The case for greening your supply chain

Your suppliers are essential to your success as an environmentally sustainable organization

Why has greening the supply chain — from furniture to fleet — become so important?

Every business requires a wide range of goods and services. The mix may be unique to each company, but when it comes to acquiring those items, a consensus has emerged. In a Deloitte survey (Green Means Go, August 2008), 80% of Canadian supply chain professionals defined green procurement as a corporate strategic priority.

For one, just remember who’s watching:

**Accountants:** When it is cheaper to buy green, the benefit is clear. What you may not know is that even when going green has a higher purchase price, there are often savings that will be realized throughout the life cycle of a product or service, says Andrew Craig, senior manager, environmental initiatives, RBC. Factor in operational cost-savings from products that are more durable, reusable or recyclable, as well as products that require less energy, water and fuel inputs compared to competing products.

**Planet & communities:** Reduced need for resources, less demand on landfills, cleaner air and water — green procurement cuts the environmental footprint of your supply chain. This will also contribute to healthier communities where your company operates.

**Customers:** Customers, employees and the public at large are looking hard at a company’s actions around sustainability and environmental responsibility. “Green procurement will improve your brand, image and reputation,” says Craig.

**Investors:** Increasingly, investors, research and rating bodies are evaluating companies on a growing list of environmental and social practices including green procurement.

**Regulators:** In an effort to keep recyclables out of landfills, governments of all levels are beginning to establish bylaws and other public policy on issues such as electronic waste (used computers etc.) and even take-back laws for packaging.

**Non-governmental organizations (NGOs):** Some NGOs have mounted campaigns against large retail corporations and are critical of their negative labour practices, including child labour and excessive work hours. These highlight the need to include social and ethical considerations in green procurement programs, not just environmental considerations.

Put it all together and the business case for greening your supply chain is compelling. But to do so, you must first understand the challenges and lessons learned by other companies.
Plan & prepare

When embarking on green supply chain initiatives, here are some considerations to help ensure your company’s success:

**Look at the life cycle**

“One of our biggest challenges is educating procurement staff who critically analyze responses from suppliers,” says Craig. That means taking a life-cycle approach to demonstrate the full cost of a product from acquisition to retirement, including an evaluation of energy requirements, product durability, disposal costs, etc. rather than basing costing primarily on the purchase price.

**Support supplier efforts**

The motivation for suppliers is obvious as it impacts the ability to do business with you. But it’s not that simple. Suppliers may have to adopt new processes and incur other expenses to accommodate your green needs. For instance, when GE Canada pursued LEED certification for its Mississauga, Ontario headquarters, the janitorial company had to use a new line of products and adjust the maintenance program, and the carpet cleaning service had to acquire equipment to reduce air contamination and energy usage. Renee Spurrell, sourcing manager, corporate properties, GE Canada, says you can help suppliers succeed by assisting them with cost-benefit breakdowns and promoting their new “green” capabilities to other organizations within your networks of influence.

**Ensure strategic alignment**

Getting executive ownership of green procurement measures, and embedding environmental thinking across the business, is key. As the Green Means Go survey from Deloitte states: “Leading companies have discovered that green supply chain management delivers the greatest value in the context of a corporation-wide sustainability initiative.”

Crunching the numbers

Think of how your supply chain methods translate into benefits that stakeholders can grasp, for instance:

- **Frito Lay Canada**, which won a 2009 Green Supply Chain Award from Supply Chain & Logistics Canada (SCL), employs 1,500 trucks, 90 tractors and 450 trailers. A high percentage of the tractor engines use modern emission-reducing technology, and the delivery vehicles use custom-designed lightweight materials to reduce fuel consumption. The company’s long-range goal: cut its fuel consumption and tailpipe emissions by 50% by 2020. Already, the company’s kilometre reduction strategy has knocked a million kilometres off its truck routes in Canada.

  (Source: Transport Canada and www.CanadianSailings.ca)

- **The Marriott hotel chain** offers straightforward equivalent savings. By purchasing 24 million key cards made of 50% recycled material, Marriott saves 66 tonnes of plastic from being dumped in the landfill. And thanks to a unique manufacturing process, the one million towels Marriott purchases in North America do not need to be pre-washed, a one time savings of six million gallons of water.

  (Source: www.marriott.com)

Collecting the right metrics is key to reporting back to your audiences, and assessing the full impact of greening your supply chain.
Ask the right questions

Are your suppliers as green as you need them to be? Make this a part of your screening. Here are some questions to consider asking vendors:

- Is the supplier/product/service certified “green” by an independent accredited body (e.g. EcoLogo, Forest Stewardship Council (FSC), Fair Trade, Energy Star, etc.)?
- Does your company have a documented environmental management system? An environmental policy?
- Does your company have polices or guidelines to address compliance with all applicable minimum age of employment laws and wage laws, including those relating to minimum wages, overtime hours and legally mandated benefits?
- Has the company reviewed the environmental impacts of its activities? Does it have an action plan to reduce their adverse impacts?
- Does the company have programs established to minimize the use of natural resources (water, petroleum, lumber, metals, etc.) or to reduce the release of pollutants in the manufacturing process?
- Does this product make efficient use of resources such as energy and raw materials throughout its life cycle?
- Can the product be reused or recycled?
- Does the company accept payment electronically?

“If suppliers haven’t thought about these questions yet, asking them will drive change,” says Craig.

Use your clout

“We’re expecting more of ourselves—and expecting more of our suppliers.” That’s what Walmart said when it announced new environmental and social accountability standards for its global supply chain in 2008. (The company does business with almost 7,000 Canadian suppliers and tens of thousands more worldwide.)

In China, Walmart is also partnering with suppliers to improve energy efficiency in the top 200 factories it sources from by 20% by 2012. Moreover, Walmart will share information and best practices with all of the factories it sources from, as well as its competitors.

When companies make their processes greener, they improve their own environmental footprint. When they help a supplier to become greener, well then they have an impact on every other company that supplier touches.

Did you know?

As a supplier to business, RBC offers business banking clients many paperless options ranging from eStatements for paperless recordkeeping to electronic payments.

For example, instead of issuing cheques, you can make payments electronically, saving time and money. Plus, there is no need for you to change or reprogram your existing accounting system to use RBC’s electronic payments systems.

Beyond the most obvious cost savings, and the reduced paper waste, going paperless with records can offer at least nine other benefits to help you become a more sustainable business:

1. Increased security, with documents in a single, safe repository (i.e. password-protected);
2. Time savings, through automated collection, authentication and organization of documents;
3. A superior audit trail;
4. Added convenience (accessibility, sharing of documents, ability to search, etc.);
5. Better control of cash flow in the cases of electronic payments. “There’s no uncertainty about when a cheque is going to clear, and it makes it easier to claim supplier discounts for early payment,” says Beth Gordon, senior manager, global client strategies, business financial services, RBC;
6. Improved accuracy, as re-keying is not required;
7. Better disaster recovery protection;
8. The ability to convert records rooms into usable office space, or eliminate warehousing costs;
9. Increased efficiency. If it takes five minutes to retrieve and replace a paper file, and an employee works with just one file an hour, that’s 40 minutes a day, or 173 hours a year—a full month’s worth of time annually.

For more information and advice on greening your business:

- Contact an RBC Royal Bank® account manager at 1-800 ROYAL® 2-0
- Visit us online at rbc.com/business-advice