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From ignorance to action

**Procurement's role
in confronting
Scope 3 emissions**



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EXECUTIVE SUMMARY

This study underscores the pivotal role of procurement in managing and reducing Scope 3 emissions, which often constitute up to 80% of a company's carbon footprint. Despite this significant contribution, Scope 3 emissions are frequently overlooked in sustainability initiatives, presenting a critical challenge to achieving net-zero commitments.

This study finds that:

- ... engaging suppliers in sustainability efforts can reduce emissions by 5% to 25%, turning suppliers into strategic partners in combating climate change.
- ... prioritizing sustainable suppliers can achieve emission reductions of 10% to 30%, fostering supply chain innovation and environmental responsibility.
- ... disruptive norms play a key role in emission reduction strategies. Optimizing logistics can cut emissions by up to 50%, redefining transportation practices and setting new sustainability standards within supply chains.
- ... optimizing energy sourcing can achieve emissions reductions of up to 75%, leveraging global energy insights to strategically lower environmental impacts.
- ... collaborative sustainable product design emerges as a critical avenue for emission reduction efforts. Designing products with sustainability criteria can achieve reductions of 15% to 50%, influencing consumer preferences and building brand loyalty.
- ... two-thirds of companies have not yet surpassed the awareness-building phase and are still preoccupied with gaining a basic understanding of Scope 3 management. External support may enable companies to gain pace and turn first concepts into actionable and effective measures.

In conclusion, the study advocates for a paradigm shift in procurement strategies to prioritize Scope 3 emissions management. By harnessing innovative approaches and engaging strategic supplier partnerships, companies can accelerate progress towards net-zero goals and drive meaningful change in combating climate change.

Neglecting Scope 3 emissions today could lead to tomorrow's sustainability crises. It's time for procurement to lead the charge in redefining supplier relationships, disrupting transportation norms, and innovating through sustainability criteria to build a more sustainable future.

By addressing these challenges head-on and integrating quantitative targets into procurement strategies, organizations can drive decisive action towards combatting climate change and achieving ambitious carbon reduction objectives.

SECTION 1

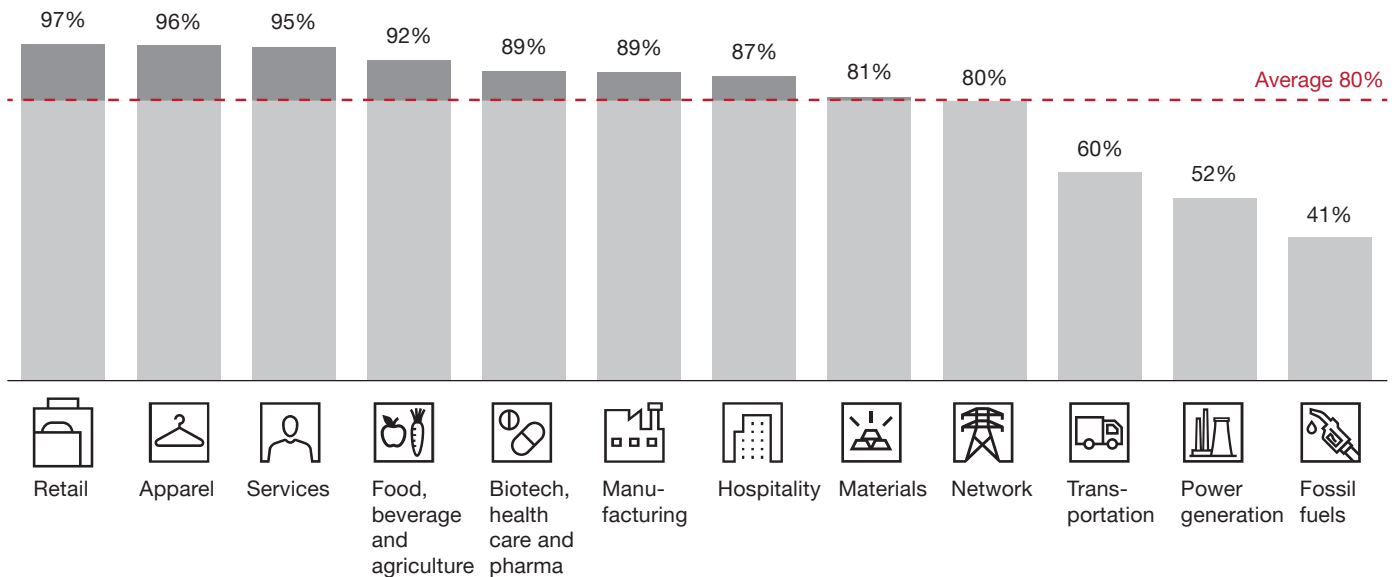
Unleashing the power of Scope 3 emissions in procurement: from climate commitments to competitive advantage

To achieve the goals of the Paris Agreement from 2015, almost 200 countries pledged to pursue efforts limiting global temperature increase to 1.5°C.

In this light, many companies have launched initiatives to manage and reduce their carbon footprint (e.g., through Science Based Targets). As of March 2024, 4,858 global companies and financial institutions have approved Science Based Target initiative (SBTi) targets, which corresponds to an increase of ~60% since the beginning of 2023. To act on these commitments, Scope 1 and Scope 2 emissions have been in focus for decision-makers. Scope 3¹ emissions, on the other hand, have received limited attention despite their large share in the overall emission footprint for most industries (~80% across industries – see *Exhibit 1*).

EXHIBIT 1

Share of Scope 3 upstream emissions in companies' carbon footprint (cradle-to-gate)



Source: CDP Report, Strategy& analysis

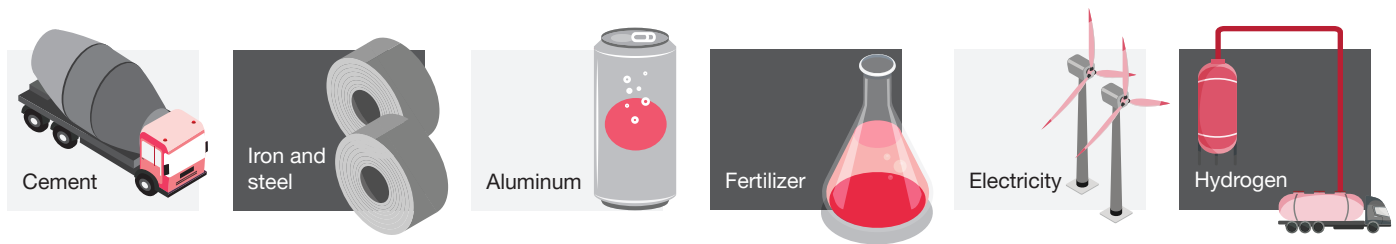
¹ Scope 3 upstream emissions are indirect emissions associated with the value chain but occurring outside of its direct operational control

By recognizing the importance of Scope 3 emissions in procurement and taking action to reduce them, companies can not only contribute to global climate goals but also reap various benefits, including enhanced reputation, cost savings, revenue opportunities, and improved access to financing options.

Firstly, there are **intangible benefits** that come with addressing Scope 3 emissions. By contributing to net zero commitments as required by the SBTi, procurement can position the company as a market leader with a sustainable value chain by selecting environmentally committed suppliers, sourcing sustainable materials, promoting supply chain transparency, fostering collaboration and innovation, and continuously improving supplier sustainability. This not only enhances the company's reputation but may also increase customer loyalty, as there is an increasing demand for greener products. Additionally, addressing Scope 3 emissions through procurement fosters stronger partnerships with stakeholders who share ambitious environmental commitments, amplifying the company's sustainability endeavors.

Secondly, there are **measurable P&L impacts** that can be achieved. One of the key benefits is risk mitigation, as tightening environmental regulations (e.g., EU ETS, CBAM) pose a risk of non-compliance. By proactively addressing Scope 3 emissions, procurement can mitigate these risks and avoid potential emission costs imposed by regulation, which are likely to grow in magnitude and scope due to sharpening and new regulations in the EU. With the EU's increasing monetization of emissions, emissions in the supply chain will ultimately find their way into the supply chain cost base. Thus, companies can profit from cost reductions when taking the emissions out. Additionally, there are revenue upsides to be captured by offering greener products, as customers are increasingly willing to pay a premium for sustainable options.

EXHIBIT 2
Sectors covered in the first phase of the CBAM (expected to expand post 2026)



• High risk of carbon leakage • > 45% of CO₂ emissions of ETS • Practical feasibility

Source: EU Commission

Lastly, by proactively addressing emissions through procurement, companies can enhance their access to favorable financing options. Demonstrating stronger equity performance and a steadfast commitment to sustainability can unlock opportunities for sustainability-linked loans and subsidies, providing additional financial support for sustainable procurement initiatives.

Navigating the CBAM storm: implications and actions for companies

Implications and Actions for Companies In addition to the benefits of addressing Scope 3 emissions in procurement, it is crucial for companies to consider the challenges posed by the introduction of the EU Carbon Border Adjustment Mechanism (CBAM). This mechanism aims to put a fair price on carbon emissions embedded in imported carbon-intensive goods, preventing carbon leakage and supporting the EU’s emission reduction targets. It ensures that the implicit price paid for carbon emissions embedded in certain products is equivalent to production in the EU. The overall objective of the CBAM is to prevent carbon leakage, which occurs when EU products get replaced by more carbon-intensive imports or when an EU company moves their production abroad with less strict climate policies in place. In an initial phase, the focus of the CBAM will be on goods with the most significant risk of leakage (see *Exhibit 2, previous page*).

CBAM will be implemented gradually (with the first reporting period in 2024), which will further complement the EU ETC to help reach the “Fit for 55” carbon emission target (see *Exhibit 3*).

EXHIBIT 3 Implementation timeline CBAM (expected to expand post 2026)

| Period | Timing | Requirement |
|-----------------------|-----------------------|--|
| Transitional period | Oct 2023 to July 2024 | Businesses may use any appropriate method to report on the direct product emissions of each CBAM good (incl. using published default values) – as long as their calculation methodology is provided |
| | Aug 2024 to Dec 2024 | Businesses must use a method aligned to local carbon pricing/mandatory emissions monitoring schemes |
| | Jan 2025 to Dec 2025 | Businesses must use the EU method, by calculating emissions from: <ol style="list-style-type: none"> 1. Source streams using activity data and additional laboratory parameters 2. Emissions sources, calculated by monitoring flue-gas greenhouse gases |
| Implementation period | From Jan 2026 | CBAM reporting becomes annual (with a requirement for accredited verification) and the financial impact of CBAM is phased in, from 2.5% in 2026 up to 100% in 2034 ¹ |

¹ The estimated CBAM cost per ton of CO₂e emissions is based on PwC & IETA estimates of EU ETS prices in the period 2026 – 2030
Source: PwC <https://www.pwc.com/gx/en/tax/pdf/pwc-cbam-flyer-final.pdf>

As a Chief Procurement Officer (CPO), it is crucial to ask yourself: What are the implications for our company and what actions do we need to take?

To effectively address these challenges, consider the following actions:

Assess import classifications

Understand the exposure of your company by assessing all import classifications and ensuring that products are correctly classified. This will help determine the impact of CBAM on imports and enable effective planning and preparation.

Evaluate data availability

Understand the emission data on a product level currently available and identify any gaps that may be needed for compliant reporting. Focus on the data requirements from suppliers and assess their ability to provide the necessary information. This will help identify areas where additional data collection or collaboration with suppliers may be required.

Identify emission hot spots

Identify areas of high emissions within the supply chain by understanding supply chain emissions hot spots. Work with suppliers to implement measures that reduce emissions, such as adopting sustainable practices, investing in renewable energy sources, or optimizing transportation and logistics.

Integrate CBAM considerations

Incorporate CBAM requirements into your sourcing strategy, supplier engagement, and supply chain systems. This means integrating CBAM considerations into the decision-making processes when selecting suppliers, engaging with them on sustainability initiatives, and implementing systems that can track and report the necessary data for CBAM compliance.

By taking these actions, as a CPO, you can effectively address the implications of the CBAM for your company and ensure proactive measures are in place to navigate the challenges and opportunities it presents.



Given our complex and global supply chain, we have already evaluated the effect of CBAM and we believe this will hit our supply base with material impact. We're trying to figure how to approach our suppliers. The reality is, the sooner you start, the better you can do a risk assessment and mitigate. The alternative would be to re-source to EU suppliers, which comes with its own issues.”

Head of Procurement Sustainability, Major European home appliance manufacturer

SECTION 2

Unveiling the truth: the current state of upstream Scope 3 management in procurement organizations

To uncover the current state of upstream Scope 3 management in procurement, a comprehensive methodology was employed. The study involved guided interviews with over 30 senior procurement and sustainability experts from leading European companies. These interviews provided valuable insights into the maturity of two key dimensions: Value Creation through active emission management, and the required Target Operating Model changes. The information gathered from the initial interviews was then used to distill major challenges and best practices, which were further validated through a second round of interviews with leading companies. The study analyzed seven sub-dimensions within Value Creation and Target Operating Model, delving into areas such as priority-setting, baselining and analytics, reduction and abatement efforts, organization and team, process integration, governance, and capabilities.

Study results: unveiling the state of upstream Scope 3 management in procurement organizations

The study findings reveal that the current state of Scope 3 emission management in procurement organizations is still in its early stages. Among the sample companies, most rank in the lower-mid section of the scoring spectrum, with a tendency towards the bottom. However, it is important to note that active Scope 3 management is well-known. While lower-ranking companies are just beginning to familiarize themselves with the topic and associated legislation, their higher-ranking counterparts have already established stable processes and organizational structures to effectively navigate upstream emissions.

This significant performance gap can be attributed to three key factors: value chain position, mastery of the decarbonization stage-gates, and successful resolution of three key challenges in supply chain decarbonization. By addressing these factors, procurement organizations can bridge the gap and advance their Scope 3 emission management practices, ultimately driving sustainable value chain initiatives.

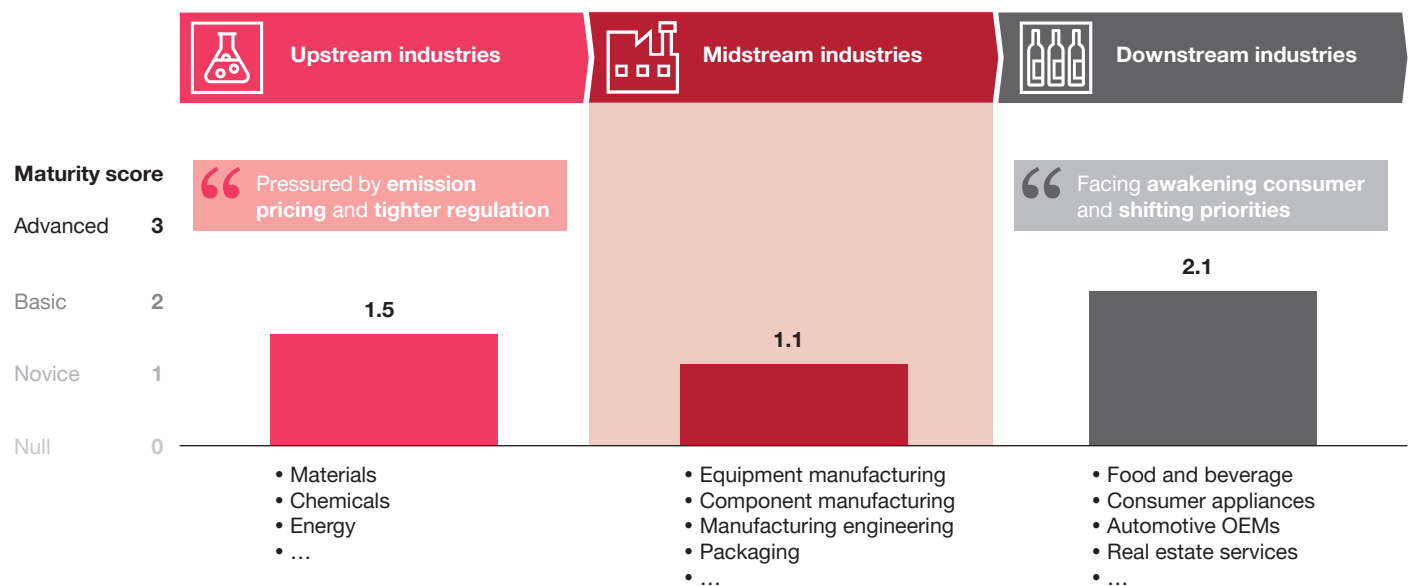


Decarbonization disparity: unmasking the divergent paths of upstream, midstream, and downstream companies in procurement

Despite the generally low decarbonization maturity scores of the interviewed companies, noticeable progress differences could be observed depending on a company's position in the value chain. In general, we clustered the industries into three buckets: **Upstream** (mainly related to materials and/or energies), **Midstream** (related to manufacturing/engineering with B2B focus), **Downstream** (mainly automotive, consumer products and services with B2C focus).

Overall, we observed that midstream companies were the least advanced in terms of procurement decarbonization, compared to up- and downstream companies. We hypothesize that companies face comparatively little financial pressure currently due to emissions in their supply chain, compared to upstream or downstream companies. On the one hand, companies in the upstream sector are increasingly feeling the pressure of emission pricing as sharpening EU carbon emission regulation has started to introduce cost implications for supply chain emissions (e.g., EU-ITS, CBAM). On the other hand, the continuously growing consumer requirement and preference shift towards ESG-friendly products exerts pressure on downstream companies to decarbonize their supply chain to differentiate. However, as this pressure is being passed along the value chain from their supplier/customer industries, companies in the midstream will also have to catch up on progression in the supply chain decarbonization (see *Exhibit 4*).

EXHIBIT 4
Average emission management performance scores by value chain position



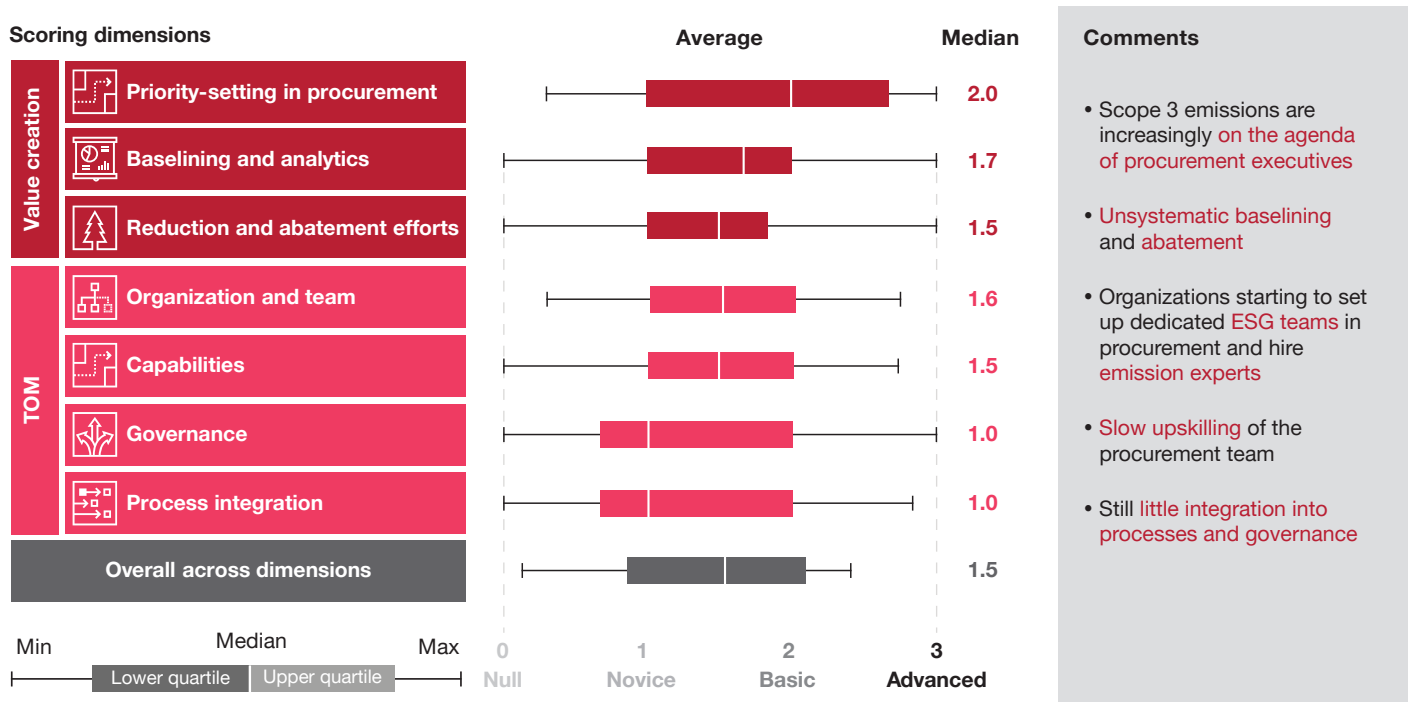
Source: Strategy& analysis

From negligence to excellence: ignite your procurement emission management journey

Besides an observable performance difference by value chain position, our results also revealed significant performance deviations between the assessed sub-categories (see Exhibit 5).

As is visible in Exhibit 5, the median scores of the companies interviewed range from 1.0 to 2.0 for the tested sub-categories, with priority-setting scoring highest (involving the development of an understanding for upstream emission management and setting an ambition level) and process integration and governance being lowest (focusing on effective implementation and steering of emission reduction measures). This gap underscores the natural progression from awareness-building to execution, with most companies already having developed a basic understanding of the topic while still clinging to their pre-existing procurement setup.

EXHIBIT 5
Interview results by scoring dimension



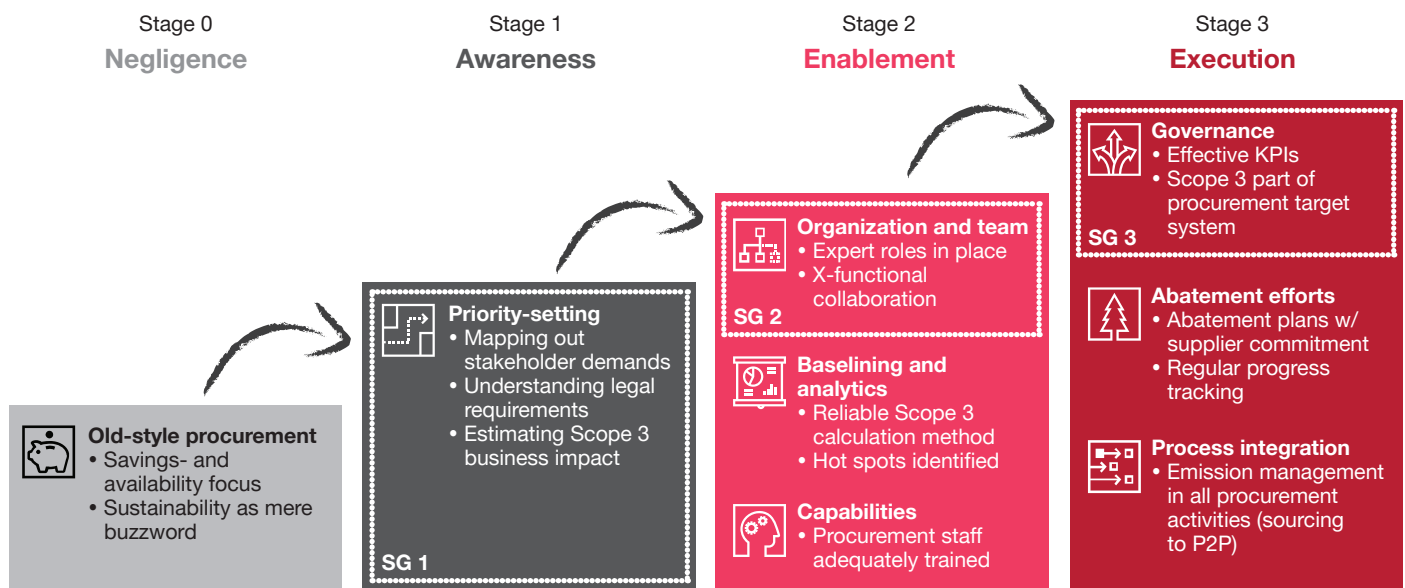
Source: Strategy& analysis

The scoring sub-dimensions with medians in between 1.0 and 2.0 are reduction and abatement efforts (focusing on emission reduction measures throughout the value chain), capabilities (revolving around upskilling the procurement workforce), organization and team (focusing on integrating emission management in the people roles within procurement) and baselining and analytics (describing the capability of quantifying one’s greenhouse gas footprint). The latter three play a crucial role in enabling a procurement organization to effectively manage its emissions and take effective actions, yet already require a thorough understanding of the key challenges. These enabling factors thus link the awareness-building and execution stages.

Reduction and abatement efforts, despite showing a relatively high median, is a special case. Contrary to the enablers, it has the second-lowest average score of all sub-dimensions, implying that although many companies have already taken abatement efforts to some extent, a sizeable number of companies are still at the very beginning. In fact, knowing where to take abatement actions (based on a prior baselining), how to properly design them (building on internal expert knowledge) and engaging the supply base were the concerns most often voiced by low-scoring companies. Consequently, as the name already implies, reduction and abatement efforts can be subsumed under the execution stage of Scope 3 management.

Emission management in procurement can thus be clustered into three consecutive stages – awareness, enablement, and execution – with a natural pre-stage that we refer to as negligence. The negligence stage is populated by companies that are yet to develop a thorough understanding of the topic as a foundation for further progression. Priority-setting can hence be seen as the first of three stage-gates pivotal to master emission management in procurement (see Exhibit 6).

EXHIBIT 6
The maturity stages of emission management in procurement

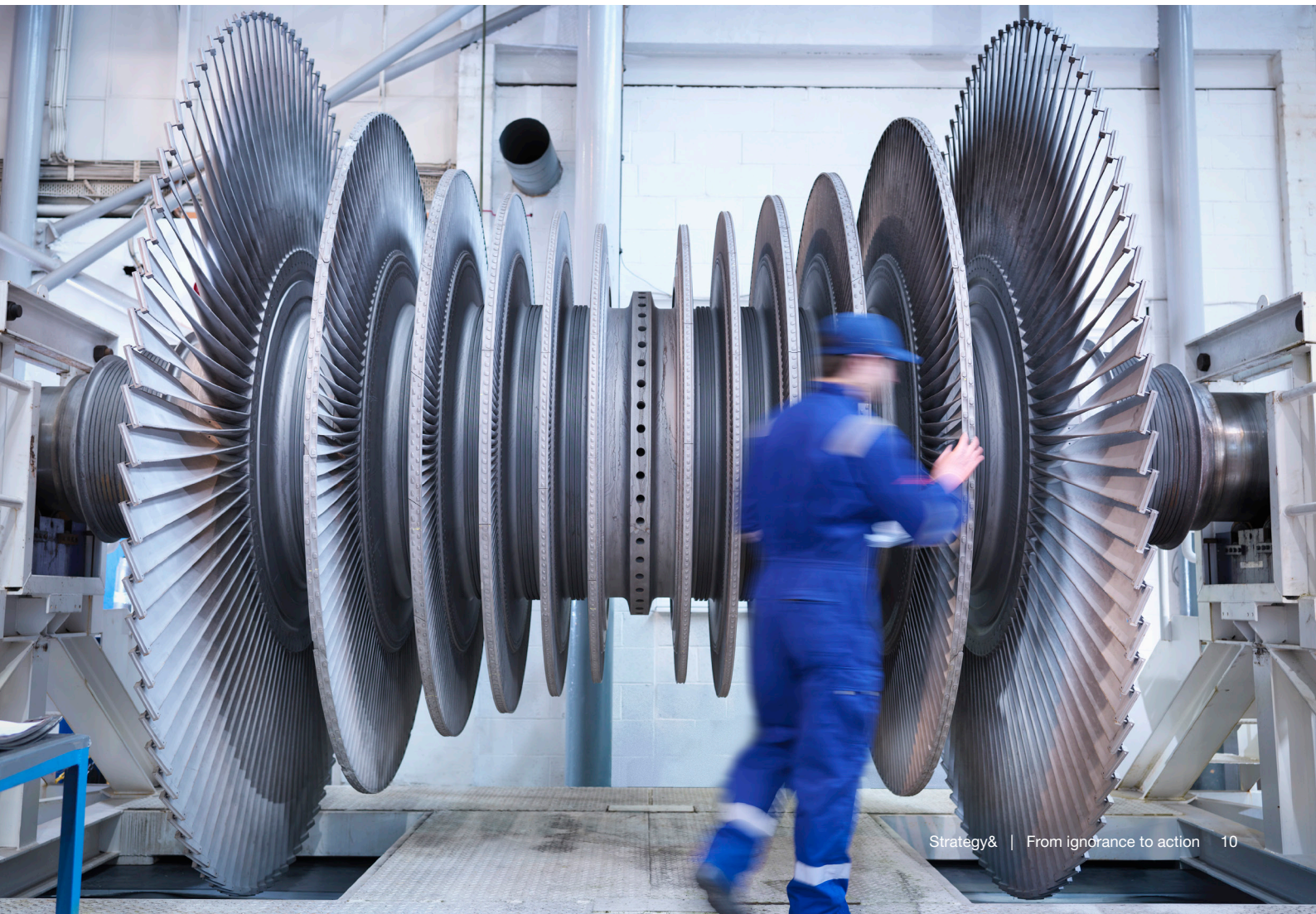


Note: SG 0 stage gate
Source: Strategy& analysis

Among the sub-dimensions of the enablement phase, organization and team can also be seen as a stage-gate as it scores highest among the enablement sub-categories and correlates with them at over 75%. Building up the necessary expert roles and exchanging best practices with other business functions thus seems to be a suitable entry-point for the enablement stage. Both quality and efficiency of baselining and capability building can be much enhanced if the necessary know-how is already present in the procurement organization.

Governance is the third stage-gate, being the recommended entry point into the execution stage. Analogously to organization and team, governance scores highest among the execution sub-categories and correlates with them at almost 80%. By making the operational efforts measurable and allowing emission performance to be steered, governance can greatly boost the effectiveness of companies' Scope 3 action plans. This can happen, for example, by attaching monetary incentives or rewards to emission reductions or by implementing "comply or explain" clauses that require buyers to justify above-target carbon expenditure.

Although progressing through the four stages of carbon management maturity may seem straightforward with three concrete stage-gates, we observed that most of the companies interviewed were still in the negligence or awareness phases. Based on our discussions, this can be linked to three key challenges that companies encountered iteratively on their path to emission excellence and which often overwhelmed them. In the following section, we briefly describe the underlying challenge and provide practical insights into how these challenges were resolved by best-practice companies.



Unveiling the roadblocks: Overcoming urgency gaps, conflicting targets, and lagging supplier engagement in procurement decarbonization

Our headline findings on key challenges are:

Lacking urgency: decarbonization remains a secondary priority among procurement targets

1

As laid out by a great majority of interviewees, the procurement function is still widely regarded as a cost center, tasked with reducing spend and ensuring the availability of production inputs. Greenhouse gas reduction, although widely acknowledged as a long-term strategic goal for organizations at large, has only just been added to the procurement agenda. It is still seen as a long-term target, missing a sense of urgency and the required funding to make rapid progress.

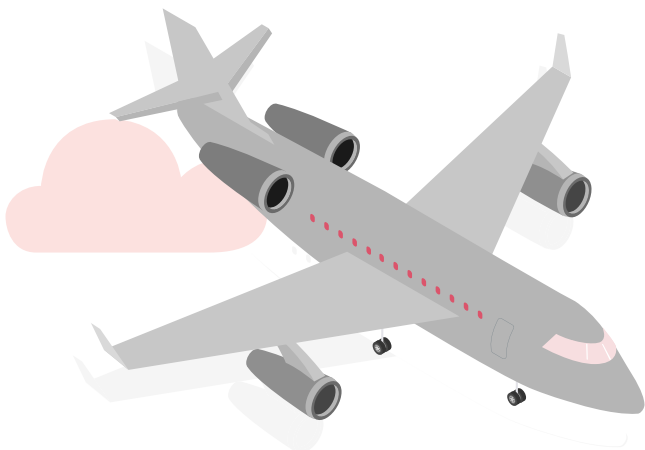
Case study:

Identification of the strategic priorities for the Net Zero transformation (Aerospace industry player)

Starting point: For several years already, the company had been faced with increasing pressure from customers and investors to provide proof of its decarbonization efforts. Reassured of the need for effective Net Zero actions by the Davos Conference 2020, the Chairman tasked the business with developing a leading sustainability strategy. The strategy was to contain clear evidence-based recommendations to make the right choice for the business and its shareholders, as well as continue to attract and retain top talent.

Solution concept: Together with PwC, a holistic sustainability assessment was conducted focusing on grasping external stakeholder demands (through customer and expert interviews) and internal Net Zero readiness (via a series of workshops). This ensured stakeholder buy-in early on in the strategy development process and prioritization of the most critical improvement areas in the existing strategy, processes, organization, governance and technology set-up. The findings were subsequently distilled into actionable recommendations on the company's Net Zero ambition and presented to the CEO.

Implementation: With the strategic priorities defined, a roadmap with a clear target, dates and activities was devised to deliver the Net Zero ambition. Focus was put on identifying risks to delivery time early, engaging key stakeholders in the process and ensuring the support and invest of senior leadership in the Net Zero program. As a result, the company had an actionable and holistic plan at hand to improve its emission performance in a targeted and time-bound way.



Clashing priorities: savings trump carbon reduction in procurement targets, hindering progress

Even if a carbon baseline has been established, hot spots identified and operational measures derived, actual results tend to fall short of initial hopes and expectations. This is because decarbonization, once put on the procurement target-set, still plays a subordinate role to traditional savings. Overcoming this requires recalibrating one's procurement target system and aligning monetary and greenhouse gas savings in one common measurement system.

Case study:

Aligning procurement targets via an internal carbon shadow prize (electronics producer)

Starting point: Historically, suppliers who met a set level of quality requirements were contracted based on purchase prices. Other metrics, such as supply resilience, only had a subordinate role in sourcing decisions. However, with senior leadership committed to decrease the company's carbon footprint – especially in Scope 3 representing 99% of emissions – sustainability considerations should be included in the buying processes.

Solution concept: After multiple potential solutions had been reviewed, the final decision fell on a conversion mechanism translating carbon emissions into a premium to be added to purchase prices. Brought forward by procurement, controlling and the corporate sustainability department, the conversion rate of one ton of CO₂ equivalent was based on the EU carbon certificates price and reviewed twice a year. This procedure was selected both for being easy to apply for purchasers and causing little extra administrative work, such as creating an annual carbon budget.

Implementation: In a first pilot year, the conversion mechanism was diligently calibrated to balance both the economic and environmental interests of the stakeholders involved. In its current state, the shadow price is being applied in everyday procurement operations, yet with two caveats. First, the shadow price mechanism is not yet reflected in the company's ERP and thus not added automatically to the purchase price. Second, while being strongly encouraged, applying the carbon premium is still not mandatory for purchasers. Nevertheless, the first two years of application have showed a net reduction in carbon emissions, adjusted for revenue growth. In the next three to five years, the company plans to both automate the process via an ERP update and to adjust the shadow price to also reflect the potential cost impact of CBAM.



Unlocking the chain: igniting supplier engagement for value chain excellence in decarbonization

Once a company has geared itself internally for its decarbonization journey, a last barrier remains: creating supplier engagement. Most interviewees stated that their suppliers – esp. smaller and non-European ones – still lacked basic awareness and were unable to provide any emission data. Becoming a force for positive change for one’s suppliers and forging carbon alliances within the industry are key to unlock the maximum potential of decarbonization.

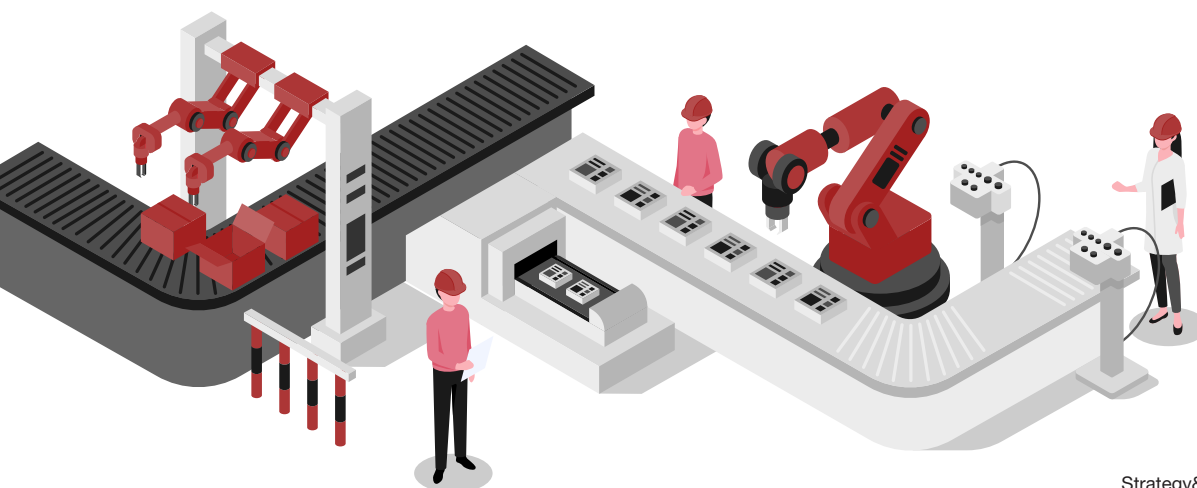
Case study:

Creating supplier engagement through collaborative decarbonization taskforces (leading material handling firm)

Starting point: The Forklift Co. board of directors has had a strong commitment to reaching 1.5°C SBTi targets for 2030 and net-zero target by 2050. Similar to other manufacturing companies, the supply chain emissions (Scope 3.1) represent a key emission hot spot, accounting for ~20% of its overall emission footprint. To push forward the supply chain decarbonization with the near-term SBTi target in sight, the procurement team was tasked to both develop a strategic roadmap to secure continued supply chain decarbonization in the long run and deliver short-term emission reduction within the current and coming year.

Solution concept: Given the short- and long-term nature of the targets, the procurement team decided to tackle the challenge with a two-fold approach. One team with internal focus sets off to develop the updates in its Operating Model to incorporate aspects facilitating supply chain decarbonization (e.g., capability building, updating of carbon accounting, process revision to include emission as a relevant decision factor in sourcing and supplier management). The other team with external focus sets off to develop and orchestrate a taskforce that aims to engage selected suppliers in parallel, starting to define and drive decarbonization measures collaboratively with “first-mover” suppliers.

Implementation: The taskforce team, especially, follows a similar approach, proven highly effective for engaging suppliers in the context of material cost management. The team starts with creating a (spend-based) baseline of vendor emission. Using this baseline, it selects a few categories to focus on first. Hereby, the team puts emphasis on categories with an overall high emission footprint, but also limited complexity in its supply chain structure (tier n). The emphasis aims to help make the decarbonization measures later more feasible. In a second step, the team screens its suppliers regarding magnitude of emissions, overall maturity in decarbonization and share of the pocket (buying power), to identify those suppliers to be focused by the taskforce. Depending on the screening results, the suppliers will be approached using different approaches – with the most promising suppliers invited to a series of one-on-one decarb collaboration workshops, some other suppliers approached in a consolidated way through a “decarbonization day” and the least promising suppliers engaged with a “tailend management approach”.



SECTION 3

Procurement's decarbonization journey: unveiling strategic levers and overcoming conflicting targets for Scope 3 emission reduction

To make most of the untapped potential of Scope 3 for procurement, companies need to consider the set-up of a comprehensive emissions reduction plan. This entails creating transparency on their respective carbon footprint, screening and identifying carbon emission hot spots and conducting a detailed footprint modelling for hot spots.

To set up the **Scope 3 reduction plan**, companies should first identify and prioritize their decarbonization levers. The six levers that have proven most impactful across industries are outlined below.

Procurement's green revolution: unleashing the power of sustainable selection, supplier collaboration and logistics optimization for emission reduction

These levers can be directly pursued by procurement. To effectively exploit these levers, decision-makers need to make compromises on contradictory goals (e.g., pure spend reduction).

Supplier selection and evaluation



- Prioritize suppliers with strong sustainability practices and track their progress over time
- Evaluate suppliers on their carbon footprint, water use, and other environmental metrics

Reduction potential: 10 – 30%

Supplier engagement and collaboration



- Work with suppliers to identify ways to reduce CO₂ emissions in the supply chain
- Collaborate on energy efficiency improvements, share best practices, and set joint reduction targets

Reduction potential: 5 – 25%

Transportation and logistics optimization



- Work with logistics providers to optimize shipping routes, reduce fuel consumption, and minimize emissions from transportation.
- Use low-emission vehicles, optimize packaging, and consolidate shipments

Reduction potential: 10 – 30%

In the pursuit of Scope 3 emission reduction, procurement plays a pivotal role in driving energy transformation, efficiency, and sustainable design. While certain levers may not fall directly within the purview of procurement, the function's influence and collaboration with other departments are crucial to unlock their full potential. Actions related to the energy mix, energy efficiency, and product/service design often reside in corporate strategy, energy departments, operations, engineering, and R&D. However, procurement's role as an advisor and collaborator is essential in aligning these functions towards a common goal of Scope 3 emission reduction. While it may be time-consuming to convince other departments to pursue actions for Scope 3 reduction, it is worthwhile: in our experience significant reduction potentials of up to 75% can be leveraged as outlined below.

Energy mix



- Optimize energy mix, which reduces indirect emissions resulting from purchased electricity
- Optimize sourcing location to gain benefits from country-specific emissions

Reduction potential: Up to 75%

Energy and resource efficiency



- Work with operations management to identify opportunities to reduce energy and resource use within the organization
- Implement energy-efficient technologies that reduce waste and improve water management

Reduction potential: 20 – 30%

Product and service design



- Work with engineering and product development to design products that are more sustainable and have a lower environmental impact throughout their lifecycle: use of less and more sustainable raw materials designed for recyclability or reuse

Reduction potential: 15 – 50%

Depending on supplier characteristics and hot spots, different strategies can be utilized to collaborate for emission reduction.

1. Empowering suppliers for Net Zero:

unleashing the potential of top direct and indirect suppliers in emission reduction

There are two groups of suppliers for which this strategy is required:

- Top direct suppliers (typically, accounting for ~10% of the spend) who are yet to disclose any carbon reduction targets
- Secondly, most top indirect suppliers are yet to disclose any carbon reduction targets.

Supporting these two groups of suppliers to understand and build their own net zero capability will greatly boost upstream emission performance.

2. Raising the bar: forging a collective ambition to drive Net Zero targets with key suppliers

The next strategy is building on the rationale that a few large suppliers accounting for ~20% of the spend set net zero or science based targets within the next 2 years. By collectively raising the ambition level with these suppliers, companies can retain some degree of influence to drive change.

3. Leading the way: collaborating with utility and logistics suppliers for renewable and green fleet initiatives

The main utility and logistics suppliers have or plan to set net zero plans and/or targets. Engagement with these suppliers should focus on discussing requirements and timelines for clients' renewables and green fleet plans.

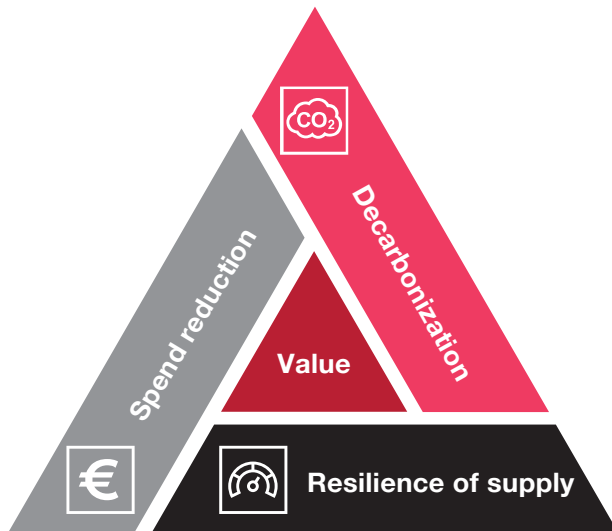
Striking the balance: navigating the target triangle of cost, CO₂ emissions, and supply resilience in procurement

Today, CPOs are tasked with navigating the intricate interplay between cost, CO₂ emissions and supply resilience. It is imperative that we prioritize diligently along these three dimensions to ensure sustainable and resilient procurement practices (see *Exhibit 7, next page*).



EXHIBIT 7

The three main strategic targets of procurement



Questions for discussion

- How far has **your organization** gone to drive supply chain decarbonization?
- How advanced **is your industry** on the journey of supply chain decarbonization?
- How would you improve all **three dimensions** of procurement value contribution?
- ...



Source: Strategy& analysis

In discrete manufacturing industries, the journey towards optimization typically unfolds in distinct developmental stages:

Incremental steps: The initial focus lies in conducting comprehensive cost structure analyses augmented with special attention to CO₂ emission factors. This approach enables procurement to identify incremental improvements of the supplier such as reducing scrap, minimizing energy consumption and optimizing material usage optimization. Importantly, these steps often align with cost reduction objectives while maintaining supplier risk at acceptable levels.

Substantial changes: As companies are progressing, they are embarking on more substantial transformations. This involves a critical review of material composition, transitioning towards CO₂-neutral products and potentially exploring entirely new solutions for their end products. While these changes may entail initial cost increases due to the absence of economies of scale, the long-term benefits become apparent as processes mature and efficiencies are gained. Nonetheless, it is crucial to acknowledge the heightened supply risk during this phase as there may be a need to rely on a select few innovative companies.

Scaled and efficient processes: This phase represents the culmination of the efforts, where optimized processes are scaled and fine-tuned for maximum efficiency. By this stage, companies anticipate significant reductions in both cost and CO₂ emissions, with robust supply chain resilience to potential disruptions.

As we chart the course towards optimization along these three main target dimensions, it is imperative to maintain a holistic perspective. Every decision companies make must strike a balance between cost considerations, environmental impact, and supplier resilience. By embracing this approach, companies not only bolster their bottom line but also contribute meaningfully to sustainability targets and ensure the long-term viability of the supply chain.

SECTION 5

Conclusion

In conclusion, the study underscores the criticality of addressing Scope 3 emissions within procurement to achieve companies' overarching sustainability goals. Despite their significant contribution to a company's carbon footprint, Scope 3 emissions often receive inadequate attention. This neglect could prove to be the Achilles' heel of sustainability strategies, hindering progress towards Net Zero commitments and jeopardizing long-term environmental objectives.

The document highlights the opportunities that come with addressing upstream Scope 3 emissions, including reputation enhancement, increased customer loyalty, and measurable financial impacts through risk mitigation and cost reductions. It also addresses the challenges posed by evolving regulations like the EU Carbon Border Adjustment Mechanism (CBAM), emphasizing the need for strategic adaptation in sourcing practices.

To navigate the challenges and leverage opportunities, companies must proactively assess import classifications, identify supply chain emissions hot spots, and integrate CBAM considerations into their sourcing strategies. The study's findings on the current state of Scope 3 management in procurement organizations reveal the need for accelerated efforts to mature Scope 3 emissions management practices.

Ultimately, the study calls for a paradigm shift in procurement strategies, urging organizations to prioritize Scope 3 emissions management as a core component of their sustainability agendas. By taking decisive action to address Scope 3 emissions, companies can not only enhance their environmental stewardship but also drive competitive advantage in an increasingly sustainability-focused marketplace.

Neglecting Scope 3 emissions today could lead to tomorrow's sustainability crises. It's time for procurement to step up and lead the charge towards a carbon-neutral future.



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