



Navigating to Net-Zero

Procurement's role in supplier emissions

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I. Reducing emissions across the value chain: A 5-stage plan to address Scope 3

Scope 1 and 2 emissions are currently the “elephant in the room” of many boardrooms. The “mouse in the corner,” however, is Scope 3 emissions, or those that are an indirect result of the company's value chain—and that mouse is growing larger. The growing concern over supply chain emissions is reflected in the evolving priorities of Chief Procurement Officers (CPOs). According to [Deloitte's 2023 CPO Survey](#), ESG has become the second most important objective for CPOs, moving up from sixth place in 2021 (improving operational efficiency remains number one).¹

Companies with net-zero strategies are recognizing the urgent need to start addressing Scope 3 emissions. They are asking themselves some essential questions: Why are Scope 3 emissions important to my organization? How do I go about reducing them? Where do I start?

There is no straightforward answer. Organizations are at various stages of maturity in their ESG objectives and programs. While some are seeking to proactively address Scope 3 emissions through a multitude of frameworks and approaches, others are simply waiting for governments and regulators to provide direction. Many companies have made commitments to achieve net-zero emissions following global accords, such as the Paris agreement; however, tackling Scope 1 and 2 emissions alone will only address part of an organization's net-zero goals.



II. Why are Scope 3 emissions important to my organization?

Scope 3 emissions are often responsible for the largest proportion of a company's carbon footprint. However, organizations that have a blueprint to net-zero and establish science-based targets (SBTs) are in need of a methodical, systematic, and impactful way to approach Scope 3 emissions, especially for Category 1, Purchased Goods and Services. This is the largest Scope 3 emissions category for most industries and the most complex, as it entails engaging with the supplier base. CPOs and CSCOs have a unique role in influencing one of the largest contributors of emissions.

While various companies and regulatory bodies have come up with abatement strategies for each category, Category 1, Purchased Goods and Services, still needs attention. Of 15 categories, it generally accounts for most Scope 3 emissions. The emission portion of this category ranges between 35% and 40%, depending on the industry, according to the Carbon Disclosure Project (CDP) (figure 1).² This category alone can move the needle on sustainability efforts—but it requires a deliberate approach that accounts for multiple factors.

Considerations for tackling Scope 3

Reducing emissions within Category 1 can be complex due to three main requirements:

- a. **Access to accurate data:** A company needs not only its own measurement data but also data from the supplier base.
- b. **Engagement with suppliers:** When it comes to engaging the third-party supplier base, multiple functions are involved, such as procurement, supply chain, and business leaders. Being able to balance roles, responsibilities, and incentives is key to an effective approach. This is where procurement plays a key role in navigating supplier relationships to achieve emission reductions.
- c. **Achieve supply chain transparency:** Carbon footprint monitoring across the value chain requires a company to have visibility into not only its tier 1 suppliers but also tier 2.



Figure 1. Scope 3 categories broken down by primary business functions

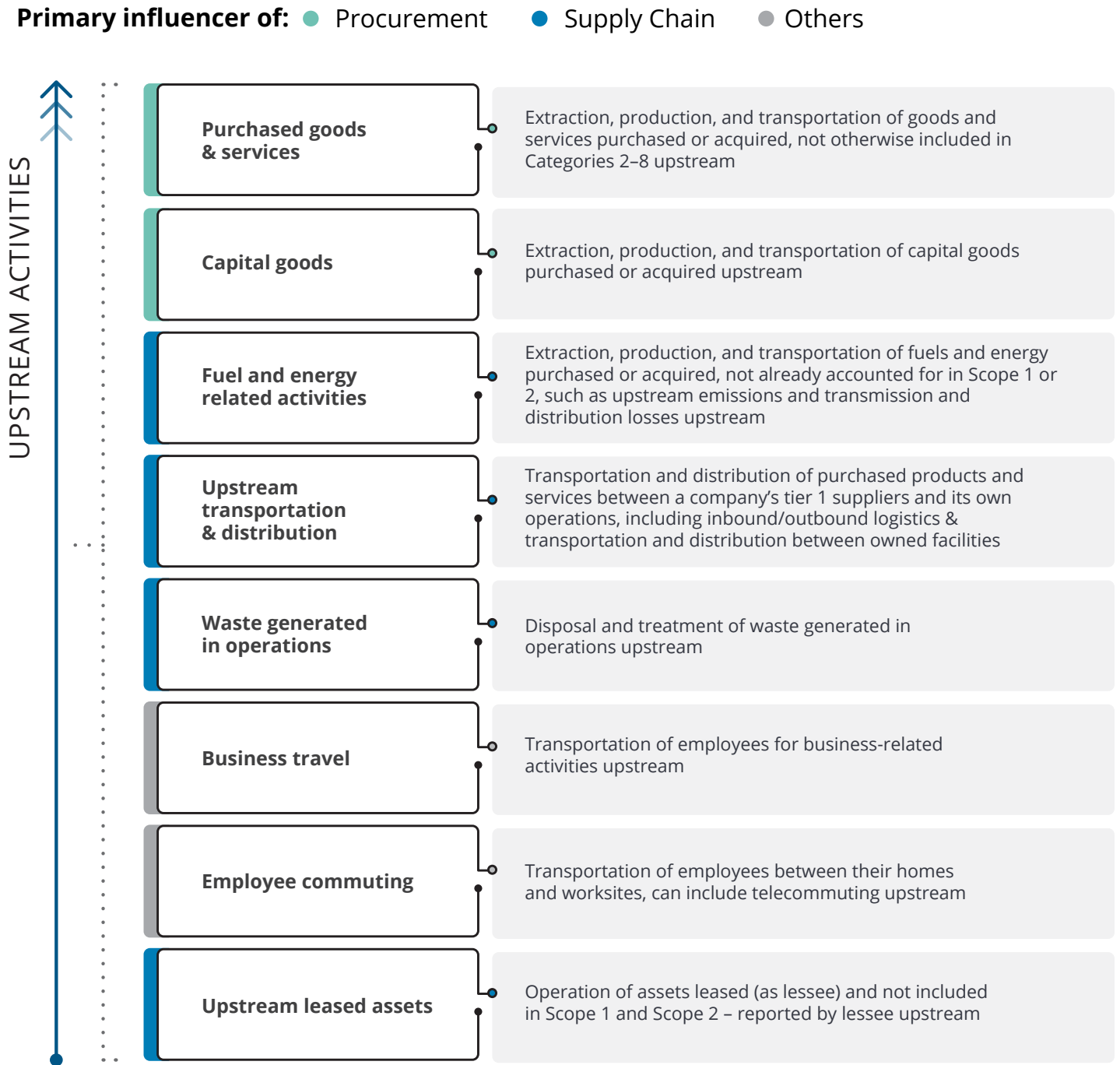
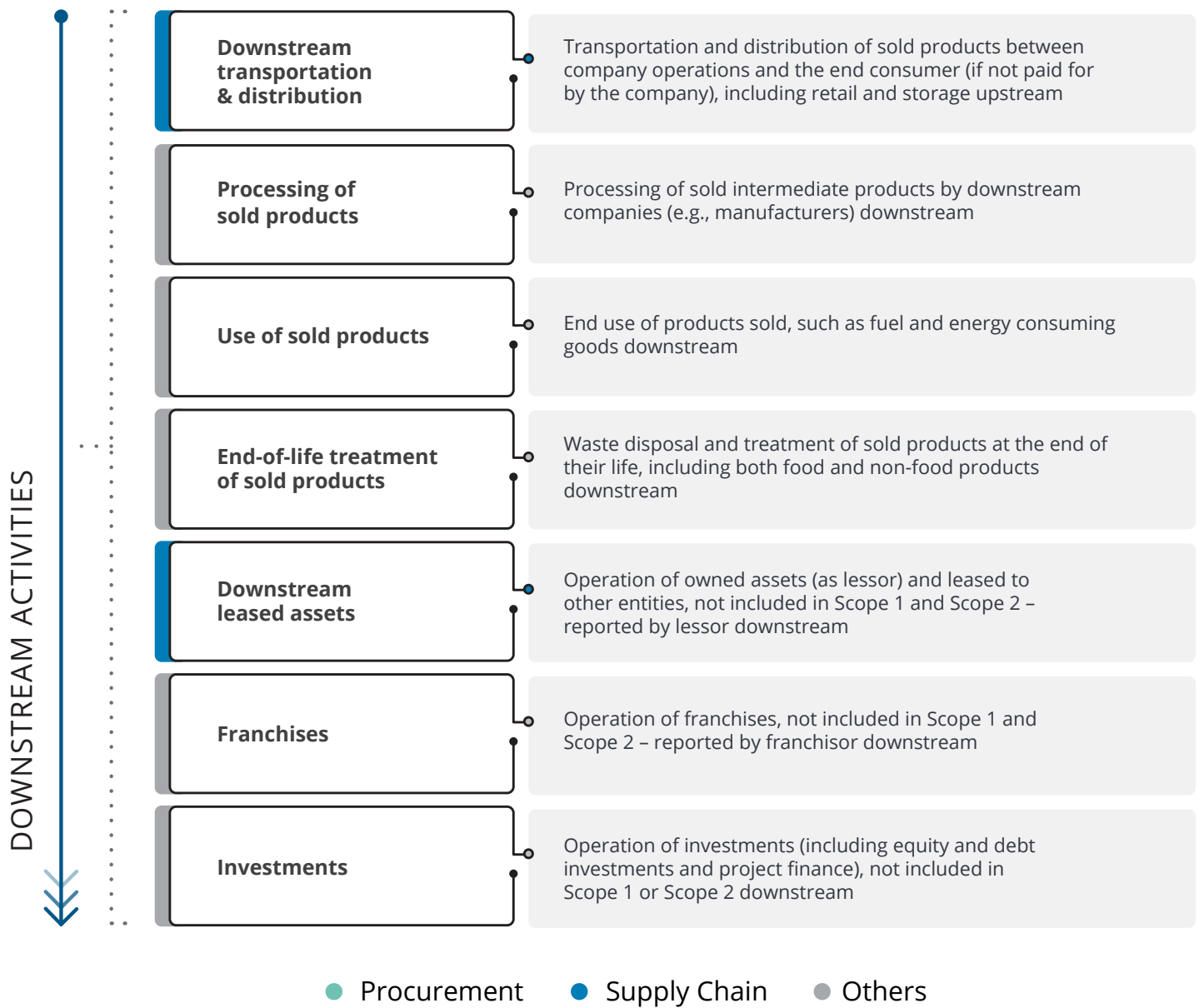


Figure 1. Scope 3 categories broken down by primary business functions (continued)



To achieve emission-reduction goals in Category 1, consider an approach that influences the supplier base. Such an approach calls for an empowered procurement function that can partner with the business to drive supplier engagement and implement robust emission measurement techniques.

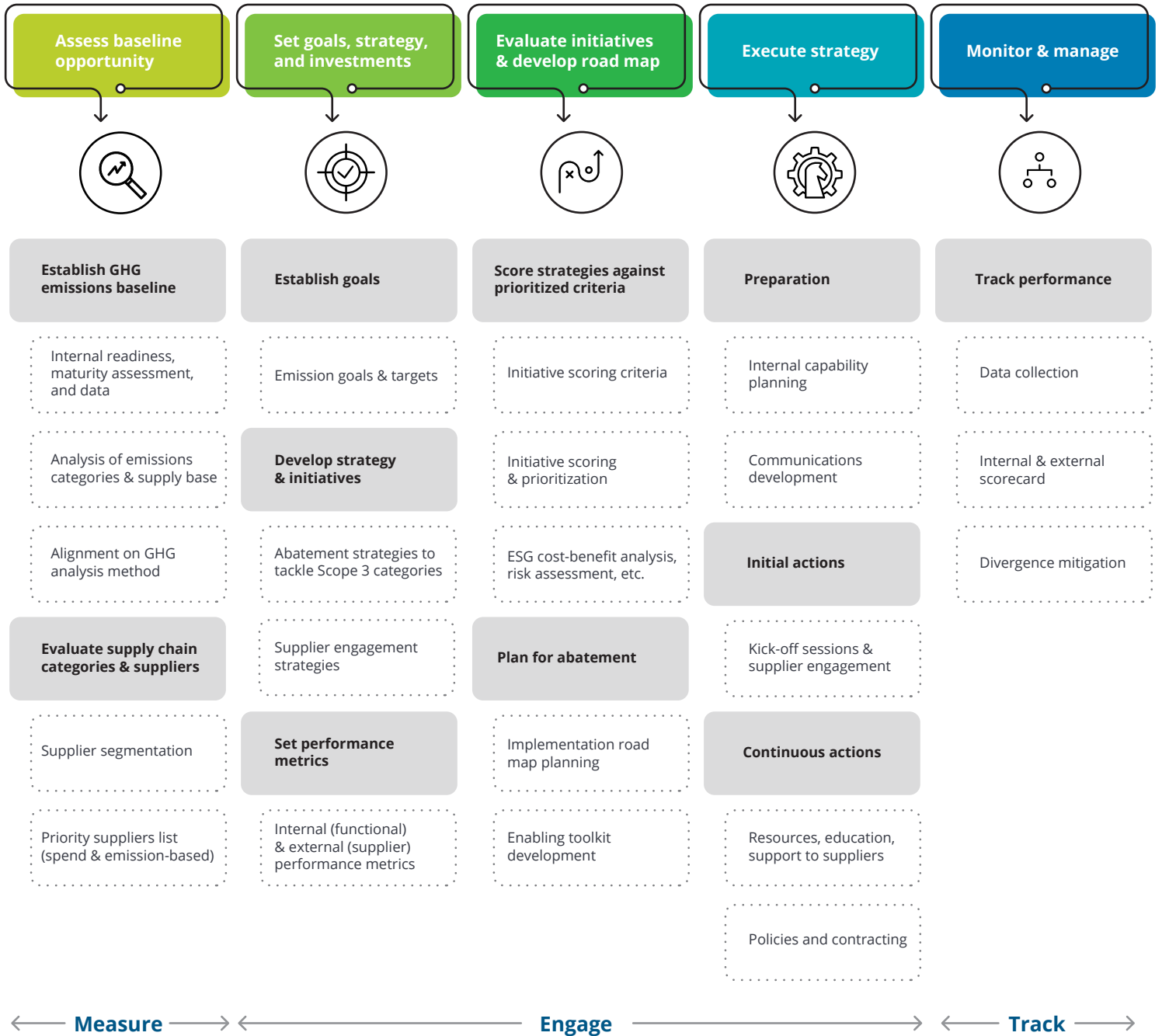
III. How does an organization go about reducing Scope 3 emissions, specifically in Category 1?

After carefully examining the approaches of multiple companies to Scope 3, Category 1, collecting information from CPOs, and looking at studies from prominent academic institutions, we designed a five-stage journey that aims to drive efficiency while speeding value impact:

-  **1. Assess baseline opportunity**
-  **2. Set goals, strategy, and investments**
-  **3. Evaluate initiatives and develop road map**
-  **4. Execute strategy**
-  **5. Monitor and manage**



Figure 2. Deloitte's 5 Step Framework to reduce Scope 3 emissions for Category 1 (Purchased Goods and Services)



Overview of the 5-stage journey to reduce Scope 3 emissions for Category 1

Many companies have set net-zero targets using the Science Based Targets initiative (SBTi) that require the inclusion of Scope 3 emissions but find it a challenge to create and execute a road map. Our approach interweaves the key components necessary to building it out.

As a starting point, assess your baseline emissions and prioritize the emissions and supply categories they will focus on. This sets you up to start setting goals at the overall company level that will then need to be broken down at the emissions category and supplier level.

While establishing goals is a great first step, achieving them cannot be done with the flip of a switch. It is a journey that requires a strategy, a plan, and the ability to execute, including resource bandwidth, internal capabilities, and intercompany alignment. A good strategy takes into consideration how and at what level you will engage with your supplier base and the best carbon abatement programs given the finite resources available and suppliers' context. When building the strategy, take a look at your own capabilities, too. Do you have the right knowledge within your organization not only to build out the strategy but connect the dots that will allow you to execute and manage the plan? Last but not least, you will have to manage and monitor both your suppliers' performance against commitments and internal performance against strategy targets.

In this section, we'll dive a bit deeper into the 5-Step Framework with a particular focus on the strategy development step, which is where the majority of companies often fail to develop.



1. Assess baseline opportunity

Today, many companies are focusing on measuring emissions (although less so on following through with the actions necessary to reduce them). Measurement is essential to the development of any strategy that tackles emissions. To that end, multiple resources, studies, and techniques are being developed, including measurement standards.

Understanding your company's emissions baseline starts with identifying the data to which you have access. This will determine what analysis method from the greenhouse gas (GHG) protocol you'll use to measure your emissions.

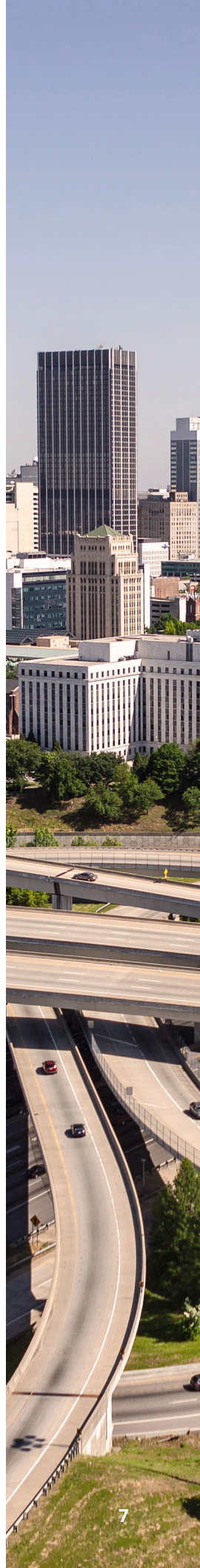
The GHG protocol provides the option of four analysis methods. The spend-based method is the least accurate, and supplier-specific is the most accurate. A hybrid model, on the other hand, typically strikes a balance between ease of implementation and accuracy.³

1. Spend-based – calculates value of goods and services
2. Average data – calculates mass or other unit of goods and services
3. Hybrid – combination of methods
4. Supplier-specific – calculates based on product-level emissions data of goods and services

Shifting to a more accurate measurement method can bring incremental value to your company. Multiple online resources that can help are available.

Supplier-based segmentation

Measuring accurately, understanding the supplier base, and identifying emissions drivers across the value chain will allow supplier segmentation based on defined and company-relevant criteria. This, in turn, allows the creation of supplier segments, or groups, that inform a high-level engagement approach, such as a focus on the supplier-wide base, specific segments, or even specific suppliers. Supplier segmentation is the first step to developing a robust strategy to address Scope 3 emissions for Category 1.





2. Goals, strategy, and investments

Many companies have publicly announced their emission-reduction goals and aligned their goals with the SBTi. They are now tasked with the work of breaking down their high-level goals into broader categories, like the emission and supplier levels.

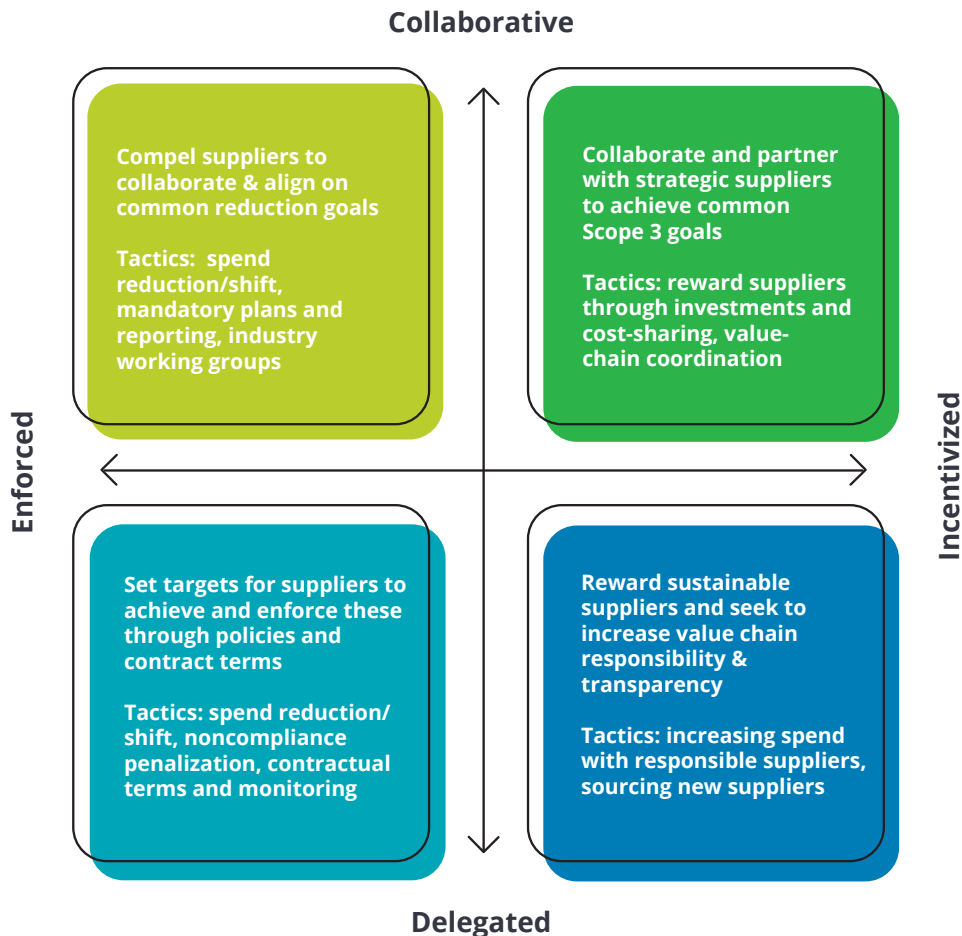
Once you establish your goals, you'll need to identify a strategy to achieve them. It's important to understand that sustainability goals cannot be realized with a flick of a finger. The journey spans five to 20 years. Being able to methodically build capabilities over time, prioritize initiatives based on defined criteria important to your company, and drive commitment through the journey are essential for the success of a strategy.

Strategy to address suppliers related to Category 1: How can an organization galvanize its suppliers to act?

The procurement function plays a critical role in helping companies reduce their Scope 3 emissions for Category 1, which include emissions from suppliers, and in interacting with the supply base.

First, consider your own unique set of circumstances that determine the best approach to achieving your emissions goals, such as market positioning, supplier leverage, and internal capabilities. Some companies choose to collaborate with suppliers, while others delegate responsibility for achieving emissions reductions. Second, consider whether to incentivize suppliers to achieve goals or penalize them for failing to do so.

Figure 3. Deloitte's supplier collaboration matrix



Most often there is no one-size-fits-all approach. Usually a hybrid approach is better. In this approach, suppliers are mapped based on their impact on the business and other criteria. Companies then develop specific strategies for each quadrant of the supplier collaboration matrix.

By using a supplier collaboration matrix (figure 3), you can determine the most effective engagement strategy and apply predefined emission reduction levers to achieve consistency and drive actionable initiatives. According to [Deloitte's 2023 CxO sustainability report](#), 44% of CxOs are requiring suppliers and business partners to meet sustainability criteria, a step that aligns more with the enforcing lever.⁴ This alone, however, will not be sufficient to drive progress and can create strain in some relationships.

• • • Determining the right level of relationship with a supplier

Collaborate and Incentivize

Companies will likely have very few Collaborate and Incentivize suppliers. These suppliers are generally integral, aligned at the enterprise level, and have oversight at the executive level. Relationships with these suppliers are strategic to the growth, risk, and financial profile of the company. The Collaborate and Incentivize engagement approach is better for shared risk-and-reward partnerships that leverage value creation and innovation to move the needle toward aligned sustainability goals. Some examples of levers in this model include providing access to funding, joint business planning, and shifting demand/spend to these suppliers.

Delegate and Incentivize

Suppliers at the Delegate and Incentivize level are critical to a company's operations and specific company divisions, but they may not be critical to the entire enterprise. Replacing these suppliers can present a tremendous operational and financial risk. Typically, companies prioritize quality and reliability over price with this level of supplier. The high inherent potential risk with these suppliers makes the Delegate and Incentivize approach a good fit for them. Both parties can benefit from the supplier's additional value-creation levers, such as innovative strategies to meet and exceed sustainability goals. Examples of levers for this model include improved spend allocation or access to funding if the supplier meets certain emission-reduction targets or implements ESG rating requirements.

Collaborate and Enforce

Collaborate and Enforce suppliers provide standard products and services. These suppliers are amenable to a buyer's terms and conditions and are easily motivated to comply with sustainability requirements. Companies may consider leveraging group buying organizations to identify suppliers at this level. Examples of levers applicable to this model include improving contract terms, providing suppliers with an ESG playbook, and implementing penalties if certain goals are not met.

Delegate and Enforce

Suppliers at the intersection of Delegate and Enforce are noncritical, transactional suppliers that negotiate on price and make up about 80% of a company's supply base. At this level, companies should provide minimal support and codify the enforcement of sustainability requirements via contractual language. Often, these suppliers could be replaced without majorly impacting continuity, allowing organizations to drive more sustainability. Typically, this model is applicable if a company has very high leverage over its supplier or has a robust risk-mitigation strategy in place or the supplier is lower tier and not critical or strategic for the business. Examples of relevant levers for this model are implementing an ESG-focused supplier code of conduct, implementing spend reduction penalties if goals are not met, sourcing from alternative suppliers, and enforcing ESG contract terms.

Spotlight: Salesforce

Companies often struggle with deciding on requirements to put on their suppliers as well as with holding them accountable. To this end, Salesforce takes a firm leadership stance with suppliers, taking actions that show commitment to reducing Scope 3 emissions through procurement. *The Salesforce Sustainability Exhibit* in its contractual agreements with suppliers makes this evident. The exhibit articulates a clear, straightforward set of expected outcomes: suppliers set their own SBTs, deliver carbon-neutral products and services, and report their GHG emissions, with consequences for noncompliance. Salesforce not only holds its suppliers accountable, but also itself by linking its own executive compensation to sustainability goals and through its clear commitment to increase spend with sustainable suppliers.⁵



3. Evaluate initiatives and develop road map

Companies need an effective road map to traverse the complex emissions reduction landscape. Rapidly changing regulations, stakeholder expectations, and supply chain disruption make planning for emissions reduction even more crucial.

Identifying the best carbon abatement strategy to partner on with your suppliers can be difficult, as there are numerous factors to consider. Identifying important parameters and implementing a robust methodology are essential to prioritizing initiatives that can move the needle in the shortest time possible.

Additionally, change management is key for companies adopting new supplier engagement and carbon abatement strategies. A good change management plan enables a smoother mindset shift for internal resources and external stakeholders (suppliers).



4. Execute strategy

Executing the strategy and initiatives can be broken down into two types of activities: one-time actions and continuous activities. One-time actions include key communications, alignment, and engagement with suppliers. They also cover updating terms and conditions, contract terms, or going through a sustainable sourcing exercise. Continuous activities depend on the strategy adopted. Some examples include the development of useful resources or training to suppliers, managing suppliers' access to funding in a collaborative approach, and administering penalties when a supplier does not meet agreed-upon goals.



5. Monitor and manage

"What gets measured gets managed" is a resounding sentiment for companies across the globe. Unfortunately, many companies have hit the "pause" button after measuring their emissions and need a reminder to hit "play" again. They need to move beyond measuring to progressing toward their emission-reduction goals.

SEC-proposed regulations,⁶ ISSB inclusion of Scope 3 emissions,⁷ and the SBTi requirement to include Scope 3 emissions for net-zero targets⁸ are clear signs that companies need to monitor and manage their efforts to ensure progress.

To help ensure that suppliers meet their new emission-reduction obligations, procurement's role should evolve to include the monitoring of suppliers' ESG metrics as part of a performance management framework and the reassessing of supplier engagement strategies as needed.

IV. Where does an organization start?

If you're just starting to think about how you'll start tackling Scope 3 emissions in your organization, particularly in Category 1, here are four questions that can help you get started:

- 1** Do I have the right data to measure Scope 3 emissions? (If not, consider commencing emission measuring and data collection.)
- 2** Do I have strategic alignment within the business to tackle Scope 3 emissions? (If not, consider developing a business case and aligning with key business leaders.)
- 3** Do I have the right capabilities to drive reduction of Scope 3 emissions, especially Category 1? (If not, consider running a capability assessment survey to identify gaps and development areas.)
- 4** Is my procurement organization ready to drive Scope 3 emissions in Category 1 with suppliers? (If not, consider available options that can help you get started while you develop internal capabilities and capacity.)

While getting started can be intimidating, it's important to realize that this is not a one-time, demanding project that may disrupt your business; it's a journey. The need for companies to start this journey sooner rather than later is growing as climate change is affecting companies directly and indirectly and will likely get worse if we don't act now. Furthermore, the longer a company waits, the harder the transition may be as external forces become more taxing. An early start not only addresses emissions but also brings a longer-term effort to bend the cost curve and establish more resilient sources of supply. According to [Deloitte's 2023 CxO sustainability report](#), more than half of CxOs said employee activism on climate matters has led their organizations to increase sustainability actions over the last year—24% of which said it led to a "significant" increase. Regulation is also influential, with 65% of CxOs saying that the changing regulatory environment has led their organizations to increase climate action over the last year.⁴

We highly encourage companies to immediately develop a strategy and road map to address Scope 3 emissions in Category 1. Supply chain and procurement should be at the forefront of the effort, which is key to a successful journey that takes into consideration the context, limitations, and ambitions of the company.



Ready to navigate your path to net-zero? Contact us.

Let us help you improve how you collect and manage ESG-related data, influence change, and make sustainable progress.



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Endnotes

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