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MARKET STUDY TO NET ZERO

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TOWARDS NET ZERO

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In light of the increasingly pressing climate crisis, in this paper we provide insights on the imperative for procurement to address net-zero. Through a market study, we delved into net-zero motivations, challenges, and best practices. The study indicates that while sustainability is a priority for procurement, many companies have not set clear net-zero targets, underscoring the need for stronger action. It's evident that procurement plays a vital role in driving companies towards sustainability, emphasizing the urgency to **act now.**

WHY DO WE NEED TO ACT NOW?

In the world of today, businesses are facing many challenges such as ramifications of the pandemic, the Ukraine war, and high inflation rates (IMF, 2023). While such crises are keeping the world on tenterhooks, prioritizing the climate crisis is of even greater importance. Emissions of carbon and other greenhouse gases are causing our planet to warm, resulting in melting icecaps, rising sea levels, and severe weather events. Choosing to overlook safeguarding our planet will affect everyone's ability to thrive here, and this, in turn, will significantly affect the business landscape.

In the Paris Climate Agreement, 196 countries pledged to limit global warming to an increase of at most 1.5°C by the end of this century, underscoring the importance of reducing carbon emissions. The scientific consensus is that not only governments, but also heavily emitting companies must now act to even come close to achieving this goal (UNFCCC). Furthermore, a shift in society is becoming evident, with consumers placing a growing importance on sustainable products. More and more are paying attention to how companies address sustainability, not only when buying their products but also when choosing their employer (Am, J.B. et al., 2023).

In reaction to the Paris Climate Agreement and the changing societal attitude, legislators across many countries are raising the standards for businesses regarding their sustainability efforts. When we analyze a business' impact on our planet, it becomes clear that solely focusing on the company's operations is not enough to truly address the issue. The high demand for products comes largely from wealthy countries, where more stringent regulations are in place already. However, companies are sourcing substantial portions of their materials and products from countries with unregulated environmental rules. To give more weight to a company's supply chain, regulators are enacting measures such as the German Supply Chain Due Diligence Act (CSR - Supply Chain Act) and the European Corporate Sustainability Due Diligence (Corporate sustainability due diligence).

Thus, when assessing a company's carbon footprint, it is essential to hold the company accountable for its entire supply chain (or even its entire value chain). This is crucial because the carbon impact originating from the supply chain ranges from 70% to 90% referred to as **scope 3 emissions**¹. (Carbon Trust, 2023). This underscores the pivotal role of procurement in shaping the path toward a sustainable business environment. Expanding the skillsets required by procurement experts, who are already managing multiple objectives (Stek, Schiele, 2021).

¹ Scope 3 includes indirect greenhouse gas emissions that occur in a company's value chain.

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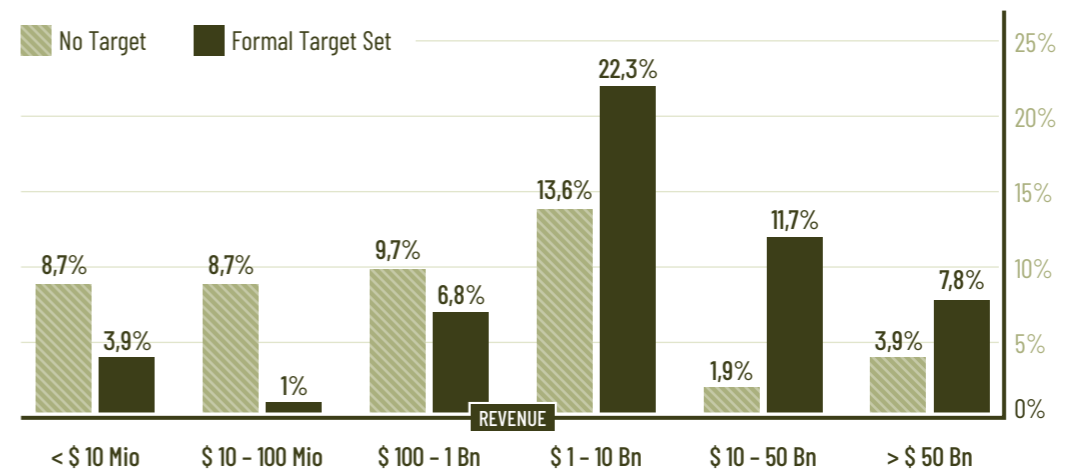
RESEARCH: MARKET STUDY TO NET ZERO

As companies start their net-zero journey, they typically find that their efforts to reduce emissions become more challenging when addressing carbon reduction within their supply chain. To gain insights on the challenges and best practices, Valuedesk and Sourcing Champions conducted a market study in Q2 2023. A survey-based approach was employed to evaluate companies' progress in their net carbon trajectory, focusing on procurement experts. The survey received 103 responses. For further details regarding the market study, including information on company sizes and industries, please refer to the Appendix.

BEST PRACTICE FROM COMPANIES EMBRACING NET-ZERO JOURNEYS AND THEIR CHALLENGES

Our market study revealed that 93% of procurement professionals affirmed that sustainability is a top priority. Furthermore, companies rated their net-zero performance above average. These findings indicate that companies generally recognize the significance of reducing their carbon footprint and some have taken initial steps to address it. Nonetheless, the study also reveals that only 50% of the companies had explicitly established a net-zero target encompassing Scope 3 emissions. This suggests that while companies realize the urgency and potentially have started taking initial steps, they haven't fully structured strategies for these endeavours. The findings also indicate a discrepancy in companies' perceptions of their net-zero performance. While they rate their performance above average, many are yet to start their journey towards net-zero. Another insight indicates an inclination among **large companies**² to adopt a net-zero target, as seen in Graph 1. This trend might be attributed due to higher influence of regulatory requirements (e.g., Due Diligence Acts), heightened stakeholder expectations, or increased market demand.

² Companies with revenue above \$ 1 Bn.

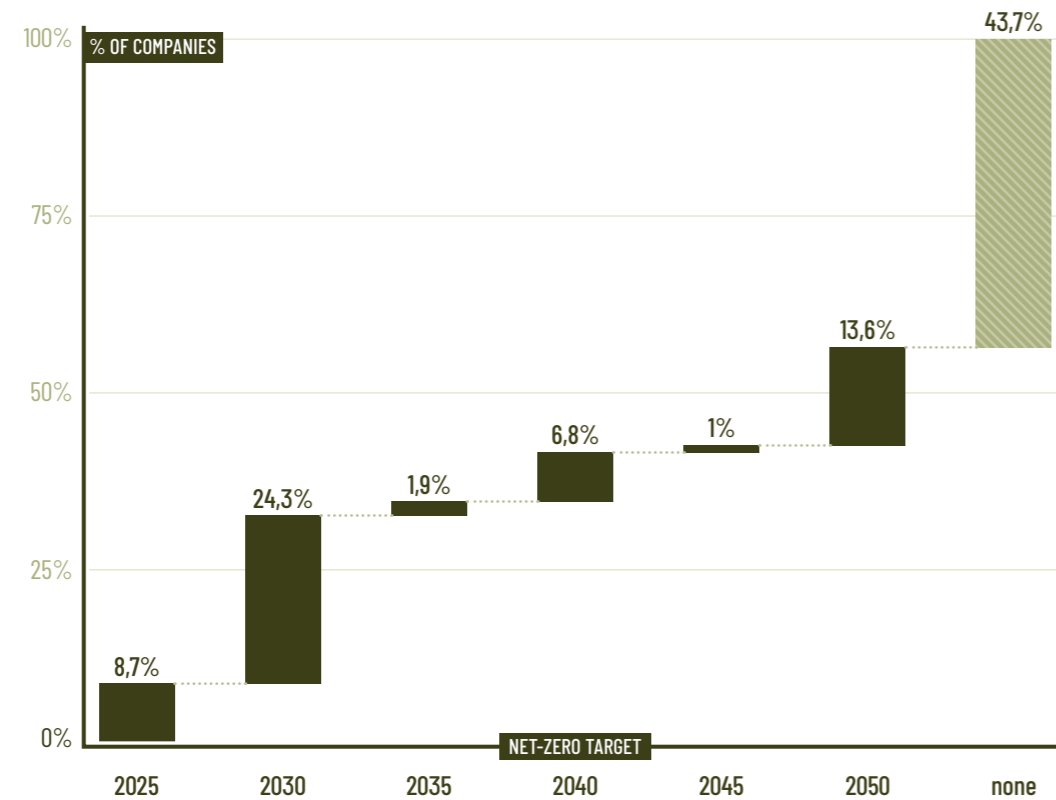


Graph 1: Net-zero target adoption by company sizes in terms of revenue. We see that the share of companies who have a target tends to be greater for bigger companies.

In order to gain deeper insights into companies that have set net-zero targets, we looked into specific timelines for achieving these targets. Surprisingly, a significant portion of companies aimed for the year 2030 as seen in Graph 2. Achieving full net-zero status by 2030 represents an ambitious objective. Companies that aim for such an aggressive goal (or even more aggressive with 2025) are also taking a leadership role in driving towards a more **sustainable future**³. Fulfilling these commitments is crucial for companies with set targets, as it helps prevent potential reputation damage. Hence, words must be followed by action.

³ It is worth noting that the industry these companies belong to will continue to significantly influence the level of ambition for these targets. For instance, achieving a Scope 3 net-zero target for a service-oriented company might be comparatively more attainable than for a company in the automotive industry.

As part of our market research, we wanted to understand why numerous companies still lack a net-zero target despite the growing urgency. To comprehend this matter more thoroughly, we examined the challenges that contribute to the slow progress in companies' net-zero journeys. For that, we conducted a comparison of the perceived challenges between companies with established net-zero targets and those without such targets (illustrated in Graph 3). The findings demonstrate that the absence of a net-zero target amplified perceived challenges. Companies without an established target perceive more pronounced challenges in setting ambitious reduction targets, lack of stakeholder engagement and limited awareness among stakeholders. This is evident from the larger gaps observed in Graph 3.

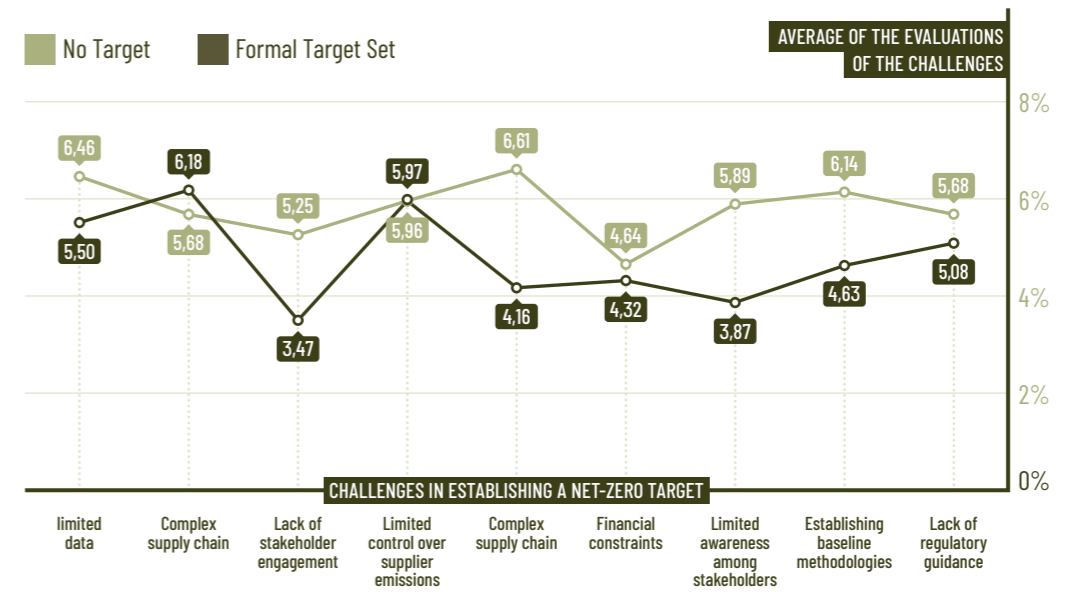


Graph 2: Percentage of companies that have set themselves a certain net-zero target. A majority of companies have not yet set a goal, and most companies that have a goal have set it for 2030.

Considering the challenges perceived by companies (both with and without set target), they view limited data, complex supply chains and limited control over supplier emissions as noteworthy obstacles. This finding aligns with the observations of Vimal et al. (2022), who recognized challenges with regards to limited data and a knowledge gap among suppliers. The assumption is that companies may find themselves in a state of paralysis, due to a

lack of necessary data and experience. This consequently renders them unable to advance towards their net-zero goals. Over the 2023 edition of the Procurement Climate Council hosted by Sourcing Champions & Valuedesk, discussions with sustainable procurement experts made it clear that companies must just start. Companies that want to take a leading position in net-zero need to act now, despite incomplete data visibility.

This consequently renders them unable to advance towards their net-zero goals. In discussions with sustainable procurement experts, it became clear that companies however need to act now despite limited data. Companies that initiate their net zero journey by prioritizing carbon reduction strategies in procurement and across the entire organization, even when complete data visibility is lacking, will be at the forefront.



Graph 3: Average of the evaluation of the biggest challenges. Companies that already have a net-zero target evaluate the challenges to be smaller on average.

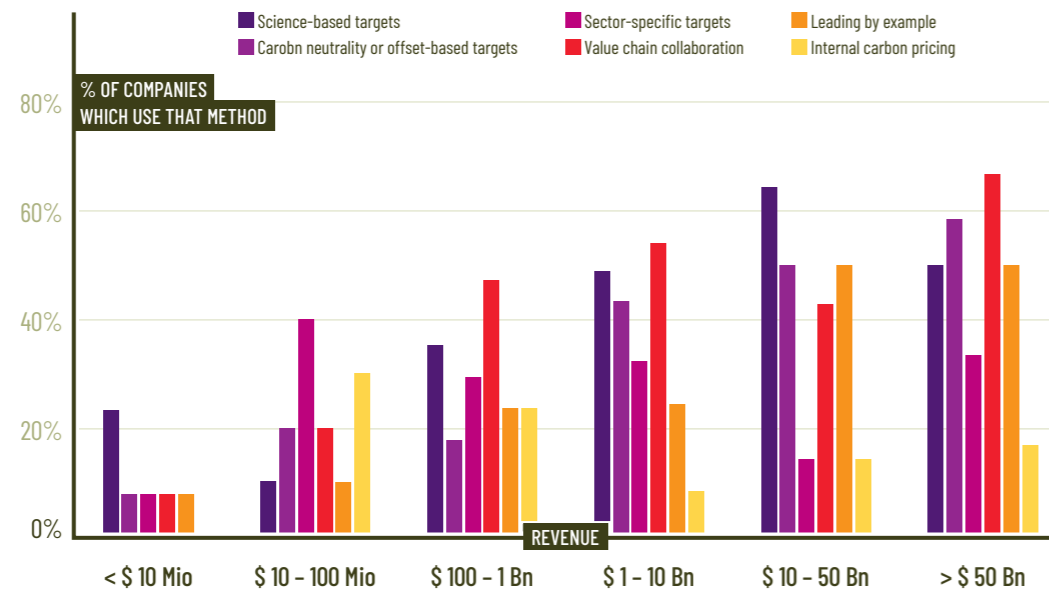
Another discovery reveals that companies self-assessed as excelling in Net Zero Performance seem to have better control over stakeholder engagement, stakeholder awareness and financial factors. This leads us to the conclusion that focusing on these aspects constitutes key actions for enhancing net zero progress. Furthermore, the study revealed that smaller companies might require additional support as they encounter difficulties in establishing and achieving targets, due to a lack of resources.

METHODS, TOOLS AND MOTIVATION FOR ACHIEVING NET ZERO

The market study then shifts its focus to methods and tools companies employ to determine their carbon baseline, and subsequently, establish targets. Establishing a **carbon baseline**⁴ and developing a net-zero target is new and often uncharted territory for many companies. The first finding demonstrates larger companies tend to use more diverse methods to establish their targets as seen in Graph 4, where **smaller companies**⁵ rarely use these methods. This difference can be attributed to the greater resources, expertise, and personnel available to larger companies allowing them to use more sophisticated approaches.

⁴ The carbon baseline, including Scope 3 emissions, measures a company's complete carbon footprint accounting for purchased goods.

⁵ Companies with revenue smaller than \$ 10 Mio.

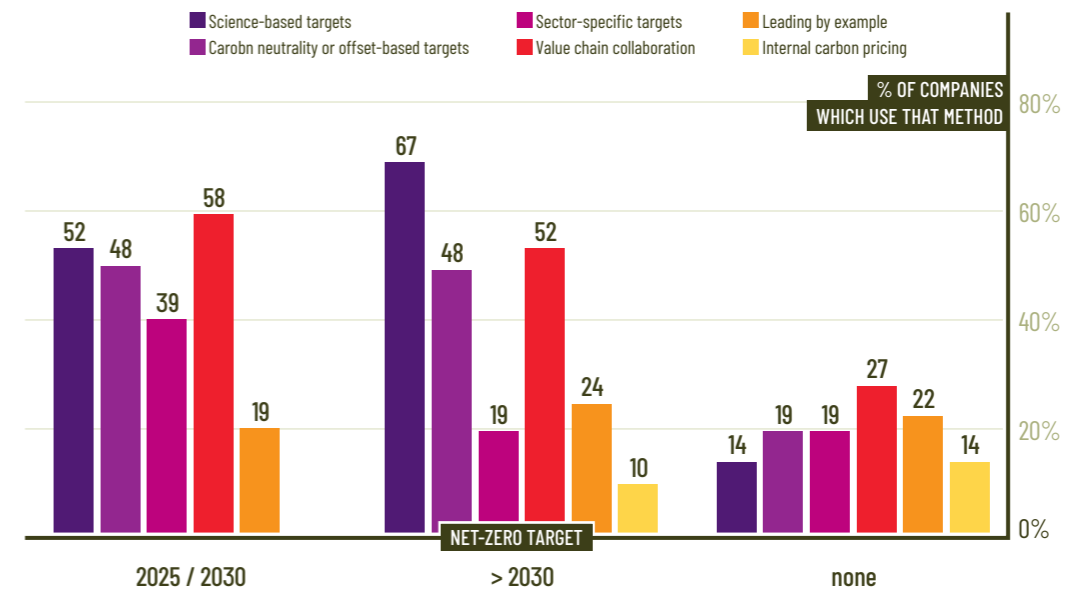


Graph 4: Usage of different target setting methods by company size in terms of revenue. Bigger companies tend to use more often multiple methods.

Graph 5 illustrates the methods employed to establish net-zero targets categorized by their target timeline. The respondents were able to choose multiple methods, and the data reveals that Science-based Targets initiative (SBTi) and Value Chain Collaboration are the most commonly employed among companies that have already established net-zero targets. Notably, SBTi are more often employed by companies with longer-term targets extending beyond 2030. The SBTi framework provides a comprehensive approach for setting emission reduction targets. Companies employing SBTi's are usually strongly committed to achieving substantial carbon reductions, as their targets are based on a proven methodology. In addition to methods, the study also delved into the data sources companies utilize to establish a carbon baseline. It became evident that larger companies tend to utilize a broader range

of data sources. Unsurprisingly, **internal procurement data**⁶ is widely applied by nearly 70% of the companies, followed second by supplier data. Third-party data providers are not used as much by smaller companies but have a higher adoption rate in larger companies.

⁶ Internal procurement data: spend, volume, etc. can also be used to establish an initial carbon baseline.

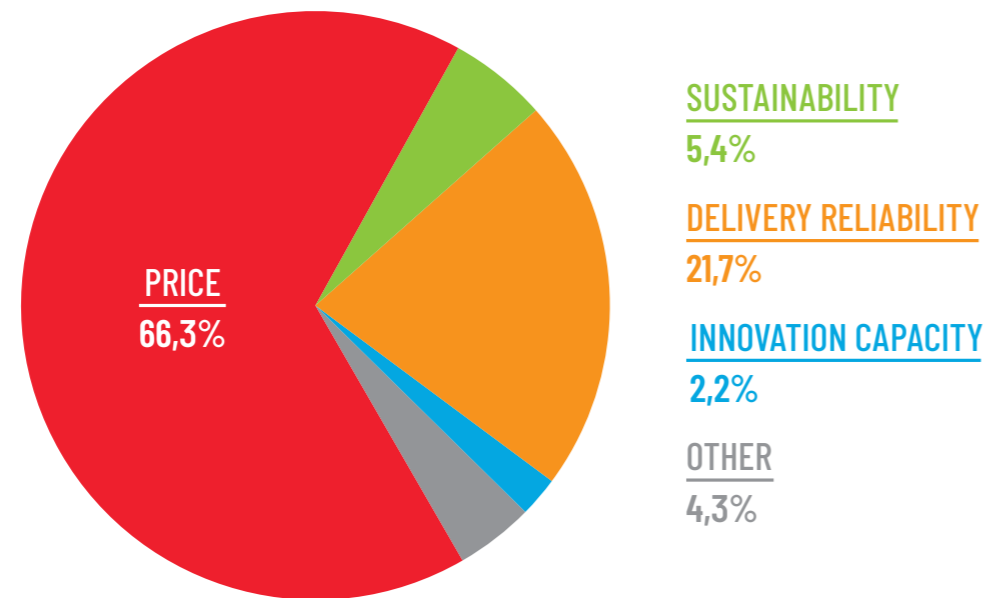


Graph 5: Target setting methods used by the set net-zero target. Companies which have already set a target are using these methods more often. Also, Science-based Targets are used most often especially for companies who have a more long-term goal (beyond 2030).

Another aspect being sought was the motivation behind companies' aspiration and key drivers in becoming net-zero. Is the motivation truly rooted in the greater good, or are factors driven by possibly monetary consideration playing a role in this such as compliance, stakeholder pressure or brand reputation? The data shows that companies committing to net-zero do not do it for a single reason but a mix of diverse motivations. The most prominent being brand reputation, attractiveness as an employer, as well as willingness to reduce the operation's own carbon footprint as an intrinsic motive.

COMPANIES' MAIN PRIORITIES COMPARED TO SUSTAINABILITY

Most companies are prioritizing price and delivery reliability as the key criteria when selecting a supplier. Sustainability comes next in line after these criteria. Notably, larger companies have taken measures in recent times, and when looking at their priorities, the importance of price decreases - although it remains a top concern.



Graph 6: Distribution of companies by their top priority when using suppliers. The vast majority have price as their top priority followed by delivery reliability.

KEY FINDINGS FROM THE MARKET STUDY

The market study concludes that companies have initiated their net-zero journey, yet there is considerable effort to undertake by procurement for true impact. The first step involves setting an ambitious net-zero target. To ensure a feasible net-zero goal, it is imperative to establish a baseline that accounts for the growth of the company. Given the challenge of limited data availability, we recommend getting started with internal procurement data. The baseline can be gradually improved over time with more accurate data. The crucial aspect is to get started as time is ticking.

IN CONCLUSION, BASED ON THE MARKET STUDY'S FINDINGS

- Almost all companies prioritize sustainability, but nearly half lack a target.
- A significant number of companies have yet to commit to achieving net-zero emissions within a specific timeframe.
- Stakeholder involvement is the key to success.
- Large companies make use of the entire instrumentation, while smaller companies use only some methods.
- Price is still by far the most important criterion for procurement professionals.

RECOMMENDATION: A ROADMAP TO PROMOTE SUSTAINABLE PROCUREMENT STRATEGIES

Companies find themselves in a difficult spot. Market conditions are demanding, and while the drive to be competitive persists, the urgency of sustainability efforts cannot be overlooked. Thus, it becomes critical for companies to adopt a holistic approach on net-zero strategies and sustainable procurement. This will help companies to make informed decisions. This section aims to provide an overview of this approach, which can be categorized into three groups: The first three pillars establish the target and the policies, while pillars #4-#6 facilitate the identification of the most efficient way to reach the target. The final pillars include execution and governance.

PILLAR #01 VISION

Everything starts with an ambitious and strong vision for sustainable procurement. Humans are emotional beings and compelling visions have always served as the cornerstone for rallying many people to collaborate towards a common goal. A vision formulated by management and embraced by the workforce to achieve the net-zero target sets the basis for all further actions. Furthermore, this vision plays a pivotal role in defining short and long-term goals and guiding the decisions making along the way.

PILLAR #02 THE CARBON GLIDEPATH

A carbon glidepath defines the trajectory from the established baseline to zero emissions. It constitutes the long-term goal derived from the overarching vision. The Carbon Glidepath serves as the framework for setting annual targets that align with the company's growth forecast for each year. These targets can then cascade down from procurement organizations to sub-category level. The targets allocated to sub-categories can then be adapted based on their potential benefits. This approach ensures that targets are established to maximize benefits while minimizing the costs.

PILLAR #03 POLICIES

The next step involves building a foundation that transforms these targets into actionable measures. To ensure that carbon reduction initiatives are harmonized with other business objectives, the organization requires policies. To achieve ambitious net-zero goals, fast decisions need to be made across the organization. Policies are your guiding principles to maintain control and direction.

PILLAR #04 ACTION AREAS / LEVER STRATEGY

In this pillar, strategies are formulated through our Action Area / Lever framework. This framework aids in identifying action areas within companies for the greatest potential for carbon reduction. The identified levers serve in setting a clear strategy to reach the target while adhering to the policies.

PILLAR #05 POTENTIAL MEASURE IDENTIFICATION

To meet the annual carbon reduction goal, it is necessary to identify sufficient potential without violating policies or overstressing the organization's resources. Considering that not all measures will be effectively implemented, it is recommended to identify a surplus of potential measures. A methodology to uncover new measures is required, which leads us to conducting Measures Workshop.

PILLAR #06 MEASURE QUALIFICATION

Now, the identified opportunities need to be qualified. This involves assessing the anticipated potential impacts (carbon, financial, and other effects), as well as the required implementation efforts. Measures non-conform with policies can be excluded immediately.

PILLAR #07 PRIORITIZATION AND PLANNING

With a pool of qualified measures at hand, the crucial task is to select the right ones for implementation. The goal is to implement the most optimal array of measures, resulting in achieving the annual target at the lowest cost and according to available resources. Regularly reviewing the prioritization is necessary to proactively make necessary adjustments.

PILLAR #08 IMPLEMENTATION AND PILLAR #9 REPORTING

To implement the measures successfully, it is crucial to assign an owner to each measure. The best way to ensure adoption is by establishing a Performance Management Office. An essential responsibility of the Performance Management Office is to provide continuous updates on the program. As such, reporting is the final pillar of our holistic program.

CONCLUSION

Companies, and with that especially their procurement organizations, have net-zero on their agenda. However, due the predominant importance of costs and the influence of various external factors on businesses, the achievement of successful net-zero implementations is being impeded. This paper highlights the importance of net-zero focus and acting now. Hence, we explored ways to formulate an optimal approach for harmonizing cost considerations (and other short-term impacts like assurance of supply) with net-zero objectives. It is important to acknowledge that other sustainability objectives are significant; nonetheless, our research and market study specifically concentrated on achieving net-zero objectives. Our research demonstrates that implementing a net-zero target significantly contributes to a company's progress in becoming net-zero. Therefore, companies need to start establishing an ambitious vision that acts as a catalyst for motivation and action. It does not matter if the data is perfect yet, what truly matters is to get started. Over time, the data can be improved by incorporating actual supplier data.

Only if annual targets linked to the company's and procurement's key net-zero objectives are in place, net-zero considerations will truly impact procurement decisions (Hess, 2019). Therefore, our approach includes setting up a Carbon Glidepath that plans the annual targets per procurement category while allocating higher targets to categories with a greater impact. Subsequently, procurement category managers will integrate net-zero measures into their category strategy.

As price focus is still top priority, a good way to address this is by focusing on measures that are beneficial for price and net-zero (or without monetary implications). By adopting this approach, companies can embark on their net-zero journey while considering the current challenges and maintaining emphasis on cost considerations.

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APPENDIX: METHODOLOGY

The questionnaire to collect data was divided in the following four sections: background information, company's sustainability targets, Scope 3 emission targets, and next level sustainable procurement practices.

The first section aimed at collecting detailed description of the sample. Participants were asked about their position in the company, the company's location, the industry in which it operates in, its size (in terms of revenue, spend, total number of employees and number of employees in the procurement organization) and, the existing roles in the procurement organisation. Participants were asked to rate their perception of overall success and net-zero success, where 0 reflects "below average" and 10 reflects "leader".

The second section aimed at studying the level of pressure from the management on the procurement department to act regarding achieving the net-zero emissions target. Participants were asked to rate the extent to which sustainability is considered a priority by the management of the company on a five-point scale (1 which stands for not a priority, to 5 which translates into very high priority). It was asked whether there is a net-zero Scope 3 emission target and if so, its timeline. Participants were inquired about the methods and methodology used to achieve these targets.

The third section focused on the data sources use to establish the GHG baseline and highlighted the key challenges of adopting net-zero targets for Scope 3 emissions. Respondents chose up to 3 key challenges faced by their organization related to data availability, complexity of supply chain structures, stakeholder engagement, control over supplier emissions, setting ambitious yet achievable targets, financial constraints, awareness among stakeholders, the establishing reliable accounting methodologies, and regulatory guidance.

Section 4 focused on the adoption of next level sustainable procurement. Participants were asked to rate the effectiveness of engagement with suppliers to reduce emission across the value chain (1 which translates into no engagement, to 6 which means highly engaged). The survey considered the criterium for supplier selection with low-carbon or zero-carbon solutions, by asking participants to rank five aspects: price competitiveness, sustainability performance, innovation capacity, delivery reliability or other. The last question assesses the anticipated impact from determining net-zero emissions targets (1 which translates into no impact, to 6 which means very high impact).

The total number of collected answers was 103, making it an illustrative dataset from which it is possible to draw insightful conclusions. The sample is comprised of procurement experts: 29% procurement managers, 19% CPOs, 17% category managers, 11% buyers and 6% procurement process managers. It features mainly mid-to-large sized companies. The observations are distributed among different industries, having strong participation from the manufacturing sector (27%) and notable involvement from the automotive industry (11%). These industries are recognized for their extensive and diverse supply chains, which often contribute to significant Scope 3 emissions. The survey presents a well-rounded representation of industries that face unique sustainability challenges and opportunities.

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