

Sustainable procurement in the energy industry

A practical guide to generating business value and continuity through energy supply chains

MARCH 2018



Special thanks to the following member organisations for their valued input to the development of this white paper:



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Rules of Engagement

EPSA's mission is to deliver quantifiable benefits to its members and suppliers through collaboration on supply chain processes. The members of the Group share information for the purposes of progressing EPSA activities towards this mission but in doing so all members are reminded that;

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Table of contents

About EPSA	1
About this document	2
Executive summary	3
What is sustainable procurement?	5
The issue	5
Energy industry sustainability impacts	5
Why should we implement sustainable procurement?	7
Understand your drivers	7
Analyse your stakeholders	9
Build a great business case	12
What should we do and how?	13
Fundamentals – How far should we go?	13
Policy and strategy – Define strategic priorities	17
Enablers – Develop staff competency and motivation	21
Enablers – Engage with your supply base	21
Procurement process – Think strategically	25
What's next?	31



About EPSA

The Energy Procurement Supply Association (EPSA) is an Asia Pacific not-for-profit association that is made up of energy industry procurement and supply professionals. EPSA activities are managed and delivered largely through the voluntary work of the membership.

EPSA brings together members and often prospective members to network and collaborate for the purpose of sharing and creating tangible, sustainable business benefits to their respective organisations. This includes exploring contemporary issues and best practice opportunities that drive and enable supply chain optimisation.

EPSA holds regular conferences across the Asia Pacific region, and where appropriate instigates follow-up workshops on common issues and conducts qualitative and quantitative benchmarking. Moving forward, EPSA will introduce programs that support the personal development of supply chain and procurement professionals within the energy industry.

Outside of the formal conference arrangements, members also benefit from initiating their own simple surveys on specific contemporary issues, sharing information to identify best industry performers and collaborating at an Asia Pacific cluster level on a regular basis.



About this document

Like most industries across the globe, the energy industry in the Asia Pacific region is paying much closer attention to the effective management of sustainability across their complex supply chains.

Teams accountable for procurement and supply chain management are thus expected to support their organisation in achieving sustainable procurement outcomes, i.e. 'procurement that has the most positive environmental, social and economic impacts possible over the entire life cycle.' (source: ISO 20400).

EPSA has developed this document to assist the energy industry procurement and supply chain management community to stimulate meaningful discussions with their business leaders around sustainable procurement, including demonstrating the commercial benefits and opportunities that can be derived by taking a sophisticated and strategic approach to sustainable procurement.

We hope that you enjoy reading this paper as much as we enjoyed developing it.

Tony Ballard, EPSA President



Executive Summary

As sustainability has become an ever more important strategic consideration for energy companies, energy procurement teams are increasingly being engaged to support and drive the effective management of environmental, labour, community and business ethics impacts in their companies' supply chains.

Achieving required sustainable procurement outcomes can be quite challenging, and as a consequence requires a concerted strategic approach to manage the inevitable change and cultural impacts, as alluded to in the new ISO 20400 standard on sustainable procurement.

A major challenge for procurement senior managers is to convince their organisation of the need to embrace the concept of sustainable procurement. Typically a robust business case is seen as necessary to set out the benefits of sustainable procurement, including the positive commercial outcomes that can be derived from it. It is reasonably clear that once embarking on the development of any business case, consultation with key stakeholders that have influence and knowledge in this field is paramount; as highlighted in CLP case study on page 10.

Defining strategic priorities can also be a challenge. Whilst major international standards require companies to exercise due diligence on all sustainability impacts throughout their entire supply chains, procurement senior managers are required to adopt a practical approach in making best use of limited resources on top priorities. Beyond the establishment of a policy, it is recommended to develop a 3-5-year strategy including SMART (Specific, Measurable, Achievable, Realistic, Time-bound) objectives addressing the company's sustainability objectives as well as the most material sustainability impacts across the company's spend portfolio, as shown in the EDF Energy case study on page 19.

Once the sustainable procurement strategic direction is set for a company, it is important that procurement senior managers establish a communication / engagement plan to educate staff and suppliers on the company's sustainable procurement journey and commercial benefits of heading down this path. As part of this engagement process, staff must be enabled to embrace the new world of procurement through enhanced competencies and motivation. Suppliers on the other hand need to be engaged by Category Managers to participate in various collaborative initiatives to further develop their sustainability capabilities and competitiveness, as reflected in the ElectraNet and Western Power case studies on pages 23 and 24.

At an operational level, sustainability to be truly successful must be integrated in all key procurement activities including category, sourcing and contract management. There's nothing like a unique recipe for success. Like any other strategic consideration, staff should define a fit-for-purpose strategy based on a thorough understanding of risks and opportunities, organisational needs and stakeholders, market characteristics and costs, as highlighted in the Energy Queensland case study on page 29.

Through their own varied experience, EPSA members are convinced that sustainability is a great opportunity for procurement to contribute to business value and continuity outcomes, hence growing the profession's influence within energy companies. Great outcomes can be achieved through a strategic and practical approach to sustainable procurement. Sharing experience and building knowledge with other like-minded energy procurement professionals is also a great way to be more efficient and effective in this field. So why not join us at EPSA if you are not already a member and collaborate!



“Great outcomes can be achieved through a strategic and practical approach to sustainable procurement.”

What is sustainable procurement?

The issue

Energy companies spend a substantial proportion of their total expenditure with supply chains, including construction, services, products, equipment and assets that are critical to the industry's safety, reliability, quality of service, competitiveness and profitability. Through this process, energy companies outsource the management of major sustainability impacts to their supply chains, whilst remaining ultimately accountable for them. With appropriate procurement processes, a company can ensure that it manages and influences its supply chains in order to contribute to its sustainability objectives. This is, in very simple terms, what we call 'Sustainable Procurement'.

Energy industry sustainability impacts

The concept of sustainability has many facets and is applied differently across industries. For energy companies, it can be structured around four major sustainability impacts: Environmental, Labour, Community and Business Ethics. There's no 'one size fits all'; relevant and significant sustainability impacts will vary depending on what you buy, as demonstrated on page 6.

Sustainability impacts		Is it relevant to what I'm buying?
Environmental	Pollution	<ul style="list-style-type: none"> • Significant pollution generated: air, water, soil, noise? • Significant use of materials, water, fuel or electricity? • Significant amount of waste generated and/or complex to recycle? • Significant impact on natural habitats or biodiversity? • Opportunity to use renewable energies? • Sensitive to extreme weather events e.g. floods, heatwaves?
	Waste	
	Biodiversity and natural habitats	
	Energy and carbon	
	Climate change consequences	
Labour	Work, health and safety	<ul style="list-style-type: none"> • High risk occupational situations resulting in stress, injuries, illnesses, disabilities and/or fatalities? • Sourcing from countries where regulations are low? • Use of low skilled workforce, including vulnerable populations in any country or region? • Use of businesses with weak management practices?
	Working conditions	
	Human rights and modern slavery	
Community	Local, disadvantaged communities	<ul style="list-style-type: none"> • Opportunity to generate significant jobs for local and/or disadvantaged communities? • Industry known for discrimination against disadvantaged communities e.g. gender, ethnicity? • Opportunity to influence Tier 1 suppliers to engage local and/or indigenous businesses and/or employees? • Opportunity to work with diverse suppliers e.g. indigenous businesses, social enterprises, disability enterprises?
	Local jobs and suppliers	
	Workforce and supplier diversity	
Business Ethics	Corruption and bribery	<ul style="list-style-type: none"> • Industry known for cases of supplier collusion and/or corruption? • Sourcing from countries where probity and anti-corruption regulations are low? • Any intellectual property issues?
	Fair business relationships	



Why should we implement sustainable procurement?

Sustainability is a relatively recent area of attention for many Asia Pacific energy companies and with this some people in an organisation may not clearly understand the commercial imperative that sits behind adopting sustainable procurement principles. Sustainable procurement champions' primary challenge is to convince their organisation to embrace its commercial virtues and how it supports strong business continuity. Page 8 highlights some examples of key considerations when doing so.

Understand your drivers

Drivers for sustainable procurement can vary greatly from one energy company to another. The first task is to understand and formulate a proposition around 'What's in it for us?' Page 8 identifies five drivers that are considered to be largely relevant to the energy industry.

Driver	What you could hear	How you should respond	Examples
Regulations and policies	“Integrating sustainability in procurement is a nice to have”	“We have to comply with current regulations and policies and be prepared for upcoming ones”	<ul style="list-style-type: none"> Environment: Hong Kong Air Pollution Control Ordinance and Waste Disposal Ordinance Labour: Australian Work Health and Safety Act, upcoming Modern Slavery Act Community: Australian Commonwealth Indigenous Procurement Policy, South Australia Industry Participation Policy, Queensland Backing Up Queensland Jobs Business Ethics: NSW Independent Commission Against Corruption, Victoria’s Independent Broad-based Anti-corruption Commission (IBAC), Hong Kong Prevention of Bribery Ordinance
Stakeholder requests	“The way we manage our supply chains is not important to our stakeholders”	“Our employees, customers, investors and communities expect us to manage sustainability in our supply chains”	<ul style="list-style-type: none"> Dow Jones Sustainability Index (DJSI) Supply Chain Management Section Global Reporting Initiative (GRI) 204, 308, 412, 414 ‘80% of firms experienced customer pressure to demonstrate sustainability in their supply chains’ (source: DNV-GL survey conducted on a sample of 2,061 professionals in July 2014)
Supply chain risks	“We have more important risks to manage”	“All high risks should be managed, including those related to sustainability”	<ul style="list-style-type: none"> Sydney Airport – Third world working conditions for airline company contractor (Sydney, 2017) Asbestos construction materials in Australian buildings (Australia, 2016) Rana Plaza’s factory collapse – 1300 fatalities (Bangladesh - 2013) Mine explosion in Turkey – 300 fatalities (2014) Incorrect waste management practices with pole butts
Costs and competitiveness	“Integrating sustainability in procurement is too expensive”	“We have to think about short, mid and long term savings to secure the competitiveness of our business - sustainability will help us do this”	<ul style="list-style-type: none"> Through having a policy of driving down embodied carbon in their capital programme, Anglian Water has saved around 11% of its supply chain costs over a 5-year capital programme of works
Values and culture	“Nobody in the organisation cares about sustainability in procurement”	“Sustainability is closely linked to our values - we can use it to attract and retain talent and boost motivation and pride of what we do”	<ul style="list-style-type: none"> A recent study by the Society for Human Resource Management found that 94% of millennials are interested in using their skills to benefit a cause Ergon Energy previously entered into a contract with the Endeavour Foundation for the provision of supply and delivery of wood stakes. While not offering the cheapest bid, Endeavour’s social procurement proposition was strong in providing opportunities to people with disabilities genuine work and to develop their skills, in line with the company’s values

Analyse your stakeholders

Procurement is an activity that usually involves a large number of stakeholders including Senior Executives, Budget Holders, Operations, Engineers, Finance, Environment, and Safety. Identifying and analysing key stakeholders enables you to define the right engagement approach for your sustainable procurement initiative. Here are some typical questions that you might ask yourself:



Stakeholder Who will 'make it or break it'? Is there a clear champion you should convince first?



Role What will be their role: responsible, accountable, consulted or informed?



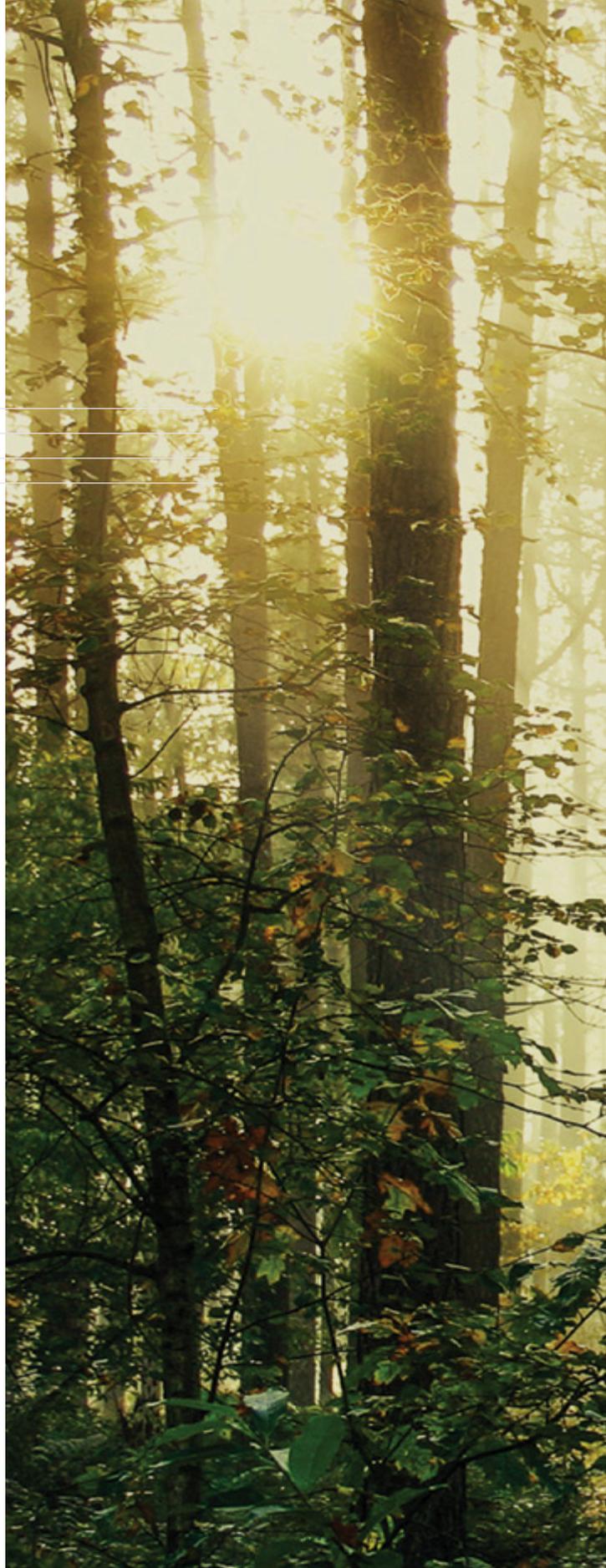
Support Are they likely to support or on the contrary fight against the initiative?



Objections What are their concerns? Any 'hot button(s)'?



Engagement Plan What key considerations need to be managed with stakeholders? What is the best timing to do so? Who should be involved?



Case study

CLP Policy Development

In 2012, CLP developed its first Responsible Procurement Policy Statement (RePPS). To do so, we first sought for top level sponsors at the Board level. With commitment from top level obtained, we then identified key internal stakeholders that we should engage with in order to reach consensus on the content of the policy. We also formed a cross-functional and cross-regional working team to start developing the policy through:

- Identifying CLP's business drivers;
- Conducting sustainable procurement benchmarking and identifying good practices from different sectors including:
 - Global leaders;
 - Global and regional energy companies;
 - Local large corporations;
- Developing targets and a roadmap; and
- Defining how it will be practically implemented through the procurement and contract management process.

The draft policy was then discussed with business units in order to fully assess the impacts on their resources, prior to being presented to the Board for final approval.

In 2017, CLP reviewed its RePPS in the light of new international standards such as ISO 20400, GRI and DJSI. The process involved key corporate and operation functions, as well as representatives from CLP Regions: Hong Kong, Australia, China and India.

Case study

United Utilities Business Benefits

United Utilities (UK) is a perfect example of a company that used sustainable procurement to achieve business objectives. The company implemented a program of work to fully align its procurement practices with the British standard BS 8903: Procuring Sustainably. Achievements include:

- Recognition as Global sector leaders for supply chain in DJSI;
- Business in the Community leading sustainable business;
- Staff awareness of sustainability improved from 40% to 80% in two years measured through an independent survey;
- £6M financial savings attributed to sustainable procurement in 2 years.



Build a great business case

The business case is your documented argument to convince decision maker(s) to support your sustainable procurement initiative. As a rule, a business case should outline the rationale for undertaking the project, articulate a clear path to an attractive return on investment, and define the parameters and management factors involved in the project itself.

A good business case may include the following elements:



Problem What sustainability impacts are we trying to solve? What is driving us to manage them?



Solution How can we realistically address these sustainability impacts through procurement?



Approach What are the viable options available to implement the solution?



Risks What are the risks associated with each option? What could happen if we do nothing?



Value What business value is generated from each option?

What should we do and how?

ISO 20400 is the first international guidance standard on sustainable procurement, published in April 2017. It was developed by 52 countries in liaison with major international organisations such as the United Nations (UN) and the Organisation for Economic Co-operation and Development (OECD) (more information on www.iso20400.org).

With this new standard, energy companies have access to a robust framework that covers all areas of procurement and supply chain management, from strategic to operational, as shown on page 14. The following sections provide some tips around major challenges faced by the energy industry when implementing sustainable procurement.

Fundamentals – How far should we go?

Most organisations experience a tension between their willingness to address sustainability impacts in their supply chains and their ability (or lack of) to effectively achieve such an outcome. The following example on page 15 of supply chain mapping for a hi-vis vest, conducted by members of the Supply Chain Sustainability School, shows how complex supply chains can be.

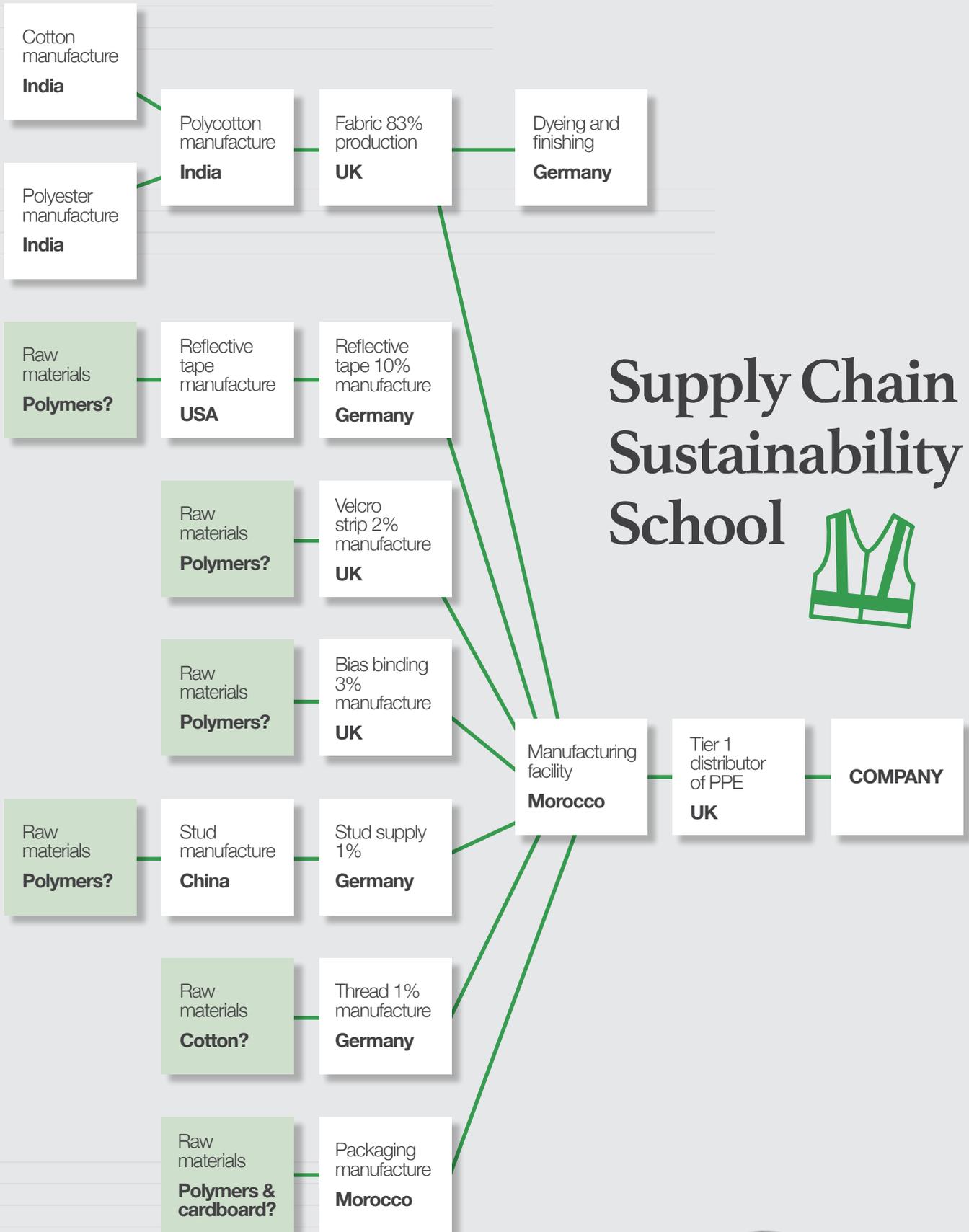


Fundamentals
Principles
Considerations
Core Subjects
Drivers

Policy and strategy
Leadership & Accountability
Managing Implementation
Aligning with Organisational Goals
Understanding your Supply Chains

Enablers
Establishing a Grievance Mechanism
Measuring & Improving Performance
Setting Priorities
Governing Procurement
Enabling People Engaging Stakeholders

Procurement process
Reviewing & Learning
Planning
Integrating Sustainability into the Specifications
Selecting Suppliers
Managing the Contract
Enabling People Engaging Stakeholders



In line with ISO 20400, three fundamental principles of action should be jointly considered to decide how far you should go in your supply chains.

Exercising due diligence

Organisations are accountable for sustainability impacts throughout their entire supply chains and should seek to manage them. This principle is a ‘must have’ of major international frameworks such as ISO 20400: 2017 Sustainable Procurement, the UN Guiding Principles on Business and Human Rights or the OECD Guidelines for Multinational Enterprises.

Setting priorities

Organisations should prioritise which sustainability issues are the most relevant and significant for a specific product or service. In simple terms, an organisation is not expected to deal with everything, but primarily what matters the most while remaining compliant with relevant laws.

Exercising influence

Organisations should, to the fullest extent possible, exercise their capacity to influence the behaviour of suppliers and other stakeholders towards sustainability. However, organisations may be limited at times due to the importance they hold with various suppliers, including the lack of direct control and/or the current terms and conditions of the contract.

How should you apply these principles in real life? See some examples below.

Typical situations	Potential strategies
<p>“This will cost us too much and this is way too time-consuming.”</p>	<ol style="list-style-type: none"> 1. Identify high-risk areas to establish mandatory criteria (Setting priorities) 2. Explore opportunities that bring cost savings or reduce additional costs (Exercising influence) 3. Introduce a reasonable sustainability evaluation criteria to reward sustainability high performers (Exercising influence) 4. Do not necessarily select a more sustainable supplier that is more expensive but make it a condition of contract that the lower cost supplier improves their sustainability performance over the life of the contract (Exercising influence)
<p>“We are unable to dig further than our Tier 1 supplier. It is impractical!”</p>	<ol style="list-style-type: none"> 1. Use a risk-based approach to determine which Tier 2 suppliers will be examined, including audits (Setting priorities) 2. Partly rely on declarations of Tier 1 suppliers on their suppliers (Exercising influence) 3. Collaborate with trusted suppliers to map extended supply chains (Exercising influence) 4. Leverage peer organisations and industry networks where commercially practicable (Exercising influence)
<p>“Should we just stop buying from high risk countries?”</p>	<ol style="list-style-type: none"> 1. Identify potential sustainability adverse impacts in high-risk countries using business intelligence services (Setting priorities) 2. Shift to ‘leading suppliers’, relying on supplier declarations and audits (Exercising influence) 3. Collaborate with other companies to provide development support to suppliers in a cost-effective way (Exercising influence)

Policy and Strategy – Define strategic priorities

Most organisations start with the development of a document which expresses a sustainable procurement vision, values, commitments and rules, often called a “policy”. Few organisations go beyond policy and fully enable the achievement of this vision. This is the aim of a “strategy” document, which should include the following elements:

- A set of top-priority sustainable procurement objectives for the next 3-5 years;
- SMART goals for each objective;
- Clear accountabilities and responsibilities for the achievement of these goals;
- A practical and realistic implementation and monitoring framework;
- All of that endorsed and sponsored by senior management.

The key question then is: what should these priorities be? First of all, procurement should align its strategy with corporate sustainability objectives and goals, which can be reflected in a number of strategic and reporting documents covering the Environmental, Labour, Community and Business Ethics impacts, previously addressed.

Secondly, procurement should take ownership of supply chain sustainability impacts through a thorough analysis of its spend portfolio. One approach is to develop a ‘Heat Map’, as shown on page 18. A Heat Map aims to producing a list of sustainable procurement priorities. It is best done as a collective exercise with key stakeholders and consists of analysing sustainability risks and opportunities per category of spend, using typical risk management methodologies.

Sustainability risks and opportunities		Vegetation management	Transformer	Hi-vis vest
Environmental	Pollution	Low – Work is mechanical	Medium – Pollution related to oil spills, manufacturing	Medium – Production of cotton, polymers and polyesters, dyeing and finishing
	Waste	Medium – Reusing organic waste, avoid leaving waste on site	Medium – Long life complex equipment involving hazardous waste	Low – Low quantities of low-risk waste
	Biodiversity and natural habitats	High - Minimising impacts on wild life, preventing bushfires	High – Impact on wild life and environment if there's a leak or explosion.	Low – Low impact on wild-life
	Energy and carbon	Low – Low use of energy and carbon emissions	High – Embodied carbon, energy intensive equipment	Medium – Embodied carbon
	Climate change consequences	Medium – Adapting to a different climate	Medium – Adapting to more frequent and intense weather events, e.g. heat waves	Low – Not significantly impacted by climate change
Labour	Work, health and safety	High – Managing safety risk near power lines and at elevations	High – Risks in factories and also during installation and use (blow up, oil spills catching fire)	High – Garment industry known for poor labour management. Pressure on low costs drives labour standards down
	Working conditions	Medium – Physical job	Medium – Staff fatigue	
	Human rights and modern slavery	Low – Companies using staff with technical skills	Low – Companies using staff with technical skills. Potential risks with components sourced from countries with weak regulatory environment	
Community	Local, disadvantaged communities	High – Protecting heritage sites, avoiding nuisance to neighbours, educating local communities to safe practices	Medium – Reliability of equipment to avoid power disruption	Low – Products manufactured in a few Asian countries
	Local jobs and suppliers	Medium – Potential local jobs across network	Low – National and international companies	
	Workforce and supplier diversity	Medium – Opportunity to develop skills, and use diversity businesses in some locations	Low – Difficulty to influence manufacturing processes	
Business Ethics	Corruption and bribery	Low – Single contract managed centrally by procurement team	Low – Single contract managed centrally by procurement team	Low – Single contract managed centrally by procurement team
	Fair business relationships	Medium – Energy company can represent high % of supplier turnover	Medium – Energy company can represent high % of supplier turnover	Low – Energy company deals with wholesaler or distributor.



Case study

EDF Energy Better Supply Chain Plan

EDF Energy developed a Better Energy Plan, which is an integral part of EDF Energy's 2030 vision – to be the efficient, responsible electricity company, and champion of low-carbon growth. The Procurement team translated this plan into a Better Supply Chain Plan, which formulates SMART objectives that are relevant to the management of the company's supply chains.

The Better Supply Chain Plan



CAP 2030

FEEL **BETTER** ENERGY

WHO Better Supply Chain Organisation

WHAT A Supply Chain team that value long-term performance, over short-term opportunity, to help build a sustainable and responsible business.

WHY

BETTER ENERGY

BETTER LIVES

BETTER EXPERIENCE

NOW



NET ZERO IMPACT



ETHICAL SOURCING



ZERO HARM



D & I



SOCIAL MOBILITY



SUSTAINABLE BUSINESS



INNOVATION

ENABLERS

Active carbon reduction
Zero waste to landfill
Increased recycling rates

Encourage and promote diversity in the Supply Chain and local communities

Modern Slavery Act compliance
CIPS Sustainability Index
Strong, financial and ethical decision making

100% safety record with our people and suppliers
Providing a safe, healthy workplace for all

Capture the value that being a diverse and inclusive team can bring
Recruit, develop and promote the best treating everyone fairly

Living Wage Accredited
Apprentices, graduates and steps into work

Open, honest, transparent relationships
Collaborative, long term partnerships

Engaging SME's, local business with the right capability and capacity to deliver

Greater innovation to business challenges and receptiveness to previously overlooked solutions



ENVIRONMENT



NUCLEAR



ZERO HARM



PEOPLE



CUSTOMERS



FINANCE & ETHICS

Enablers – Develop staff competency and motivation

People’s ability to implement sustainable procurement is related to two key elements:

- **Competency:** their knowledge and skills in this field; and
- **Motivation:** their willingness to apply new ideas and experiment without fear of the consequences.

Energy companies should thus develop both the competency and motivation of all individuals involved in procurement activities including but not limited to strategic sourcing, contract management, supplier relationship management and sustainability.

Competency can be enhanced through a combination of on-the-job learning experiences, coaching from subject matter experts and formal training. Motivation can be enhanced through a supportive organisational culture, collective and/or individual performance agreements and objectives, staff development reviews and evaluations, incentive plans or other reward and recognition arrangements.

See below an indicative procurement competency matrix covering key sustainability competencies. It is interesting to note that for most competencies listed below are about adding sustainability as a ‘topic’ to be managed as part of a broad, traditional procurement skill.

Competencies	Tactical (e.g. Purchasing and Contract Officer)	Strategic (e.g. Category Manager)	Manager (e.g. CPO)
Understand sustainability issues in the energy industry	Basic	Advanced	Expert
Communicating on company sustainable procurement policy and strategy	Basic	Advanced	Expert
Strategically engage with key stakeholders on sustainability	Basic	Advanced	Expert
Strategically manage critical suppliers on sustainability	Basic	Expert	Expert
Assess category and supplier sustainability risks and opportunities	Basic	Expert	Advanced
Integrate sustainability into the project procurement strategy	Basic	Expert	Advanced
Manage sustainability during tendering, evaluation, contract and supplier management	Advanced	Expert	Advanced

**Enablers –
Engage with your supply base**

Influencing your suppliers to work on sustainability goes beyond the sole management of the sourcing and contract management processes. Business-to-business initiatives should be implemented to trigger long-term change in your supply base, just like what you would do in other areas such as savings or quality.

These initiatives will vary depending on two dimensions: the level of criticality of suppliers and the focus on compliance versus capability development, as shown in the table below.

	Non-critical supplier	Critical supplier
Capability focus	<ul style="list-style-type: none"> • Supplier forum • Supplier guidelines • Online training • Enabling technology / systems 	<ul style="list-style-type: none"> • Supplier development • Supplier relationship management • Joint business plans • Innovation programs
Compliance focus	<ul style="list-style-type: none"> • Supplier code of conduct • Prequalification • Contract conditions • Selection criteria 	<ul style="list-style-type: none"> • Comprehensive evaluation • Audits • Balanced scorecard • Performance management



ElectraNet

ElectraNet has implemented sustainability initiatives to drive efficiencies, enhance supplier relationships and reduce overall risk to the business. This has formed a key pillar of the rollout of their new Supplier Relationship Management process.

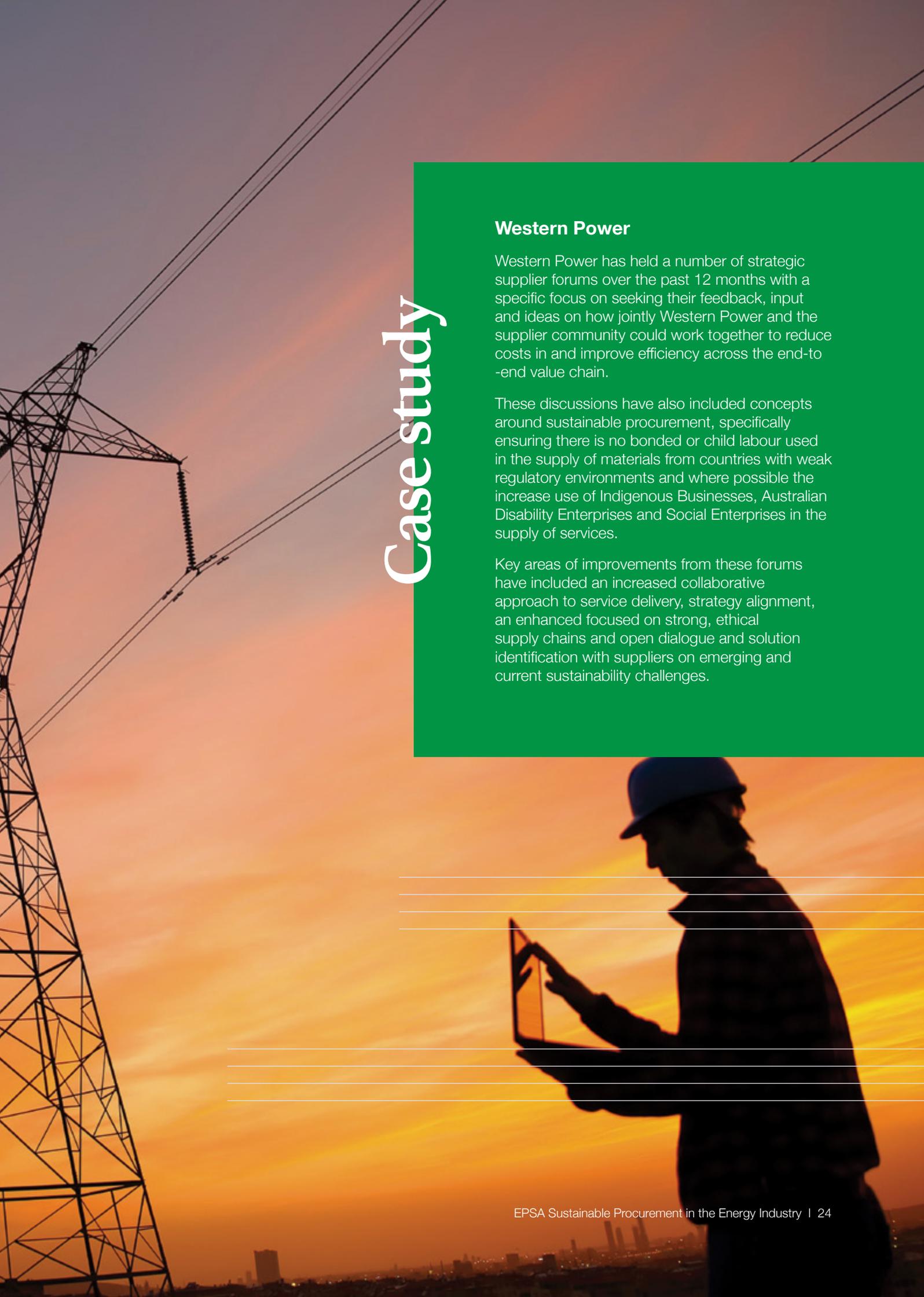
In their major plant category they have engaged with manufacturers with facilities in Australia and overseas to explore:

- Overall technical and safety in design to engineer out waste and improve safety;
- Sources of and raw material inputs to better understand how they manage their sub suppliers;
- Manufacturing opportunities including recycling of offcut material for use by other manufacturers in their products;
- Transport handling and reduced / environmentally friendlier / reusable packaging; and
- Improved assessment of total cost of ownership.

Engagement was collaborative and consisted of surveys, workshops and agreed action plans with regular updates to track progress.



Case study



Case study

Western Power

Western Power has held a number of strategic supplier forums over the past 12 months with a specific focus on seeking their feedback, input and ideas on how jointly Western Power and the supplier community could work together to reduce costs in and improve efficiency across the end-to-end value chain.

These discussions have also included concepts around sustainable procurement, specifically ensuring there is no bonded or child labour used in the supply of materials from countries with weak regulatory environments and where possible the increase use of Indigenous Businesses, Australian Disability Enterprises and Social Enterprises in the supply of services.

Key areas of improvements from these forums have included an increased collaborative approach to service delivery, strategy alignment, an enhanced focused on strong, ethical supply chains and open dialogue and solution identification with suppliers on emerging and current sustainability challenges.

Procurement Process – Think strategically

Sustainability should be integrated into existing procurement processes, just like any other business considerations. Here is an overview of key considerations individuals should reference when trying to procure sustainably.

Plan	Source	Manage
<p>Needs</p> <ul style="list-style-type: none"> Define the ‘right’ level of needs in terms of quantity and quality Integrate sustainability objectives in business needs Interact with stakeholders and manage change <p>Risks and Opportunities</p> <ul style="list-style-type: none"> Assess environmental, social and economic sustainability risks and opportunities and set priorities Be comprehensive: cover all sustainability impacts and all stages of the life cycle <p>Costs</p> <ul style="list-style-type: none"> Assess all costs throughout the life cycle <p>Market</p> <ul style="list-style-type: none"> Assess the industry’s capability to respond to your sustainability needs Consider giving opportunities to local suppliers, SME’s and under-represented communities (e.g. indigenous, disability, women-owned) Engage early suppliers to identify sustainable solutions Benchmark the industry and peers to identify best practice 	<p>Requirements</p> <ul style="list-style-type: none"> Integrate sustainability in the general conditions of the contract and draft contract Integrate sustainability in the specifications Use relevant regulations, standards and codes of conducts related to sustainability Use relevant sustainability certifications for management of activities (e.g. ISO14001) <p>Supplier Selection</p> <ul style="list-style-type: none"> Ensure a fair and open selection process Give sufficient visibility to sustainability in the invitation document (e.g. RFT) Give enough weight to sustainability in the evaluation criteria Assess conformity with sustainability requirements Use Total Cost of Ownership to assess value for money Keep sustainability on the negotiation agenda <p>Award</p> <ul style="list-style-type: none"> Ensure sustainability requirements are embedded in the final contract Debrief all candidates on their sustainability performance 	<p>Transition</p> <ul style="list-style-type: none"> Communicate with stakeholders on sustainability aspects of the contract Integrate sustainability in the contract management plan Integrate sustainability in any transition-in process <p>Contract Management</p> <ul style="list-style-type: none"> Use negotiation and mediation to solve disputes Monitor the supplier performance versus sustainability requirements and KPIs Drive innovation and continuous improvement through the relationship with the supplier Use incentives with the supplier to deliver sustainability objectives Manage supplier failure on sustainability KPIs Manage disposal and end-of-life of goods and assets <p>Contract Review</p> <ul style="list-style-type: none"> Share sustainability lessons learned Integrate sustainability into the contract debriefing How can you improve the next procurement strategy?

There’s nothing like a unique recipe for successfully integrating sustainability into procurement and category management strategies. It starts with early planning and stakeholder engagement, just like any other strategic considerations. Each supply category will therefore lead to a unique strategy based on an analysis of risks and opportunities, organisational needs and stakeholders, market characteristics and costs, as shown in the example on page 28.



“ Sustainability should be integrated into existing procurement processes. ”



Element	Vegetation Management	Transformers	Hi-vis Vest
Risks and Opportunities	Please see page 18 for risks and opportunities.		
Organisational Needs and Stakeholders	<ul style="list-style-type: none"> High-risk and medium value category Focus on management standards, qualifications and experience 	<ul style="list-style-type: none"> High-risk and value category Focus on technical compliance, robustness and life duration 	<ul style="list-style-type: none"> Low-risk and value category Focus on fitness for purpose and safety product standards
Market Characteristics	<ul style="list-style-type: none"> Niche industry of SMEs Competitive market High level of dependency - Energy companies may represent majority of supplier turnover. Emerging maturity in terms of sustainability 	<ul style="list-style-type: none"> Few specialist manufacturers Close buyer-supplier relationship: energy companies can be major clients Sustainability approach mainly focused on WHS and Environmental management 	<ul style="list-style-type: none"> International market dominated by few major distributors / wholesalers Distant buyer-supplier relationship: energy companies don't represent a high proportion of turnover Pressure on low price Quality and safety standards are common
Costs	<ul style="list-style-type: none"> Costs of risks related to poor vegetation management practices 	<ul style="list-style-type: none"> Indirect costs related to energy, repair and maintenance 	<ul style="list-style-type: none"> Costs of product replacement if quality is low
Fit for purpose strategy	<p>Use competitive tension to get the best of the market:</p> <ul style="list-style-type: none"> Require minimum standards on Environmental and Safety risks Incentivise suppliers to generate additional value e.g. reusing organic waste, reducing staff fatigue, developing workforce Closely manage supplier performance 	<p>Build sustainability solutions with supplier:</p> <ul style="list-style-type: none"> Include sustainability in supplier relationship management plan Use open dialogue to explore improvements 	<p>Adopt market best sustainability standards:</p> <ul style="list-style-type: none"> Use social and environmental product certifications Request information on factory HSE and labour management systems

Once the right strategy is defined, individuals involved in strategic sourcing, supplier relationship and contract management activities should continuously manage sustainability to ensure that it remains on the agenda of internal stakeholders and suppliers.

Challenges may appear throughout the supply life-cycle, like any other business issue, but the right path has been taken: managing sustainability as a strategic concern that can contribute to business value and continuity.



Case study

Energy Queensland

The current provision of hard wood poles by the supply market attracts a reasonable degree of supply risk due to availability of correct sizes and quantities required. Various solutions have been identified to mitigate supply risk of which one is to support a key supplier innovation with the joining of new and used hard wood poles. This initiative meets the high demand for particular pole sizes that are in limited supply.

In addition to mitigating a reasonable degree of the supply risk, the supplier innovation will offer environmental benefits through the recycling of used poles. Energy Queensland is currently negotiating with the supplier to support the innovation by offering to assist with the financing of important and expensive engineering tests and trials.



Case study



London 2012

The Olympic Delivery Authority engaged with the concrete industry 12 months before going out to tender for the concrete supply for the London 2012 Olympics. By setting 50% of the bid evaluation on carbon footprint the industry developed innovations leading to 30% reduction in embodied carbon. And the lowest carbon offer was also lowest cost.

What's next?

Rome wasn't built in a day... but they were laying bricks every hour.

This old saying perfectly illustrates how senior procurement managers should approach the topic of sustainability. Whilst implementing sustainable procurement is a journey, there is strong evidence that outstanding business outcomes can be achieved by increasingly and progressively integrating sustainability into strategic procurement practices.

In a nutshell, EPSA suggests using the 5 following steps:



Understand

Identify sustainability risks and opportunities in your company's supply chains and how they impact business continuity and value.



Engage

Secure the commitment of key decision makers by using a sensible, impactful business case for sustainable procurement.



Prioritise

Define where you will focus the company's time and energy for the next few years, i.e. which sustainability issues, categories, suppliers and contracts.



Measure

Transform priorities into SMART objectives and monitor how you're progressing.



Enable

Put in place a framework and process that will enable your staff and suppliers to deliver sustainability outcomes, in line with ISO 20400.

Sustainable procurement is changing fast. As society evolves, some sustainability topics are gaining in importance such as climate change, the circular economy or supplier diversity. As industries evolve, new solutions emerge such as more inclusive buyer-supplier partnerships and industry initiatives, global standards and frameworks (e.g. UN Sustainable Development Goals, ISO 20400), disruptive technologies (e.g. Blockchain, Whispli).

To keep abreast of the latest trends, have a look at the following sources of information:

- United Nations Sustainable Development Goals knowledge platform: **sustainabledevelopment.un.org/sdgs**
- Website developed for the ISO 20400 community, by the ISO 20400 community. Includes free resources such as videos, PPT presentations: **iso20400.org**
- Free sustainability capability development website managed by the construction industry. Relevant for assets related categories: **supplychainschool.org.au**

Information websites regularly addressing sustainable procurement issues:

- Eco-Business: **eco-business.com**
- Edie: **edie.net**
- Sustainable Brands: **sustainablebrands.com**
- CIPS: **cips.org/supply-management**
- Supply Chain Dive: **supplychaindive.com**
- PASA: **procurementandsupply.com**



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EPSA INC

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