



WHITE PAPER

Advancing Corporate Sustainability Impact Through Supply Chain Alignment

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Sustainability has moved from an aspiration to an imperative for many companies. While executives actively incorporate sustainable practices, they could be focusing on the wrong areas.

Corporate leaders are increasingly under pressure to address the climate impact of their businesses and to develop sustainable business practices. It seems this focus will continue for the foreseeable future. According to the Governance and Accountability Institute, 92% of the S&P 500 and 70% of the Russell 1000 published sustainability reports in 2020.

Corporations are focusing on sustainability for a variety of reasons, including:

- Growing sentiment regarding individual and corporate social responsibility
- Changing shareholder and market expectations around sustainable investing strategies
- Increasing importance that customers and/or employees are placing on it
- Declining access to key raw materials and markets
- Unfolding climate change impacts and projections

Whatever the reason, executives are embracing sustainability and looking for opportunities to reduce the impact their companies have on the planet. However, many are looking in the wrong places – focused on reducing the impact within their internal operations (scope 1 and 2 direct and indirect emissions). While these goals are admirable, they are missing the larger opportunity which could maximize their sustainability impact – their supply chains. The US EPA estimates that corporations' supply chains often account for more than 90% of their emissions (scope 3 indirect value chain emissions).

Companies can amplify their positive environmental impact by aligning their supply chain with strategic sustainability goals. By doing so, corporations can influence their suppliers' behavior, share sustainable practices, and capitalize on supplier partnership opportunities to advance sustainability objectives. At the highest levels of supply chain alignment, companies can forge partnerships through multiple links in their supply chain to expand their influence as sustainability leaders and increase the impact across their suppliers' supply chains.

Developing Supply Chain Alignment

Supply Chain Alignment is easy to understand but can be difficult to achieve. It's a supply chain management tool that has been used to expand profits, transform companies to be more responsive to customer needs, and ensure that supply chain partners share corporate values. Let's explore how it can be harnessed to amplify sustainability and business results.

Alignment simply means to arrange things in a line or to move them into their correct position. In the corporate world, alignment means correctly positioning resources and directing effort to achieve specific, strategic objectives. When resources and efforts are properly aligned, the company works in harmony to pursue strategic priorities, to gain competitive advantage, and boost shareholder value.

As Henry David Thoreau told us: “It’s not enough to be busy, so are the ants. The question is, what are we busy about?”

To help us conceptualize what alignment means, let’s think about it in mechanical terms. The alignment of tires on a vehicle is important to the overall performance of that vehicle. Proper alignment enables a smoother ride, better fuel economy, less wear and tear, and a better return on the capital invested in the vehicle. Alignment is not what makes the car go, but it can help the car go farther for longer.

Supply Chain Alignment holds the same potential to make sustainability efforts go further. Coordinating sustainability efforts with suppliers extends the company’s reach into the direct supply chain and potentially further into suppliers’ supply chains.

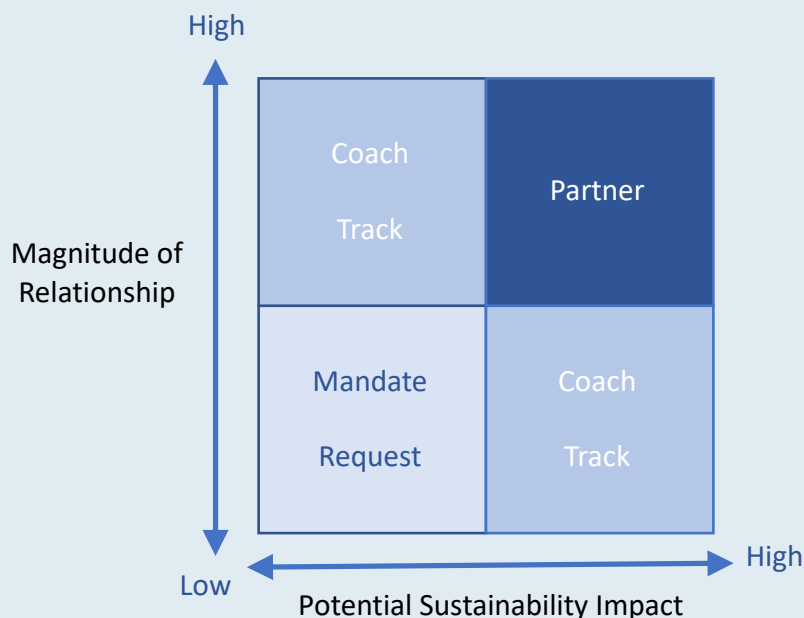
Supply Chain Alignment is a force multiplier for sustainable business.

Aligning for Sustainability

Successfully implementing a Supply Chain Alignment program to realize sustainability goals starts with identifying and aligning with the right suppliers. Engaging with all suppliers at a high level is impractical and would be a waste of company resources. Companies should focus on “right sizing” the level of engagement with each supplier to maximize impact and profits.

“Right sizing” the level of engagement with each supplier can be achieved through a two-by-two matrix. By mapping the magnitude of the supplier relationship with the potential sustainability impact, companies can identify the correct level of engagement to pursue with each supplier.

Sustainability Supplier Engagement Framework



The objective of sustainable Supply Chain Alignment should be to maximize the sustainability return for resources invested. The highest level of partnership alignment should be pursued with the suppliers that represent the largest spend relationships and the highest potential net sustainability impact. Lower levels of alignment should selectively be pursued based on the potential sustainability return.

Sustainability Supplier Alignment Approach





Industry Example

The Coca-Cola Company is an excellent example of sustainable Supply Chain Alignment in practice. The company's main products have a critical ingredient that is currently under pressure from pollution and climate change: clean water. There is no Coca-Cola without clean water. It is a critical resource for the future of the company. As the company explains it on their website:

“Water is not only the first ingredient in most of our beverages but it's also central to the long-term success of our business and the health of our communities. Our water strategy focuses on sustainable water security through local water replenishment, advocacy for smart water policies, and responsible water use throughout our operations and communities.”

In 2004, Coca-Cola began to track and report on water efficiency. Within three years, the company became one of the first to join the United Nations Global Compact CEO Water Mandate. They also partnered with the World Wildlife Fund to help conserve fresh water. However, the greatest threat to water sustainability was not within Coca-Cola's operations but in their supply chain.

A major obstacle in Coca-Cola's quest to preserve fresh water lay in their own supply chain: sugar. Sugar production is well known to be both water

intensive and a large source of water pollution. According to the World Wildlife Fund:

- It takes approximately 213 gallons of water to produce one pound of refined sugar
- Sugar cane farms often pollute fresh water with silt and fertilizer run-off
- Sugar mills often pollute fresh water with plant matter and chemicals

To address the challenge, Coca-Cola developed “Principals for Sustainable Agriculture” (PSA) to bring environmental, social, and governance (ESG) values into the sourcing of agricultural ingredients. The company holds agricultural suppliers to these standards but also uses them as a platform to collaborate with suppliers and industry bodies to promote sustainable practices. Among other ESG priorities, the PSA addresses water management, greenhouse gas reduction, climate change resilience, waste management, and chemical management.

Through their internal initiatives and Supply Chain Alignment, the company reported that they return clean water to natural sources equal to 167% of the water in their beverages in 2021. To achieve this, they engaged and collaborated with over 500 suppliers across 115 countries on their PSA.

“98% of sustainability initiatives fail”

– *Entrepreneur, 2021*

The Value of Expertise

The key to achieving sustainability initiative success is to incorporate sustainability practices into all business operations. Sustainability must be integrated into how companies create and expand ongoing value. Well-designed business improvement initiatives should include sustainability goals. In addition, achieving successful business improvement outcomes is dependent on having the right team to lead the initiative, the right knowledge to plan changes and anticipate challenges, and the right experts in place to put that plan into action.

Aligning sustainability efforts must be achieved within the overall context of the commercial relationship and in a way that is advantageous for all parties. Category experts can use their product knowledge, industry experience, and supplier relationships to harmonize business needs with sustainable values.

The advantages that the right category experts can bring to sustainability focused Supply Chain Alignment include:

- 1.** The credibility necessary to get suppliers onboard with sustainable enhancements that reduce costs, increase profits, and maximize impact
- 2.** A deep understanding of sources of efficiency and opportunities to improve sustainable outcomes
- 3.** Critical insight to practically implement sustainable solutions without compromising corporate operations

Together, these three expert advantages significantly increase the potential impact of sustainability initiatives and the probability that sustainable outcomes will be achieved.

“Sustainability has become the new corporate imperative. Companies have begun doing their homework, diligently setting up a number of initiatives. This is a good starting point, but too often, firms are unable to systematically scale these efforts to achieve a more transformative outcome.”

– *Harvard Business Review, 2022*

Conclusions & Recommendations

Supply chain alignment is a powerful strategy to reduce the total environmental impact represented by a company's products. It can occur in small ways, like working with freight carriers to coordinate deliveries for non-peak times to reduce their time on the road and save fuel wasted in traffic. It can also occur through large modifications, like working with contract manufacturers to produce items in a location that is geographically closer to where they will be used. This will shorten supply chains and reduce the total miles each product travels before reaching customers.

Corporations need to focus on the environmental impact of their supply chains to affect meaningful change and achieve both business and sustainability targets. Through the alignment of corporate supply chains with corporate sustainability strategy, companies can amplify the impact of their efforts and increase their overall sustainability impact. The key to successful sustainable Supply Chain Alignment is to effectively and consistently engage with suppliers based on the significance of supplier relationships and potential sustainability impact to achieve the highest return on invested time and effort.



Tim Murphy is an experienced consultant with over 25 years of experience helping clients capture value across their supply chains. He has extensive experience in procurement operations, sourcing, spend analysis, and category management.

Contact Tim to learn more about our firm, arrange a discussion with our experts, or explore your sustainable Supply Chain Alignment opportunities. tim@newdominionconsulting.com



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