Deloitte.

Sustainable Supply Chain

A challenge that brings a great opportunity

Based on data from Deloitte's Sustainable Supply Chain Survey 2024

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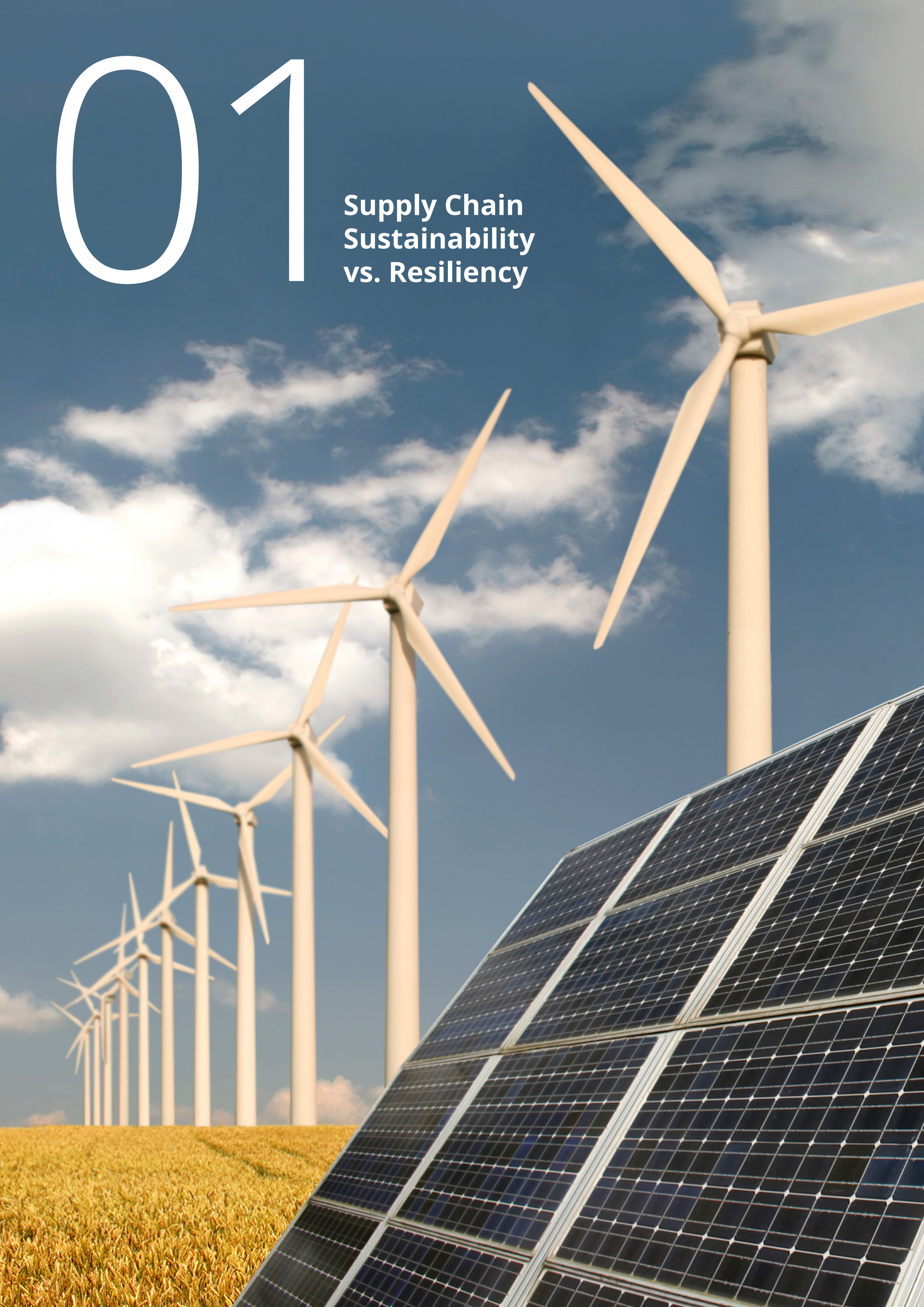
Supply Chain Sustainability vs. Resiliency



Supply Chain Sustainability vs. Resiliency

Today's world is dynamic, characterized by disruptive and constant rapid changes with many direct and indirect impacts on business environments, manufacturing companies and their supply chains.

Sustainability is opportunity to make supply chain **resilient**.

This forces businesses to adapt quickly to remain competitive and ensure the development of their business. The supply chain and the entire business environment are increasingly affected by global political instability and random events.

For illustration:

- Geopolitical instability and threats in key regions such as Latin America, Africa, Russia, and China affect the supply of essential raw materials such as lithium, aluminum and copper.
- The European Union's (EU) decision to become carbon neutral creates pressure for structural changes in the economic environment.
- The ongoing conflict in Ukraine and sanctions against Russia are significantly affecting energy prices.
- The COVID pandemic has affected shipping and manufacturing capacities and highlighted the world economy's heavy reliance on semiconductor manufacturing from Asia, exposing the fragility of global logistics networks.

These examples demonstrate the interconnectedness of modern supply chains and their vulnerability to various external shocks. There are many more examples, but that is not this study's goal.

During discussions with management of the companies, some of the key topics on the minds of top managers are: how to successfully react to these challenges and upcoming disruptions, how a company needs to adapt to address them, how to predict and manage potential crises, and **how to make a company resilient** to them.

Sustainability is based on a simple principle: Everything that we need for our survival and well-being depends, directly or indirectly, on our natural environment. To pursue sustainability is to create and maintain conditions under which humans and nature can exist in productive harmony to support present and future generations.

The European Commission has adopted a set of proposals to make the EU's climate, energy, transport, and taxation policies fit for reducing net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels, and with the ultimate goal to be climate neutral in 2055 (a package known as "Fit for 55").

The EU's defined rules require large companies and listed companies to **publish regular reports** about the social and environmental risks they face, and about how their activities impact people and the environment. This helps investors, civil society organizations, consumers and other stakeholders to evaluate the sustainability performance of companies.

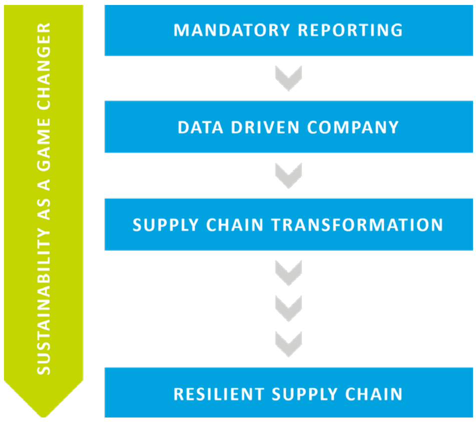
On 5 January 2023, the **Corporate Sustainability Reporting Directive (CSRD)** entered into force. This new directive modernizes and strengthens the rules concerning the social and environmental information that companies must report. A broader set of large companies, as well as listed SMEs (Small and Medium Enterprises), will now be required to report on their sustainability. The first companies are already being affected. These new rules are already aplicable for Financial Year 2024, and therefore the reports that will be published in 2025.

From a supply chain point of view, the **mandatory reporting requirements can initiate a transformation of mindset at your company.** Even if it seems impossible, the reality is quite straightforward.

To issue a requested report, you need relevant, auditable and traceable data. According to our experience, the majority of companies use spreadsheets (MS Excel or a similar tool) for collecting and saving most of the data. However, from auditability and traceability of data point of view, it is not enough.

To be compliant means to change a company's mindset in the hadling and storage of its data. This is the initial trigger of transformation – how to implement data governance, data platforms and safe storage for data. Once you have it set up, you will be ready to use the collected data, processes and governance principles for more than just mandatory reporting – it is also beneficial for data-based management decision-making. This starts to change the company's culture, and puts you on the path to building a **Data-Driven Company.**

With the data you're collecting, your organization can finally analyze the effectiveness of your supply chain. Based on an analysis of logistic or warehousing costs, you can consider improvements and increasing the effectiveness of your logistics and warehousing functions.



Mandatory reporting can **initiate transformation** of your supply chain.

If the targets are based on environmental responsibility principles, decreasing your carbon footprint would be a common objective. A solution could be to move your production from Asia to near-shore locations. As a bonus, you will be increasing your supply chain's resiliency, because you will be less influnced by logistical bottlenecks caused by geopolitical instability in such regions.

A lot of these words may seem like buzzwords, but they are a reality of day-to-day business operations. Consider what these words have in common. From our perspective, the big picture is sustainability. Because a Sustainable Supply Chain goes beyond Environmental, Social and Governance (ESG) initiatives to include a **long-term resilient business models.**

Our aim is to convince you that sustainability isn't just about mandatory reporting, emission allowances, electrical vehicles, thrifted clothes and having a green label on your product. Let us take you on a journey to explore the key findings from our recent survey about Sustainable Supply Chains, and we'll share the respondents' interesting insights, which were collected at the end of 2023/ beginning of 2024.

We hope to provide a fresh point of view about how to make your company more efficient and sustainable in the long-term.

02

Keeping Up With Evolving Customer Preferences

Keeping Up With Evolving Customer Preferences

There is likely no need to emphasize the importance of your customers, as you know they are the foundation of any business

Customer preferences and needs have evolved significantly in recent years and are expected to continue evolving. The critical question today is: **How can your company remain attractive to customers while addressing sustainable challenges?** Whether directly or as part of the supply chain, these questions inevitably become pressing concerns.

As companies navigate the path towards meeting evolving expectations, crucial questions emerge:

- Where is the line between making bold commitments and taking real action, between mere marketing and making excuses, or potentially greenwashing?
- How do bold commitments translate into concrete actions?
- Moreover, how long can companies sustain shallow or short-sighted actions?

These questions are essential in distinguishing genuine efforts towards sustainability from superficial ones and in addressing the structural challenges that businesses face. They prompt a deeper consideration of corporate sustainability initiatives, urging us to look beyond the immediate operations of a company to the entire supply and value chain.

Before looking into the details of how mandatory reporting will contribute to transparency, enhance comparability and eventually drive a sustainability transformation, let's delve into how customer preferences and demand are seen in our survey. Is the sustainability-driven demand just an overexaggerated bubble or are there tangible impacts on your business?

Central European countries reveal a striking alignment with broader European trends, particularly regarding the rising customer demand for sustainability.

> 75% of Gen Z consumers said that sustainability is **more important than brand name**, and 67% of Generation X prefers to buy from **sustainable companies** - a figure that has grown almost 25% in just a year.
>
> **(Shameek Ghosh, CEO and Co-Founder of TrusTrace, a leading platform for supply chain traceability within fashion and retail)**

Ninety five percent of companies have either observed this growing trend or hold a personal interest in sustainable practices.

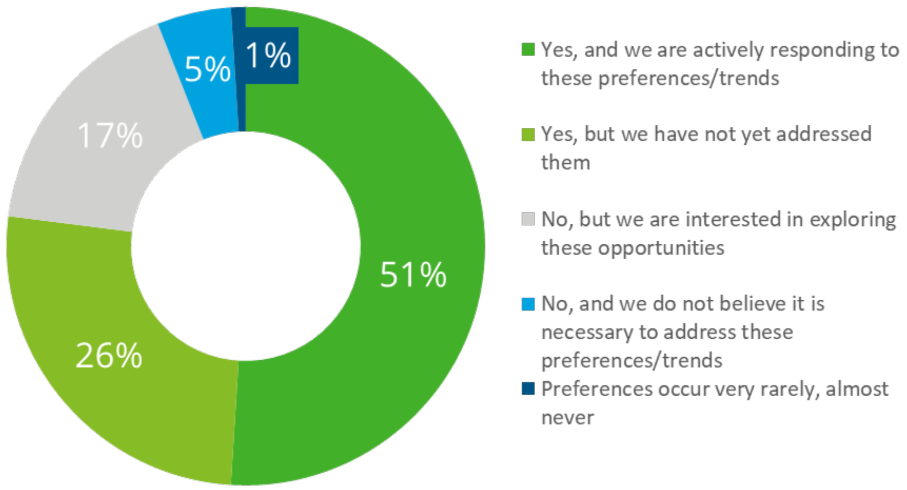
While there is often a concern that customers may be reluctant to pay a premium for sustainability, our survey shows that this may not be as significant as previously thought. Also, the willingness to pay a premium for sustainability is expected to continue in the near future. **In fact, only a quarter of the companies noted an unwillingness to pay for sustainable products as a problem.**

This suggests a shift in customer values, with sustainability becoming a compelling factor in their purchasing decisions, echoing sentiments seen also across the Nordic region (based on the study from Deloitte's Supply Chain Panel in June 2023 published by the Dennmark office). The negligible proportion of companies that do not consider it necessary to address sustainability preferences further emphasizes the region's commitment to sustainable development.

Our research underscores the importance of sustainability as a competitive differentiator, both in Central Europe and in the Nordics, reflecting a shared understanding across these regions of the critical role that environmental responsibility plays in shaping the future of business. However, only 51% of companies are addressing these needs, according to our study.

At the same time, the Edelman Trust Barometer shows that trust in companies is slipping. All it takes is one poor choice to flip the perception of a company to disdain. (Carolyn Berkowitz, Kari Niedfeldt-Thomas, and Diane Quest, Harward Business Review, December 19th, 2022)

Is that motivating enough to prioritize the changing needs of customers? According to our survey, 51% already do.



2.1 Have you observed any specific customer preferences or market trends that indicate a growing demand for sustainable products, services or environmentally responsible supply chain?

> The 2021 Porter Novelli Purpose Premium Index (PPI) describes a similar trend: "73% of consumers say that to win their support, **companies must show how they are supporting communities and the environment**"
>
> **Carolyn Berkowitz, Kari Niedfeldt-Thomas, and Diane Quest, Harward Business Review, December 19th, 2022**

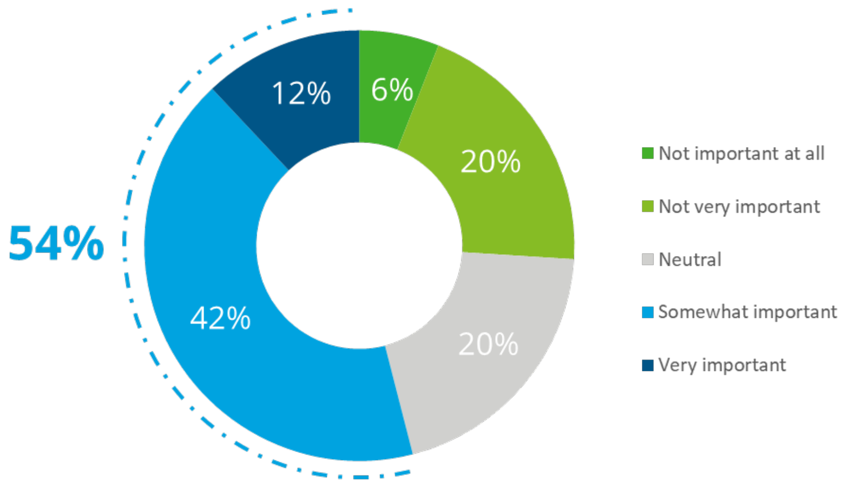
A company's size distinctly influences perceptions of sustainability in Eastern Europe.

For larger companies with turnovers above €40 million, 83% categorize a Sustainable Supply Chain as 'very important' or 'somewhat important.'

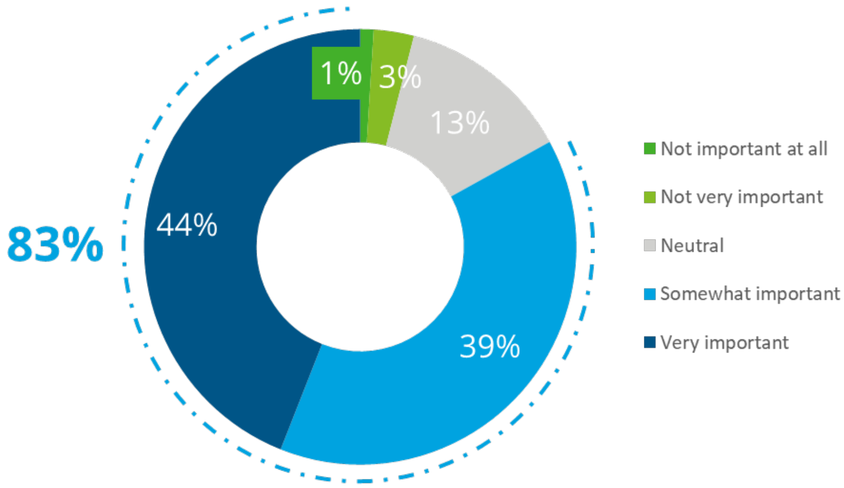
Comparatively, smaller companies with turnovers below €40 million also recognize its importance, with 54% considering it 'very important' or 'somewhat important.'

This delineates a clear difference: while a majority across both segments see the value in sustainability, **larger companies exhibit a greater inclination towards prioritizing sustainability as part of their competitive strategy.** Smaller companies, while still appreciative of sustainability's role, have a smaller majority holding this view, which may reflect varying priorities or resource limitations.

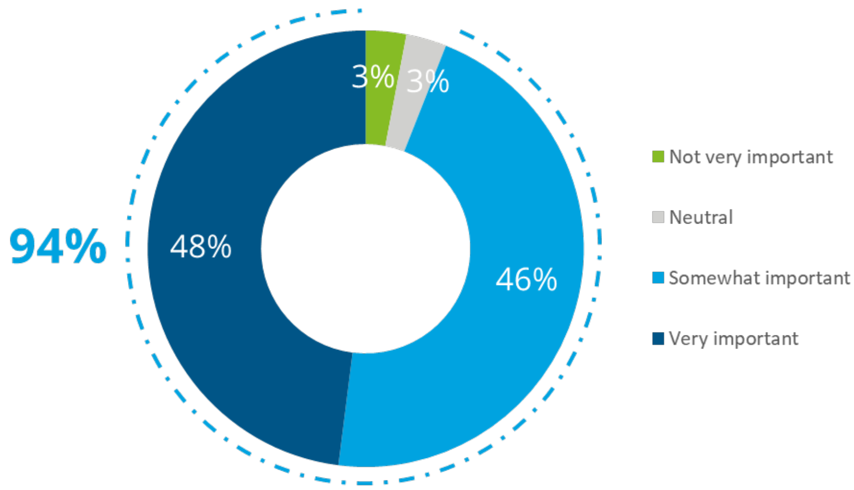
The survey confirmed that the sustainability preferences of customers are beginning to take a more tangible shape. This trend is important not only for individual companies but for entire supply chains as well. Sustainability introduces a whole new dimension of complexity into supply chains.



2.2 How would you rate the importance of a sustainable supply chain as a competitive differentiator for your organization? CE companies with revenue below EUR 40M



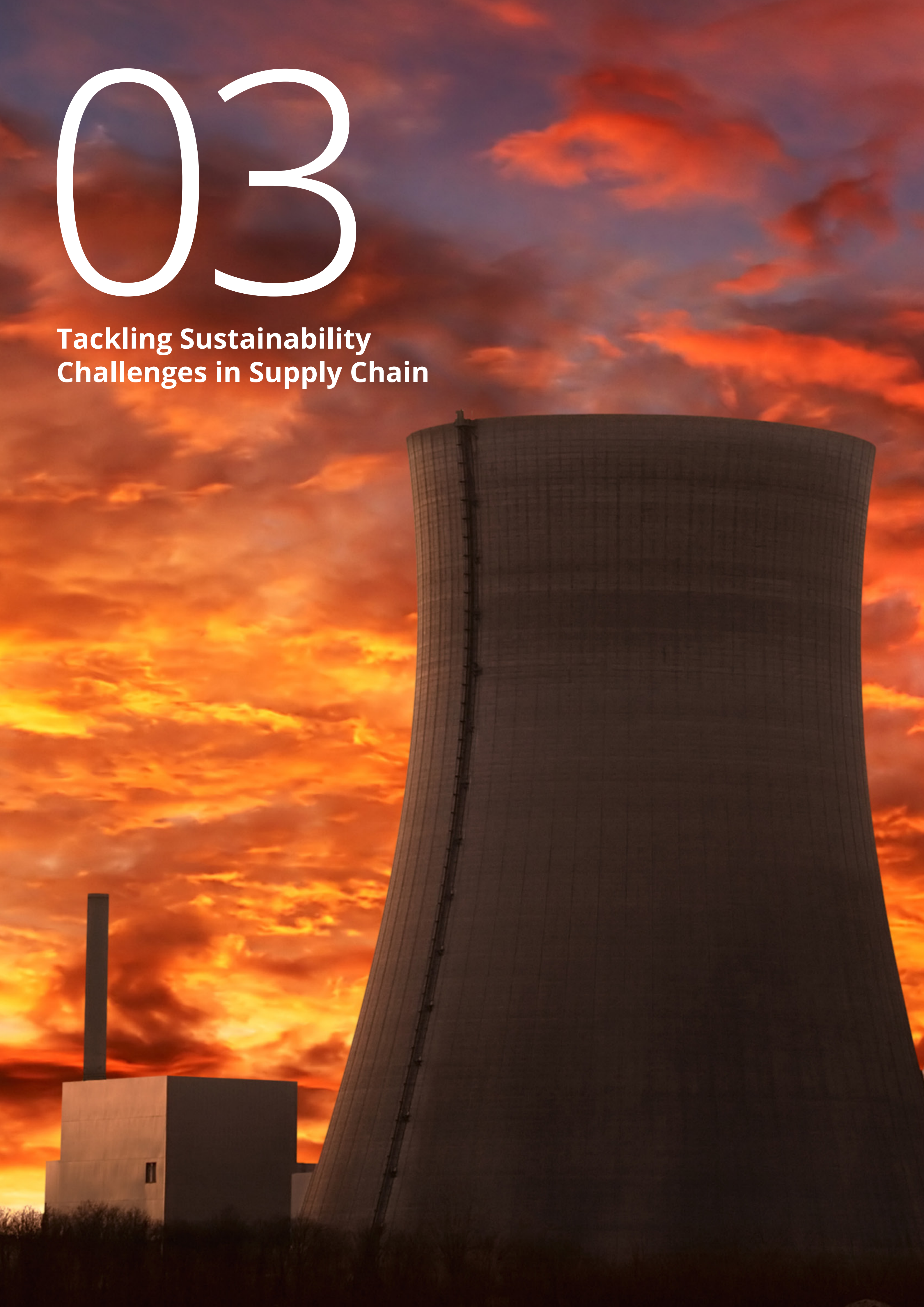
2.3 How would you rate the importance of a sustainable supply chain as a competitive differentiator for your organization? CE companies with revenue above EUR 40M



2.4 How would you rate the importance of a sustainable supply chain as a competitive differentiator for your organization? Companies from Nordic regional research provided by Deloitte, June 2023

03

Tackling Sustainability Challenges in Supply Chain



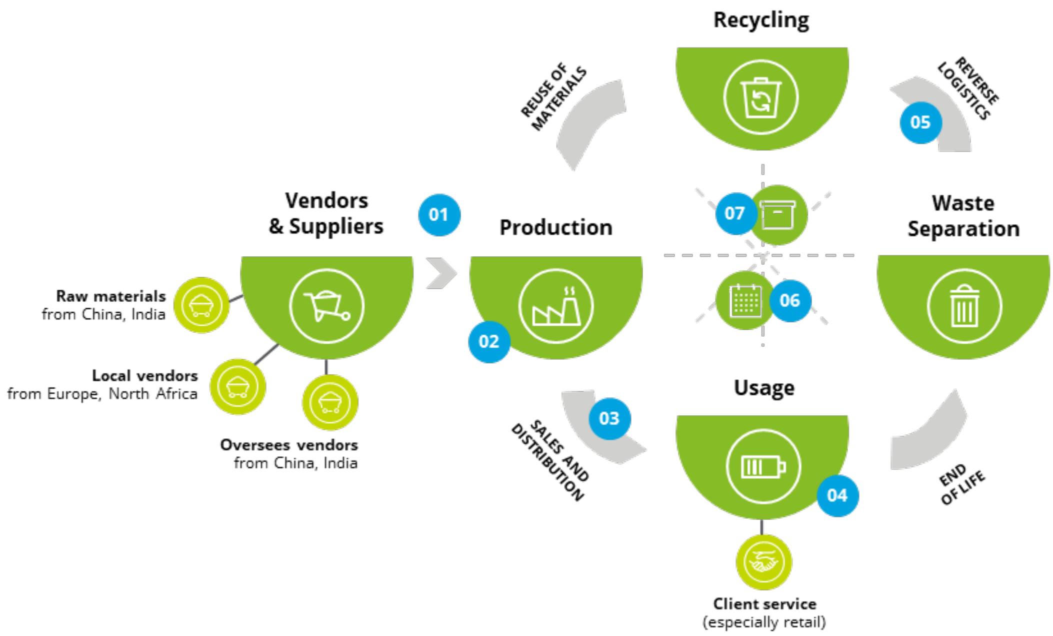
Tackling Sustainability Challenges in Supply Chain

In today's world, like many other fields, supply chains have become enormously complex. This complexity is increasing exponentially, alongside the level of interconnectedness of individual parts of the chain.

Traditional linear supply chain models, which were the model for centuries, are now becoming a thing of the past.

This evolution introduces many new challenges that companies have never faced. For instance, there is a growing dependency on the supply of raw materials from locations with increased geopolitical risks, such as China and Africa. Furthermore, corporate responsibility initiatives are bringing new topics to the forefront of supply chain management, including an increased demand for reverse logistics related to the recycling of products at the end of their lifecycle and the reuse of raw materials in primary production. Simultaneously, the complexity of closing the **supply chain loop and focusing on supply chain resilience is creating new sources of competitive advantage** for producers—and not only for them.

A lot of top managers are facing challenging situations which they have not met never before, like these:



01	I need to have better control over my deliveries from overseas and predict problems on the way.
02	I need to focus even more on efficiency within production to reach my carbon emissions goals...
03	I need to optimize my distribution network – Ideally I should deliver in 2 hours but at the same time have 0 carbon emissions.
04	My clients need everything right now. It is hard to keep up with the standards for the last mile delivery and be carbon-effective.
05	All reverse flows are very inefficient – it's not worth collecting the materials back, it's actually cheaper to throw it away.
06	Due to all this complexity, I need end-to-end planning, possibly with real-time feedback from every department.
07	I am worried about my data quality – each ERP has the same KPIs named differently, and it takes me forever to collect data for reporting.

> Demand for **sustainability and resiliency** is closing the Supply Chain loop and brings new topics focused on **recycling and reusing of materials** when product lifecycle has ended.

Amid the complex landscape of global commerce, businesses are increasingly driven towards sustainability by a variety of influential external factors

Alongside customer preferences motivated by sustainability, regulatory pressure plays an equally significant role. Governmental bodies and international entities are implementing stringent environmental regulations. Initiatives like the EU's Green Deal and the Paris Agreement aim for ambitious carbon reduction targets, supported by policies such as carbon pricing and mandatory sustainability reporting, which will be addressed in the next chapter.

Moreover, the **investor's pressure** is becoming also pivotal, as stakeholders emphasize ESG considerations in their investment decisions. Frameworks like the Principles for Responsible Investment encourage investors to align their financial objectives with ethical imperatives, prompting corporations to adopt sustainability practices to attract and retain investment.

Dynamics within supply chains further influence the shift, as major corporations impose sustainability mandates on their suppliers, ensuring adherence to environmental standards throughout the supply chain.

Competition serves as another incentive for sustainability efforts, with leading innovative companies enjoying benefits like cost reduction and increased brand loyalty.

Lastly, social and non-governmental organizations (NGO) campaigns, along with financial scrutiny from capital markets and rating agencies, apply additional pressure on companies to prioritize sustainability.

Many companies responded that they already are feeling certain aspects of climate change in their daily business, and according to Gartner, 44% of supply chain leaders expect climate change to create challenges related to the security of supply in the next 10 years (Gartner Sustainability Opportunities, Risks and Technologies Survey, 2022).

In our survey, the following sustainability challenges appear to be the most pressing. Respondents perceive the **scarcity of resources (56%) as the biggest issue, followed by regulatory policies (52%) and political uncertainty (50%).**

However, according to our respondents, what is **not yet generally considered a pressing issue is the increased insurance costs related to climate-change-driven events or the struggle to attract and retain top talent.** This may surprise you, given the large number of articles published on this matter that often highlight sustainability as the utmost priority for attracting talent.

The challenges coming with adapting sustainability into daily business can be confusing at times, however there is more guidance these days how it could be tackled.

56%	52%	50%	46%	29%
Resource scarcity and costs	**Regulation of emissions**	**Regulatory and/or political uncertainty**	**Changing consumption patterns or preferences**	**Investors' pressure regarding environmental and social factors**

3.1 Top 5 issues related to sustainability that are already having an impact on the surveyed companies

04

Mandatory Reporting

Mandatory Reporting

Sustainability reporting has long been regarded, internally and externally, as “nice to have,” with often a hundred or more pages of leafy pictures and bold statements – sometimes with minimal data, sometimes with more. A report seldom considered by CFOs, in boardroom discussions or when making strategic decisions, a report hardly comparable in scope, quality or transparency across the business spectrum. In general, sustainability reporting was simply the corporate world’s way of saying “look, we care.”

As mentioned earlier, this is now changing radically. With the Corporate Sustainability Reporting Directive (CSRD) by the EU, the **narrative is shifting from optional to obligatory**. From non-comparable, to more standard in content, quality, level of detail. The CSRD demands transparency, but with transparency comes scrutiny. Companies are now getting under the microscope, not just by regulators but by investors, clients, consumers, and the public. This directive is a significant step forward from the previous EU Non-Financial Reporting Directive (NFRD), expanding the scope and depth of what is reported, who must report and how are they required to report.

We are moving towards a future where **sustainability and financial performance are placed on equal levels** and are not to be judged independently but as interconnected elements of a company’s overall health and resilience. The real challenge lies in implementation from basic compliance to genuine commitment and business transformation with the supply chain being an inseparable part of the change.

The importance of this evolution in reporting cannot be overstated, as it prompts companies to thoroughly consider their impact in three key areas: the **Environmental, Social, and Governance pillars**. The goal of ESG is to capture all the non-financial risks and opportunities inherent in a company’s day-to-day activities.

What falls under the Environmental Pillar?

Under the Social Pillar, companies report on how they manage their employee development and labor practices. They report on product liabilities regarding the safety and quality of their product. They also report on their supply chain’s labor standards, health-and-safety standards, and controversial sourcing issues. Where relevant, companies are expected to report on how they provide access to their products and services to underprivileged social groups.

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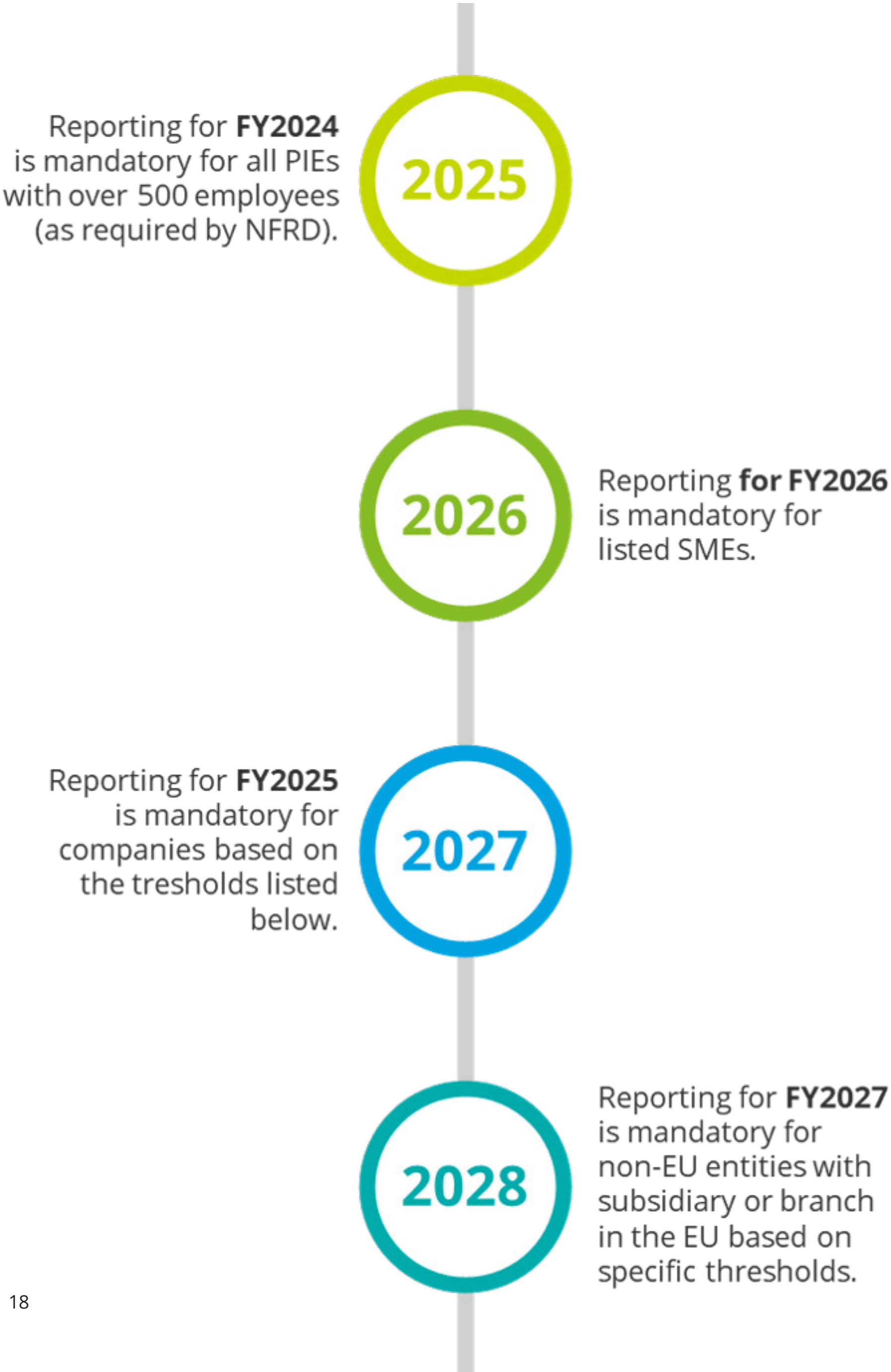
What falls under the Governance Pillar?

The main issues reported under the Governance Pillar are shareholders' rights, board diversity, how executives are compensated and how their compensation is aligned with the company's sustainability performance. It also includes matters of corporate behavior such as anti-competitive practices and corruption.

Each pillar represents a critical dimension of ESG reporting, and the Environmental Pillar is often considered the most complex due to its broad and detailed scope.



What is relevant from all this for your Company?

It's clear that the ESG challenges faced by companies vary significantly across different industries and sectors. For instance, a bank's greenhouse gas emissions (Scope 1 and 2) might be less critical compared to those of companies in the energy or manufacturing sectors. A similar example is a technology firm and its limited impact on biodiversity compared with a mining company.

Under CSRD, it's imperative for companies to identify ESG domains where they exert a significant impact (an inside-out perspective) and those areas that could materially affect them financially (an outside-in perspective). This dual assessment is known as the **double materiality principle,** and it is an inseparable part of the mandatory ESG reporting under CSRD. However, its depth and overall approach often depend on your priorities and overall approach to sustainability, as well as your risk appetite, since the materiality definition will be subject to future audits.

It is no longer a question of whether mandatory ESG reporting is or isn't relevant for your company, **the real questions are when to report and how will it be relevant.**

When and how do you report?

Putting aside the pressure from the value chain and the banking sector, the regulatory roadmap defines criteria for mandatory reporting, as shown in following picture.

Financial Year 2025 reporting (due in 2026) is mandatory if two of the following three indicators are fulfilled on any two consecutive balance sheet dates:

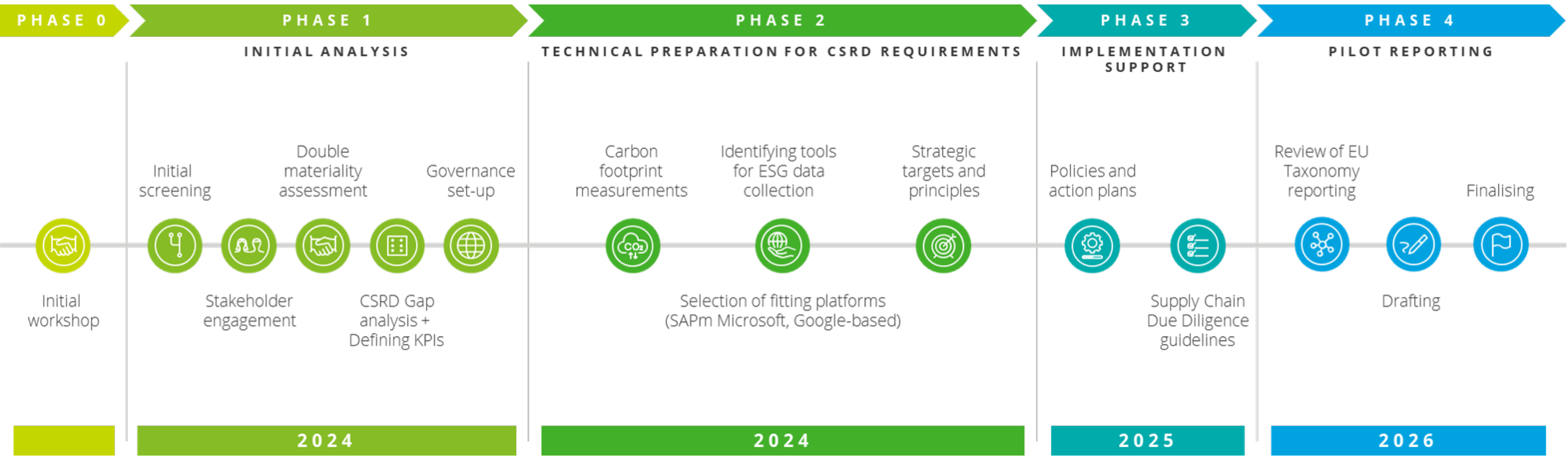
- Total assets of at least EUR 25 million
- Net turnover of at least EUR 50 million
- A workforce of at least 250 employees on average during the year

What does this mean for the planning of your pilot reporting? Let's assume you qualify for the 2025 mandatory reporting. Although 2025 (reporting in 2026) may seem far away and companies often already track plenty of required ESG data in a non-ESG context, e.g., energy consumption for the purposes of cost savings, really this is much less time than one would think. The European Sustainability Reporting Standards (a reporting framework under the CSRD) extend the scope of all existing reporting frameworks and prescribe more detailed ways to report on material topics in order to be compliant with the regulatory requirements. All will be subject to future audits.

Let's break it down into detail and look at what a typical roadmap of CSRD implementation may look like. We'll begin with figuring out how to approach the overall topic and whether to take a rather minimalistic approach or something bolder and continue through defining material impacts, risks and opportunities and identifying gaps versus CSRD requirements. We will move on to calculating carbon footprints, finding appropriate system solutions to prevent robust manual data collection, authorizing data owners and ensuring data auditability. The next step will be drafting strategies, policies and action plans. Then we can draft an initial CSRD report.

According to our experience, each of the described phases takes about 3-6 months, depending on the **quality and flexibility of your data systems** as well as the level of interest and appetite for **involvement – or even a formal mandate of your employees.** In any case, in order to be compliant in 2026, there is not much time left for wondering.

> You could qualify for ESG reporting based on other criteria besides the fulfillment of your balance sheets. Criteria will qualify you for ESG reporting. Your financing bank may have to – or will have to – **report ESG indicators of its clients**. Likewise, your B2B customers may **push you for reporting** because you are part of their supply chain.

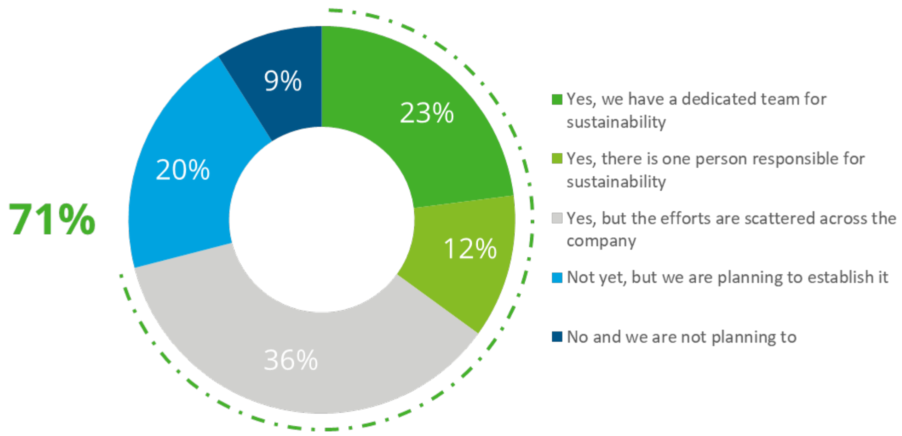


Looking at the roadmap, the obvious questions that you are probably asking are: How much effort will it really take? Do I need an army of ESG people? A dedicated ESG department? While the answer may be more complex, if one thing is clear: sustainability is not a part time hobby. It is therefore no surprise that our survey shows that most companies either already have an ESG function (71% of respondents) or are planning to have one (altogether 91%). Only 9% of companies have no dedicated ESG function and no plans to change. However, even out of the **71% of the companies that have a sustainability function of some kind,** only half of them have a dedicated team or person in charge. The other half of them have sustainability initiatives distributed throughout the company. This could make it difficult to set up companywide ESG goals and prepare relevant reports.

AAn even more interesting question is which function is (or should be) responsible for sustainability initiatives in your company. Should the ESG department or the dedicated ESG people be part of Marketing, Finance, Supply Chain or be a function of their own?

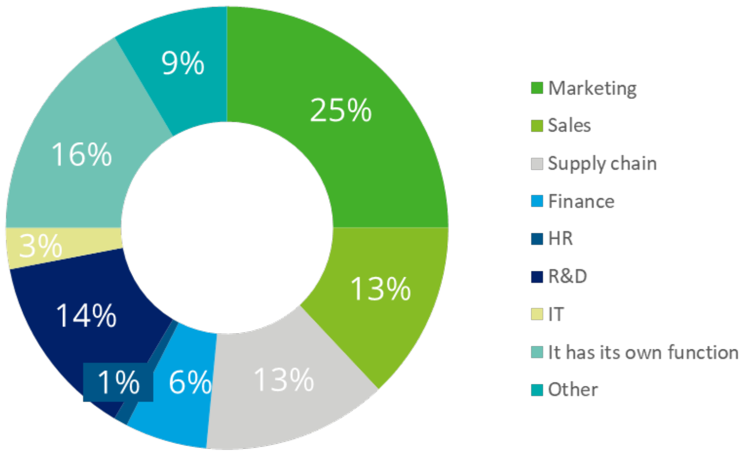
Based on our experience, some businesses have a sustainability function aimed at carrying out Corporate Social Responsibility (CSR), others for reporting purposes, and still others for innovating or implementing sustainability initiatives within its own operations or within its value chain. Of course, various combinations of these approaches exist. A lot of businesses are setting up a sustainability function that will deal only with the required reporting. This often causes worry about extra expenses.

In the following two graphs, we compare which function is responsible for sustainability in companies in Central Europe and in the Nordic countries.



4.1 Does your company have a sustainability function?

In Central Europe, about 25% of companies place Sustainability under Marketing, while only 16% have a standalone Sustainability or ESG function. By contrast, 31% of Nordic companies have a dedicated function and only 13% have Sustainability under Marketing. This suggests a more structured approach and higher awareness in the Nordics.



4.2 Which function is responsible for sustainability in your company?

Sustainability is often seen as a communication activity in Central Europe, hence its placement in Marketing. However, it raises the question of whether Marketing can identify and embrace the transformative potential hidden in sustainability and open opportunities for a supply chain transformation. In other words, is Marketing truly the driver of change in a company? **From practical experience, sustainability responsibilities often fall to either an enthusiast who has been advocating for corporate responsibility for years or someone who reluctantly took on the sustainability agenda when no one else would.** Suddenly, this person becomes, somewhat exaggeratedly, the most important person in the company, but with limited support and increasingly high demands. Many companies still mistakenly believe that ESG can be managed by one person with limited or non-existing budget and influence over other departments. It's important for companies to realize that to build and maintain a Sustainable Supply Chain, they need to embed an innovative ESG mindset into the company's DNA - that's how the successful organizations operate. In both CE and the Nordics, 13% of companies have their **sustainability function is placed under Supply Chain or even R&D, which clearly indicates a shift towards transformative actions towards a sustainable and resilient supply chain.**

One of the key tasks of any sustainability function is to establish and disclose specific Key Performance Indicators (KPIs) and strategies aimed at achieving their ESG objectives across short-, medium-, and long-term horizons, one of the mandatory requirements of the CSRD. For example, in addressing greenhouse gas emissions, a company might set a quantifiable target to reduce its carbon footprint by a certain percentage within a stipulated timeframe. The accompanying strategy would outline the measures the company plans to implement to reach this goal, demonstrating a commitment to tangible ESG progress.

Setting ESG KPIs is a critical process for businesses, involving the creation of metrics that align with their sustainability goals and objectives. It's imperative for companies to consider factors that directly impact their operations and align with their strategic goals. These factors would typically include the already mentioned carbon footprint as well as energy efficiency, waste reduction, employee turnover rates, diversity, and community engagement—all of which are essential for a comprehensive view of a company's sustainability efforts.

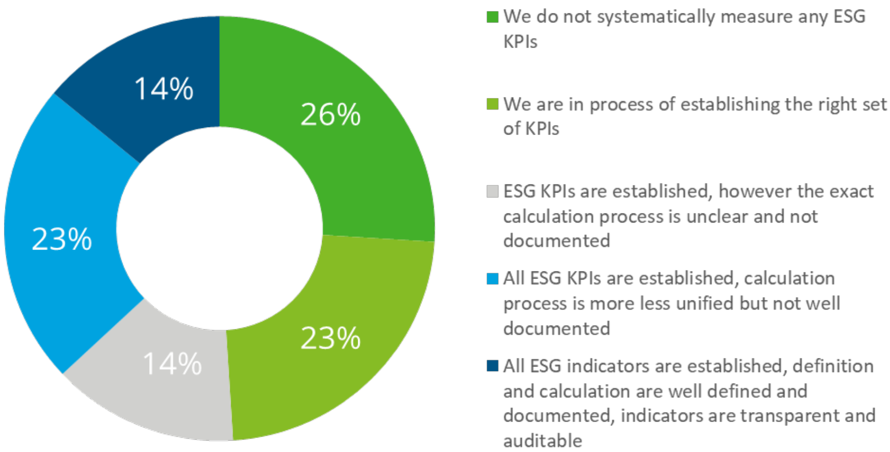
The application of these KPIs is particularly crucial in the context of supply chains, which are integral to a company's sustainability narrative. Hence the relevance of having at least some ESG capacity and capability in the Supply Chain function, as shown in the previous graphs. ESG KPIs for supply chains might focus on the percentage of suppliers meeting sustainability criteria, reductions in Scope 3 emissions, or improvements in labor conditions within the supply network. These indicators should be carefully chosen to provide meaningful insights into the sustainability of the supply chain, ensuring they are relevant, measurable, and actionable.

How mature and stable are your ESG KPIs calculations?

Our survey shows 26% of companies that responded do not systematically measure any ESG KPIs. An additional 23% are in the process of establishing KPIs, leaving 51% of companies with some form of ESG KPIs already in place. Currently, only 14% of companies believe they have all the ESG indicators established, their calculations are defined and documented, and they are readily awaiting a future audit.

This spectrum of adoption levels indicates a broad trend of growing commitment to ESG practices, with a significant number of companies already taking steps to enhance their sustainability reporting, yet it also highlights a segment that remains at the onset of their ESG journey.
Let's imagine you have set your ESG KPIs and start gathering the information. Collecting such data for your own operations can represent a challenge, but **gathering the data from your supply chain in sufficient time and quality can be a completely different ball game.** How do your suppliers help you gather the information? How does it work for your suppliers' suppliers? And their suppliers?

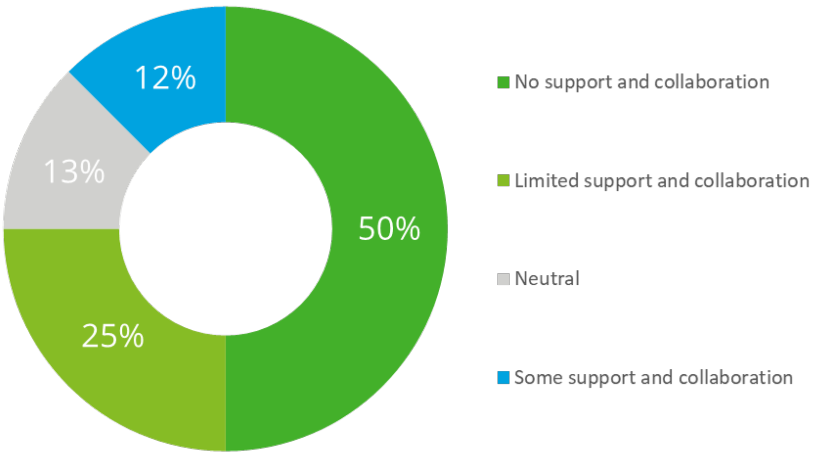
While a large number of suppliers may still not have a natural interest in ESG initiatives, especially the transparent reporting, their collaboration is vital for organizations aiming or being required to achieve holistic sustainability goals. There are many obstacles to getting active cooperation from your partners, but you depend on them. They are part of your supply chain, affecting important aspects such as the carbon footprint. Without their involvement, reaching your own ESG goals becomes very difficult or practically impossible. Therefore, **creating solid partnerships and encouraging, Incentivizing, or ultimately enforcing supplier engagement in ESG efforts and reporting are crucial steps towards developing a resilient and responsible supply chain.**



4.3 How mature and stable are you ESG KPIs calculations?

Collaboration with suppliers, logistical partners and commercial partners to drive sustainable initiatives varies between small and large firms. Half of smaller companies (below EUR 40 million revenue) face challenges with limited support from external partners, while larger firms (over EUR 40 million revenue) experience more cooperation – only 10% of these companies experience limited or no support and collaboration. The following graphs illustrate this contrast.

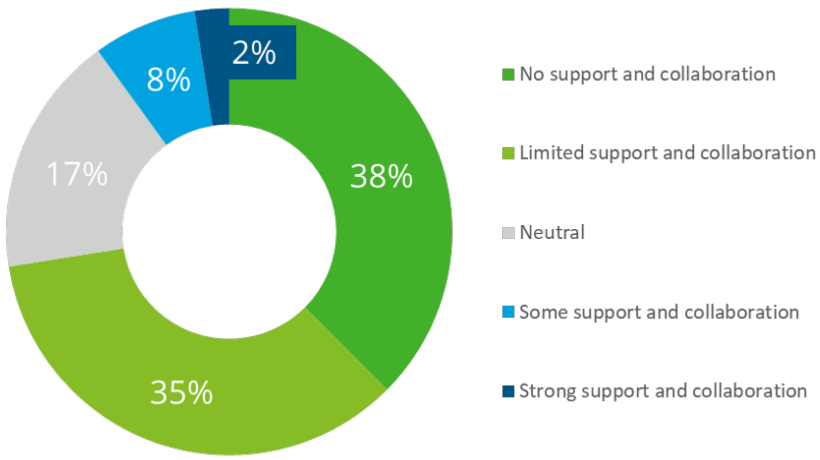
How do you rate the level of support and collaboration between your organization and its external stakeholders (e.g. suppliers, logistical partners, commercial partners) in driving sustainable initiatives?



4.4 How would you rate the level of support and collaboration between your organization and its external stakeholders (e.g. suppliers, logistical partners, commercial partners) in driving sustainable initiatives? CE companies with revenue under EUR 40M

Many actions, from gathering the data needed for sustainability reporting to implementing changes, e.g. in logistics or product design, depend on the support and willingness to collaborate from different partners. With supply chains, there is still a long way to go and many challenges, but the transformation towards a more resilient Sustainable Supply Chain appears to slowly be becoming a new business imperative.

In this new landscape, data is king. The ability to accurately measure, report, and improve upon sustainability metrics is becoming a competitive advantage. Technology is playing a crucial role, enabling companies to track their progress in real-time, identify areas for improvement, and communicate their achievements in a credible and transparent manner.



4.5 How would you rate the level of support and collaboration between your organization and its external stakeholders (e.g. suppliers, logistical partners, commercial partners) in driving sustainable initiatives? CE companies with revenue above EUR 40M

No company can succeed alone among the **complex supply chains** of today.

05

Take Care of Your Data

Take Care of Your Data

For many companies, ESG reporting is usually the first step on the journey towards sustainability, so the reports need to have a solid foundation of robust data. Where to begin?

Here are a few questions to ask yourself:

- Where does your data originate?
- How can you locate relevant data sources?
- Who is the owner these data sources?
- What specific information is necessary for calculating Key Performance Indicators (KPIs)?
- How are these indicators calculated and defined?
- Moreover, we explore whether every department within your organization shares a uniform comprehension of these defined KPIs. Let's embark on a journey to safeguard and optimize your data assets.

Some small businesses are at the stage where no business partner or regulatory department are requesting ESG reporting, so they might not collect ESG data at all. However, this is becoming less common. Most companies need to start collecting and providing auditable and traceable data simply because their customers are subjected to the CSRD reporting.

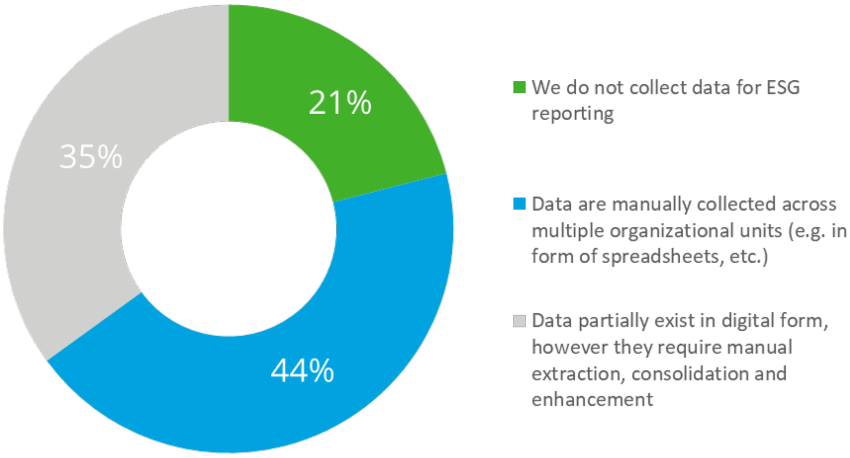
There are a lot of ways to collect and process data to fulfill reporting obligations. If not collecting the data at all, the organization's first step is to start looking for the information it needs for the requested reporting within different departments and many different forms (ERP, locally maintained spreadsheets, emails, paper forms, etc.). This requires a lot of effort for each data collection point. Because the process is not documented and some sources are not generally available, the data is not transparent and auditable. At this stage, the company is only discovering its needs and sources.

Advanced companies have invested in technologies that support data gathering from source systems and possibly connecting the data sources of their supply chain partners. This requires the pre-processing of gathered data, united data management and data governance. Therefore, there is a need for a major transformation of the company's approach to data as a resulting in the enablement for smooth reporting and presentation layers via standardized tools like PowerBI or Tableau. These technologies usually fulfill compliance requirements for data storage and data handling including cyber security, data privacy and data traceability.

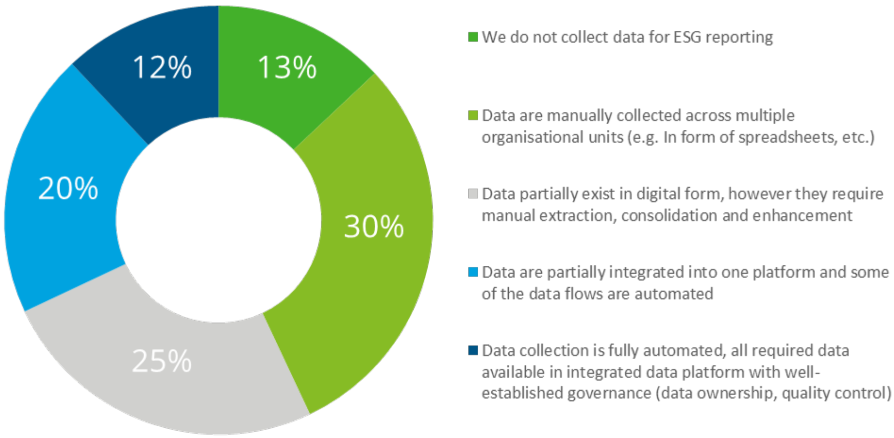
> Data for ESG reporting must be **auditable and traceable**. Seems like Excel spreadsheets may not be enough.

It could be perceived as overkill for ESG reporting purposes. However, the companies using these technologies are becoming data driven, i.e. use their data for analyses, scenario modeling and decision making. It is part of their company DNA – and a source of their competitive advantage on the market. So, their ESG reporting is only one-use case in their whole data ecosystem.

Usually, these technologies are adopted by bigger companies as a standard part of their business. According to our survey, 32% of companies with revenue over EUR 40 million confirmed that their data are partially or fully integrated into one data platform with automated data processing and established data governance. Unfortunately, the maturity of companies with revenue below EUR 40 million is lower: 35% of them have data partially in a digital form that requires manual extraction and consolidation, without any advanced data platform or automated data processing tools.



5.1 How do you collect data for ESG reporting? CE companies with revenue below EUR 40M



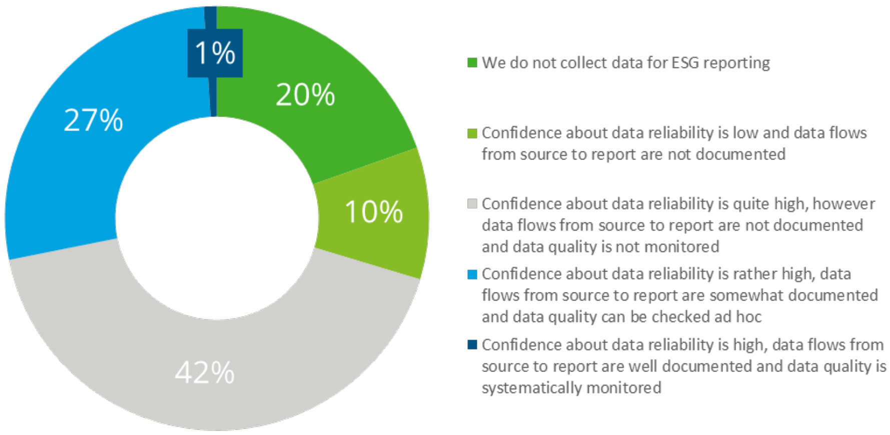
5.2 How do you collect data for ESG reporting? CE companies with revenue above EUR 40M

Companies that have even partially managed data collection exhibit heightened confidence in the reliability of their data.
This confidence grows with the level of automation.

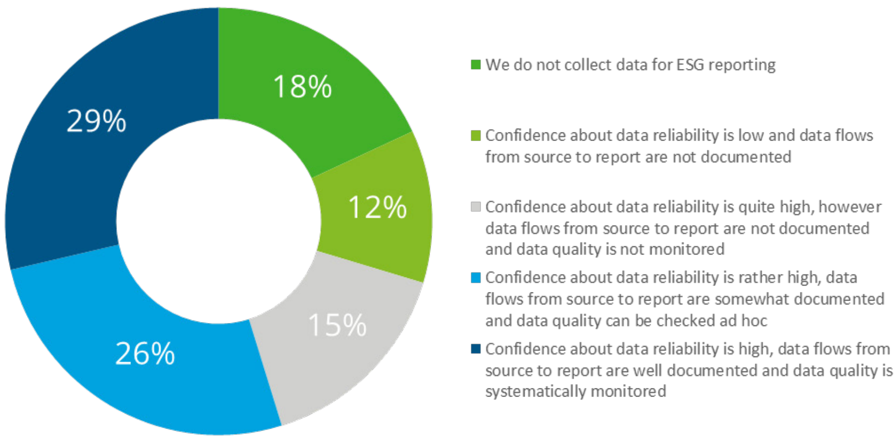
The maturity of data processing and technology readiness for data collection has a direct impact on confidence with data reliability in company reports. **Only 1.2% of surveyed companies with revenue below EUR 40 million confirm high confidence in their data reliability, say that their data flows (from source to report) are well documented, and their data quality is systematically monitored**. The bigger companies (with over EUR 40 million revenue), on the other hand, state that this is standard for 29% of them, and their confidence in their data reliability is high.

Although the numbers of companies collecting data automatically, and basing their decision on them is heavily increasing in the past years, the number of 29% companies being fully confident with their data is still relatively low.

Companies that have even partially managed data collection exhibit heightened confidence in the reliability of their data. This confidence grows with the level of automation.



5.3 How confident are you with the data reliability in your reports? CE companies with revenue below EUR 40M



5.4 How confident are you with the data reliability in your reports? CE companies with revenue above EUR 40M

06

Sustainability Commercialization

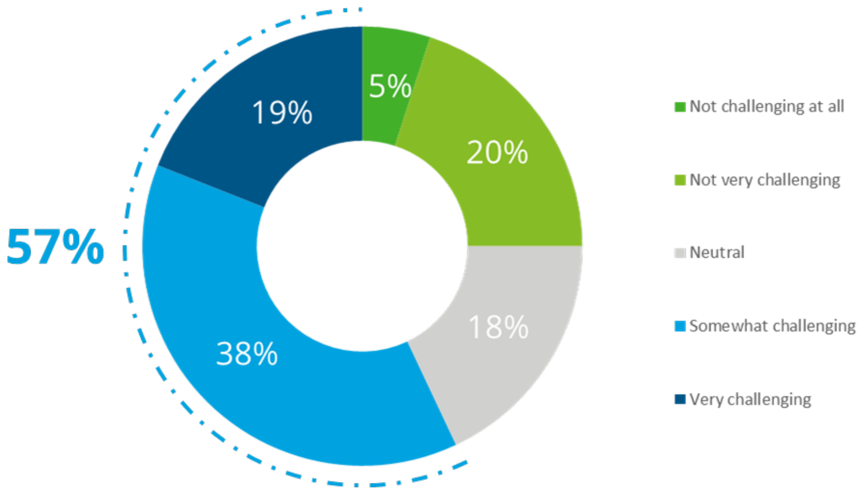
Sustainability Commercialization

After reading the previous sections, there might be some questions like:

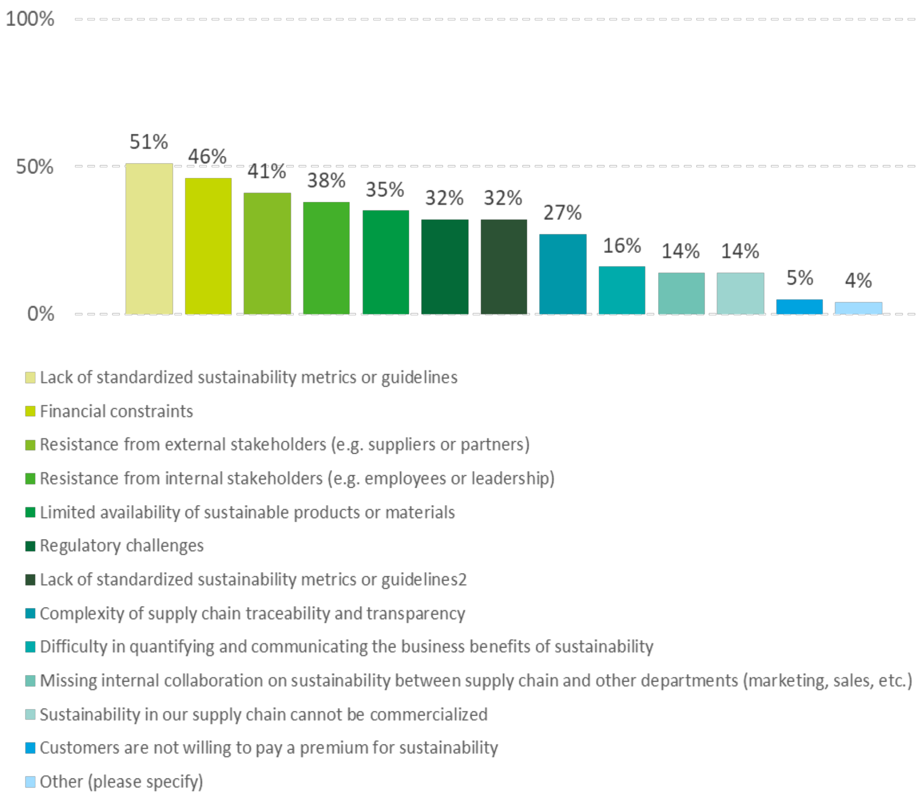
- Is mandatory ESG reporting just a huge administrative burden?
- Will it make us less competitive?
- Can we leverage it commercially beyond just good feelings and a nice report?
- Will transitioning from sustainability to commercial utilization benefit me in any way?
- How do I break free from the mindset that it's just a mandatory hassle and turn it into an advantage?
- Despite already mentioned benefits, sustainability still is perceived with many problems. Is it just a feeling? Where are the real opportunities?

According to the survey results, the commercialization of sustainability practices is challenging for more than half of respondents (57%). It is quite a pessimistic point of view. Let's look at what is behind this opinion?

A comparison between the CE and Nordic surveys reveals an intriguing observation. In Central Europe, "regulatory challenges" rank second as a significant obstacle and barrier, whereas in the Nordics, it appears at the bottom of the list. One-third of CE respondents perceive regulation as a problem, whereas in the Nordics it's only 14%. What could be the reason? It could be fear, misunderstanding, lack of familiarity with regulations, or unfamiliarity with the issue at hand.



6.1 How challenging do you find it to balance commerical interests with sustainable practices in your supply chain?

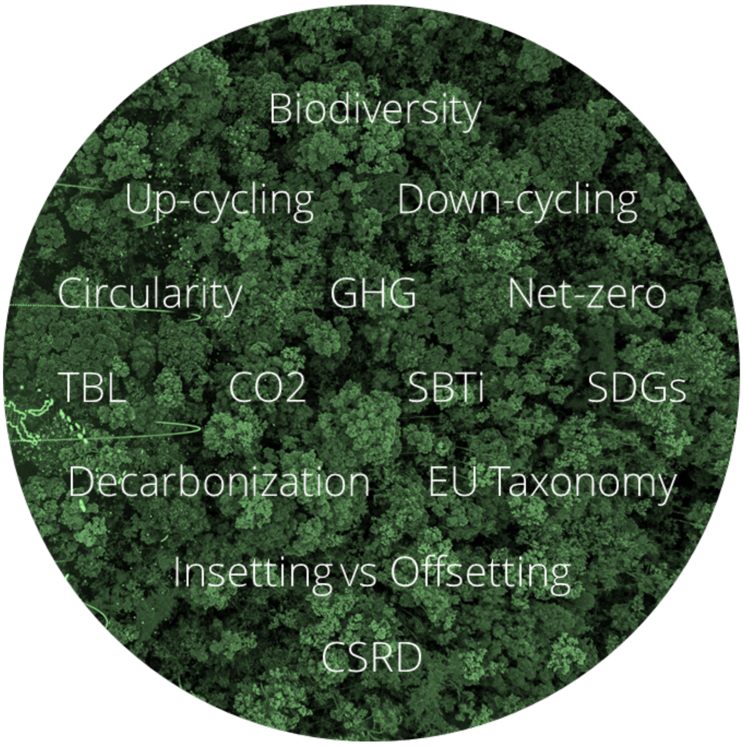


6.2 What barriers or obstacles do you perceive in the commercialization of a sustainable supply chain?

What seems to be behind the CE respondents' fears is their level of knowledge and understanding of ESG topics and impacts. **Because the upcoming CE regulation is new and complicated, their perception could be more based on the "mandatory reporting" approach instead of looking for opportunities across the supply chain.** The acceptance of the Fit for 55 topics may be higher across the Nordic region resulting in comparatively lower readiness and adoption across the CE region.

On the other hand, the aim of the upcoming European regulation and mandatory reporting is to help investors, clients, consumers and the public understand and evaluate the activities of their business counterparts across environmental, social and governance areas.

The key question is **how to transform challenges coming with sustainability efforts into business opportunities** and competitive advantages. Across environmental topics we find a lot of buzzwords but the challenge is to translate them into strategic business initiatives that change the business paradigm. The ideation could look like this:



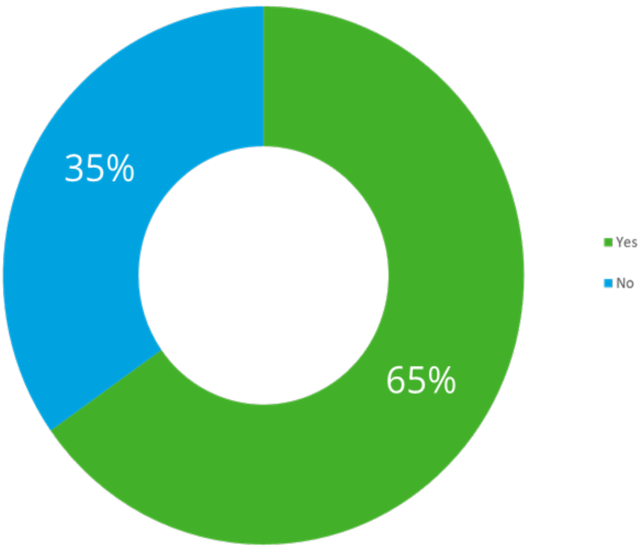
ENHANCED BRAND REPUTATION

INNOVATION AND PRODUCT/ SERVICE DIFFERENTIATION OPPORTUNITIES

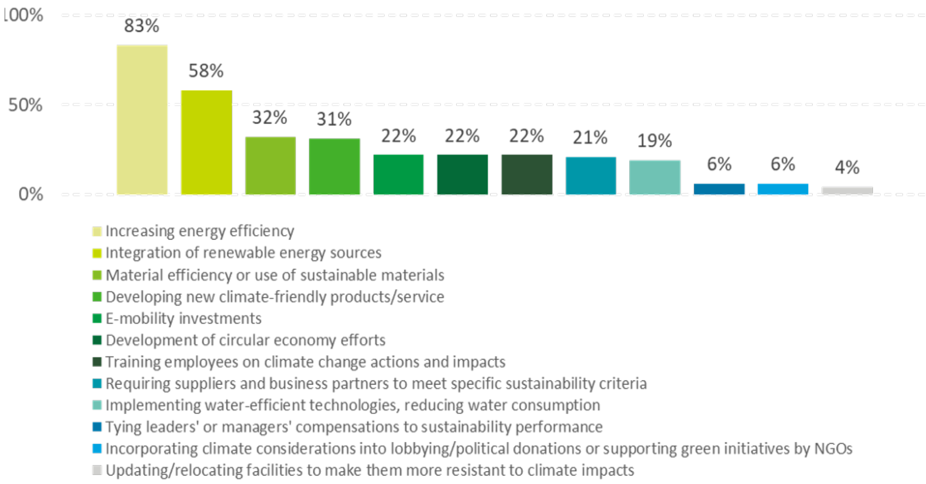
INCREASED CUSTOMER LOYALTY AND TRUST

IMPROVED RELATIONSHIPS WITH STAKEHOLDERS AND INVESTORS

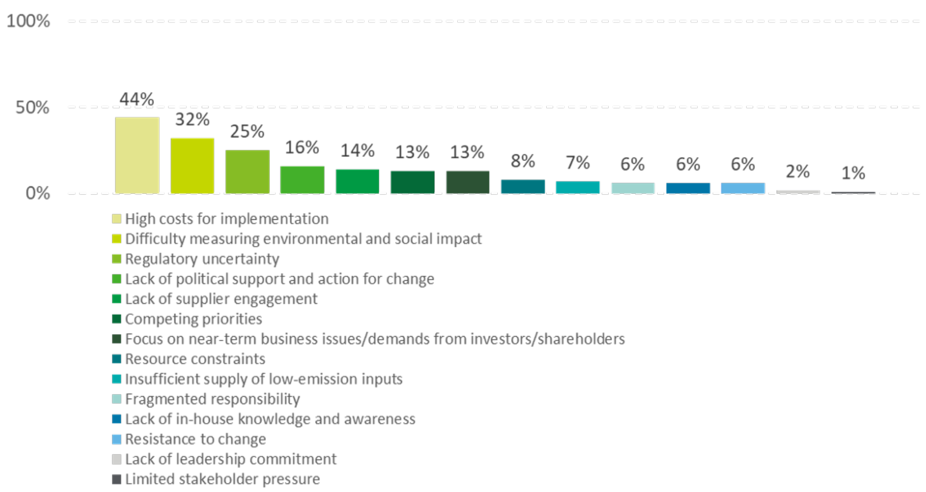
ACCESS TO NEW MARKETS AND CUSTOMERS



6.3 Are you aware of sustainability efforts within your company's supply chain?



6.4 Which of the following actions/adaptations has your company undertaken as part of its sustainability efforts?



6.5 What are the obstacles driving sustainability efforts?

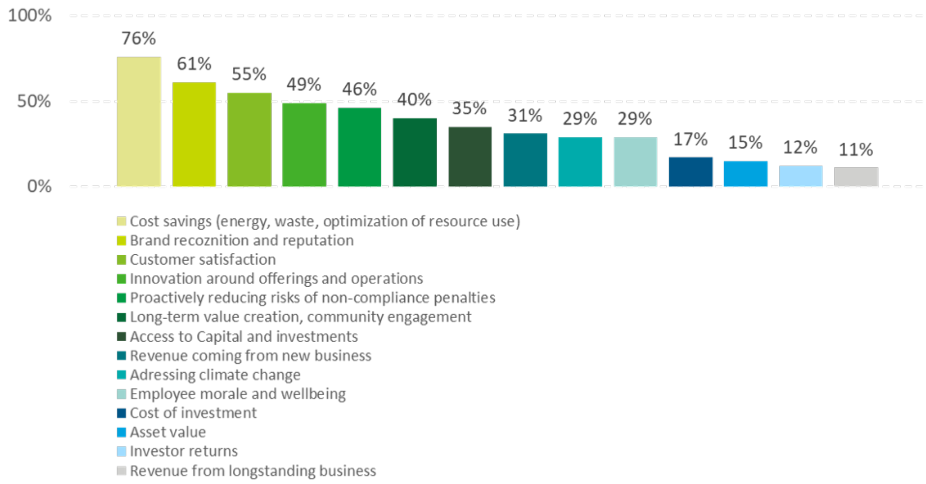
Also, the survey results suggest that companies are already trying to implement sustainability initiatives in some form: 65% of respondents declared they are aware of sustainability efforts within their company's supply chain.

Respondents **confirm tangible outputs from activities connected to sustainability.** The primary focus is on increasing the energy efficiency of assets like buildings, machinery and equipment. With the rising prices of energies, the implementation of renewable energy sources is then even more inevitable. Secondly, the pressure related to costs changes approaches to material efficiency. And lastly,the changes in customers' demands and priorities bring to life the usage of more sustainable materials.

In general, companies understand that sustainability is addressed within the supply chain, and they grasp that it's a significant topic. Yet, they face **obstacles on the way to implementing sustainable measures** connected to the high costs of implementation, difficulties measuring environmental and sustainable impacts, and regulatory uncertainty.

Despite the fears the respondents confirmed, they perceive **positive impacts of sustainability activities** on costs savings (i.e. energy, waste, usage of resources), and – most importantly – on customer satisfaction, brand recognition and brand reputation.

The survey results have indicated that sustainability efforts can start a company's transformation in the background via offering and operation innovations.



6.6 I strongly believe my company's current sustainability efforts have/will have positive impact on the following:

In conclusion, companies perceive sustainability as challenging topic. They are worried about implementation costs and impact measurements. There is fear about regulatory rules. On the other hand, they have implemented a lot of measures and confirmed that sustainability drives their innovation and improves their brand recognition. The focus on sustainability topics provides new points of view on current business with proven results. The key is changing from regulatory mindset to opportunity-seeking mindset.

> In the Nordics, the "positive impact on employees and morale" is seen as a **significant benefit.** Whereas in CE, it the ranks at the bottom of the list and is not perceived as a benefit. This is linked to mindset. While there are tangible outcomes (such as reducing energy demand in buildings), the mindset of people impedes progress; they are reluctant to "buy into" it. Here lies an opportunity for companies to **catalyze change**, to shift this mindset into a more advantageous one. The path forward involves **stimulating people's thinking** and showing them how to approach it differently.

07

Supply Chain Transformation

Sustainability Topics Can Initiate Transformation of Your Supply Chain

What will you achieve by addressing sustainability? How will it benefit your supply chain and its management? Will anything change for the better? What will improve, and why?

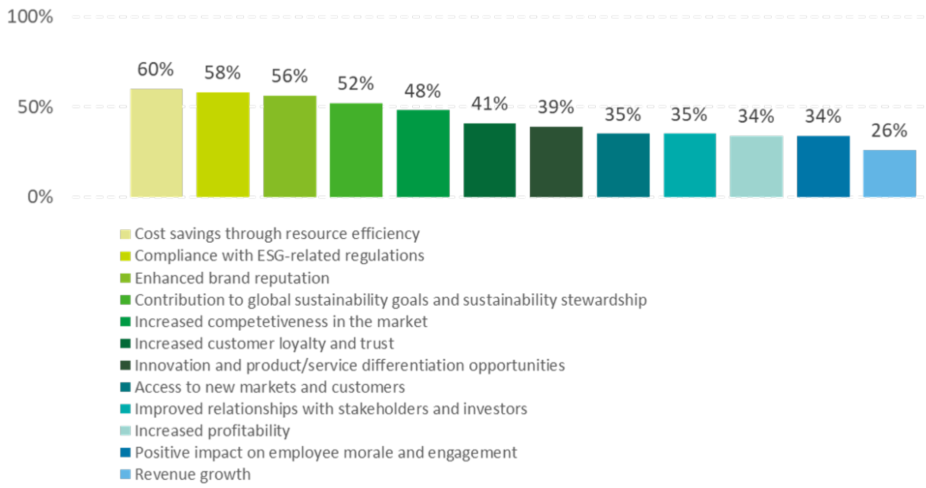
Cost savings through resource efficiency and enhanced brand reputation are the main business benefits companies identified. Both are **strong strategic drivers.** The first one helps to increase profit margin and competitiveness on the market. The second one builds brand image and improves brand recognition by customers.

In the end, the external and financial factors are usually the ones that drive the advancement of products, optimizing processes, and fostering innovation within your organization.

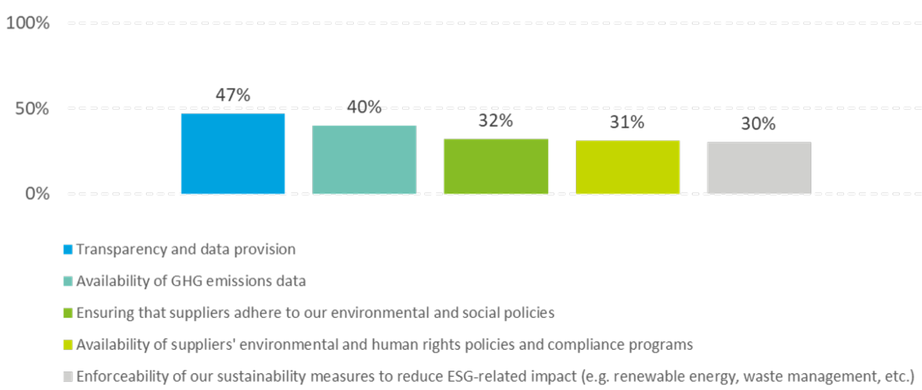
To effectively respond to external pressures and capitalize on emerging opportunities, the cooperation and alignment of your entire supply chain will be required.

Collaboration across various stakeholders, from suppliers to distributors, becomes paramount in navigating the complexities surrounding the business. It is essential to anticipate potential challenges that may arise along the way, as illustrated by the insights gleaned from the following chart.

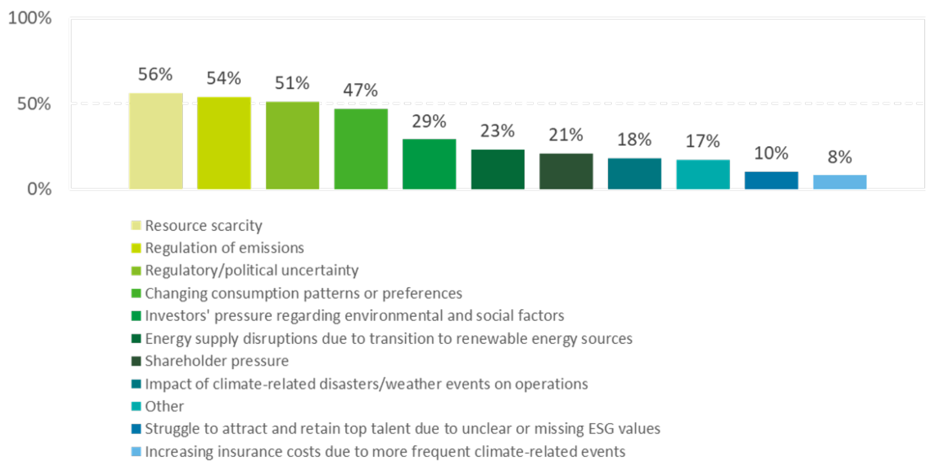
As majority of respondents (75 % for companies under 40 M EUR and 73% companies over 40 M EUR in graphs 4.4, 4.5) state that there isn't sufficient collaboration between the organization and its external stakeholders. Potential



7.1 In your opinion, what are the key benefits of a sustainable supply chain?



7.2 In your view, which ESG issues need to be tackled in the supply chain?



7.3 What are the issues related to sustainability that already have an impact on your company?

hurdles, such as insufficient collaboration, can impede progress. However, they can be addressed and overcome, which is the best path towards achieving strategic objectives. By recognizing and preparing for opportunities from this collaboration, your organization can leverage the collective strength of your supply chain network to drive sustainable growth and innovation.

As already mentioned, the data is crucial in this. When you implement processes and technology for data collection, especially automated ones, you will make your supply chain more transparent and predictable. The initiation could be collecting data for mandatory ESG reporting, but that's just the starting point. When the data on your table is relevant, you can better evaluate and manage the performance of your supply chain.

All of this creates opportunities for improvement and innovation. Here are a few examples: Circularity and recycling involve utilizing products at the end of their lifecycle to minimize waste and maximize resource efficiency. Additionally, there are opportunities for savings on input materials. Optimization of logistics is crucial under pressure to reduce carbon footprints, which leads to exploration of more efficient warehousing practices that address issues like energy consumption in buildings. Furthermore, there's a demand for the development of new products that align with clients' preferences for those with a lower carbon footprint and environmentally friendly attributes.

It is not about if, but when and how you must change your mindset and your supply chain. Besides mandatory regulatory topics like carbon footprints, respondents confirmed the issues that have most impacted their business are resource scarcity and costs. Changing consumption patterns and preferences is most important.

In management handbooks you read that the people are the key. Changing people's mindset is the most difficult part of transformation initiatives but will show results in the long-term benefits for the company. Via sustainability topics, you can change the mindset of your team and the overall company's staff. As the consumer's mind is already shifted, the mindset of the company must shift as well together with its staff.

Implementing sustainability measures in an organization can indeed have a positive impact on employee morale and engagement. However, there are certain constraints that may affect the effectiveness of these measures:

1. **Communication and Awareness:** : Lack of communication or awareness about the purpose and benefits of sustainability initiatives can hinder employee engagement. If employees don't understand why certain changes are being made or how they contribute to broader sustainability goals, they may not fully support or engage with them. For example, if a company implements a recycling program without adequately explaining its environmental benefits and long-term goals, employees may not see the value and may not actively participate.
2. **Resource Constraints:** Limited resources, such as budget, time, or expertise, can pose challenges to implementing effective sustainability measures. For instance, if a company lacks the financial resources to invest in energy-efficient equipment or sustainable materials, employees may feel frustrated by the lack of progress or support for sustainability initiatives.
3. **Organizational Culture:** In some cases, the existing organizational culture may not align with sustainability values, making it difficult to implement and sustain new initiatives. For example, if a company has a culture that prioritizes short-term profits over long-term sustainability, employees may face resistance or skepticism when trying to implement changes that prioritize environmental or social responsibility.
4. **Resistance to Change:** : Resistance to change is a common barrier to implementing any new initiative, including sustainability measures. Employees may resist changes to their daily routines or processes, especially if they perceive them as inconvenient or burdensome. Overcoming resistance to change requires effective communication, leadership support, and involvement of employees in the decision-making process.
5. **Lack of Leadership Support:** Without strong support from leadership, sustainability initiatives may struggle to gain traction within the organization. Leaders play a crucial role in setting the tone, allocating resources, and demonstrating commitment to sustainability goals. If leaders are not actively engaged or do not prioritize sustainability, employees may not feel motivated to participate.
6. **Mismatch with Employee Values:** If sustainability initiatives are perceived as incongruent with employees' personal values or priorities, they may be less likely to support or engage with them. For example, if a company promotes sustainability externally but does not offer competitive wages or benefits to its employees, it may be seen as hypocritical, leading to decreased morale and engagement.

To address these constraints and maximize the positive impact of sustainability measures on employee morale and engagement, organizations should focus on clear communication, providing adequate resources and support, fostering a culture that values sustainability, addressing resistance to change, securing leadership buy-in, and ensuring alignment with employee values and priorities.

Once sustainability becomes **a part of the DNA** of your company's strategy and eliminates inefficiencies in daily operations, you will build momentum on the **path to excellence**.

08

Summary of Implications

Summary of Implications

Companies often perceive sustainability efforts as burdensome and consider them to be EU-imposed mandates, particularly mandatory reporting, which they view as unnecessary. Many are confused about how to approach sustainability initiatives and fear increased cost. However, there are early adopters who have implemented sustainability measures and are beginning to see initial results, although they have encountered challenges such as increased costs. It seems that the main barrier lies in skepticism, but a change in mindset presents an opportunity for growth. By reframing sustainability efforts as opportunities for innovation and cost savings, such as through product-portfolio diversification and energy-efficiency improvements, companies can mitigate the impacts of volatile energy prices and reduce material dependence through practices like recycling and circular economy initiatives. Thus, sustainability contributes to building a resilient supply chain.

The next steps involve identifying demand, garnering management support, aligning interests, and creating a comprehensive plan for sustainability integration.

> Commercialization of sustainability in the supply chain means incorporating environmentally friendly and socially responsible practices into business operations to **ensure profitability**, **increase customer value** and **secure growth**, while **minimizing harm** to the environment and society.

The transformation of companies is inevitable, and we in Deloitte believe that leading the way and preparing for these changes has more advantages than shortsightedly fixing flare-ups in Firefighter Mode. Anticipation of future consequences brings major benefits. The first step is to bring the topic of sustainability into your strategy. Then you can enforce it in everyday business. The other way is usually much more difficult.

As this snowball starts to roll, competitiveness increases. As a byproduct, it becomes easier to truly contribute to global sustainability goals and make a difference in society.

Those leading the way strive to challenge their current business models, go beyond regulatory prescriptions and adopt new approaches for their companies. Their recycling policies, reverse logistics, energy monitoring, manufacturing network reconfigurations, and product re-engineering aren't quick wins, but when managed properly, these initiatives can bring long-lasting positive effects. The industry leaders who opt for network reconfiguration, strengthen partnerships with their suppliers, build safety nets within their networks, boost local capacities, and invest in innovative data management are increasing the resilience of the supply chain, and therefore making their companies increasingly more sustainable.

What are the recommended steps on a sustainability transformation journey from our point of view?

Step 1: Setup your reporting methodology

- Identify your mandatory requirements for reporting. Do you know how the regulation impacts your company? Do your investors or customers have additional requirements?
- Start collecting data in an efficient way. The regulations may change slightly, but the data you need will not.
- Create a framework that is comprehensive for your entire firm – not just one department. Align the interests across the company.

Step 2: Take care of your data

- Align the business glossary and define your single source of truth. Does each KPI have the same meaning for everyone?
- Document your KPIs and their calculation. Are the calculations consistent or do they differ throughout the firm or over time?
- Establish governance regarding who is responsible for each data set. Different departments may use the same data, but only one should be responsible for the correct values.
- Document data lineage (the source of the data and who is the owner). This will ensure data transparency, traceability and auditability.

Step 3: Transform your Supply Chain

- Align the interests within your company. Is there an opportunity to change the operating model to increase not only sustainability but also profitability?
- Communicate the benefits internally and externally. Some changes are severe and might require change management with extensive communication to be received well.
- Gather ideas regarding existing daily operations. Are there possibilities to cut down on energy or waste? Do some changes to procurement strategy become beneficial when CBAM (Carbon Border Adjustment Mechanism) is factored in?

Step 4: Maintain sustainable principles into daily operations

- Implement sustainability into the culture of your company
- Create a long-term plan and start implementing the initiatives. For example, real-time energy monitoring in your buildings.
- Incorporate new practices into your daily business.

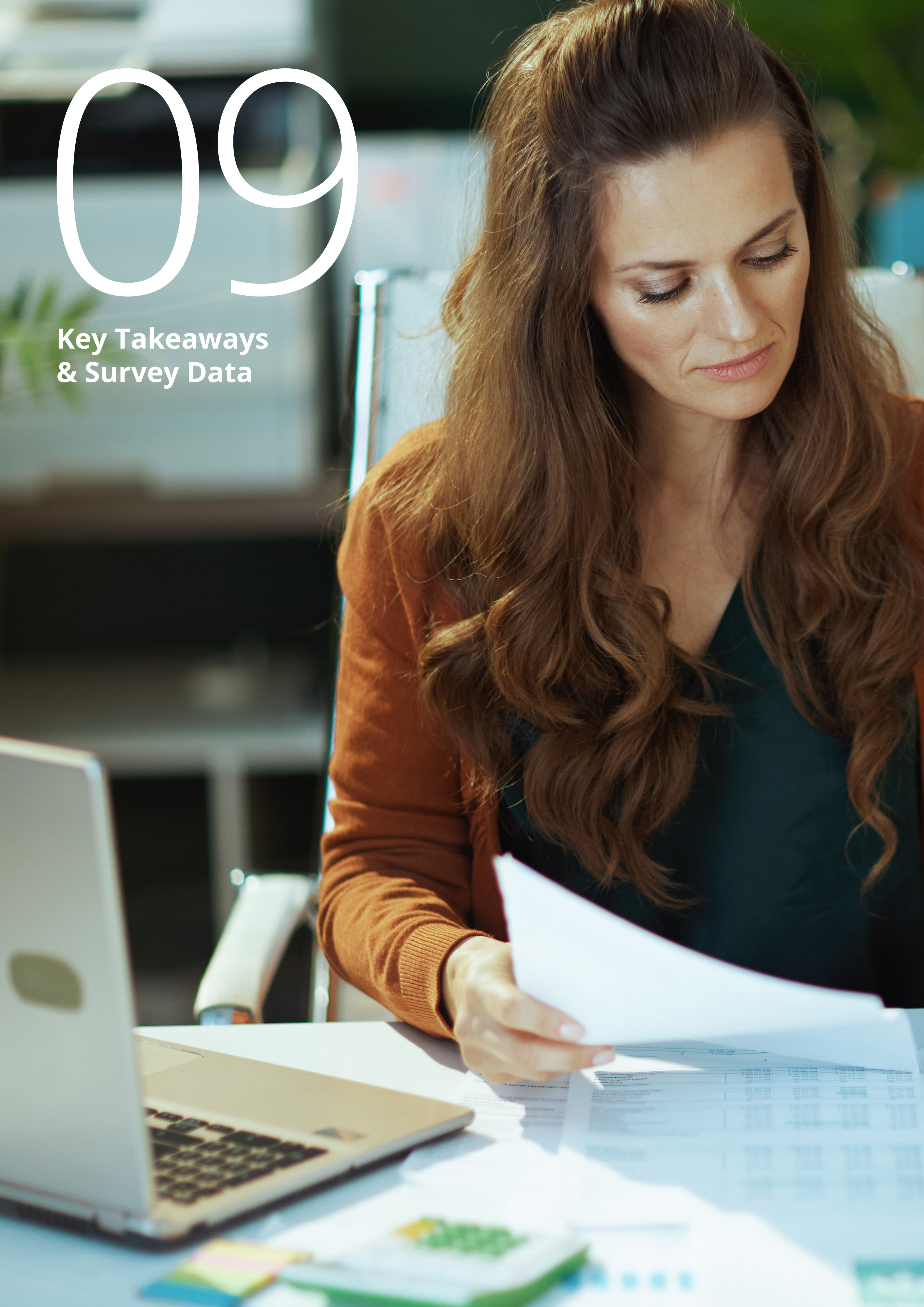
Successful adoption of sustainability principles can bring your company many benefits.

- **Enhanced brand reputation:** By adopting sustainable practices, businesses can improve their image and attract more customers, investors, and partners who value environmental and social responsibility.
- **Increased customer loyalty and trust:** Customers are more likely to stay loyal and trust businesses that demonstrate their commitment to sustainability and offer products and services that have lower environmental impacts.
- **Cost saving through resource efficiency:** Businesses can reduce their operational costs by using resources more efficiently, minimizing waste, and optimizing their supply chains.
- **Revenue growth:** Businesses can increase their revenue by accessing new markets and customers, creating innovative and differentiated products and services, and charging a premium for sustainability.

Take sustainability as a **strategic opportunity** and the beginning of a **transformational journey.**

09

Key Takeaways & Survey Data

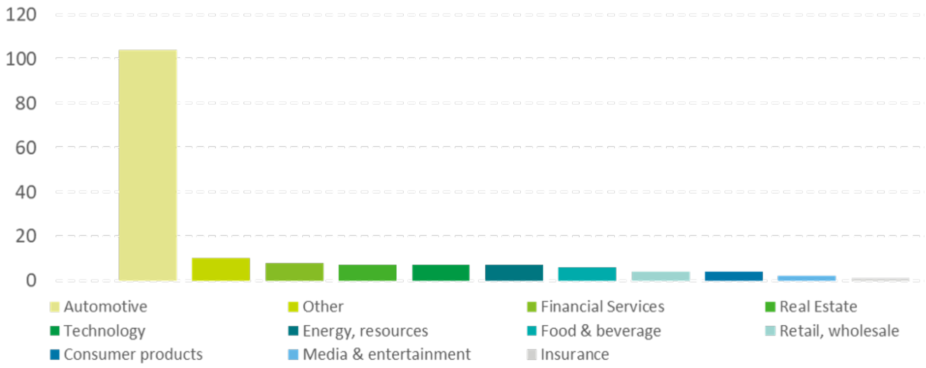


Key Takeaways & Survey Data

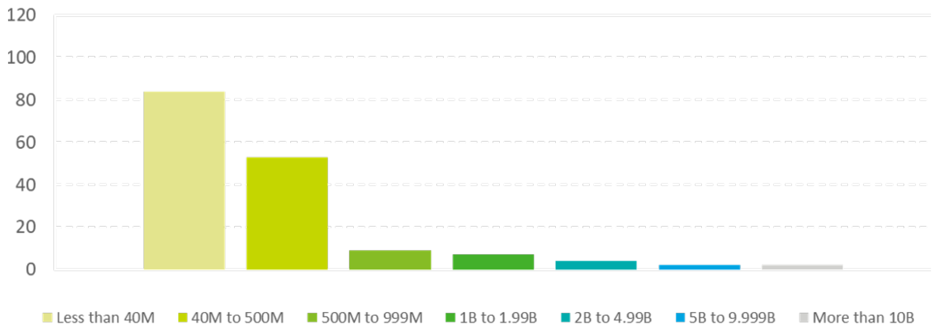
- **By going beyond the minimum, the mindset of a company changes drastically. Instead of just being compliant with set standards, companies start to realize that these efforts can lead to great innovations, which eventually leads to an increase in the company's value.**
- **Create a framework that is comprehensive for your entire firm – not just one department. Align the interests across the company.**
- **You can mitigate the impact of regulatory requirements on your company with a proactive approach.**
- **Sustainability requirements aren't only imposed by governments. This is becoming the norm for investors, B2B customers and consumers too.**
- **A missing sustainability strategy is tied to lower confidence in the benefits of sustainability.**
- **Having a data collection system in place will ensure transparent, reliable and auditable reporting. Companies that have such a system in place find the commercialization of a Sustainable Supply Chain less challenging.**
- **Visibility is crucial not only for compliance, but also for identifying operational inefficiencies and opportunities for optimization.**
- **Industry leaders are already taking specific sustainability-related actions, such as implementing recycling policies, reverse logistics, energy monitoring and management, manufacturing network reconfigurations and even re-engineering products.**
- **Companies in our survey are already seeing these benefits from their sustainability initiatives:**
  - **Ethics and compliance** (compliance with ESG regulations, contribution to global sustainability goals, and a positive impact on employee engagement)
  - **Commercialization** (enhanced brand reputation, increased customer loyalty, and innovation and product differentiation opportunities)
  - **Monetary** (cost savings through resource efficiency, increased competitiveness on the market, and increased profitability)
- **Achieving a Sustainable Supply Chain is a complex endeavor. Fortunately, you can build towards it step by step, and the best time to take the next step on your journey is now!**

Survey Data

The data was collected from November 2023 to January 2024.



9.1 Which industry do you work in?



9.2 What is the company's revenue in EUR?

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More information about Sustainability and ESG and Sustainable Supply Chain is available on our websites.

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