

## 5.1 Design Sustainable Levers

Criteria such as price will always be relevant. [...] If there's something that costs more because it's driving the sustainability agenda, then we see this as a '*good cost*'. We look at it from a TCO (Total Cost of Ownership) and TVO (Total Value of Ownership) perspectives and calculate what possible positive advantages could come from these extra costs.

**Henrik Larsen, Chief Procurement Officer, A. P. Møller-Mærsk**

We live in a very wasteful society. The European Union alone produces more than 2.5 billion tons of waste every year generated by households (8.5%), manufacturing (10.3%), mining and quarrying (25.3%), construction (36.4%) as well as other undetermined waste (18.7%). This a staggering amount that is impossible to visualize. It is primary reason why, as part of its Green Deal, the EU wants to see a change in the way the economy operates (European Parliament, 2021).

The traditional, linear economic model that currently dominates is based on a take–make–consume–throw away pattern. It also includes **planned obsolescence**, with products deliberately designed to have a limited lifespan. Take smartphones as an example. The average user will get rid of and replace an 'old' phone after just 2 years. Now picture an 80 kg pile of discarded electronic products sitting in the middle of a perfectly normal living room—this is how much e-waste the average American family of four throws out *each year* (Leahy, 2017).

This linear economic model relies on large quantities of cheap, easily accessible materials and energy. It is estimated that as a result of improved technology, increasing demand, and decreasing prices, resource extraction has more than tripled since 1970, and global material use could double to 190 billion tons (from 92 billion) by 2060 (UNEP, 2019). As an illustration of how unsustainable this economic model is, the Geneva Environment Network calculates "Earth Overshoot Day" each year, a date that marks when humanity's demand for ecological resources and services in a given year exceeds what Earth can regenerate in that year. In 2021 that date was July 29, meaning that the resources of around 1.7 Earths were needed to cover demand until the end of the year (Geneva Environment Network, 2021).

Waste, resource depletion, pollution, and loss of biodiversity are some of the obvious consequences of this inefficient and exploitative economic system, which is why the European Parliament and other NGOs have called for change.

This change will come in the form of the circular economy where reuse, sharing, repair, refurbishment, re-manufacturing, and recycling help to create a closed-loop system that minimizes the use of natural resources, waste generation, pollution, and carbon emissions. Fortunately, this system is gathering momentum as more and more companies and their customers benefit from its inherent resource efficiencies. The aim would be to get to the point where the Earth has time to regenerate the resources extracted from it, and the term "Earth Overshoot Day" can be dropped from our vocabulary.

## The Road to a Circular Tomorrow

The road to the circular economy will need to bypass exploitative resource use. Getting there will depend on corporates designing systems and business models that maximize the value of natural resources through innovative production techniques and a conscious selection of raw materials where price is not the determining factor. Procurement will need to be in the driving seat for this journey as it is the key corporate function for identifying sustainable material alternatives and maximizing material efficiencies through reuse and recycling.

The circular economy is based on three simple principles (Ellen MacArthur Foundation, 2021) (Fig. 5.1):

1. Eliminate waste and pollution.
2. Circulate products and materials.
3. Regenerate natural systems.

Although the principles are simple, a fully circular economy cannot be solely designed and implemented internally. Instead, companies that want to instigate a circular economy will have to think beyond their own internal processes, such as engineering, procurement, or production, and include the processes used by their external partners.

The end goal of a fully circular economy is a closed loop of activities where efficiencies are maximized, and waste is minimized or avoided altogether. It is a long-term, incremental process that begins with analyzing internal and external processes to get an understand product lifecycles and the associated impacts of each step.

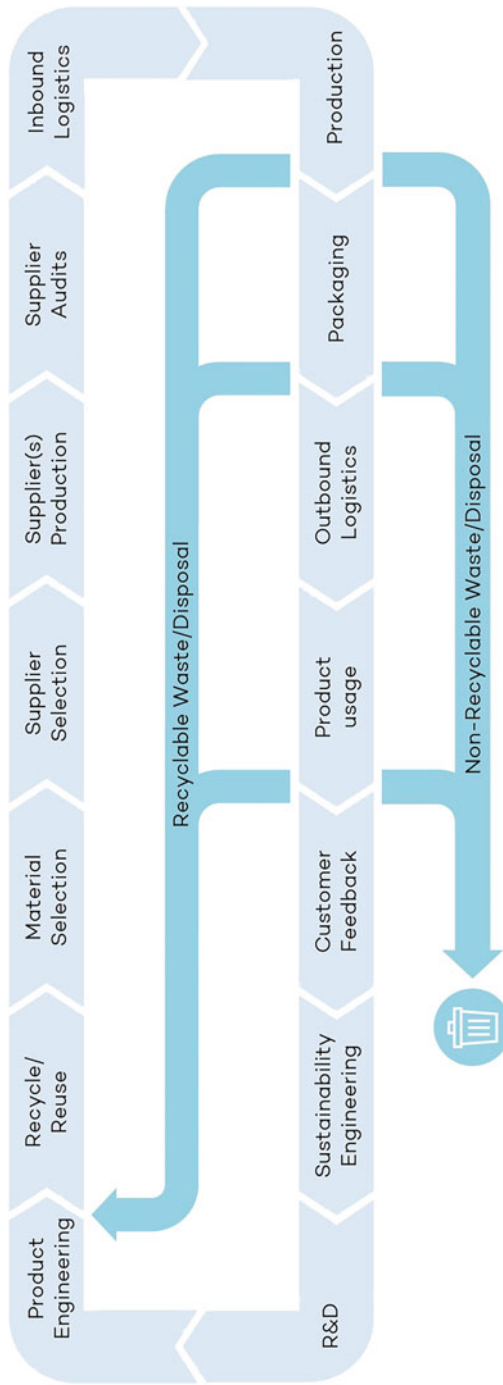
## Sustainability in Action

Many small and medium-sized enterprises that are further away from the end customer in the supply chain haven't yet risen to the challenge and implemented sustainable practices and processes. It's important for us to keep stressing that this isn't something that only larger corporations have to deal with, it needs to come from all tiers of the supply chain and from all companies regardless of size.

### **Thomas Udesen, Chief Procurement Officer, Bayer, and Co-founder of The Sustainable Procurement Pledge (SPP)**

Bayer is a global enterprise with core competencies in the Life Science fields of health care and agriculture. SPP brings together Procurement professionals to ensure responsible supply chains.

Once processes and procedures are understood, collaboration between different functions internally and suppliers externally is needed in order to identify where improvements can be made. Developing a circular economy without the support of external stakeholders is simply not possible, so it is of primary importance that they are included in any and all plans. In fact, enhanced collaboration and co-creation



**Fig. 5.1** Circular economy model by H&Z management consulting

with suppliers, as is so often the case, can produce synergies and innovations that would otherwise remain undiscovered.

It stands to reason that procurement must think and act beyond traditional sourcing activities if it is to lead the creation of a circular economy. Modern procurement needs to vertically integrate into the supply chain by pro-actively suggesting new materials to engineering, by scouting the latest technologies, or by collaborating with research and development to bridge any gaps between internal research activities and external know-how from suppliers. In fact, the circular economy will change procurement from a mostly transactional function into a major driver of sustainable transformation.

### **Circular Economy: Big Brands Setting an Example for Others to Follow**

The number of companies that have publicly announced their commitment to the circular economy revolution is steadily growing and includes some world-leading brands.

Danish shipping giant *Mærsk* has been developing *ways to build recyclable ships* that can be dismantled at the end of their lives and the parts and materials used to build new ships. The company has developed a database called the “*Cradle-to-Cradle Passport*” that documents around 95% of the materials used to build the ships, allowing for more efficient recycling of parts and materials. Instead of mining for new resources, the company will seek to fulfil its needs by using its own products as material banks (Sutherland, 2021).

In the automotive sector, *BMW* launched its RE:BMW Circular Lab in August 2021 (BMW, 2021) while fashion retail giant *H&M* officially launched its innovative circular design tool “*Circulator*” in November the same year (H&M, 2021). These high-profile companies are not only trying to make their existing products more circular but are aiming to change the way their products are made and how their customers use them.

A common misconception is that it is start-ups that feature most prominently on lists of companies that are leading the way to a circular economy. This is only partly true. Start-ups benefit from one key advantage in that they do not have to adapt existing linear processes but can set up circular systems from day one. But what *Mærsk*, *BMW*, and *H&M* are doing is showing that large, established companies can also be circular economy pioneers by exploiting the two big advantages they have. First, these players have understood the value of the materials involved to such an extent that they decided to take on responsibility for them. And second, they have the business acumen to guide and influence the use phase of a product (Schmid & Ritzrau, 2018).

Other leading companies are now also taking up the challenge.

French energy management and automation company *Schneider Electric* won The Circulars 2019 award in the multinational category due to its efforts to place circularity at the heart of its strategy and innovation. The company uses recycled

content and recyclable materials for its products, prolongs the product lifespans through leasing and pay-per-use options, and has introduced take-back schemes to its customers. These activities accounted for 12% of the company's revenues and saved around 120,000 metric tons of primary resources in 2021 (Schneider Electric, 2019).

*Continental*, the German multinational automotive parts manufacturing company, has publicly stated that “by 2050 at the latest, and together with all of its partners in the value chain, Continental wants to make the idea of a circular economy a reality and fully close all product and resource cycles,” (Continental, n.d.). Innovative products such Urban Taraxagum™, the world's first bicycle tire made from dandelion-based rubber, and the ContiRe. Tex technology, a yarn from recycled PET bottles, is paving the way to the company's full transition to sustainable raw materials for tire production by 2050.

*IKEA* introduced its buy-back initiative in 2021 in a bid to become a fully circular business by 2030. The initiative encourages customers to sell back their “gently used” furniture to the company in exchange for IKEA store credit. The used products are then resold in the store's AS-IS section (IKEA, n.d.).

*Timberland*, the American manufacturer and retailer of outdoor wear, started its sustainability journey in 2008 by introducing soles on its footwear made with recycled crumb rubber from discarded truck and car tires. It later developed a recycled rubber outsole compound made with at least 35% post-industrial recycled latex, a material that would normally go into landfills. However, its biggest step towards circularity happened in 2014 when the company, together with Singapore-based tire manufacturer Omni United, created shoes that are made from Omni's used passenger vehicle tires. This is a great example of cross-industry collaboration, and one that should serve Timberland well in its bid to make 100% of its products fully circular by 2030.

## Key Levers for a Circular Economy

Despite operating in widely different market sectors, all the companies mentioned above have one thing in common: they plan and organize their activities by using sustainability levers, the so-called Rs of sustainability. These range in scope from the well-known 3-Rs—reduce, reuse, recycle—to a much more extensive list 14 different levers. By analyzing examples from some prominent companies, and combing this with first-hand experience from a variety of consulting projects undertaken by H&Z, we suggest focusing on ten sustainability levers (Table 5.1):

As far as procurement is concerned, the first (smarter use of materials) and third (useful application of materials) of these sustainability levers are the most relevant to the respective sourcing categories. They emphasize the need to identify new technologies, to find sustainable material substitutes, and to ensure that existing suppliers are leveraged as part of the drive towards a circular economy.

The good news is that there are already quite a lot of innovative technologies or sustainable materials out there. However, identifying the best suppliers and

**Table 5.1** Sustainability levers used in a circular economy (adapted from Potting et al., 2017)

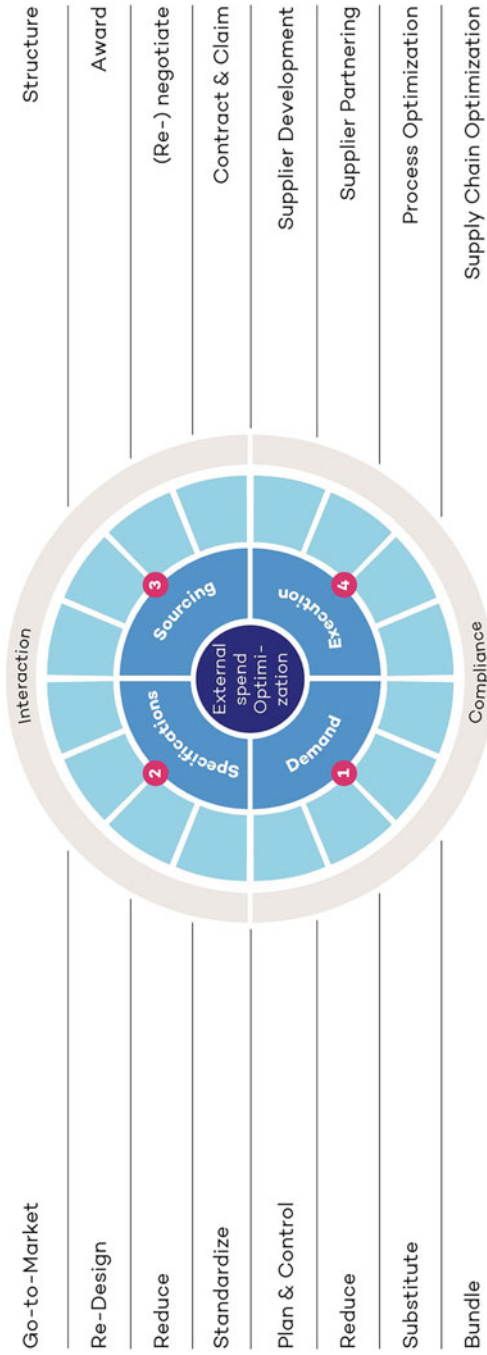
Smarter use of materials	1: Refuse	Stop using materials that have a negative impact and find sustainable substitutes or material alternatives.
	2: Rethink	Challenge the status-quo by pro-actively suggesting materials, new technologies, and innovations from suppliers.
	3: Reduce	Minimize the use of natural resources. Try to focus on renewable and biodegradable alternatives.
Extend the lifespan of product and its parts	4: Reuse	Think beyond end-of-life and by designing and developing products and materials that will have a second life—Either as part of another product or in another industry.
	5: Repair	Try to repair and maintain defective products so they can be used with their original functions.
	6: Refurbish	Restore current products and bring them up to date to ensure their functionality matches current trends.
	7: Remanufacture	Use parts or materials from discarded products to produce new products with the same functions.
	8: Repurpose	Use parts or materials from discarded products to produce new products with different functions.
Useful application of materials	9: Recover	Make sure that product parts or materials can re-enter the production cycle by getting them back from customers and then forwarding them to suppliers.
	10: Recycle	Ensure that products and materials are recycled so that they re-enter the production process, or that they can at least be used for other products (low-grade quality materials).

discovering these innovations remain significant challenges. This is where the concept of “green lever workshops” comes in and where procurement professionals should be making full use of technology.

## Green Lever Workshops

Cross-functional lever workshops are not new to procurement. In fact, they have been held regularly by procurement professionals for a number of years as a method of optimizing external spend. H&Z Management Consulting developed its proprietary Bull’s Eye tool to assist with this process. Centered around four perspectives—demand, specification, sourcing, and execution—the tool helps procurement professionals to identify category-specific levers in order to ensure maximum cost efficiency (Fig. 5.2).

With sustainability, there are ten levers to consider rather than four, but the general idea of using the tool to define green levers remains the same:



**Fig. 5.2** The H&Z Bull's Eye



1. Identify fields of action.
2. Define key levers.
3. Develop an implementation roadmap.
4. And start discussions with suppliers.

There are four rules that should be considered when going through this process.

### **Rule 1: Select the Right Input Sources**

Traditionally, one of the key measurement parameters for procurement is spend data—a status quo that is currently shifting due to sustainability-related activities. With the growing importance of sustainability, prices or spend data are no longer the only sources of truth. Companies now also need to understand the environmental and social impacts of their materials and sourcing categories. In turn, this means that procurement has to understand the value and transportation chains of suppliers.

### **Sustainability in Action**

We categorize suppliers based on spend, category, country, and type of product or service to identify those that are the highest risk. [ . . . ] In addition to standard audits, we have a process called product-related environmental protection (PREP) to ensure that there are no forbidden materials in the products, and that restricted materials stay within assigned limits. This special auditing process is run directly by the sustainability team.

#### **Chaojun Li, Global Head of Sustainability, WS Audiology**

WS Audiology develops, manufactures, sells, and distributes hearing aids. WS Audiology's ambition as a global leader is to unlock human potential by making wonderful sound part of everyone's life.

Over the past few years, procurement professionals have increasingly been faced with new questions such as “What is the CO<sub>2</sub> footprint of material A?” or “Do our suppliers comply with human rights regulations?” The answers to these questions will only grow in importance. In order to successfully apply green levers and to define sustainable actions, it is therefore important to thoroughly understand the impacts of sourcing categories and to be familiar with category-specific pain points via a materiality assessment.

Apart from changing measurement parameters, it is important that there is a shift in focus from top-tier suppliers to the smaller suppliers within the supplier base. In the past, procurement tended to center its main strategic activities around those suppliers that accounted for 80% of spend volume but with the demands of sustainability, this strategy will have to be re-thought. Modern procurement departments need to take a risk-based approach that assesses the risks of their entire supplier base. This can be based on factors including geographical location, social and environmental performance, or by checking generally accepted certificates. Although this task might seem complex and time-consuming, it can be done relatively easily nowadays by using technology. That said, there is one general rule to keep in mind: smaller suppliers are more likely to carry sustainability risks than their larger peers.

Stakeholder interviews should also be conducted as a way of understanding internal pain points within sourcing categories. It is crucial to collect feedback from internal customers to get a clear picture of what their key requirements are, and which areas need to be emphasized when looking for sustainable alternatives.

### **Rule 2: Generate Ideas within Cross-Functional Teams**

Once all relevant data has been collected, it is time to define some concrete actions. This is when collaboration between cross-functional teams is essential, especially where sustainability is concerned. Procurement is the most likely source of innovation, but it alone will not be able to change products or services, which is why other functions such as engineering, research and development, production, or marketing have to be involved to make sure that product portfolios can become circular.

### **Sustainability in Action**

Collaboration happens precisely at the process interfaces. But it's not a one-way street. We approach the product lifecycle management community and ask them to what extent they consider sustainability-related opportunities and risks in their process. It's not about defining every milestone, it's also about a change of mindset—we want to get our design and product teams actively thinking about sustainability and circularity within the framework of a journey. This includes potentially using different materials and that's where there's strong collaboration with supply chain management.

#### **Markus Strangmüller, Corporate Development & Sustainability Manager, Siemens**

Siemens is a technology company focused on industry, infrastructure, mobility, and healthcare, creating technologies and transforming the industries that form the backbone of economies.

The strategic buyers also work together with the sustainability manager to develop specific targets for their categories. Within indirects, for example, we identified energy efficiency levels for real estate and leased properties. For direct categories, we will partner with engineering to reach 100% sustainable material inputs. We're currently setting the baseline for this and we will then agree on measures to take.

#### **Thomas Janvier, Vice President of Procurement, INNIO**

INNIO is a leading provider of renewable gas, natural gas, and hydrogen-based solutions and services for power generation and gas compression at or near the point of use.

Procurement should identify sustainability solutions for the respective sourcing categories in preparation for these cross-functional workshops. It is advisable to collect a few potential solutions that overcome the challenges and pain points that have been identified and that have the chance of making specific products more sustainable. These solutions will function as a baseline for discussions to see, for example, if engineering would need to change the specifications of a product, to check if a production line would need to be changed to accommodate new material, or to make sure that research and development is familiar with the material changes in case further (company specific) research would be required prior to the implementation.

**Rule 3: Make Full Use of Technology**

It is crucial to leverage technology to analyze supplier risks and to identify sustainable solutions. There is an extensive range of sustainability technology providers that offer innovative solutions to match a wide variety of needs. As there are so many tools available, identifying the most appropriate can be a challenge in itself but it is nevertheless worth the effort to develop the right tool landscape. Section 4.3 gives a good overview of sustainability tools and technologies.

Technology can also help to identify material substitutes or to learn about best practices and innovations. In fact, using technology will significantly reduce the effort needed to stay up to date by continuously screening. This is precisely why the SUSTAINX platform and community was developed. It offers state-of-the-art sustainability solutions and connects professionals with sustainability experts to discuss specific challenges and to co-develop new solutions.

Naturally there will be some challenges that cannot be overcome with existing solutions. However, this is not a reason to be discouraged from getting started. A lack of technology to solve a specific challenge is the perfect opportunity to be collaborating and co-creating with suppliers, or to make use of the expertise available through SUSTAINX working groups.

**Rule 4: Define a Reasonable Implementation Roadmap**

The last crucial step is to define an implementation roadmap beginning with some sustainability quick wins, or solutions that are fairly easy to kick off yet still produce noticeable outcomes. Examples of these quick wins include the creation of a sustainability-related code of conduct, rolling out green IT solutions, or installing devices that remove CO<sub>2</sub> from production sites. These quick wins can be very diverse in where and how they make an impact, so it is important to find out early on what the biggest pain points are and the best ways to address them.

**Sustainability in Action**

Our strategic buyers are the ones integrating sustainability clauses in our supplier contracts. We have some standard language regarding ESG in our general terms of purchase, but we believe in agreeing on individual targets based on what the material aspects of sustainability are for each specific supplier.

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Finally, procurement should strongly consider working with their cross-functional teams on sustainability lighthouse projects. These are projects that remain true to the core business but create public awareness of sustainability or circular economy initiatives. Timberland's recycled rubber outsole or Continental's yarn from recycled PET bottles that were mentioned earlier in the chapter are excellent examples of innovative lighthouse projects that won these companies very positive and highly valuable public recognition.

## Start Thinking in Circles

It is time to re-think the traditional way of doing business. The linear economy is no longer fit for purpose as the potentially catastrophic costs of its take–make–consume–throw away pattern is no longer acceptable or justifiable. Fortunately, many companies are recognizing this unquestionable fact and making the transition to a circular economy. This is not a fad led by start-ups as there are some real business heavyweights that are leading the way and demonstrating the economic sense of circularity while at the same time minimizing the negative impacts of their businesses on the environment. They are doing this by focusing on the three core principles of circularity: eliminate waste and pollution, circulate products and materials, and regenerate natural systems.

Procurement should be one of the key drivers of a circular economy. This can be done by including the 10R green levers framework in discussions with suppliers instead of just focusing on cost efficiencies. This will require a far greater degree of collaboration with cross-functional teams internally and supply chain partners externally, the targeted use of technology, and more willingness to co-create to find solutions to sustainability-related challenges. These actions lay the foundations for a circular economy that will ultimately bring enormous benefits to business, society, and the environment.

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## 5.2 Foster Cross-Functional Collaboration: Sustainability Is a Shared Responsibility

I think that's why we're orchestrators and facilitators of the ecosystem with a cross-functional team.

**Mark Perera, CEO, Vizibl**

### Secure Top-Level Commitment

For a sustainability strategy to be implemented and ultimately successful, it must start at the top. The responsibility for sustainable sourcing, as well as all the other defined actions, cannot rest solely with procurement and other functional business sections. Those at C-level have leading roles to play and they need to understand the impacts and leverage that procurement has.

*CEOs* must see the big picture and the opportunities that can be found in running a sustainable business. Changes in the supply chain can have huge impacts on well-informed consumers, especially Generation Z, and therefore open up new revenue streams. Embedding sustainability and getting a mindset shift across the organization depends to a huge extent on strong, authentic, and inspiring leadership.

*CFOs* need to understand sustainability from a risk perspective. Reputational and legal risks in the supply chain can jeopardize an entire business, even if the goods procured seem to be insignificant in value.

*COOs* must come to grips with how sustainability can influence make-or-buy decisions, and then, together with procurement, develop strategies to minimize the ecological footprints of their decisions, reduce risk exposure, and boost business.

Finally, *CTOs* need to introduce whatever changes are necessary to the products themselves and be allocated the resources to do this.

## Engage Stakeholders and Form Working Groups

On a functional level, or on a day-to-day working level, to be more precise, especially for procurement, it is of key importance to join forces across and beyond functional pillars. Silos have no place in a sustainability strategy. It is important to identify the key stakeholders and learn how best to manage them. It is also important to look at ways of accelerating sustainability efforts and find out what measures and resources are available to do this.

### Sustainability in Action

Active dialogue with our stakeholders is one of the ways, be it regulators, customers, shareholders, employees or communities. We're there to deliver for our stakeholders so if they need a voice, we'll listen. It's the same for procurement, which is the customer of our suppliers, and is therefore responsible for voicing the need for sustainable actions in the supply chain. Stop reading this book and get started today!

#### **Thomas Janvier, Vice President of Procurement, INNIO**

INNIO is a leading provider of renewable gas, natural gas, and hydrogen-based solutions and services for power generation and gas compression at or near the point of use.

The main responsibility for the sustainability work within Ørsted lies with the Global Sustainability Department. Responsibility for supply chain decarbonization lies with the sustainability, HSE and procurement teams in unison whereas the actual execution of supplier decarbonization lies with HSE and procurement.

#### **Simon Juul Toft, Lead Specialist—Green Procurement, Ørsted**

Ørsted, the world's most sustainable energy company, is recognized as a global leader on climate action and takes tangible action to create a world that runs entirely on green energy.

Sustainability is a cross-functional task for the entire organization as all functions—procurement, production, engineering, product development, but also corporate strategy—are confronted with sustainability challenges. Making product portfolios more sustainable, developing production processes that are more sustainable, and finding material substitutes or sustainable material alternatives are in the interests of the entire organization. Orchestrating all these activities within the organization is one of the tasks of the sustainability manager but to do this effectively, it is important to enhance cross-functional collaboration and ensure that people talk to each other, that they work with each other, and that they strive towards common sustainability goals. It is for this reason that this is now a vital role and one

that will continue to grow in importance especially compared to 5 years ago when sustainability was seen more as a task than a dedicated function.

### **Sustainability in Action**

My team and I are responsible for driving sustainability within the organization as well as the value chain. We have two focus areas: integration and communication.

Integration—Sustainability should be integrated into the operating model rather than something that comes ‘on top,’ which means that all departments need to be closely involved and take ownership of the various sustainability programs.

Communication—It is also crucial that we communicate our sustainability efforts and performance to the relevant stakeholders and the general public. We communicate via our sustainability report, our website, social media, and other outlets.

#### **Chaojun Li, Global Head of Sustainability, WS Audiology**

WS Audiology develops, manufactures, sells and distributes hearing aids. WS Audiology’s ambition as a global leader is to unlock human potential by making wonderful sound part of everyone’s life.

### **Cross-Functional Collaboration Is Key**

There are some interesting similarities between the rise to prominence of sustainability on the corporate agenda that we see today and that of digitalization a few years ago. From an organizational point of view, digitalization was the domain of IT departments, and from there separate, small teams were usually spun off to investigate what needed to be done. Today, there are digitalization experts and data scientists spread across organizations who have responsibility for IT landscapes and roadmaps.

In advanced organizations, sustainability is an embedded function with ambassadors and subject-matter experts in all key corporate functions. But nevertheless, the responsibility for networking and making connections does not just fall upon the shoulders of these ambassadors—it is a cross-functional activity that requires involvement, input, motivation, engagement, and action from all company functions. In other words, it is not possible to have too many people involved in sustainability because it is already an important driver behind most functions.

### **Sustainability in Action**

For me, procurement is one of many roles that plays a part in sustainability. We have two core targets regarding the supply chain: first, an ESG secured supply chain, and second, CO<sub>2</sub> reduction within the supply chain. These are essential to our long-term objectives. But decarbonization of our own operations is also important. Overall, we see sustainability as a business opportunity so it’s part of our strategy discussions. It’s also an important consideration with the PLM or the product designers because they aim to develop products that help society to decarbonize or move into the circular economy. So, procurement has an important role to play in sustainability, but so do many other functions.

Each relevant unit has a sustainability manager. The sustainability managers are then in a community that we orchestrate. There are meetings between the governance owners only, or

with only the countries or the businesses. On top of that, there are topic-related, cross-functional sessions. Then, every two years, we usually have a sustainability managers summit.

**Markus Strangmüller, Corporate Development & Sustainability Manager, Siemens**

Siemens is a technology company focused on industry, infrastructure, mobility, and healthcare, creating technologies and transforming the industries that form the backbone of economies.

## Employee Motivation in Procurement Teams and beyond

Many employees will be intrinsically motivated to work on sustainability goals, and some may even become real driving forces behind the work. This is ideal, but even in these circumstances, it is important that the targets are aligned across different functions. If, for example, procurement puts more focus on sustainability, this needs to match the targets of cross-functional partners.

Another point to consider is that putting sustainability higher on the agenda may, in some cases, mean more work for procurement. This needs to be reviewed carefully to ensure that the extra work does not put a strain on the team. Again, it is about mindset change, transformation, and about creating an environment where everybody can speak up and contribute.

## Sustainability in Action

We had a sustainability fair more than two years ago. We managed to share ideas and discuss sustainability with 280 colleagues for a day: We had booths, we involved external partners, and very importantly, we had a series of workshops where colleagues could contribute their own ideas for the further development of ideas related to the planet, credit, carbon footprints, and personnel. This generated a lot of momentum, and we did a bit of advertising about the topics and gained a lot from it. And then at some point it becomes a bit of a self-runner.

**Nils Eichberger, Vice President of Procurement, LBBW (Landesbank Baden-Württemberg)**

LBBW is a Mittelstand-minded universal bank with deep roots in Baden-Württemberg and a partner for medium-sized companies, institutional customers, savings banks, and retail customers.

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## 5.3 Unleash the Power of Suppliers and Partners

Traditionally, suppliers have been seen as extensions of companies rather than as integral parts of their core businesses. Flows into plants have usually been optimized using the most advantageous internal costs and timeframes but not necessarily on the flows or cost balances within a global network of multiple suppliers. A lack of perspective and a preference for specific suppliers have tended to diminish the possibilities of new ideas and cost reductions. The desire to develop new products and more variations of them has not helped to keep costs and complexity down, nor have these inventions really created something new and valuable for customers.

Then, during the sourcing process, suppliers have generally been told that they need to come in at their very best prices, no matter how stretched, from the moment they start supplying, in the belief that the procurement team would not ask for more yearly savings than the usual efficiencies that can be created by the supplier—something that never really materializes. Terms such as trust, partnership, as well as tolerance for making mistakes and fixing them together, have not been part of procurement's vocabulary when talking to suppliers. The relationship between procurement teams and their suppliers has been strained, primarily because it has been based on cost only.

Some may regard this as an exaggeration of the traditional relationship with suppliers, or even dismiss it completely. The point is that, generally speaking, businesses could do better when it comes to creating value for themselves, their supply partners, their shareholders, their employees, society at large and the planet. This has never been more relevant and urgent than it is now when the world is facing problems that can only be fixed through a spirit of widespread collaboration rather than competition—or a false sense of security buyers have just because they have multiple suppliers in the price race. As is evident from the numerous examples in this book, those who collaborate can move mountains.

The most successful companies already recognized this quite some time ago and have developed relationships with their current suppliers, potential new partners, and their internal stakeholders that are based on sharing, that are open and honest, so that everyone involved gets to enjoy the business. After all, suppliers are a great source of knowledge when it comes to finding alternative and more sustainable materials and processes; they can be invaluable in paving the way for early discussions about implementing circularity in the design and concept phases; and suppliers can be resourceful where avoiding waste during development, manufacturing, and logistics processes are concerned. In addition, supply chains that were created jointly give both partners responsibility and shared ownership. This brings the benefits of having more eyes to see what might possibly go wrong, more hands to help when disruptions arise, more hearts to inspire and engage teams on the journey, and more brains to figure out at any point in time the optimal mix needed for resilient, cost competitive, and sustainable supply chains.

## **Sustainability in Action**

If it's not carbon, it's going to concern water, your forestry, or maybe diversity, so you need the data, but you also need the engagement with your suppliers. That's what's fascinating because it's going to change the way that companies work with their suppliers. It's not a dictatorial approach where you say you have to do this. You need to take them on the journey with you as well. It's the ability to align your sustainability goals with your suppliers and then it's the ability for you to collaborate with them around the transformation revealed by the value chain.

**Mark Perera, Chief Executive Officer, Vizibl**

Vizibl is a digital procurement platform that allows global organizations to unlock the true value of their supplier relationships.



The obvious question that arises at this point is exactly how to develop a more open approach to supplier collaboration, especially when sustainability spans so much of the supply chain. In our experience, it takes awareness and transparency, being an ambassador for suppliers, securing action and implementation, pushing relentlessly, and celebrating and repeating.

## **Awareness and Transparency**

Once procurement has laid out its overall sustainability strategy and objectives, the next step is to explain to suppliers the reasons for the new strategy. When suppliers understand the “why” behind the strategy, it becomes much easier for them to understand the rationale of their customers and subsequently develop ideas about how they can walk this new sustainability-oriented path together. This may seem obvious, but in our experience, it is too often overlooked because people have developed a misguided belief over the years that giving away information is tantamount to giving away leverage. This is an outdated attitude that needs to change.

On top of that, not all suppliers have a clear idea about their own sustainability ambitions and how sustainability can be embedded into their strategies and decision-making processes. In fact, it is somewhat alarming just how many companies want to play it safe where sustainability is concerned and take the minimalist option of complying with rules and regulations only. This is a blinkered approach that will come back to haunt suppliers that take this route—once regulations increase (and they will) and they find that they do not have the right internal structures in place or have not prepared their own organizations for the transformations of their customers, the result will be lost business. Collaboration is particularly important where high-risk areas have been identified and where industries and regions are subject to different rules and regulations.

Compliance to legal standards and regulations is vital, but more commitment is needed to meet the challenges posed by sustainability. This begins by sharing information about the overall strategy and its targets either by inviting suppliers to take part in regular dialogues about sustainability, or by asking them to participate in a larger event (live or online). Getting an interesting keynote speaker to talk about a “hot” sustainability topic, showing some success stories, and inviting suppliers to bring in their ideas can be very motivating. A CEO address is a sure-fire way of demonstrating that sustainability, and the new supplier relationships this involves, is a top priority. These do not have to be large, lavish events. In some cases, it would be more appropriate to tailor a sustainability session by giving it a particular theme such as decarbonization, conflict minerals, workplace diversity, or human rights along the supply chain.

## Being an Ambassador for Suppliers

Close collaboration with suppliers and other stakeholders can be a very effective way of generating new ideas that provide fruitful returns for all concerned. Needless to say, when it comes to figuring out precisely what substances are part of a component, identifying alternative materials, changing designs for a more circular approach, or rerouting logistics routes, for example, it will be necessary to collaborate with the relevant stakeholders in the company so that new ideas will be accepted and ultimately materialize. It is an important ingredient of the success of these collaborations that all relevant peers are involved in discussions from the beginning. Since most organizations work in categories, it is recommended that all necessary partners within the company are engaged in plans to tackle sustainability in specific categories. Keep in mind that some materials might need an approach that goes beyond a specific category. Large-scale challenges such as decarbonization, plastics, and packaging, for example, are going to need careful coordination and someone who can take the lead to push such initiatives through the organization and with suppliers.

### Sustainability in Action

We're working together with our suppliers to provide them with what we've learned from our sustainability journey. We don't always have 'the golden answer' but where we've gathered knowledge and experience, we share it with our partners in the supply chain so that the whole ecosystem around a certain process can improve. We see that as an important part of our role within the supply chain and it goes both ways—we're also happy to learn from our suppliers about how we can improve our own practices. These learnings don't only come from our suppliers. We learn equally as much from other partners in our ecosystem, such as partners in our procurement network of non-competing industries.

**Henrik Larsen, Chief Procurement Officer, A. P. Møller-Mærsk**

A. P. Møller-Mærsk is an integrated container logistics company and member of the A.P. Møller Group. With a dedicated team of over 80,000 people, they enable global trade for a growing world.

## Securing Action and Implementation

There is no such thing as one-size-fits-all when it comes to creating and implementing a sustainability strategy. There are numerous pragmatic tools that can be used to lay the foundations and cover the basic sustainability requirements, but for higher risk areas, or where there are significant CO<sub>2</sub> emissions or human rights violations that must be dealt with, different approaches, or a mix of approaches, should be used.

### Approach 1

*Set up a hackathon:* A hackathon (a combination of the terms "hack" and "marathon") has its origins in software development. Relevant experts work in one room over a day or two and collaborate intensively on specific projects. The goal is to use

the time to come up with functional results or as many ideas as possible for pre-defined outcomes. It is an approach that is well suited to sustainability initiatives. It can be an internal company event or even one that includes supply partners or other experts.

### **Sustainability in Action**

We organized a sustainability fair more than two years ago and managed to share and discuss topics around sustainability with 280 colleagues and external partners for a whole day. An important aspect were the workshops in which people could actively participate and bring in their own ideas to develop solutions along the four lines of planet, credit, carbon footprint and personnel. Of course, this generated a lot of momentum, and we did some advertising to spread the word . . . and then, at some point, it became a bit of a self-runner.

**Nils Eichberger, Vice President of Procurement, LBBW (Landesbank Baden-Württemberg)**

LBBW is a Mittelstand-minded universal bank with deep roots in Baden-Württemberg and a partner for medium-sized companies, institutional customers, savings banks, and retail customers.

### **Approach 2**

*Approach individual suppliers* that create high carbon emissions, or those that generate a lot of plastic, and schedule workshops aimed at finding alternative ways to manufacture the materials and final components. Some suppliers may already have started doing this. If that is the case, join forces with them and see how their efforts can be scaled. Making the switch to green steel is a good example of how to approach suppliers directly. These suppliers know their supply chain all the way down to the raw materials extraction operations, and as major contributors to the global climate crisis, they have started to work with their customers to tackle this hugely challenging problem. Developing a fossil fuel-free alternative to steelmaking is a hugely expensive undertaking, which is even more of a reason why widespread collaboration within the ecosystem is important.

### **Sustainability in Action**

Industry needs to find a way to join forces and motivate suppliers to invest a large amount of money in zero emissions steel that will spread the premium over multiple players and make the investment much more attractive for everyone. In the end, collaboration like this might be less expensive than offsetting or paying carbon penalties in the future.

**Dr Maria Mendiluce, Chief Executive Officer, We Mean Business Coalition**

We Mean Business Coalition is a global non-profit coalition working with the world's most influential businesses to take action on climate change.

### **Approach 3**

*Use hardware and teardown activities* to get an understanding of the complexity of products and processes and showcase these to the appropriate stakeholders in the company, such as R&D, product management, manufacturing, and logistics. This exercise will help identify low runners that could be scrapped to help speed up

processes and get products to customers sooner. Any type of waste reduction also means a significant contribution to sustainability goals.

#### **Approach 4**

Work together with, for example, major plastics suppliers and collect ideas on how to *rewrite component specifications*. This is an important step to finding more sustainable material alternatives.

#### **Approach 5**

*Think recycling and circular economy!* Many raw materials are very cost intensive as well as problematic when it comes to their extraction or production, resulting in soil degradation, water shortages, biodiversity loss, damage to ecosystem functions, as well human rights violations. Where such materials have been used, recycling could prevent a lot of waste, pain, and cost. Any reduce, reuse, and recycle policy will help to minimize the negative impacts of raw materials extraction and use, but this is an area that needs more attention. It could be a good topic to explore in workshops with suppliers.

### **Sustainability in Action**

We'll need effective recycling technologies, a distributed ecosystem of recycling capacities, and supportive European policy. Up to 90% of a battery can be recycled, and up to 95% of the nickel, manganese and cobalt used to make batteries can be reused. But to do this we have to have the recycling technology first for handling batteries, then dismantling, and then recovering materials that can be reused. Chinese and South Korean companies are leading the way on this, but if we want a green battery supply chain in Europe and circular manufacturing, we must get better at doing this as well.

#### **Peter Carlsson, Co-founder and Chief Executive Officer, Northvolt**

Northvolt is striving to produce the greenest battery in the world with a minimal carbon footprint and the highest ambitions for recycling to enable the European transition to renewable energy.

### **Pushing Relentlessly**

Hackathons and teardown activities held in conjunction with suppliers can create a lot of engagement and inspiration resulting in a positive, can-do attitude among all concerned. But we also know only too well, especially in the current situation where there are material scarcities and price increases, that people get dragged away into task forces to fix pressing issues that are impacting current operations. This is the default setting in most companies because it is what people have been programmed to do over the years. It is therefore crucial to stay focused on the big goal, the future pathway to net zero, and not get too easily distracted by short-term thinking. Procrastination will have potentially devastating consequences.

Time is of the essence. With corporate ambitions in mind, and with procurement teams that want to take the lead in establishing their respective roadmaps to net zero,

it becomes easier to judge the effort that will be needed over a certain period of time. This is a time for pragmatism, not theory—only real steps count. Create a timeline to track progress and as a visual aid to see if more needs to be done. Focus on those categories or components that will make a real impact and push relentlessly for action and progress in those areas. Include these discussions in RFQ and sourcing processes so that decisions can be based on true total costs, including ways of mitigating CO<sub>2</sub> reductions in the supply chain, and so on.

### **Sustainability in Action**

At the moment, decarbonization is a very big issue, which is why we've defined quantitative targets that include targets for scope 1 and 2, as well as scope 3, including scope 3 upstream. But how do we achieve them? We collaborate with our suppliers so we're transparent and then see what can be done to reduce CO<sub>2</sub>.

We've established a database with an external partner. From this we can derive which CO<sub>2</sub> emissions come from which material group and from which country. That was the first step to achieving CO<sub>2</sub> transparency. We buy steel from different countries and how does it fit together, what are the energy mixes there and how do we get that right? Additionally, two or three years ago we wrote to the 8,000 or 9,000 of the largest CO<sub>2</sub> emitting suppliers and had discussions with them about the extent to which they are already dealing with the issue and what measures they are taking.

**Markus Strangmüller, Corporate Development & Sustainability Manager, Siemens**

Siemens is a technology company focused on industry, infrastructure, mobility, and healthcare, creating technologies and transforming the industries that form the backbone of economies.

In some cases, it will be necessary to split responsibilities between people dealing with current operations and those who are granted the freedom to work on sustainability activities, including reducing CO<sub>2</sub> footprints and improving workers' rights, activities that will ultimately create high, long-term value.

### **Celebrating and Repeating**

There will undoubtedly be pockets in many organizations where people have already started addressing sustainability issues and even recorded some successes. These inspirational eco-leaders must be used to encourage other people to jump on board the sustainability band wagon. Share and celebrate their stories and successes. Leading by inspiring people to be part of a positive movement is more effective than criticizing people for not doing the right thing. Of course, there will always be hardliners who will stubbornly resist change, and this is where those who support sustainability initiatives must be true to their beliefs and accept that the way forward might not be taken side-by-side. Under these circumstances, it becomes even more important to remain positive, celebrate each and every success story, and keep up the momentum.

## Summary: Set Category Work and Suppliers in Motion

Once there has been a category assessment within the supply base, it will be clear where action is required first. Then make use one of the many sustainability tools available to cover the basics of sustainability and apply individual solutions to those categories with the highest risks. Remember, there is a wide ecosystem that can be used for support. Internally, make sure the necessary stakeholders are part of the sustainability mission. And finally, suppliers, the most powerful alliance there is, will now be aware and ready to get going on the sustainability journey.

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