

Sustainable procurement

Level 5

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Session 1

**Defining sustainable procurement and
analysing current and emerging global
trends**

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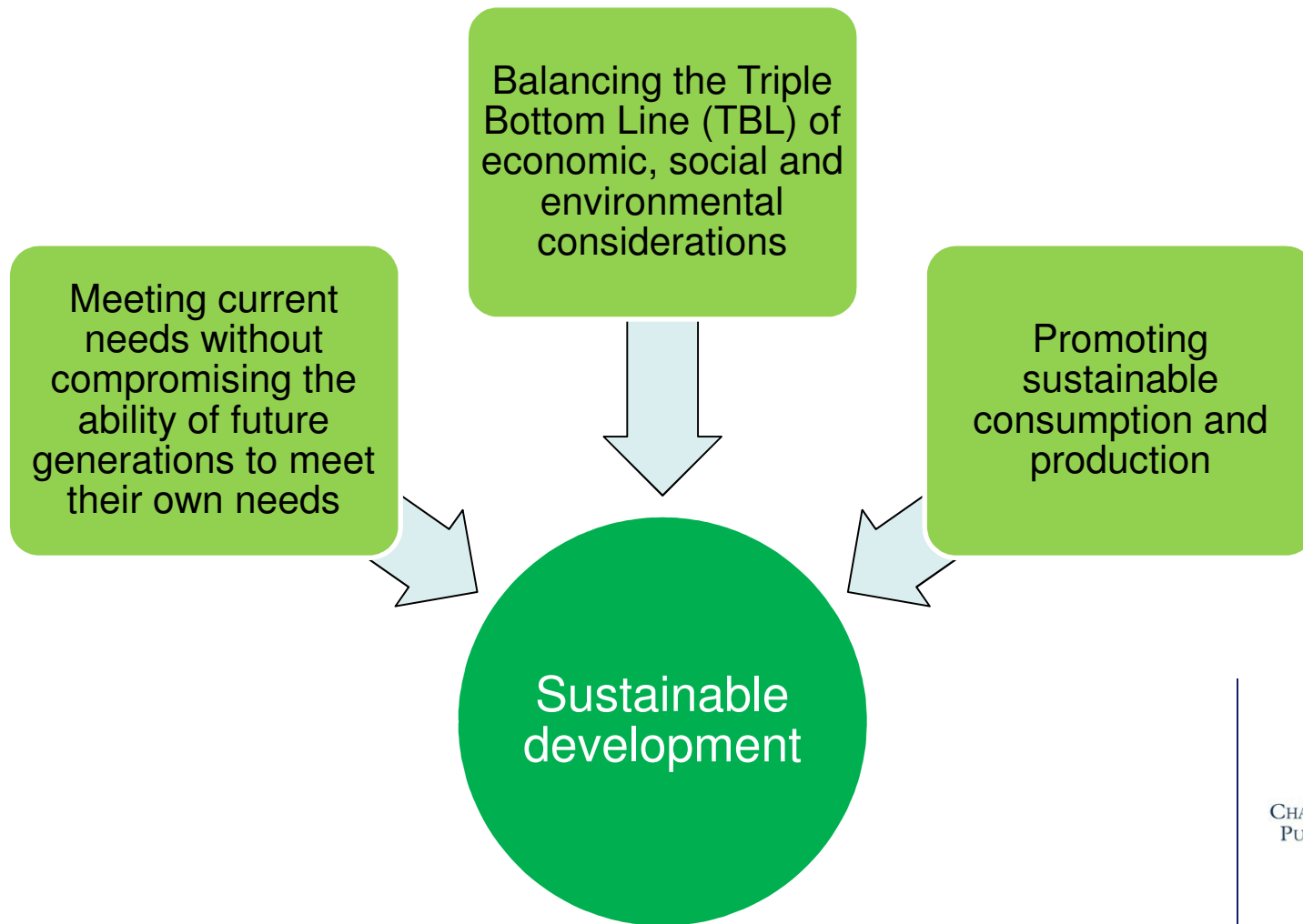
Learning objectives

At the end of this session candidates will be able to:

- describe the relationship between sustainable development and sustainable procurement
- analyse and compare different definitions of sustainable procurement
- explain why sustainable procurement should be good for business
- analyse global social, economic and environmental trends affecting sustainable procurement
- evaluate the relationship between innovation and sustainable procurement.



Sustainable development



Sustainable procurement in the context of sustainable development

Meeting the needs of the present:

- Internal and external customer requirements
- Meeting budget targets and performance criteria
- Product and process capability
- Service specifications
- Supplier requirements
- Resource allocation

Ensuring that the needs of future generations can be met:

- Implementing sustainable procurement strategy and policy
- Use of sustainable purchase specifications
- Sustainable sourcing of products and services
- Sustainable contract management
- Sustainable supply chain management and development



Sustainable procurement - definitions

There is no single definition of sustainable procurement but, in its simplest terms, it is the ability to purchase products and equipment, usually on a large scale, without compromising resources for future generations.

(www.governmenttechnology.co.uk)

Sustainable procurement – a management process used to secure the acquisition of goods and services (“products”) in a way that ensures that there is the least impact on society and the environment throughout the full life cycle of the product.

(www.cannybuyer.com/guidebook)

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Sustainable procurement - definitions

Sustainable procurement means giving due consideration to the impact of the procurement on the environment, on the community, and on the social conditions of those delivering or receiving the product or service. It's about looking at what your products are made of, where they come from, and who has made them. It's even about looking at whether you need to make the purchase at all. If you consider all these factors you can make better choices and achieve the best overall value for money on a whole-life and long-term basis.

(Welsh Procurement Initiative – Sustainable Public Sector Procurement Guidance 2004)

Sustainable procurement – true sustainable procurement should take into consideration economic, environmental and social factors in analysing the impact of sustainable procurement and the supply chain environment.

(Sustainable Development Strategy, European Union)

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Sustainable procurement - definitions

“A process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole-life basis in terms of generating benefits not only to the organisation, but also to society and the economy, whilst minimising damage to the environment.”

(Sustainable Procurement Task Force)

Footnote: Sustainable procurement should consider the environmental, social and economic consequences of: design, use of non-renewable material, manufacture and production methods, logistics, service delivery, usage, operation, maintenance, reuse, recycling options, disposal, and suppliers' capabilities to address these consequences throughout the supply chain.

Why sustainable procurement should be good for business

“For HSBC, sustainability is about making decisions that maintain the right balance between the environment, society and the economy, to ensure long-term business success.”

(HSBC Holdings plc, Sustainability Report 2007)

“For us, an awareness of our social responsibilities is inseparable from our corporate self-image...company environmental protection can only be ‘holistic’ if it really covers all links in the production chain.”

(BMW Sustainable Value Report 2007/8)

“It’s about valuing our employees and communities, preserving our environment and returning value to our shareholders...now and for the future. Xerox views it not as a cost of doing business but a way of doing business.”

(Xerox Sustainability Commitment 2008)

“Wherever we work, we aim to be the local energy company, training and employing local staff at all levels, developing and using local suppliers and contributing to the local community.” (BP Sustainability Review 2007)

Why sustainable procurement should be good for business

Enhanced reputation

- Positive customer perception
- Improved supplier relationships
- Increased Brand value
- Ability to attract additional funding

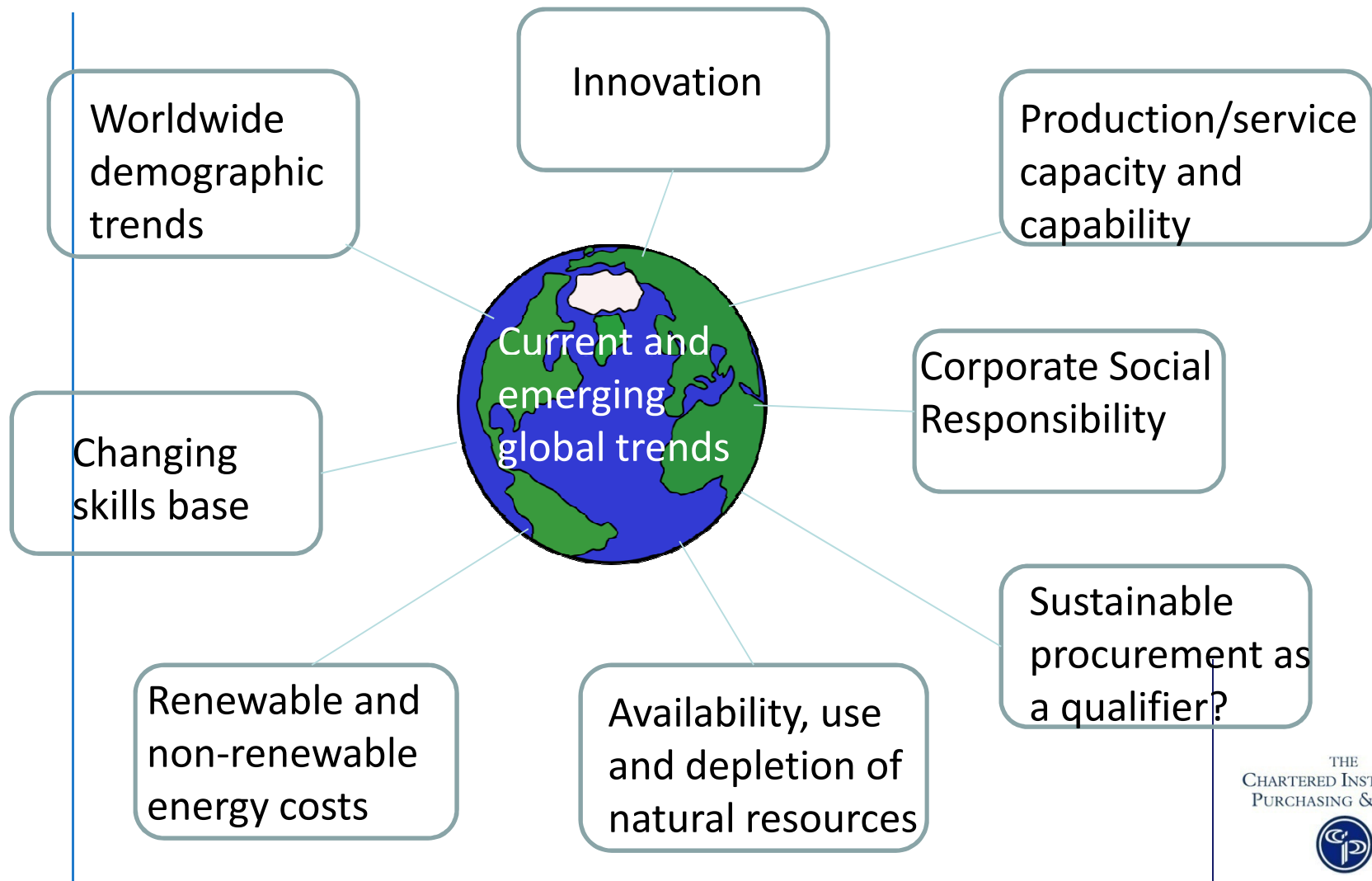
Risk mitigation

- Improved availability of resources
- Sustainability of suppliers
- Identification of alternative supply chain solutions
- Safer, greener technologies and materials

Reduced costs

- Removal of waste
- Energy savings
- More efficient supplier management
- Reduced need for problem rectification

Global trends



Global trends

- Worldwide demographic trends:
 - population growth and consumption patterns
 - migration
 - diversity of workforce
- Global skills base:
 - flexible workforce
 - education and training
- Globalisation:
 - manufacturing
 - farming and food production
 - advantages and disadvantages
- Energy:
 - rising energy costs
 - fossil fuels and renewable energy.

Global trends

- **Availability, use and depletion of natural resources:**
 - water
 - natural materials and foods
 - soil quality
 - pollution
- **Corporate Social Responsibility (CSR):**
 - corporate sustainability
 - human rights
 - labour and community relations
 - environmental impact
 - ethical trading
 - corporate governance
- **Innovation**
 - exploitation and commercialisation of sustainable ideas
 - market research and supplier identification and development.



Session 2

External and internal factors influencing sustainable procurement



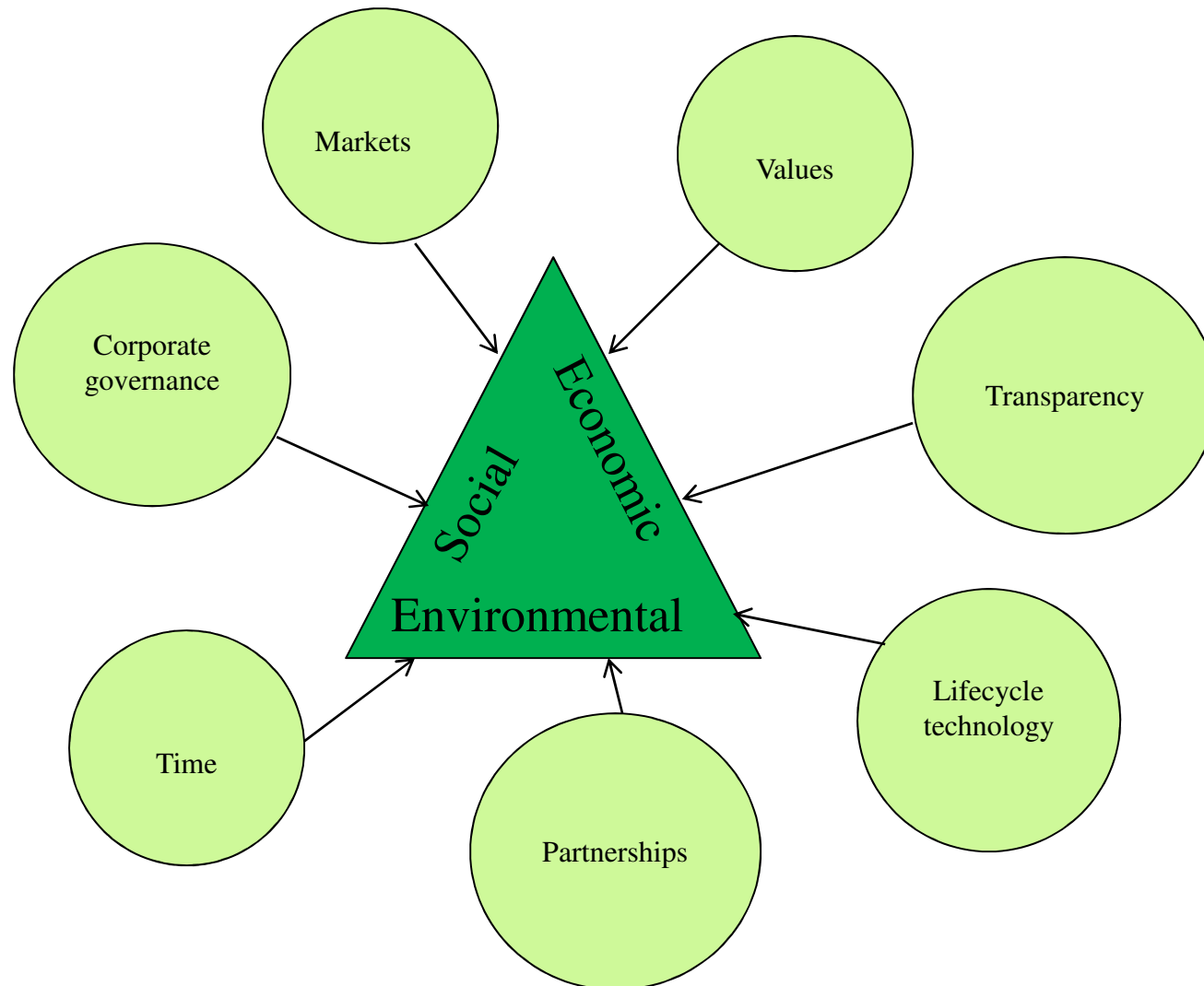
Learning objectives

At the end of this session candidates will be able to:

- explain the interrelation of TBL factors for sustainable procurement
- apply the PESTLE model to different organisations and sectors in the context of factors affecting sustainable procurement
- evaluate how internal strategies, policies, procedures, and attitudes influence sustainable procurement
- explain the importance of risk management and internal availability of sustainable resources
- evaluate the relationship between sustainable procurement, brand reputation, and performance improvement.



Triple Bottom Line (TBL) – drivers



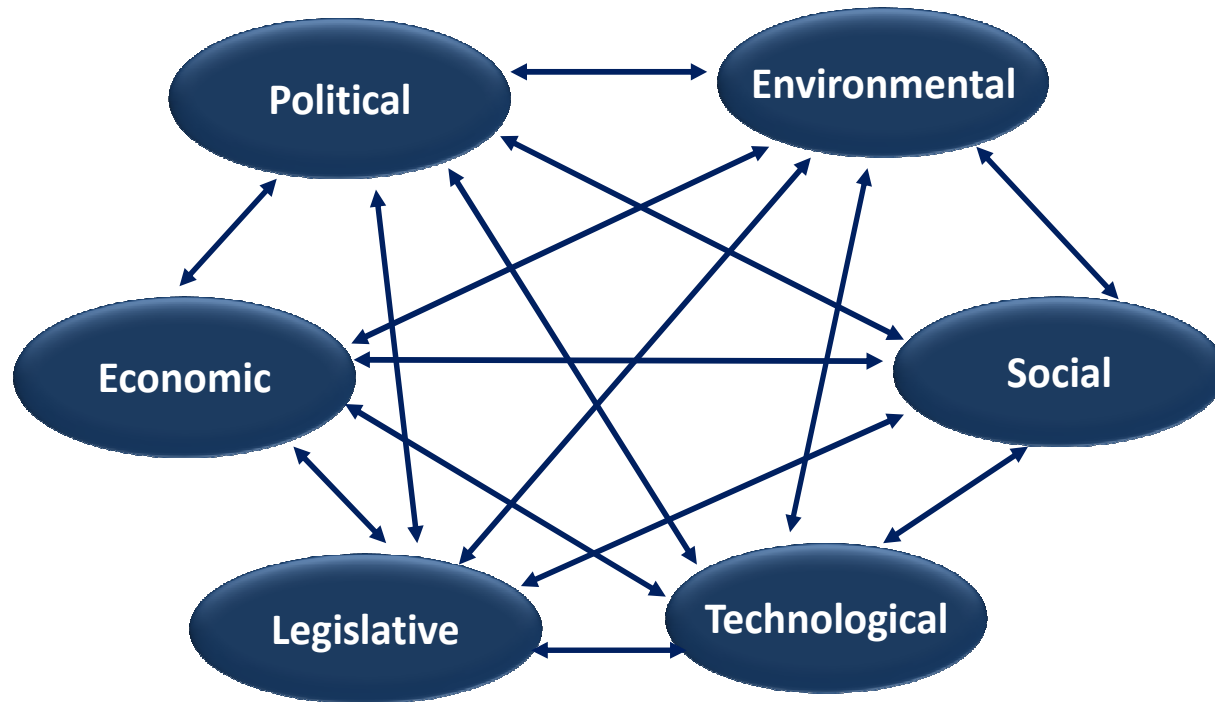
TBL for the purchasing function

Economic	Social	Environmental
Supplier development		
Risk Management		
Adherence to legislation and standards		
Value for money	Diversity within the purchasing team	
Effective capital purchasing	Working conditions	Responsible use of resources
Achieving budgetary targets	Fair remuneration	Responsible waste management
Sustainable pricing	Staff retention	Reduced pollution and emissions
	Work/life balance	Energy conservation
	Supplier relationships	Environmental processes and materials
	Supplier diversity	Responsible packaging
	Direct sourcing	
	Local sourcing	
	Corporate citizenship	
	Responsible sourcing and contract management	



External factors

PESTLE Model



External factors

- **Political** - Government policies, targets, and incentives
 - agenda 21/local agenda 21
 - workforce diversity
 - education policy
 - natural resource conservation and protection
 - waste management.

- **Economic**
 - principles of supply and demand
 - cost of external resources
 - exchange rates
 - employment market
 - availability of materials, energy and fuels.



External factors

- **Social/ethical**
 - availability of skills
 - working conditions and practices
 - corruption
 - corporate citizenship
 - societal values
 - fair trade.

- **Technological**
 - communication
 - innovation
 - new sustainable materials and processes.



External factors

- **Legislative**
 - Environmental laws – pollution, noise, hazardous substances, waste disposal, conservation
 - Social/ethical and workforce legislation – human rights, equal opportunities, child/forced labour, corruption, fraud, working hours, minimum wages
 - Economic – tax laws, corporate accountability for example Sarbanes Oxley.



External factors

- **Environmental**

- Energy – efficiency and conservation, use of renewable, carbon footprint calculation and reduction
- Waste reduction and management – use of landfill, re-use and recycling, packaging specification and use
- Global climate change – use and conservation of water, agricultural land, pollution and GHG emissions.

- **External stakeholders**

- **Standards** – ISO 14001, SA8000, ISO 14023/5.



Internal factors

- **Organisational strategies, policies, and procedures**
 - CSR
 - corporate governance
 - people development.
- **Internal stakeholder attitudes**
 - management
 - employees
 - suppliers.



Internal factors

- **Risk management**
 - economic, social/ethical and environmental considerations.
- **Availability of internal resources**
 - capacity and capability of processes
 - skills and competencies
 - product and service designs.
- **Reputation and brand value**



Internal factors – performance improvement across sectors

Public sector

- Diversity
- Re-use
- Recycling
- Waste management

Private sector

- Energy efficiency
- Reduced pollution
- Security of supply
- Reduction of risk
- Enhanced reputation

Third sector

- Increase socially responsible investment (SRI)
- Encourage more volunteers

Session 3

Sustainable procurement aligned to organisational strategy

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Learning objectives

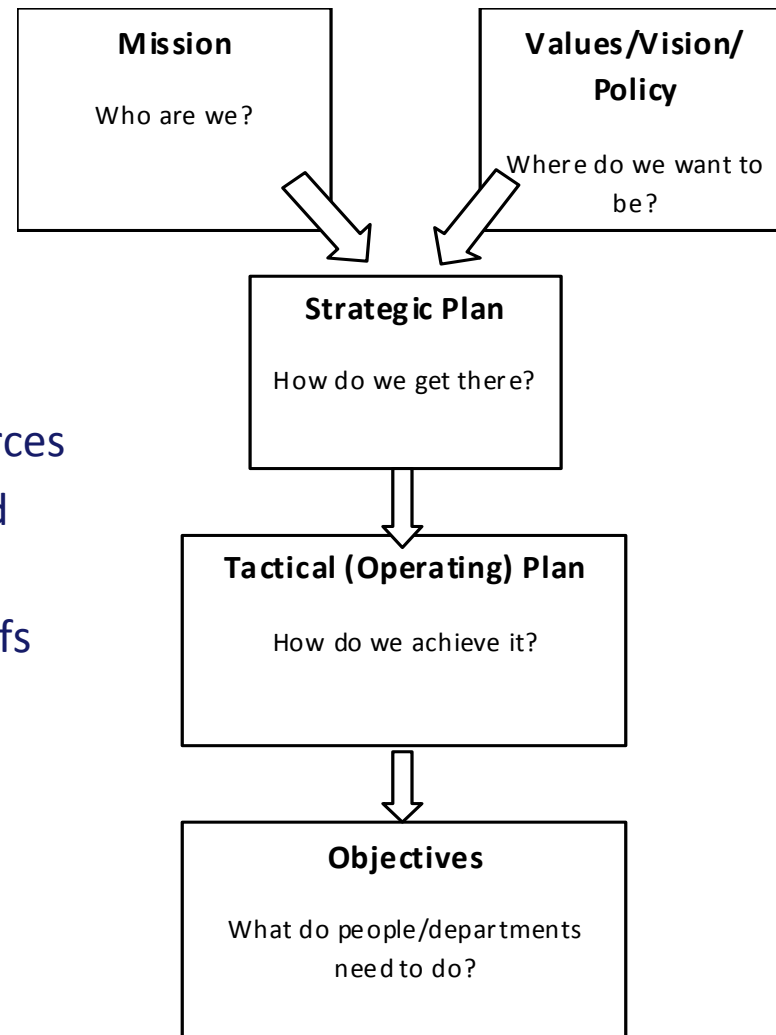
At the end of this session candidates will be able to:

- explain why sustainable procurement operation should be linked to organisational strategy
- describe how the operation of sustainable procurement impacts on the procurement function
- evaluate the impact that the implementation of sustainable procurement has on other functions within an organisation.



Alignment to organisational strategy

- Balanced scorecard
- CSR statement
- Structure and resources
- Common targets and objectives
- Benefits and tradeoffs
- Policy development



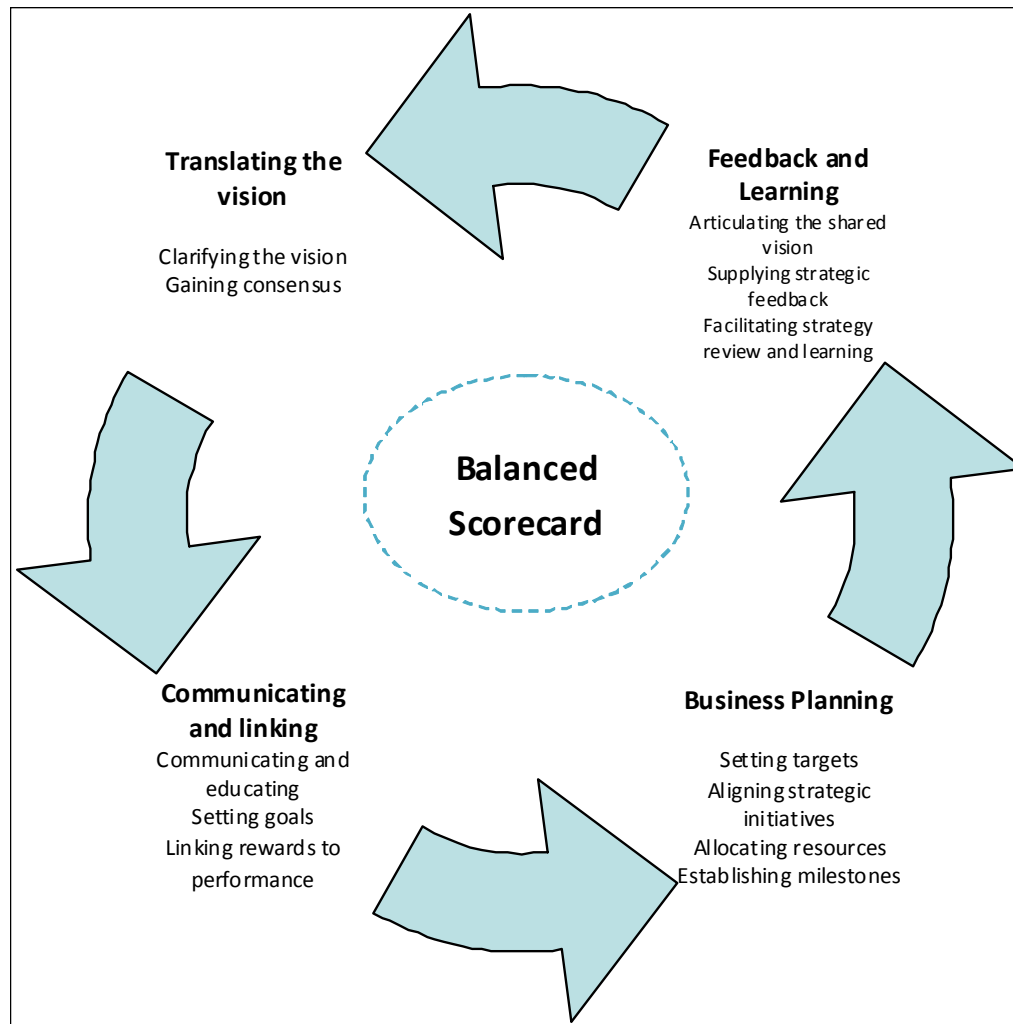
Adapted from 'Hierarchy of Documents for Leading an Organisation Toward Sustainability'. (Blackburn 2007).

Kaplan and Norton's balanced scorecard

- Financial perspective – how do we look to shareholders?
- Customer perspective – how do we look to customers?
- Internal business perspective – what must we excel at?
- Innovation and learning perspective – can we continue to improve and create value?



Balanced scorecard – managing strategy



Kaplan and Norton, 'Managing Strategy: Four Processes'

Sustainable procurement – potential impact on the purchasing function

- The need for a more ‘strategic’ approach to procurement
- Incorporation of a sustainable procurement approach into individual tasks and targets including:
 - competitive leverage activity
 - price and cost management
 - sourcing strategy development
 - supplier selection and contracting
 - post contract supplier management
 - development of strategic plans
 - training and development
 - corporate social responsibility
 - management and leadership.



Sustainable procurement – potential impact on other functions

- Consideration of new/different suppliers and technologies
- Acceptance that some current suppliers and specifications may no longer meet requirements
- The need for performance related specifications
- The finance implications of a whole life costing approach
- Consideration of social and environmental criteria as well as economic
- The requirement to accept ‘tradeoffs’
- The need to acquire new/different skills and behaviours.



Session 4

Sustainable procurement policy, policy deployment guidelines, and implementation

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Learning objectives

At the end of this session candidates will be able to:

- propose effective ways to communicate and gain commitment to sustainable procurement policy throughout an organisation
- explain how to set targets, objectives and responsibilities for successful sustainable procurement
- evaluate the tools for policy deployment, ongoing management and review
- identify the key stages in the development of a sustainable procurement implementation plan
- explain the 'flexible framework' approach
- evaluate the role of procurement professionals as key players in the successful introduction and ongoing development of sustainable procurement.



Sustainable procurement implementation process

- Communicate strategic plans
- Obtain commitment
- Framing policies and procedures
- Setting targets and objectives
- Assigning responsibility and authority
- Changing structures
- Allocation of resources and budgets
- Training
- Monitoring response and revision.



Communication of strategic plans

- Newsletters
- Management reviews
- Core team meetings
- Supplier conferences/business reviews
- Web portal
- Press releases
- Advertising
- Annual shareholder reports.



Stakeholders – who are they?

- **Internal** – the purchasing function and other functions within the organisation
- **External** – particularly suppliers, supply chains and, where applicable, customers
- **Third parties** – government, NGOs, trade associations, such as those organisations where there is a stakeholder interest, but no commercial or contractual relationship.



Obtaining commitment from stakeholders to sustainable procurement

- Reconfirm the organisation's vision and show how sustainable procurement can contribute to its achievement
- Offer a clear definition of sustainable procurement within the concept of organisational sustainability and link to business objectives
- Present the business case for sustainable procurement giving examples of benefits and successes such as competitive advantage in other organisations
- Explain the risks of not adopting sustainable procurement using examples of competitor or other organisation problems
- Present key sustainability trends, identifying challenges and opportunities, and showing how sustainable procurement can contribute
- Accept that organisations can seem to be successful without actively promoting sustainable practices but point out that they can still be advantageous in gaining competitive advantage
- Present details of 'best in class' sustainable organisations and compare to own organisation
- Share key stakeholder feedback with regard to sustainable procurement either from own organisation or competitor sustainability reports.



SMART objectives

Specific

- Specific performance requirement
- e.g. all suppliers have CSR statement

Measureable

- Able to measure performance easily and objectively
- e.g. use of x% recyclable packaging

Agreed upon

- Agreed between stakeholders
- e.g. between buyer and supplier

Realistic

- Challenging but achievable and motivating
- e.g. use of staged targets as in Kyoto Protocol

Time-based

- Including a time-frame for achievement
- e.g. target date for achievement of ISO 14001 or equivalent.

Flexible framework

	Foundation Level 1	Embed Level 2	Practice Level 3	Enhance Level 4	Lead Level 5
People	Sustainable procurement champion identified. Key procurement staff have received basic training in sustainable procurement principles. Sustainable procurement is included as part of a key employee induction programme.	All procurement staff have received basic training in sustainable procurement principles. Key staff have received advanced training on sustainable procurement principles.	Targeted refresher training on latest sustainable procurement principles. Performance objectives and appraisal include sustainable procurement factors. Simple incentive programme in place.	Sustainable procurement included in competencies and selection criteria. Sustainable procurement is included as part of employee induction programme.	Achievements are publicised and used to attract procurement professionals. Internal and external awards are received for achievements. Focus is on benefits achieved. Good practice shared with other organisations.
Policy, Strategy & Communications	Agree overarching sustainability objectives. Simple sustainable procurement policy in place endorsed by CEO. Communicate to staff and key suppliers.	Review and enhance sustainable procurement policy, in particular consider supplier engagement. Ensure it is part of a wider Sustainable Development strategy. Communicate to staff, suppliers and key stakeholders.	Augment the sustainable procurement policy into a strategy covering risk, process integration, marketing, supplier engagement, measurement and a review process. Strategy endorsed by CEO.	Review and enhance the sustainable procurement strategy, in particular recognising the potential of new technologies. Try to link strategy to EMS and include in overall corporate strategy.	Strategy is reviewed regularly, externally scrutinised and directly linked to organisations' EMS. The Sustainable Procurement strategy recognised by political leaders, is communicated widely. A detailed review is undertaken to determine future priorities and a new strategy is produced beyond this framework.
Procurement Process	Expenditure analysis undertaken and key sustainability impacts identified. Key contracts start to include general sustainability criteria. Contracts awarded on the basis of value-for-money, not lowest price. Procurers adopt Quick Wins.	Detailed expenditure analysis undertaken, key sustainability risks assessed and used for prioritisation. Sustainability is considered at an early stage in the procurement process of most contracts. Whole-life-cost analysis adopted.	All contracts are assessed for general sustainability risks and management actions identified. Risks managed throughout all stages of the procurement process. Targets to improve sustainability are agreed with key suppliers.	Detailed sustainability risks assessed for high impact contracts. Project/contract sustainability governance is in place. A life-cycle approach to cost/impact assessment is applied.	Life-cycle analysis has been undertaken for key commodity areas. Sustainability Key Performance Indicators agreed with key suppliers. Progress is rewarded or penalised based on performance. Barriers to sustainable procurement have been removed. Best practice shared with other organisations.
Engaging Suppliers	Key supplier spend analysis undertaken and high sustainability impact suppliers identified. Key suppliers targeted for engagement and views on procurement policy sought.	Detailed supplier spend analysis undertaken. General programme of supplier engagement initiated, with senior manager involvement.	Targeted supplier engagement programme in place, promoting continual sustainability improvement. Two way communication between procurer and supplier exists with incentives. Supply chains for key spend areas have been mapped.	Key suppliers targeted for intensive development. Sustainability audits and supply chain improvement programmes in place. Achievements are formally recorded. CEO involved in the supplier engagement programme.	Suppliers recognised as essential to delivery of organisations' sustainable procurement strategy. CEO engages with suppliers. Best practice shared with other/peer organisations. Suppliers recognise they must continually improve their sustainability profile to keep the clients business.
Measurements & Results	Key sustainability impacts of procurement activity have been identified.	Detailed appraisal of the sustainability impacts of the procurement activity has been undertaken. Measures implemented to manage the identified high risk impact areas.	Sustainability measures refined from general departmental measures to include individual procurers and are linked to development objectives.	Measures are integrated into a balanced score card approach reflecting both input and output. Comparisons made with peer organisations. Benefit statements have been produced.	Measures used to drive organisational sustainable development strategy direction. Progress formally benchmarked with peer organisations. Benefits from sustainable procurement are clearly evidenced. Independent audit reports available in the public domain.

Source: 'Procuring the Future' Sustainable Procurement National Action Plan (Crown copyright 2006)

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The role of the procurement professional

- Analysis of supply markets
- Identifying opportunities for innovation and supplier development
- Understanding the drivers for change
- Managing and directing relationships with suppliers
- Interfacing with other functions
- Planning for continuous improvement.



Session 5

**Sustainable specification and sourcing of
products and services across different
organisations and sectors**

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Learning objectives

At the end of this session candidates will be able to:

- evaluate the impact of customer requirements on the development of sustainable purchase specifications
- identify the requirements for development of sustainable purchase specifications for materials, components, processes and services across different organisations and sectors
- analyse the potential impact of end products or services based on sustainability of specification
- identify the main considerations for sustainable procurement at each stage of the sourcing process
- evaluate the status of sustainable sourcing across different organisations and sectors
- give examples of environmental, social and economic standards and legislation relating to sustainable sourcing.



Sustainable procurement and customer requirements

- Identify the customer
 - External – for example end user, retailer, distributor
 - Internal – for example other functions, subsidiaries.
- Understand the sustainability of customer requirements
- Purchasing as a customer.



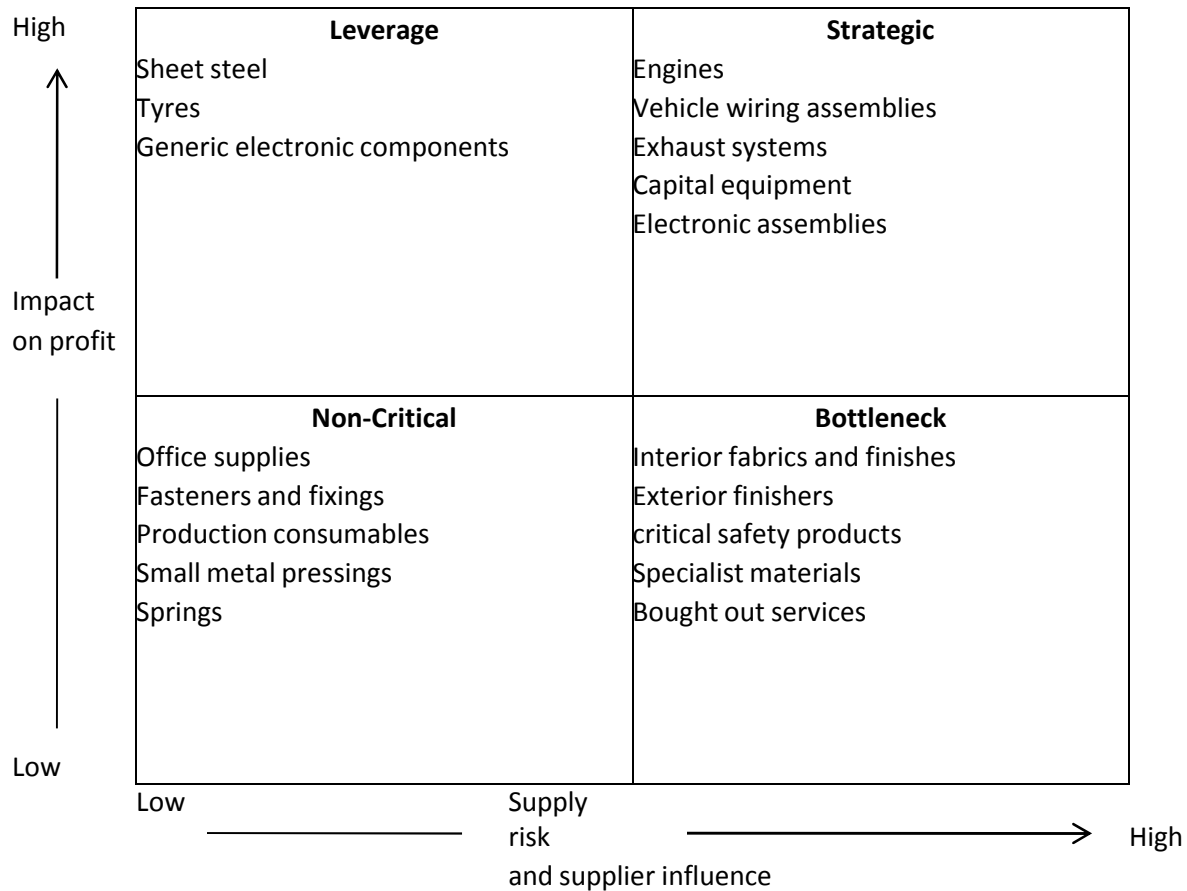
Development of sustainable purchase specifications

- Classifying and prioritising products and services for sustainable procurement
- Purpose and content of sustainable purchase specifications
- Sustainable purchase specifications for outsourced services
- Requirements for different sectors and organisations
- Impact of end products and services.



Classifying and prioritising

Classification of components and services for an automotive manufacturer using the Kraljic matrix



Sustainable purchase specification

Performance Related Specification

Does it...

- Apply a 'reduce, reuse, recycle' mindset
- Use recycled and/or recyclable materials wherever possible
- Reduce or eliminate hazardous materials, substances or processes
- Demonstrate a responsible approach through understanding the economic, social and environmental impact of selected materials and processes
- Require testing which is carried out responsibly without adverse effect on the environment or animal/human welfare
- Require products and processes that are as energy efficient as possible
- Reduce or eliminate packaging destined for landfill
- Maximise the expected life of products and materials
- Promote design for disassembly through standardisation and simplification
- Apply sustainable design and criteria to the supply chain
- Allow for sustainable innovation
- Achieve environmental and social performance equivalent to standards such as ISO 14001 and SA 8000

Impact of End Product

Does it...

- Minimise non-renewable energy use?
- Reduce pollution and emissions?
- Minimise the use of hazardous or environmentally damaging substances?
- Minimise waste to landfill?
- Use sustainably sourced or recycled consumables which can easily be reused or recycled at the end of their life?
- Minimise disposal impact?
- Minimise water use?
- Deliver best practice in health and safety for users?
- Take into account whole life costs?
- Stand the test of time?

The sustainable sourcing process

Step 1: Identification of requirement

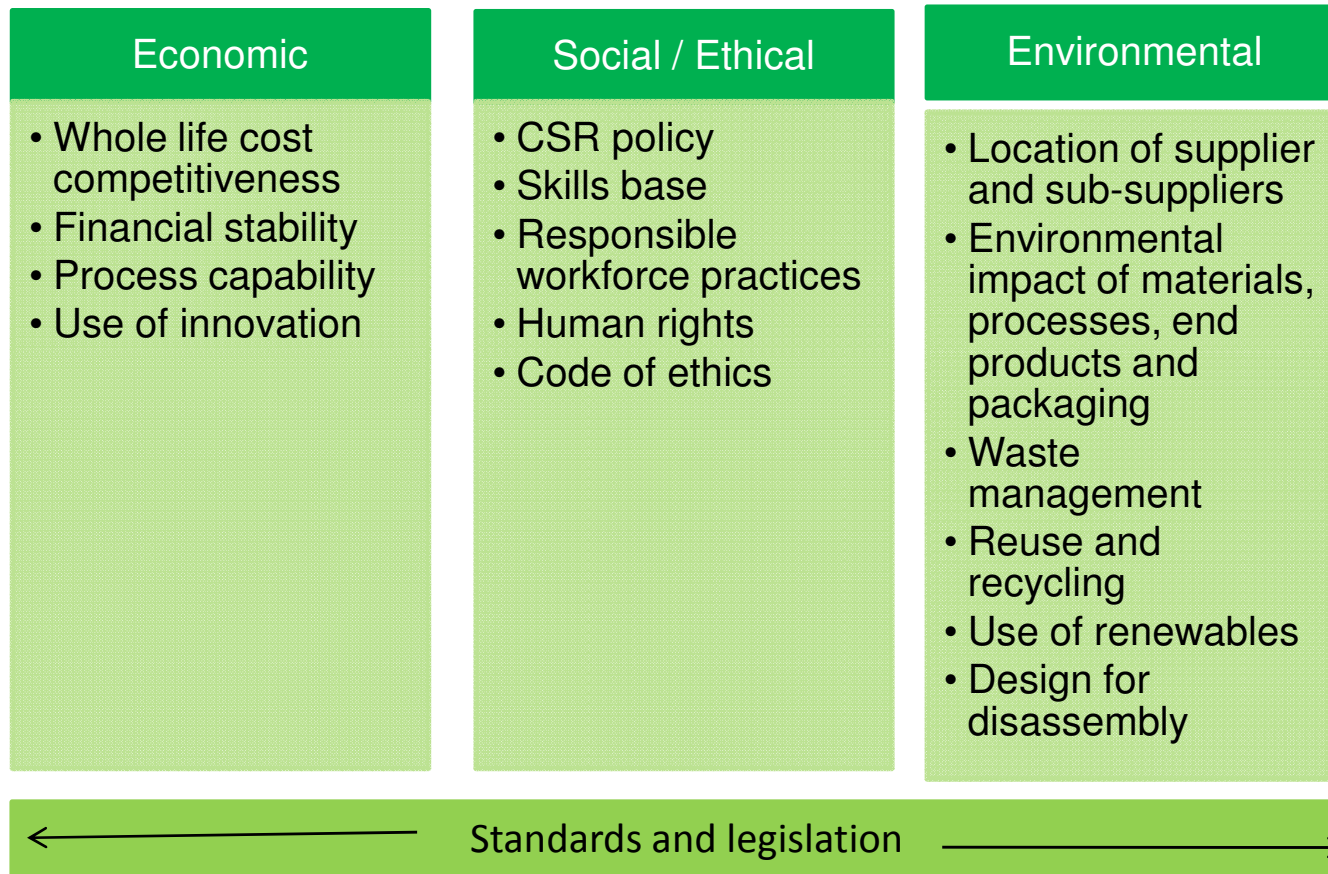
- Is this purchase really necessary?
- How will it affect society or the environment during its creation or use?
- How can any adverse impact be minimised?

Step 2: Sourcing plan

- Sourcing strategy aligned to organisation objectives
- Make or buy?
- Set sustainability evaluation criteria – economic, social/ethical, environmental.

Sustainable sourcing

Supplier sustainability evaluation criteria



The sustainable sourcing process

Step 3: Market place analysis

- Who the suppliers are – size and type of supplier organisations
- How many there are – competitiveness of the market
- Where they are based – developed or developing countries
- Who their other customers are – diversity of customer base, individual customer share of business
- How the market is developing – growing, shrinking, price trends, new technologies and processes, new suppliers.

Step 4: Pre-qualification

- Use of pre-qualification questionnaire (PQQ)
- Pre-qualification criteria – achievement of standards or equivalent.



The sustainable sourcing process

Step 5: Evaluation and short-listing of suppliers

- Match potential suppliers to user requirements
- Use supplier approach to sustainability as a differentiator
- Make suppliers aware of specified evaluation criteria
- Public sector buyers should check applicable directives to ensure compliance.

Step 6: Preparation of tender documents/requests for quotation (RFQ)

- Sustainable requirements
- Performance related specification.



Tender/quotation evaluation matrix

Evaluation Criteria	Weighting	Scores (1 Poor - 5 Excellent)		
		Supplier A	Supplier B	Supplier C
Economic	50%			
Previous/current experience		4	1	5
Cost competitiveness		5	3	5
Financial stability		5	4	4
Production/service capacity		4	4	5
Design robustness		4	4	5
Total		22	16	24
Weighted Total		11	8	12
Social	25%			
Ethical practices		3	5	2
Workforce practices		3	5	1
Sub-supplier practices		1	4	1
Fair pricing practices		3	5	1
Total		10	19	5
Weighted Total		2.5	4.75	1.25
Environmental	25%			
Distance from customer		5	3	4
Impact of materials and processes		3	5	2
Impact of end product		3	5	2
Impact of packaging		1	5	2
Total		12	18	10
Weighted Total		3	4.5	2.5
Grand Total		16.5	17.25	15.75
Total Possible		22.5		



The sustainable sourcing process

Step 7: Receipt and evaluation of quotes or offers

- Using the sustainability evaluation criteria identified earlier
- Aim for customer/supplier compatibility
- Select suppliers who score well across the TBL.

Step 8: Supplier selection

- Inform both successful and unsuccessful suppliers of the decision
- Provide feedback to encourage and motivate unsuccessful suppliers to improve future competitiveness/sustainability.

Step 9: Creation of contract or relationship

- With input from both parties
- Allowing for future sustainable procurement opportunities.

Status of sustainable sourcing across different organisations and sectors

- Public sector
 - Sustainable procurement becoming more widespread but still difficult to measure
 - Cost still a major issue
 - Main focus on environmental factors
 - Japan, Canada and Northern Europe leading, followed by USA
 - Examples of good practice: ICLEI Procura+, International Green Purchasing Network (IGPN), Danish Environmental Protection Agency (DEPA) and UK Sustainable Procurement Action Plan.



Status of sustainable sourcing across different organisations and sectors

- Private sector
 - Focus on economic sustainability
 - Some evidence of growing consideration of environmental and social factors – driven by need to manage supply chain risk and brand reputation
 - Some organisations taking a positive approach in order to differentiate themselves (for example, Co-op Group , Marks and Spencer – Plan A)
 - Many larger organisations now providing CSR and sustainability reports
 - Comparative indexes available for example, Dow Jones Sustainability Indexes (DJSI)



Status of sustainable sourcing across different organisations and sector

- Third sector
 - Focus on lobbying, reporting, and influencing other large organisations
 - May be missing the opportunity to contribute more through their own operations
 - Many smaller organisations suffer resource issues.



Standards and legislation for sustainable sourcing

- Kyoto Protocol
- International Labour Organisation (ILO)
- EU Directives 2004/17/EC and 2004/18/EC on public procurement
- ISO 14001 environmental management system
- ISO 15686 whole life costing standards
- Finance and tax laws (for example, Sarbanes Oxley)
- Fair Trade standards
- ISO 14023/25 Eco-labelling standards
- SA 8000 social accountability.



Session 6

Developing and managing sustainable whole life purchasing and supply contracts

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Learning objectives

At the end of this session candidates will be able to:

- examine contract management activities in the context of sustainable procurement
- explain how ongoing developments in sustainable procurement can be incorporated into contracts and relationships
- describe how sustainable contract management over the whole life of the contract links to organisational performance and success
- evaluate the benefits and risks for the supply chain



Contract management activities

- Contract/relationship management
- Asset management
- Receipt of products and services
- Post contract 'lessons' management.



Sustainable contract/relationship management

- Customer contract/relationship requirements are sustainable
- Contract management documents include economic, social/ethical and environmental performance criteria
- SMART supplier sustainability performance and improvement objectives are set and agreed
- Effective measurement and monitoring in place against KPI's.



Sustainable asset management

- Economic, social and environmental impact of acquired assets such as buildings, capital equipment and systems
- Life-span/life-cycle considerations
- Availability and sustainability of spare parts and consumables
- Software compatibility/sustainability
- End of life/disposal considerations – reuse, recycling.



Sustainable receipt and post contract 'lessons learned'

- Continuity of supply
- Post-contract sustainability reviews
- Effective incorporation of sustainable procurement 'lessons learned'
- Consideration of economic, social/ethical and environmental factors when prioritising supplier development and exit strategies.

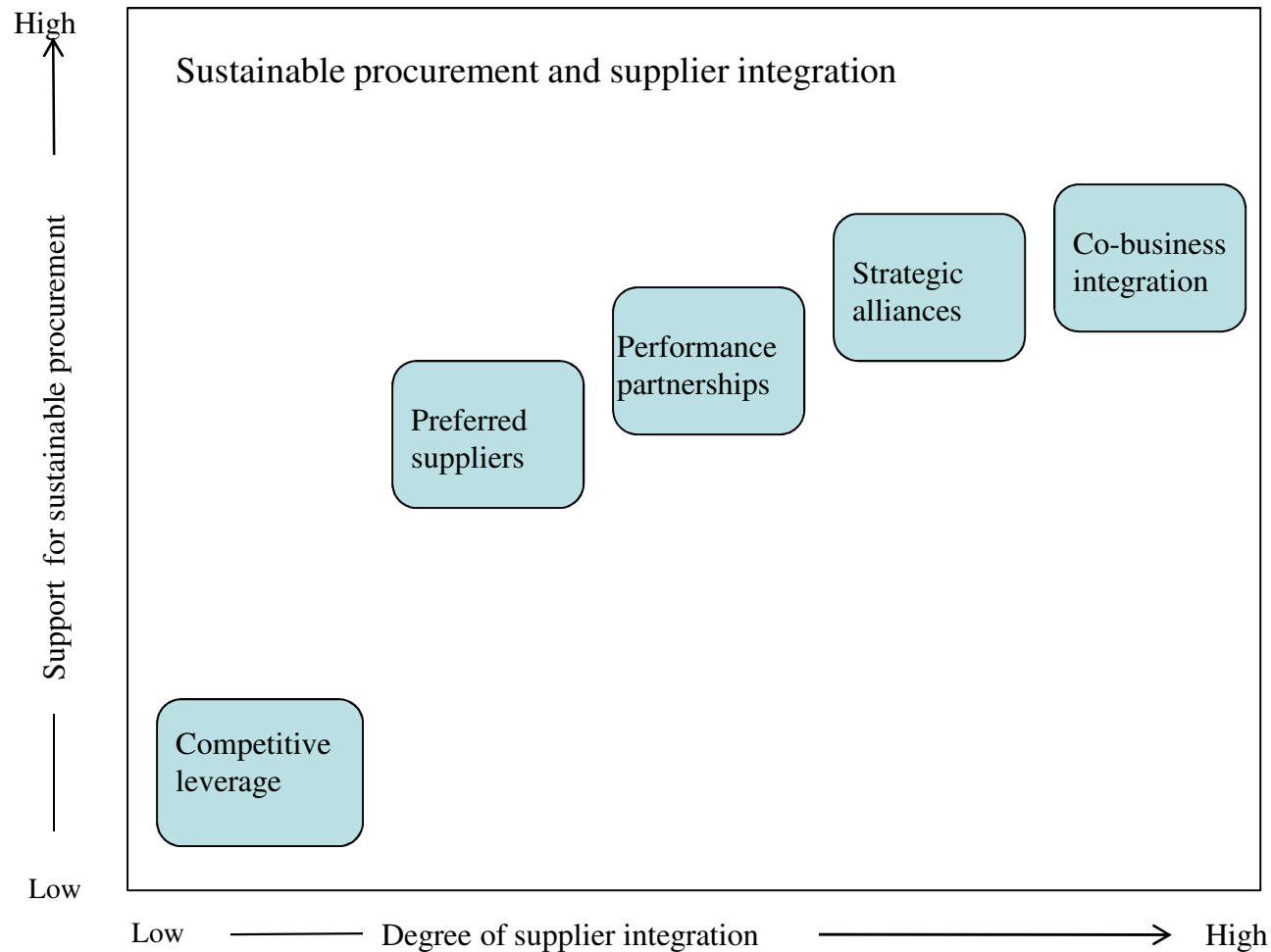


Maintaining contract flexibility

- All parties must recognise and agree to the need for flexibility
- Flexibility must be embedded in contract terms, service level agreements and performance related specifications
- Contract parties must respond to sustainability trends, standards, legislation and innovation.



Supplier relationship development for sustainable procurement



Source: Adapted from Johnson S 'Managing change through teamwork', ISCAN, Sheffield, 1997.

Whole Life Costing (WLC)

“... a technique to establish the total cost of ownership. It is a structured approach which addresses all the elements of this cost and can be used to produce a spend profile of the product over its anticipated lifespan.”

Office of Government Commerce (OGC)



Advantages of WLC for sustainable procurement

- WLC gives an enhanced degree of financial certainty over the acquisition of products and services both at the time of sourcing and into the future
- It provides an empirical means of assessing value for money and selecting appropriate options
- It should facilitate an evaluation of other features of the acquisition of goods and services, as well as cost, particularly if those other features can themselves be costed.



Public Private Partnerships (PPPs)

- Private Finance Initiative (PFI) – often used for capital and infrastructure construction projects, using private sector finance and with long-term contracts, typically up to 25 or 30 years
- Strategic service delivery partnerships
- Joint venture companies
- Arrangements where private sector skills are used to sell public sector services and assets into markets.



Session 7

Measurement, monitoring and development
of sustainable procurement within
organisations and supply chains

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Learning objectives

At the end of this session candidates will be able to:

- apply effective supplier and supply chain audit, assessment and evaluation tools and techniques in the context of sustainable procurement
- identify sustainability measurement and monitoring criteria for the procurement function
- compare the status of supplier sustainability monitoring and reporting across different organisations, sectors and supply chains
- explain how to prioritise products for sustainable procurement development
- describe how sustainability objectives, targets and requirements can be set for suppliers throughout the supply chain
- apply appropriate supplier development tools and resources in the context of sustainable procurement.



Measurement and monitoring of sustainable procurement activity

- Audits
- Inspections
- Questionnaires
- Business reviews
- Economic, social and environmental Key Performance Indicators (KPIs)
- Source planning
- Stakeholder mapping/communication
- Supply chain mapping
- Transparent sustainability reporting



Types of sustainability audit

- Compliance audits – assess conformance to regulations (for example, Sarbanes-Oxley Act)
- Internal standards audits – review how well an organisation meets its own requirements (for example, sustainable sourcing process)
- External standards audits – assess conformance to an external adopted standard (for example, Fair Trade)
- A management systems audit – evaluates adherence to a specific process within a management standard (for example, ISO 14001 or SA 8000)
- Risk/best practices assessments – examine potential liabilities and risks and seek to share good practice (for example, financial stability of suppliers)
- Productivity assessments – look for efficiency improvements such as energy conservation, waste reduction and process improvement using tools such as six sigma.



Criteria for sustainable procurement business reviews

Financial stability

- Current turnover
- Profitability
- Customer base analysis
- Future projections

Design and innovation

- Current designs
- Use of renewables
- Recycling
- Design for disassembly
- New sustainable product/process developments

Supply chain management

- Location and type of sub-suppliers
- Responsible supply chain practices – social, ethical, economic

Impact on the environment

- Materials
- Processes
- Waste management
- Packaging
- Transport
- Include whole supply chain

Legislation and standards

- Economic
- Social
- Environmental

KPIs for sustainable procurement

Environmental:

- Year-on-year energy purchases
- Use of recycled materials (eg paper, print cartridges)
- Amount of waste to landfill
- Percentage of current spend with suppliers who are reporting on environmental impact
- Percentage of new spend with suppliers who are reporting on environmental impact
- Year-on-year reduction in supplier GHGs
- Supplier water and energy usage
- Supplier recycling, pollution control and waste to landfill

Social:

- Diversity of purchasing staff
- All purchasing staff have necessary skills or access to training and development
- Adherence to human rights, labour rights and workplace standards both within the purchasing function and the supply chain
- Supplier diversity (eg minority-owned suppliers, small suppliers and start-up suppliers)
- Supply chain adherence to animal welfare standards (eg product testing)

Economic:

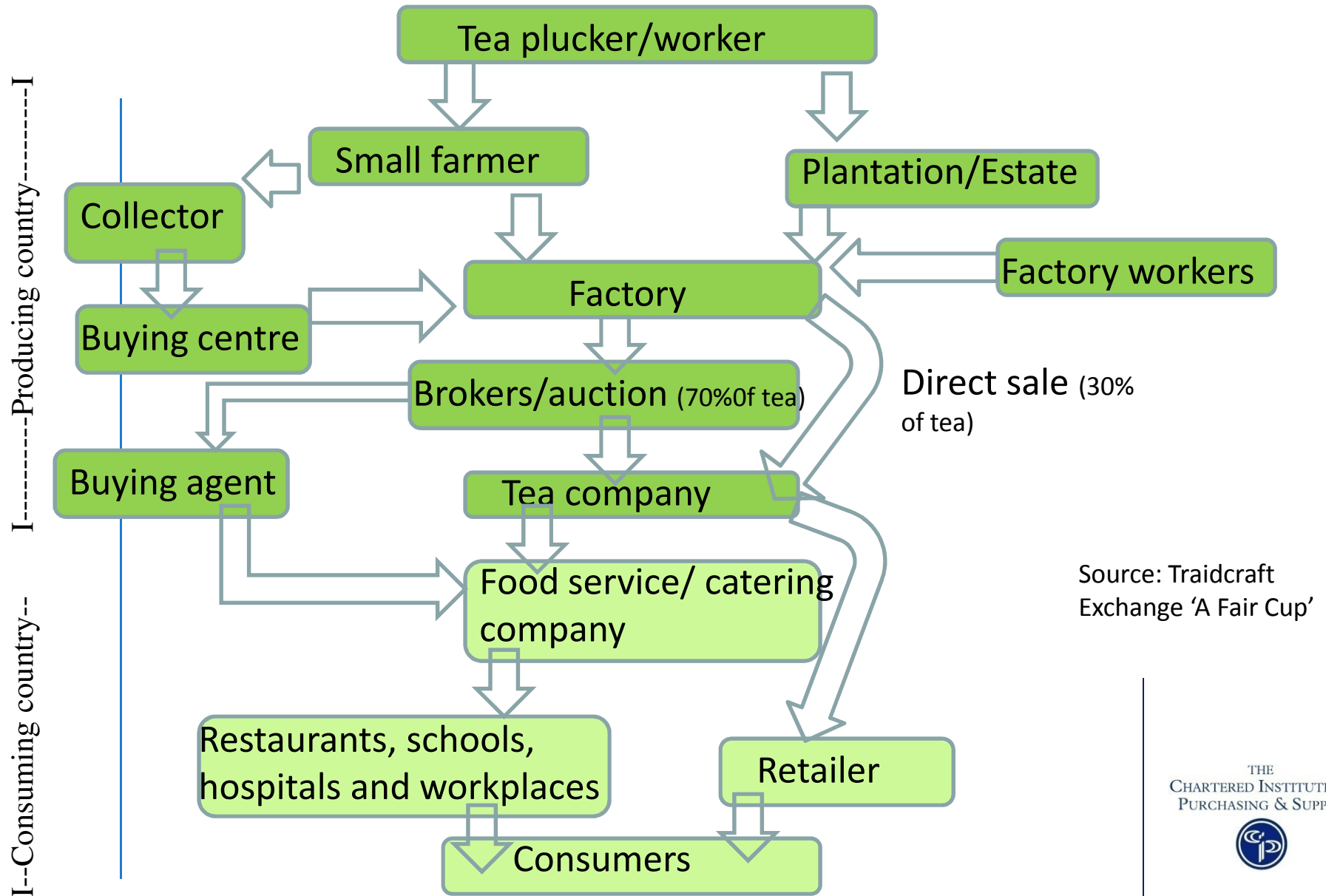
- Year on year spend against budget
- Percentage of spend with key suppliers
- Percentage of spend in less stable economies
- Application of whole life costing
- Financial performance of suppliers

Source planning

- **Gathering key statistics** – does the product or service category meet key sustainability requirements? Are there any planned changes and, if so, what is the likely impact? Who are the current suppliers and how much is spent with them?
- **Price and cost analysis** – are current and future pricing and cost strategies sustainable? Application of life-cycle costing.
- **Supply chain and market analysis** – for example, supply chain mapping
- **Risk assessment and relationship management** – how secure and sustainable are current supply sources?
- **Supplier capability and performance analysis** – use of sustainable procurement KPIs covered earlier.



Supply Chain for Tea



Source: Traidcraft Exchange 'A Fair Cup'



Monitoring and reporting on supplier sustainability

- Currently there is a lack of consistent information available to buyers
- Buyers can encourage suppliers to report in the following ways:
 - Start small – use internal resources to produce a simple report or newsletter (for example, Starbucks coffee shop brochure)
 - Use readily available data – safety, waste/emissions and energy usage data, and details of charitable donations
 - Reduce frequency or narrow scope – reporting once every two years is acceptable or focusing on specific regions or topics
 - Cost effective verification – audit internally, combine with other audits or possibly use NGO volunteers.



Sources of sustainability information

- **The Global Reporting Initiative (GRI)** – voluntary sustainability reporting framework for all sectors worldwide
- **The Supplier Ethical Data Exchange (Sedex)** - a web-based membership organisation for companies who want to monitor and improve ethical performance in their supply chains. It is a not-for-profit organisation based in the UK and open to members worldwide
- **Sustainability reports** – published by private and third sector organisations
- **Local government websites**
- **Sustainability indexes** – for example, DJSI.



Supply chain development for sustainable procurement

- Prioritising suppliers and products
- Clear objectives, targets, and requirements
- Benchmarking and gap analysis
- Supply chain communication and co-operation
- Monitoring and improving supplier performance.



Prioritising suppliers and products for development

- Product/material capacity, supply or quality issues
- Financial stability or cost concerns
- Concerns over workforce or environmental practices
- Significant environmental impact (potential or actual)
- General communication or sub-supplier management issues
- Relationships with suppliers in developing countries.



Benchmarking and gap analysis

- The following could be used as benchmarks for sustainable procurement practices in suppliers:
 - Sustainability-related behaviour standards – for example, ILO standards
 - Sustainability-related management system standards – for example, ISO 14001, SA 8000
 - Sustainability reports from other organisations – to provide economic, social and environmental benchmarks
- When compared to the supplier's current position any resulting gaps can be identified.



Setting sustainability targets, objectives, and requirements for suppliers - examples

- Target to broaden customer base or develop new products/materials to reduce risk
- Certification to ISO 14001 environmental management system or equivalent
- Achievement of workplace standards set out in SA 8000 throughout the supply chain (with or without certification)
- Provision of an annual report on economic, social and environmental sustainability performance (this could also include supply chain information)
- A reduction in energy usage (as an amount per person)
- An increase in use of recycled and renewable materials (as a percentage of current)
- A reduction in waste sent to landfill (as an amount per person employed)
- A reduction in emissions (as an amount per person employed)

Session 8

**Drivers and barriers to achieving
sustainable procurement across different
organisations and sectors**



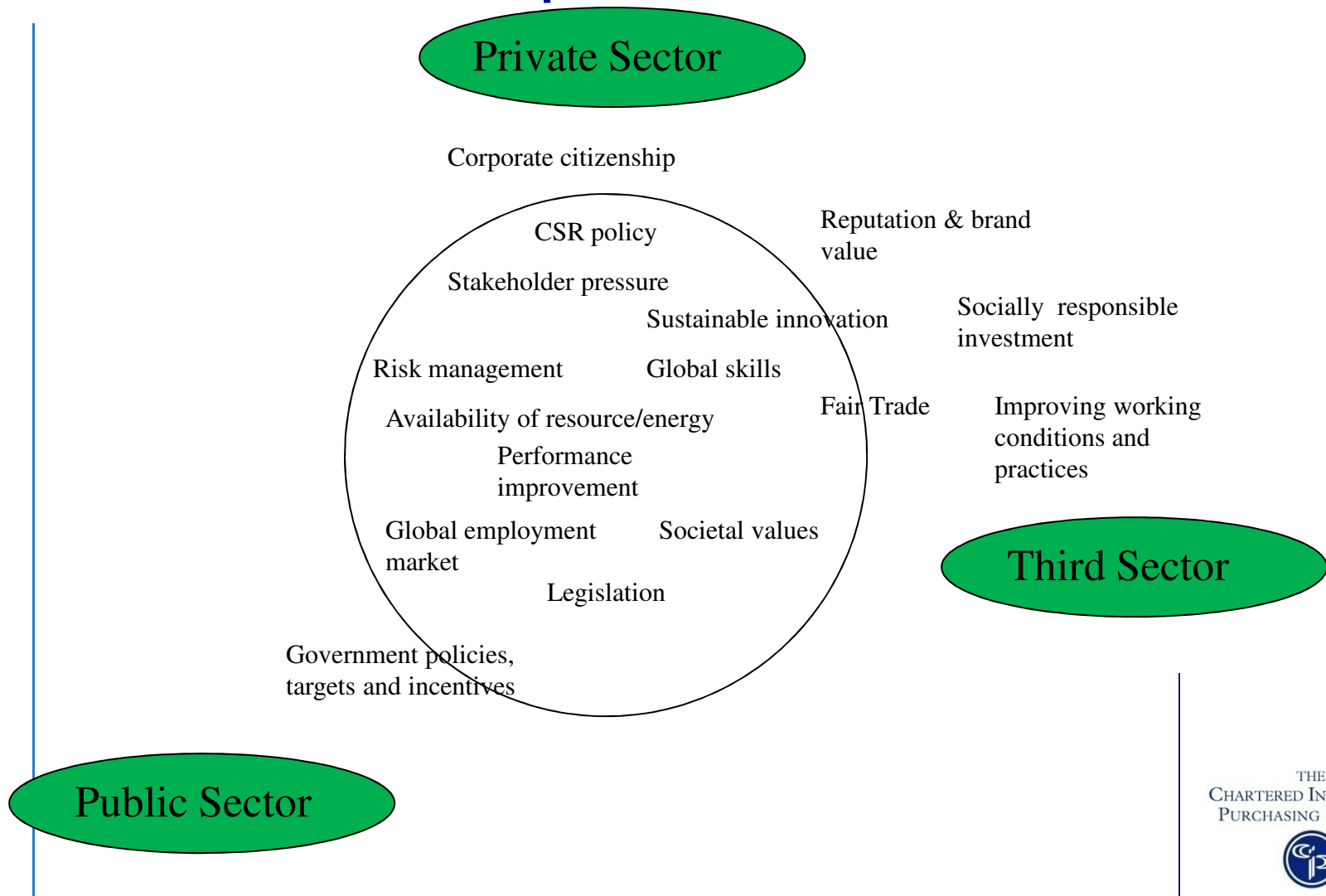
Learning objectives

At the end of this session candidates will be able to:

- identify which external and internal factors will drive organisations towards sustainable procurement
- analyse the characteristics of different sectors in the context of sustainable procurement
- evaluate how different sectors industries and organisations are responding to sustainable procurement drivers and effects
- identify the external and internal barriers to sustainable procurement and recommend approaches to manage/overcome them
- evaluate the impact of external and internal barriers for different organisations and sectors.



Sustainable procurement drivers



Characteristics of different sectors in the context of sustainable procurement

Public sector

- Direct control within or by government
- Reliance on public funding and subsequent accountability to the taxpayer
- Primary focus on improving value to the customer (i.e. the general public)
- Key targets for productivity and service improvement

Private sector

- Accountability to shareholders
- The need to be competitive
- The need for profitable growth
- The need to maintain and improve reputation and brand value

Third sector

- Accountability to donors and funding organisations
- The need to be competitive
- The need to maintain and develop reputation in line with core values

External barriers to sustainable procurement

- **External cost issues** – more expensive raw materials, energy and related processes; external funding restrictions
- **External stakeholder attitudes** – customers, external shareholders, donors and the general public
- **Policies** – international, European Union, national/government
- **Culture** – national, religious, ethical, sector/industry
- **Economic stability** – growth/decline, inflation, credit restrictions, protectionism.



Impact of external barriers on different sectors and organisations

External Barrier	Public sector	Third sector	Private Sector	
			MNE	SME
Cost issues:				
Raw materials	✓✓	✓✓	✓✓	✓✓
Energy	✓✓	✓✓	✓✓	✓✓
Related processes	✓✓	✓✓	✓✓	✓✓
Stakeholder attitudes:				
Customers	✓✓	✓✓	✓✓	✓✓
Shareholders			✓	✓
Donors		✓		
General public	✓✓	✓	✓✓	✓
Policies:				
International	✓	✓	✓✓	✓
Regional (eg EU)	✓✓	✓	✓	✓
National/Government	✓	✓	✓	✓
Culture:				
National	✓	✓	✓✓	✓
Religious	✓	✓	✓	✓
Ethical	✓	✓	✓✓	✓
Economic stability:				
Growth/decline	✓✓	✓✓	✓✓	✓✓
Inflation	✓✓	✓✓	✓✓	✓✓
Protectionism	✓	✓	✓	✓
Credit restrictions	✓	✓✓	✓	✓✓

23 23 26 23

Key:

✓✓	Strong impact
✓	Some impact
	No impact



Internal barriers to sustainable procurement

- **Internal cost issues** – internal budgets and savings targets, recycling and reuse of materials, products and facilities, internal process costs
- **Internal stakeholder attitudes** – internal shareholders, management, suppliers, buyers and other employees
- **Policies** – organisational and departmental
- **Organisational culture and stability** – organisational and departmental.



Overcoming internal barriers

- Cost issues
 - Include social and environmental criteria at specification and sourcing stages
 - Minimise waste
 - Apply WLC
- Attitudes
 - Good communication
 - Demonstrate successes
- Policies
 - Ensure alignment with organisation
 - Clear direction and leadership
 - Effective monitoring and reporting.



Overcoming internal barriers

- Organisational culture/stability
 - Communication
 - Education
 - Capacity building
 - Use of 'champions'
 - Making sustainable procurement part of day-to-day activity.



Session 9

Potential conflicts and tradeoffs in achieving sustainable procurement

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Learning objectives

At the end of this session candidates will be able to:

- use appropriate tools to analyse potential sustainable procurement conflicts and suggest how these can be managed
- explain how these conflicts impact on different sectors and industries
- explain why tradeoffs may be necessary to achieve sustainable procurement objectives
- evaluate the advantages and disadvantages of product and service standardisation
- analyse the relationship between investment, reputation and security of supply in the context of sustainable procurement.

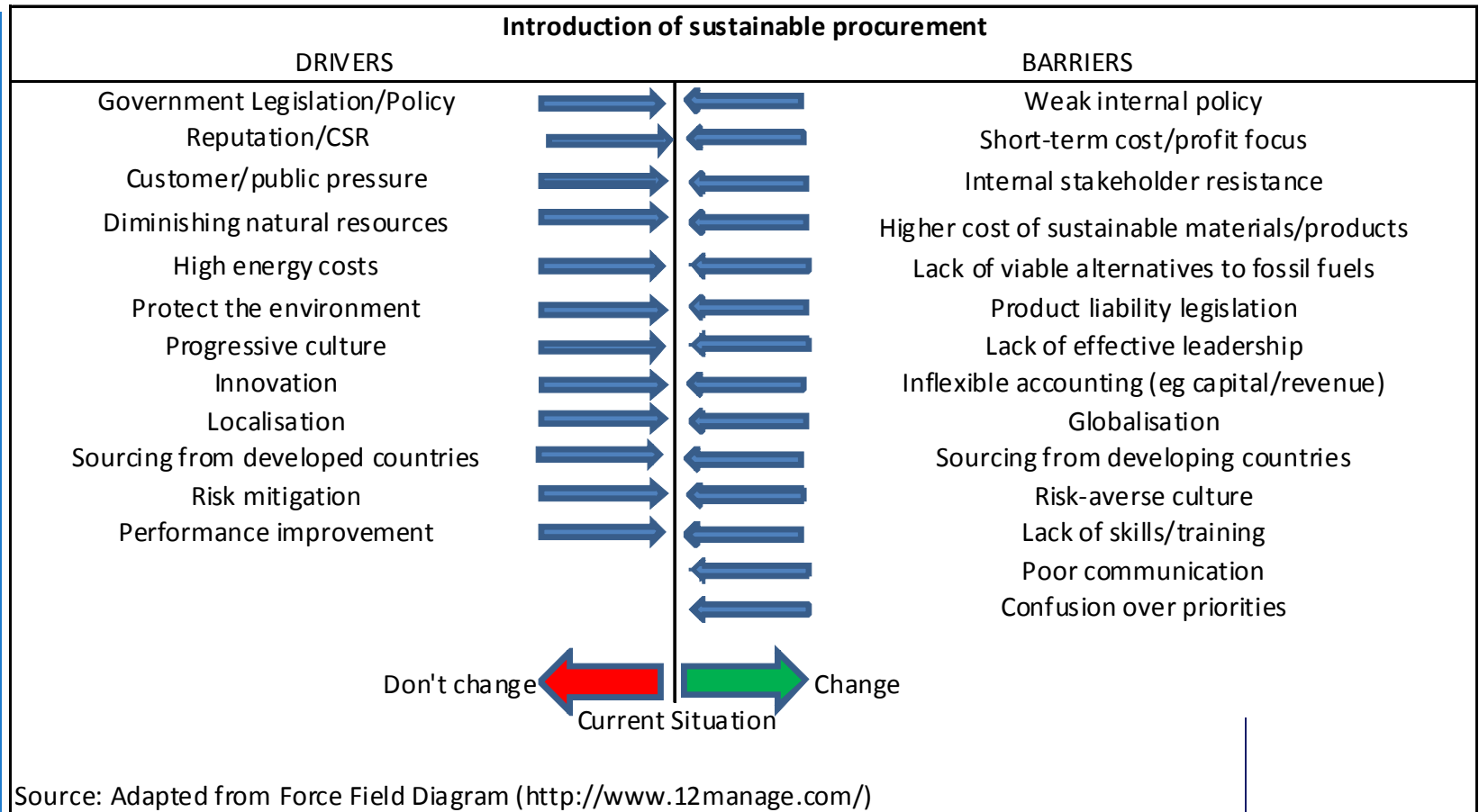


Key sustainable procurement conflicts

- Economic performance versus social and environmental responsibility
- Sourcing from developed versus developing countries
- Local versus international sourcing
- Environmentally friendly products and processes versus product legislation
- Lowest achievable price versus ethical considerations.



Drivers and barriers



SWOT analysis grid for local sourcing

		EXPLOIT	MITIGATE
INTERNAL (Organisation)	Strengths	<ul style="list-style-type: none"> > Lower transport/fuel costs > Easier communication > Similar culture > Potential for shorter, more flexible leadtimes > Lower carbon footprint > Good public relations (PR) 	<ul style="list-style-type: none"> > Weaknesses > Higher initial cost of materials or products > missed opportunities for innovation > relationships too 'cosy' > More difficult to terminate contracts for poor performance (bad PR)
	Opportunities	<ul style="list-style-type: none"> > Supports local business/community > Supports national economy 	<ul style="list-style-type: none"> > Threats > Restricted supplier base could affect security of supply > Some materials/products not available locally
EXTERNAL (Environment)			

Sustainable procurement – potential tradeoffs

- Common international standards lead to more consistency but also more competition
- Component and service standardisation facilitate fairer trade but allow less opportunity for product and brand differentiation
- Paying or investing more ‘up front’ for sustainable products can enhance reputation and secure long-term supply.



Sustainable procurement and standardisation - advantages

- Standardisation helps to achieve consistency and reliability, reducing costs through economies of scale and facilitating reductions in scrap and waste.
- Savings can be made in terms of development time, quotation comparison time and other administration costs.
- Production efficiencies can be made by using standardised components – fewer different stock items, faster assembly, fewer different assembly tools, reduced investment in spares, more efficient material handling, reduced energy usage and standardised packaging.
- Use of international standards leads to less dependence on specialist suppliers and brands and more opportunity for lower risk international sourcing leading to more competition.
- Use of standards gives SMEs and suppliers in less developed countries a clear specification enabling them to understand and to meet tender requirements more confidently.

Sustainable procurement and standardisation - disadvantages

- Overuse of standards might exclude otherwise suitable suppliers
- Efficiency of designs and processes may be compromised in order to achieve specific standards
- Loss of differentiation could affect product desirability for the customer
- Achieving standards can be costly for suppliers.



Session 10

Future challenges for sustainable procurement within a global marketplace

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Learning objectives

At the end of this session candidates will be able to:

- describe the key future challenges for sustainable procurement in a global marketplace
- explain the importance for the future of sustainable procurement of managing risk and vulnerability within the 'end-to-end' supply chain
- give examples showing how sustainable procurement could become 'business as usual'.

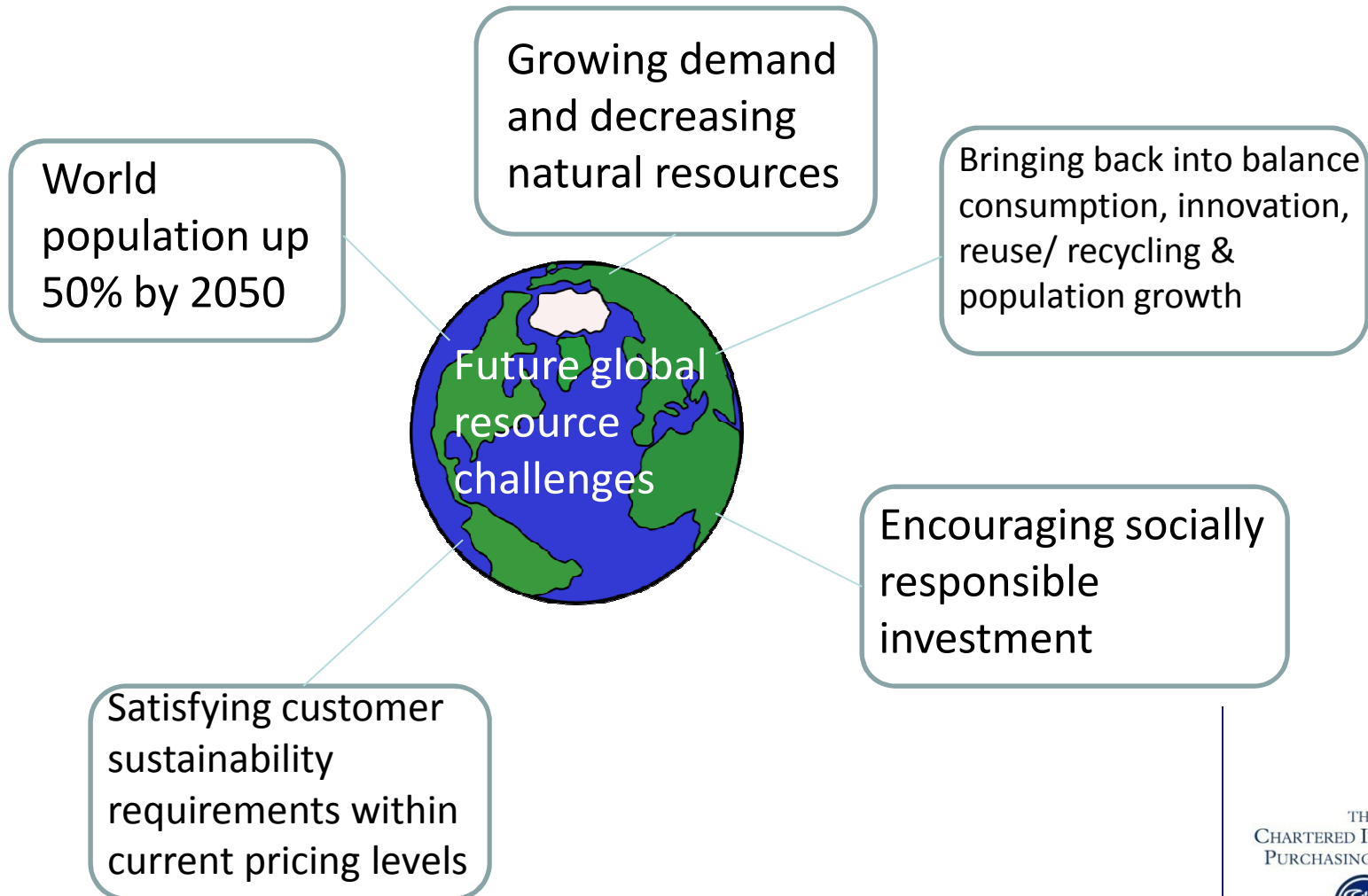


Future challenges

- Global resource challenges
- Stakeholder priorities
- Government policies and targets
- Managing end to end supply chains
- Risk and vulnerability in the supply chain
- Identifying the priorities for supplier development
- Making sustainable procurement 'business as usual'.



Future challenges



Managing supply chain risk and vulnerability

- Regular review of end-to-end supply chain
- Identify vulnerabilities in order to mitigate and manage
- Consider priorities of customers, capabilities of suppliers and sustainable procurement objectives and strategies.



Managing supply chain risk and vulnerability – sustainable procurement examples

- **Risk identification** – creating a comprehensive list of the various causes/sources of potential supply chain disruptions (for example, scarcity of sustainable resources).
- **Risk assessment** - evaluating the likelihood of occurrence and the impact that each event will have on the business for each cause or source of potential disruptions (for example, delays, stoppages, impact on reputation).
- **Risk treatment** - prioritising the various causes/sources of potential disruption and developing strategies for reducing their likelihood and/or mitigating their impact on the business. (for example, alternative sources, non-sustainable alternatives, holding stock).
- **Risk monitoring** - monitoring on an on-going basis, developments in the supply chain that may increase or decrease various risks (for example new material suppliers, increase in global demand, supplier mergers or takeovers).

Future challenges for sustainable supplier development

- Identifying priority areas:
 - economic
 - social
 - environmental
- Process efficiency, re-use and recycling
- The need for innovation
- For the public sector, the need to meet Flexible Framework targets.



'Business as usual' sustainable procurement

- Effective, embedded professional procurement practices, aligned to corporate strategy
- An overarching strategy for sustainable procurement with a wider strategy for sustainable development
- A strong focus on training and development of purchasing staff with incentives linked to key work objectives
- Procurement decisions based on whole life costing, taking into account life-cycle issues and recognising all benefits even when they are accrued outside the purchasing organisation
- Demonstrating global responsibility and supporting and developing others in the supply chain
- Effectively managing vulnerability and risk throughout the end-to-end supply chain
- Having a vision of long-term outcomes together with a clear plan for prioritised continuous improvement.

