

# Sustainability: The Landscape of Client Needs – A Primer



## Applies to:

Professionals concerned with an organization's sustainable business practices.

## Summary

The need of organizations with respect to sustainability is varied and evolving. Three clear segments exist, with different levels of maturity – each of them requires a specific set of solutions. At the same time, the macro environment will determine how fast and ultimately where these trends will “land”. Let us explore the implication for sustainability solution experts.

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## How Customers Needs are Evolving?

All industries face mushrooming regulations, the potential negative margin impact of highly volatile, increasing commodity prices, and the exposure of brand value to activism from investors and consumers. As a result, sustainability will evolve into a strategic priority for enterprises, which will, in turn, seek to holistically manage economic, social and environmental risks and opportunities for increased short and long term profitability.

The immediate pressure is greatest in heavily regulated industries and manufacturers due to resource-intensive operations as well as product safety and environmental-health-and-safety regulations. However, retail and CP companies are also facing demands from end customers and from trading partners looking to eliminate sustainability risks in their complex, interdependent business networks. These conditions will drive the transformation of business models, organizational structures and cultures, operational processes, and management systems.

An early indication of this shift is the clear emergence of the Chief Sustainability Officer (CSO) role and organization - with 30% of the Fortune 500 companies already having corporate sustainability teams of 20 or more employees. The CSO role will evolve significantly as sustainability becomes a core pillar of strategy rather than a bolted-on process. Specifically, the CSO will move from being responsible for defining the Sustainability strategy to driving central initiatives.

During this shift, execution responsibility and buying decisions will remain with the line-of-business (see LOB requirements on next page). The LOB executive will typically seek short-term ROI – generally less than one year, preferably classified as OPEX rather than CAPEX. These executives will also seek the ability to rapidly change direction, if business needs force them to do so. Therefore, they will seek solutions that (a) link sustainability initiatives to financial impact, (b) deploy rapidly without expensive consulting, (c) limit integration to existing IT landscapes, and (d) provide consistent user experience and low training requirements. These purchasing boundary conditions will remain in the mid-term.

However, with the rise of CSOs as well as increased CFO interest in the financial impact of sustainability initiatives, LOB owners will increasingly be made accountable for processes with dependencies to adjacent departments and stakeholders. As a consequence LoBs will have to align their requirements and to syndicate buying decisions at an enterprise level - CSO, CFO, and CIO. These leaders will either gain influence or outright responsibility for the purchase. They will still demand the LOB boundary conditions, but will also seek solutions seamlessly integrating into existing IT-landscapes and will push coordinated buying.

As an illustration product traceability and recall management requires the close collaboration of various functional departments in the value chain: Development needs to ensure traceability of design requirements through verification and validation to finished product, and all associated documentation, registration and certification with applicable regulations; Manufacturing is tasked to ensure traceability from supplier material batch/lot into finished goods, uniquely serialize the product and print on label; Supply Chain has to identify the source supplier material, and from there all affected work-in-progress in case of a contamination/non-compliance event, inventory, and sold products; and Regulatory Affairs needs to withstand audits probing all procedures and records for compliant with applicable regulations and related operational proof.

LOB	Sustainability Topic	Value Driver	Business KPI
<b>Sustainability</b>	Sustainability Performance	Drive profitability by holistically managing economic, social, and environmental risks & opportunities.	<ul style="list-style-type: none"> <li>Comply with assured reporting (GRI)</li> <li>Reduced cost of voluntary reporting</li> <li>Financial impact of Sustainability initiatives</li> <li>Reduced operational risk</li> <li>Reduced resource footprint (energy, carbon etc)</li> </ul>
<b>Compliance</b>	Sustainability performance	Reduce cost and risk of compliance	<ul style="list-style-type: none"> <li>Increased overall regulatory compliance</li> <li>Reduced cost of compliance</li> <li>Avoidance of penalties</li> </ul>
<b>Product</b>	Sustainable Products & Services	Extend beyond compliance to sustainability-driven differentiation	<ul style="list-style-type: none"> <li>Increased product compliance</li> <li>Reduced cost and risk of compliance</li> <li>Ensure Product Marketability/Differentiation</li> <li>Rapid recall in case of incident</li> </ul>
<b>Environment, Health, &amp; Safety</b>	Environmental, Health & Safety	Adhere to environmental standards & ensuring employee health & safety.	<ul style="list-style-type: none"> <li>Reduction of costs via EH&amp;S management</li> <li>Prevent production losses due to mishap downtime</li> <li>Optimization of capital spend</li> <li>Regulatory compliance (<i>non asset intensive</i>)</li> </ul>
<b>Manufacturing</b>	Environmental Resource Productivity	Reducing cost and footprint of manufacturing	<ul style="list-style-type: none"> <li>Reduced cost of manufacturing</li> <li>Reduced resource footprint (carbon, energy, etc)</li> </ul>
<b>Supply Chain</b>	Sustainable Supply Chain	Compliance and cost reduction	<ul style="list-style-type: none"> <li>% buyers trained on sustainable procurement</li> <li>Supplier sustainability reports (GHG, rights, etc)</li> <li>% of goods procured from sustainable suppliers</li> <li>Reduced recall time &amp; cost</li> <li>Reduced transport footprint (mileage, trips, etc)</li> <li>Quantification of supply chain risk</li> </ul>
<b>Human Resources</b>	Sustainable Workforce	Sustainably managing human capital to better support growth aspirations.	<ul style="list-style-type: none"> <li>Compliance with reporting standards (diversity)</li> <li>Success of HR initiatives</li> <li>Link to profitability</li> </ul>
<b>Information Technology</b>	IT Infrastructure	Creating a sustainable IT infrastructure while reducing cost & risk	<ul style="list-style-type: none"> <li>Reduce IT-induced emissions &amp; energy consumption</li> <li>Increased compliance with regulation</li> <li>Reduce cost and risk of IT</li> </ul>

### Large Enterprises First Adopters...

Demand for sustainability solutions is greatest among large and upper-mid enterprises which have increased complexity from global operations and are targets for consumer, NGO, and investor activism. It will likely be difficult to sell enterprise solutions in 2014 that do not have sustainability embedded into all processes and analytics. Although the demand curve in SME lags large enterprise adoption, it will accelerate rapidly in the next 3-5 years as LEs pressure supply chains to sustainability excellence.

### Driving a Large, Diverse – But Converging - Market

Sustainability – as portrayed in SAP [Sustainability Map](#) - is a **series of adjacent, related markets** catering to each LOB within an enterprise – starting with the board room, then moving into core operations and support functions.

Currently, the market comprises seven segments falling into different maturity categories.

**Emerging.** New segments that are dynamically shaping up under rapidly evolving regulatory, demand and supply forces. Here, new savings opportunities for both cost of resources and cost of compliance emerge as regulatory pressure increases. This encourages customers to avoid lock-in into any single, unproven solution, especially if characterized by high CAPEX. It also prompts them to avoid entanglement in a web of best of breed whose longevity, scalability, and cost are unknown. They key segments here are:

- Sustainability Performance, propped by the inclusion of Sustainability in core company strategy as well as demands of NGO reporting.
- Environmental Resource Productivity and in particular Energy are driven by both regulation and cost-reduction.
- GHG / Carbon shows similar dynamics

- Product Environmental Footprint

**Transformational.** Established segments with clear buying centers experiencing a paradigm shift moving from reactive to strategic, pro-active approach.. These segments grow at a healthy but not red-hot rate.

- **EH&S** presently shifts away from a purely compliance based approach to holistic risk and safety management in operations (Operational Risk Management).
- As design for environment becomes a differentiator, **Sustainable product initiatives** increasingly focus on being “more good” versus “less bad”.

**Established** with evolving sustainability requirements. Here underlying solutions are mature, requirements well-understood, and buying centers are clear. Sustainability is incorporated into operational processes as it becomes increasingly strategic. In these scenarios however, Sustainability is often an important but not individually decisive attribute. The requirements will need to be fully incorporated into existing solutions but will likely not drive incremental sales per se.

- **Procurement:** Customers need to align their procurement activities to broadly accepted sustainability frameworks (e.g. GRI) and report on them. Sustainability also drives the need for additional capabilities around sourcing preferable materials, sustainability-oriented supplier collaboration and management, life cycle costing etc.
- Carbon and energy efficiency becoming a new parameter for optimization of the **Supply chain** impacting supply chain design, planning as well as short term fulfillment.
- **Sustainable Workforce:** evolving new reporting standards drive new requirements for ensuring labor compliance and rights and fulfilling related reporting. Additionally, sustaining the workforce’s effectiveness in spite of rising demographic challenges require new approaches to diversity and talent management.
- **Green IT:** evolving needs related to energy and data security.

The **convergence of these adjacent markets** into inter-connected market opportunities with central co-ordination of the respective buying centers depends in upon the continued growth of the CSO role or another centralized owner of sustainability (e.g., COO or CFO) as the central force tying together these initiatives – on the back of clear value propositions demonstrating end-to-end, enterprise-wide value. These dynamics will also impact buying decisions in established segments, e.g.

- All solutions in the various segments will tie into a holistic **sustainability performance** management and reporting which requires appropriate data integration
- **Risk management, EHS management, and asset management** must seamlessly integrate on a process level in order to execute on end-to-end processes
- Profitable participation in **carbon trading** requires linking **carbon management, production planning, commodity trade & risk management, treasury, and budgeting**
- Product footprint labels will require integration of **bill of materials, supply chain, and manufacturing planning**

Ultimately the convergence of these market segments will make **it a prerequisite for any vendor and their clients to incorporate sustainability constraints and variables** in their enterprise software offerings.

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