



## **Why cutting carbon in the value chain is essential for forward thinking organisations.**

**By Hugh Jones, Managing Director, Business Advice, Carbon Trust**

The past few years have seen carbon rise up to the boardroom agenda, with energy efficiency and targeted legislation on carbon emissions turning the spotlight on the financial benefits available. CEOs and the board have catalysed many significant carbon reduction projects, with 93% of multinationals now addressing their own carbon emissions in order to exploit reputational and efficiency gains.

This has led to companies making significant progress in the measurement and reporting of their corporate carbon footprints, with an increasing number of companies also taking a systematic approach to prioritising carbon reduction opportunities and setting appropriate carbon targets.

### **Sustainability and scope 3 emissions**

But there's a piece missing from the puzzle. While action on corporate carbon footprints is providing tangible results in terms of cost savings, a much larger prize awaits those who take a broader view of carbon and other environmental sustainability factors. For many companies, the majority of their emissions and cost reduction opportunities lie outside their own operations. These are known as indirect or "scope 3" emissions. These include everything, from the development of a product or service through to supply chain, logistics, sales and distribution, and customer usage. Regardless of whether these aspects of the product lifecycle are outsourced to third parties or not, they should be recognised as one of the most significant contributors to company carbon footprints.

GlaxoSmithKline for example found that 80% of its overall carbon footprint comes from indirect emissions and 40% of this is from consumer end use.

Whilst some large organisations are clearly setting out their total carbon footprint 60% of multinational companies are yet to look at their indirect emissions - which means they are not taking full responsibility for all the ways in which their products or services emit CO<sub>2</sub>. Out of the 40% which are addressing indirect emissions, pressure from the board, a need to boost sales and marketing and the personal vision of the CEO are stated as the top reasons for their actions. However, our research suggests that external drivers are likely to become increasingly influential on company plans in this area, with shareholder pressure to cut carbon increasing in importance. This was identified by just 4% of UK respondents as a current driver, but in the future, 74% of UK respondents said that shareholder pressure would become a key driver for them in tackling carbon emissions.

## Forward thinking

Given these increasing pressures, certain forward thinking organisations have already taken action. Marks & Spencer has been working in partnership with its supplier, MAS, on the first of four 'eco-factories'. Designed to be carbon neutral, the lingerie manufacturing site, in Central Sri Lanka, combines energy saving devices, renewable energy, waste reduction processes and a healthy working environment for the factory workers. The site has enabled M&S to launch the high street's first ever carbon neutral bra, which has given the company some fantastic publicity and demonstrated its commitment in this area to shareholders.

This example stands out because it demonstrates a forward thinking approach beyond that of most organisations. Even amongst those already tackling indirect emissions only 43% have a defined strategy and just 60% have set targets. With so little progress in the area, there's still plenty of scope for early adopters to reap the benefits of getting ahead of the game. Understanding how to influence these factors through supply chain and design decisions, or incorporate them into product and investment portfolio decisions, can drive significant value to both companies and their customers. It also sets businesses one step ahead, providing a competitive differentiator. But with 42% of companies planning to look at indirect emissions within the next two or three years, this competitive advantage won't last long before it becomes a standard business practice to address indirect CO2 emissions.

## Carbon efficiency in supply chains

That is not to say that suppliers themselves should leave it to their customers to drive down carbon emissions. Our research shows that suppliers that can ensure their place on 'green' supply chains by meeting the criterion of carbon efficiency held by multinationals could benefit from a healthier bottom line, with 50% of multinationals set to select their suppliers based upon carbon performance in the future and 66% willing to pay a premium to purchase a product or service with low emissions.

BT, for instance, has introduced a Climate Change procurement standard for all its suppliers. The standard encourages suppliers to use energy efficiently and reduce carbon during the production, delivery, use and disposal of products and services supplied to BT. The company has also held a number of workshops with its suppliers to help them with their own carbon reduction policies and share best practice.

So we see that supply chain carbon is the next key area to be tackled to enhance efficiency and reputation, and meet compliance. The companies that have a full understanding of their carbon emissions, including from their suppliers and customers, will be better able to measure, manage and reduce them in an environment where carbon emission reduction is an increasingly business-critical issue. Through leading the market and addressing supply chain emissions now, businesses can enjoy reputational benefits. Communicating their actions to stakeholders will set them apart from the majority of businesses, which are yet to make this area a priority.

**About the research:**

Cutting Carbon in the Value Chain (Dynamic Markets, September 2011) \* The research was commissioned by Carbon Trust Advisory and was carried out by Dynamic Markets. The quantitative research was carried out via telephone research (CATI) methods, with interviews conducted between 28th July and 30th August. 100 interviews took place with organisations that have operations, subsidiaries, or investments in more than two countries, classifying them as multinationals. The respondents were from organisations with at least 1,000 employees worldwide, and they personally operate at senior manager level or above. They also confirmed that they are knowledgeable about their organisation's attitudes, plans or actions relating to reducing its overall energy consumption and carbon emissions across its entire value chain, including the supply chain and usage of products by customers. 62% of respondents are supply chain managers and the rest occupy a variety of other roles including procurement, logistics / distribution, retail operations and specialist environmental roles. The results have been analysed and sig-tested at a 95% confidence level. Dynamic Markets strictly adheres to the UK MRS Code of Conduct.

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