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# 2023 CDP Supplier Engagement Rating Introduction

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CDP Climate Change 2023



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# Introduction to the CDP Supply Chain Program's Supplier Engagement Rating

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Purchasing organizations have potential to incentivize significant environmental changes in their supply chain. However, in 2022, just 38% of organizations responding to the CDP climate change questionnaire reported that they engage with their own suppliers on GHG emissions and climate change strategies.

By establishing a system to evaluate supplier engagement practices and recognize best practice, CDP aims to increase buyer engagement to accelerate action on emissions in global supply chains. In particular, CDP seeks to address two key barriers organizations face to beginning a supplier engagement strategy:

- ▼ **Organizations don't know what best practice for sustainable supply chain management looks like.** The sheer scale of reviewing purchasing processes and creating a strategy to integrate environmental information into purchasing can be daunting, and many organizations have trouble identifying best practice upon which to base their actions.
- ▼ **Organizations don't think they get credit for supplier engagement on climate change.** CDP's experience shows that organizations will improve their performance when presented with an opportunity to gain credit for their actions. CDP will recognize and award credit for achievements of excellence to support company action and lasting improvements in management practice.

Following on from a successful pilot year, CDP learned that all participating companies in the SER consultation thought the SER helped raise their supplier engagement work. Additionally, over half used it as a tool to help shape their supplier climate profile. In 2023, CDP will release the Supplier Engagement Rating for the seventh time.

## Organizations included in the Supplier Engagement Rating

Organizations that respond to the full version of the CDP Climate Change request from their customer(s) or investors will be evaluated on supplier engagement. Responses must be submitted by the deadline communicated by CDP, or purchase an On-Demand Score, for inclusion. Companies that disclose to the minimum version of the questionnaire in 2023 will **not** be eligible to receive a Supplier Engagement Rating.

# Supplier Engagement Rating criteria

Organizations will be evaluated on their supplier engagement through their responses to questions in four key areas of the CDP climate change questionnaire related to governance, targets, ambition, management (Scope 3) and supplier engagement. These specific questions offer the opportunity for a company to provide details on supplier engagement in the Governance, Targets, Scope 3 Emissions, and Scope 3 Emissions (Supplier Engagement) sections of the questionnaire. In addition, an organization's overall performance across the full CDP climate change questionnaire is factored into the rating as an overall assessment of company performance on climate change. Information provided through the Forests and/or Water Security questionnaire or the additional Supply Chain Module (Climate Change/Forests/Water) are not evaluated.

**To achieve a rating above D, companies must report engagement with their suppliers (see *Scope 3 Emissions: Supplier Engagement* for more details).**

The final SER will be determined by the overall percentage of points awarded throughout the questionnaire, with each questionnaire section weighted as part of the overall score as follows:

| Scoring Category                       | Weighting in the Supplier Engagement Rating |
|--|---|
| Governance                             | 20%   |
| Targets                                | 15%   |
| Scope 3 Emissions Accounting           | 20%   |
| Supplier Engagement                    | 35%   |
| Overall CDP Climate Change performance | 10%   |

The value of this final percentage score will be equated to a final SER using the following thresholds.

| Final SER Score | Threshold  |
|-----------------|------------|
| A               | 76% - 100% |
| A-              | 66% - 75%  |
| B               | 56% - 65%  |
| B-              | 41% - 55%  |
| C               | 26% - 40%  |
| C-              | 16% - 25%  |
| D               | 9% - 15%   |
| D-              | 1% - 8%    |
| F               | 0%         |

To achieve SER Leaderboard status an organization must respond publicly to a request from their customer(s) and/or investor(s). CDP reserves the right to review all companies that achieve the highest scores to ensure that nothing included in the CDP response or available in the public domain calls into question the company's suitability for inclusion in the SER Leaderboard. CDP reserves the right to review data dating from the reporting year on a number of social and environmental topics related to CDP's programs and provided by the data provider RepRisk.

The scoring methodology is outlined by scoring category in further detail below, including a list of the relevant CDP questions and the rationale and summary methodology for each section. *Please refer to the CDP 2023 Supplier Engagement Rating Methodology document on the [CDP guidance page](#) for a detailed breakdown of the scoring methodology, including point values for each question.*

In 2023 the SER methodology has been updated to expand the scoring to include scoring criteria in additional questions in Targets, Scope 3 emissions and Supplier engagement (climate-related requirements) and update scoring criteria for Transition plans.

## Governance

### Question(s): C1.3, C1.3a Individual performance; C3.1 Integration into business strategy

- ▼ *C1.3a Provide further details on the incentives provided for the management of climate-related issues (do not include the names of individuals).*
- ▼ *C3.1 Does your organization's strategy include a transition plan that aligns with a 1.5°C world?*

#### Rationale:

Whether an organization provides staff incentives for supplier engagement is a simple indicator of the internal importance placed on company's approach to managing climate change in their supply chain.

Developing a climate transition plan provides certainty that a company is aligning its sourcing priorities and supply chain to long-term climate goals and that its business model will continue to be relevant in a net-zero carbon economy.

#### Summary of the scoring methodology:

Points are awarded for reporting details on incentives related to supplier engagement on climate change. Full points are awarded for reporting monetary rewards and partial points are awarded for reporting other benefits related to the following:

- ▼ Buyers/purchasers or all employees are entitled to receive benefits for the management of climate change issues;
- ▼ Chief Purchasing Officer, Chief Financial Officer or Procurement manager are entitled to receive benefits for the management of climate change issues;
- ▼ Incentivized performance indicators for environmental criteria included in purchases and/or supply chain engagement.

Full points are awarded for already having a publicly available transition plan that aligns with a 1.5°C world and a well-defined feedback mechanism in place, to track progress. Transition plans that meet CDP Management scoring criteria will be awarded full points. Partial points are awarded for planning to develop a transition plan in the next two years if the organizations strategy have been influenced by climate-related risks and opportunities. No points are awarded for not planning to develop a transition plan in the next two years if the organizations strategy have been influenced by climate-related risks and opportunities or a strategy that has not been influenced by climate-related risks and opportunities.

## Targets

### Question(s): C4.1; C4.1a; C4.1b; C4.2; C4.2b

- ▼ *C4.1 Did you have an emissions target that was active in the reporting year?*
- ▼ *C4.1a Provide details of your absolute emissions target(s) and progress made against those targets;*
- ▼ *C4.1b Provide details of your emissions intensity target(s) and progress made against those target(s).*
- ▼ *C4.2 Did you have any other climate-related targets that were active in the reporting year?*
- ▼ *C4.2b Provide details of any other climate-related targets, including methane reduction targets.*

### Rationale:

Companies that establish an upstream Scope 3 emissions reduction target along with a supplier engagement target demonstrate awareness of emissions in their supply chain.

### Summary of the scoring methodology:

Companies that do not report an emissions target will not be eligible for points in the section. Points are awarded based on the details reported for absolute or intensity targets as follows.

- ▼ Both absolute and intensity targets that have been approved by the Science Based Targets Initiative will be awarded points. Alternatively, absolute targets that meet CDP Leadership scoring criteria will be awarded points.
- ▼ Points are also awarded for reporting absolute or intensity targets regarding “Scope 3: Purchased goods & services”.
- ▼ Partial points are awarded for reporting absolute or intensity targets in any other upstream category.

Companies who do not have any emissions target or other climate-related targets will not be eligible for points in this section.

- ▼ Points are awarded for reporting an additional climate related target of the type ‘Engaging with suppliers’.

## Scope 3 Emissions

### Question(s): C6.5 Scope 3 Emissions

- ▼ *C6.5 Account for your organization’s Scope 3 emissions, disclosing and explaining any exclusions.*

### Rationale:

Reporting upstream Scope 3 emissions demonstrates an organization’s ability to measure the climate change-related impact of their supply chain.

### Summary of the scoring methodology:

Points are awarded for each category of evaluated and reported Scope 3 emissions (upstream). The scoring criteria for this question are the same as for the general CDP climate change Scope 3 scoring criteria, with one important differentiation – a company can only achieve full points for ‘Purchased Goods and Services’ if the category is reported as ‘Relevant, calculated’ and both ‘Metric tonnes CO<sub>2</sub>e’ and ‘Methodology’ are completed.

## Question(s): C10.1; C10.1c Scope 3 Emissions verification

- ▼ C10.1 Indicate the verification/assurance status that applies to your reported emissions.
- ▼ C10.1c Provide further details of the verification/assurance undertaken for your Scope 3 emissions and attach the relevant statements.

### Rationale:

Third party verification of Scope 3 data indicates that an organization has reported accurate scope 3 emissions data. Providing confidence in an organization's ability to measure the climate change-related impact of their supply chain.

### Summary of the scoring methodology:

Points are awarded if for Scope 3 emissions there is third-party verification, or an assurance process is in place. No points are awarded if there is no third-party verification or assurance process in place or if there is no emissions data provided.

Points are awarded for verification of Scope 3 emissions that meet CDP Leadership scoring criteria.

## Supplier Engagement

### Question(s): C12.1; C12.1a; Supplier Engagement; C12.2; C12.2a Climate-related requirements

- ▼ C12.1 Do you engage with your value chain on climate-related issues?
- ▼ C12.1a Provide details of your climate-related supplier engagement strategy.
- ▼ C12.2 Do your suppliers have to meet climate-related requirements as part of your organization's purchasing process?
- ▼ C12.2a Provide details of the climate-related requirements that suppliers have to meet as part of your organization's purchasing process and the compliance mechanisms in place.

### Rationale:

Through these questions, organizations are able to demonstrate the comprehensiveness and impact of their supplier engagement strategy in deeper context.

### Summary of the scoring methodology:

To achieve a rating above D companies must indicate they engage with suppliers in C12.1. Points will be awarded as follows for reporting details on supplier engagement.

- ▼ Points are awarded for reporting the number of suppliers that your company engages with and for reporting the proportion of your total spend or Scope 3 emissions that the suppliers represent
- ▼ The SER awards points based on the type of engagement reported, and its associated percentage of spend or percentage of Scope 3 emissions covered. The type of engagement is judged on a maturity spectrum where points will be limited in relation to spend:

| Spend or Scope 3 emissions | Engagement & incentivization | Information collection | Innovation & collaboration |
|----------------------------|------------------------------|------------------------|----------------------------|
| 0%                         | 0/8                          | 0/8                    | 0/8                        |
| 1-39% or 1-49%*            | 4/8                          | 2/8                    | 6/8                        |
| 40-100% or 50-100%*        | 8/8                          | 6/8                    | 8/8                        |

\* The 1-49% and 50-100% bands apply only to the category 'Information collection'.

For Climate-related requirements full points are awarded for indicating that climate-related requirements are included in supplier contracts. Partial points are available if suppliers have to meet climate-related requirements but these are not included in supplier contracts or if there are plans to introduce them within the next two years. Points will not be awarded if there are no plans to introduce these within the next two years.

Further points are available if setting a science-based emissions reduction target is part of the climate-related requirement. Partial points are available for any other selection other than other please specify.

## Overall CDP Climate Change performance

**Question(s): C1-C14**

### Rationale:

Organizations that demonstrate strong management over their own overall climate change impacts will be best placed to show leadership when engaging with suppliers.

### Summary of the scoring methodology:

Points are awarded based on the overall CDP Climate Change score awarded to an organization.

| CDP score | A     | A-   | B    | B-   | C    | C-   | D    | D-   | F |
|-----------|-------|------|------|------|------|------|------|------|---|
| Points    | 10/10 | 9/10 | 6/10 | 5/10 | 4/10 | 3/10 | 2/10 | 1/10 | 0 |

## Availability of the Supplier Engagement Rating results

Companies that are requested by their customer(s) and/or investor(s) and disclose to the 2023 Climate Change questionnaire will be assessed on their supplier engagement and receive feedback on their rating in early 2024.

The rating will be represented in the form of a letter band, in line with other CDP scoring and rating systems. Per CDP policy, ratings will not be shared publicly\* and will only be provided to the disclosing company and their requesting customer(s). Ratings will be provided to the disclosing company in the form of an email from CDP to the individual that submitted the CDP response.

### \*Exception: Leaders

Companies that meet leadership criteria through the Supplier Engagement Rating will be highlighted as leaders on the annual CDP Supply Chain report webpage. Leaders will be provided with materials to help highlight their achievement, including a CDP badge of recognition.



## Timeline and Key Dates

The timeline for the 2023 Supplier Engagement Rating system and the dates for scheduled announcements are as follows:

| Activity  | Timing               |
|---|----------------------|
| Supplier Engagement Rating methodology published on the CDP website     | May 2023             |
| CDP evaluation of companies with Supplier Engagement Rating methodology | July – December 2023 |
| Leader recognition in annual CDP Supply Chain report and events         | Early 2024           |

## Questions on this methodology

If you would like information about receiving feedback on your score, make suggestions about CDPs methodology, or ask a general question, please contact the CDP [Help Center](#).

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## Frequently Asked Questions (FAQs)

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### **What is the CDP Supplier Engagement Rating (SER)?**

An organization's average upstream emissions are around 11.5 times greater than their direct operations. Because of this, organizations have much greater potential to reduce global emissions by influencing their supply chains.

The SER is a letter grade that indicates how effectively companies are engaging their suppliers on climate change. You can [see a list of 2022 SER leaders on our website](#) along with the Supply Chain report which showcases best practice on supplier engagement.

### **How is the SER calculated?**

CDP assesses performance on supplier engagement using a company's response to selected questions on governance, targets, scope 3 emissions, and value chain engagement in the CDP Climate Change questionnaire. The 2023 SER methodology is available on our [guidance page](#) along with other CDP scoring methodologies.

### **Does CDP publish SERs?**

SERs are private and will not be published on CDP's website or in any reports, unless a company receives an A. They will be made available to companies via email and their corporate dashboard. SERs based on responses submitted in 2023, will not be shared with requesting investors, but will be shared with requesting customers if submitted to them. Companies responding to investors for the first time can choose to make their scores private and to not be included in the SER Leaderboard if they achieve an A.

### **Do companies need to complete a separate questionnaire/answer additional questions to be assessed for the SER?**

No. CDP uses a company's existing response to the CDP Climate Change questionnaire to assess selected questions on governance, targets, scope 3 emissions, and value chain engagement. The SER methodology is available on CDP's guidance page.

### **Who receives a SER?**

CDP provides a Supplier Engagement Rating (SER) to all companies who respond to the full version of CDP's Climate Change questionnaire, in addition to the Climate Change score. To be eligible companies must respond by the deadline. Companies who respond to the minimum version of the questionnaire are not eligible. CDP Supply Chain members and companies who responded to customer requests, have been receiving the SER since 2016. Since 2019, CDP expanded this rating to included companies also requested by investors only.

### **Why did CDP expand the rating to companies only requested by investors?**

The SER was driven by demand from purchasing organizations (CDP supply chain members) for a greater understanding of best practice on supplier engagement and for visibility of how effectively their engagement with suppliers is being cascaded further into their supply chain. As such, the SER was initially applied to CDP Supply Chain members and companies who responded to customer requests. However, because an organization's average upstream emissions are around 11.5 times greater than their direct operations and organizations have much greater potential to reduce global emissions by influencing their supply chains, this rating is a useful indicator for all companies responding to the CDP Climate Change questionnaire.

### **Where can companies find their SER?**

SERs are emailed to the main user of the CDP Climate Change response. SERs will be displayed on the "scores and responses" section of the corporate dashboard.

### **When will companies get their SER?**

You can [view CDP's 2023 timeline](#) on our website.

**Are SERs shared with investors?**

SERs based on responses submitted in 2023 will not be shared with requesting investors.

**Are SERs shared with customers?**

SERs will be shared with requesting customers (CDP supply chain members) if a company submits to them.

**How is the SER used?**

Supply Chain members use it to identify best practice in supplier engagement and to see how effectively they and their suppliers are cascading action on climate change into their supply chains. Companies use it to see how effective their own supplier engagement is. The SER Leaderboard highlights companies who achieve an A rating so companies can see what best practice looks like.

**How long has the SER been going?**

The SER was introduced in 2016, based on 2015 responses to the CDP supply chain climate questionnaire (now known as the CDP Climate Change questionnaire as requested by customers). CDP Supply Chain members and companies who responded to customer requests have been receiving the SER since 2016. Since 2019, CDP expanded this rating to companies also requested by investors only.

**Does the SER affect my CDP Climate Change score?**

No.

**Does my CDP Climate Change score affect my SER?**

Yes. The overall CDP Climate Change score is part of the SER assessment criteria. See the SER methodology [for more information](#).

**How do companies get feedback on their SER?**

A SER report is available for all companies on their dashboard (this is not available for companies only requested by investors prior to 2019).

**Why can companies get a different score for their value chain engagement category in the CDP Climate Change scoring methodology to the SER?**

The CDP Climate Change score - and its categories – are not comparable to the SER. The value chain engagement section within the CDP climate change score focuses on the answers to questions C12 – on both upstream and downstream value chain engagement. The SER focuses on upstream only using answers not just on C12, but also on other areas such as governance and the overall CDP score. The reason for this difference is because of the purposes and aims of each score. The value chain engagement section category score concentrates on a company's upstream and downstream value chain strategy as part of the wider CDP Climate Change methodology – it is one part of wider indicators used to inform stakeholders, and benchmark companies on their overall approach to managing climate change. However, the SER is developed to highlight supplier engagement leaders and help companies benchmark their impact on cascading action to their supply chain and necessarily must include an element of a company's wider approach to climate change, in order to cascade this action effectively. The SER was created partly because the CDP Climate Change score doesn't provide companies with a communicable score about their supplier engagement achievements, and therefore does not enable recognition of the work companies are specifically doing to tackle supply chain emissions, which are on average 11.5 times more than those from direct operations. Many companies are still not taking the action needed beyond their direct operations and so the methodology to identify SER leaders is much simpler, though like the other CDP methodologies we plan to modify and tighten the SER methodology over time to meet the needs of its users and drive the appropriate corporate behaviours.

**How does the SER relate to Financial Institutions?**

The SER focuses on key areas of a companies response in relation to their engagement with their suppliers. All organisations responding to the full version of the CDP Climate Change request will be evaluated including Financial Institutions. Whilst supplier engagement is a key area for all disclosing companies, it is important to note that the most critical engagements of financial

institutions are through their portfolios, with their investees and clients, which are not captured by the supplier-focused SER methodology.

| <b>Version No.</b> | <b>Date</b> | <b>Owner</b> | <b>Change</b>   |
|--------------------|-------------|--------------|---|
| V1                 | 04/05/2023  | E. Beech     | First version   |
| V1.1               | 04/03/2024  | E. Beech     | Note added in FAQ section for Financial Institutions. |