

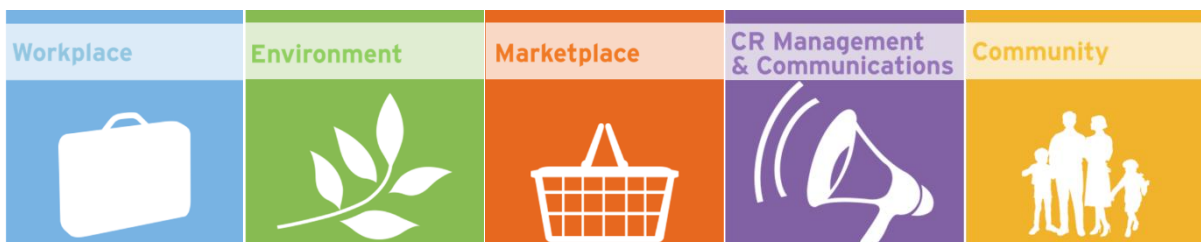
**Business** in the  
**Community**  
**Ireland**

JUNE 2012

AN INTRODUCTION TO SUSTAINABLE PROCUREMENT

*Every single social and global issue of our day is a business opportunity in disguise.*

*Peter F. Drucker*



**Darina Eades | Senior Consultant on Corporate Responsibility**

## WHAT IS SUSTAINABLE PROCUREMENT?

Sustainable Procurement is an approach to purchasing products and services that **takes into account the economic, environmental and social impacts of an organisation's buying choices, at all times.** Committing to a policy of sustainable procurement is about ensuring that the values that are core to the business are *transferred through* the organisation's supply chain into the life-cycle of the organisation's products and services.

**'Procurement'** refers to the acquisition and management of (but not limited to) people, buildings, land, transport, energy, water, materials, food, waste and outsourced services.

**'Sustainable Procurement'** is not simply about choosing *not to use* sweatshop labour or illegal tropical timber or chemicals that damage our health and the environment. Rather, Sustainable Procurement encompasses the **planning for a changing climate, a resource and carbon-constrained future and a socially-beneficial, supportive and inclusive society.**

Best practice in Sustainable Procurement is about future proofing both the chain of supply *and* the company's investments, in order to make them all viable in the long term.

**Common characteristics of sustainable products include:** superior energy and water efficiency; lowest hazardous material content available; longer life and greater upgradability; reduced packaging and waste; increased recycling capability. These characteristics usually translate into lower running and disposal costs, which in turn result in direct financial savings, and proactively protect the reputation of the brand.

Ensuring excellence in the manufacturing (and other) processes that result in the company's products (and services) are key steps on the journey towards embedding & integrating sustainability into the culture of the business and the fabric of the company's operations.

## THE DRIVERS & BUSINESS CASE FOR SUSTAINABLE PROCUREMENT

The drivers of a policy of Sustainable Procurement are usually a combination of the following three:

1. **Risk Management:** with the potential positive impact on corporate reputation and/or ability to mitigate any regulatory non-compliance, potential resource depletion or disruption of supply.
2. **Cost Cutting:** via energy consumption reductions, reduction in the costs of recycling and packaging production.
3. **Value Creation:** developing new green products and leveraging suppliers' environmental innovations. (*Sustainable Procurement: a Crucial Lever to End the Crisis (HEC, 2009).*)

The companies who presented at the UK 2012 CIPS Sustainable Purchasing & Supply Summit & the Action Sustainability Conference on Sustainable Procurement (**Skanska, Marks & Spencer, United Utilities, TNT, Siemens & Addidas**) echoed one another in saying they had developed their sustainable procurement policy & strategy due to:

- The need to **future proof** the organisation, particularly around the scarcity of supply and being able to meet the demand from new, emerging markets.
- **Pressures of cost** and being able to reduce same through energy consumption reductions and reductions in the amount of waste being sent to landfill.
- The need to **protect the reputation of the brand**. Taking sustainable procurement seriously requires an in-depth risk management exercise and addressing areas of weakness mitigate against the risks of scandal and ensuing bad publicity.
- The need to **differentiate the brand**. Seeking to procure as sustainably as possible creates opportunities from having to develop products & services that are more sustainable, often innovative and also relevant to new markets & revenue streams.

A number of speakers asserted that to move forward at any great pace in the area of sustainable procurement, there has to be **collaboration within sectors**, i.e. between competitors and **across sectors**, so as to share the learning that has been garnered to date. Those who have already engaged their suppliers on their journey are reaping the rewards from simple innovations, so equally key is the need to **collaborate with suppliers**.

## WHAT IS BS 8903?

BS 8903, the Principles & Framework for Procuring Sustainably, is a *guidance standard* published by BSI (the British Standards Institute) in 2010.

BS 8903 aims to support organizations of all sizes to implement sustainable practices within their procurement processes and into the management of their supply chains. It gives recommendations on how to adopt and embed sustainable procurement principles and practices across an organization and its chain of supply, and provides practical information to support implementation in the areas of:

1. Policy & strategy development.
2. Risk & opportunity assessment.
3. Stakeholder mapping and engagement.
4. Management, measurement & evaluation.

## **BS 8903 ON LIFE CYCLE ASSESSMENT, WHOLE LIFE COST ANALYSIS & SUPPLIER PRE-QUALIFICATION**

Life Cycle Assessment (LCA) addresses the potential environmental impacts (e.g. through the use of resources and the environmental consequences of same) throughout a product's life cycle - from raw material extraction and acquisition through to production and manufacturing to use and end-of-life treatment, recycling and final disposal.

An environmentally preferable product is one that results in the minimum environmental impacts throughout its life cycle, compared with other products or services using the same purpose and having the same functional qualities.

Disposal requirements must be factored in throughout the design, procurement process and operational phases of the product life. This includes ensuring consideration for disassembly and reuse at the design stage, optimum choice of components and materials in the specification to maximize recycling opportunities, and recovery of subsystems and resources whilst minimizing the use of hazardous materials that could be dangerous and costly to dispose of. This is referred to as a 'cradle to cradle' approach.

### **Example of LCA**

*Food procurement has seen an increasing focus on the sustainable impacts of "food miles", with attention shifting to food transport. However, LCA analysis of certain food produce has shown that transport can form as little as 2% to 4% of the carbon impact of food and much more significant impacts arise in the process of growing crops with the application of fertilizers and pesticides, the rearing of livestock and the processing of foods further up the supply chain. Further information is available from ISO 14040 and ISO 14044.*

Carbon measurement follows the LCA approach but is focused on measuring the carbon footprint of products across their full life cycle. It analyses carbon emissions across the complete supply chain from raw material to the end consumer. This approach enables the carbon emissions impact to be incorporated into decision making, carbon reduction opportunities to be identified and associated environmental and financial benefits realized. *See the Greenhouse Gas Protocol and also ISO 14064 which sets out how to accurately measure reduction in carbon emissions and how supply chain emissions are classified and addressed.*

### **Whole Life Cost Analysis**

Whole Life Cost Analysis (WLC) is used to establish the total cost of ownership. It addresses all the elements of the cost and can be used to produce a spend profile of the product or service over its anticipated lifespan.

The results of a WLC analysis can be used to assist in the decision making process when there is a choice of options. The accuracy of WLC diminishes as it projects further into the future, so it is most useful as a comparative tool, when long term assumptions apply to all the options and consequently have the same impact.

WLC can benefit more sustainable products and services, which typically have lower running and disposal costs. It is particularly important for assets but also enables comparison of disposable and reusable products. Detailed WLC can be time consuming so typically it is completed for products or services with high sustainability impacts or risks which can be monetized (such as high energy use or high incidence to landfill) or high value purchases. However, where data is available, WLC should be completed on lower value purchases to ensure decisions are being made on comprehensive costing information.

### Supplier Pre-Qualification

The procurement specification is fundamental and must incorporate sustainability requirements in detail. Ideally all tiers of the supply chain would meet the standard but this is resource intensive. An appropriate scope must be influenced by industry sector, the risk and impact assessment and the extent of supply chain activity in the developing world. Supplier pre-qualification is useful because:

- a. Suppliers and contractors are required to provide information on the required product or service. This is a cost-effective way of contributing valuable market information, enabling the buyer to gain further market expertise and insight.
- b. It is an effective way of further engaging and conditioning the supply base on the organization's sustainability strategy. It provides an excellent platform to share sustainable procurement aspirations and goals with suppliers, enabling them to align their business practices to support the organization's supply chain goals.
- c. It streamlines the procurement process by selecting for tender only those suppliers that meet the organization's key criteria in the first round.
- d. It can establish a baseline for successful suppliers to use as part of a continual improvement process and helps buying organizations to identify any areas of weakness that could be addressed as part of a subsequent supplier development programme.

### UK GOVERNMENT'S NATIONAL SUSTAINABLE PUBLIC PROCUREMENT PROGRAMME

The UK Government's National Sustainable Public Procurement Programme (NSPPP) promotes sustainable procurement to government employees as "good procurement practice" that generates significant benefits in terms of increased efficiency, carbon reductions and cost savings. The Programme also demonstrates how to apply sustainable procurement good practice throughout the purchasing cycle. See <http://sd.defra.gov.uk/advice/public/nsppp/>

## Sustainable Procurement in Government: Guidance to the Flexible Framework

The UK's '**Flexible Framework**' is a self-assessment tool to enable organisations to measure and monitor their progress on sustainable procurement over time. The framework was designed so that it could be used by organisations with significant levels of procurement expertise to those with very limited resource at their disposal.

The recommended approach to implementing the Flexible Framework is to systematically work through each of the five themes of **People; Policy, Strategy & Communications; Procurement Process; Engaging Suppliers; Measurements & Results** from Levels 1 – 5 (Foundation, Embed, Practice, Enhance & Lead). See the grid below – to read it, adjust it to full size and change the page orientation to 'landscape'.

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

The theme of **People** concentrates on the training & capacity building of staff on sustainable procurement. Training can be classroom-based, online, part of job-shadowing or desk training. All training must be regularly reviewed and revised.

The theme of **Policy, Strategy & Communications** focuses on ensuring that the policy is in line with the organisational objectives, is endorsed from the top and communicated well. The sustainable procurement strategy must encompass identification of risk, process integration, supplier engagement, measurement & marketing and be linked to the organisation's environmental management systems.

The theme of **Procurement Process** concentrates on expenditure analysis, sustainability risk assessment, identifying areas of priority and adopting whole-life cost analysis for high-impact contracts. Setting targets and kpis on increased sustainability in conjunction with suppliers is recommended.

The theme of **Engaging Suppliers** focuses on supply chain mapping to work out the sustainability impacts of the organisation's suppliers and their supply chains. Engagement must then be prioritised according to the spend, risk and high impact suppliers. Establishing mutual sustainability objectives is recommended, as is a reward/incentive scheme for suppliers who really want to engage on the agenda.

The theme of **Measurement & Results** recommends that a clear set of measures is applied to all the above and integrated into a balanced score card approach to reflect the input, output and impact.

A copy of the Flexible Framework is available at <http://sd.defra.gov.uk/documents/Defra-SustainableProcurement-FlexibleFramework-0312.pdf>

## **CIPS SUSTAINABLE PROCUREMENT REVIEW**

The Chartered Institute of Purchasing & Supply (CIPS) has developed the **Sustainable Procurement Review**, a self-assessment tool on practices & expenditure, modelled on BS 8903 & the UK's Flexible Framework. The CIPS Review features an independent audit that delivers a detailed report with recommendations on how to improve performance. See <http://www.cips.org/en/products-services/Sustainable-procurement-review/>

## **SUPPORT AVAILABLE TO MEMBERS OF BUSINESS IN THE COMMUNITY IRELAND (BITCI)**

If your company would like support with the development of a **sustainable procurement policy & strategy**, particularly in relation to BS 8903 or the Flexible Framework, please contact Darina Eades, Senior Consultant on Corporate Responsibility at [deades@bitc.ie](mailto:deades@bitc.ie)

BITCI is currently exploring how an equivalent of the Sustainable Procurement Review could be rolled out for the Irish market.