Sustainable Sourcing and Procurement: More than Green

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Summary

Sustainability is fast becoming a key consideration for supply chain managers given the gamut of environmental, social impacts and the risks and opportunities involved in today's global environment.

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Sustainability is fast becoming a key consideration for supply chain managers given the gamut of environmental, social impacts and the risks and opportunities involved in today's global environment.

The sustainable supply chain provides the focus for any organization, whether service- or product-based, seeking to improve the social, environmental and economic performance of its operations. Apart from the moral imperative, substantial business benefit can be achieved through a combination of leadership commitment, focused and practical initiatives, and improved systems and processes.

Green procurement, Environmental Preferable Purchasing (EPP)[1] and affirmative procurement were[2] doing rounds among the various organizations, policy makers and government institutions since 2004. Many companies were enthusiastic about these concepts but in reality most of these initiatives were "marketing motivated", because they lacked resources, most sustainable development issues were generally isolated from the main stream and these initiatives did not have strong executive commitment.

An A.T. Kearney and Institute for Supply Management survey revealed that in a group of respondents nearly 60% had corporate sustainability strategies, but just half had written guidelines or policies around sustainability in the supply chain and even fewer had a formal supply management sustainability strategy in place.

In today's global manufacturing environment businesses rely even more on their supply base to provide product innovation and competitive cost differentiation. Increasingly we are being expected to know that our suppliers are as mindful of their environmental and social responsibilities as we are or should be.

Many companies have started programs to understand their own sustainability impact and get a sense of key organization risk factors. Having made these initial internal efforts, organizations turn towards the improvements which can be achieved by working with suppliers and service providers. Initially, this is often done through a Code of Conduct for suppliers, reviewing the purchasing Terms of Trade and conducting surveys and audits. Beyond aligned company policy; the greatest gains are made though improving transparency of supplier products and processes identifying those areas where improvements can be made. Responsibility of your supplier's products and processes does not stop with your immediate supply base; today's companies need to understand the practices of their full supply chain including the entire multi-tiered supply base.

Effective sustainable procurement practices extend beyond general policy and risk mitigation by providing real cost saving opportunities. As an example, leading companies have started to leverage a comprehensive life-cycle costing methodology when sourcing goods and services. This would include reducing use, reusing and recycling and ultimately reducing the amount of waste going to landfill. A purchaser looking at IT equipment for instance, must realize that the purchasing cost of the equipment is typically only about 20% of the entire cost of purchasing, operating, servicing and retiring this product. Selecting a supplier with a slightly higher cost but with a take-back program might be more cost effective to the overall purchasing decision. Also, a buyer looking at lighting might see that LED alternatives are typically five times more expensive than fluorescent or traditional lighting alternatives making up-front purchasing decisions difficult. In looking further into this opportunity though, a buyer with the right data can see that these fixtures consume 68% less power, and last up to 50 times longer than traditional light sources.

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[1] Source: i) The North American Green Purchasing Initiative – Eco-SAT, ii) US Govt. Executive Order (EO)13101 : Greening the Government through Waste Prevention, Recycling and Federal Acquisition, iii)The power of green public procurement in the EU by Mogens Peter Carl, Director-General for the Environment, European Commission

[2] Source: i)The North American Green Purchasing Initiative – Eco-SAT ii)Dept of Defense Green Procurement Strategy

These opportunities have created emerging and increased the importance of some classic metrics which serve as the basis on which companies are reporting sustainable gains including:[3]

- Supplier Labor Practices and Wages and Diversity
- Usage of recycled materials,
- Impact of material waste,
- Material toxicity
- Use of Sustainable sources and Energy Usage
- Local Sourcing
- GHG Emissions
- Raw material sourcing in order to complete full life cycle environmental foot printing [4]

Sustainable procurement, as part of an improved procurement process, seen as an organizational priority which questions the need to spend; cuts out waste, seeks innovative solutions and is delivered by well trained professionals will reduce rather than add to spending in both the short and the long run.

In a series of blogs I would like to outline from a solution management point of view on sustainable procurement in the near future.

[3] Source: AT Kearney Survey with ISM

[4] Source: i) ABENGOA- Supplier guidelines for calculation of Green House Emissions. ii) CERESTECH: Greenhouse Gas Emissions viewed from a cradle to gate life cycle perspective. iii) Green house Gas Emission factors for management of selected materials – by J. Randall Freed, William Driscoll, ICF Consulting, Eugene Lee, and Clare Lindsay US Environmental Protection Agency iv) TETRATECH: The Role of Process Engineering in Reducing Greenhouse Gas Emissions.

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