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POWERING YOUR SUSTAINABILITY STRATEGY THROUGH PROCUREMENT

Sustainability is the number one challenge for the corporate world. Until now, plenty of heat has been generated about its potential impact on business, although few companies have taken action commensurate with this. Could this be about to change as companies wake up to the opportunities resulting from placing integrated environmental, social, and corporate governance (ESG) at the heart of their strategy? The procurement function, by connecting with stakeholders and creating coalitions along the entire supply chain, is uniquely positioned to accelerate transformation to address ESG commitments and create higher value.

Almost everyone now recognizes that business has a very big role to play in responding to the UN Paris Convention on Climate Change. Without business on board, the world will miss the Paris targets. At the same time, almost every company also knows it needs to increase its own sustainability on multiple dimensions. This urgent need has yet to translate into consistent and proactive action.

In Oliver Wyman's recent survey of Chief Procurement Officers from approximately 300 large companies globally, 80 percent say they are committed to sustainability targets. Yet progress has been slow in achieving these goals. Whether we are talking about North America, Europe or Asia, only just over half of all the companies surveyed have even started to actively address ESG topics with their suppliers. The proportion is even lower when it comes to those actively scrutinizing supplier compliance with ESG standards, and drops once again when we move from looking at direct suppliers to those in tier 2 and 3. None of this is good news for the Paris Protocol or for wider ESG goals.

Approach is not purely 'defensive' versus regulations but also growth-minded

Gain new customers/markets rated #1 goal

CPOs agenda on sustainability is not just environment-focused

Priorities on sustainability (decreasing order)

SUSTAINABILITY AT THE TIPPING POINT

The story about why business needs to respond to the sustainability challenge in all three pillars of ESG is comparatively well known. Nonetheless, it is sobering to recap just how urgent this task has now become for business.

On one side of the equation, consumer pressures are mounting, as sustainability features increasingly on the consumer's agenda, particularly that of younger people. On the other side of the same equation, governments are not only imposing increasingly stringent ESG regulations. They are also putting in place incentives to accelerate the transition to a net zero carbon economy, as exemplified by the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) initiative, the carbon offsetting and reduction scheme for international aviation run by the International Civil Aviation Organization. To date, the scheme has 70 member countries that collectively account for 85 percent of all aviation emissions and targets being carbon neutral from 2020 onward and halving the footprint of 2005 by 2050.

On top, resilience is increasingly seen as a critical risk for companies, particularly in terms of supply chain disruptions, more so during the pandemic. This is shaping investor sentiment; investors are pressing for improved ESG outcomes. This is highlighted in the growth in the total assets in sustainable funds, which hit a new record of ~$1.7 trillion in 2020, up by approximately 50 percent compared to 2019.

These growing ESG pressures are coming to shape how industry acts. The CEO of one of Europe's leading banks speaks for many when he says, "We are integrating ESG criteria into all of our operational processes." It is clear that the momentum for ESG is close to tipping point.

ESG makes sense on many levels, for example talent attraction. Additionally, the companies with the most satisfied employees also tend to be those that are the highest performers in ESG. In the Fortune ranking, 2019 Best Companies to Work For, the top companies have ESG scores 14 percent higher than the global average, while those in Universum's 2019 World's Most Attractive Employers have ESG scores 25 percent higher.[1, 2]

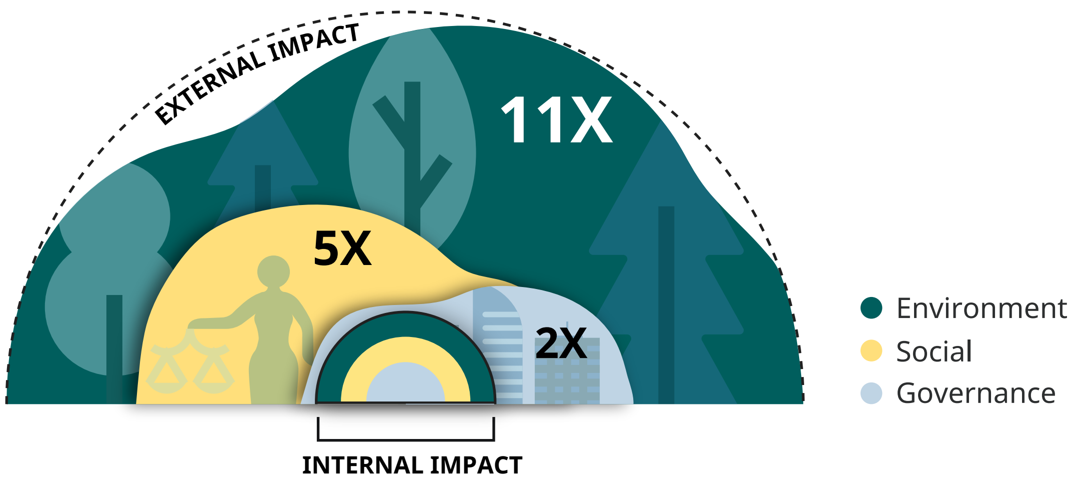
Previous paradigm shifts in procurement, such as those of the Total Quality movement (whereby quality control is part of the entire process and is a responsibility of everyone on the line, rather than just having quality controllers at the end of the process) and the quest for innovation, have reshaped how business as a whole is conducted. This time the stakes could well be even higher. Those ahead of the game will have the chance to capture substantial additional value.

1 https://fortune.com/best-companies/2019/

2 https://universumglobal.com/ebnow2019/

SEEING ESG THROUGH THE PROCUREMENT LENS

The procurement function is the number one driver of the real gains to be made in ESG. The 2020 CDP report, Transparency to Transformation: A Chain Reaction, highlights that scope-3 upstream carbon emissions are on average 11.4 times higher in the supply chain than in operations itself. In three sectors, the upstream emissions are more than 20 times higher than those within the company (retail 28.3 times; apparel 25.2 times; services 21.1 times). Taking the full supply chain into account can have up to five times more social impact for organizations than operations alone, due to the number of employees in the supply chain versus in the company itself, and double the impact in the area of governance when considering external spend as a percentage of total revenue.



The procurement function is at the heart of any transition towards sustainability: its key assets, including its ability to connect with stakeholders and create coalitions, are essential to success in integrating ESG. This power is demonstrated by many examples that will be discussed in this paper, such as the global electronics company that has developed an ROI-driven segmentation approach to maximize the impact of its sustainability actions, or the footwear and apparel manufacturer that has produced its own environmental profit and loss (EPL) sheet to evaluate hidden environmental costs. Viewed in this way, these capabilities enable the procurement function to act as the architect of a fully integrated ESG strategy, one that reshapes the entire business around ESG criteria.

This new integrated way of thinking about ESG is already having significant impact in design, pushing companies towards ecologically friendly products, as well as revamping materials use and reuse. With procurement as the architect of the extended company, an integrated sustainable approach can connect external expertise with internal business functions to maximize environmental and social impact. This transition to integrated ESG is so important that the CPO is likely to be the first person the CEO turns to on strategy.

MOVING SUSTAINABILITY OFF THE WISH-LIST

While most appear to be still pondering what actions to take, a number of companies have already started to embark on the full integration of ESG criteria across their entire supply chain.

One cosmetics brand, part of a global consumer packaged goods (CPG) giant, aims to ensure that all of its packaging is 100 percent recycled, recyclable, and reusable by the end of 2021. Its longer-term aim is to ensure that its entire brand is zero-waste. To achieve these requires the involvement of all the suppliers along the whole supply chain, including tier 2 and 3 suppliers. This approach has already yielded impressive results, increasing compound annual growth rate threefold between 2016 and 2018, compared to the same period for the group as a whole. This underlines how integrated ESG not only makes a company more responsive to emergent or changing customer needs, as well as investor and regulatory pressures, but how the reshaping of the supply chain around ESG goals can create tangible value.

TWELVE ESSENTIAL ACTIONS TO ACHIEVE FULLY INTEGRATED ESG

We have identified twelve actions CPOs need to take to successfully drive integrated ESG throughout the organization. We explore each of these in fair amount of deal, providing examples, to give the CPO a good sense of how they should be applied to the procurement function.

TRACK

1 Convert ESG-related company ambitions into **strategic procurement objectives**

2 Build a **robust baseline**

ACT

3 Revisit **category strategies** and **supply base**

4 **Embark, engage,** and **innovate** with your suppliers

5 Be **explicit on your goals** and **pledge** to suppliers

6 **Team up with partners** to share ESG-related best practices and innovations

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 TCO and EP&L*

10 **Embed** sustainability in **core procurement processes**

11 **Upskill teams** to better engage suppliers

12 Embed ESG in **procurement data and digital asset strategy**

*TCO and EP&L - Total Cost of Ownership and Environmental Profit and Loss

TRACK

1. Convert ESG-related company ambitions into procurement strategy objectives

When companies make ESG commitments, they then need to be transposed into the processes of the procurement function. The question to ask is, what will these commitments mean for the procurement teams and their suppliers if the company aims to be carbon neutral in ten years time? The answer to this question will take the form of metrics and targets.

To define its objectives on all three dimensions of E+S+G, procurement can leverage existing frameworks (such as CDP or Ecovadis, to name two of the most commonly used ones). Where a more precise picture of the target state is required, specific ad hoc objectives and key performance indicators (KPIs) can be added to link directly to core procurement activities. For instance, a company might include such objectives as a zero-plastic packaging policy or 100 percent sustainable raw material sourcing.

The targets then need to be turned into KPIs and other metrics, by which the business can challenge itself and its partners against the new ESG standards. The KPIs support the company in achieving two things. First, they enable it to set an effective baseline (see action two). This will not only ensure that the company fully understands where it is starting out from but will also allow it to define its desired path using science-based targets. Second, by applying these metrics, the company will also be able to compare its progress with its peers. This, in turn, will help it to identify best practices.

2. Build a robust baseline

Do not underestimate the challenge in developing a well-defined ESG baseline that can be used across the entire company and that achieves full transparency on the supply chain. Much of what needs to be targeted will be hidden from immediate view. As one CPO says, “the dirty part of our production is purchased.”

In order to build a true and clear picture of the ESG impact along the entire supply chain it is important to focus on all suppliers, not just those in tier 1. However, establishing solid metrics even for the carbon impact of tier 1 suppliers can prove to be a quite a challenge due to the poor quality of the data available. A study by Ecovadis, for instance, reports that only 15 percent of tier 1 suppliers, out of a sample of 40,000, properly report their CO2 emissions.[3]

Due to such challenges, the creation of an ESG baseline needs to be an integral part of the long-term ESG strategy. Developing this will likely require several years of continued effort. When selecting the initial cohort of suppliers to be assessed, it is important not to make spend per supplier the only criteria for selection. The place to start is by prioritizing the suppliers that are the most important to the supply chain in terms of their respective ESG profiles and levels of risk.

3 https:/resources.ecovadis.com/fr/actualites-ecovadis/ecovadis-carbon-action-module-3

ACT

3. Revisit your category strategies and supply base

The time is already past when a category strategy's sole aim is to deliver the most cost-efficient product regardless of its ESG impact. More stringent sustainability guidelines and regulations are coming to have an increasingly strong impact on the supply base.

Resilience is currently high on the agenda. In order to ensure the current category strategy is robust, it needs to be assessed against a broader spectrum of criteria, within which ESG will claim increasing prominence. These twin objectives, of building resilience and ensuring ESG compliance, will together push procurement toward a more local and more robust supply base.

The aim should be to integrate procurement into the circular economy, rethinking the supply base in terms of sourcing and materials to mitigate risk, while avoiding excessive costs and negative ESG impact. Innovation will be necessary to achieve this goal. CPG companies, for example, are boosting the development of recycled resin (PCR) for packaging, as it will no longer be acceptable in the future to sell products in prime petrol-based plastics.

4. Embark, engage, and innovate with your suppliers

There needs to be consistent messaging to all suppliers in communicating the company's sustainable procurement objectives. The messages need to be clear, frequent, consistent, and sustained.

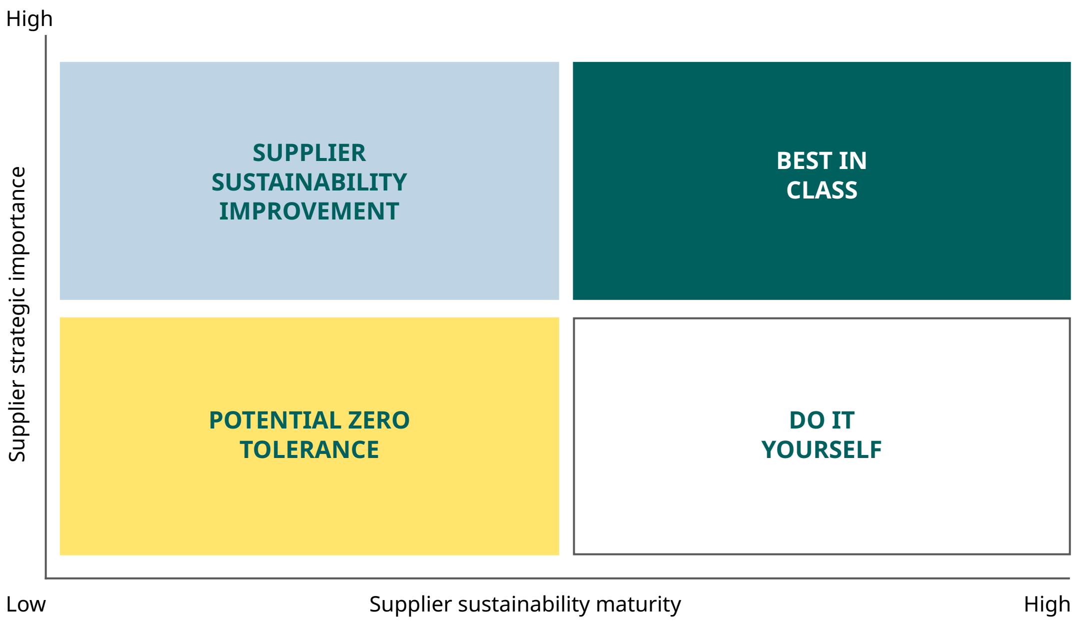
Though essential, top-down communication is not of itself sufficient. If real change is to be achieved, the communication needs to be two-way (see also actions 5 and 6). Regular interaction with suppliers is essential both to get their buy-in to the goals and to ensure that they achieve the maximum impact in the shortest time possible.

No organization can start by addressing its entire supply base all in one go. Nor is an 80 / 20 approach that is focused solely on spend likely to be effective, as ESG impact can be hidden within particular categories or subcategories. The more effective prioritization approach is to define relevant targets for each category by supplier (or supplier group) based on where the largest impact can be achieved. This will ensure that the initial efforts are oriented towards the areas of business where the maximum impact will be delivered.

Discussion and joint problem solving are particularly important in identifying exactly where to start. Sustainability should be on the agenda of every supplier interaction, project review, and business review. Not a day should pass without addressing this topic. However, buyers cannot work full-time with their suppliers, so you need to have a strong supplier relationship management (SRM) process with smart prioritization that provides a sense of the potential return of investment for each supplier in terms of the time dedicated versus the expected impact on supply chain ESG.

A global electronics company has developed an ROI-driven segmented approach that maximizes the impact of its sustainability development actions. It put this in place after finding that its earlier one-size-fits-all approach yielded disappointing results. In its new approach, the company has used a supplier auditing system to group suppliers into four clusters. It uses a specific approach for each of the different clusters, where the suppliers most advanced in their sustainability journey are given greater incentives to stretch further (see Exhibit 1).

Exhibit 1: Supplier sustainability matrix



- **Potential Zero Tolerance:** the minimum requirement, a pre-requisite to be met by all the active suppliers and all potential suppliers
- **Do It Yourself:** suppliers aware, capable, and above a certain maturity level
- **Supplier Sustainability Improvement:** strategic suppliers that are not yet fully aware of how to further improve their sustainability performance though nonetheless highly engaged and committed
- **Best in Class:** suppliers that fully integrate sustainability into their business and manage sustainability in a structural manner

The company's differentiated SRM approach allows its best-in-class suppliers a lighter auditing process. This enables them to act independently in their sustainability efforts. The company works with the three other categories more closely, helping them to design a detailed action plan that includes clear targets and objectives. It then monitors the progress of these suppliers against a set of predefined KPIs. The company also offers support and training to increase levels of awareness.

This differentiated approach has enabled the electronics company to concentrate its efforts and resources on its strategic suppliers, focusing on those that have the largest potential impact on its sustainability objectives. This framework ensures the company is focusing its efforts on making long-term structural improvements to its ESG, rather than merely being reactive, fixing problems as they arise.

5. Be explicit in your goals and pledge to suppliers

Companies need to give thought to how they will translate their ESG goals into everyday operations requirements at the category level. The targets need to be readily interpretable by suppliers in respect to their own business if they are to contribute to the company's sustainable procurement goals. For instance, a practical supplier target might be: 'suppliers will need to show they are carbon neutral', while a practical category target might be, 'we will only purchase eco-friendly, Forest Stewardship Council-certified paper'.

Once the targets have been defined, they need to be set in stone using such mechanisms as supplier codes of conduct or purchasing policies. To take one example, that from an energy and automation giant: it has developed a code of conduct for its suppliers that requires them to provide employees with a living wage and to comply with the company's ethics and human rights policies. How it communicates this is central. The company underlines what this means in practice for its suppliers by itemizing metrics for particular examples.

Communication to suppliers comes first. Once the company has defined its procurement targets, it needs to develop a comprehensive communication plan that reaches all suppliers, and then keep repeating its key messages over and over again, so that every buyer and supplier is fully convinced of its commitments and the need to deliver on the targets. By placing these targets within written commitments or agreements, the ESG aspirations are turned into the equivalent of a pledge in which all commit to achieving the desired outcomes. This underlines to all stakeholders, and to suppliers in particular, that there can be no going back on their commitments.

6. Team up with partners to share ESG best practice and innovation

Achieving ambitious ESG goals will require significant innovation in every business. Innovation is key for producing the step change required to address the current ESG challenges; gradual improvements will never be sufficient on their own. Procurement has a key role to play in detecting, capturing, and communicating innovations that can transform the supply chain and enable more sustainable business models.

ESG is much more than just emissions, of course, but even focusing solely on this single area will require a massive business transformation if it is to comply successfully with the

Greenhouse Gas (GHG) emissions targets set by the Paris Protocol. Doing so will require innovation throughout the entire supply ecosystem.

Due to its location within the business system, procurement is able not only to identify successful innovation but has the capabilities to transmit appropriate new technologies and processes to its partners and suppliers.

Producing innovation is a joint responsibility, as is sharing the burden of investment. It is always more efficient to hunt out improved ESG performance together with suppliers and other stakeholders. Firstly this eliminates any duplication of effort and avoids suppliers being asked for the same thing in different ways by more than one client; and secondly it brings critical scale to transformative initiatives. To take one example, that of shaping new supply chains for recycled or biodegradable plastics — it is not feasible for a single company working on its own to achieve this goal but is something that can be readily attained with full, joint, industry commitment.

All innovation in procurement needs to be appropriate, as well as technically feasible. It is important to consider whether or not what you are asking of your suppliers runs the risk of overloading them with too much additional complexity. Equally, question whether they have the resources to comply with all your various demands as well as those from their other clients.

IMPACT

7. Champion change internally across all business functions and initiatives

Within the organization, procurement teams have the know-how to understand the needs of the business as a whole including its functional requirements, as well as any potential constraints and limitations. Combined with procurement teams' extensive connections throughout the company, this places them in a unique position to influence and shape ESG outcomes.

This influence is epitomized in their daily negotiations and interactions with internal colleagues and stakeholders in challenging specifications, volumes, and costs. "Do you really need to invest in this equipment where alternatives exist?; do you need this expense considering that other business unit costs are half this?"

This position can be used to provide the necessary challenge to drive change within the company and to push every employee to act as a responsible global citizen — such as when selecting the most appropriate travel plan or picking the most ecologically friendly company car.

This role of the procurement function as a change advocate is highlighted by the head of procurement for a major chemical company, who states, "We believe it's vital to continuously engage our employees in procurement, to select and manage suppliers that meet our expectations in terms of sustainability." The company's approach has enabled it to produce the high levels of internal engagement required to roll out its global sustainable procurement program. The program integrates procurement into group-wide sustainability efforts through best-in-class capacity building programs and cross-functional projects.

Another example of what successful employee engagement can look like in practice comes from a construction and infrastructure management business. The company has created a new role for 'circular economy champions' who have a mandate to boost all ESG initiatives across the company. This community of champions shares best practices, monitors regulatory compliance, and fosters the adoption of common cross-business practices. Their focus is on three key areas of action: supply from economic stakeholders, consumer demand and behavior, and waste management. In each of the three areas the champions are responsible for ensuring the company incorporates circular economy principles into every step in the value chain in terms of eco-design, its systemic and regional approach, and inclusive collaborative methods.

8. Accelerate change externally throughout the entire ecosystem

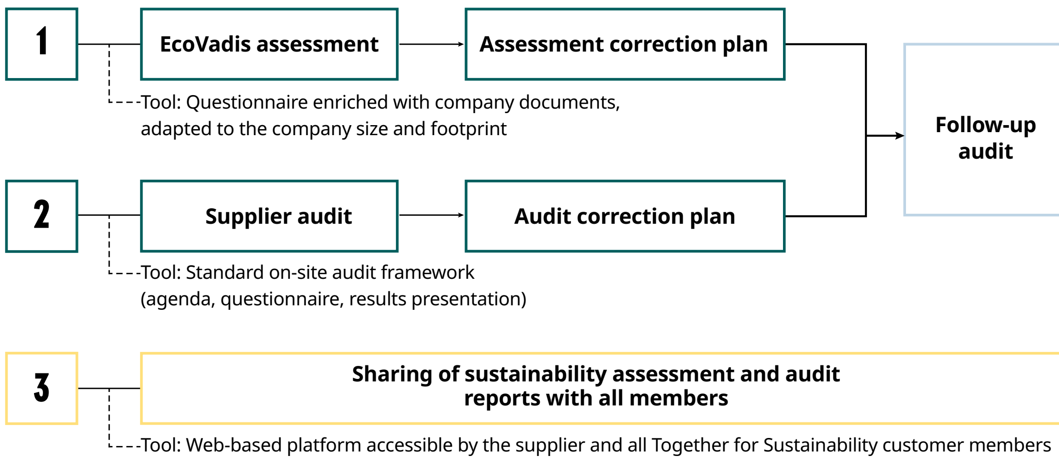
Externally, the procurement function needs to look beyond its suppliers to form broader coalitions of influence and action. Working with non-governmental organizations (NGOs), academia, or industry peers, even when they are competitors, is the most effective way to build a common and well-coordinated approach to mitigating ESG risks and developing best practices. A major benefit of this collective approach is that it gives the industry the ability to engage effectively with policymakers when defining industry standards.

Industry groups often start with developing common assessment standards. Producing a common methodology by which to assess suppliers on ESG, one that fits the specific needs of the industry, has proven to be a more effective solution than each company creating its own assessment standards. A group approach not only increases the validity of the assessment from the stakeholder point of view but simplifies things for suppliers, which would otherwise have to comply with numerous different frameworks.

This is underlined by the experience of the CPO of a major chemical and pharma producer, who says, "The key is not to try to address sustainability in the supply chain in isolation. It's not possible for one company to solve all the issues on its own — you have to be realistic. We partner with associations in a united approach to have a much bigger impact."

Ten years ago, the company joined the industry supply chain initiative to co-found a jointly sponsored global audit program with five other companies, the 'Together for Sustainability' initiative. The initiative's membership has since grown to 29 companies. It aims to assess and improve sustainability practices for chemicals companies' supply chains and relies on a detailed assessment process that they have developed together (see Exhibit 2), along with common standards, shared ESG assessment and audit results, best practice exchange, and resource optimization.

Exhibit 2: A unique process to assess suppliers CSR compliance



The benefits of this joint action are clear to the CPO: "It means that time, resources, and costs are significantly reduced, and sustainability standards in our chemical and pharma global supply chains are mutually improved." At any one time, the program members, who control a total spend of €320 billion, are undertaking 10,000 supplier assessments using this approach.

Since the 'Together for Sustainability' program (2011), several other sector initiatives have been launched in the chemical and healthcare sector, including Drive Sustainability (2013), Railsponsible (2015), Responsible Beauty Initiative (2017), Responsible Healthcare (2018).

OPERATE

9. Move procurement performance monitoring to ESG-adjusted TCO and environmental P&L

Integrated ESG requires strategic alignment around clear an ESG-adjusted total cost of ownership (TCO) and environmental P&L (EPL). This avoids the risk of having many different versions of what ESG means within the company, as different functions and businesses attempt to individually frame strategic initiatives without any proper alignment or synchronization. A single, integrated approach is more impactful, productive and efficient.

As business decisions are usually based on a TCO calculation, it is also essential to factor the ESG metrics into this calculation and then define the targets at the company level. One notable example of how this can impact outcomes is seen in the approach designed by a software giant in 2012. The company uses a 'carbon fee' that it factors into the TCO as a cost when comparing various business options. For instance, if it is comparing two different IT hardware suppliers, the bottom line TCO for both will include the cost of carbon emissions within the calculation. This approach ensures that the company's overall business orientation is towards more sustainable options.

The impact of an EPL approach can be profound. One footwear and apparel manufacturer, for instance, produces its own EPL sheet to evaluate its hidden environmental costs. Its approach combines non-market evaluation techniques, ecosystem assessments, and supply chain metrics. The first time the company applied this approach to its supply chain it discovered that 85 percent of its environmental costs were outside its direct control, with two-thirds of this impact the responsibility of its tier 4 suppliers. It has since used the approach to set up a new managerial paradigm in working with its multiple stakeholders to mitigate its environmental impact and drive more environmentally responsible supplier selection. The ingenuity of this approach has ensured that it has received international attention from a wide variety of sources, including business, NGOs, the media, and academia.

Ultimately, no company can claim to have fully integrated ESG into its strategic objectives without aligning personal incentives with its collective success to ensure those responsible for achieving these goals are properly motivated.

10. Embed sustainability into core procurement processes

To achieve integration of ESG into the procurement processes requires ensuring that sustainability commitments and objectives are well-connected with the actual decision-making processes. Without this, there can be no significant progress.

The key enabler for achieving this is to ensure all the core procurement processes are ESG-driven. Here we examine two examples of how this can be achieved.

Core process 1 — Supplier panel qualification: Companies will have to identify vendors and suppliers with whom to partner in order to define strategies that will support long-term goals. Through strategic partnerships, organizations can foster innovation and shape new industry solutions and standards by creating new value space and new technical solutions, for example.

CPOs will have to make sure that their approved vendor lists position them for this strategic approach, by using the right selection criteria and prioritization methodology in order to make decisions based not just on price but using a comprehensive 360 degree approach that includes ESG considerations. Core processes do not currently support this level of assessment and these methodologies will need to be developed.

The objective is to ensure that the approved vendor list of those invited to tender for supply is based on criteria that include ESG as a key factor in the assessment. This requires a consistent and systematic approach that optimizes the vendor panel on all its dimensions, including those of ESG.

Today, certain ESG criteria are already red flags to the majority of companies — such as non-compliance with ethical principles or the use of child labor in manufacturing. Failure to comply with these criteria automatically leads to decisions to review the relationship and, in cases of continued non-compliance, to end it. However, very few companies today have a similarly stringent approach to all ESG criteria. What is required is to put in place standards so that, when a rating falls below a certain threshold, this eliminates that particular supplier from being considered for business.

As has been demonstrated in certain categories and commodities following the start of the Covid-19 pandemic, rethinking and simplifying the supply base toward more local supply can help support a more sustainable and more resilient business. Companies will shape the industry by partnering with some of their key suppliers to move towards better long-term solutions.

Core process 2 — Business allocation through tenders: Currently, complying with ESG requirements is not yet a source of competitive advantage for suppliers. This is largely because the tendering process treats the ESG requirements for a vendor solely as a 'license to operate'. This means that once the supplier has complied with the requirement, they are able to enter the race, but deciding who the winners are is determined solely by traditional criteria alone, such as cost, quality, and service levels.

If companies are to move toward fully integrated ESG, they need to ensure that the TCO is adjusted to the ESG criteria and standards (see action 9), guaranteeing that all business decisions necessarily factor in ESG impact. For instance, in the case of a national postal provider, the TCO calculation includes the environmental costs required to take account of prompt and responsible treatment to environmental standards, as well as the salvage value, to take account of the cost of timely asset disposal and realistic recovery of value.

11. Upskill teams to better engage with suppliers

Achieving integrated ESG throughout the supply chain can never be a task undertaken by the buyer alone. It is necessarily a partnership. But it does require ensuring that every buyer has at least a basic understanding of ESG as part of their core procurement skills to be able to challenge suppliers about their performance, and help them to close the gap between aspiration and delivery, journeying with them towards excellence.

While the ultimate goal is not make every buyer an ESG expert, it is to move the buyers function as a whole to a level of expertise where they are able to guide in-depth discussions with suppliers on their most advanced initiatives, and are able to assess their impact and challenge the detail of their projects. This will give rise to in-house ESG champions who can act as internal coaches for the buyers' team, as well as for other functions.

What this means in practice can be seen in the ESG journey of a global leader in automotive technology. The company has made ESG assessments a mandatory requirement in the sourcing processes, embedding ESG clauses within its contracts with suppliers. It now conducts annual supplier reviews by partnering with ESG assessment experts (EcoVadis), taking the opportunity to upskill their employees, such as buyers, to champion ESG initiatives.

When buyers have reached this standard, they will open the door to discussions with ESG experts, as well as with policymakers and rating agencies. This will enable the company to gain a full and comprehensive picture of ESG development in such areas as potential methodological limitations and insights into innovations and best practices.

12. Embed ESG in data and digital asset strategy for procurement

As we have seen already, improving ESG performance starts with gathering the data needed to define the baseline, shape targets and KPIs, and drive performance.

If buyers are to be able to make clever use of the available ESG data, they need to be equipped to navigate this still relatively uncharted and rocky ocean. The essence of success will be to structure, organize, and maintain a clean 'data lake' that enables buyers to maximize the value that can be extracted from the data. This will help improve process efficiency, such as automated reporting, and — more importantly — generate insights-driven and well-informed decision making.

Digital procurement solutions

In the period 2016 to 2020, the investment in digital procurement solutions has multiplied five times. In 2020 total investment stood at approximately $300 million. There are two major types of players in this space:

- Specialist solution providers and pure players that provide digital procurement app support
- Generalists from the digital procurement space that are in the process of enhancing their value proposition to support sustainable procurement development through apps

One example of using digital procurement solutions is the spend analytics firm that used third party databases to get suggestions of suppliers to help a client company to meet their goal of increasing spend on female-owned or indigenous people-owned businesses in the supply chain.

This new area is growing rapidly and we expect to see further solutions innovation in the coming months.

There are already a wide variety of examples of how companies are leveraging digital procurement tools to support their ESG risk assessment. In one example, a major communications company is using an automated anti-corruption screening tool to support it in identifying any potential ethical risks related to its suppliers. The suppliers are screened on a weekly basis to assess a wide range of risks, including regulatory, financial, environmental, social and labor issues, and adverse media coverage. In addition, the screening tool is used monitor politically exposed persons, sanction lists, and state ownership controls. The tool automatically flags up alerts which are then reviewed in the company's weekly screening process and monitored on an ongoing basis, if necessary.

In a second example, one of the world's largest auto manufacturing groups uses an artificial intelligence (AI) tool to monitor the sustainability of its supply chain, providing the group with early warning of any conflicts with its sustainability requirements. The tool monitors potential sustainability risks such as environmental pollution, human rights abuses, and corruption by analyzing supplier-related news from publicly available media and social networks in more than 50 languages and over 150 countries. The AI tool is not only able to make this analysis for the company's direct business partners but for the lower tiers of its supply chain. If any sustainability risks are flagged by the system, the brands concerned are notified immediately. Procurement then assesses the situation and evaluates whether or not there is a need for remedial measures.

THE TIME TO ACT IS NOW

The procurement function is central to ESG. The function's unique ability to connect with stakeholders and create coalitions across the entire supply chain and beyond gives it both the power and the influence to drive integrated sustainability throughout the business system. Yet this won't happen on its own. An action plan is needed to lay out exactly how procurement will get to its chosen destination, one that turns good intentions into a series of measurable metrics and milestones. Achieving this will require long term vision, commitment, and discipline.

The twelve steps of the sustainable procurement playbook laid out here are just the start of this discussion, the mere skeleton of what CPO will have to deal with in planning their commitment, one that will need to be adjusted to the company's specific context and maturity. The next step in this discussion is to start fleshing this out and to begin the journey of turning the desire for integrated sustainability in procurement into corporate reality.

The need for ESG has clearly never been more pressing, both in terms of the environment as well as for social responsibility and ethical governance.

The time to act is now.

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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