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Hello, and welcome to today's podcast from HCLTech on sustainability and SAP. Today specifically, we're going to be talking about procurement and its role in improving sustainability of business. And what we want to do is focus on solutions and approaches that allow us to actually drive tangible change

I'm Graham Saunders, Global lead for go-to-market products and innovation team. And I'm delighted to be joined by my colleague from the US Art Wright. Hi, everybody, my name is Art Wright and I'm the Solution Director for HCLTech, SAP Ariba practice in North America.

Thanks for joining me today Art. So what we're going to be looking at specifically is the role of procurement in driving more sustainable business. Now, according to the UN Global Compact network, UK, scope three emissions, which are your procure goods and services are on average, around 70% of an organization's emissions and carbon footprint. Obviously, it depends on the specific industry, but that's in for most businesses, it can be actually the majority of their emissions. And that's a challenge because it's not directly within our control. So it comes down to really how we manage the relationship with the suppliers and how we procure those goods and services. So therefore, Art, in your view, what can we do to reduce our carbon footprint and our sustainability impact through the way we buy goods and services?

Thanks, Graham. Yeah, the first thing that we should think about doing is prioritizing ESG ratings as part of our sourcing strategy. Now, there are ESG audit organizations out there, such as EcoVadis, with whom are a partner that do such ESG ratings, they've been around since about 2007. They've have now over 90,000 suppliers rating globally, and they have a methodology that considers industry and categorizes their ratings into different buckets, such as environment, labor and human rights, ethics and sustainable procurement.

So how do you use this data? For actual sourcing? And how can we use that?

Sure, as as a lead of our Ariba practice, a lot of what I do is focused around Ariba. So we've been utilizing an integration between arriba and EcoVadis, where we can bring EcoVadis

ESG ratings data via API into the arriba risk module. And from there, we can leverage that data to include ESG criteria on our sourcing events. So for example, if you wanted to do a sourcing event, for a packaging, materials supplier, you know, that would be a great use case, where then you can include sustainability ratings in your selection criteria. And that gives really two outcomes, you know, we can select vendors, you know, with a lower carbon footprint and a better ESG score, and at the same time improve our own sustainability ratings. And vendors know that this is part of the selection criteria, you know, it's going to give them more incentive and encouragement to improve their carbon footprint and start their own internal sustainability initiatives.

Yeah, absolutely. I think, you know, often buying decisions are made around some of the classic things around quality service levels, obviously, price, etc. So if we introduce ESG scoring, people realize that that's one of the priorities and your selection criteria, then obviously, they're going to make more effort, you know, it's really biopower, forcing the suppliers to start looking at how they can improve their sustainability ratings.

Now that sounds good, if you've got a sourcing event. What about if you want to look at your whole supplier base? So not just, you know, I've got a new packaging material, I need to buy that now. So I'll do it. But what if you want to do something sort of almost retrospectively or go and look across your whole supply base? What can we do there?

So a couple of things there, we've created an SAC dashboard, that's SAP analytics cloud dashboard, where we can then pull this Ecovadis data, you know, just use Ecovadis, as an example, there are other firms that we can work with, you know, it's easy to bring that data into a dashboard type of format, where now you can see across your entire supply base, you know, how your suppliers rate, which suppliers are not rated? And that raises an interesting question, because, you know, as part of the EcoVadis integration, there had been a way to invite a new supplier or a supplier that does not have a rating to get rated by EcoVadis. But there were a lot of holes in that because, you know, in some cases, we don't know if that supplier had already

You know, engage with the EcoVadis, maybe for some reason decided not to, to rate with them and went with another firm. So what we designed is an automated tool that will scan your supplier master based upon criteria that you can define and decide, well, who should we invite to get assessed by EcoVadis. So that we can then bring that rating status back to our system. And it does that be in a bi directional way?

So we set our own criteria for who we want to invite. And we send that to EcoVadis. And they will provide an engagement status, you know, maybe the supplier is already under audit, and they're just not complete yet, then we'll have that information. And we'll know that we don't need to invite that supplier, or maybe they've declined to get assessed for some reason. And using that information, we can automate, you know, a message or inquiry or to see how we can possibly help.

So there are a number of different ways that we can, we can use to, to grow the amount of ESG rating status that our system contains that we can actually make decisions based upon. So that the dashboard you talked about there, then that's that's providing a view, right across your current supplier base, I guess you'd look at some kind of prioritization of that. You know, to sort of drive that, I mean, typically, where would you start, if you wanted to prioritize sort of inviting customers? Or do you see organizations perhaps just doing it on mass?

No, absolutely, you can use it as a as a method of prioritizing, you know, how you want to invite those suppliers. And again, it's, it's kind of feeding into, you know, what criteria you want to set for, for automating that invitation process.

Fantastic. So it was working through the sourcing events, or perhaps, as we were talking about, they're using analytics, that's okay, let's go out and look at encouraging our suppliers to, you know, to be audited to put initiatives in place themselves, so that we'll look at those kinds of factors.

But what about then once you've selected a vendor, you know, you've got a vendor and you want to encourage them, perhaps even through the contract to perhaps meet certain targets or improve their, their environmental position? What can we do in that space?

Well, by understanding what their ESG rating is, or isn't, we can actually put language into the contract that is tailored to that. So for example, if they've got a good ESG score, we can require, as part of our contracts, that they maintain that score better, you know, through the term of the contract, for example, or if we've awarded them regardless of the fact of whether they had an ESG score, we can also make that part of the terms of our contract that they do get rated in order to, to maintain a relationship with us. So there are a number of ways that we can automate standard clauses around sustainability based upon the ratings data that we're able to obtain about the supplier. Also, I mean, we we do some other work in the contract space, we have a partner called Eversource, that does deep AI analysis on contracts, and they're very serious about sustainability as well. And what we can do is, you know, for example, we could send all of our legacy contracts from arriba into Eversource.

Have they analyzed and have ever sort come back and tell us, you know, do we have the latest and best sustainability clauses in these contracts? Or is there some, you know, hole or gap that we need to fill when when it comes time to renew the contract? So doing a lot of work in that space as well, if that makes sense?

Yeah, so besides, I guess, just thinking through some examples of that, then you could include clauses or building clauses around the, you know, over the duration of contract that perhaps have to improve their sustainability score, across the different parameters. If again, if we looked at something nice packaging material, which was an example we looked at earlier, you could include commitments around encouraging them to increase the proportion of recycled materials, reducing manufacturing sort of energy, that kind of thing, you could actually build some of those in to your contract and have that as part of your contract review process. Absolutely.

So I mean, it really fits in with this principle we have of driving action, you know, not just having a report to you know, to show your your current rating, but actually something that drives action. And actually, the great thing about this is it creates this kind of virtuous loop, because it actually improves your own. So, let's say to us as a business improves our ESG score through that of our suppliers, but we're also encouraging other businesses to be more sustainable. And it really fits with this, this, this principle of driving action, and not just reporting on you know where you are today. So I think that's been really insightful. I think there are clearly practical things organizations could do. And a lot of the principles we've just discussed, you know, you could do those things. Anyway. I think what you've talked about is about, you know, how do you make it efficient

Right, it's you know, how do you how do you build this into procurement processes using technology? Now?

Absolutely. I agree with you, Graham, I think that embedding sustainability and ESG at the core of your sourcing strategy is the most effective way of driving changes. And as you say, creating this virtuous loop of improvement so that you know, you're helping your suppliers improve and they're helping you improve. Absolutely, totally agree. So if you know if you've enjoyed today's brief podcasts, and if what we've talked about here kind of piqued your your interest, then please feel free to go to get

our website and reach out to us and we'd be happy to talk through further some of the innovations and developments we've, we've created in this space. Thank you for listening.