

Your ESG ambition depends on procurement

Why procurement is critical to delivering ESG targets and why inaction comes at a cost

KPMG Advisory - Procurement & Supply Chain



For many organizations, Scope 3 emissions can account for over 80% of their carbon footprint, much of which sits within the value chain and requires engagement with suppliers⁽¹⁾. Procurement is therefore pivotal to delivering ESG targets, yet the urgency is often not felt within the function. These gaps are usually not the result of a lack of in-company policies, but rather a consequence of the fact that ESG sits next to procurement rather than being embedded within it. **Doing nothing is therefore not a decision to spend less, but a decision to postpone spending until later, potentially at a higher cost and to someone else's deadline.**

Setting the scene

ESG requirements now reach procurement from four directions:

- Customers screen suppliers before they look at price
- Lenders and insurers price ESG into their terms
- Rating agencies publish a score your customers can see
- Regulation keeps moving and evolving

Most teams answer each request on its own, once it arrives. A questionnaire here, an audit there, a clause added when a customer insists. The work does get done; however, it is often reworked and it becomes someone else's deadline.

Waiting is not free as it turns a manageable program into a backlog that grows with every contract you sign.

Where this shows up today



Procurement chasing supplier data

Collected ad hoc, rarely reused, and chased again the next time a need arises



Many teams surveying the same supplier

ESG, risk, cyber and finance each run their own assessment



Deals lost before price is discussed

Pre-qualification failures are seldom recorded as an ESG cost

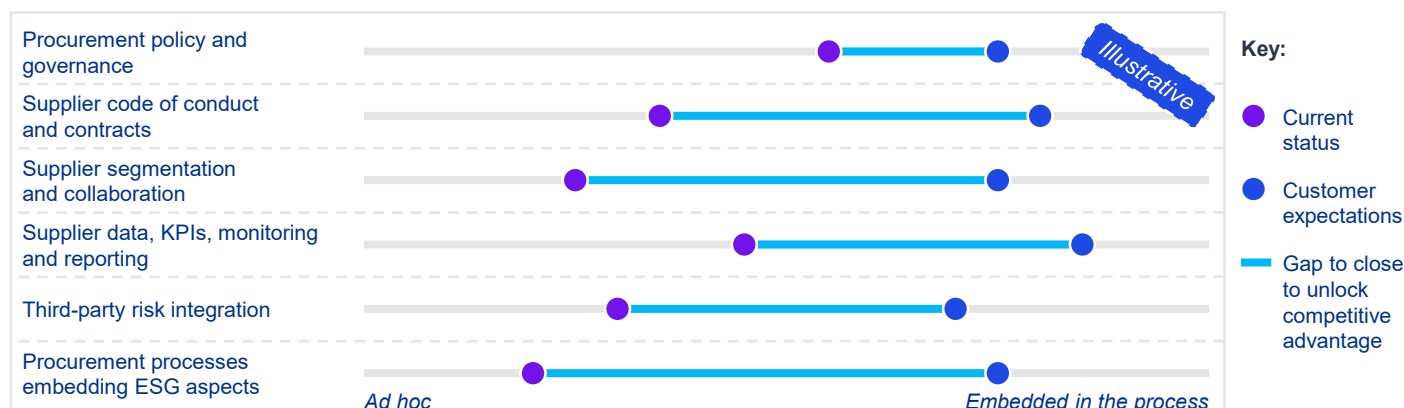


Legal has to re-open contracts one at a time

ESG terms get added when a customer insists, contract by contract

Key areas for embedding ESG in procurement

Closing the gap is not only about ESG compliance but also about strengthening the company's reputation. Companies that embed ESG in their procurement function also reinforce supplier collaboration, turn ESG into a competitive advantage and ensure realization of the company-wide ESG ambition and targets.



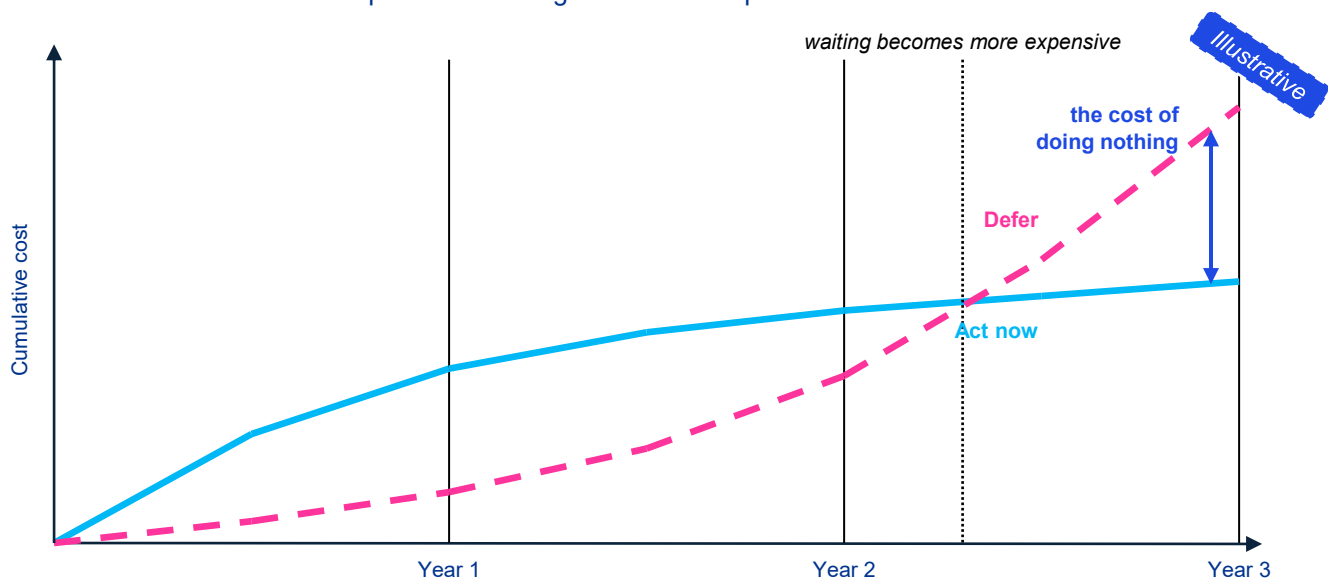
Sizing the cost of doing nothing

Waiting does not avoid the cost, it shifts it into rework, risk and missed value

The cost of waiting is not necessarily a fine to be paid at some future date. It is often already being paid in the form of tenders that never reach the pricing stage, or in the form of financing terms you do not qualify for, and in rework that could have been avoided. But there is also value left on the table: reducing Purchased Goods and Services emissions requires closer supplier collaboration, which can unlock efficiencies, innovation and savings across third-party spend.

Acting now versus deferring

Acting costs more upfront and less thereafter. Waiting looks cheaper at first, until rework, repeated assessments, missed supplier value and missed opportunities to improve efficiency, strengthen supplier collaboration and build competitive advantage start to add up.



Putting a number on it

The cost of waiting falls into six lines. Three are cash that leaves the business every year: work redone, assessments repeated and financing terms you do not qualify for. The other two are exposure rather than spend, so they are better read separately. The sixth is a value opportunity: supplier collaboration that can unlock efficiencies and savings while reducing emissions. In many cases, the required data already exists: a tender log, spend data, a contract register and supplier records are often enough to build an initial view.

Cost line	What this means
Cash spent every year	
Rework	Sourcing events or contracts revisited because ESG was not built in early
Repeat assessment	The same suppliers assessed by different functions, duplicating effort
Cost of capital	Less attractive financing where ESG conditions are not met
Value at risk	
Revenue	Opportunities lost where ESG affects qualification or award
Disruption	Supplier issues creating remediation, delay or replacement cost
Value opportunity	
Supplier collaboration	Third-party spend where closer supplier collaboration can unlock efficiencies and savings while reducing emissions

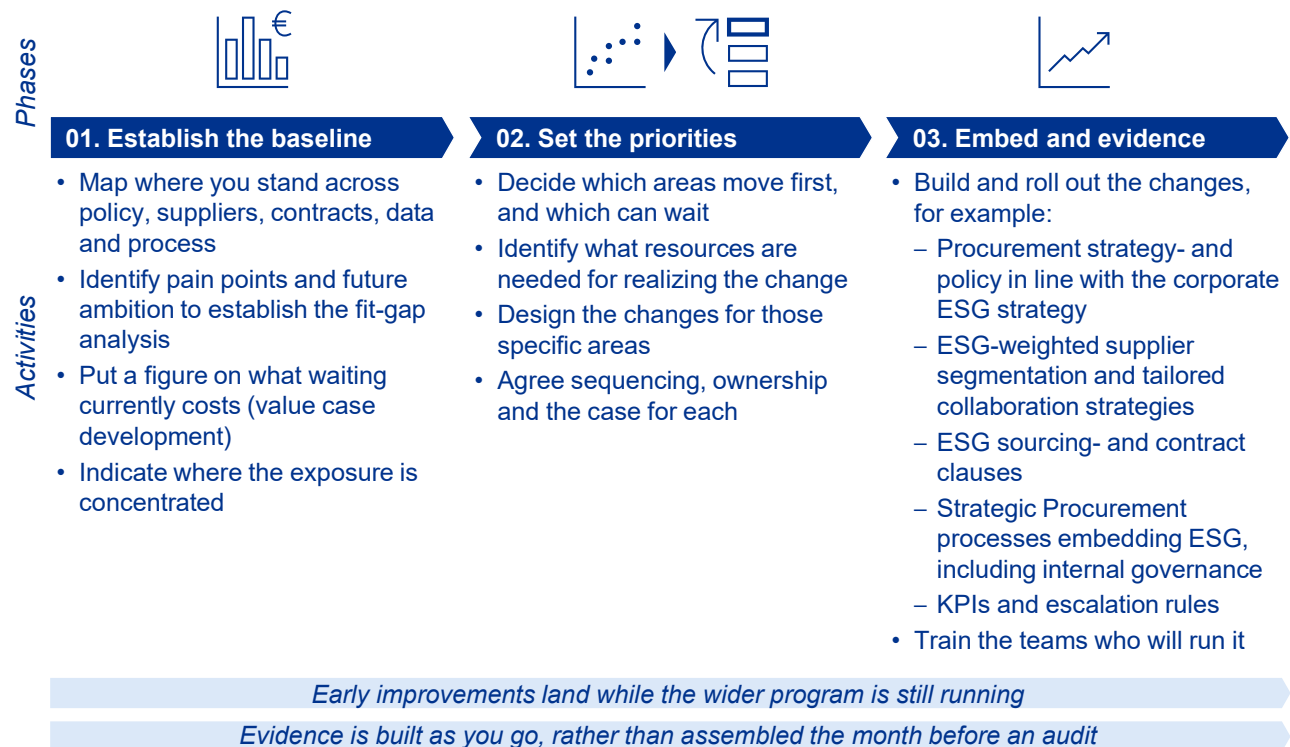
Reducing emissions can be the catalyst for deeper supplier collaboration and the efficiencies and savings that come with it.

How we help you embed ESG in Procurement

Understand where you stand today before deciding what to change

There is no single ESG program that suits every organization. The work starts by establishing where you stand and what waiting is costing, so the focus can be set before anything is designed.

How we work with you



Benefits of our approach



Contact us



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