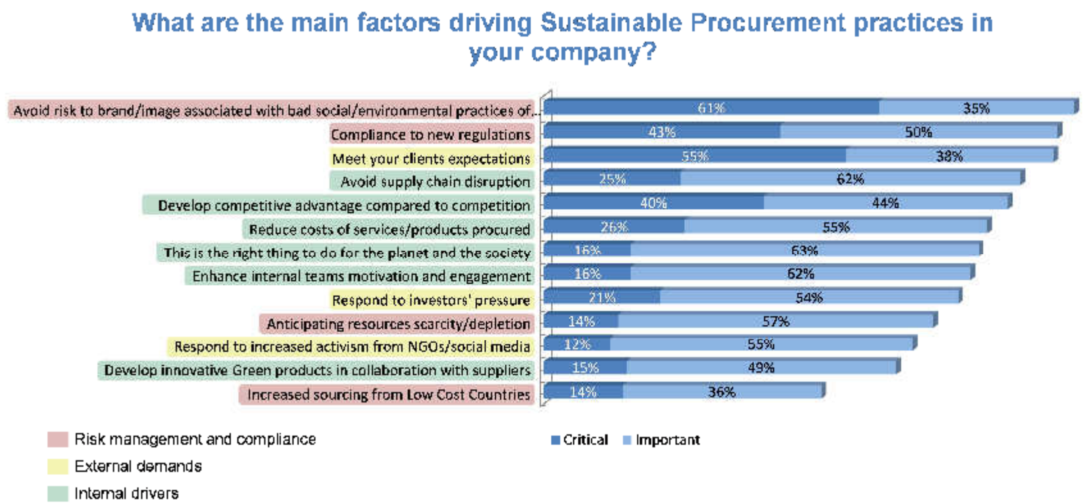
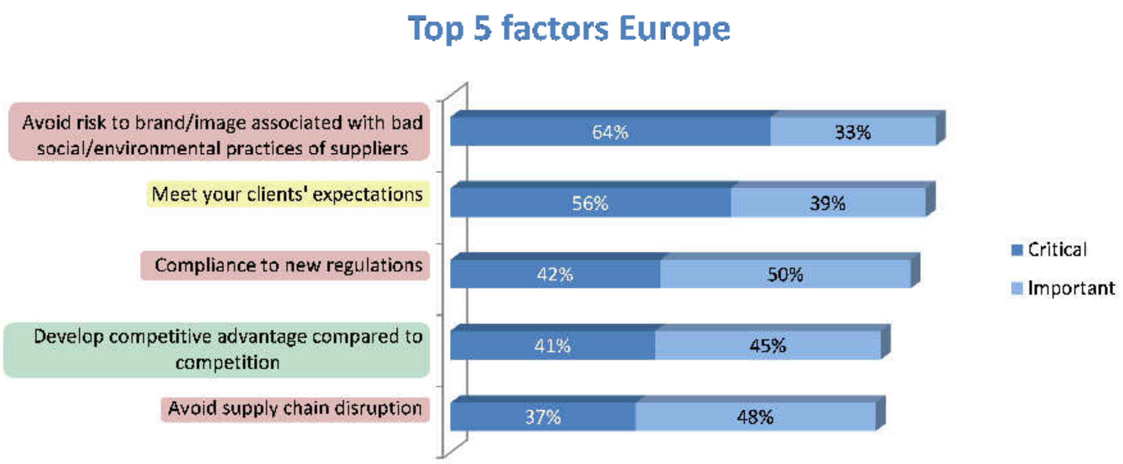


Figure 4: Main factors driving Sustainable Procurement practices in the company

Sustainable Procurement practices appear to be driven by three different types of factors: (i) **risk management** and **compliance** (ii) **external demands,** in particular those of customers (iii) **internal drivers,** such as cost reduction or internal team motivation. This year defensive risk management factors are once again at the top of the list and are either related to brand protection, avoidance of supply disruptions, or compliance to new CSR supply chain regulations. However, the emerging trend is related to the role played by **customers**: 55% of companies see client expectations on Sustainability as a critical driver, while 40% identify opportunities to develop a competitive advantage. The impact of customer demands is now higher than those of NGOs or Investors which have traditionally been drivers of many Sustainable Procurement initiatives.

Risks associated with emerging countries does not seem to be the major driver. The lower importance given to this driver is maybe linked by the progressive equalization of the global costs of labor (ex: In 2000, manufacturing labor in China was three times cheaper than in Mexico, while as of today it costs the same amount).



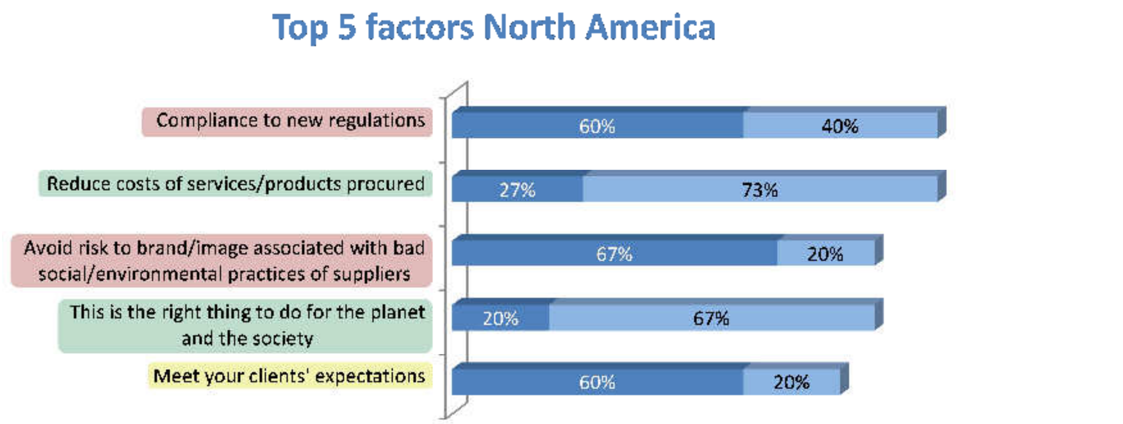


Figure 5: Top 5 factors for Europe and North America

It is also interesting to compare drivers of different geographical areas. In North America "**Compliance**" is cited as the #1 driver (potentially linked to the introduction of new supply chain regulations, such as the California Transparency in Supply Chain Act (2010) on human trafficking, the Dodd-Frank Act on Conflict Minerals (2013) and the Foreign Correct Practices Act). "**Cost reduction**" (such as packaging cost reduction through eco-design) is the #2 driver.

In Europe, while "**Risk Management**" remains a top driver, we note that "market" drivers such as "**meeting client expectations**" #2 or "**developing competitive advantage**" #4) now also appear as key drivers of initiatives. The development of these "market" drivers, allowing companies to move from a compliance approach to value creation, is an encouraging sign.

1.2 Organizational changes

Sustainable Procurement also requires appropriate organizational changes. Looking at the results from the past years there is a well-defined positive trend. Almost 50% of companies have now identified a "champion", or "Sustainable Procurement" team. Gaps still need to be filled, as it also means that around 50% of the 93% of companies who consider this topic as "important" (see Fig.1) have not allocated any responsibilities to it.

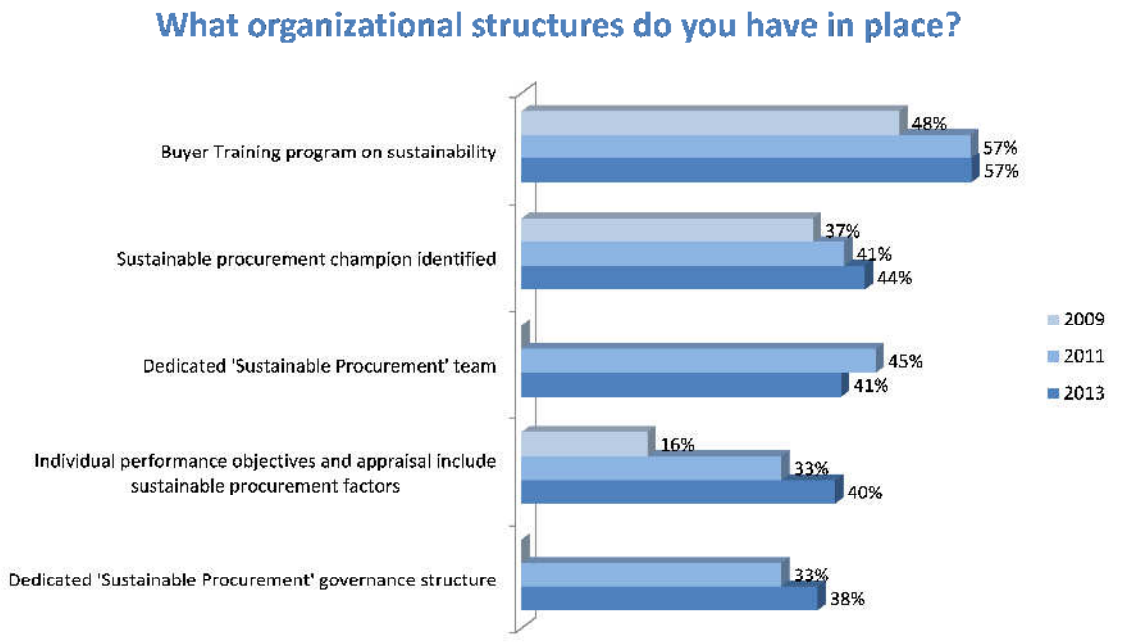


Figure 6: Organizational structures in place

The contradictions between objectives are a key challenge (we will explore this in detail later), and it is therefore important to set up the right Governance to overcome these challenges. 38% of companies have developed a governance body, which typically includes representatives from Procurement, CSR and Risk Management or even external stakeholder's such as NGOs.

The main increase lies within the inclusion of sustainability factors among individual performance objectives and appraisals. This tool may indeed be a good lever in order to involve buyers in this topic, thereby solving the "contradictory objectives" challenge. However, despite the percentage of companies more than doubling over the past 4 years (16% to 40%), the level of challenges linked to "contradictory objectives" remains unchanged: are the current incentives the right ones?

Alstom – Sustainable Purchasing Director

Having **trained** more than 800 buyers we now realize this is key to embedding sustainability into our procurement culture. We also learned that one-shot training pro-grams are not enough – It's more efficient to develop a toolbox with progressive training adapted to buyers' and purchasing managers' maturity.

L'Oreal – CSR Purchasing Manager

We have since 2007 set up structured **governance** for our "Buy & Care program" involving senior executives from our EHS, R&D, CSR, and Procurement teams. In 2013, we wanted to go further. With the support of the CSR department, we launched a stakeholder's consultation inviting experts, NGOs, associations and suppliers to help us to adjust our new 3 years road-map.

1.3 Tools

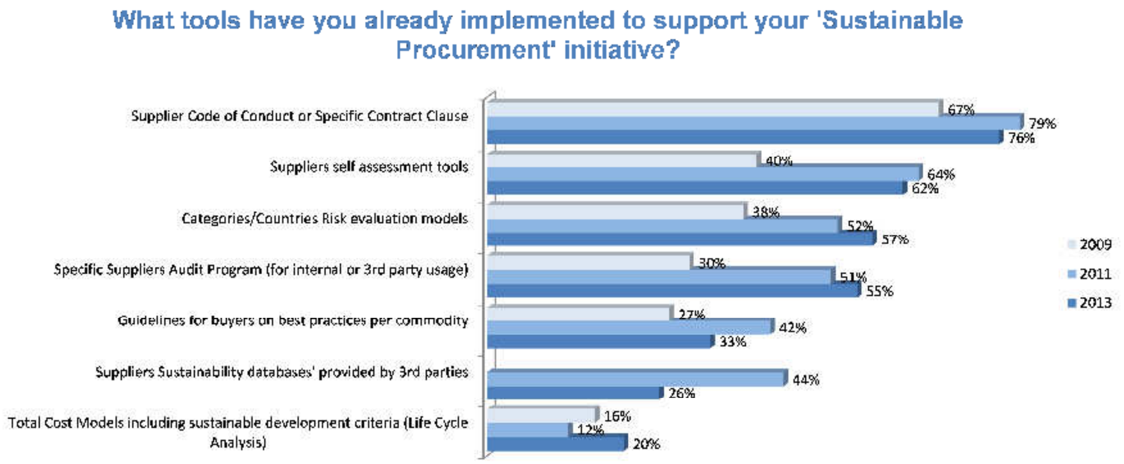


Figure 7: Implemented tools for supporting Sustainable Procurement initiative

The development of tools for Sustainable Procurement has already been attested to in our previous studies. After a strong increase in 2011, on average this year we witness an overall increase of internal adoption, with "Supplier Code of Conducts" and "Contract Clauses" becoming now common practice, and "audit programs" slightly increasing. We also note a progressive gradation from basic "Compliance' practices which are now standard for 2/3 of companies, to the more advanced ones (only 26% rely on Sustainability databases and 20% on Total Cost Models).

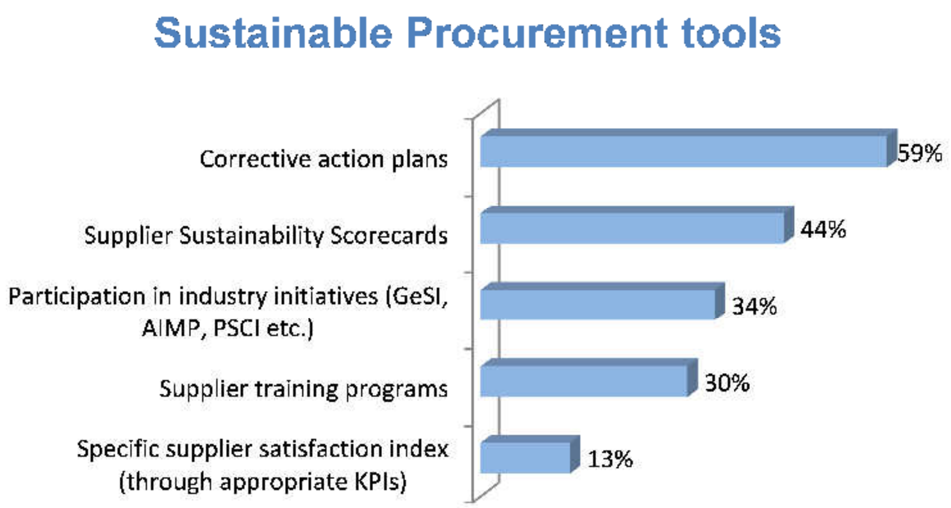


Figure 8: Sustainable Procurement tools

We have also started to measure the implementation levels of additional tools this year. “Corrective action plans” are the most common (59%). Together with 30% of companies implementing Suppliers training programs this signals that companies are now willing to go beyond “assessments”, and undertake improvement plans in collaboration with their suppliers. Close to 50% of companies now report implementing supplier Sustainability scorecards. Sustainability satisfaction indexes remain however marginal practices. Lastly participation in industry initiatives emerges as an important lever, used by 1/3 of companies.

TfS - Together for Sustainability

In order to enhance sustainability within the supply chain, 6 chemical companies (BASF, Bayer, Evonik, Henkel, Lanxess and Solvay) joined forces in 2012 to create the Together for Sustainability (TfS) initiative. The TfS initiative concluded in 2013 its first year of piloting sustainability assessments and audits in global supply chains engaging more than 2000 suppliers globally.

1.4 Supplier engagement

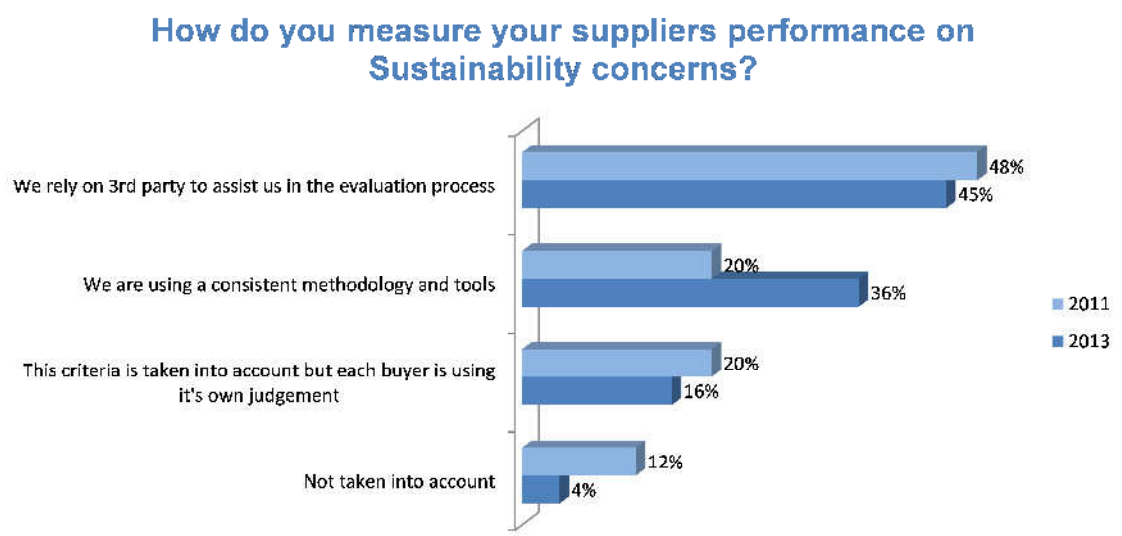


Figure 9: Measuring suppliers’ performance on Sustainability concerns

The integration of CSR criteria during supplier selection is the area where progress has been the most impressive. While in 2007, 25% of companies declared they do not take into account suppliers' performance on CSR topics; only 4% are not doing it today. They also perform it in a more rigorous way: while in 2007, 43% left this assessment to each of the buyer's judgments, only 16% use such subjective approaches today.

Apple

Apple conducted 72% more audits in 2012 than it did in 2011, for example, totaling 393 audits across facilities employing 1.5 million workers. All types of audits increased for the year, including first time, repeat, process safety assessments and specialized environmental audits, but the last one took the biggest jumps vs. previous years.

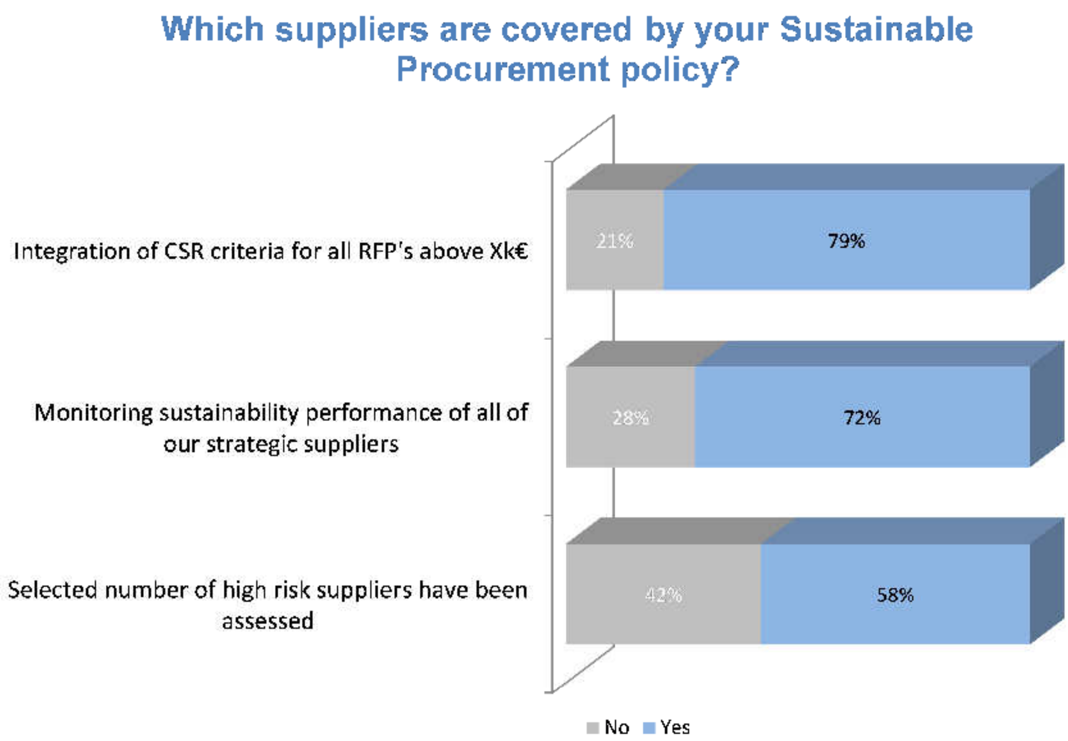


Figure 10: Suppliers covered by Sustainable Procurement policy

Suppliers' assessments are mostly used within supplier qualification practices: 79% of companies include CSR criteria in RFPs, which include both product and supplier assessments. However, 72% have implemented a monitoring system for strategic suppliers, meaning that companies are going beyond compliance driven one-off assessments to performance monitoring in order to drive improvements.

The level of deployment of practices has become the key differentiator, with 75% of companies now having some form of SP program. We have observed an evolution where in the past companies were mostly focused on risk management (assessing only "high risk", and often small suppliers) and are now moving to "Value Creation", engaging with strategic suppliers.

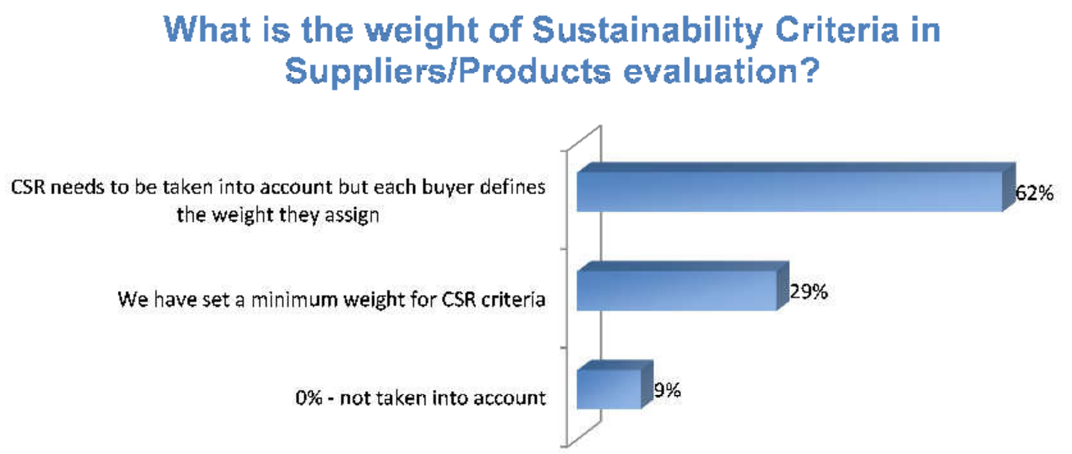


Figure 11: Weight of Sustainability Criteria in Suppliers Products evaluation

Focusing on qualification practices we can see an increase of CSR criteria integration. 91% of companies now take CSR criteria into account as a standard practice, against 76% in 2009 and 88% in 2011. However, the majority of companies still have not put in place a standard minimum weight for all buyers, which are asked to use their own judgment. Unfortunately a wide gap still exists between the leaders (29%). Still, setting a standard minimum weight of CSR criteria remains a prerogative of market leaders, which on average is set a minimum of 10%.

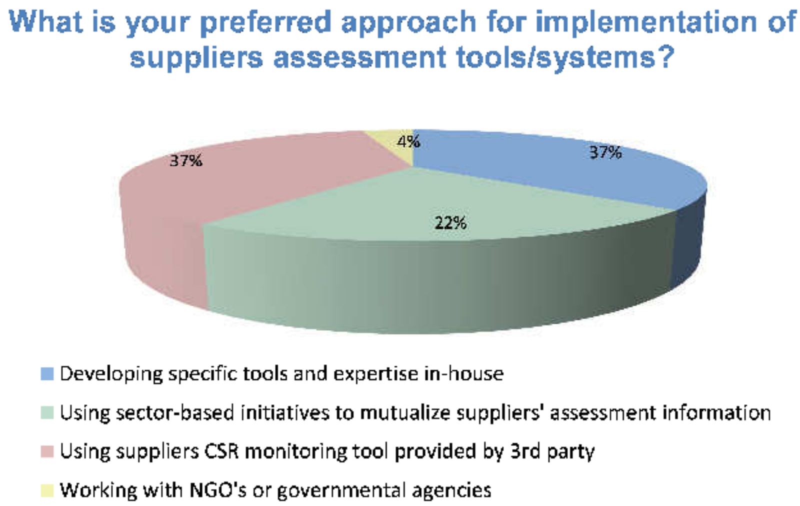


Figure 12: Preferred approach for implementation of suppliers' assessment tools/systems

Only 1/3 of companies rely on developing tools and expertise in-house as the preferred approach for implementing supplier CSR assessment tools. 2/3 of companies now choose to resort to external platforms, provided by service providers offering CSR monitoring tools or to sector initiatives. . Typical examples are EICC (Electronic Industry Citizenship Coalition) in the electronic industry, GeSI (Global e-Sustainability Initiative) for the ITC sector, PSCI for the Pharma industry or TfS (Together for Sustainability), in the chemical sector.

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Société Generale

During our 2007-2011 Ethical sourcing plan we developed a robust methodology, system and team to assess the supplier CSR performance. However in 2011 we realized that moving to 3rd party supplier sustainability platform would allow us to reach a new maturity level and avoid duplication of efforts for suppliers.

1.5 Key Performance Indicators

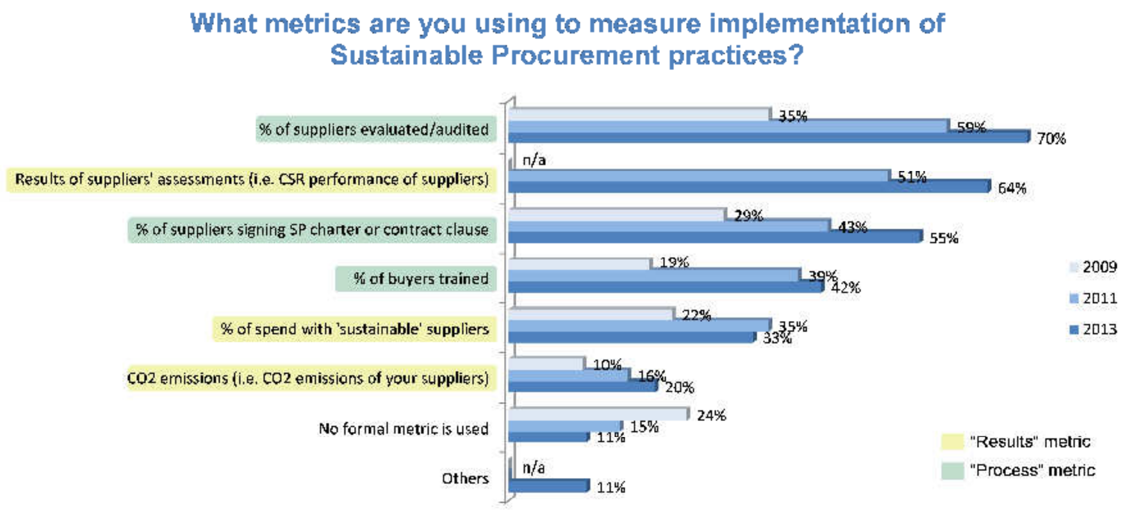


Figure 13: Metrics to measure implementation of Sustainable Procurement practices

The usage of KPIs is also growing: In 2009, 24% of companies had no formal indicators, which is now down to 11% today. Moreover, in 2009 metrics were related quite exclusively to « process » measurement, ignoring result measurement (except for CO_2 emissions, which were monitored by only 10% of companies). Nowadays the situation has slightly changed: « Result » metrics are being taken into account as well. Measuring the results of supplier assessments is the 2nd most widespread KPI, and is considered more important than the % of suppliers signing the SP Code of Conduct (or specific contract clauses). We might expect this trend to be confirmed in the next years: we have seen that Sustainable Procurement is now considered a valid driver for value creation, therefore top management are expecting measurable results.

Umicore

Umicore used Ecovadis to assess the Sustainability performance of 194 of its suppliers from the regional Procurement centers in Belgium, France, Germany and Brazil. Only 3 companies had a score equal to or below 2, representing a high risk regarding sustainability issues. 31 companies scored, overall, higher than 4, meaning that they have “an appropriate sustainability management system”. A pilot program was launched with low-scoring suppliers to develop an action plan for improvement.

(CSR Report 2012)

1.6 Implementation Challenges

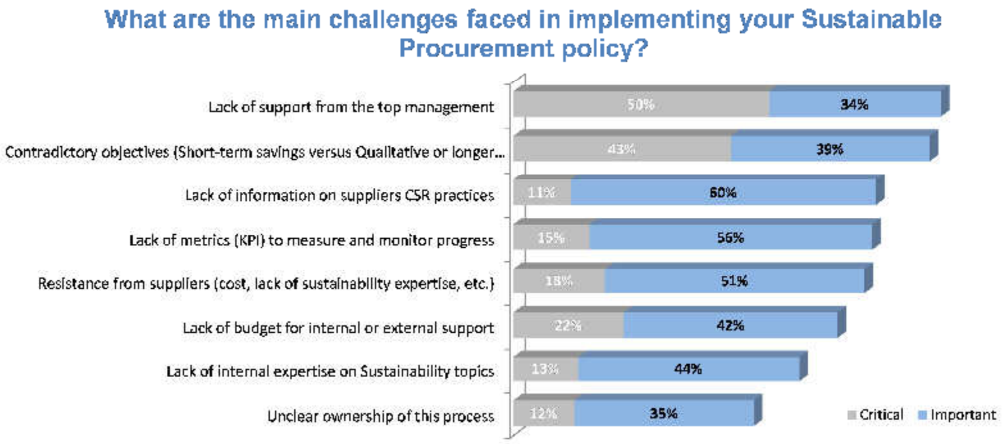


Figure 14: Main challenges faced implementing Sustainable Procurement policy

Significant challenges are still hindering Sustainable Procurement adoption. While external challenges linked to “lack of information on suppliers CSR practices” or “suppliers’ resistance” seem to be less problematic, the internal challenges remain very high. At the core of internal change management issues is the “**lack of support from top management**” and “**contradictory objectives assigned to purchasing managers**” cited by almost 50% of companies. “Contradictory objectives” is a major strategic problem, which indicates the difficulty (faced mainly by buyers) in reconciling the contradictory demands of short-term savings and long-term Sustainability challenges. Despite all improvements made on organizations, tools and expertise, this challenge remains as important as it was in the past (“Contradictory objectives”: 40% in 2007, 43% in 2013).

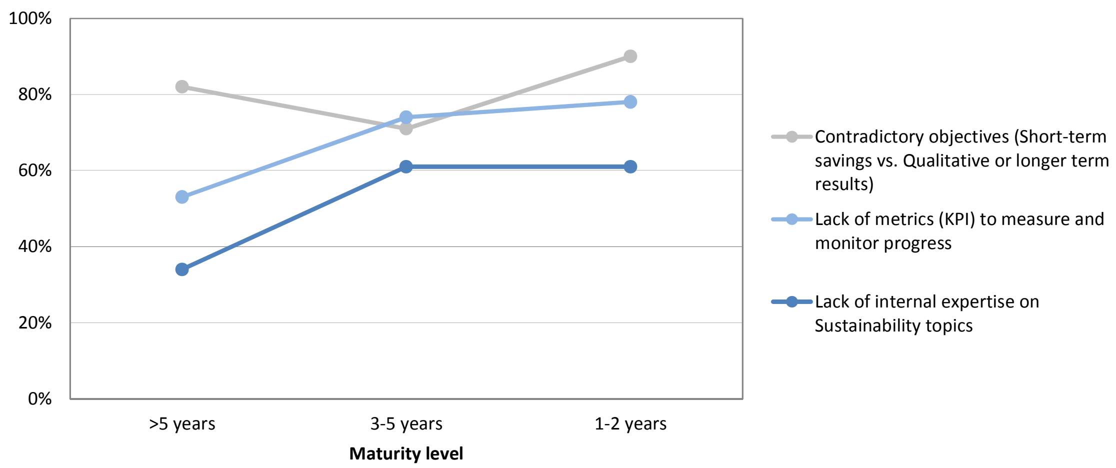


Figure 15: Key challenges vs. Maturity level of Sustainable Procurement implementation

Some additional insights can be gained by analyzing results according to how long organizations have had Sustainable Procurement policies in place.

Unsurprisingly, those companies who have been putting in place a Sustainable Procurement policy for more than 5 years can benefit from more expertise and a wider range of metrics and KPIs. However, the “contradictory objectives” challenge remains unsolved no matter how long a SP policy has been put in place.

Indeed, more and more companies are giving new objectives to buyers on Sustainable Procurement, but these objectives are often conflicting (for example 80% of objectives linked to short-term savings, 20% of objectives linked to long-term CSR objectives).

Instead of having parallel, yet contradictory objectives, a potential way to reduce this contradiction would be to embed CSR into the Total Cost of Ownership (TCO) models – we have seen that very few of such tools have been developed.

Chief Procurement Officer - Lyonnaise des Eaux

A unique opportunity to align economic performance and CSR objectives is to drive open-innovation projects with strategic partners. We for example reengineered an important piping component using TCO model incorporating Sustainability criteria: we were able to meet cost reduction targets (switching from iron-cast to plastic), while relocating production in Europe, reducing CO_2 footprint, and increasing user safety.

Having the right tools to measure the benefits associated to Sustainable Procurement is critical to solve those challenges – Part II of this report will propose a framework and best practices to improve reporting on Sustainable Procurement value creation.

2 Measuring value creation

2.1 Measuring Sustainable Procurement benefits

Driven by the increased awareness for sustainability, finding a way to measure the benefits of sustainability efforts is on top of Procurement officers' agendas. The main benefits that are currently being measured are cost reduction (48%), minimized supplier risk (41%) and environmental benefits (35%).

UN Global Compact 2013

Corporate leaders recognize the growing relevance and urgency of global environmental, social and economic challenges. They see how sustainability issues affect the bottom line and are looking beyond traditional business and financial factors to map out their priorities and strategies.

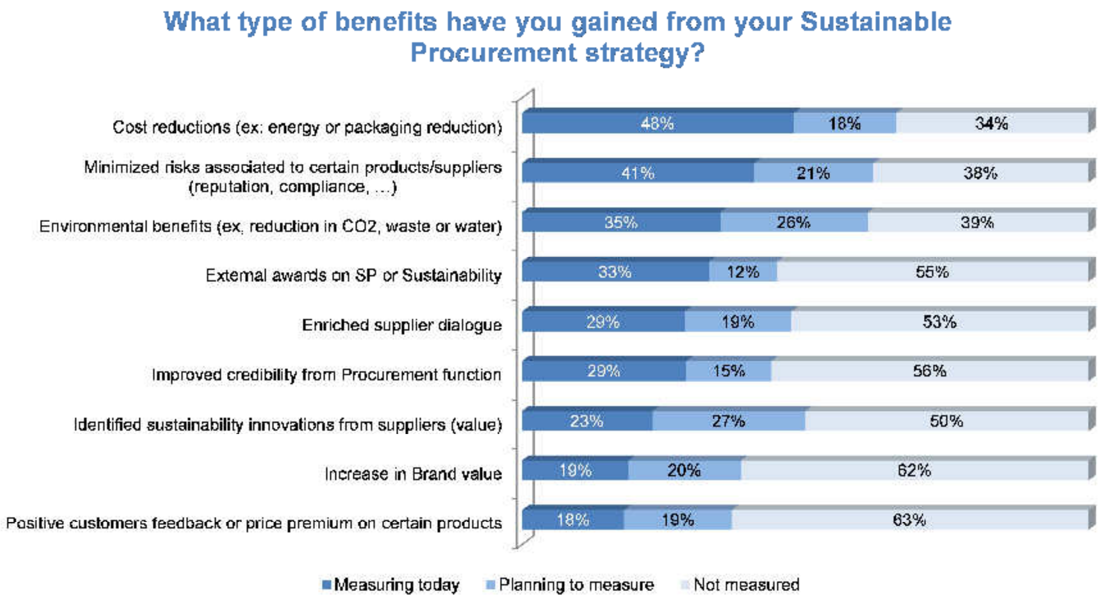


Figure 16: Benefits gained from the Sustainable Procurement strategy

Figure 16 reflects the current measuring practice with a focus on tangible benefits. Bouygues Construction comments that the *"reduction of total costs of ownership is the main expected benefits. It is very demanding to measure all the benefits Sustainable Procurement brings such as improved quality of purchased supplies and subcontractor performance, which in the long run wins clients confidence and thus results in a higher turnover (by winning business) or* *margin (by making savings) and investors' confidence. But it is problematic to put numbers behind the intangible long term benefits, because the links to revenue growth are interlinked with other factors."*

When companies were asked how they quantified the benefits, 30% of the respondents have measured the benefits only on some concrete cases, as displayed in the table below. Most of the approaches are non-systematic, only 16% of the participants have a dashboard to retrace benefits. 25% of the respondents state that they do not measure sustainability benefits because in their company it is seen as a strategic initiative and 45% are still not measuring any benefits at all.

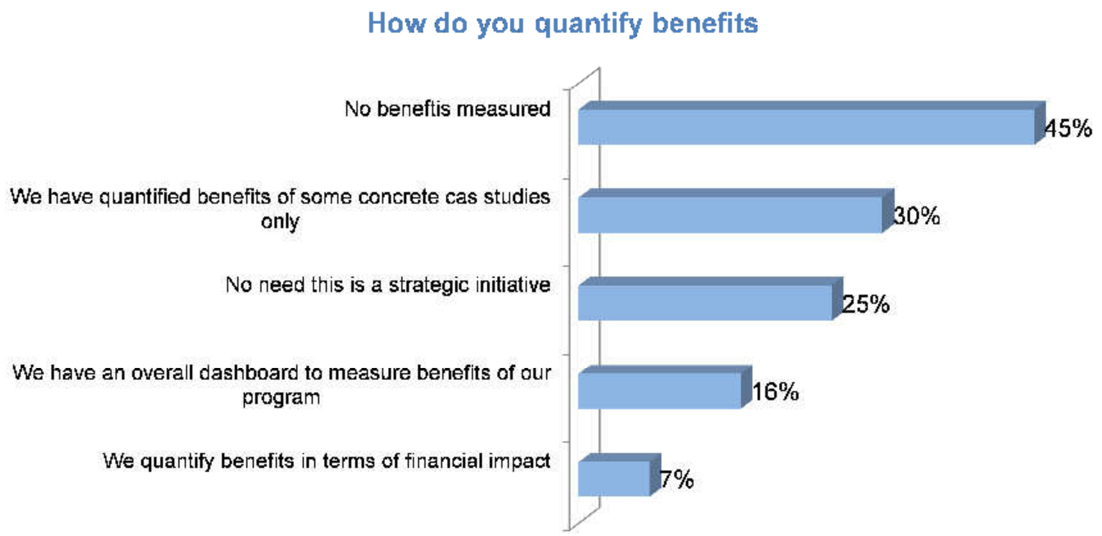


Figure 17: Quantifying benefits

In-depth interviews with CPOs reveal that the relevance for proving the impact is increasing. Olivier Menuet, VP Sustainable Procurement SNCF says: "*Showing the business case has originally been more of a mean than an objective – but it is becoming an objective, because the finance department is revising the results and this gives our project legitimacy*." Rona Starr, responsible for ethical and social responsibility at McDonalds Australia says "*the ability to express sustainability in measurable terms is one of the key leverages to roll out sustainability in a company*." So far 7% of the respondents measure sustainability benefits in monetary terms.

2.2 Aligning sustainability impact with financial drivers

"Responsibility and sustainability efforts are ultimately measured on ability to drive business advantage. Either by driving a stronger corporate reputation (stakeholder support, license to operate, enable growth), increasing efficiencies (reducing cost) or minimizing risk (eliminate disruptions to our business and operating model)." Lego Group, 2013.

Even though there are boundaries in putting a monetary value behind every single sustainability benefit, more companies are seeking to roll out the financial proof. Within this study different Sustainable Procurement success stories have been analyzed and matched with three financial drivers (based on a model by EcoVadis, Insead and PwC (2010) as indicated in the diagram: increasing the return of investment, reducing capital cost and increasing revenue. [1]

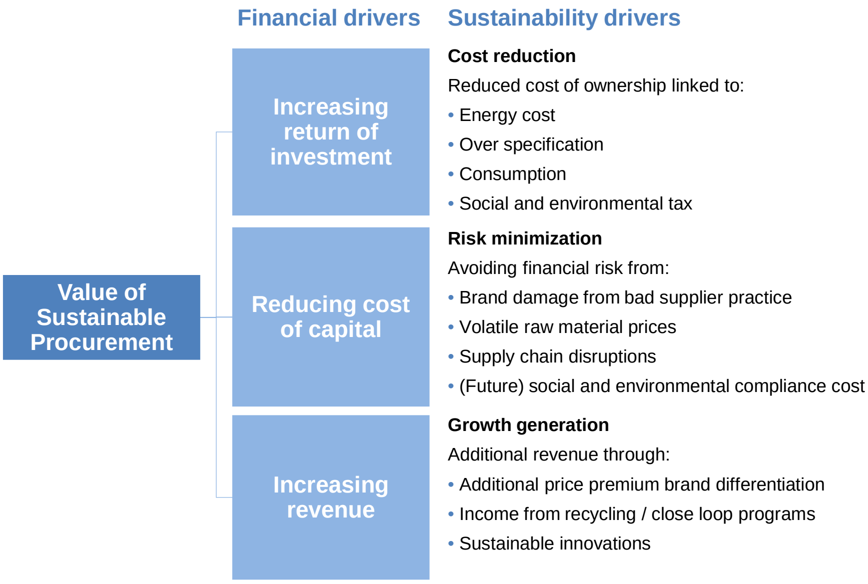


Figure 18: Financial drivers

2.2.1 Increasing return on investment through cost reduction

For companies the most apparent measurement is to evaluate efficiency of operations, which is also reflected in the survey. 48% of the companies already measure **cost reductions**, since most of these benefits can be quantified with existing management tools and companies can easily see the direct bottom line benefits. As Karl-Heinz Ott, purchasing manager of Henkel says "*through*

[1] The Value of Sustainable Procurement Practices, A A quantitative analysis of value drivers associated with Sustainable Procurement Practices, EcoVadis, INSEAD, PwC, (2010), p. 5

targeted collaboration with our suppliers, we aim to help improve the sustainability of the products we purchase." Henkel has an overall corporate goal to triple the efficiency of its business and supply chain by 2030. The techniques on how to reduce cost through Sustainable Procurement are manifold, but can be classified in the three categories. First, companies can reduce internal costs through more efficient operations through purchasing more eco-efficient input factors and technologies. A second way to reduce cost is rework the products specification or redefine the product sourced. Typical examples are new packaging forms or reconfigured logistic and storage solutions. Furthermore costs can be cut by reduced environmental and social compliance tax. Examples are avoiding social taxes (employment of disabled people) as well as eliminating cost for waste and CO_2 emissions.

Table 1: Case examples for the Value Driver "Cost Reductions"

Initiative	Result
Value driver: More efficient technology The BMW Group installed in one plant the "EcoDry" Scrubber from the Dürr AG, a new paint booth system (Winner of the BMW Supplier Innovation Award 2011).[2]	Lime-stone powder is used as a natural binding material, creating a water and chemical free process. The environmentally friendly technology reduces energy by 60%. In addition this saves CO_2 by 50% in the spray booth.[3]
Value driver: Packaging reduction **Lego** reduced its spend in packing material due to overall reduction in quantity of material used.	The "Green Box Initiative" reduced 18% of card board materials and reduced CO_2 impact from packaging by 10%. (2012)
Value driver: Resource efficiency **PepsiCo UK** is investing in tools and techniques to cut the water use and carbon emissions involved in farming potatoes, oats and apples for its products by 50% in five years.	Growers achieved a 7% reduction in carbon output and a 10% drop in water use in the project's first year. Crops required 18% less fertilizer and the company started to roll out a new potato variety, promising 17% more yield with 33% less water. (2012)

[2] www.bmw.com

[3] www.duerr.com

Value driver: Eco-efficient innovation In collaboration with a supplier, **Adidas** introduced a dry dye technique to color its fabric, which eliminates the use of water and cuts energy and chemicals input by 50%.	Within two years after introduction 1 million yards of DryDye fabric we have been able to save 25 million litres of water in the dying process.[4] (2013)
Value driver: Tax reduction **SNCF** solidarity sourcing is providing tax reduction on disabled workers employ.	Solidarity sourcing provided a tax reduction of EUR 2 Mio. (2012)
Value driver: Resource efficiency **Sainsbury** searched for applications with its suppliers to save water in the stores. They installed pre-rinse spray taps, low-flush toilets and rainwater harvesting applications.[5]	Sainsbury reduced water usage by 50% in stores and therefore realized $2.4 Million cost savings through enhanced water efficiency.[6] (2012)

Cost reduction case in practice: Measure sustainability benefits in supplier selection process

A global company manufacturing beauty products and products for personal care, overcame this risk, however, by implementing a whole new approach into their Procurement, the Triple Bottom Line approach. This methodology combines not only one, but three targets:

1. Find competitive business partners based on economic costs
2. Identify suppliers aligned with the company's sustainability pledge
3. Integrate social-environmental externalities in the supplier selection process

Target 2 requires an evaluation of all steps within the value chain of individual purchasing categories and Target 3 implies prioritization of sustainable externalities, and ultimately monetization. In order to be able to holistically evaluate existing supplier options, monetary values had been attributed to

[4] http://blog.adidas-group.com/2013/06/one-million-yards-of-water-saving-drydye-fabric-and-counting/

[5] http://www.j-sainsbury.co.uk/media/latest-stories/2013/20130425-sainsburys-leads-the-way-in-cutting-water-use/

[6] Kiron D. et al. 2013, The innovative Bottom Line, MIT Sloan Management Review and the Boston Consulting Group

social and environmental factors, such as education, workplace safety, social inclusion, CO_2, water and solid waste. As an example, the company quantified the impact of educational support for staff at suppliers. Through fund provision for further education, the Supplier X enabled two employees to complete a higher education and therefore get increased wages. The monetization of Supplier X's proven social responsibility offset the economic benefits of Supplier Y and therefore leads to the selection of Supplier X.

Illustrative

	Economic cost (USD per unit)		Social benefit (R$ per unit)		TBL cost (R$ per unit)
Supplier X	1.6	–	**0.49**	=	**1.11**
Supplier Y	1.3	–	–	=	1.30

Selected supplier

Higher economic cost is offset by social benefits

Source: A.T. Kearney

Figure 19: Sustainability cost offset at supplier selection

This example shows, that – in contract to just measuring benefits on an aggregated level and by project outcome only – the Triple Bottom Line is a holistic approach for individual supplier selections and continuous consideration of sustainability aspects. During the first phase of implementation the company revealed significant savings (e.g. 10% savings in direct spend), improved service levels (e.g. increased suppliers' loyalty by 8%, improved payment terms by 97%) and enhanced sustainability (reduction of CO_2 by 13%, increased education by 33% and enhanced training at suppliers by 6%).

2.2.2 Reducing capital cost through risk minimization

Minimizing sustainability risks includes the management of multiple issues from supply chain scandals, interruptions, regulatory fines, resource scarcity, volatile commodity price and future compliance cost. Managing the diverse risks that arise from sustainability factors has never been more important. Of the surveyed companies 41% already measure the benefits created through Sustainable Procurement risk management.

Uncertainty in the supply of natural resources can force companies to add environmental costs to the costs of doing business. Increasing the quality of technical management of water, energy, waste and creating environmental benefits through greenhouse gas (GHG) management reduces the risk of regulatory fines and environmental risks.

"We need a supplier base that is sustainable, solid and in line with our business principles. This ensures security of supply to support the future growth in New Economies" says Dick Bartelse, BU Director Purchasing Powder of AzkoNobel

DJSI Leader. In China, for example, AzkoNobel prevented supplier locations from being shut down by assessing future environmental specifications. A growing investor community is taking into account CSR rating (provided by agencies such as FTSE 4 GOOD, DJSI, OEKOM) in their investment decisions.

Leading companies measure the lifecycle impact and have different methodologies to rate the environmental effects. A prominent example is the Timberland Green Index, which mirrors the environmental impact against the margin of the product. In most cases the risk minimization measures will positively spill over to the other value drivers. For example, the engagement of suppliers to improve the working conditions will not only reduce the risk of ILO-Norms violations but also has a positive effect on cost and product quality.

Table 2: Case Examples for the Value Driver "Risk Minimization"

Initiative	Result
Value driver: Avoiding environmental scandals The British Petroleum's (BP) oil spill incident in April 2010 contaminated a large area of the marine environment along the Gulf of Mexico, and is the biggest off-shore oil spill in U.S. history.	BP's stock price dropped from $59.5 on the 10. April 2010 to $28.9 by the end of June 2010. Pension funds lost around $39 million.[7] (2010)
Value driver: Implementing strict product guidelines Due to an erroneous assessment of lead content used by Tier-2 Suppliers Mattel had to recall nearly one million toys in the United States (2007)	Mattel spent US $110 million on recall expenses and a communication campaign. In addition the stock value of Mattel dropped 18% between August and December 2007.[8] (2007)
Value driver: Avoiding supply chain scandals In 2006, Retailer Wal-Mart has faced allegations, in addition to its non-conform local working standards, of using child	A Norwegian fund sold €414 million in Wal-Mart. The additional exclusion of Wal-Mart from the Norwegian sovereign fund due to the scandal led to a share drop of 11% between 1 June and mid-July 2006.[9] In

[7] http://nypost.com/2013/04/26/nyc-suing-bp-over-drop-in-stock-price-after-2010-oil-spill/

[8] The Value of Sustainable Procurement Practices, A A quantitative analysis of value drivers associated with Sustainable Procurement Practices, EcoVadis, INSEAD, PwC, (2010), p. 13

[9] ibidem

labor in overseas suppliers.	addition 2-8 per cent of customers had stopped shopping at Wal-Mart as a result of the controversy surrounding the company.[10] (2006)
Value driver: Secure supply **OLAM** buys commodities from 3.5 million smallholder farmers. In Ivory Coast Cashew Nut Project they help 40,000 farmers (10% of the countries cashew nut production) to increase their yields sustainably from 300kg per hectare to 500kg per hectare by 2015, by moving away from fragmented, small-scale production and using higher quality crop, the Bouaké plant. Any bio-waste is used as fuel for the boilers.	4000 jobs were created, giving an uplift to the local economy[11] by using the plant carbon emissions from the cashew processing stage are cut by 80% (by weight), avoiding the transport of shells to India and Vietnam. (2012)
Value driver: Avoid social compliance cost **IMPACTT** is a consultancy specializing in ethical trade. The £880,000 project was supported by eight leading retailers, including Marks & Spencer, Sainsbury's, Tesco and Mothercare. The project involved 66 garment factories in Bangladesh and India employing more than 100,000 workers. A range of innovative training to improve efficiency, quality and working conditions was carried out.	Turnover of workers fell by 65% and absenteeism by almost a third, demonstrating better job satisfaction. At the same time, factory efficiency increased by 30%. On average, workers' monthly income increased by 12.5% – in total £4.8m over a year.[12] (2013)

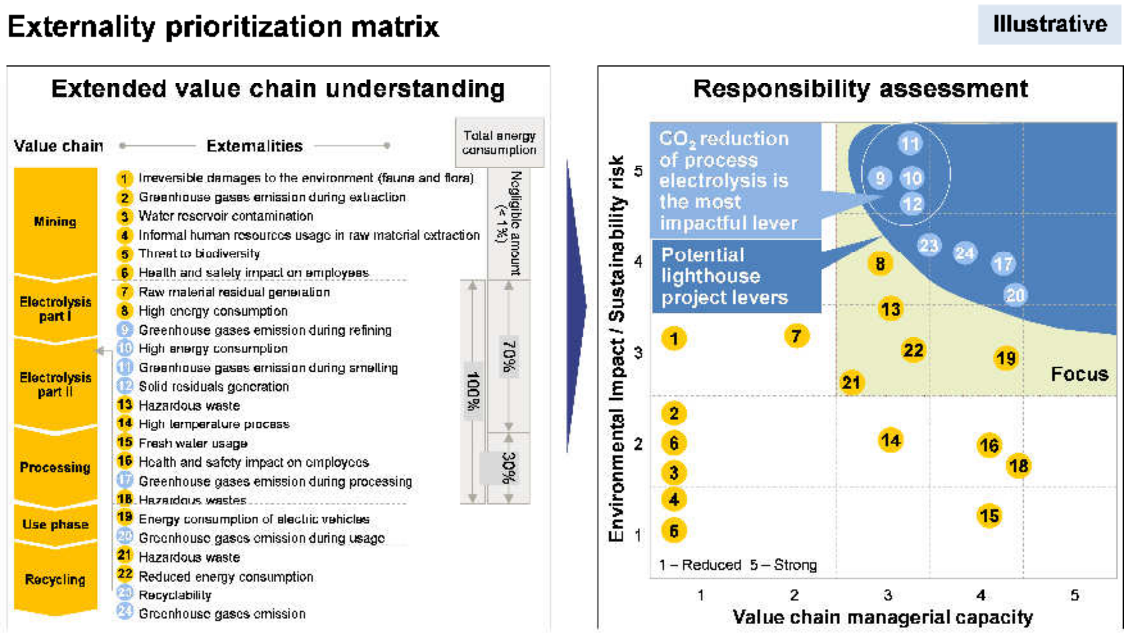
[10]http://www.theguardian.com/business/2008/jun/01/walmart.fcassetmanagementbusiness

[11] http://www.theguardian.com/sustainable-business/olam-ivory-coast-farmers

[12] Fox N., 2013, “Impatt trading up for better working conditions”

Risk reduction case in practice: identifying the most relevant sustainability challenge in the extended value chain

A externality analysis permits companies to find the most relevant sustainability risk in the extended value chain of a specific product. Considering the framework below, economic, environmental and social dimensions along the extended value chain can be analyzed and the responsibility attributed accordingly:



Source: A.T. Kearney

Figure 20: Extended value chain analysis

In the first step for each stage the key externalities along the entire value chain are mapped with their impact, compared and rated. Once the most relevant root causes are identified, the possible mitigation actions are evaluated and benchmarked against each other. In order to assess the externalities and possible innovations for reducing the impact collaboration of the different company functions, is necessary for new solutions and processes.

For example, if the biggest sustainability risk along the above mapped value chain is the CO2 emission of the product during manufacturing, switching the energy source in the most CO2e intensive production stage is the most relevant lever. Alternative energy sources often have an increased capital cost that can be offset in the long run by reduced operating costs, lower recycling costs or a higher willingness to pay. Once an alternative process has been redefined, monetary values are attributed to the externalities in order to evaluate supplier options.

2.2.3 Increasing revenue through growth

The third component of measuring benefits of Sustainable Procurement considers how business and sourcing models can contribute to **revenue growth**. *"Creating value through sustainability is quintessential to the quality of our products. It creates value and represents: Long-term differentiation, New business development, A spur for innovation, Efficiency opportunities, A factor in attracting and retaining the best employees"* Kering (2013).[13] This more indirect bottom line effect requires often a new form of measurement system. In our survey 19% of the respondents measure the increase in brand value and 18% quantify the price premium for the sustainable product. While complying with social, environmental and governance standards evolves into a necessary license to operate, focusing on premium sustainability standards has proven to be a brand differentiator. A recent Nielsen Study revealed that 43% of the global consumers are willing to pay a premium for sustainable products.[14] Pioneers like Ben&Jerrys or the Bodyshop have created an entire identity around their green products and supply chains. The entire product concept of Fairphone, a new start up, is based on sustainability. It has reconfigured the entire value chain from raw material sourcing, assembly, shipping in order to create the first sustainable phone (launch December 2013). By laying over its entire calculation it is fully transparent about component cost and wages.

Most companies are still contained with proactive sustainability communication. Recent developments suggest however that sustainability will be part of the brand communication and will thereby pay into the intangible asset of a company. A growing number of consumers seek sustainable products and are informed about the sustainability efforts of companies.

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[13] www.Kering.com

[14] Nielsen, 2013, Global Sustainability Survey, online survey of 6,224 consumers across Brazil, China, India, Germany, the United Kingdom and the United States conducted in September and October 2012.

Table 3: Case examples for the Value Driver "Revenue growth"

Initiative	Result
Value driver: Brand value **Sam's Club** became the first mass-market retailer in the U.S. to offer Fair Trade Certified bananas in Oct 2007.	By 2011, 1.6 million boxes of Fair Trade Certified bananas have been sold, generating an estimated $1.6 million to fund community development projects in Colombia and Ecuador.[15] (2012)
Value driver: customer retention **Patagonia** takes back worn out products and recycle them it into a new product.	Patagonia has turned 34 tons of recycled clothes into new clothes between 2005 and 2012.[16] (2012)
Value driver: Price positioning **Kraft** Commitment to source 100% sustainable coffee for all European Brands.	The Kenco brand with the Rainforest Alliance Certified seal generated double-digit revenue growth in the U.K. and spurred further product innovation. In Sweden sales of instant and espresso coffee with the Rainforest Alliance seal double for our "away from home" customers. (2012)
Value driver: Brand value **The sustainable diner** purchases regional and seasonal food. All meat is organic and fish MSC certified.	The fish and grill brasseries' 12% increase in turnover shows that making environmentally sound choices can pay dividends. (2012)
Value driver: Secure Supply **CRED** established itself as market leader for fair trade gold. Since 2005 the company exclusively sources from one gold mine, which was sustainably developed, good working conditions implemented and prices guaranteed. CRED uses 40 times less rock to extract the quantity needed for a 4g ring 8at CRED extracted 0.5 tons of rock vs. conventional 18-20 tons of rock.	CRED sold 65% of fair trade gold products in the UK; Sales went up 100% from 2012 to 2014. The fair trade premium of $56.000 was invested in schools and healthcare. (2012)

[15] http://corporate.walmart.com/global-responsibility/environment-sustainability/fair-trade

[16] http://www.patagonia.com/us/common-threads/recycle

Value driver: Sustainable Assortment **Kingfisher** aims to increase sales of 'eco-products', those that are made from materials which have a lower environmental impact or help customers reducing their impact. Ultimately, the goal is to develop closed loop products in collaboration with the suppliers.	In 2012/2013 20% of the products sold had eco credentials generating £2.1 billion sales. In collaboration with suppliers 90 close loop products were launched.[17] (2013)

Revenue growth case in practice: Enhance brand value through sustainability features

All of the above examples above have one aspect in common - all offered products are special designed "sustainable products". A study by A.T. Kearney within the food industry reveals, however those 100% sustainable products are – except for few exceptions – typically priced as high-end niche products and are not to increase their global sales significantly within the upcoming years. Main reasons therefore are price premiums between 100% and 200% over no-brand products, lack of scale and additional mark-ups along the value chain. As an example the global market share of Fair Trade coffee has not increased significantly within the past 20 years, showing an overall market share of 0.9% in 2009 and 1.5% in 2012[18].

What to do, however, if companies still aim to grow with sustainable products? The answer could be not to focus on 100% sustainable products, but to "pimp-up" existing products with sustainability features. The following figure shows, how an existing no-brand flour product can be marked-up with additional sustainable benefits across the value chain and remain more cost-efficient than branded and sustainable products.

The graph below shows that the current price of the no-brand product increases only by 18% and the branded product only by 11% when adding a fair pay to blue collar workers and at farm level and establishing a 100% CO_2-neutral value chain. Even by adding organic features, both product prices remain far below the level of the 100% sustainable product. So simply through improving existing products and changing the procurement of their ingredients companies can overcome the risk of ending up within a market niche by using the production scale of existing products and reaching out for larger customer target groups.

[17] http://www.kingfisher.co.uk/netpositive/files/reports/cr_report_2013/2013_ Net_Positive_Report.pdf

[18] http://www.fmi.org/uploadFiles/16A9E900000001.filename. ThP1-Leading_European-Peters.pdf

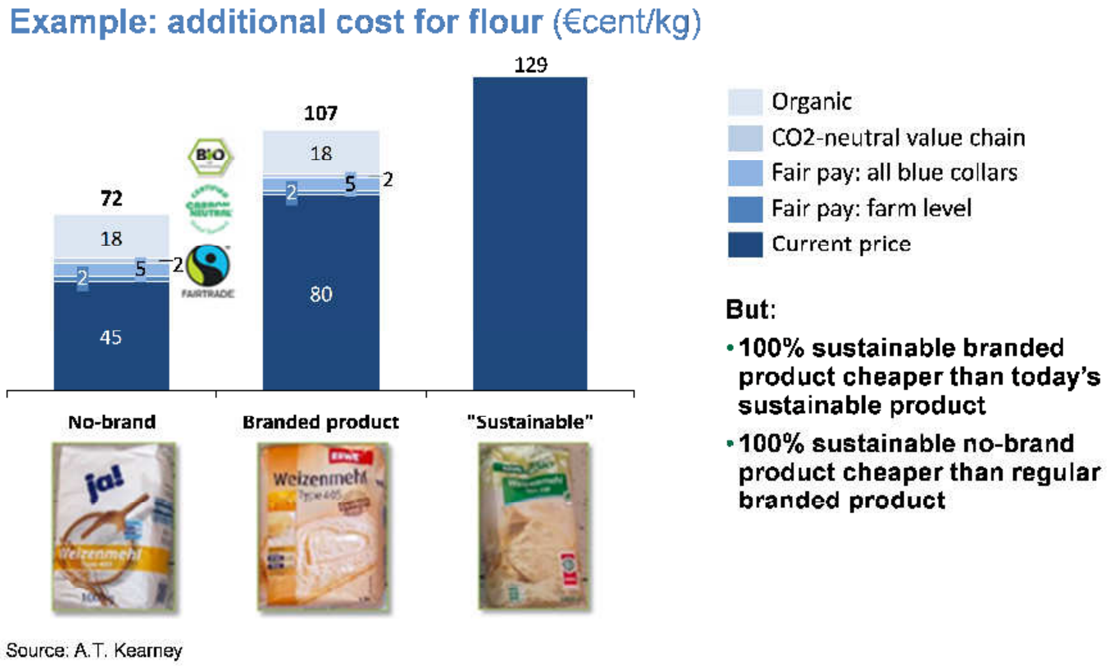

Figure 21: Example of mark-ups for sustainable features within the food industry[19]

As an additional example, during this research, the teams observed the re-launch of a no-branded milk. This time however, the milk got introduced with an additional sustainability feature, namely giving 10 cent of the purchase price directly to the milk farmers, and a slightly more expensive price than its competitive products considering the social mark-up. So even though the price increased, the milk achieved an increase in market share of 60% within the first 3 months of re-launch. This illustrates that Sustainable Procurement practices in this area can lead to significant measurable benefits.

[19] http://www.fmi.org/uploadFiles/16A9E900000001.filename.ThP1-Leading_European-Peters.pdf

2.3 Stages of Exellence in Sustainable Procurement

All the mentioned case examples in this chapter demonstrate that companies have been able to display impressive sustainability business cases. The evaluation of sustainability projects is an important tool for companies, not only to track the results of the activities but also to overall manage sustainability projects in the supply chain. Leading companies, such as Kering with its environmental P&L[20], identify four main purposes for quantifying the aspects of sustainability:

Bringing light to the dark

"We believe that without the facts behind causes and impacts, we would be aiming in the dark and we do know that what we measure is what we get" Gail Klintwoth, Chief Sustainability Officer, Unilever

1. It identifies the right sustainability initiatives in order to find a **strategy** that is aiming at the biggest and **most important sustainability lever**.
2. It gives the businesses an **understanding of the value and nature of their impact** in the supply chain and this information can be used for **managing risk**.
3. It allows the business to be **transparent** about the extent of their impact and thus providing a basis for a progress report **towards the stakeholders**.
4. It provides the company with a better understanding of the supply chain and highlights the **opportunities of new forms of collaboration** with suppliers.[21]

Given the manifold ways of measuring benefits of Sustainable Procurement four main stages of excellences can be defined as illustrated in figure below.

[20] PPR (2012), AN EXPERT REVIEW OF THE ENVIRONMENTAL PROFIT & LOSS ACCOUNT, www.kering.com

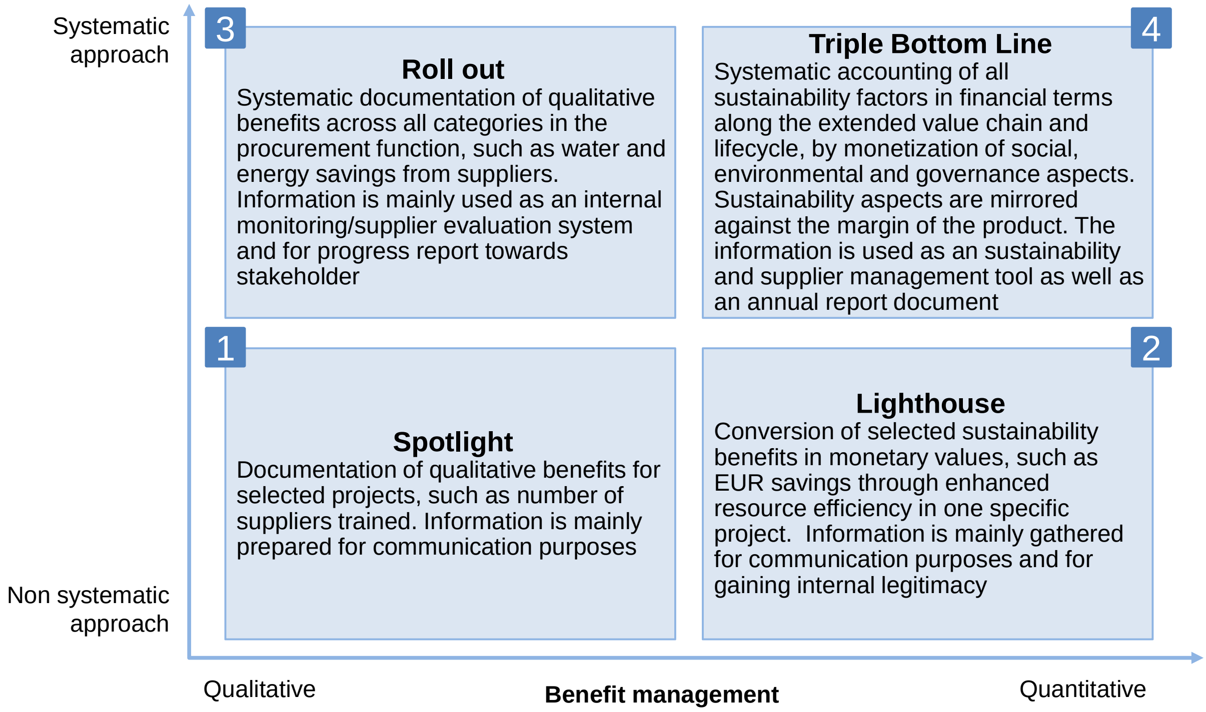

Figure 22: Stages of Excellence for Sustainable Procurement

Most cases show a non-systematic approach focusing yet on selected criteria of sustainability. The majority of the respondents have defined environmental and social KPIs to keep track of the sustainability progress made. Benefits such as cost reduction are for specific products lines often documented. These are good intermediate results, but in the next step the intangible value drivers through risk minimization and revenue growth need to be rolled out. The Lego Group sees the challenge in the "*lack of systematic approach and visibility into the entire value chain*", which they are currently trying to resolve in a supplier's pilot project. Reaching a total Triple Bottom Line sustainability accounting will require significant time and effort. There is a need for standardization of the principles for the approach and a general guideline for businesses (in attunement with new GRI G4 reporting standard) should be set up. This guideline could also help to reach comparability between companies.

Latter target should be a role model for many companies in achieving the highest stage of excellence as and some of our case examples show – it is possible to actually "walk-the-talk" of Sustainable Procurement.

3 Perspectives for transformation

At the beginning of the 21st century Sustainable Procurement emerged as a new discipline in a few visionary companies. After a decade, Sustainable Procurement is definitively installed within the top priorities of Procurement executives; tools, processes and organizations are slowly evolving to reach better level of practices.

Our previous surveys underlined the fact that Sustainable Procurement was a crucial lever to react to the economic crisis (2009) and that a rigorous change management was required to scale up (2011). We identified this year the critical need for "benefits" measurement to demonstrate the value creation of this discipline.

However, major roadblocks still remain, that prevent a widespread adoption of Sustainable Procurement, such as:

The need for internal change management: there is often no common vision with regards to Sustainable Procurement. CSR issues need to be set at the heart of the procurement strategies ("value in" versus "cost out"), not only in line with the procurement department but also with all internal stakeholders.

The lack of maturity amongst suppliers: the levels of CSR performance in the supplier network are very heterogeneous. The support of suppliers in their development requires significant internal resources from the Procurement and/or Quality departments.

The limitations of social compliance auditing: audit reports often only lead to short term improvements and often don't drive lasting changes in suppliers' practices.

The lack of financial accounting of Sustainable Procurement benefits: the value creation of Sustainable Procurement is not taken into account in the company's financial performance.

The issues linked to sub-tier suppliers: there is a lack of visibility thus mitigation of the CSR risks down the extended supply chain.

The data management challenges: sustainability data is complex to handle (e.g. Supply chain carbon footprint).

The incentives of Sustainable Procurement managers: managers are often driven by short term goals (e.g. getting metrics for the annual CSR report) and losing sight of strategic long terms goals.

The isolated work of Sustainable Procurement teams: can lead to a lower ownership and commitment to sustainability challenges and benefits by the rest of the Procurement organization, the internal customers and the top decision makers.

The lack of international standards for Sustainable Procurement or supplier assessment: including environmental, social and governance factors, for the measurement of Sustainable Procurement. A general guideline for businesses (in attunement with new GRI G4 reporting standard) could facilitate to roll out Sustainable Procurement measurements and also help to allow comparability between companies.

We would like to conclude our 2013 survey with a "call for action" to procurement leaders: incremental changes in procurement practices won't be sufficient to address the sustainability challenges facing our world. Sustainable Procurement will be facing an asymptote in its maturity growth unless the above mentioned issues are being resolved.

Possible actions that could facilitate this transformation are:

Taking the risk to collaborate with competitors (e.g. Sustainable Procurement industry initiatives) in order to drive a real transformation of supply chain practices.

Setting up ambitious long-term goals (e.g. Herman Miller "Zero Waste, Zero water" target for 2020), which will require a breakthrough approach in technologies and processes.

Moving from a defensive vision of Sustainable Procurement (risk management, compliance) **to an offensive one** driven by value creation and innovative business models (ex: circular economy).

Going beyond traditional suppliers' social/environmental compliance audits, to focus on continuous improvements and suppliers Sustainability performance monitoring (in a similar way to what happened in Total Quality Management twenty years ago), and develop a common partnership approach.

We hope this message will be heard and taken into account by ***new Leaders*** who have the vision, the courage and the intelligence to imagine the world as it should be (Transformation approach) rather than how it can be incrementally improved (Change Management approach).

We are looking forward to our 2015 survey, when we will measure how this call for action is actually being implemented. We remain optimistic and confident that the Procurement function will seize this opportunity: **the future is in our hands!**

Appendix

Sample description

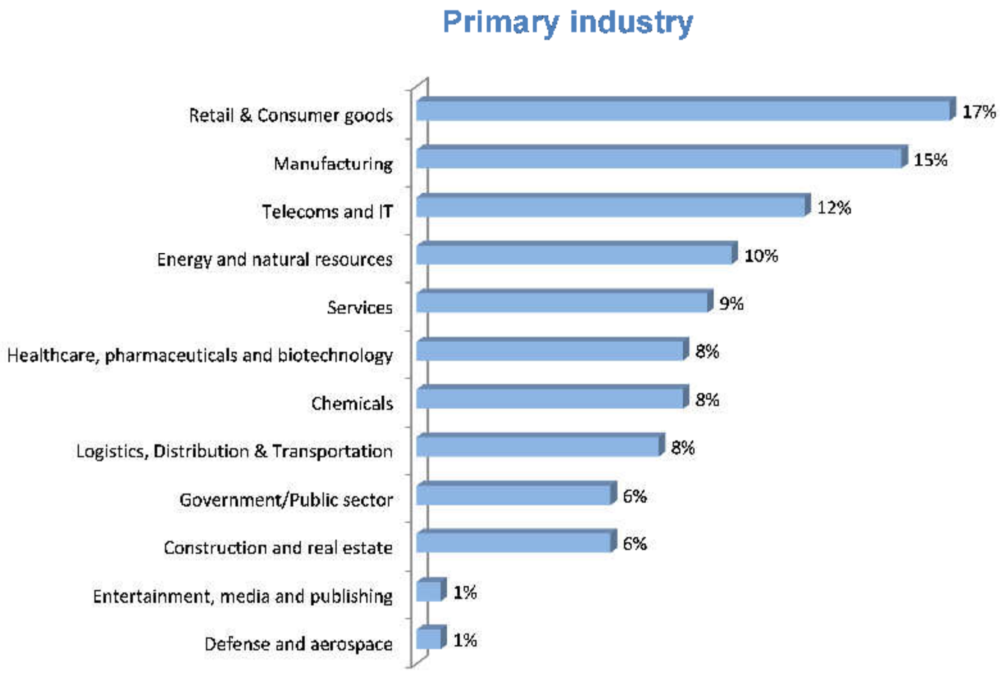

Figure 23: Primary Industry

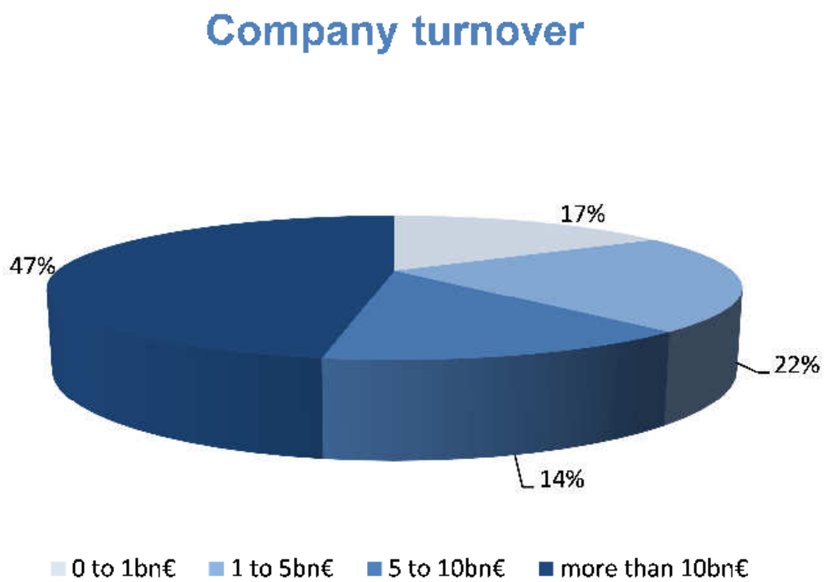

Figure 24: Company turnover

133 participants from **24 countries** located in all continents took part in the survey. The sample is mainly composed of multinationals operating worldwide (40% of which declares a yearly turnover of more than 10 billion euros). 80% of the companies are based in Europe. In terms of industry sectors, 56% operate in B2B markets and 44% in B2C ones, retailers and manufacturers being the most represented category.

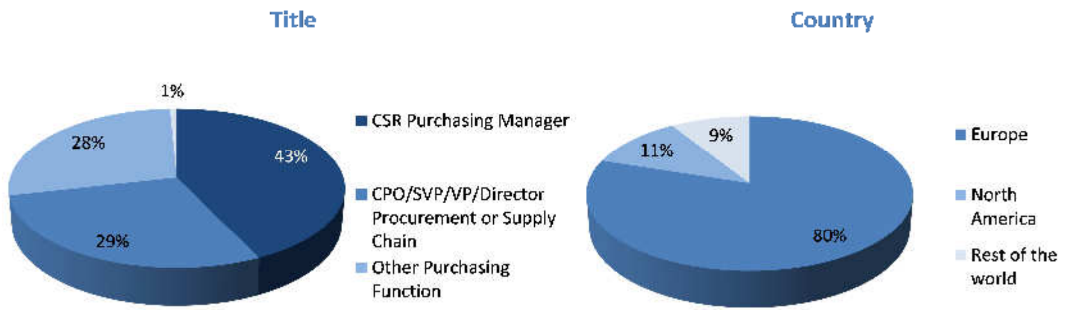

Figure 25: Overview of participants

Leveraging 11 years of benchmark reports on **Sustainable Procurement**

2003 (France)	2005 (France)	2007 (Europe)	2009 (Europe)	2011 (Europe)
"Procurement and Sustainable Development - Issues, Practices, methodologies" O. BRUEL	"Procurement and Sustainable Development - Practices Benchmarking" O. BRUEL / O. MENUET	"2007-2008, Sustainable Procurement is growing up" O. BRUEL / O. MENUET / PF. THALER	"Sustainable Procurement: a crucial lever to end the crisis?" O. BRUEL / O. MENUET / PF. THALER	"Sustainable Procurement: Back to management!" O. BRUEL / O. MENUET / PF. THALER

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About EcoVadis: EcoVadis strives to improve environmental and social practices of companies by leveraging the influence of global supply chains. EcoVadis operates the 1st online collaborative network enabling companies to monitor the Sustainability performance of their suppliers, across 150 sectors and 95 countries. EcoVadis reliable ratings and easy to use monitoring tools allow companies to manage risks and drive eco-innovations in their global supply chains.

This study is sponsored by SNCF: SNCF is a premier glo-bal mobility and logistics group with expected annual revenues of 30 billion in 2010 and almost 235,000 employees in 120 countries. Our mission is to achieve greater mobility, respect and solidarity by making eco-mobility the driving force behind sustained growth and client preference, both in passenger and freight transport. The Group is made up of 5 main divisions: managing, operating, maintaining and engineering railway infrastructures (SNCF Infra), local urban, commuter and regional passenger (SNCF Proximités), long distance and high speed passenger rail transport (SNCF Voyages), freight transport and logistics (SNCF Geodis) and train station management and development (Gares & Connexions).

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