



The Financial Imperative for Cutting carbon in the Value Chain

Fewer than half of all multinationals address indirect carbon emissions in the supply chain – and are missing out on considerable cost savings as a result.

Dominic Burbridge, Associate Director, Carbon Trust Business Advice, recommends a smarter business strategy.

By definition a value chain is the process of adding value to raw materials. Optimising the use of these raw materials in the creation of products and services is central to business strategy.

A by-product of this value creation process is the generation and release of carbon emissions - lots of them. Many business leaders, particularly CFOs, have seen the financial benefits of cutting emissions in their own organisations. However, when it comes to dealing with carbon emissions generated upstream by suppliers and downstream by customers, there's a different story to tell: currently, fewer than half of multi-nationals (40%) are addressing these indirect carbon emissions, so are missing out on reaping considerable cost savings.

While CFOs may not see how this area is directly linked to their role, it would be very surprising if they weren't familiar with:

- a. the bottom line impact of suppliers demanding higher prices as they pass through the cost impact of rising commodity and energy prices
- b. the potential top line impact, particularly in this economic climate, of consumers preferring and opting for innovative "green" products and services which have been enhanced to help them save money by consuming less energy or fuel in use.

Carbon is increasingly being seen by business stakeholders as a common currency for costing and valuing the impact that different business decisions have on both an organisation's environmental and economic performance. Monitoring carbon emissions can uncover a strong business case for change within a business as ultimately it can identify new ways to cut supply chain costs, respond to resource scarcity, reduce negative environmental impact, and ultimately drive revenue. This article looks specifically at the most tangible of these - supply chain costs.

In order to manage supply cost inflation, it may be necessary to work with suppliers to help them reduce their energy costs, though making a compelling business case for change when one step removed from the decision making process can be difficult.

To assess how a supplier engagement approach could deliver the best results, we encourage businesses to take a 'carbon lens' to their value chain, in order to create a supply chain 'heatmap' that will reveal the concentrations of commodity and energy usage. Combining this insight with the risks posed by external factors - such as resource scarcity, changes to government regulations, and the direct effects of climate change itself - it is possible to predict the future cost and risk profile to the business.

For organisations that have taken a thorough approach to carbon reduction in their own operations, helping suppliers to make initial progress by passing on best practice advice will bring quicker returns than tackling more complex opportunities in-house. Whitbread, for instance, has already undertaken a number of sustainability initiatives within its organisation and is now transferring some of this expertise to its suppliers to help reduce the carbon emissions generated in the lifecycle of the 46,000 beds in its Premier Inn hotels, and expects them to make substantial financial savings in doing so.

Optimising logistical processes has a major role to play in reducing waste in suppliers' businesses. Factors such as inefficient scheduling, changes to orders, emergency shipments and multiple deliveries can all result in waste across the supply chain. Addressing these can help suppliers achieve substantial cost savings, some of which can be passed back along the value chain.

Businesses that successfully embed value chain carbon analysis into everyday operations give themselves a massive advantage over competitors as they can drive out waste across the complete supply chain, and minimise energy and material use. CFOs who have identified the business case for these changes are likely to be recognised and rewarded for their foresight in addressing a complex issue that many are struggling to tackle.

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