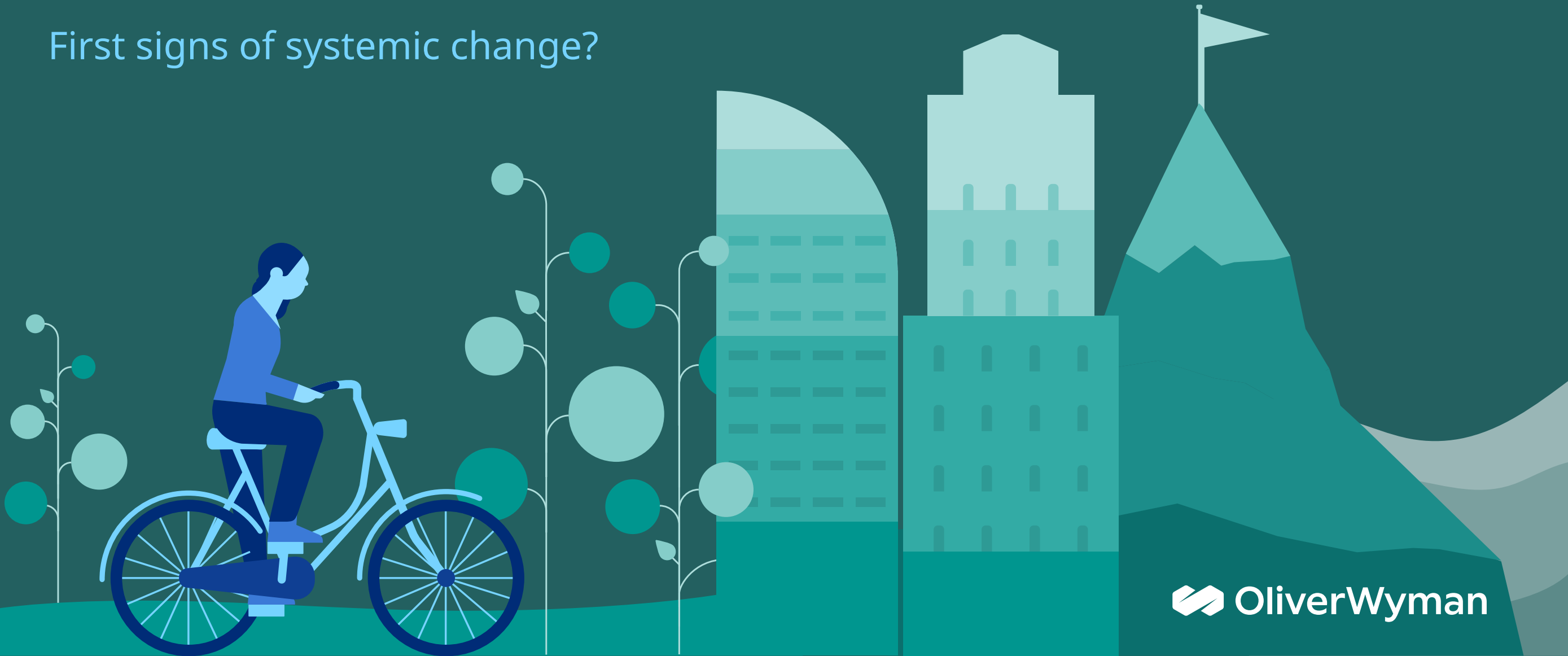


PROCUREMENT'S JOURNEY TO SUSTAINABILITY

First signs of systemic change?



INTRODUCTION

Following from our last year's report on sustainable procurement, [Powering Your Sustainability Through Procurement](#), we wished to go one step further and understand the degree of progress procurement is making in Environmental, Social and Governance (ESG). To this end, we talked to well over 300 Chief Procurement Officers from around the world, representing all the main industries.

In order to assess their current level of maturity, we asked them where they believe they stand on each of the twelve areas highlighted in Oliver Wyman's [Sustainable Procurement Maturity Framework](#), in terms of Track, Act, Impact, and Operate.

We can report the positive finding that almost all companies have now defined their strategic procurement ambitions in ESG. Many have made good progress in embedding these objectives into their procurement agenda, while the leaders provide solid examples of how this ambition can be translated into robust metrics KPIs for their procurement teams and fully embedded in procurement processes and tools.

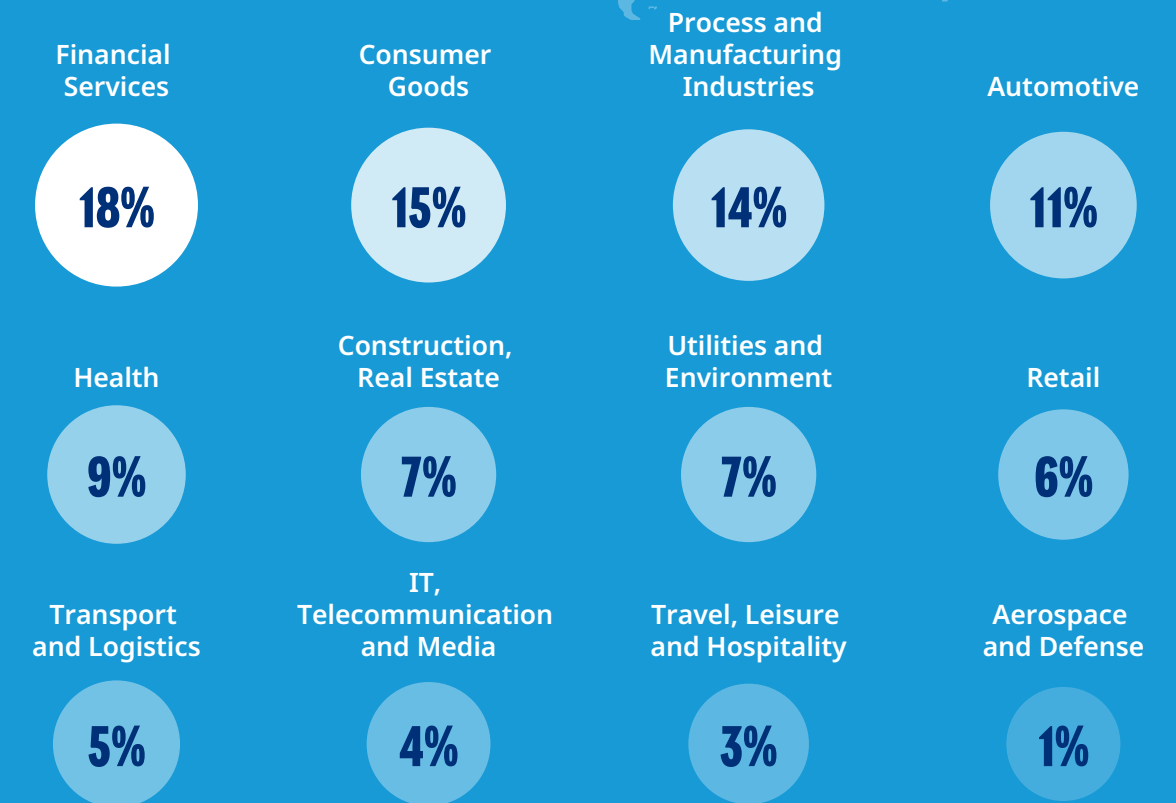
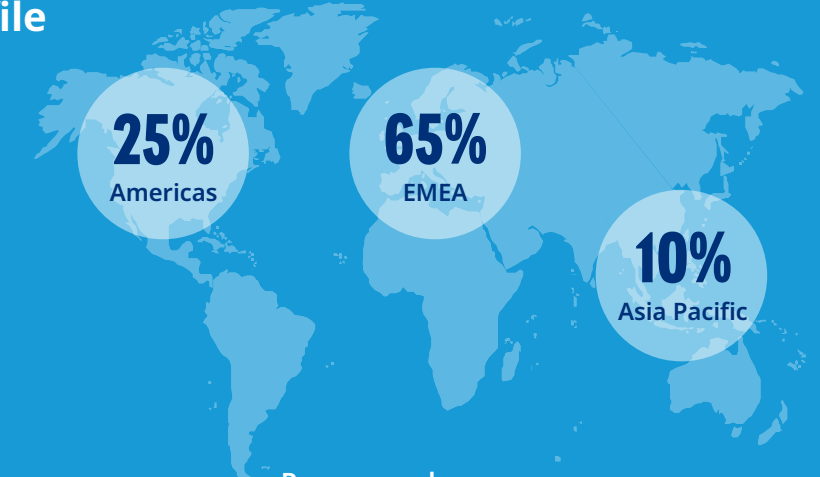
Not all the news is as positive, however. Many procurement teams find themselves falling a long way behind the leaders. For these companies, procurement is still almost entirely driven by historical metrics, such as cost, quality, and service level, rather than on ESG criteria.

This gap is most noticeable in the Environmental area, which continues to lag Social and Governance. Excluding the exceptional case of carbon emissions, where many companies have focused until now, over 50% have yet to even set an overall Environmental objective for their procurement teams.

Our examination of how procurement teams are doing on the twelve dimensions of the [Sustainable Maturity Framework](#) not only identifies where they are most advanced and where they are falling behind but also highlights the dimensions that need to be key areas of focus over the next few years. We hope procurement can benefit from the examples provided of selected practices from the most advanced players on these dimensions.

Respondents' profile

327
Companies



OLIVER WYMAN'S SUSTAINABLE PROCUREMENT MATURITY FRAMEWORK



TRACK

- 1 Convert ESG-related company ambitions into **strategic procurement objectives**
- 2 Build a **robust baseline**



ACT

- 3 Embed ESG in **category strategy**
- 4 **Explicitly state your goals** and pledge to suppliers
- 5 **Embark, engage** and **challenge** suppliers
- 6 **Team up with partners** to share ESG-related best practices



IMPACT

- 7 **Champion change internally** across all business functions and initiatives
- 8 **Accelerate change externally** through the entire ecosystem



OPERATE

- 9 Reinvent **procurement performance monitoring** towards ESG-adjusted TCO¹ and EP&L²
- 10 **Embed** sustainability in core procurement processes
- 11 **Upskill teams** to better engage suppliers
- 12 Embed ESG in **procurement data and digital asset strategy**

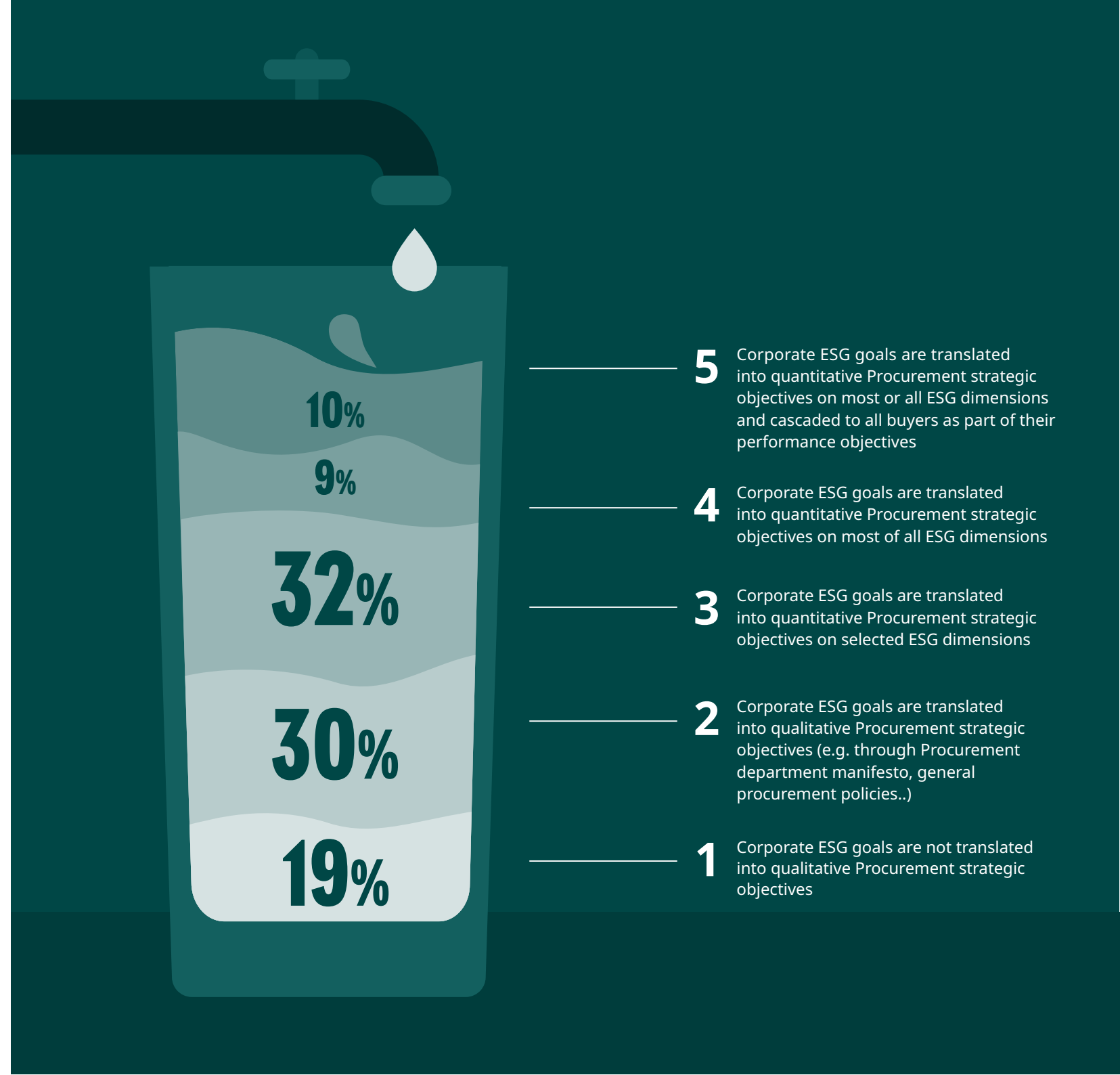
CONVERTING COMPANY ESG AMBITIONS INTO STRATEGIC PROCUREMENT OBJECTIVES

The good news is that four out of five companies surveyed have started to convert their ESG ambitions into strategic procurement objectives. One in ten have made their objectives crystal clear for their buyers as part of their performance objectives, quantifying them across most ESG dimensions.

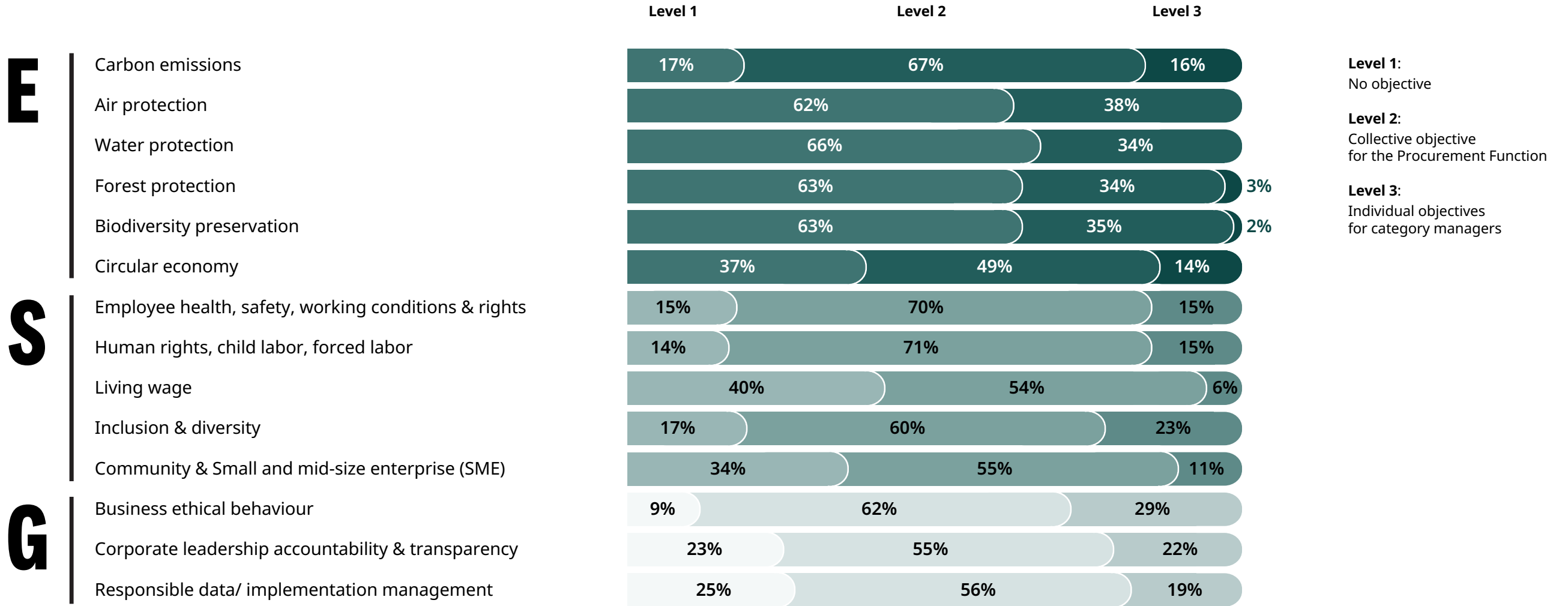
An example of what it takes to make this happen is provided by an American investment bank and financial services company. When its Chairman and CEO chose to focus on driving supplier diversity, his immediate aim was to improve reporting on goals by ensuring that they could be translated into hard numbers as a percentage of spend and would therefore feature in the company's financial report.

The company has put in place a supplier diversity program that includes focusing on small businesses owned by women, minorities, those identifying as LGBTI, disabled people, and veterans. It believes its supplier diversity program is important for three reasons. Firstly, it helps the company provide the best possible solutions to clients by bringing talented, experienced professionals into their network. Secondly, it drives growth opportunities for these businesses and their communities. Thirdly, it helps break down barriers to growth that still exist for minority business owners. The company believes this to be critical for the creation of a healthy society.

Looking more deeply into how the quantitative performance objectives are put into practice reveals that implementation is stronger overall in the Social and Governance related dimensions compared with those in the Environmental area. While there has been significant progress in establishing performance objectives in relation to carbon emissions, progress has been much slower in the other dimensions, including air, water, forest protection and biodiversity.



For each ESG dimension, how are quantitative performance objectives implemented?

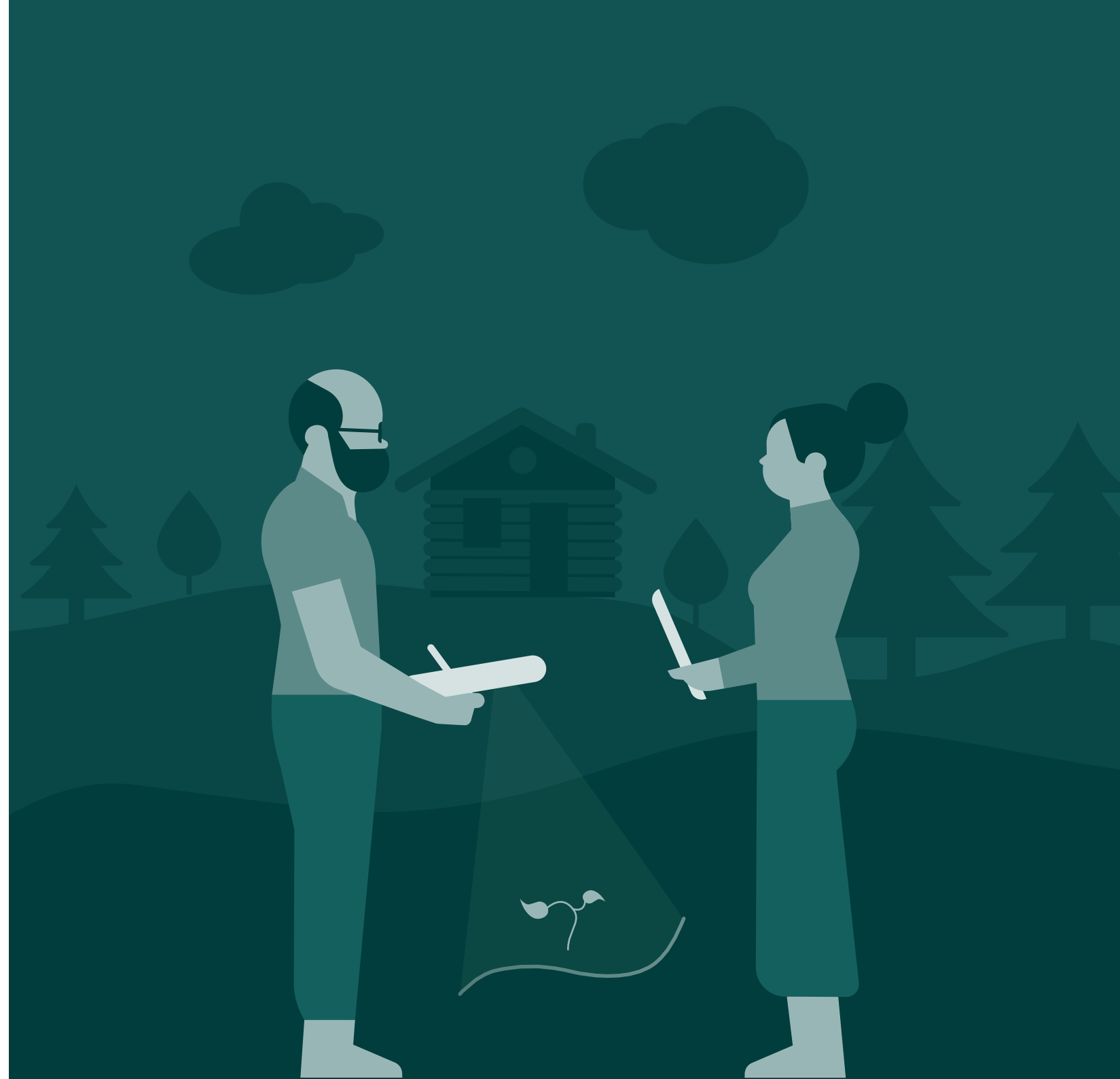


BUILDING A ROBUST BASELINE

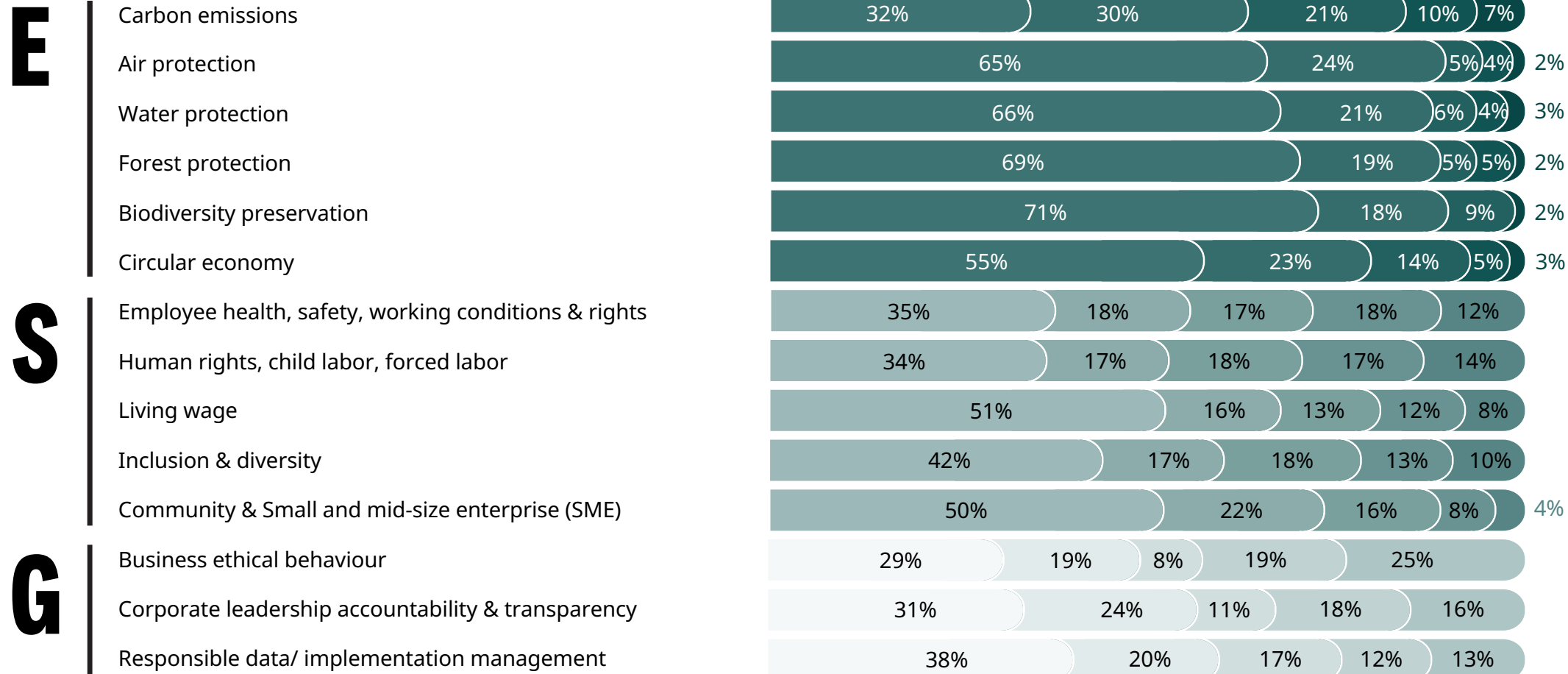
Business is well aware of the fact that “you can only change what you can measure.” This being true, it is essential that procurement first establishes a robust baseline. Only by so doing can it understand whether or not it is really making progress in ESG. While there has been some movement in this area, progress has been greatest overall in Governance and Social. In Environmental, outside carbon emissions, where more companies have established baselines, progress has been weaker than in the other two areas.

The Environmental dimensions will be a key focus for procurement over the next three to five years due to rapidly increasing expectations in regard to air, water, biodiversity, and the circular economy.

A helpful example of how companies set about putting in place a baseline in the Environmental comes from a European construction materials company. The company adopted the Science Based Target initiative (SBTi) methodology to construct a quantitative baseline for its carbon reduction action plans. It was among the first companies to announce a net-zero carbon emissions plan in accordance with the SBTi standards. This has required it to create a robust baseline for Scope 3. To achieve this, procurement has established a detailed CO₂ footprint for each procurement category. The baseline details where exactly its emissions derive. Based on this, the company has developed a zero emissions plan. The plan lays out how it intends to make efficiency gains through a number of initiatives to decarbonize the supply chains for renewable energy in stepped changes between 2025 and 2050.



Have you established a quantitative baseline on each of the ESG dimensions?



Level 1:
No quantified baseline

Level 2:
Quantified baseline based on standard data per category (e.g., CO₂ emission defined at category level)

Level 3:
Level 2 and refined for some categories/suppliers with supplier level generic information (self-declared by suppliers a qualified through audits on independent 3 parties)

Level 4:
Level 3 and refined for most categories/supplier-level generic information (self declared by suppliers or qualified through audits or independent sources)

Level 5:
Level 4 and refined for most categories/suppliers with specific data relative to supplier and client business relationship

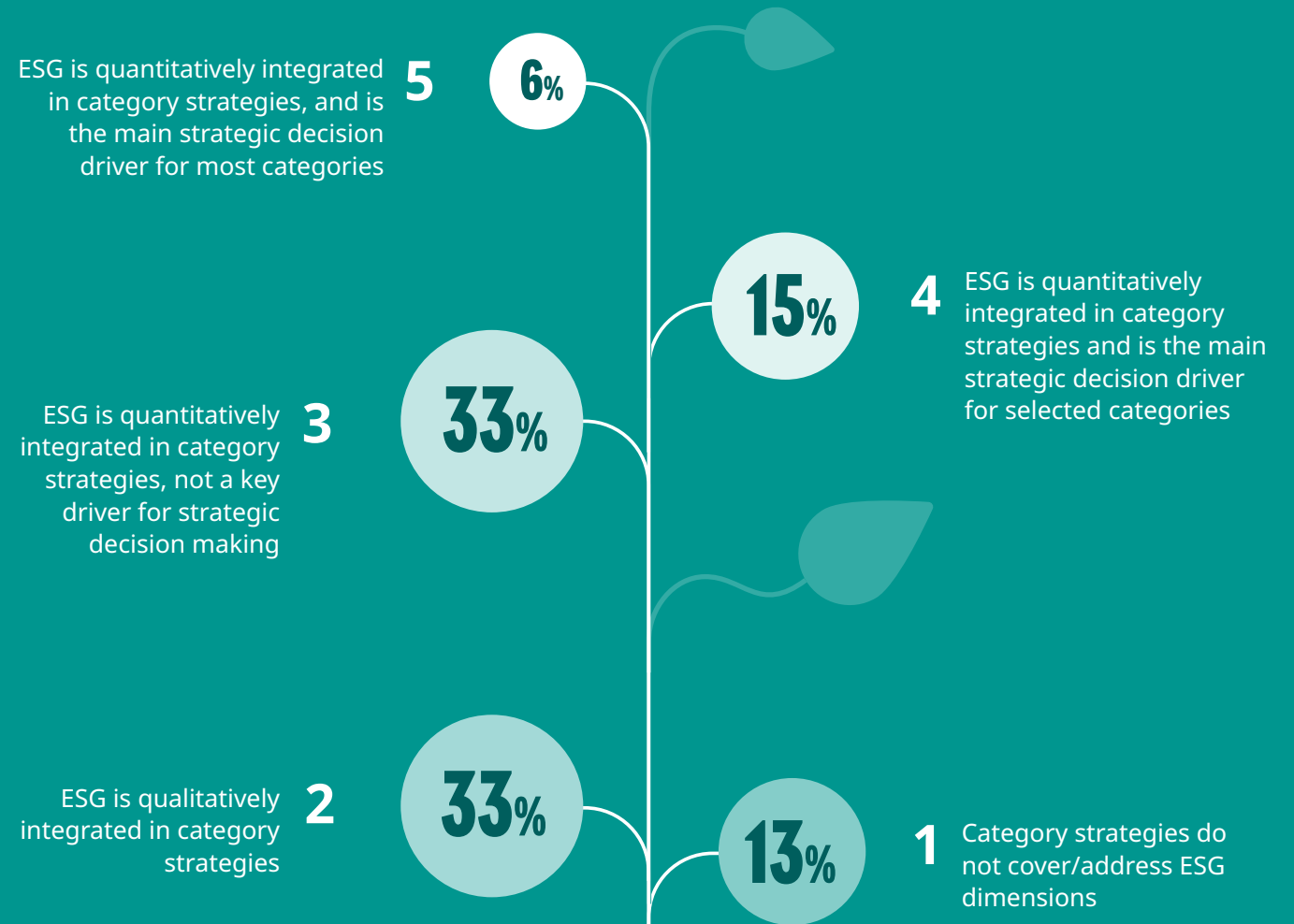
EMBEDDING ESG GOALS IN CATEGORY STRATEGY

Almost half of companies have begun to quantitatively integrate their ESG goals into their category strategy, with over 20% saying that quantified goals are a main driver when making procurement decisions. The current challenge for these companies is to ensure that they do so for the majority of categories and not just for some.

It can sometimes be more effective for procurement to work with others in achieving their ESG goals. This can include collaborations with their competitors and other actors in the supply chain when such cooperation can be helpful in achieving ESG goals that present significant and common challenges. One example of such an industry-wide category strategy is that of the Global Battery Alliance (GBA). This is a public-private platform with 100 members, including leading automotive manufacturers. The Alliance's purpose is to help establish a sustainable battery value chain by 2030.

A key focus of the GBA has been to establish an ESG compliant supply chain for cobalt, a core material for lithium-ion batteries. A large portion of the cobalt is extracted using artisanal mining, which produces major challenges in the areas of environment, health and safety, and human rights. Two initiatives typify the GBA's current approach. Firstly, the Alliance is enhancing conditions for the communities involved in artisanal mining, both by supporting local initiatives and through the development of requirements frameworks, audit, and monitoring processes. Secondly, it is enhancing traceability from mine to assembly to ensure that the cobalt is supplied through responsible mining operations. Success in this area will benefit all the members of the GBA.

How is ESG embedded in category strategy?



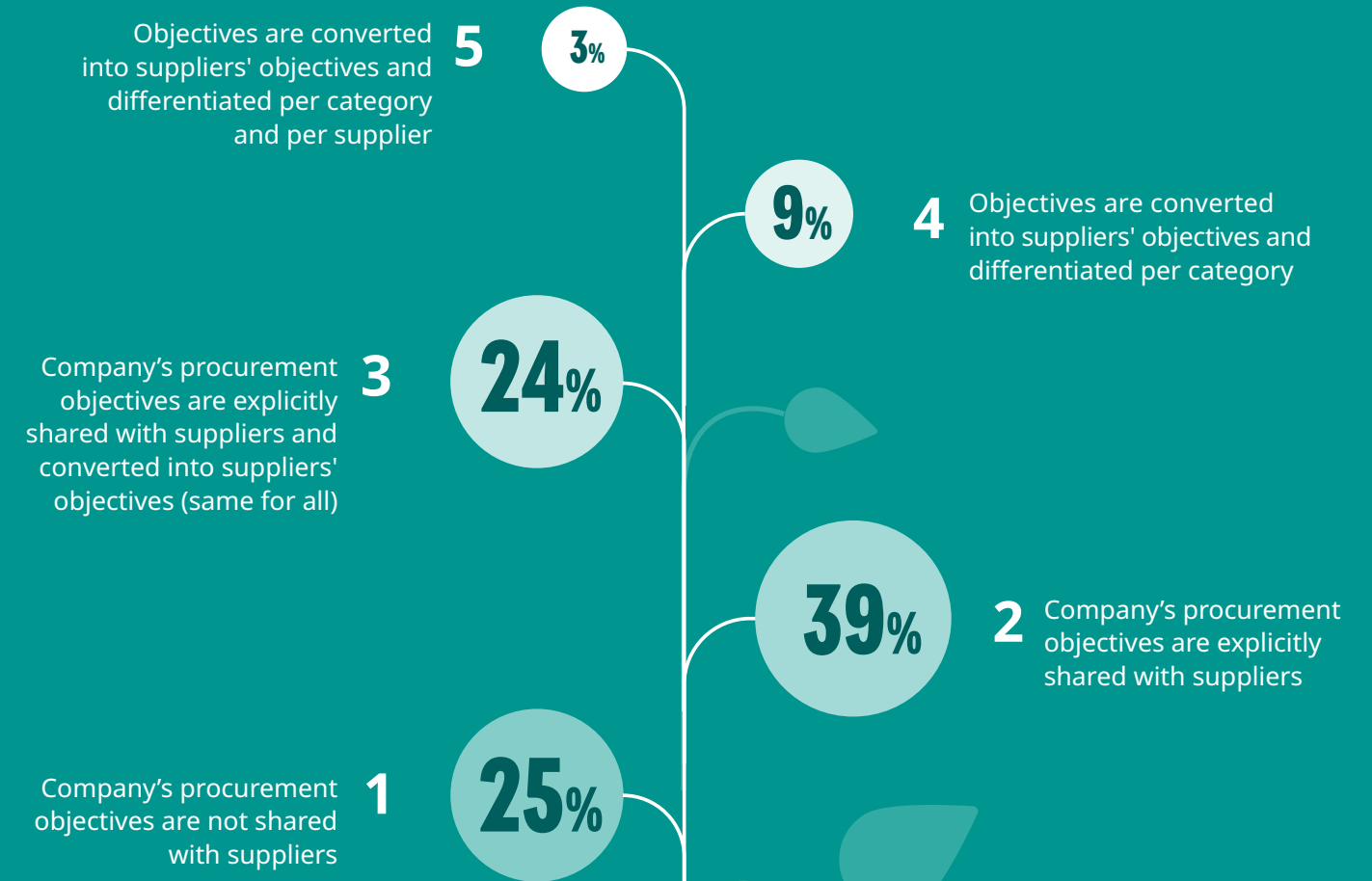
STATING YOUR EXPLICIT GOALS AND PLEDGING TO SUPPLIERS

The survey reveals that the overwhelming majority of companies have started to engage suppliers on their ESG goals. For such engagement to be truly effective it requires great persistence. The communication needs to be specific and differentiated, as well as regular and consistent. These actions will keep the suppliers aligned closely with the specific ESG category objectives that apply to them. Only then, will the two-way interaction start to drive changes in supplier behavior.

A multinational consumer goods company provides an example of how such change can happen. One of the company’s Environmental objectives is to have a deforestation-free supply chain by 2023, to halve the amount of virgin, unrecycled plastic it uses and do away with more than 100,000 tons of plastic packaging by 2025, and to reach net zero emissions by 2039. Its collaborative approach centers around its partnership initiative, which was launched in 2020. The company stated its explicit goals and pledge to its suppliers in order to better embark them. This was accompanied by a dedicated communication plan embedded in the program.

In order to deliver on ambitious commitments, the program encourages responsible and transparent innovation that will generate mutual growth for the company and its partners. For example, in its partnership with specialty chemicals company, it has been able to launch what it says is the world’s first household cleaning product containing a 100% renewable and biodegradable foaming ingredient. It is also currently trialing a new collaborative innovation platform with suppliers and partners. The expectation is that this platform will help create an ecosystem that will enable the company’s partners to collaborate with each other in finding solutions to the common challenges they face in delivering on ESG.

How explicitly do you state your goals and pledge to your suppliers?

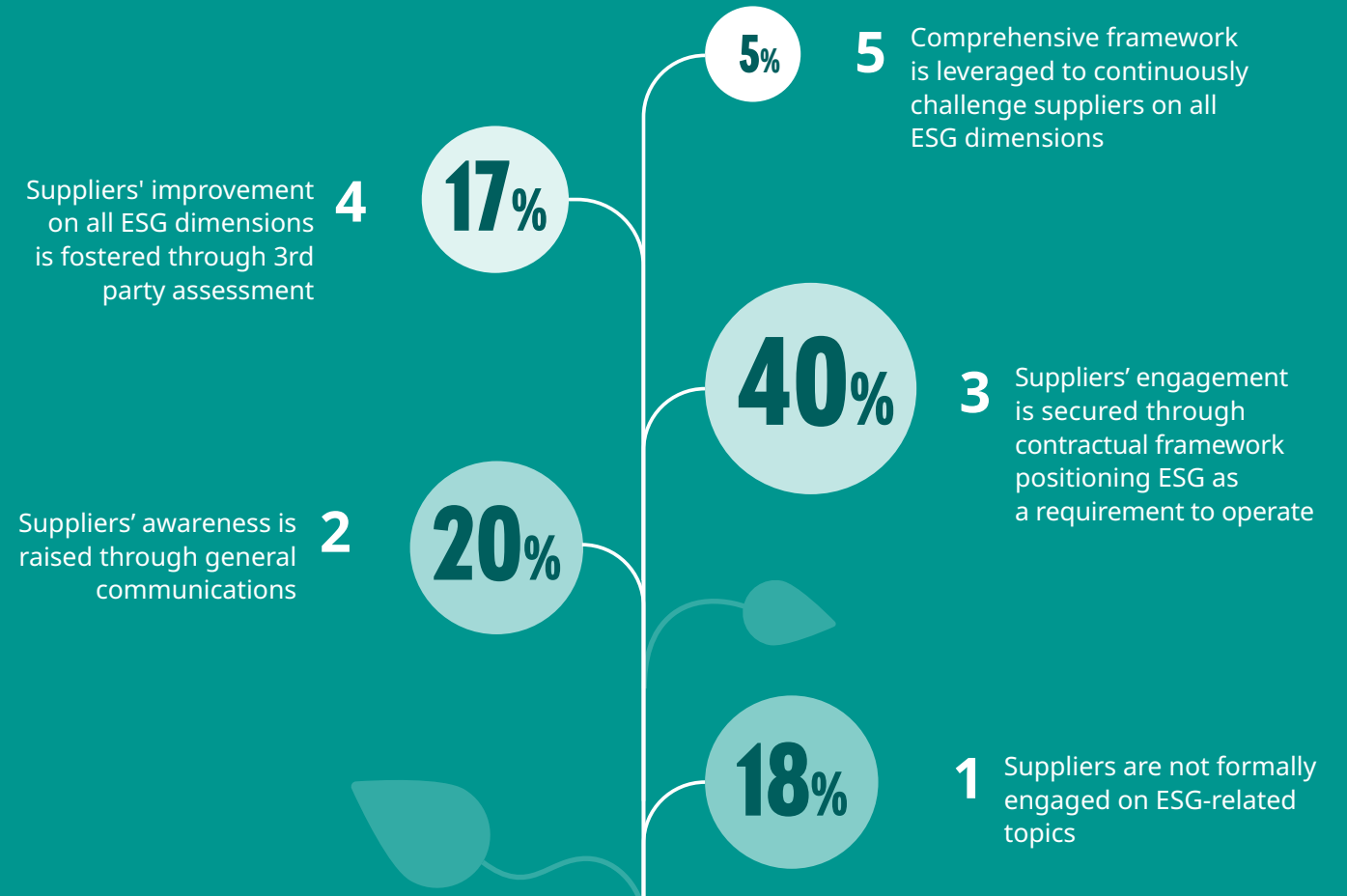


EMBARKING, ENGAGING AND CHALLENGING SUPPLIERS

The two most common responses — given by two out of five companies — to the question “how are you engaging and challenging suppliers on ESG goals?” is to respond, “through a supplier agreement or contractual framework” or through a “code of conduct” signed by suppliers. A substantial number of companies (22%) have moved beyond this basic level, however, and have created mechanisms to engage and challenge suppliers. These companies make extensive use of external audits, third-party assessments, training and coaching.

Engaging and challenging suppliers requires spadework. A US-based fast casual dining chain has already invested in the next generation of farmers as part of its five-year, multi-million commitment in enhancing ESG in sourcing. It says its focus is to use its procurement to transition farms to organic farming and thereby impact positively the local and regional economies and food systems, while at the same time improving food security. To date, the company has partnered with growers to convert conventional farmland to organic farmland. It also offers three-year contracts to the young farmers involved in the program during their farm’s transition to organic farming — this being the length of time it takes for their land to be certified as organic.

Do you embark, engage and challenge your suppliers?



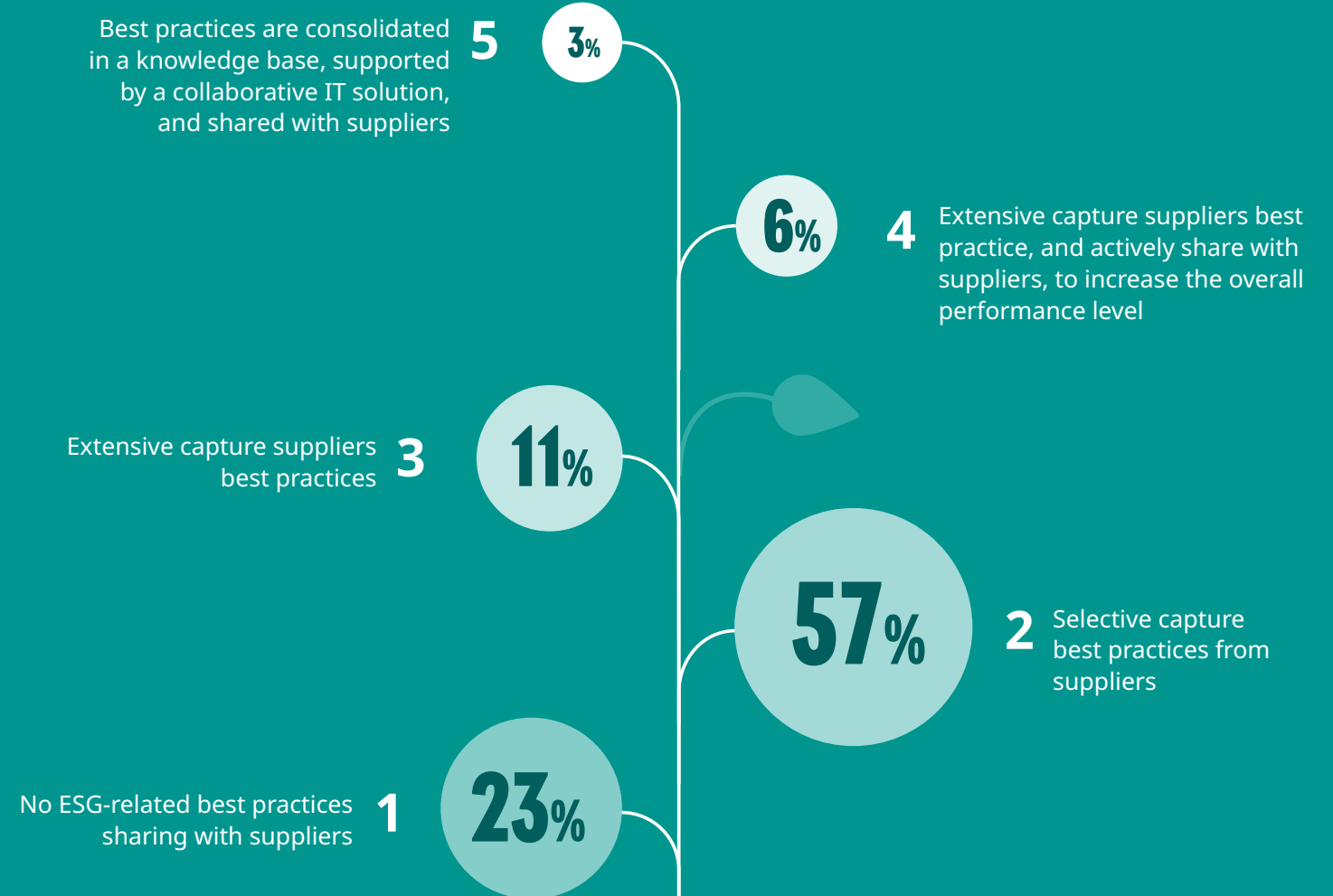
TEAMING UP WITH PARTNERS TO SHARE ESG BEST PRACTICES

The vast majority of companies continue to operate as if they can change the world on their own. Oliver Wyman believes that what is at stake in ESG goes far beyond what any one company is capable of achieving single-handedly. The expectation is that the rising tide of an industry-wide approach will lift all boats, improving the procurement-related ESG performance all businesses and raising standards across the ecosystem.

Many procurement teams are clearly already moving in the right direction with more than a third now viewing knowledge capture as more than just an internal matter. The leading companies have adopted an open-source approach to knowledge sharing, integrating their ESG procurement best practices into a common-access knowledge base that can be accessed by their suppliers, in a similar manner to the practice in open-source IT architecture.

An example of this approach is seen in The Circular Economy for Flexible Packaging (CEFLEX) initiative. The initiative sees manufacturers teaming up with suppliers, bringing together over 180 European companies, associations and organizations to represent the entire value chain in flexible packaging in order to tackle the complex technical and business barriers to a circular economy. CEFLEX's project stakeholders include raw material producers (plastics, paper, and aluminum foil), ink, coating and adhesive suppliers, film producers and flexible packaging converters, brand owners, waste management companies, recyclers, technology suppliers, and end users. Its aim is to establish by 2025 the infrastructural basis for a circular economy in post-consumer flexible packaging across Europe. This includes the development of the collection, sorting and reprocessing infrastructure that will be based on end-of-life technologies and processes that deliver the best economic, technical and environmental outcomes.

How do you team up with partners to share ESG-best practices?



CHAMPIONING CHANGE INTERNALLY

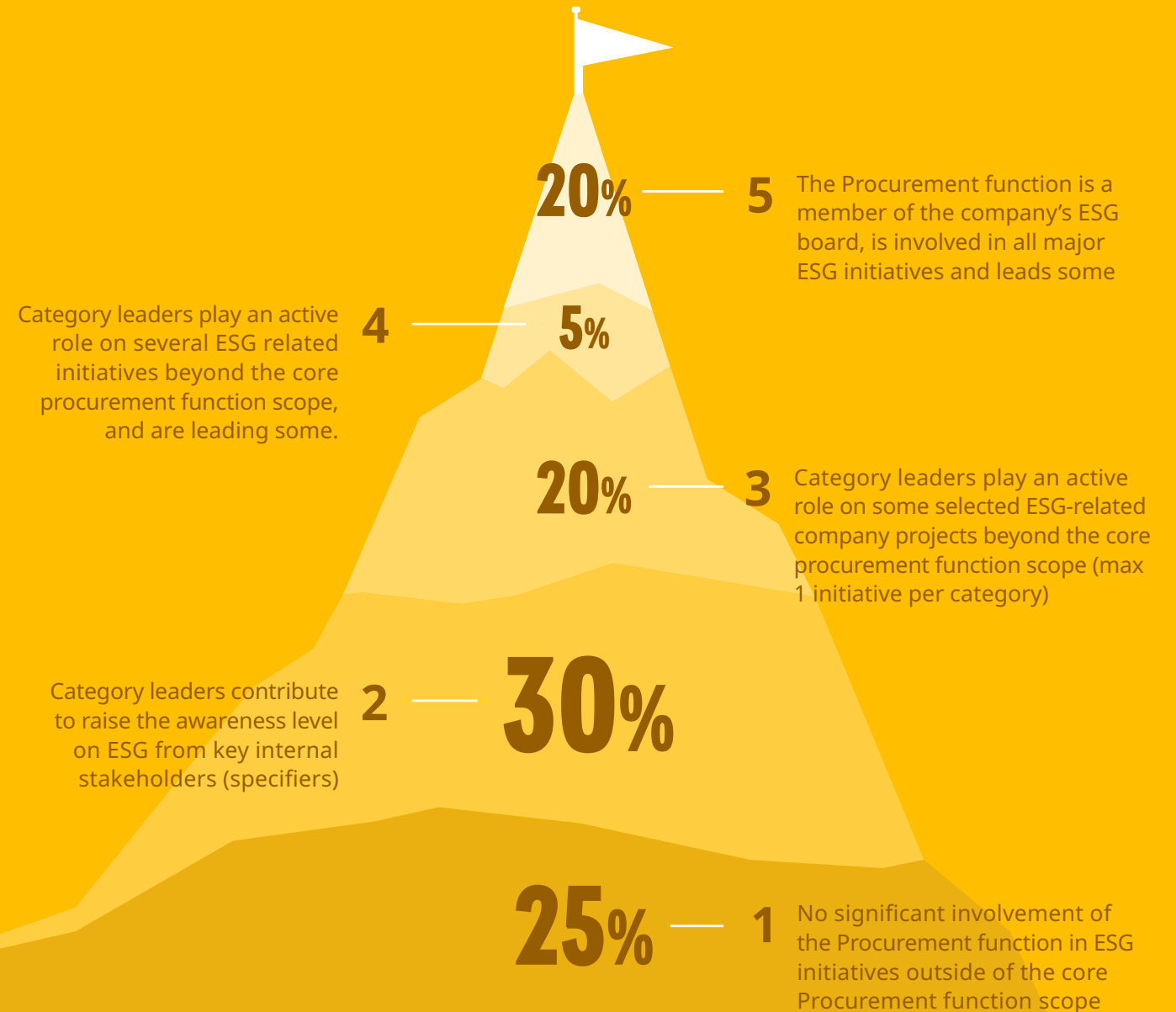
There is positive movement in this area: 20% of companies surveyed report that their procurement team is recognized at the corporate level as an enabler of change in ESG.

Being positioned as an enabler of change is the bare minimum, however. If CPOs are to become ESG champions in their company they will need to aim higher and reinvent their roles based on procurement's unique positioning and capabilities. Doing so will shed light on emerging procurement talents and allow the company to thrive in highly valuable activities.

Procurement's unique position within the company ensures that no other function has as extensive and comprehensive an overview of the ecosystem, both within the company itself and across the entire supply chain. Nor does any other function possess procurement's distinctive combination of skills in negotiation and project management. These attributes position procurement and category managers as the natural choice for becoming leaders of ESG-related initiatives. This can include acting as the project lead, orchestrating the team of internal stakeholders and suppliers to deliver the project, as well as in collecting, consolidating and sharing ESG-related data to enable the company track its ESG performance.

One illustration of this in practice can be seen from the example of a worldwide consumer goods leader where the procurement function has led the change in managing raw material supply risks, consolidating demand versus supply. While doing so, the CPO embedded ESG-related strategic objectives into its new sourcing strategies. Procurement is now driving the alignment and rollout of these strategies through a series of initiatives, including 30+ field projects. The expected outcome is that 70% of the natural raw materials sourced from its suppliers will be certified as sustainable.

How do you champion change internally?

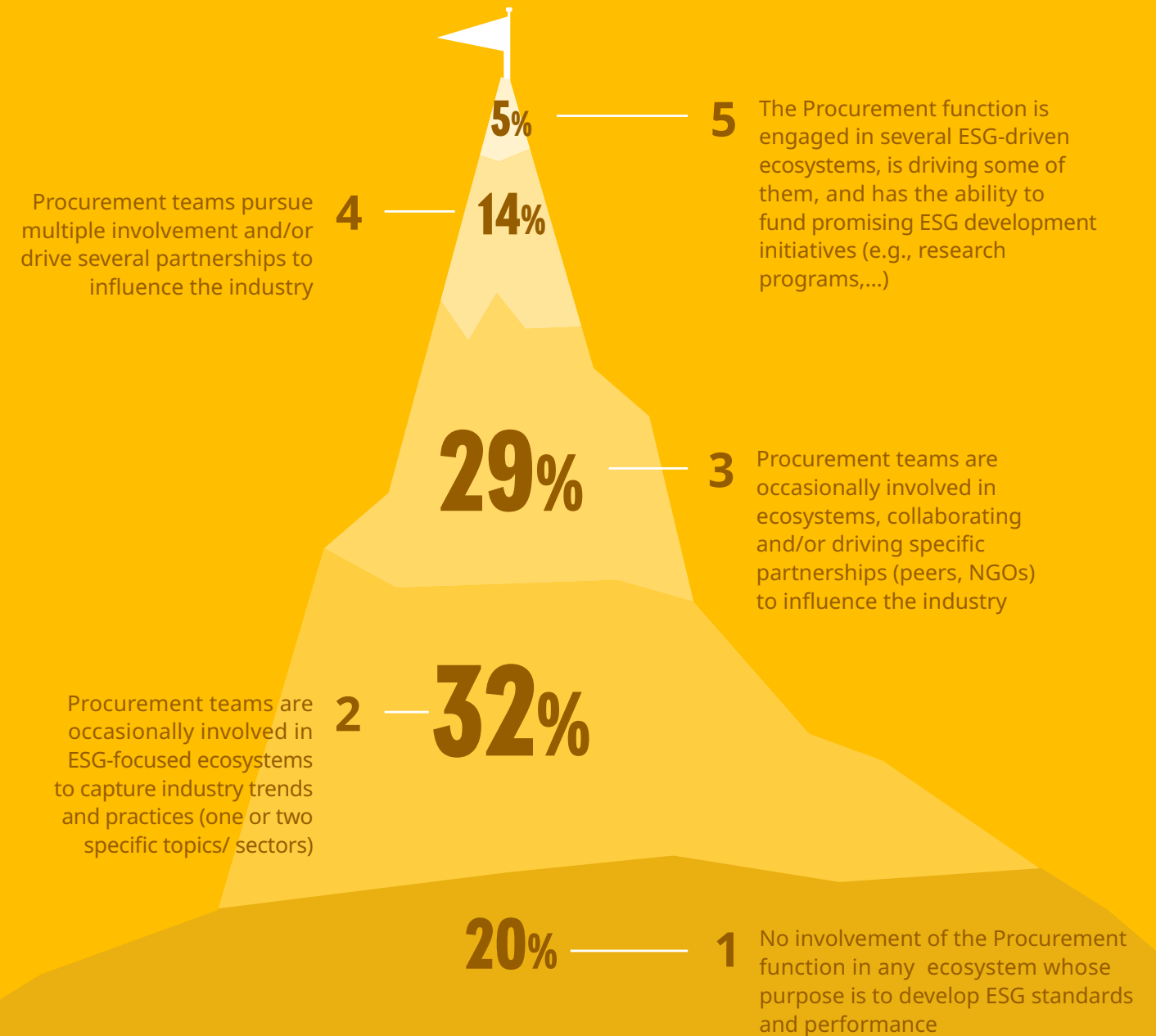


ACCELERATING CHANGE EXTERNALLY

The majority of procurement teams already report a high level of engagement with the external ESG ecosystem. At the more advanced end, 19% are actively driving multiple partnerships to help shape industry responses to ESG. Many work with others in the industry to promote change in ESG. For example, 400 retailers, manufacturers and service companies from 70 countries are members of the Consumer Goods Forum (CGF) which promotes multiple ESG initiatives.

An example from a global beauty and personal care company provides an illustration of how such change can be promoted in the supply chain. Shea butter is a key ingredient in hundreds of the company's products, one of its ten most used botanical ingredients. In order for it to meet its ESG procurement objectives, the procurement team put in place a sourcing plan that partnered with local communities and empowered women in the West African country that provides its main source of supply. The program had three objectives. First, to cut out middlemen and provide a fair income to shea nut gatherers. Second, to create value locally by sharing best practices in gathering and processing. Third, to protect the environment through the preservation of shea trees. As part of its commitment, the procurement team also partnered with a Scandinavian company, a leading provider of shea-derived ingredients, in order to ensure that its supply chain meets the personal care company's goals. The supplier has now revised its procurement processes, signed contracts with producer cooperatives, set above-market prices, and established collection protocols to protect local resources.

How do you accelerate change externally?



REINVENTING PROCUREMENT PERFORMANCE MONITORING WITH ESG

In the areas of Social and Governance, at least a third of all companies have implemented quantitative KPIs in their procurement performance monitoring across all dimensions. These companies have successfully reoriented their procurement performance monitoring toward ESG. Critically, the majority of companies report that they make use of a third-party assessment or an independent supplier audit to monitor their progress. In the area of Environmental, there is notably less maturity, even in carbon emissions.

There are various methodologies that can be used to reinvent the procurement performance monitoring with ESG. Looking at the environmental pillar, this varies from carbon pricing to the wider ESG-adjusted Total Cost of Ownership (TCO) calculations to Environmental Profit & Loss (EP&L) which goes far beyond procurement. A worldwide luxury goods company provides a powerful example of how to monitor ESG performance using KPIs. Its highly quantified approach has received accolades from the main extra-financial rating organizations, including being listed as one of the “industry leaders” in the Dow Jones Sustainability Index (DJSI) World and Europe for several years in a row.

Where the luxury goods company truly stands out is in its monitoring of the Environmental dimensions, an area where many are weak. The company has developed an innovative approach in its EP&L account that acts as a key enabler of its sustainable business model. It uses this approach in monitoring the Environmental impact of its supply chains and across its operations.

Is the carbon adjusted TCO¹ the main driver of the decision making?

NO

79%

65%

NO

Have you implemented a Carbon-adjusted TCO¹ in procurement performance metrics?

YES

21%

31%

YES

for a limited set of categories

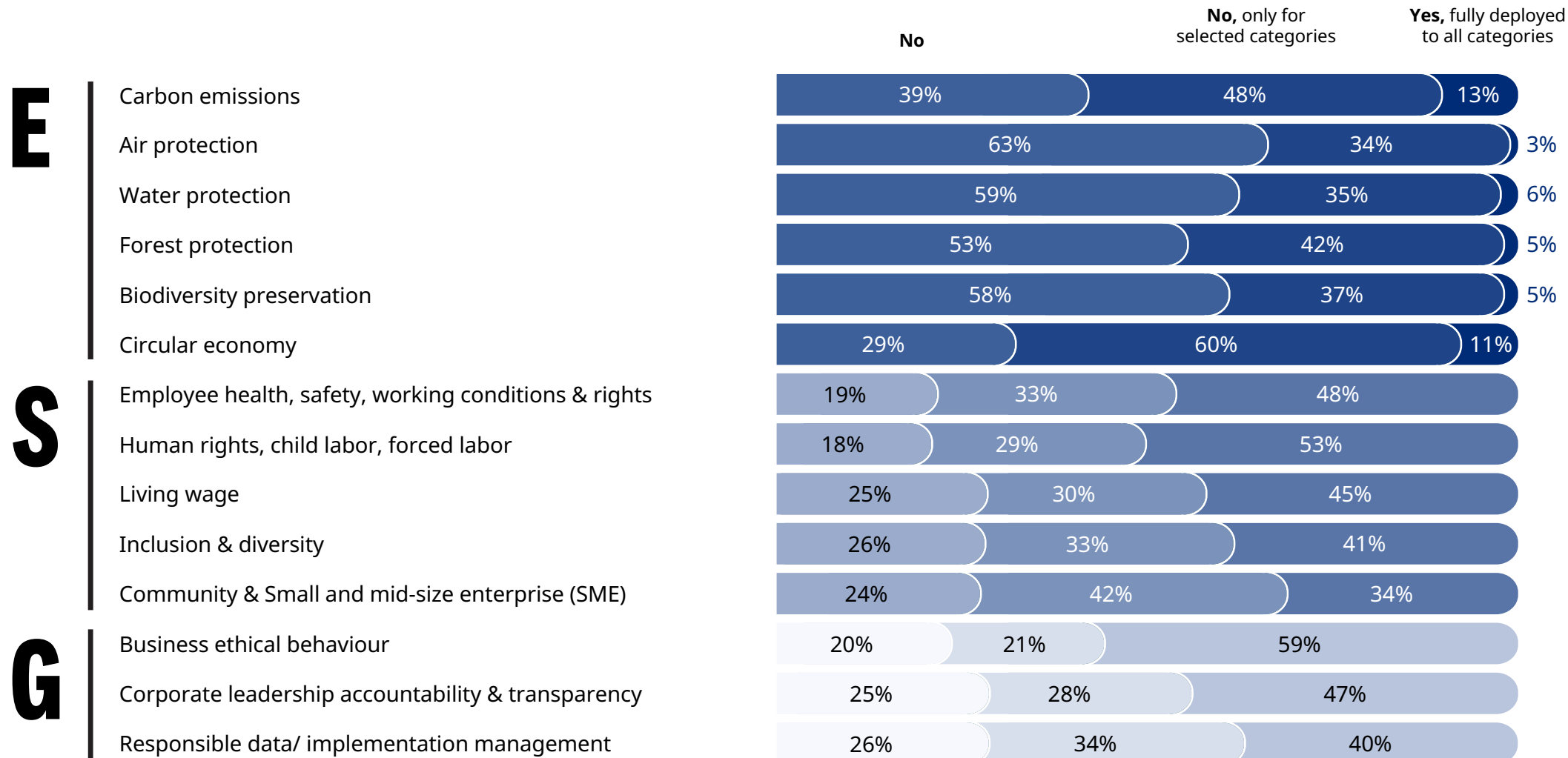
5%

YES

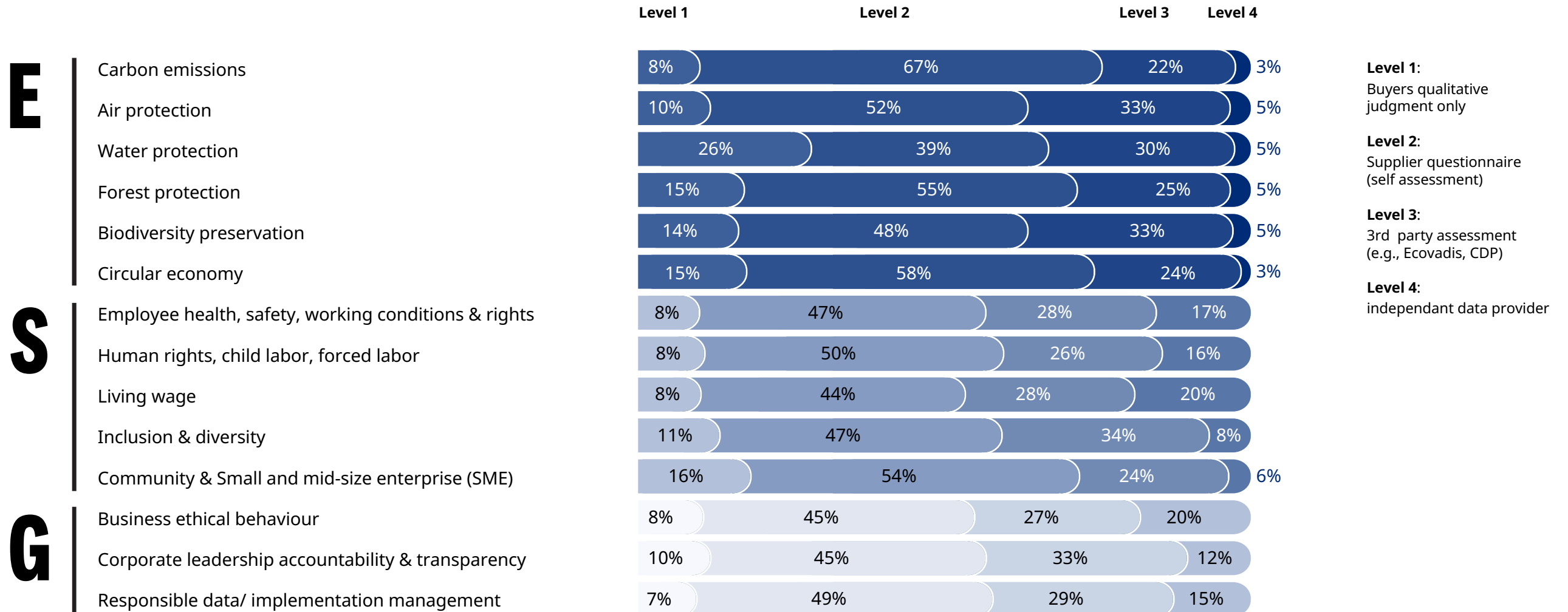
for all relevant categories

1: Total Cost of Ownership

On dimensions for which you have implemented quantitative KPIs, are these KPIs deployed at category level?



On dimensions for which you have implemented quantitative KPIs, which sources are you using for these metrics?



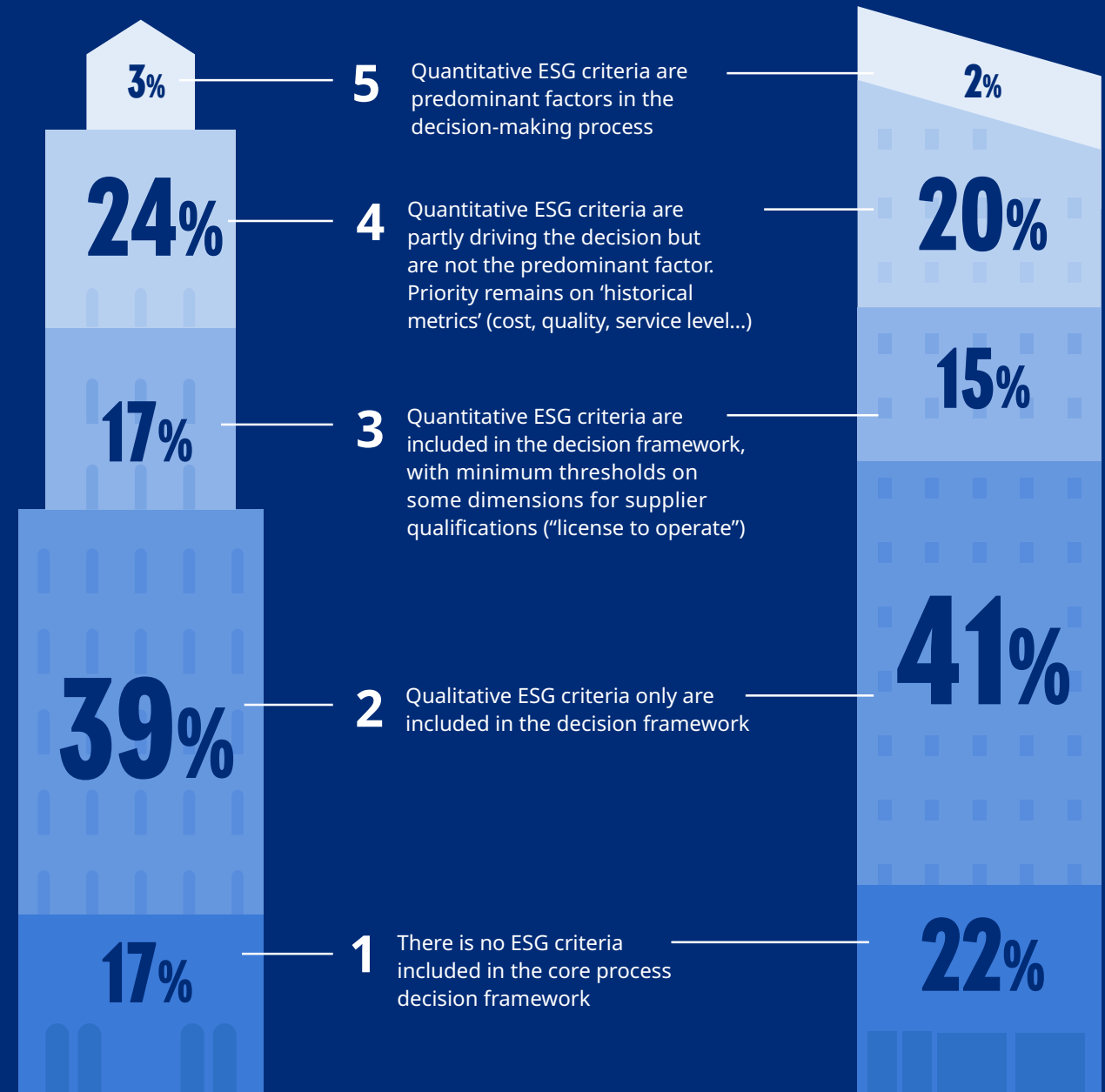
HOW DO YOU EMBED SUSTAINABILITY

While the vast majority of companies report that they use quantitative ESG criteria in their supplier panel selection process and for their sourcing as a whole, it is also clear that the main emphasis in their decision-making remains based on historical metrics, such as cost, quality, and service level. Quantitative ESG criteria are the predominant factor in decision-making in only a tiny percentage of companies.

Looking at supplier panel selection, some 97% of companies are still in a “license to operate” mode in which the supplier’s qualification to be part of the panel is based on historical metrics and the assessment is not driven primarily by quantitative ESG criteria. Given the increasing ESG challenges, this can no longer be considered a sufficient response. Sustainability needs to be a key factor in supplier panel selection, especially for the procurement categories that have a key impact on the ESG footprint of the company.

In source to contract, the situation is just as disturbing: 98% of companies’ ESG criteria are not driving decision making. At the very minimum, it is essential that quantitative ESG criteria should be the predominant factor in decision making for the procurement categories that have the greatest impact on ESG.

...in supplier panel selection?



...in source to contract process?

UPSKILLING TEAMS ON ESG

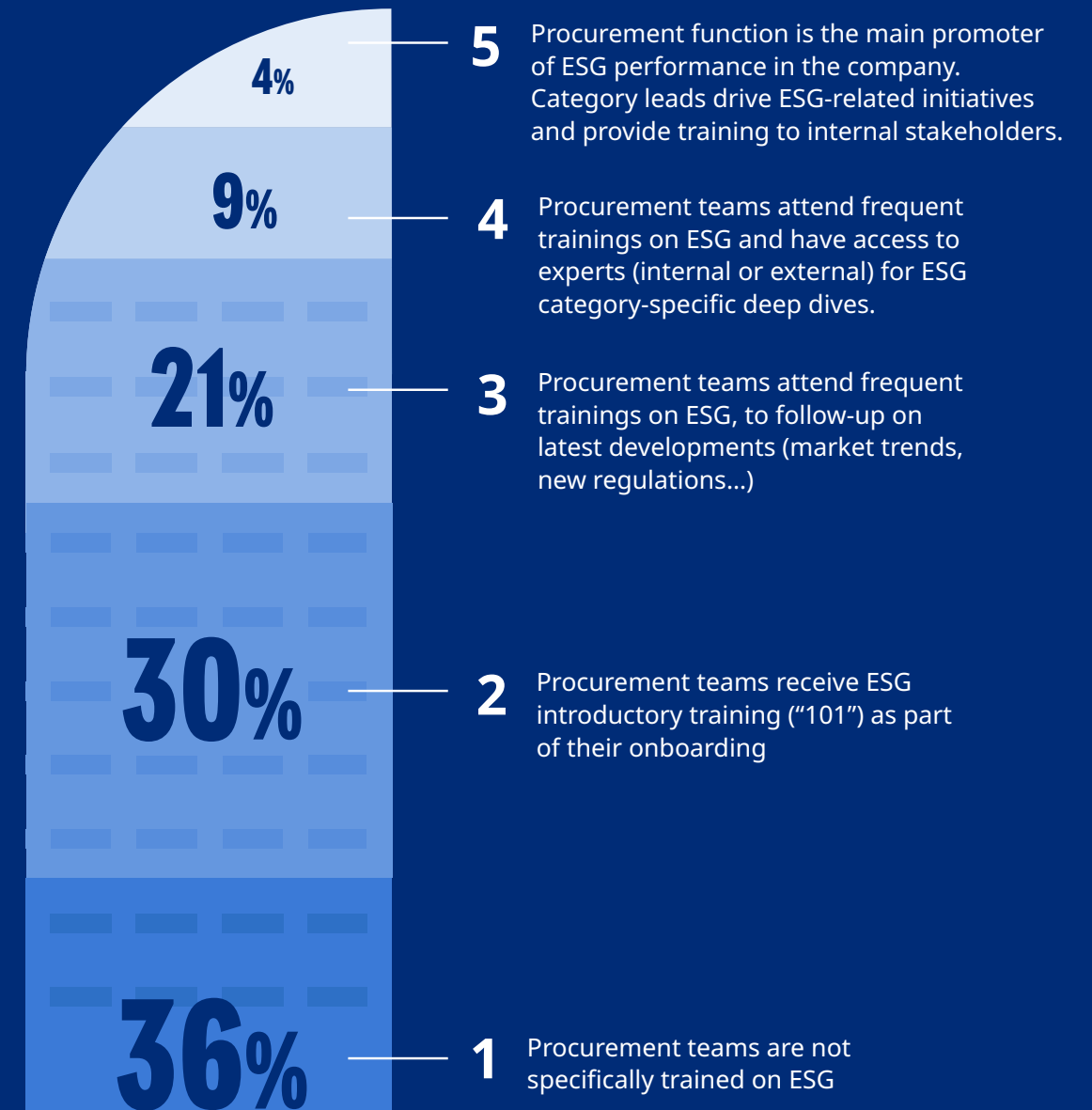
Looking across the full spectrum of businesses, upskilling of category managers and buyers in ESG remains an area that continues to be largely neglected. In contrast to this general picture, the leading companies view upskilling in ESG as a company-wide issue, one in which their procurement teams can take the lead in training internal stakeholders across the company.

For companies to make significant impact in ESG, the upskilling of category managers and buyers needs to be made a business priority. This need is greater than in other areas because ESG is quite a complex topic, much more so than it might appear at a first glance, as it places demands well beyond the usual remit of category managers and buyers' skills. It is also an area where regulation is evolving very rapidly, making it an area which it is dangerous to neglect.

For category managers and buyers to be able to respond appropriately to the ESG agenda, they require business skills that address such areas as developing new supply chains and engagement with competitors or other actors in the value chain.

Providing such training can produce a second benefit in the present environment. Upskilling is also about attracting talent. The new generation of buyers and category managers are not only very demanding, with high expectations regarding ESG, but also value comprehensive talent development in this area.

How do you upskill teams to better engage suppliers on sustainability?



IMPLEMENTING DIGITAL SOLUTIONS IN ESG RELATED PROCUREMENT

There is increasing maturity in this area, with four in ten companies reporting that they leverage the latest available procurement tools and solutions to collect, digest and report ESG data. Leading companies say that they leverage procurement tools in all categories.

The “ProcureTech” ecosystem has blossomed over the past five years. After having implemented enterprise resource planning (ERP), and then procurement suites, CPOs expect increasingly that their teams should have the right solutions to enable them to focus on the most value-adding activities, ones more strategic and less transactional in nature.

It is no surprise, given the importance of ESG, that the market for apps and dedicated tools in this area has grown at an even faster pace and to a bigger scale than elsewhere. Due to this rapid growth in ProcureTech, CPOs face a dilemma when addressing the burgeoning range of ESG procurement options. Which, if any, would best fit their IT ecosystem and meet their expectations? While there is no easy answer to these questions or a one-size-fits-all approach, there are a number of basic guidelines that can help in decision making.

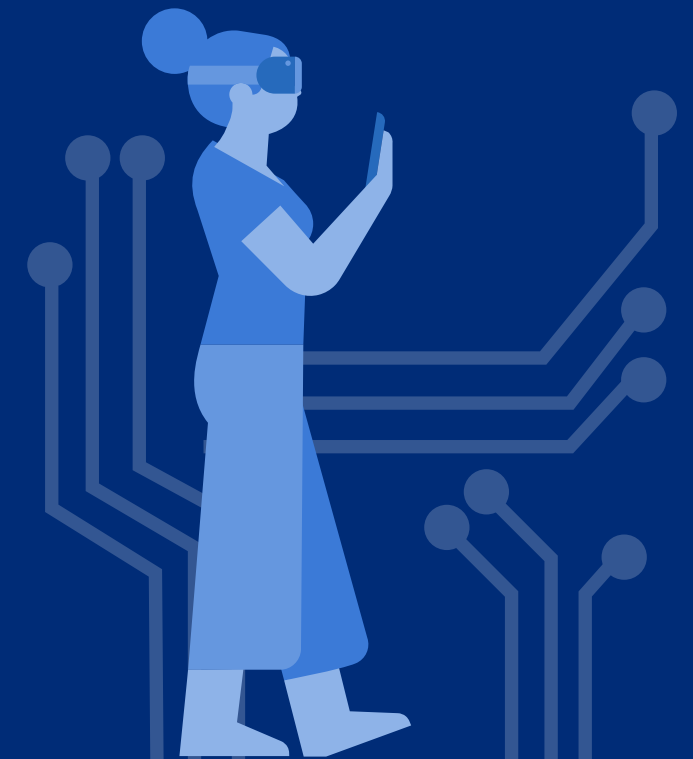
Before choosing a solution, the CPO needs to define their needs and priorities carefully with regard to the available ProcureTech solutions. The chosen solution should be sufficiently flexible and adaptable to changing priorities, enabling procurement to stay aligned with the company’s evolving strategy and processes. A crucial dimension that needs to be considered here is data management.

As sophisticated as ESG ProcureTech solutions might be in terms of artificial intelligence (AI) and machine learning, they all require a minimum foundation of robust ESG-related data to function optimally. This is a critical point, one that needs to be addressed early on in our experience, since it is often the case that procurement has very little ESG-related data to hand.

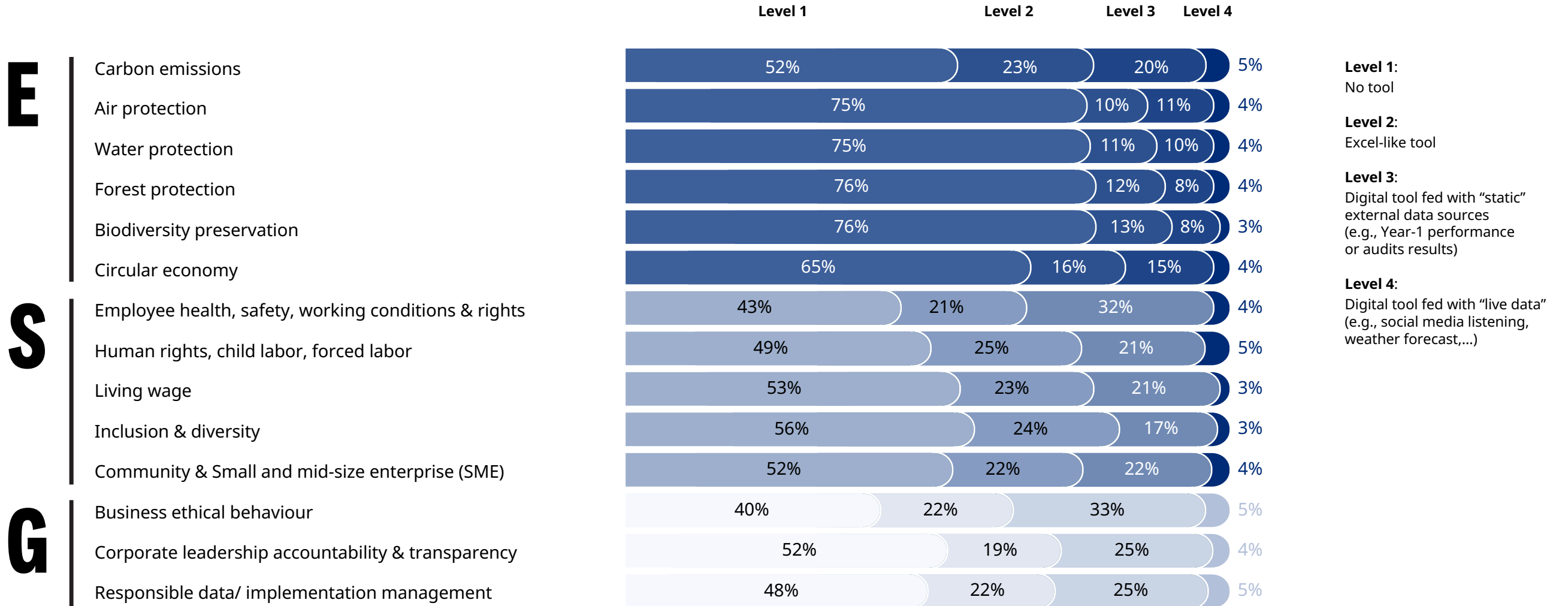
One solution that is sometimes proffered is to ask suppliers to feed into the data lake. While at first sight this can seem an attractive option, relying on supplier data alone can undermine reliability. Likewise, relying solely on generic data (e.g., at the supplier level) will not allow procurement to track the impact of specific actions on particular materials or services.

Given these challenges, a sensible approach is for the CPO to avoid pursuing the creation of “perfect and comprehensive” ESG-related data lake and to be selective in their goals. They might concentrate, for instance, on the following:

- For products and services: identify what ESG-related data needs to be managed (not all have the same impact, nor on each ESG dimension)
- For suppliers: target the most important first, based on their category of supply or distance, etc.
- For data: favor data quality over data quantity to avoid creating a data lake that produces meaningless averages and low-credibility data points.



Have you implemented digital solutions to support your ESG-related procurement actions?



CONCLUSION

CONTINUING THE SUSTAINABILITY JOURNEY



Sustainable procurement is central to delivering a company's ESG agenda. This presents procurement with both an opportunity and a challenge.

ESG provides procurement with a unique opportunity due to its distinctive ability to connect with stakeholders and create coalitions across the entire supply chain and beyond. It gives it both the power and the influence to drive integrated sustainability throughout the business system — an influence that extends to shaping the agenda at the Executive Committee level.

When things really click, the impact can be impressive. Many of the sustainable procurement leaders considered here provide solid examples of how procurement teams translate ESG ambition into robust management objectives, KPIs and impactful actions. Their successes demonstrate the way forward for the large number of companies and procurement teams that have yet to give ESG the centrality it requires alongside traditional metrics, such as cost, quality, and service level.

ESG also presents procurement teams with a major challenge. Sustainability procurement leaders do not wait for change to be driven by legislation. They listen to what their customers and investors are telling them. They respond to the zeitgeist and upskill their teams.

The pressures driving ESG have never been more evident. Procurement is impelled to grasp the opportunity encapsulated within this challenge. They need to move faster, act more forcibly and go deeper. All our futures are at stake.

SUSTAINABLE PROCUREMENT MAKES AN ENORMOUS DIFFERENCE — FOR ALL OF US.

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

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