HSBC

CDP
DISCLOSURE INSIGHT ACTION

Strengthening the chain

Transform the Norm

Industry insights to accelerate sustainable supply chain transformation

Updated: October 2024

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Executive summary

26x

Corporate supply chain emissions are on average 26x greater than their operational emissions

15%

of companies have set a upstream emission reduction target.

As we move further into a critical decade for climate action, the impacts of climate change and nature loss are already being felt in every corner of the world. The changing climate and natural environment present tangible risks to companies, supply chains, and financial markets. While many companies will experience the effects directly within their operations, for a large number, the most profound impact will be felt across their supply chains. As weather patterns shift and extreme weather events become more frequent, the disruption to supply chains could impose significant costs, making proactive action absolutely essential. In the face of these escalating environmental concerns, as well as a rapidly evolving regulatory landscape, businesses are being propelled into an era of environmental action, transparency and transformation. Disclosure, credible targets and action are not just environmentally beneficial but serve as strategic tools in risk management and strategic planning.

Global disclosure standards and mandatory reporting rules on the horizon, coupled with impending carbon pricing regulations, mean that scope 3 transparency is increasingly becoming a business necessity. This reflects that businesses are increasingly recognizing the breadth of these climate-related risks, from physical risks to transition risks. Central to addressing these risks, is ensuring resilient, net-zero and nature-positive supply chains. With corporate supply chain emissions (scope 3) on average 26x greater than operational emissions (scopes 1 and 2), it is imperative that companies cascade transparency and action down the supply chain to reduce environmental impacts and future-proof their businesses.

Yet, many still overlook their supply chain emissions and the broader risks and dependencies they are exposed to. According to CDP's latest supply chain report with Boston Consulting Group, a mere 15% have set upstream emission reduction targets, even though carbon liabilities in the manufacturing, retail, and material sectors alone are estimated to exceed US$335 billion. Robust and comprehensive disclosure from suppliers is an important first step, which is foundational for companies seeking to measure and manage the climate-related risks and opportunities within their supply chains.

Businesses are increasingly recognizing the breadth of these climate-related risks, from physical risks to transition risks. Central to addressing these risks, is ensuring resilient, net-zero and nature-positive supply chains.

The business case & state of play

Analyzing data from the over 23,000 companies that disclosed to CDP in 2023, this report explores the business imperative for companies to enhance the sustainability of their supply chains in response to climate change and provides an important snapshot of how companies are progressing on this journey.

The findings reveal that there is a strong business case for addressing climate risks within the value chain as companies estimate a total of US$162 billion in potential financial costs tied to supply chain climate-related risks, which is 2.9x greater than the US$56 billion required to mitigate these risks. However, this is only the tip of the iceberg and likely a significant underestimate of the cost of supply chain risks, with only 1 in 4 companies considering supply chain climate-related risks within their risk management processes.

Despite the clear business case for tackling supply chain emissions, businesses are lagging when it comes to seizing these opportunities. Over 56% of companies disclosing to CDP have initiatives to reduce their emissions, but only 15% target their value chains with these initiatives. Encouragingly, emissions reduction initiatives have

Executive summary

US$162 billion

potential financial costs tied to supply chain climate-related risks

343

leading corporate buyers engaged their suppliers through CDP's Supply Chain Program to provide insights and learnings

193 MtCO2e

could be saved through the innovative ideas submitted via CDP's Suppy Chain Program

significant financial benefits, with a combined US$13.6 billion in savings from these initiatives occurring in tandem with the reduction of scope 3 emissions. The majority of initiatives are being driven through voluntary innovation rather than for regulatory compliance – suggesting that businesses are becoming increasingly aware that climate action makes financial sense.

Buyer engagement practices driving supplier action

Leading corporate buyers have recognized that climate risk is a business risk. Using insights and learnings from 343 leading corporate buyers engaging their suppliers through CDP's Supply Chain Program, this report also identifies buyer practices that correlate with the most significant climate actions taken by suppliers. Engagement practices and mechanisms that are key to incentivizing environmental transparency and climate action in supply chains include:

Financial incentives:

- Tying financial incentives, such as preferential financing rates and favourable contract terms, to supplier performance is effective in driving emissions reductions at scale.
- Suppliers were ***52% more likely to reduce their annual emissions*** when their buyers offered financial incentives compared to when only training was provided.

Capacity building and education:

- Suppliers who received support from buyers on setting science-based targets (SBTs) were ***2.6 times more likely to set an SBT compared*** to those without such support.
- Suppliers who received training and support were ***1.7 times more likely to conduct climate-related risk assessments*** compared to those who did not receive capacity building from their buyers.

Collaboration and innovation:

- Suppliers that were engaged by their clients to invest jointly in R&D of low-carbon technologies were ***4.3 times more likely to set an SBT*** than those that received no engagement.
- Suppliers have an appetite to collaborate further, with over 5,500 suggesting ideas to their buyers, through CDP's Supply Chain Program, which could ***save another 193 MtCO2e.***

43 MtCO2e

savings made from engagement with buyers, reported through CDP Supply Chain.

Financial institutions can bolster businesses' financial resilience amidst supply chain disruptions by providing sustainable supply chain finance and receivables finance solutions as part of a suite of their sustainable finance offerings.

Supplier engagement is a critical tool and is proven to be impactful in encouraging disclosure and climate action across supply chains: suppliers disclosing through CDP reported that engagement from buyers led to 43 MtCO2e savings being made, equivalent to the total annual emissions of Cameroon[1]. However, at present buyers are, on average, only engaging with suppliers that account for less than 50% of their procurement spend and less than 40% of their upstream emissions. There is therefore significant scope for buyers to increase engagement and drive the wide-scale emissions reductions that are urgently needed.

The role of financial institutions: Supply chain finance

These challenges also present a significant opportunity. Many banks have pledged to net-zero goals by 2050, to mitigate climate-related risks stemming from their portfolios, and ultimately support the financing of reduced emissions from their clients. To meet these commitments and address their financed and facilitated emissions, banks must assist the real economy with its decarbonization efforts. This involves integrating credible climate-specific conditions into sustainable finance instruments and offering solutions that enable clients to implement initiatives and mitigate climate risks. Financial institutions can bolster businesses' financial resilience amidst supply chain disruptions by providing sustainable supply chain finance and receivables finance solutions as part of a suite of their sustainable finance offerings. By doing so, we are seeing how banks can support large buyers and their suppliers, by offering preferential financing terms linked to environmental criteria, thereby incentivizing sustainable practices across the supply chain and accelerating supplier engagement processes.

1 https://edgar.jrc.ec.europa.eu/report_2023

About this report

A philanthropic grant from HSBC to CDP supported the research. The views and opinions expressed in this report are only those of the authors and contributors, and do not reflect the views and opinions of HSBC.

23,000

companies disclosed through CDP in 2023, representing 66% of global market capitalization.

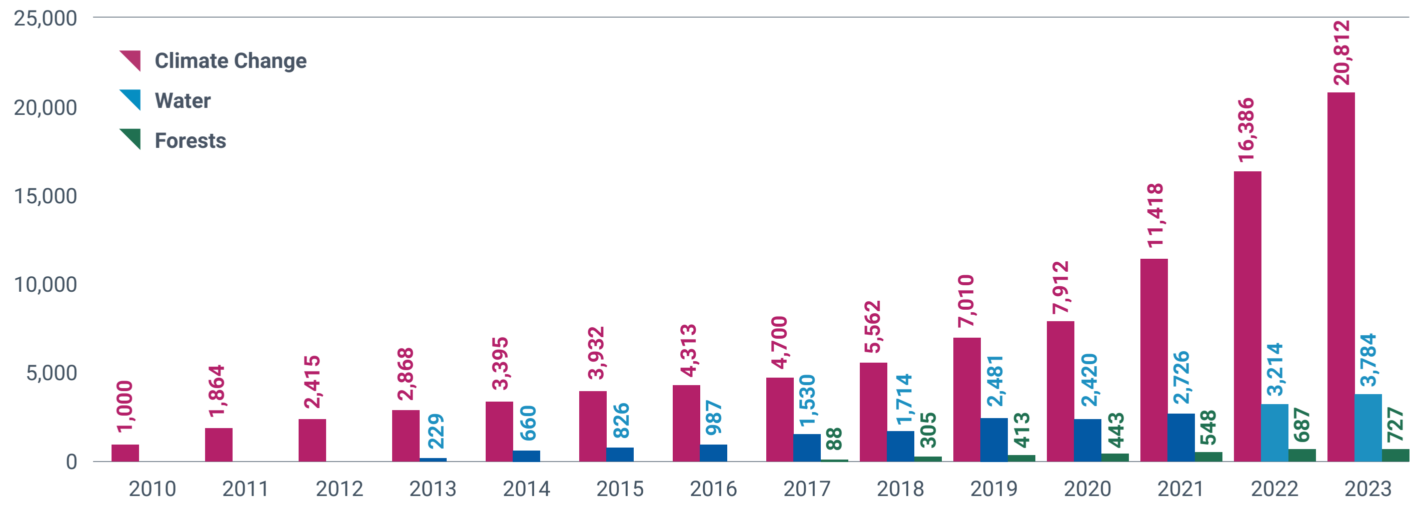
This report explores the imperative for companies to enhance the sustainability of their supply chains in response to climate change, using data from over 23,000 companies that disclosed to CDP in 2023 to present the business case for addressing these issues and examining how corporate buyers are incentivizing and facilitating change across their supply chains. Additionally, to support buyers, we outline a roadmap for driving supply chain action, leveraging insights from CDP's Supply Chain Program, case studies, and examples from companies that have already implemented these steps in practice. Finally, we discuss how sustainable finance can catalyze and enable this transition, with the appendix offering detailed case studies of buyers, informed by interviews and disclosed data.

Explainer: CDP Data

The disclosure of consistent and comparable environmental information by the private sector fosters accountability, underpins collaboration, and drives corporate action. This report presents findings from three primary areas.

Firstly, we analyze data from over 23,000 listed and private companies that disclosed climate-related information through CDP in 2023. These disclosures were made to a range of requesting authorities, including banks, investors, and corporate buyers.

Figure 1 Growth in CDP supply chain disclosures



CDP has been supporting the gathering of climate-related data for corporate buyers since 2010.

Secondly, CDP's Supply Chain Program works with 343 corporate buyers, representing US$6.4 trillion in purchasing power, to request disclosures from companies in their supply chains. By examining the disclosures from these corporate buyers and their suppliers, we identify buyer practices that correlate with the most significant actions taken by suppliers, represented as multipliers throughout this report.[2]

Lastly, we highlight practical case studies and learnings from a subset of these companies. These insights are supported by the data disclosed and supplemented by interviews where available.

This report aims to provide case study examples and tangible steps that companies can take to finance and promote actions that create more sustainable supply chains, thereby securing future returns by mitigating upstream climate-related risks.

2 The focus of this report are the 318 corporates that requested disclosure from companies across their value chains, that also disclosed themselves to CDP in 2023.

The business case for supply chain action on climate

> **Despite the gap in internal processes, many companies already identify substantive climate-related risks and opportunities.**

Upstream emissions from the manufacturing, retail, and materials sectors alone carry a carbon liability of over US$335 billion.[3] Building a resilient business model necessitates accounting for supply chain climate risks and underscores the need for comprehensive approaches that address supply chain vulnerabilities while capitalizing on climate-related opportunities.

Identifying risk exposures and opportunities

Despite gaps in processes to manage supply chain risks, many companies are already identifying significant climate-related risks and opportunities. In 2023, 52% of companies reported climate-related risks with potential substantial financial or strategic impacts. However, while 77% of these companies identified risks within their direct operations, only 30% recognized upstream risks in their value chains, despite upstream emissions being, on average, 26 times greater than operational emissions.

Many of the sectors with the greatest % of their emissions coming upstream – such as retail, food, beverage & agriculture, apparel, services, and manufacturing, are less likely to identify supply chain risks compared to operational risks. Upstream transition risks are therefore more likely to remain unidentified for these highly exposed sectors.

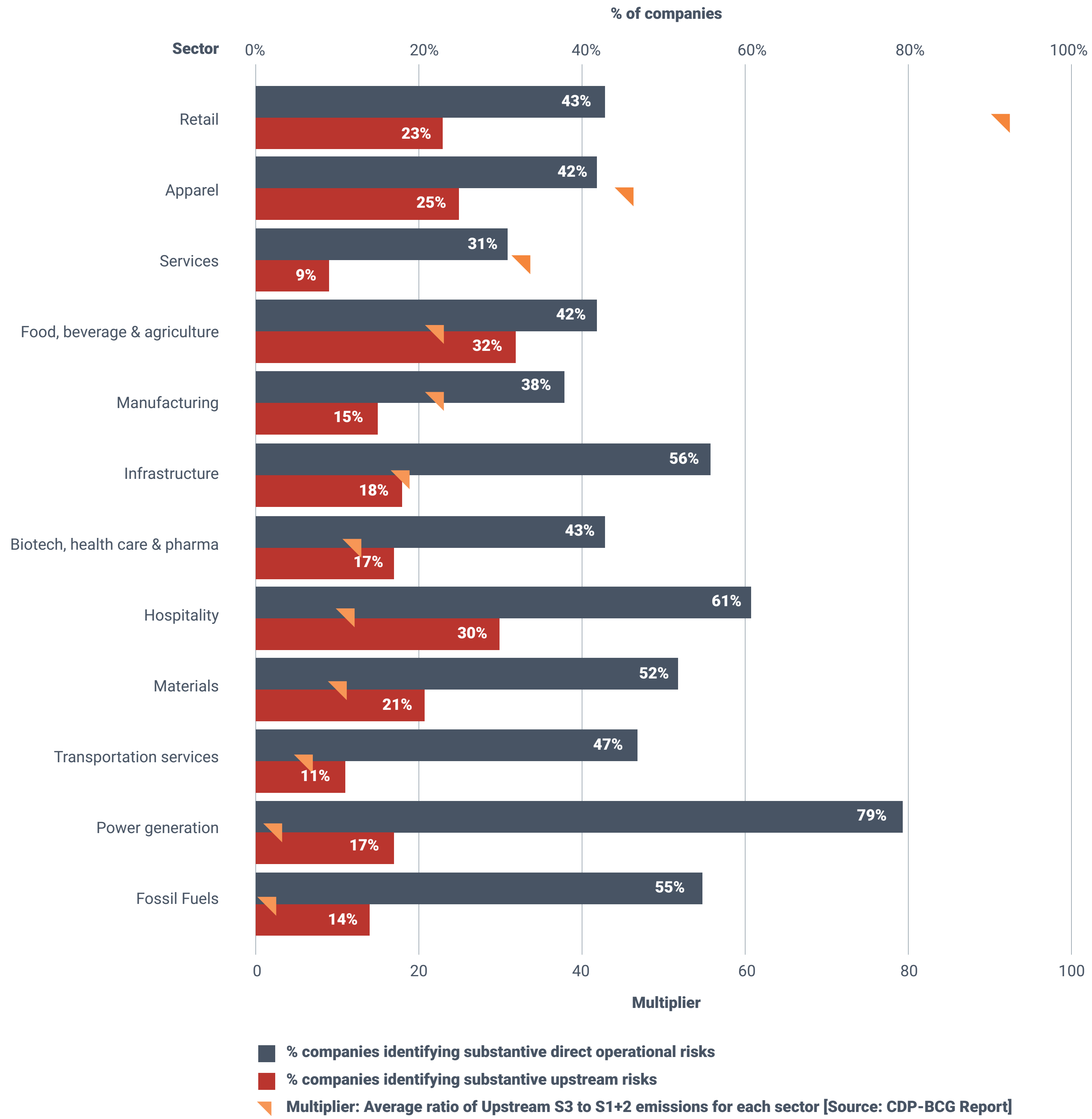
The actual exposure to climate-related financial risks within their supply chain may also be much higher than reported, suggesting the need for improved coverage of risk assessments. Among those companies

Upstream emissions from the manufacturing, retail, and materials sectors alone carry a carbon liability of over

US$335 billion

3 https://cdn.cdp.net/cdp-production/cms/reports/documents/000/007/834/original/Scope-3-Upstream-Report.pdf?1721043058

Figure 2
A sectoral breakdown of companies identifying substantive operational and upstream risks overlaid with the concentration of emissions occurring upstream compared to operationally for each of those sectors.



The business case for supply chain action on climate

51%

of companies that did not report supply chain risks, do not include upstream risks in their management processes

64%

of companies are identifying climate-related opportunities with the potential for substantive financial uplift

that did not report supply chain risks, over half (51%) do not include upstream risks in their management processes.

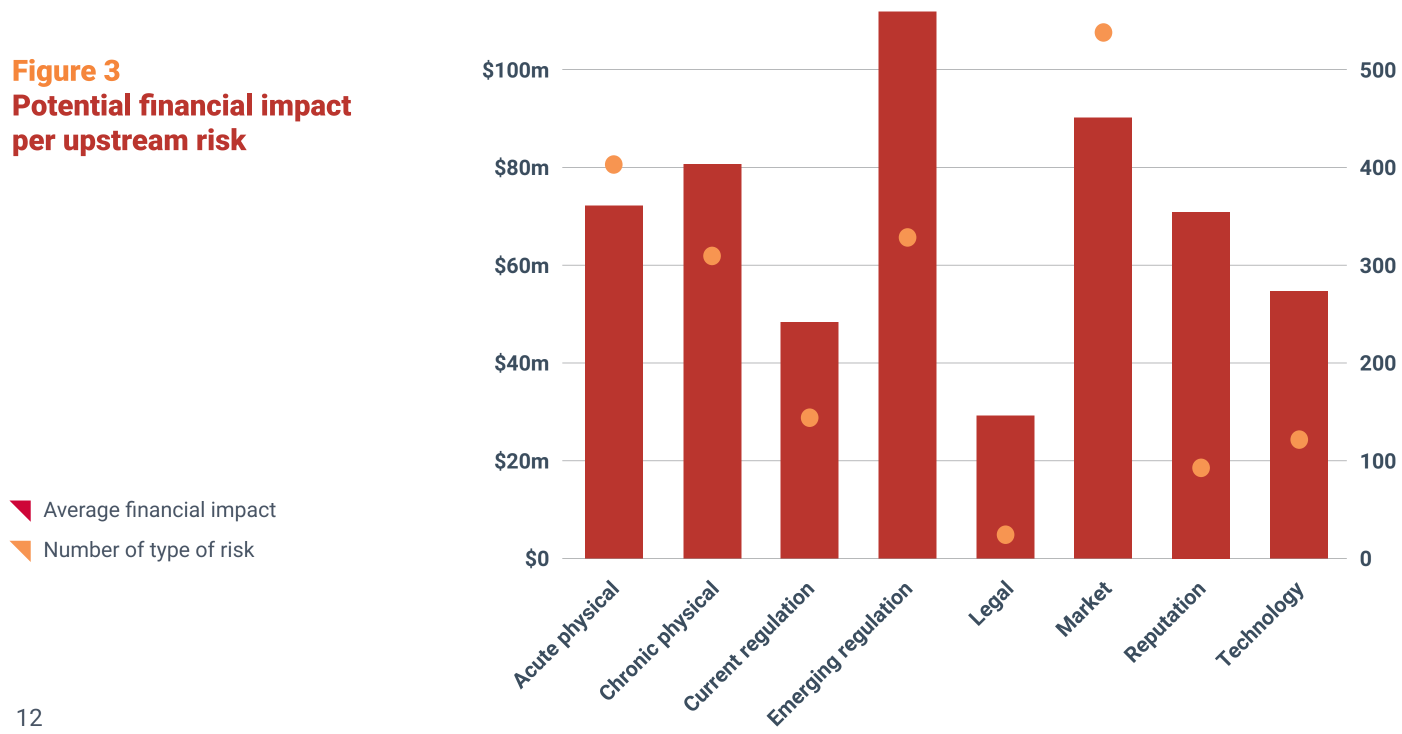
Furthermore, 64% of companies are identifying climate-related opportunities with the potential for substantive financial uplift, though upstream opportunities are often overlooked; companies were 4.5 times more likely to identify climate-related opportunities within their direct operations than occurring within their supply chain.

Without suitable internal processes, many supply chain opportunities remain untapped. Buyers who capitalize on these opportunities can improve climate resilience and simultaneously increase attractiveness to customers and investors, improving their competitive positioning in the marketplace.

Companies estimate a total of US$162 billion in potential financial costs tied to supply chain climate-related risks, which is 2.9x greater than the US$56 billion needed to mitigate these risks.

Given that the potential financial costs of supply chain climate-related risks far exceed the costs required for mitigation, companies stand to gain from enhancing their climate-related risk management strategies imminently.

Figure 3
Potential financial impact per upstream risk



Emerging regulatory risks have the highest estimated financial impacts. The most cited climate-related risk driver of those that are identifying substantive financial risks are carbon pricing mechanisms (29%), changing customer behavior (22%), and mandates on and regulation of existing products and services (22%). Emerging regulations and carbon taxes, including carbon border adjustment mechanisms (CBAM), will necessitate supply chain visibility and emissions reductions. To address this, buyers must take steps to identify their upstream climate-related risk exposures and begin to support suppliers in developing the capacity to report their own emissions data.

The business case for supply chain action on climate

$165 billion

in potential financial gains from upstream climate-related opportunities

Opportunities

Additionally, companies estimate that upstream climate-related opportunities could result in US$165 billion in potential financial gains. This is 8.4 times greater than the US$19.7 billion needed to realize these opportunities, demonstrating the financial benefits tied to investing in such initiatives.

Given that financial gains from supply chain climate-related opportunities substantially exceed the required investments, companies should capitalize on these prospects. Despite being the least frequently reported by companies, market opportunities were estimated to have the highest potential for financial gain, indicating that a potential focus area to maximize revenue and capital growth.

Figure 4 Potential financial gain per upstream opportunity

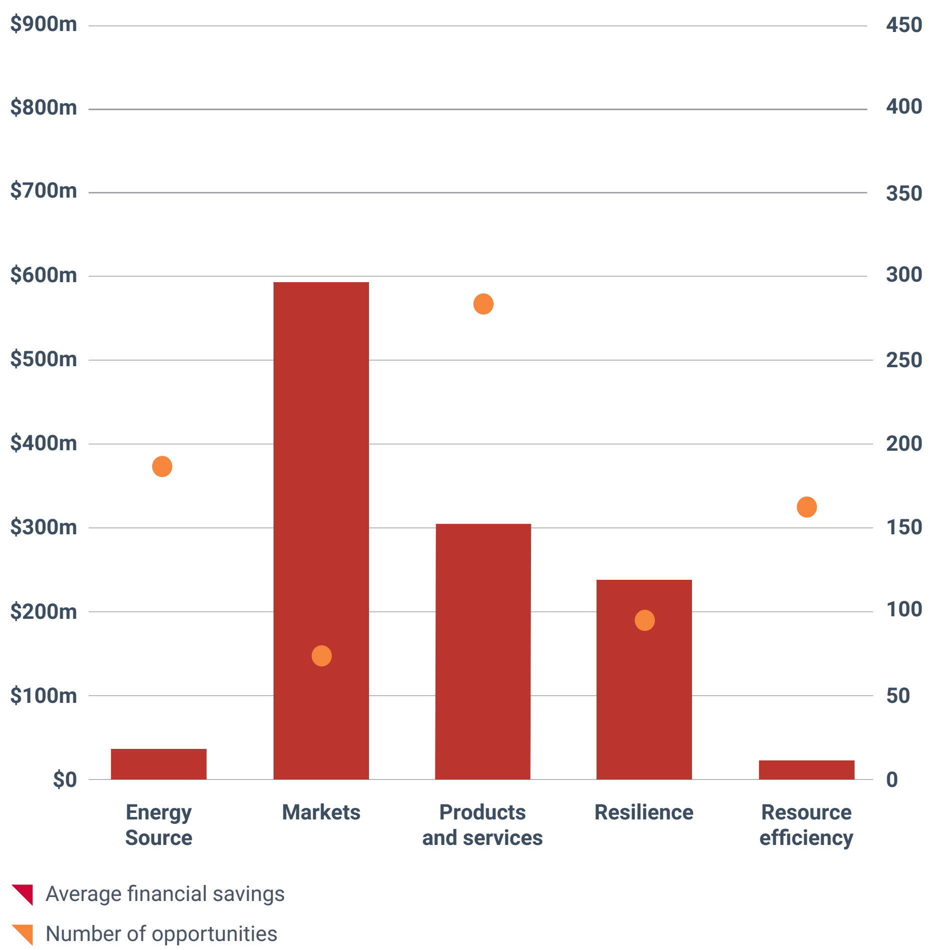
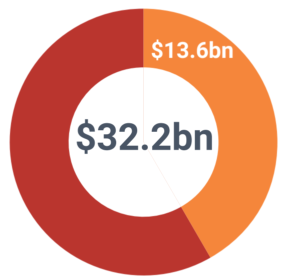


Figure 5



$32.2bn is saved stemming from all such initiatives

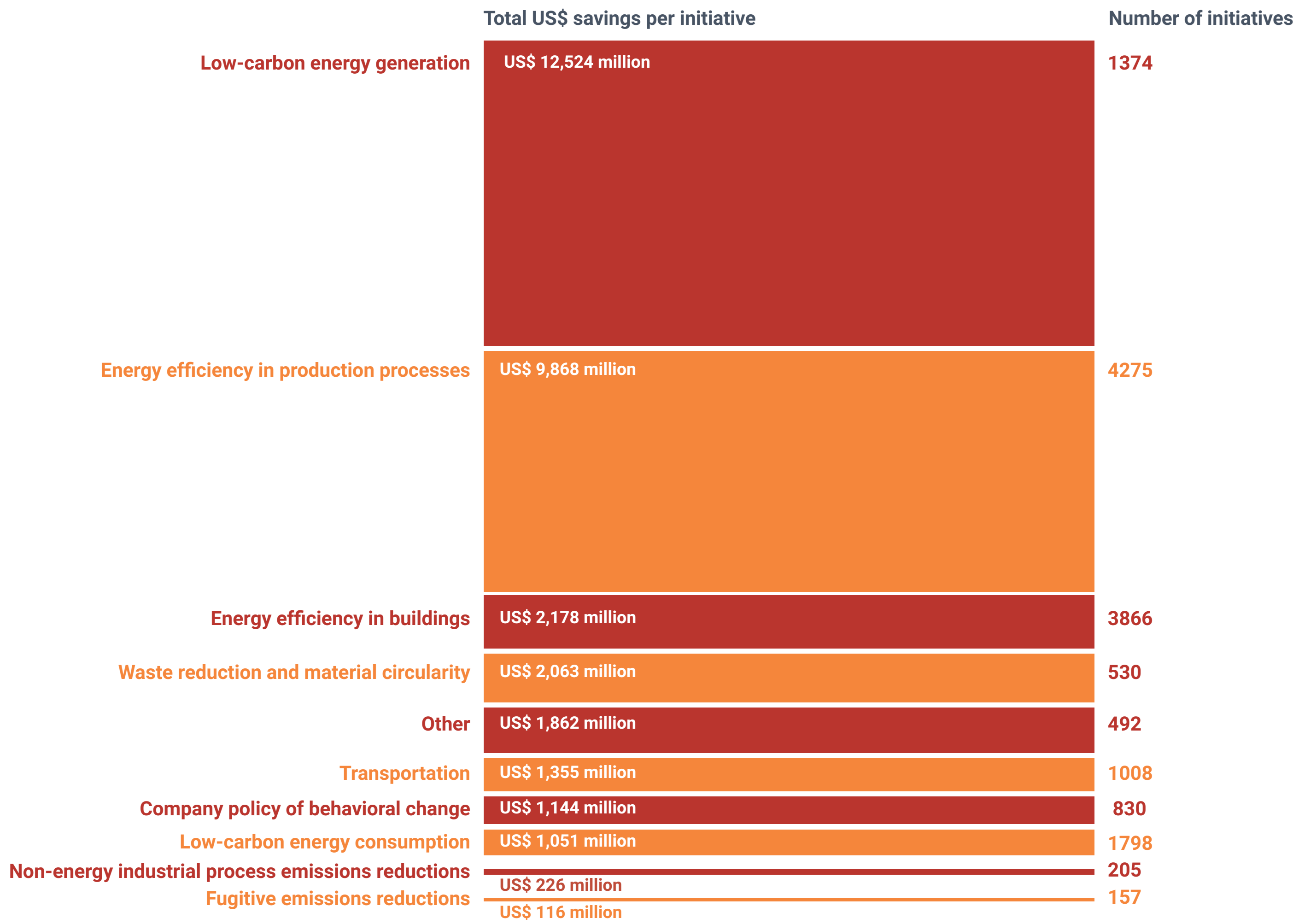
$13.6bn is associated with initiatives that target their scope 3 emissions

Financial savings

Over 56% of companies disclosing to CDP have initiatives to reduce their emissions, with 15% targeting their value chains. These initiatives have collectively resulted in US$13.6 billion in savings, associated with efforts to reduce scope 3 emissions. Notably, value chain initiatives account for a disproportionately large amount of financial savings reported by companies, underscoring the benefits of addressing scope 3 emissions.

Most of these scope 3 savings relate to emission reductions that cover scope 3 category 1: Purchased Goods & Services, and category 11: Use of Sold Products. Low carbon energy generation is associated with most of the financial savings derived from these initiatives, accounting for 78% of all scope 3-related financial savings. The majority of all emission reduction initiatives are also voluntary rather than mandatory, highlighting that businesses are getting ahead of policy and innovating, with sustainable initiatives bringing direct financial benefits.

Figure 6 Total US$ savings per initiative



Recommendations, insights and case studies from CDP's Supply Chain program

Drawing on CDP data and case studies from CDP's Supply Chain Program, we outline key ingredients and provide a roadmap for practitioners, exploring best practices and practical examples of approaches to cascading change throughout the supply chain.

Ingredients for successful sustainable supply chain transformation:

Data and supply chain mapping

Data Collection & Measurement: Utilize a combination of secondary and primary data to map your supply chain to inform your supplier engagement approach. Disclosure requests, through credible programs like CDP, initiate a dialogue with suppliers and allow for accurate and comprehensive tracking of climate-related metrics. The collected data improves over time through continued engagement, creating a feedback loop that enhances data quality, that in turn can inform engagement both internally and externally.

Data challenges addressed:

- Quality: Suppliers will improve their reporting accuracy as they gain experience from that first engagement. As they engage, buyers can transition from relying on secondary data, to primary reported data from suppliers.
- Interoperability: Initially, data may be fragmented across platforms and sources. Over time, centralize it into a unified system to standardize reporting.
- Quantity: More suppliers will share relevant data as engagement grows.

People & strategy (internal)

Setting Supplier Engagement Targets: Establish clear, time-bound goals for Scope 3 emission reduction. This allows for progress tracking and provides suppliers with a definitive roadmap to follow.

Selection of Suppliers: Identify key supplier groups to focus efforts on and maximize the impact of engagement. Common criteria include procurement spend percentage, Scope 3 related emissions percentage, number of suppliers, geographic location, and associated risk.

Internal Buy-In: Secure executive support and educate internal procurement teams to ensure alignment and adequate resources for achieving sustainability goals. Ensure procurement teams understand how supply chain action is a crucial element of the business' overall strategy and transition.

Insights and data gained from supplier disclosures should be leveraged to inform all of the actions outlined above and support buyers in making a business case to internal stakeholders.

Cascade and incentivize (external)

Implement Supplier Engagement Initiatives: Provide practical support and resources to help suppliers implement sustainable practices effectively through different initiatives such as information collection, education, collaboration, and tailored solutions for regions and industries.

Set Supplier Requirements: Establish clear requirements and contractual obligations to encourage accountability and consistency, particularly for non-responsive suppliers.

Incentivize: Motivate suppliers by recognizing and rewarding their efforts and achievements e.g. contract extensions, first access to RFPs, preferential supply chain financing rates.

Collaboration: There is a huge opportunity for interconnected buyers, suppliers, and peers to collaborate and achieve common sustainability ambitions.

Continuous Improvement: Adapt and refine engagement strategies over time in response to new regulations, industry changes, and evolving supplier capabilities.

Recommendations, insights and case studies from CDP's Supply Chain program

The Process: Supplier engagement informs data - Positive feedback loop

To manage Scope 3 emissions effectively, buyers should adopt a phased approach rather than aiming for immediate perfection. As buyers initiate the process, the clarity and quality of both their data and supplier engagement will improve over time.

This roadmap outlines best practices for supplier engagement based on industry insights (see case studies in the appendix).

It serves as a guide to help organizations develop or refine their strategies and address common challenges effectively.

A roadmap for effective supplier engagement

1 Supply chain mapping & identify hotspots

- **Identify hotpots:** Prioritize suppliers that account for the highest percentage of procurement spend, strategic suppliers, and suppliers from sectors with high emission averages.
- **Data sources:** If primary data isn't available, utilize secondary data (sector averages, industry reports, public records) to inform your strategy and support initial mapping to identify hotspots

2 Strategic selection of suppliers & supplier maturity assessment

- Use data gathered in step one, to carry out a more strategic selection of suppliers considering criteria such as:
  - Financial Impact in terms of spend, contract size and frequency
  - Location & Regulations
  - Historical reporting data and the supplier's size and influence within the industry.
- **Engage procurement:** Using insights from step one, supplemented with case study examples, raise awareness and capacity of procurement teams. Ensure it is a two-way dialogue gaining valuable insights on suppliers.

3 Engage: Request primary data

- **Standardized approach:** Use consistent templates and identify a core set of metrics for data requests.
- **Supplier awareness:** Inform suppliers on data requirements and programs like CDP, clearly communicating the shared value and their role in building a more sustainable supply chain.
- **Reporting frequency:** Establish regular intervals for reporting, ensuring consistency.
- **Start small where necessary:** For those suppliers at the start of their journey, identify a smaller set of KPIs most material to you. Break the disclosure journey into bitesize and manageable steps.

4 Establish feedback loops

- **Update frequency:** Set intervals for refreshing mapping and hotspot analysis of suppliers. Engage procurement throughout to leverage their knowledge of the supplier's base.
- **Supplier feedback:** Gather and use feedback to refine processes.
- **Target tracking:** Monitor and adjust achievable targets based on supplier maturity.
- **Procurement feedback:** Identify gaps, successes, challenges and opportunities.
- As data improves, use that to build on mapping at step 1.

5 Accelerate engagement through initiatives

- **Support:** Provide resources, education, and tailored solutions to help suppliers adopt sustainable practices.
- **Continuous data collection:** Adapt strategies based on ongoing data and feedback. Identify where suppliers are in their journey and communicate the next steps
- **Incentivize continuous improvements:**
  - ***Rewards:*** Offer contract extensions, early access to RFPs, and preferential financing rates for high-performing suppliers.
  - ***Recognition:*** Publicly acknowledge and incentivize supplier achievements to drive continuous improvement.
  - ***Requirements:*** Establish clear requirements to ensure accountability.
  - ***Incentivize procurement:*** Implement internal award schemes and insert sustainability KPIs into objectives – such as achieving a percentage of suppliers reporting and then building up to number of suppliers setting targets, verifying data and engaging their own suppliers.

6 Better data leads to more effective innovation and collaboration:

- **Joint ventures:** Partner on low carbon and sustainable projects.
- **R&D:** Engage in shared research for innovative solutions.
- **Workshops:** Host sessions to explore new technologies and practices and identify shared opportunities.
- With a clearer understanding of suppliers and stronger relationships, companies are better placed to implement effective initiatives to reduce missions.

Creating visibility: Data collection & measurement

Telstra utilize data from the CDP Supply Chain program to manage and reduce Scope 3 emissions. They request suppliers to provide data on GHG emissions, energy efficiency ratings, and their life-cycle carbon footprint

Telstra

The steps outlined on the previous page are informed by data from CDP and insights from CDP's Supply Chain Program. In this section, we spotlight key trends and showcase case studies from industry leaders who have effectively put these strategies into action.

Buyers should request suppliers to disclose through one centralized reporting system, streamlining emissions data reporting. Supplier disclosure rates range from 71% when they receive 2 to 10 requests from buyers, increasing to 92% when they receive 11 or more requests. For suppliers new to sustainability, reporting on a set of material KPIs works as a starting point.

Supply chain visibility serves as the foundation for identifying exposures to risks, dependencies, impacts, and opportunities. To create visibility, data collection is seen as a vital starting point amongst buyers, initiating important conversations with suppliers and providing necessary data to set and implement emissions reduction targets. This data collection is correlating to real world outcomes.

GHG emissions data collection is associated with greater verification of emissions from suppliers.

When buyers collect GHG emissions data at least annually from suppliers, suppliers were:
- 1.7 times more likely to verify their scope 1 emissions
- 1.7 times more likely to verify their scope 2 emissions
- 2 times more likely to verify their scope 3 emissions

Cascading information collection to drive supplier processes
When buyers collect climate target related information at least annually from suppliers, suppliers were 2.6 times more likely to set SBTs.

When buyers collect climate-related risk and opportunity information at least annually from suppliers, suppliers were 1.9 times more likely to conduct climate-related risk assessments.

By acknowledging and addressing similar physical and climate-related risks, we collaborate and engage in joint discussions with our suppliers to share solutions

Grupo Boticário

Setting the stage: Internal processes

31%

of all disclosers report that climate-related risks and opportunities have influenced their supply chain strategies and financial planning

Effective risk management, business strategy, governance, and target-setting are essential for gaining internal buy-in and driving meaningful climate action within supply chains. Internal processes should be supported by decision-useful data (see Step 1).

Business strategy
Climate-related risks and opportunities are influencing forward-looking strategies and financial planning for supply chains, including considerations around access to capital.

Over 7,100 companies (31% of all disclosers) report that climate-related risks and opportunities have influenced their supply chain strategies and financial planning. This includes key forward-looking indicators such as supply chain-related capital expenditure and allocation, as well as 19% of these companies reporting that this has influenced their planning around access to capital.

Integrating climate considerations into financial planning can support financial resilience by increasing access to capital, yet most companies overlook these factors in supply chain strategies, highlighting an urgent need for change and substantial untapped opportunities.

Figure 7
Financial planning elements that have been influenced by climate-related risks and opportunities within the supply chain and/or value chain.

Financial planning elements that have been influenced	#	%
Direct costs	5332	75%
Indirect costs	3321	46%
Revenues	3571	50%
Capital expenditure	3797	53%
Capital allocation	1744	24%
Acquisitions and divestments	1248	17%
Assets	1525	21%
Access to capital	1387	19%
Liabilities	574	8%

> **Support from leadership is crucial for resource allocation and embedding climate strategies. Chief Procurement Officers need to show proactive leadership and promote continuous upskilling.**
>
> **GSMA**

Governance

Supply chains are not yet at the top of the agenda of climate-focused boards[4], demonstrating gap in climate leadership.

Whilst 74% of companies[5] have board-level oversight of climate-related issues, only 7% of all companies disclosing through CDP oversee value chain engagement within their board-level governance of these issues.

Over 2400 companies (11%) provide monetary incentives to C-Suite or Board-level representatives tied to climate-related outcomes, of which 14% (1% of all disclosers) include monetary incentives tied either to supply chain-related outcomes[6].

Drilling down further, we see that of those C-Suite members that have climate-related monetary incentives, only 8% of CEOs and 9% of CFOs have monetary incentives that are tied to supply chain outcomes. However, 21% of Chief Sustainability Officers (CSOs) and 58% of Chief Procurement Officers (CPOs) that have climate-related monetary incentives include ones that are tied to supplier outcomes.

CPOs have substantial influence over procurement team actions, which directly affects supplier behavior. For instance, when buyers implemented employee awareness campaigns or training programs on climate related issues, their requested suppliers were 2.3 times more likely to disclose emissions related to their purchased goods and services.

This demonstrates how upskilling internal teams and securing executive support can significantly enhance supplier engagement and drive meaningful climate action.

An often-cited barrier to action on supply chains is that sustainability and procurement teams at purchasing corporates do not have internal buy-in with treasury teams and at wider board level. This is vital to ensure that they have the mandate to act, and to finance the initiatives and engagement needed across their supply chains.

Some buyers are successfully gaining this support by demonstrating the financial impacts of climate risk, response costs, emission reduction savings, and emerging regulations, and by highlighting the tangible benefits of sustainability efforts.

4 Boards that that oversee climate-related issues or that have monetary incentives for climate-related outcomes.
5 https://www.cdp.net/en/supply-chain/cdp-bcg-scope-3-report
6 Increased supplier engagement or compliance on climate-related issues or requirements, or increased value chain visibility (traceability, mapping, or transparency).

CDP-BCG Report:

Only 15% of companies have set targets to reduce upstream emissions, revealing a significant gap in target setting for upstream emission reductions.

> **SLB's Planning and Supply Chain team is proactively communicating with its suppliers through emails, educational webcasts, and regional supplier engagement forums. Changes in the procurement tendering process which embed climate weightage have also been communicated to suppliers.**
>
> **SLB**

Emissions, targets & reductions

Companies are 2.4 times more likely to set targets covering Scope 1 & 2 emissions, compared to targets covering Scope 3. This may be due to a gap in measurement, with corporates being 2 times more likely to measure and disclose Scope 1& 2 emissions, than they are Scope 3.

Leading companies set ambitious targets to at least halve emissions by 2030 and achieve net-zero by 2050, including supply chains emissions. These targets extend to suppliers, as appropriate, requiring them to set similar goals. With senior management's approval, these targets help to mobilize the finance and resources needed to drive comprehensive supply chain action.

Impacts: Increased value chain visibility is supporting efforts to engage deeper tiers of the supply chain.

When buyers enhanced their visibility into their value chain, through methods such as traceability, mapping, and transparency, suppliers were 1.7 times more likely to engage their own suppliers on climate-related issues. Some buyers are enhancing their engagements by working with suppliers to build KPIs for them to engage their own value chains, for example by embedding them into supplier scorecards.

This also suggests that transparent and well-mapped supply chains can support a domino effect, encouraging more comprehensive climate action throughout the entire supply chain network.

How to increase visibility and transparency?

- **Open Dialogue:** Establish open communication channels for regular updates and feedback between buyers and suppliers. For instance, SLB maintains regular email communication and conducts engagement webinars.
- **Supplier Progress Updates:** Implement a system for suppliers to provide regular progress updates, ensuring continuous monitoring and transparency.
- **Credible Engagement Programs:** Utilize credible supply chain engagement and disclosure programs, such as the CDP Supply Chain Program, to enhance transparency and accountability.

Cascading and incentivizing action: Ratcheting up supplier engagement

41%

of all disclosers reported engaging their suppliers on climate-related issues.

13%

of buyers included climate-related requirements in their supplier contracts

Supplier Engagement

On average, buyers are engaging less than 50% of their procurement spend and less than 40% of their upstream emissions, leaving a significant portion of their exposures unaddressed.

Prioritizing efforts based on materiality assessments can increase engagement effectiveness. Initially, companies should strategically select key suppliers to engage, rather than attempting to engage all of them.

Leading buyers maximize engagement to cover emission inventories, prioritizing suppliers with the highest procurement spend or supplier-related Scope 3 emissions. The top 20% of buyer engagement initiatives typically cover 98% of procurement spend and supplier-related Scope 3 emissions, while the bottom 60% cover only 14% of procurement spend and 8% of Scope 3 emissions. Top performers are effectively maximizing their engagement efforts with high-impact suppliers, to help achieve climate targets.

Engaging suppliers is a key criterion for CDP's climate A List and a marker of a credible climate transition plan, and there is still ample room for improvement in this area.

This year, over 9,500 disclosers (41% of all responding companies) reported engaging their suppliers on climate-related issues, up slightly from last year's 39%.

Supplier Requirements

The procurement process can enable the implementation of net-zero ambitions. However, 94% of companies are not yet leveraging their purchasing power to require their suppliers to disclose climate-related data.

In 2023, only 13% of respondents included climate-related requirements in their supplier contracts. Among these, less than 6% disclosed that they required their suppliers to disclose climate data. This reveals a significant gap in the integration of environmental considerations into purchasing processes.

By setting clear climate-related requirements, companies can drive greater transparency and engagement from suppliers, bridging the current gap in climate data disclosure.

87%

of the 6,127 suppliers who reported emissions reductions in 2023 were subject to climate-related requirements and actively engaged by customers.

Climate-related requirements provide a stronger incentive for emission reductions compared to general engagement

Setting climate-related requirements for suppliers provides a stronger incentive for emission reductions. Of the 6,127 suppliers who reported emissions reductions in 2023 compared to 2022, 87% were subject to climate-related requirements and were actively engaged by customers.

The primary industries setting supplier contractual obligations are Manufacturing (35%), Services (20%), Materials (9%), and Infrastructure (7%).

Therefore, integrating climate-related requirements into supplier contracts is essential for aligning suppliers with climate goals and effectively reducing emissions throughout the supply chain.

> **We've included environmental sustainability clauses in all our supplier contractual templates. We're in a transitional phase where we're outlining our minimum requirements and expectations and have integrated them into our procurement decisions. Our strategy focuses on clarifying expectations, providing support and fostering cooperation**
>
> **SLB**

> **A key factor of our success was taking suppliers on a step-by-step approach, where we very slowly increase the size of the carrot. Helping to manage expectations of our suppliers and allow them to prepare for our requirements**
>
> **Telstra**

A phased approach enhances integration of supplier climate-related requirements
A common strategy among industry leaders is the deliberate buildup towards including supplier requirements in contracts, often using a "carrot and stick" approach. This starts with education, warnings, and support, and gradually introduces financial incentives or penalties.

Example: Telstra's success was due to a step-by-step approach, slowly increasing expectations to help manage supplier readiness.

This phased implementation strategy leads to smoother integration of climate-related obligations into supplier contracts, resulting in better engagement and compliance.

The top 10 climate-related requirements for suppliers implemented as part of an organizations purchasing process are:

Practical examples:

1. Complying with regulatory requirements
2. Implementation of emissions reduction initiatives
3. Climate-related disclosure through a non-public platform
4. Setting a science-based emissions reduction target
5. Climate-related disclosure through a public platform
6. Waste reduction and material circularity
7. Measuring product level emissions
8. Purchasing renewable energy
9. Setting a low-carbon energy target
10. Product Carbon Footprint reductions

52%

of suppliers were more likely to reduce their annual emissions when their buyers offered financial incentives

Financial incentives to drive action
The use of financial incentives indicates buyer maturity. Only 2% of companies use financial incentives to engage their suppliers, and of those, less than half offer incentives specifically for reducing emissions. The use of financial incentives indicates buyer maturity and can accelerate the transition of suppliers.

A supply chain operates effectively when incentives are aligned – distributing the risks, costs, and rewards evenly. Financial incentives are particularly important because they help suppliers access the necessary capital, to activate improve their practices or infrastructure, bridging the resource gap between buyers and suppliers.

Tying the cost of capital to supplier outcomes is effective to driving emissions reductions at scale. Suppliers were 52% more likely to reduce their annual emissions when their buyers offered financial incentives to do so when compared to if their buyers provided training on how to do so.

Financial incentives can particularly benefit suppliers who are less mature in their decarbonization journey, unmotivated, or lack access to capital. This is especially relevant for Small & Medium Enterprises (SMEs)[7], which often lack the required resources to start their decarbonization journey. To lead and engage a broader range of suppliers of varying sizes and maturity levels, buyers should implement additional solution-focused measures including financial incentives.

Walmart offer a supply chain finance program in partnership with HSBC, allowing suppliers to access better pricing than traditional SCF offerings

> **We are seeing more suppliers enrolling in Project Gigaton™ since the launch of the Sustainable Supply Chain Finance program two years ago. Our suppliers tell us that the incentives from the program are helping them invest in carbon emissions reduction efforts across their operations.**
>
> **Walmart**

7 In 2024, CDP introduced a dedicated questionnaire for SMEs, in a simplified format and with enhanced guidance, to reduce reporting burden and make it easier to act.

Steps to sustainable supply chain transformation

Examples of financial incentives used:

Preferential supply chain financing rates (High / Long-term impact)

Integration of sustainability criteria into traditional supply chain finance solutions such as lower interest rates or better financing terms to suppliers who adopt green practises. This long-term incentive encourages investment into climate action and disclosure by improving cash flow.

> **Walmart offer a supply chain finance program in partnership with HSBC, allowing suppliers to access better pricing than traditional SCF offerings.**
>
> **Walmart**

Favorable/ unfavorable contract terms (High / Long-term impact)

Granting favourable contract terms, such as priority in contract renewals, extended durations, flexible payment schedules. These terms foster stable, long-term relationships and encourage continuous sustainability efforts. In some cases, however, suppliers who fail to meet these sustainability criteria may face unfavourable payment terms and penalties, ensuring accountability.

> **Stanley Black & Decker suppliers are strongly encouraged to set emissions reduction targets aligned with achieving 67% of suppliers by spend setting targets by 2027. We are including language requiring compliance in contracts with expected annual spend over $1M for new suppliers and adding such language to contracts for existing suppliers when they are up for renewal.**
>
> **Stanley Black & Decker**

Increased order volumes (High / Long-term impact)

Buyers incentivize suppliers to reduce their emissions by committing to increased order volumes from those who demonstrate substantial progress in their decarbonisation efforts. This provides a more stable and predictable revenue stream for suppliers, motivating them to continue to implement such efforts.

> **Severn Trent introduced three new Key Performance Measures (KPMS) for Capital Delivery Contractors with performance tied to pain-gain mechanism in the form of work volume. These KPMs focused on capital delivery contracts as they have the most significant impact on the company's Scope 3 emissions.**
>
> **Severn Trent**

Subsidies for renewable energy installations (Lower / Short-term impact)

Buyers offer subsidies or financial support for the installation of solar panels, wind-turbines, or other renewable energy technologies. This financial assistance helps to offset the initial capital expenditure required for such installations, making it more feasible for suppliers to adopt renewable energy solutions.

> **As a lead funder of the Apparel Impact Institute's Fashion Climate Fund, H&M's green investment team works with suppliers to finance renewable energy and energy efficiency initiatives.**
>
> **H&M**

Financial assistance for machinery purchases (Lower / Short term impact)

Buyers offer financial assistance or grants for suppliers to purchase energy-efficient or low-emission machinery. This short-term incentive lowers the upfront costs associated with upgrading to more sustainable equipment, enabling suppliers to improve their operational efficiency and reduce emissions.

> **We are seeing more suppliers enrolling in Project Gigaton™ since the launch of the Sustainable Supply Chain Finance program two years ago. Our suppliers tell us that the incentives from the program are helping them invest in carbon emissions reduction efforts across their operations.**
>
> **Walmart**

Monetary rewards for top performers (Lower / Short-term impact)

Financial recognition to suppliers committed to sustainability, motivating them to continue pursuing ambitious targets.

> **Monetary rewards are offered to facility managers of leased assets, based on energy savings achieved through energy efficiency solutions. Through one-off payments tied to decarbonization this strategy incentivizes reduced energy consumption among leased assets, which represent the largest share of Alstria Office's Scope 3 GHG footprint.**
>
> **Alstria Office**

Steps to sustainable supply chain transformation

> **SLB began by setting minimum expectations and outlining a clear roadmap for suppliers to advance through environmental sustainability disclosures, target setting, and emissions reductions. Subsequently, their Supplier Innovation Programme aims at fostering joint projects and innovative solutions that generate mutual business and environmental positive benefits for SLB and its suppliers at both global and local geographic levels.**

Collaboration and innovation

Capacity building is the precursor to innovation and collaboration. Suppliers who received training and support were 21% more likely to disclose to CDP and 1.7 times more likely to conduct climate-related risk assessments compared to those who did not actively build capacity in their supply chains.

Capacity building is essential for driving transparency through disclosure and climate related risk-assessments. This lays the groundwork for collaboration and innovation by equipping suppliers with the information and knowledge they need to engage in more advanced sustainability efforts.

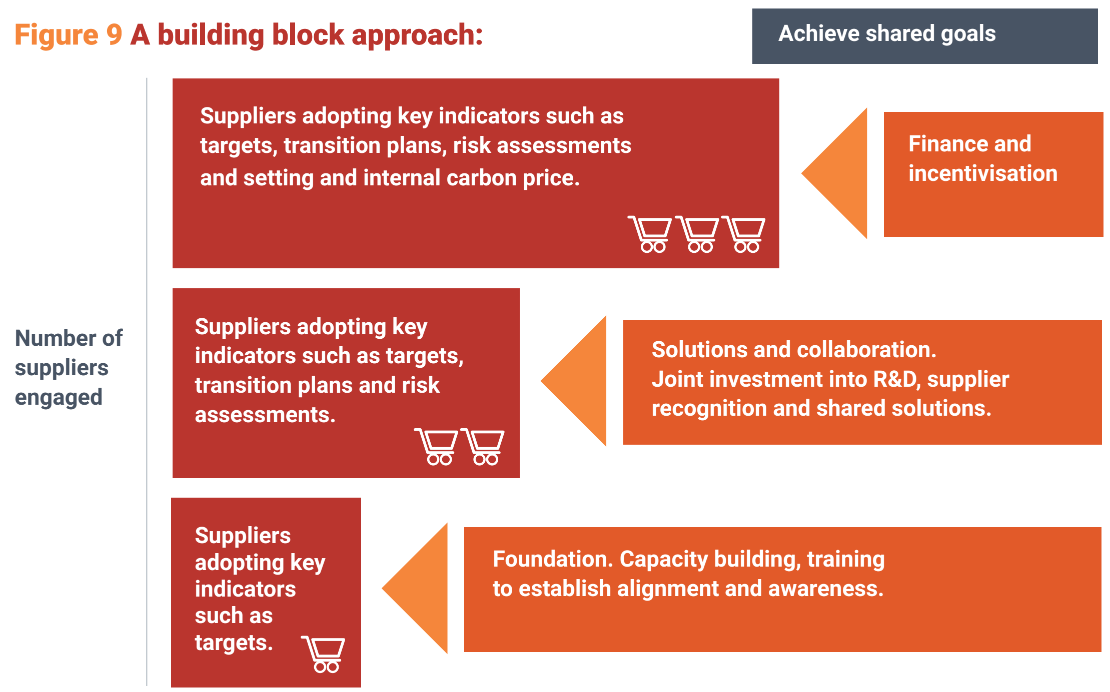
Active collaboration and innovation are what mature buyers are utilizing to drive the largest effects on supplier action. Suppliers engaged by their clients to invest jointly in research & development (R&D) of low-carbon technologies were 4.3 times more likely to set an SBT than those that received no engagement. In comparison, those buyers that received capacity building support on how to set an SBT were 2.6 times more likely to set an SBT.

Investment with suppliers in R&D of relevant low carbon technologies is correlating to the greatest amount of action taken by suppliers across supplier KPIs. Businesses who are doing this recognize the opportunity. Looking forward and factoring in the time it may take to take a product to market, lower-carbon products will be a more attractive option due to regulations, carbon taxes, and consumer preferences. Businesses recognizing this opportunity are better positioned to benefit from emerging regulations, carbon taxes, and shifting consumer preferences toward lower-carbon products.

Figure 8 How collaboration and innovation incentives are driving the most significant changes in climate action among suppliers

KPI at supplier level	Buyer action: Capacity Building / Education Engagement			Buyer action: Solutions / Collaboration Engagement		
	Providing Training as an Engagement Incentive	Running an engagement campaign to educate suppliers about climate change	Provide training, support and best practices on how to set science-based targets	Invest jointly with suppliers in R&D of relevant low-carbon technologies	Climate change is featured in supplier awards schemes	Directly work with suppliers on exploring corporate renewable energy sourcing mechanisms
Setting science-based targets	2.4x	2x	2.6x	4.3x	3.2x	3x
Conduct climate related risk assessment	1.7x	1.5x	1.7x	2.3x	2.1x	1.9x
Implement a 1.5 transition plan	1.4x	1.3x	1.4x	2.1x	1.7x	1.6x

Figure 9 A building block approach:



Learnings from practice:
Challenges & solutions

Challenge	Supplier resistance / non-responsive suppliers	Data - Managing scope 3 emissions and supplier data volatility	Navigating complex and geographically dispersed supply networks	Internal buy-in	
Solutions	• Utilize purchasing processes to provide incentives for compliance. • Educate suppliers on the business case for sustainability and its benefits. • Engage C-suite executives to emphasize the importance of supplier cooperation. • Add climate related requirements into supplier contracts.	• Adopt the most effective measurement methods that provide actionable insights. • Apply more rigorous criteria for evaluating and utilizing supplier data to manage volatility.	• Tailor engagement strategies to address regional variations in sustainability attitudes and differences in regulatory and political environments.	• Engage Procurement Teams: Conduct training and provide monetary incentives to align procurement goals with sustainability targets. • Involve C-Suite Members: Emphasize not only risk mitigation but also the increased opportunities that sustainability initiatives can bring. • Engage Treasury and Finance Teams: Highlight financial impacts of climate risks, response costs, emission reduction savings, and emerging regulations.	• Embed Sustainability: Integrate sustainability into the organization's core values and culture. • Set Clear Targets: Establish and communicate measurable sustainability targets to track progress and success of the initiatives.
Examples	**Telstra** integrates climate-related requirements into contracts using a standard emissions reduction clause that includes carbon reporting and reduction elements. Telstra also establishes clear timeframes for suppliers to measure and manage their emissions as part of a remediation plan. **Grupo Boticário** involves C-suite members in supplier engagement initiatives, such as presenting at award ceremonies, to demonstrate the company's commitment to sustainability.	**Grupo Boticário** improved data reliability by critically selecting which supplier data to utilize.	**SLB** empowers on-the-ground teams to tailor their engagement with suppliers, using local languages, to ensure relevance to local context and the sustainability landscape are considered. SLB leverages existing local supplier relationships to engage, collaborate with, and offer support to suppliers.	**Telstra** embedded sustainability into the corporate culture and linked sustainability achievements to employee bonuses. **SLB's** emission related objectives are linked with financial objectives for everyone in the organization (including C-suite). The Supply Chain team has further defined these objectives for different sub-functions to ensure they are progressing toward strategic milestones and reduction targets.	**Philips** committed publicly to having 50% of suppliers by spend adhere to the SBTi. Delivered regular training, webinars, and educational materials to procurement teams. Integrated sustainability into procurement processes, ensuring new suppliers are selected based on their commitment to science-based emission reduction targets.

Learnings from practice: Challenges & solutions

Challenge	Suppliers at early stages of decarbonization	Cash flow management and access to capital	Suppliers experiencing reporting burden	Limited industry coordination
Solutions	• Encourage continuous improvement and foster supportive engagement to enhance suppliers' capability to implement decarbonization measures.	• Implement sustainable supply chain finance to optimize cash flow and free up working capital within supply chains. Offer pricing incentives for suppliers who demonstrate sustainability credentials. • Other financial incentives such as preferential contract terms, increased order volumes and monetary rewards. (examples contained in ratcheting up supplier engagement section)	• Streamline and standardize reporting requirements to reduce redundancy. • Tailor disclosure requests for smaller suppliers with limited capacity. • Provide training and resources to suppliers to enhance their reporting capabilities.	• Establish and leverage industry coalitions to drive sector-wide change. These coalitions facilitate proactive discussions with key stakeholders to accelerate collaborative efforts and enhance sustainability initiatives.
Examples	**Philips** uses a 'Beyond Auditing Approach' that emphasizes collaborative and transparent engagement without punitive measures. Philips supports suppliers in advancing their company approach to climate action, offering guidance that is tailored to their climate action maturity. **Telstra** host supplier forums to discuss best practices and reinforce expectations with key suppliers. **Nike** launched a Climate and Energy Programme, which focuses on capacity building to drive the adoption of energy-efficient projects among suppliers.		**Philips:** Tailors disclosure requests for SME suppliers that have limited resources, requiring them to answer only a subset of the most important question for the data required. **GSMA:** Supports disclosure efforts by collaborating with CDP and encouraging suppliers to disclose through the CDP supply chain programme.	**The GSMA** established the Climate Action Taskforce to foster collaboration within the mobile industry. Provides a Climate Action Toolkit to members and hosts regular webinars to address challenges and share solutions.

The role for sustainable supply chain finance

The finance required to bring about the necessary transition faces a staggering shortfall. The necessary transition in the real economy hinges on addressing Scope 3 emissions and value chain impacts, as global value chains drive significant change. However, not all impacts are alike, requiring diverse strategies to effectively manage them. Supply chains offer a solution to deliver targeted finance to companies at scale.

Sustainable supply chain finance (SSCF) refers to the use of financial instruments and strategies that promote environmentally friendly and socially responsible supply chains. SSCF integrates sustainability criteria into traditional supply chain finance instruments, incentivizing suppliers to adopt sustainable practices with increased access to capital. This approach supports efforts to mitigate environmental risks but also aligns with global sustainability goals, creating a competitive edge for companies committed to net-zero.

Key mechanisms include:

- **Receivables Finance:** This involves the early payment of invoices to suppliers, where the financing terms are linked to the supplier's sustainability performance. Suppliers demonstrating strong environmental practices can access financing at more favourable rates, thereby encouraging them to maintain or improve their sustainability standards.
- **Incentives:** Banks offer incentives such as lower interest rates or extended payment terms for suppliers that meet specific sustainability criteria. These incentives drive suppliers to adopt net-zero practices, reducing the overall environmental footprint of the supply chain.
- **Trade Finance:** Trade finance solutions, including letters of credit and trade loans, are structured to support transactions that comply with sustainability standards. By prioritizing funding for green projects and sustainable trade activities, banks facilitate the transition to greener supply chains.

Figure 10 SSCF objectives, solutions and benefits for buyers and suppliers

	Objectives	Banks Solutions	Benefits
Buyers	Enhancing sustainability strategy and credentials.	**Tiered pricing** that is attached to clear sustainability metrics.	Embed sustainability into procurement, further integrating sustainability into the relationship with the supplier and promoting transparency.
	Strengthen supply chain sustainability and resilience to shocks.	**Motivate supplier sustainability** where the program can be structured to facilitate continuous improvement, supporting suppliers at every stage.	**More resilient supplier base** aligned under a clear and standardized set of goals, combining financial viability and sustainability.
	Enhance sustainable procurement and accelerate change.	**Demonstrate the business case** and financial benefits to suppliers	**Enhanced buy-in from suppliers** to sustainability strategy accelerating supply chain transition.
Suppliers	Access to working capital and **improved cash flow.**	**Early payment at a competitive rate** that is linked to buyer's credit score.	**Cash opened** into their order-to-cash cycle.
	Economic benefit from aligning with business strategy	**Attractive financing terms** that incentivize target setting and transition planning.	**Access to more attractive finance,** linked to buyer's credit position.
	Support transition to a more sustainable business.	**Prioritize sustainability** improvements for funding.	**Cost savings** that can be re-deployed within the business to support sustainability.

The role for sustainable supply chain finance

Figure 11 Incentivizingg continuous improvement with a tiered approach

Suppliers rewarded with improved financing rates according to progress on sustainability criteria.

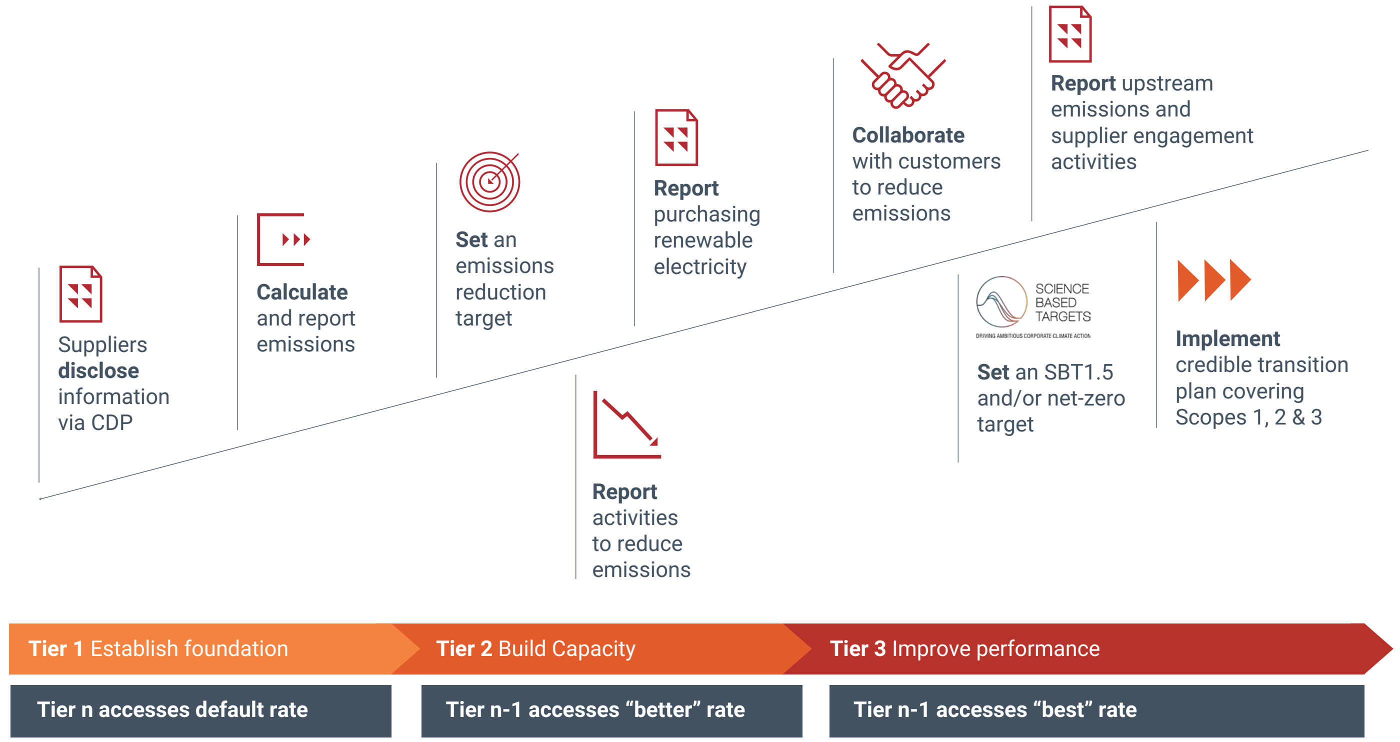
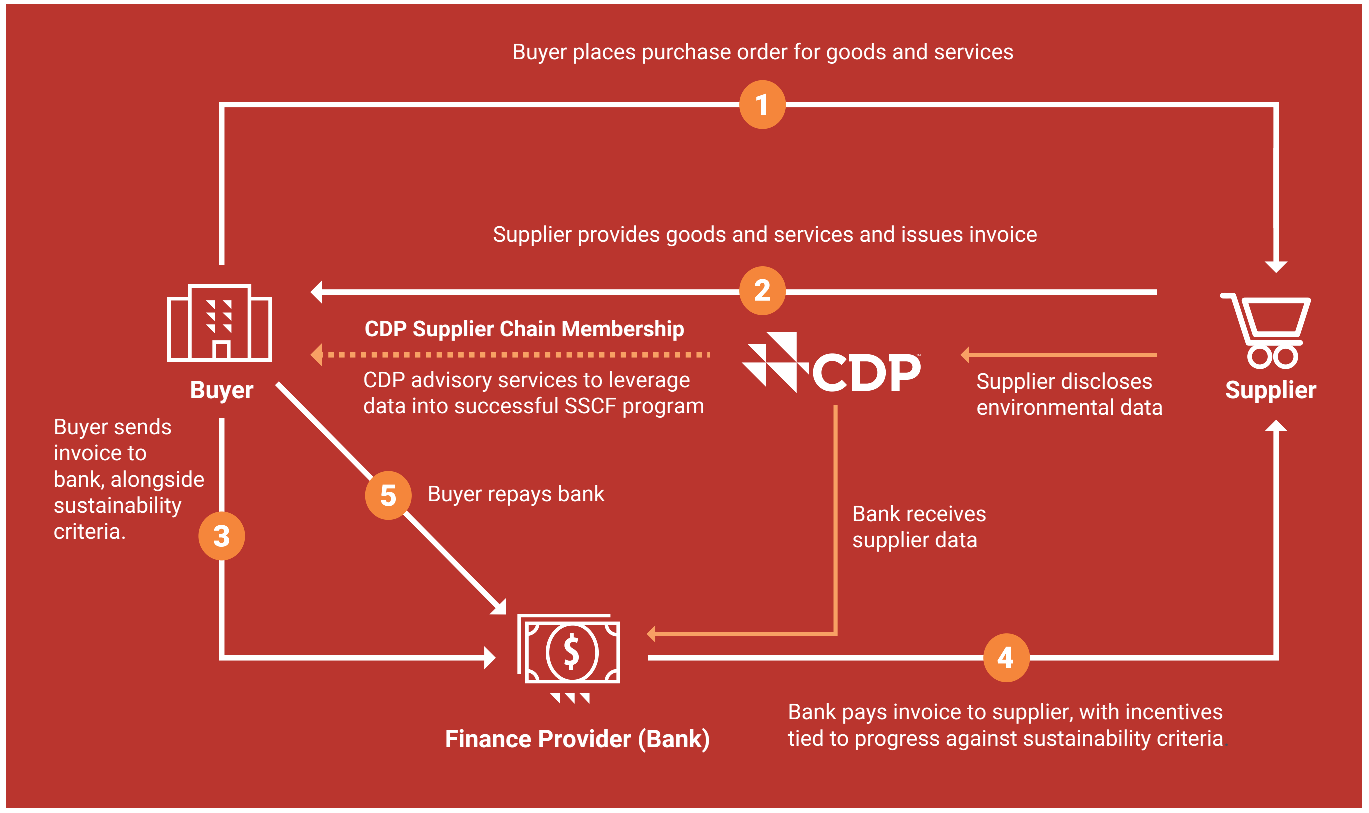
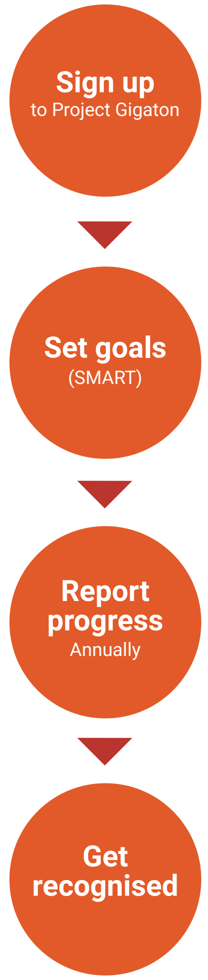


Figure 12 How does it work? Receivables purchase product model





Case Study: Walmart's Project Gigaton and Sustainable Supply Chain Finance Program

In collaboration with HSBC and CDP, Walmart's innovative sustainable supply chain finance program links financing rates to suppliers' CDP scores and progress towards setting and achieving science-based emission reduction targets. Walmart's suppliers are incentivized to reduce their GHG emissions across six priority areas: energy, nature, waste, packaging, transportation and product use and design.

The program has a particular focus on supporting SME suppliers who can benefit from preferential financing terms to unlock capital for sustainability-related investments. To support suppliers along their decarbonization journey, Walmart provides enhanced standards, tools and capacity building on topics like science-based target setting, credible renewable energy claims and Power Purchase Agreements (PPAs).

The program was designed to help deliver Walmart's 2017 'Project Gigaton' goal to reduce, avoid or sequester 1 billion metric tonnes of CO2e (a gigaton) from global value chains by 2030. In February 2024, the company reported that its suppliers had reported taking action that is expected to mitigate one gigaton of emissions by 2030, allowing Walmart to achieve its target six years early.

Walmart has identified several key actions for success in engaging suppliers to drive decarbonization:

- Encouraging suppliers to set goals, increase their ambition over time and report progress regularly. This focus on continuous improvement helps to avoid overwhelm among suppliers.
- Rewarding top performing suppliers who excel in target-setting, action and results via the 'Giga Guru' initiative.
- 'Democratizing' access to the Project Gigaton platform and decarbonization guidance for all suppliers, regardless of size, helps drive widespread adoption of sustainability practices.
- Supporting SMEs by addressing financing and practical barriers through the 'Gigaton PPA' program, enabling joint Power Purchase Agreements in renewable energy
- Collaborating with NGOs like CDP, WWF and the Environmental Defense Fund to inform engagement and practical support for suppliers. The involvement of trusted third-party sustainability experts helps elevate the credibility of the program and strengthens trust with suppliers.

Case study:
Telstra

> **One of the best outcomes of this engagement has been opening the dialogue with suppliers. It has turned more into a collaboration piece where we can work together to reduce our emissions. It has allowed us to collaborate with them in ways we wouldn't have been able to before.**

Tips for success

Aim high: Set challenging benchmarks annually and increase supplier engagement to ensure continuous improvement and drive progress.

Adopt a gradual approach: Gradually increase demands on less mature suppliers to allow them to adapt without feeling overwhelmed, facilitating a smoother transition to higher standards.

Integrate sustainability across the organization: Embedding sustainability and supplier engagement goals into the company's core values, behavior, purpose fosters strong internal support and commitment.

Learn from industry peers: Drawing insights from the successes of other telecom operators and industry peers provided valuable guidance and a solid foundation for our own supplier engagement initiatives.

Approach to supplier engagement

Data:
- Use industry average emission factors based on spend to estimate supplier GHG emissions.
- Utilize data from the CDP supply chain program to manage and reduce Scope 3 emissions. Request suppliers to provide data on GHG emissions and energy efficiency ratings.

Selection of suppliers:
- Model supplier selection in line with peers and initially select suppliers to engage based on procurement spend and emissions.

Setting supplier engagement targets:
- Set high benchmarks and engage with more suppliers each year

Internal buy-in:
Procurement:
- Embedding sustainability into the organizational culture to elevate its profile within procurement teams
- Incentivize with targets by linking sustainability targets to employee bonuses.

C-suite:
- Senior management has been crucial for embedding sustainability into Telstra's corporate strategy.

Finance & treasury:
- Finance teams have been particularly supportive in integrating emission considerations into the budgeting process and financial allocations.
- Scrutinize investment decisions to look at the emissions impact of mergers and acquisitions.
- A key challenge being addressed now is balancing growth with emission reduction goals.

Organization-wide:
- Embedded sustainability into the company's culture, behavior, and purpose.
- Scope 1, 2 and 3 emissions targets are incorporated into the company's performance metrics, directly affecting employee bonuses.

Supplier engagement initiatives:
- Educate suppliers' procurement teams on best practices and relevant technology.
- Host supplier forums which provide an opportunity to discuss best practices and reinforce Telstra's expectations with key suppliers.
- As more suppliers joined our CDP program, we began to refine our engagement approach, categorizing suppliers based on procurement categories in the organization and applying varying levels of pressure depending on their maturity.

Collaboration:
- Engage in open dialogues and joint efforts with our suppliers, working collaboratively to achieve our emission reduction goals.

Continuous improvement & evolution:
- The next step is achieving product-level data accuracy. Currently, supplier-level data is used, but the aim is to refine this further to obtain detailed insights at the product level.

Outcomes of engagement

Buyer
- In collaboration with CDP, Telstra delivered training, tools and support on environmental disclosures to over 400 suppliers in 2023 (covering 80% of procurement spend), an increase from 200 suppliers in 2022.
- Engagement efforts have led to open dialogues with suppliers and transformed supplier relationships, enabling Telstra to work with suppliers to reduce emissions in ways that were previously not possible.
- By the end of FY24, 91 suppliers had signed up to new clauses from Telstra contractually committing them to disclose and reduce their absolute emissions.
- Telstra now receives more enquiries from customers about sustainability topics and challenges and can respond with actionable guidance.

Case study:
SLB

It's both an internal and external effort. Externally, it's crucial to communicate expectations and equip suppliers with the necessary tools. Internally, we must equip our team with knowledge so they are empowered to move forward with practical actions that will bring impact, working with suppliers to meet sustainability KPIs, and collaborating to identify solutions.

Tips for success

Use data to inform engagement: Make use of data to assess maturity of supplier sustainability disclosure and performance and tailor supplier engagement accordingly.

Define sustainability expectations for suppliers: Establish minimum expectations and a clear roadmap for suppliers to drive progress across sustainability disclosure, target-setting, and transition planning.

Adapt supplier engagement to local context: Leverage on-the-ground teams and local languages to tailor engagement with suppliers, ensuring relevance to local context and sustainability landscape.

Embed sustainability into procurement: Leverage support from global procurement management to formalize minimum sustainability expectations into supplier contracts and sourcing decisions. Define meaningful objectives for each procurement sub-function (i.e., sourcing, supplier management, category management) to drive coordinated action towards organizational sustainability goals.

Embrace simultaneous progress: Rather than waiting for all elements of your sustainability strategy to align perfectly, act across multiple fronts simultaneously. For example, develop strategies for supply chain maturity, product carbon footprint, logistics network design, and internal carbon pricing simultaneously to keep pace with the fast-moving sustainability landscape.

Approach to supplier engagement

Strategic data management:
- Use of a spend-based approach for GHG accounting, shifting to a hybrid approach incorporating activity-based metrics and secondary databases while engaging with mature and critical suppliers to obtain PCFs/ECDs.
- Understand and apply relevant industry emissions calculation frameworks (e.g. GLEC framework for logistics, PACT framework by WBSCD, TfS framework for chemical industry).
- 'Horizon Analysis': Use of CDP data to assess vendor maturity in terms of CDP disclosure, sustainability target setting and transition planning. Engagement is tailored according to maturity level to drive continuous improvement.

Selection of suppliers:
- Suppliers are targeted based on procurement spend, associated CO2e impact, business criticality, long-term partnerships, SMEs (Small & Medium Enterprise) innovation, and sector sustainability leadership.
- Local factors such as vulnerability to climate risk and level of regulatory pressure also inform which suppliers are targeted for engagement.
- Engagement is designed to drive supplier maturity based on the Horizon Analysis framework.

Outcomes of engagement

Buyer
- Although the majority of SLB's suppliers being at the beginning of their sustainability disclosure journey, last year they had an overall CDP disclosure response rate of 83% from 1,354 engaged suppliers, with 19% of disclosing suppliers already demonstrating progress along SLB's Horizon Analysis maturity scale.
- Improvements in supplier maturity has allowed supplier managers to further collaborate with key suppliers to obtain product carbon footprints (cradle to grave) and implement emissions reduction initiatives.
- Supplier disclosure data has helped SLB understand the geographical and industry specific decarbonization challenges of its supplier base and SLB has adjusted their supplier engagement strategy accordingly.

Setting supplier engagement targets:
- Set high benchmarks and engage with more suppliers each year.

Internal buy-in:
Organization-wide:
- Build a network of advocates by integrating climate action into organization-wide training programs.
- Climate action objectives are incorporated into annual performance objectives for all employees and are tied with financial incentives.
- Sustainability team members implementing initiatives are embedded within the supply chain sub-functions.

Procurement:
- Supplier management teams' complete sustainability training to enhance understanding of sustainability issues, enabling more effective and informed decisions to support our environmental objectives. Aims to elevate suppliers by at leastone level in Horizon Analysis maturity, a framework to assess and improve supplier performance in sustainability practices.
- Scenario plans enable strong business relationships to suppliers also committed to sustainability goals; align SLB strategy with supplier strategy to foster mutually beneficial approach to achieving targets.
- Integrate emission reduction strategies into business goals (i.e. category plans) thereby ensuring our procurement activities align with overall business strategy.

C-suite:
- Board and C-suite sets company vision and goal towards net-zero commitment.
- CEO endorses key performance objectives related to climate action for all employees.
- VP Planning & Supply Chain and VP Sustaina.

Supplier engagement initiatives:
Driving supplier maturity: SLB's 'Horizon Analysis' Framework, developed with CDP, categorizes the maturity level of suppliers from 'beginner' to 'advanced' based on KPIs around sustainability disclosure, target setting and transition planning. SLB uses this to guide supplier engagement and drive their progress up the maturity scale, embedding it into sourcing decisions to prioritize suppliers with strong performance and commitment to sustainability.

Incremental approach:
1. Initial focus on improving supplier disclosure rates.
2. Targeted engagement based on supplier Horizon Analysis performance.
3. Prioritizing support for 'beginner' suppliers to improve their maturity levels, while encouraging more ambitious action from 'advanced' suppliers.

Regional strategy:
- Local teams are leveraged for tailored engagement with suppliers across 120 countries.
- CDP x SLB support webinars conducted in five languages to improve regional engagement and impact.
- Local climate regulations and risks inform global sourcing decisions.

Supplier requirements:
- Beginner-level expectations are formalized in supplier contracts, without financial penalties.
- Focus on support first and stricter enforcement later.

Collaboration:
- Established a Supplier Innovation Programme to drive collaborative efforts, foster ideas and identify solutions from the supplier to address business challenges including sustainability.

Case study:
Grupo Boticário

GrupoBoticário

> **Engagement marks the beginning of our journey, with the ultimate goal of collaboratively finding solutions to achieve our climate ambition.**

Tips for success

Strategically select suppliers: A meticulous selection process of your suppliers ensures engagement with those who can have the greatest impact on the company's sustainability goals.

Establish a dedicated procurement team: Create a team like our Supplier Development group dedicated to fostering supplier growth and education. This ensures initiatives are not only well funded but highly prioritized within the organization.

Tailor your approach: Customize engagement to effectively address the unique challenges encountered by suppliers across different industries. For less mature suppliers, collaborate closely to develop tailored action plans for improvement. This approach strengthens relationships and makes it easier for suppliers to achieve their goals.

Reward and Recognize Efforts: Use awards to celebrate and incentivize suppliers' sustainability achievements. High performers not only receive recognition but also gain increased business opportunities, thereby fostering a culture of continuous improvement and innovation.

Approach to supplier engagement

Data:
- Annually collect GHG emissions data from suppliers through the CDP Supply Chain Program.
- Utilize a hybrid method for emissions calculation, combining spend-based and average-product based approaches.

Selection of suppliers:
- Suppliers are chosen based on multiple criteria: relevance, market value, alignment with core values, service structure, and potential to enhance business value.
- Segment suppliers by maturity; those scoring below 60% in the Partner Assessment and Development Plan (internal assessment) engage in targeted improvement plans.

Outcomes of engagement

Buyer
- Supplier engagement has led to collaborative development of low-carbon solutions that can be integrated into the value chain.
- 100% of strategic suppliers (65% of total spend in 2023) participate in the Partner Assessment and Development Program which drives them to environmental improvements.

Internal buy-in:
Procurement:
- Maintain a dedicated procurement department (Supplier Development) focused on driving supplier growth and training.

C-suite:
- Executive leadership support secures internal financing for engagement initiatives.
- Actively host supplier awards, underscoring Grupo Boticario's commitment to sustainability and high expectations for suppliers.

Engagement strategy:
- Created the Partner Assessment and Development Program (internal assessment) to recognize and promote sustainability best practices, including GHG emissions management and climate change adaptation.
- Tailor engagement strategies to address industry-specific challenges through ongoing evaluations and guidelines.
- Conduct training sessions and sustainability events to foster active supplier engagement.
- Map critical suppliers to establish performance improvement plans and define baselines.

Recognition and reward:
- Implement an annual award scheme to acknowledge and incentivize suppliers for sustainability efforts.
- Provide additional business opportunities to suppliers achieving high ESG scores, promoting continuous sustainability improvement.

Collaboration:
- Foster an open dialogue with suppliers to co-develop solutions that advance sustainability objectives, including innovative carbon-mitigation solutions.

Case study: **Nike**

Approach to supplier engagement

Selection of suppliers:

- Focus on suppliers with significant volume in finished goods and materials manufacturing, targeting those responsible for 80% of Tier 1 and 2 GHG emissions.

Data:

- Gather data on current and historical energy performance to establish a baseline for GHG emissions reduction efforts.
- Nike's Energy Minimum Program mandates monthly reporting of energy data from suppliers into a performance management tool, crucial for tracking emissions and operational performance.

Supplier engagement initiatives:

- Nike's 'Climate and Energy Program' uses capacity building to encourage adoption of energy-efficient and renewable energy projects among suppliers leading to cost savings and environmental benefits.
- The Supplier Climate Action Program (SCAP) asks suppliers to develop a company-wide GHG inventory, publicly disclose via CDP and set a validated science-aligned emissions target for Scope 1 and 2 emissions.
- Working with suppliers in setting and achieving suppliers in setting and achieving GHG reduction targets through enhanced energy efficiency and renewable energy sourcing.
- The Responsible Supply Chain team sets clear and consistent minimum sustainability requirements with logistics service providers who do business with Nike.

Support and compliance:

- Emphasize the value of sustainability to suppliers through practical support and compliance initiatives.

Supplier requirements:

- Elimination of coal from Tier 1 and 2 manufacturing facilities by 2030.

Addressing challenges:

- Purchase of renewable energy:
  - Identify and advocate for policy changes to help unlock renewable energy purchase options in strategic markets.
  - Work with suppliers to accelerate uptake of onsite solar PV by providing technical assistance and financial assessments on potential projects.
  - Help to facilitate offsite renewable electricity opportunities in key sourcing markets.
  - Assist Tier 2 suppliers in adopting biomass through sustainable biomass sourcing policy.

Collaboration:

- Use engagement with logistics service providers to drive sustainability innovations, such as adopting biofuels, enhancing overall supply chain sustainability.

Outcomes of engagement

Buyer

- As of FY23, Nike's SCAP now involves suppliers accounting for over 65% of strategic supplier emissions. These suppliers have all had their science-based targets for Scope 1 and 2 emissions validated by the World Resources Institute.
- Stakeholder workshops with SCAP members resulted in a ten-year action plan, outlining the priorities for achieving both Nike and suppliers' shared climate ambitions.

Suppliers

- Nearly a third of SCAP member suppliers increased their CDP disclosure scores
- Nike suppliers have contracted over 300 MW of onsite solar PV at nearly 80 facilities.
- In FY23, 60% of electricity used in finished goods factories was from renewable sources.

Case study:
Philips

PHILIPS

“Our ‘Beyond Auditing’ approach emphasizes assessment over auditing, and collaboration over punishment, encouraging transparency from suppliers. We take a systemic approach to improve the sustainability of our supply chain through continuous improvement against a set of recognized and global reference.”

Tips for success

Define sustainability expectations for suppliers: Establish clear sustainability expectations for suppliers via a universal Code of Conduct to drive maturity across sustainability disclosure, science-based target setting and climate action.

Integrate sustainability into procurement: Incorporate sustainability KPIs into procurement processes, such as tracking progress towards science-based targets for current strategic suppliers and for the selection of new suppliers.

Mandatory sustainability upskilling for procurement: Regular sustainability trainings and webinars, along with an internal supplier sustainability dashboard, are key to preparing procurement colleagues for supplier sustainability discussions.

Tailored and collaborative engagement: Adapt engagement asks depending on sustainability and disclosure maturity of the supplier and collaborate with suppliers to achieve continuous sustainability improvements.

Prepare suppliers for upcoming regulation: Supporting suppliers to improve their disclosure and sustainability maturity will prepare them in advance for upcoming regulations like CSDDD.

Approach to supplier engagement

Data collection:
- Strategic and carbon intensive suppliers are invited to disclose to CDP via the Supply Chain Membership program (top 500 suppliers this year)
- Concerns remain about non-validated, self-reported data affecting calculations
- 99.6% ratio of Scope 3 to Scope 1 & 2 emissions

Selection of suppliers:
- Suppliers selected for engagement based on procurement spend, CDP participation and nature of supplier relationship (priority placed on long-term and strategic suppliers e.g., in the medical sector)
- Engagement is tailored based on supplier sustainability maturity and their willingness to disclose; engagement aims to a) drive maturity improvements and b) encourage disclosure in the first place.

Internal buy-in:
Organization-wide:
- Public company-wide commitment: 50% of suppliers, by spend, being committed to the Science Based Targets initiative by 2025.

Procurement:
- Sustainability integrated into procurement processes – selection of new suppliers is informed by their willingness to disclose and progress towards science-based emission reduction targets
- Procurement team hold regular business review meetings with suppliers, during which they provide feedback on supplier sustainability and disclosure performance and tangible next steps for improvement

C-Suite:
- The Board of Management, highest governing ESG body, defines Philips’ ESG strategy and commitments, action plans and policies, monitors progress and takes corrective action when needed. Consideration of internal carbon pricing to inform new supplier selection
- Consideration of improved payment terms for suppliers demonstrating sustainability improvements

Supplier engagement initiatives:
‘Beyond Auditing’ Approach
- Engagement approach favors assessment instead of audit and collaboration instead of punishment, but with an approach of no tolerance when suppliers refuse to improve severe cases
- Engagement approach favors suppliers’ ambition and structural improvement over time
- The Supplier Sustainability Performance (SSP) approach aims to drive proactive continuous improvement in supplier disclosure and sustainability maturity; suppliers are supported throughout their sustainability journey
- Collaborative and transparent engagement reduces the risk of suppliers falsifying their data as sometimes seen in conventional audits

Driving supplier maturity:
- Suppliers receive feedback and best practice guidance on their journey from GHG emission measurement and disclosure through to credible renewable energy usage claims, absolute emission reduction targets, science-based targets and net-zero transition planning.
- Internal supplier sustainability dashboard helps prepare procurement colleagues ahead of supplier review meetings; the dashboard illustrates where each supplier is on their journey towards their science-based target, their CDP score trajectory, their renewable energy use and more.

Establishing supplier requirements
- Supplier Sustainability Declaration (SSD) acts as a Code of Conduct, requiring all suppliers to:
  - Track, document, and publicly report energy consumption and relevant Scopes 1 and 2 GHG emissions.
  - Seek methods to improve energy efficiency and minimize energy consumption and GHG emissions.
  - Establish organization-wide, science-based GHG emission reduction targets to be approved by the SBTi.

Collaboration:
- Collaboration with suppliers to explore corporate renewable energy sourcing mechanisms.

Outcomes of engagement

Buyer
- Engagement has strengthened relationships with buyers and established trust, where suppliers can be transparent and are not tempted to falsify their data as with conventional audits.
- Currently 46% of suppliers have committed to setting Science Based Targets via the SBTi, not far below Philips’ target for 50% of suppliers, by spend, being committed by 2025.

Suppliers
- Philips has reported suppliers being much more comfortable with upcoming regulations thanks to ongoing engagement and encouragement on sustainability disclosure and target-setting.

Case study: **GSMA**

The GSMA is an excellent example of how an association can leverage the CDP Supply Chain Program to engage three key groups: member mobile network operators, their suppliers, and the GSMA's own supplier network. This comprehensive approach aims to enhance measurement, disclosure, and understanding of climate issues across the mobile industry.

Importance of industry associations:

Increased leverage and influence: Associations can help buyers unite to increase their leverage and influence over suppliers. From CDP data, over 99% of the companies disclosing to requesting buyers received requests from multiple buyers. Suppliers are increasingly likely to disclose information when they receive more requests. The disclosure rate of companies receiving 2-10 requests was 71%, rising to 92% for companies receiving 11+ requests.

Promote healthy competition: By highlighting leadership among members, associations can foster healthy competition as well as support those starting their climate journey.

Resource sharing: Associations facilitate the sharing of resources, solutions, and best practices to address common industry challenges. For example, the GSMA provides a Climate Action Toolkit for the mobile industry and hosts regular webinars on challenges and solutions. The GSMA also established the Climate Action Taskforce in 2019 to promote collaboration, which now has more than 70 members covering 80% of the industry.

Advocacy for government support: Associations can advocate for policies and investments from the government, to help the industry achieve its net-zero goals. Representing a unified voice, associations can lobby for regulatory and financial support for sustainability initiatives. For example, the GSMA is advocating for increased access to, and use of, renewable electricity as part of its Climate Policy.

Collaboration: Three-quarters of the mobile industry's carbon emissions come from its value chain (Scope 3), highlighting the critical importance of involving supply chains in sustainability efforts. Since most emissions are not directly controlled by companies, collaborative efforts among industry stakeholders are essential. Open dialogues among industry stakeholders and governments help to accelerate action and foster innovation across the sector.

Data: Effective data disclosure is crucial for addressing climate impacts in the mobile industry. Top members are encouraging suppliers to participate in initiatives like the CDP Supply Chain Program. This is key to improving transparency and accountability. In 2023, 70 mobile network operators disclosed data through CDP, up from 67 in 2022. When combined with data from nine large operators' sustainability reports, this increased total disclosure coverage to 80% of connections, thanks to a push on the importance of transparency from the GSMA.

The GSMA's tips for success (inspired by leading members)

Strong internal support:
- *Executive Commitment:* Support from leaderships crucial for resource allocation and embedding climate strategies. Chief Procurement Officers (CPOs) show proactive leadership and continuous upskilling.
- *Procurement Excellence:* Top members effectively engage procurement teams, empowering category managers to integrate sustainability criteria into measures and scorecards

Strategic supplier engagement:
- *Phased Approach:* Top members begin with education when engaging suppliers and progress to goal setting and compliance deadlines.
- *Stringent Criteria:* Some members enforce stringent sustainability criteria tied to spending thresholds, motivating suppliers to prioritize sustainability practices.

Set realistic targets:
- *Effective Goal Setting:* Set achievable yet ambitious targets to maintain commitment and drive continuous improvement in environmental performance.
- *Sector-Specific Pathways:* The GSMA, in collaboration with the ITU, GeSI, and SBTi, developed a decarbonization pathway for the ICT industry. This helps companies set science-based targets aligned with the Paris Agreement's goal of limiting global warming to 1.5°C.

Regional segmentation:
- *Localized Engagement:* Tailor strategies to regional contexts to effectively engage suppliers and operators worldwide, ensuring relevance and maximizing impact in diverse market.

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www.cdp.net/en/supply-chain

A note from HSBC, the funder of this report:

HSBC is the world's largest Trade Finance bank with a 13.6% market share and global footprint covering 90% of global trade flows. It manages over 1,100 Supply Chain finance (SCF) buyers who have the ability to enroll suppliers in 90 countries, funding SCF transactions in 32 currencies and covering nearly 100,000+ suppliers globally.

HSBC's goal is to work with their customers as a trusted transition partner and help decarbonize their supply chains, which are the backbone of new net-zero economic ecosystems. HSBC can enable this transition through providing financing solutions such as Sustainable Supply Trade Financing, which can help influence suppliers' behavior, based on the financing linked to sustainability performance metrics.

Broadly speaking, HSBC's Sustainable Supply Chain financing solution can make early payments to anchor the buyer's suppliers on terms that consider the supplier's sustainability performance. For buyers, this helps accelerate the achievement of the supply chain sustainability targets, reduce Scope 3 emissions by influencing supplier behaviors to achieve holistic transformation, improve supply chain resilience, and reduce supplier risk. From the suppliers' perspective, this helps them achieve sustainable operational improvements, meet buyers' sustainability requirements, and improve cost efficiency and profitability.