

Joe Berry Award 2022

Entry – JBA-22-141

Topic # 2 Question # 2-A

Name: Enrico Coquico

EXECUTIVE SUMMARY

The push for sustainability is the next industry game changer, an even bigger one than the shift to e-commerce more than a decade ago!¹

Consumer preferences and expectations around sustainability have only intensified since the COVID-19 pandemic.² Hence, retailers that integrate sustainability into their strategy can unlock new opportunities for growth, while those that do not will be left behind.

This paper explores the role that retailers must assume to drive sustainability, with emphasis on the following key areas:

- The largely unexploited potential for emissions reduction that lies in retailers' supply chains
- Why supply chain decarbonisation in retail is not already commonplace
- How retailers can employ supplier engagement to overcome the challenges of supply chain decarbonisation

This paper concludes that pursuing supply chain decarbonisation through effective supplier engagement is key to achieving a net-zero retail industry.

INTRODUCTION

In 2020, experts around the world believed that COVID-19 would push sustainability to the back burner for consumers.³ But time has shown that nothing could be further from the truth.

Since the pandemic, 58% of consumers are now even more mindful of their impact on the environment, and 85% are willing to take personal action to combat environmental challenges.⁴

The scientific consensus is that the only way to prevent the worst consequences of climate change is by reducing carbon emissions.⁵ As the gatekeepers for consumers in the value chain, how can retailers best respond to this enormous challenge?

¹ Evans, S., 2021. Officeworks, Kmart, Target and IKEA speed up net zero push. [online] Australian Financial Review. Available at: <<https://www.afr.com/companies/retail/officeworks-kmart-target-and-ikea-speed-up-net-zero-push-20211110-p597lu>>.

² Mastercard, 2021. How the COVID-19 Pandemic Has Impacted Consumer Attitudes About the Environment. [online] Available at: <<https://www.mastercard.com/news/media/qdvnaedh/consumer-attitudes-to-the-environment-2021.pdf>>.

³ McKinsey & Company, 2021. Disruption & Uncertainty The State of Grocery Retail 2021. [online] Available at: <<https://www.mckinsey.com/~media/mckinsey/industries/retail/our%20insights/the%20path%20forward%20for%20european%20grocery%20retailers/disruption-and-uncertainty-the-state-of-grocery-retail-2021-europe-final.pdf>>.

⁴ Mastercard, 2021. How the COVID-19 Pandemic Has Impacted Consumer Attitudes About the Environment. [online] Available at: <<https://www.mastercard.com/news/media/qdvnaedh/consumer-attitudes-to-the-environment-2021.pdf>>.

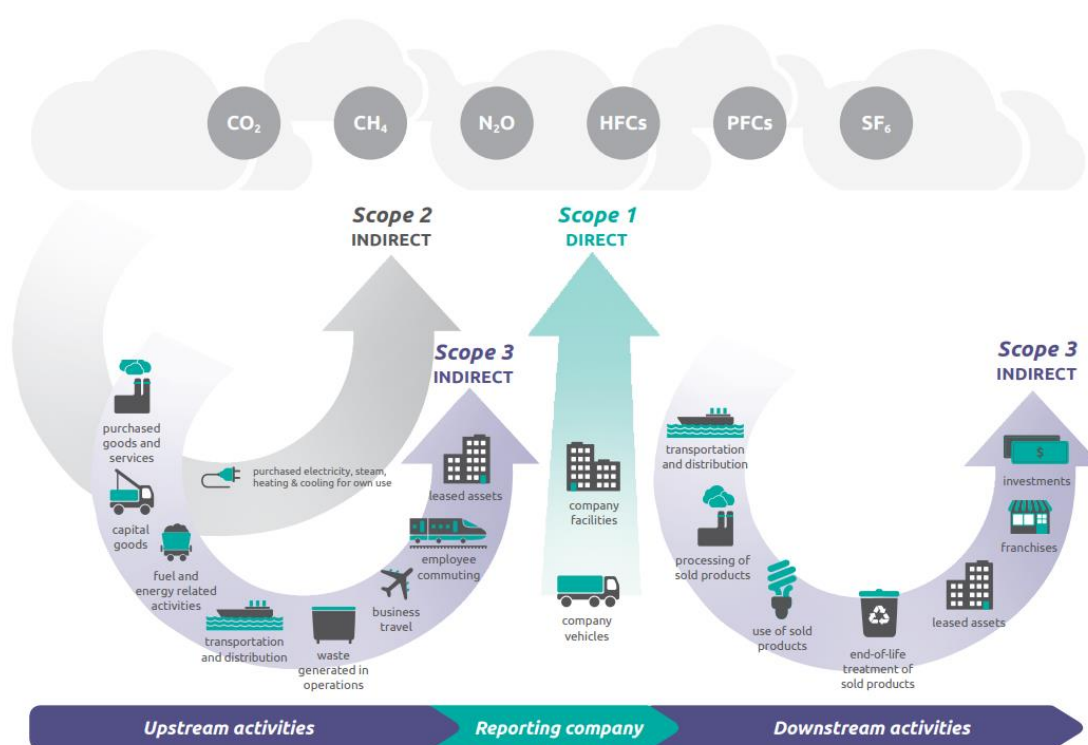
⁵ Candanosa, R., 2021. Reducing Emissions to Lessen Climate Change Would Yield Dramatic Health Benefits by 2030. [online] climate.nasa.gov. Available at: <<https://climate.nasa.gov/news/3134/reducing-emissions-to-lessen-climate-change-would-lead-dramatic-health-benefits-by-2030/>>.

THE CARBON WE ARE NOT COUNTING

The Greenhouse Gas Protocol, the standard framework for reporting corporate-level carbon footprint,⁶ classifies emissions into the three categories illustrated in Figure 1.

- Scope 1 emissions cover those generated directly by the resources that the reporting company owns and controls itself.
- Scope 2 emissions come from the generation of energy, such as electricity and heat, that the reporting company purchases.
- Scope 3 emissions consist of both upstream and downstream value chain emissions of the reporting company.

Figure 1. Categories of emissions across the value chain⁷



Many businesses have been focusing their efforts on reducing Scopes 1 and 2 emissions, where they have more direct control.⁸ This flies in the face of the 80-20 rule, as data shows that Scope 3 emissions account for the largest proportion of

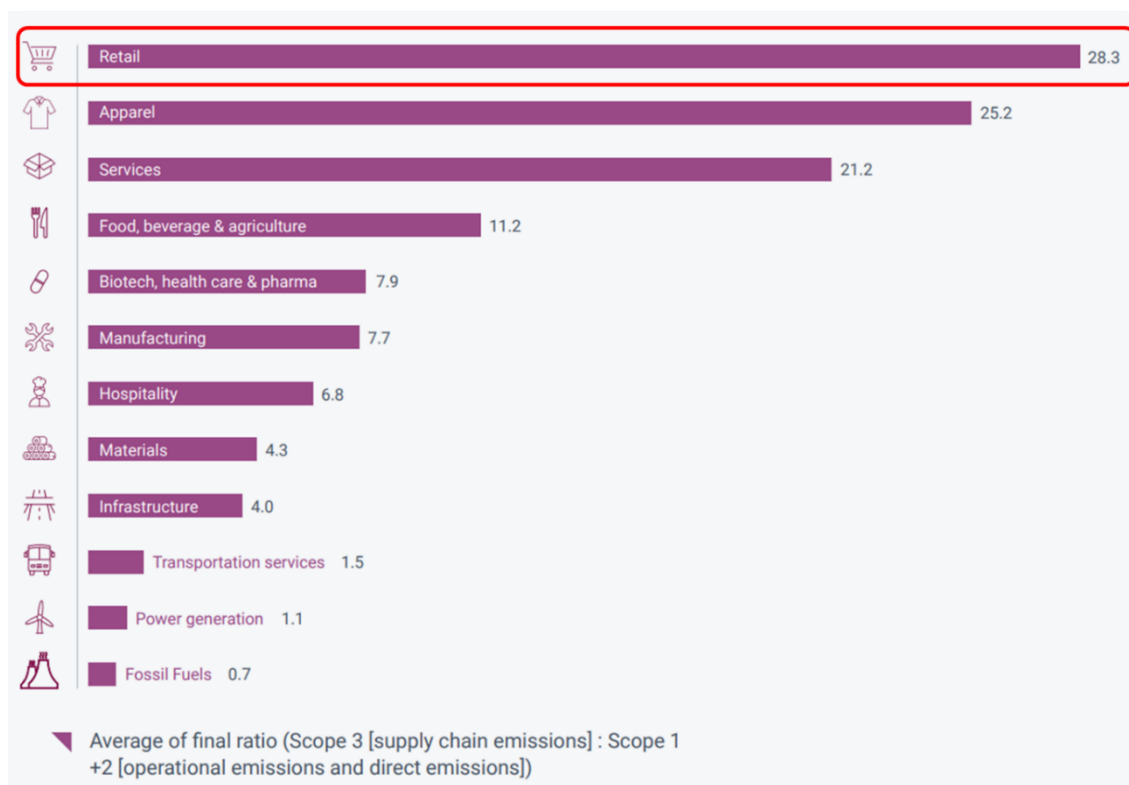
⁶ Wbcsd, W. R. I. (2004). The greenhouse gas protocol. A corporate accounting and reporting standard, Rev. ed. Washington, DC, Conches-Geneva. Available at: <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>.

⁷ Protocol, G. G. (2013). Technical guidance for calculating scope 3 emissions. Supplement to the Corporate Value Chain (Scope 3), Accounting & Reporting Standard, in partnership with the Carbon Trust. Available at: https://ghgprotocol.org/sites/default/files/standards/Scope3_Calculation_Guidance_0.pdf.

⁸ Farsan, A., Chang, A., Kerkhof, A., Cserna, B., Yan, C., Villasana, F., & Labutong, N. (2018). Value Change in the Value Chain: Best Practices in Scope 3 Greenhouse Gas Management. Science Based Target initiative and Navigant and the Gold Standard. Available at: https://sciencebasedtargets.org/resources/legacy/2018/12/SBT_Value_Chain_Report-1.pdf.

emissions.⁹ In particular, upstream emissions – the dominant source of Scope 3 emissions – are, on average, 11.4 times greater than those of Scopes 1 and 2 combined.¹⁰ This ratio is even higher in the retail industry, where upstream emissions are a whopping 28.3 times greater than the sum of its Scopes 1 and 2 emissions,¹¹ as shown in Figure 2.

Figure 2. Ratio of upstream emissions to operational emissions¹²



Moreover, as Figure 3 shows, the lion's share of Scope 3 emissions of retailers come from purchased goods and services.¹³

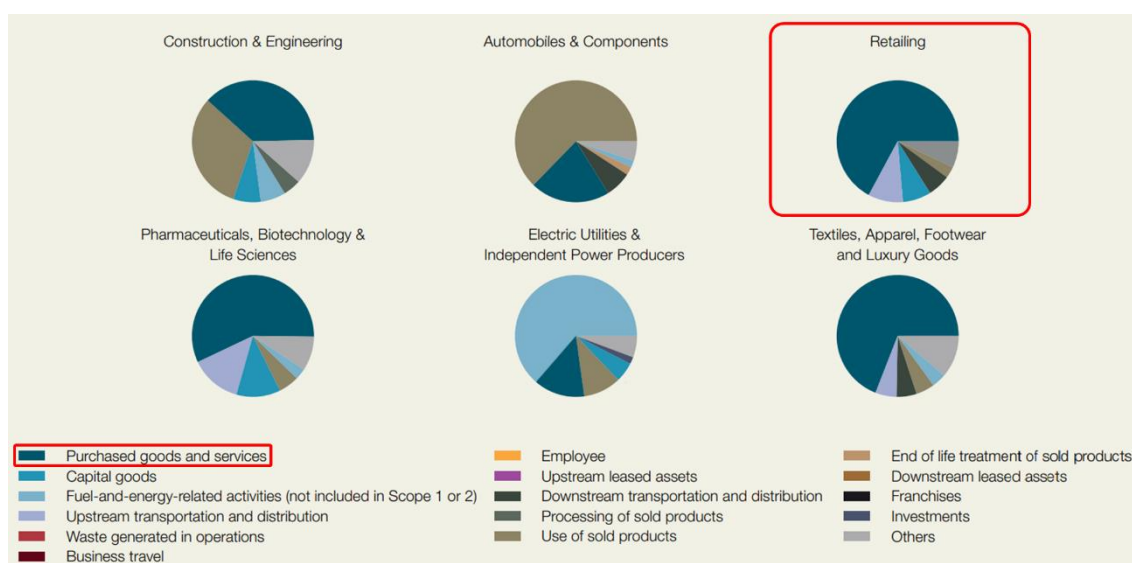
⁹ CDP, 2021. Transparency to Transformation: A Chain Reaction. CDP Global Supply Chain Report 2020. [online] Available at: <https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/554/original/CDP_SC_Report_2020.pdf?1614160765>.

¹⁰ Ibid.

¹¹ Ibid.

¹² Ibid.

¹³ Farsan, A., Chang, A., Kerkhof, A., Cserna, B., Yan, C., Villasana, F., & Labutong, N. (2018). Value Change in the Value Chain: Best Practices in Scope 3 Greenhouse Gas Management. Science Based Target initiative and Navigant and the Gold Standard. Available at: <https://sciencebasedtargets.org/resources/legacy/2018/12/SBT_Value_Chain_Report-1.pdf>.

Figure 3. Breakdown of Scope 3 emissions¹⁴

Clearly, the ways in which retailers choose to engage with their suppliers present a far greater opportunity for emissions reduction than could be achieved through acting only on areas within their direct sphere of influence. Failure to account for supply chain emissions can result in a severe underestimation of environmental impact.¹⁵

AN “UPSTREAM” BATTLE

While the potential of retailers to drive emissions reduction in the supply chain is of colossal proportions, it is not without its challenges:

Retailers do not have direct control. The fundamental reason why supply chain emissions are difficult to address is that they fall outside of a retailer’s direct ownership.¹⁶ Hence, any retailer that is serious about decarbonization requires intimate, long-term partnerships with its individual suppliers. This difficulty is compounded by the complexity of supply chains, as there can be multiple tiers of geographically dispersed businesses that supply retailers.¹⁷

A lack of high-quality data exists. Quantifying emissions is an essential starting point for managing carbon footprint.¹⁸ As shown in Figure 4, while pressure for data

¹⁴ Farsan, A., Chang, A., Kerkhof, A., Cserna, B., Yan, C., Villasana, F., & Labutong, N. (2018). Value Change in the Value Chain: Best Practices in Scope 3 Greenhouse Gas Management. Science Based Target initiative and Navigant and the Gold Standard. Available at:

<https://sciencebasedtargets.org/resources/legacy/2018/12/SBT_Value_Chain_Report-1.pdf>.

¹⁵ Patchell, J., 2018. Can the implications of the GHG Protocol's scope 3 standard be realized? Hong Kong University of Science and Technology. Available at: <<https://doi.org/10.1016/j.jclepro.2018.03.003>>.

¹⁶ Farsan, A., Chang, A., Kerkhof, A., Cserna, B., Yan, C., Villasana, F., & Labutong, N. (2018). Value Change in the Value Chain: Best Practices in Scope 3 Greenhouse Gas Management. Science Based Target initiative and Navigant and the Gold Standard. Available at:

<https://sciencebasedtargets.org/resources/legacy/2018/12/SBT_Value_Chain_Report-1.pdf>.

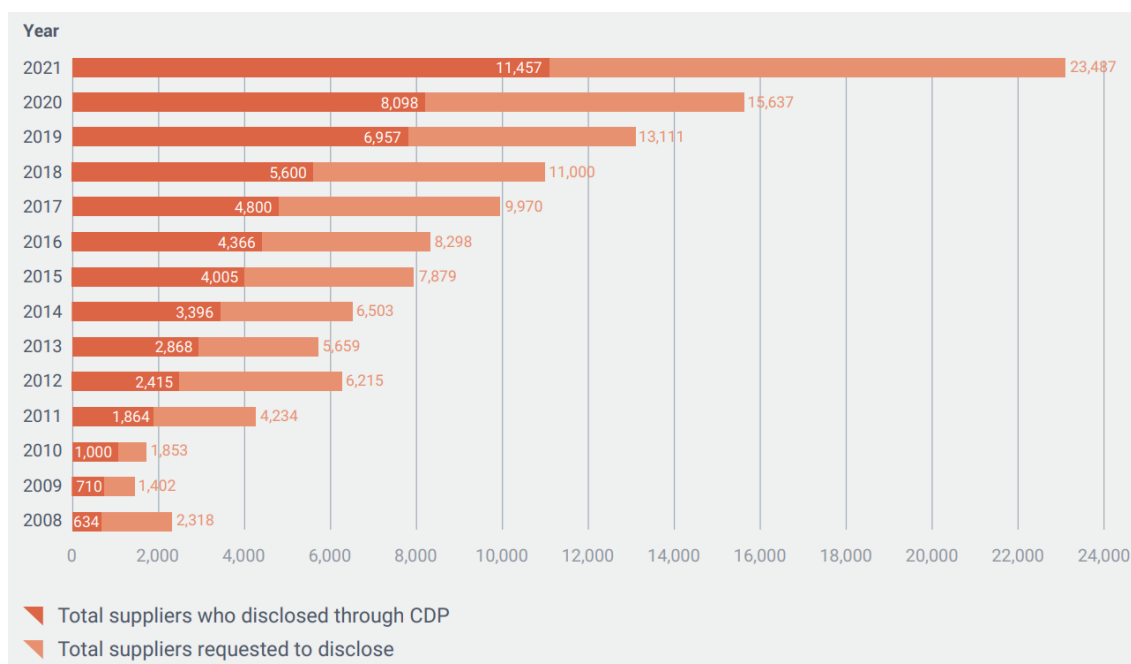
¹⁷ World Economic Forum and Boston Consulting Group, 2021. Net-Zero Challenge: The supply chain opportunity. [online] Available at:

<https://www3.weforum.org/docs/WEF_Net_Zero_Challenge_The_Supply_Chain_Opportunity_2021.pdf>.

¹⁸ McHughan, J., 2021. Scope 3 Emissions: The Next Frontier in Climate Engagements. [online] Responsible Investment Association. Available at: <<https://www.riacanada.ca/magazine/scope-3-emissions-the-next-frontier-in-climate-engagements/>>.

transparency is increasing, systematic disclosure of emissions is, however, still limited in the supply chain. This is attributed to the fact that many suppliers still do not properly understand the emissions outside their direct sphere of influence, let alone how to calculate them.¹⁹ Even when estimates are available, there remains uncertainty in the reliability of the data due to the complexity and inconsistency of calculation methodologies.²⁰

Figure 4. Growth in CDP supplier disclosures from 2008 to 2021²¹



There is limited support from the broader industry. Success in managing supply chain emissions is reliant on a vast array of suppliers, many of whom may not have a strong impetus to participate voluntarily.²² Often, companies cite a lack of targets from the broader industry as justification for inaction. This inertia can be difficult to overcome, especially in areas where decarbonisation would necessitate a sizable investment in infrastructure.²³

¹⁹ Spiller, P., 2021. Making supply-chain decarbonization happen. [online] McKinsey & Company. Available at: <<https://www.mckinsey.com/business-functions/operations/our-insights/making-supply-chain-decarbonization-happen>>.

²⁰ Flexidao, 2021. Scope 3 Emissions Reporting: Solving the Transparency Issue. [online] Available at: <<https://www.flexidao.com/post/scope-3-emissions-reporting-better-transparency>>.

²¹ CDP, 2022. Engaging the Chain: Driving Speed and Scale. CDP Global Supply Chain Report 2021. [online] Available at: <https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/106/original/CDP_SC_Report_2021.pdf?1644513297>.

²² Corkery, M. and Creswell, J., 2021. Corporate Climate Pledges Often Ignore a Key Component: Supply Chains. The New York Times, [online] Available at: <<https://www.nytimes.com/2021/11/02/business/corporate-climate-pledge-supply-chain.html>>.

²³ World Economic Forum and Boston Consulting Group, 2021. Net-Zero Challenge: The supply chain opportunity. [online] Available at: <https://www3.weforum.org/docs/WEF_Net_Zero_Challenge_The_Supply_Chain_Opportunity_2021.pdf>.

A RIPPLE OF CHANGE

Despite the challenges, some businesses are beginning to demonstrate that supply chain emissions can be addressed. Solutions lie in effective supplier engagement, and data shows that partnering with suppliers does drive change. In the past year, over 200 of CDP's partner companies successfully drove 231 million tonnes of emissions reduction through engaging with suppliers.²⁴

With access to a broad range of suppliers owing to their unique position in the value chain and typically large product catalogues, retailers wield great power – with which comes great responsibility – to create a ripple of positive change.

Therefore, it is recommended that retailers work with suppliers through the following avenues:

Encourage data collection. Achieving data visibility is a prerequisite for enabling businesses to take targeted and high-impact action.²⁵ Studies show that 94% of consumers are more likely to be loyal to companies that offer complete supply chain transparency,²⁶ and regulatory requirements are predicted to add greater urgency.²⁷

Many retailers share the same suppliers, and this overlap helps increase the probability of success. A report from CDP shows that suppliers are more likely to take action when the number of requests that they receive increases.²⁸

Top retailers such as Target and CVS Health have already begun collecting emissions data from suppliers.²⁹

Cascade commitments. It is best practice for companies to set sustainability targets that are in line with climate science.³⁰ Retailers must take the lead in doing so and invite their suppliers to follow their example.

²⁴ CDP, 2022. Engaging the Chain: Driving Speed and Scale. CDP Global Supply Chain Report 2021. [online] Available at: <https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/106/original/CDP_SC_Report_2021.pdf?1644513297>.

²⁵ CDP, 2022. Engaging the Chain: Driving Speed and Scale. CDP Global Supply Chain Report 2021. [online] Available at: <https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/106/original/CDP_SC_Report_2021.pdf?1644513297>.

²⁶ Choudhury, S., 2021. Consumers Want Supply-Chain Transparency. Are Food Brands Listening?. [Blog] Supply Chain Brain, Available at: <<https://www.supplychainbrain.com/blogs/1-think-tank/post/32906-consumers-want-supply-chain-transparency-are-food-brands-listening>>.

²⁷ Corrs Chambers Westgarth, 2021. Scope 3 emissions: a regulatory cloud soon to lift?. [online] Available at: <<https://www.corrs.com.au/insights/scope-3-emissions-a-regulatory-cloud-soon-to-lift>>.

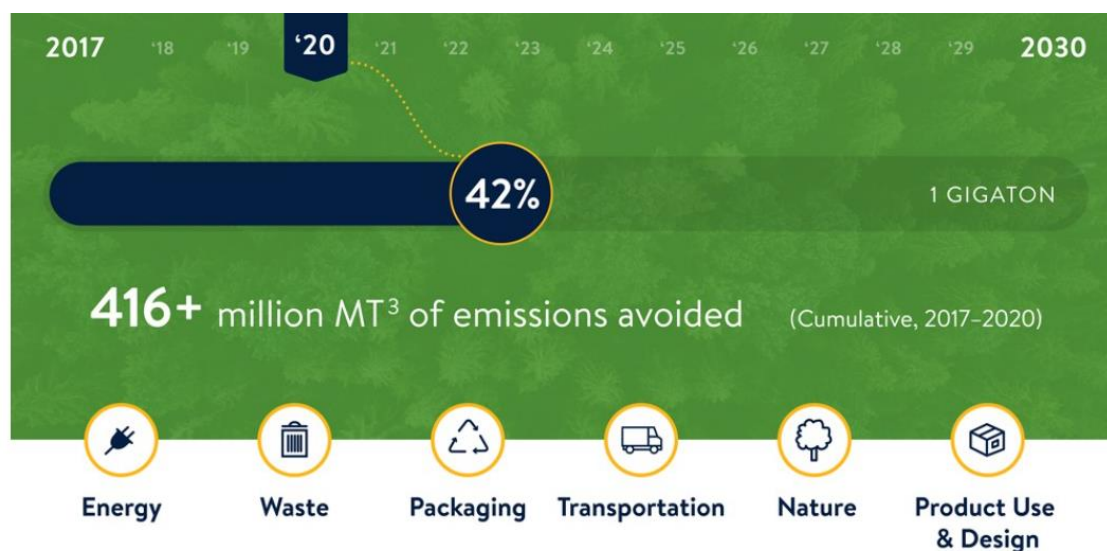
²⁸ CDP, 2021. Transparency to Transformation: A Chain Reaction. CDP Global Supply Chain Report 2020. [online] Available at: <https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/554/original/CDP_SC_Report_2020.pdf?1614160765>.

²⁹ Sustainable Brands, 2018. Target, CVS, Tesco Among Orgs with Over \$3.3T Spend Scaling Up Supply Chain Sustainability. [online] Sustainable Brands. Available at: <<https://sustainablebrands.com/read/walking-the-talk/target-cvs-tesco-among-orgs-with-over-3-3t-spend-scaling-up-supply-chain-sustainability>>.

³⁰ Farsan, A., Chang, A., Kerkhof, A., Cserna, B., Yan, C., Villasana, F., & Labutong, N. (2018). Value Change in the Value Chain: Best Practices in Scope 3 Greenhouse Gas Management. Science Based Target initiative and Navigant and the Gold Standard. Available at: <https://sciencebasedtargets.org/resources/legacy/2018/12/SBT_Value_Chain_Report-1.pdf>.

This is exemplified by Walmart when it launched Project Gigaton, an initiative which aims to avoid one billion tonnes of emissions from the value chain by 2030. Suppliers are encouraged to set their own goals, showcase their progress, and take advantage of recognition opportunities.³¹ Figure 5 shows the scale of emissions reduction that the project has achieved as of 2020.

Figure 5. Progress of Walmart's Project Gigaton as of 2020³²



Implement standards. To improve consistency of carbon footprint calculation methodologies and make apples-to-apples comparison of suppliers' emissions possible, it is recommended to ensure that suppliers are held to a common standard that is defined either by the retailer or by an external independent organization.³³

ALDI SOUTH Group, recognizing that over 92% of its emissions come from purchased goods, is taking a step towards its vision of "Zero Carbon" by supporting strategic suppliers in setting science-based emissions targets by 2024.³⁴ Targets are considered "science-based" if they are consistent with what the latest climate science deems necessary to keep global warming below two degrees Celsius from pre-industrial levels.³⁵

³¹ Walmart Sustainability Hub. 2021. Project Gigaton FAQs. [online] Available at: <<https://www.walmartsustainabilityhub.com/climate/project-gigaton/faqs>>.

³² 2020. [image] Available at: <<https://www.walmartsustainabilityhub.com/climate/project-gigaton>>.

³³ Farsan, A., Chang, A., Kerkhof, A., Cserna, B., Yan, C., Villasana, F., & Labutong, N. (2018). Value Change in the Value Chain: Best Practices in Scope 3 Greenhouse Gas Management. Science Based Target initiative and Navigant and the Gold Standard. Available at:

<https://sciencebasedtargets.org/resources/legacy/2018/12/SBT_Value_Chain_Report-1.pdf>.

³⁴ ALDI SOUTH Group, 2021. Progress Report on Climate Protection 2020. [online] Available at:

<<https://cr.aldisouthgroup.com/en/download/progress-report-climate-protection-2020>>.

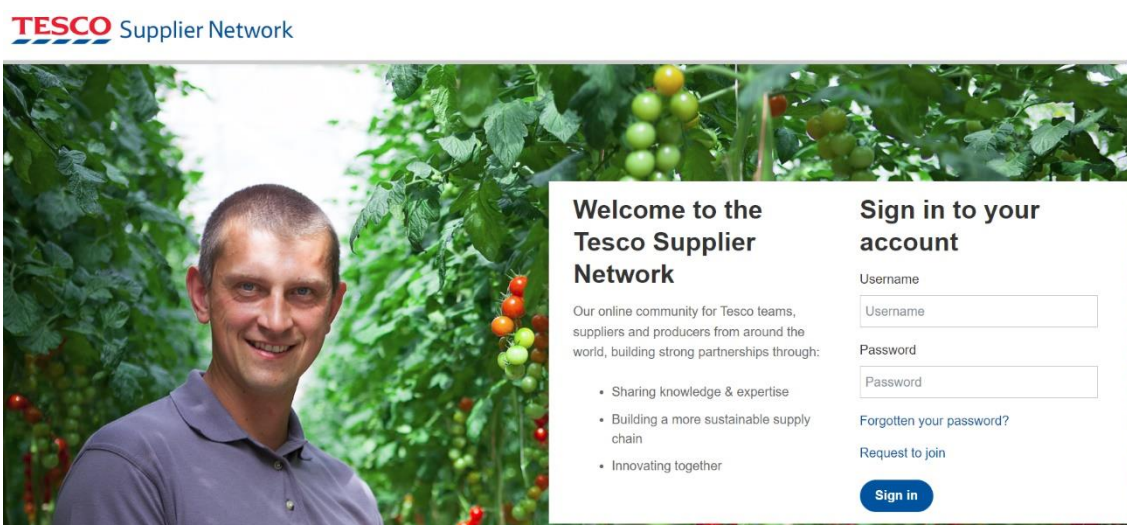
³⁵ Science Based Targets. 2022. How it works - Science Based Targets. [online] Available at:

<<https://sciencebasedtargets.org/how-it-works>>.

Share knowledge and resources. Because uncertainty on where to begin and lack of support are commonly cited barriers,³⁶ retailers can inspire suppliers to take action by providing them with the tools and technical expertise that they will need in the beginning of their journey towards climate action.

A great initiative in knowledge sharing shown in Figure 6 is the Tesco Supplier Network that was launched in 2015. The network serves as an avenue for Tesco's suppliers to connect directly with the retailer's team and find peers that are facing similar sustainability challenges. Currently, the network is supporting over 10,000 suppliers from various sectors.³⁷

Figure 6. Login page of the Tesco Supplier Network³⁸



In addition, Morrisons is providing its suppliers with a software that they can use to accurately measure, track and forecast their operational emissions. Through this initiative, Morrisons hopes to achieve a 30% reduction in Scope 3 emissions by 2030.³⁹

Collaborate on projects. Partnering with suppliers in creating innovative solutions helps affirm a retailer's genuine commitment to a net zero supply chain. It can amplify the industry's efforts and enable action in areas where financial constraints exist. After all, the COVID-19 pandemic has demonstrated that collective action is key to solving urgent, global challenges.

Beef is one of the best sellers at the supermarket, and methane produced by the burping and farting of cattle comprises about 10% of Australia's total emissions.

³⁶ HSBC and BCG, 2021. Delivering Net Zero Supply Chains. The Multi-Trillion Dollar Key to Beat Climate Change. [online] HSBC. Available at: <<https://www.hsbc.com/-/files/hsbc/news-and-insight/2021/pdf/211026-delivering-net-zero-supply-chains.pdf>>.

³⁷ Tesco. 2022. Tesco Supplier Network. [online] Available at: <<https://www.tescopl.com/sustainability/taking-action/farming-and-sustainable-agriculture/supporting-farmers/tesco-supplier-network/>>.

³⁸ Tescosuppliernetwork.com. 2022. Tesco Supplier Network: Log in to the site. [online] Available at: <<https://www.tescosuppliernetwork.com/login/index.php>>.

³⁹ CIPS, 2021. How retailers are helping suppliers cut carbon. [online] Available at: <<https://www.cips.org/supply-management/news/2021/december/how-retailers-are-helping-suppliers-cut-carbon/>>.

Woolworths, along with Harvest Road and GrainCorp, is investing in the FutureFeed initiative, which aims to promote the use of the *Asparagopsis* seaweed as a natural ingredient for livestock feed to reduce emissions by up to 80%.⁴⁰ Fiona Walmsley, general manager for climate and environment at Woolworths, agrees that Scope 3 emissions is “really all about how [retailers] partner with [their] suppliers” and that addressing them “means investing further up the supply chain.”⁴¹

Reward progress. A proven method to reinforce positive behaviour and sustain progress made by suppliers involves giving recognition where it is due.⁴²

In its 2021 Supplier Awards, Coles has awarded suppliers that have achieved remarkable progress in their commitment to sustainability, community and health innovation. Coles CEO Steven Cain acknowledges that “the creative sustainability solutions [of Coles’ suppliers] are integral to helping [Coles] achieve [its sustainability ambition].”⁴³ Figure 7 shows the owners of the Mitolo Family Farm, which was named Fresh Produce Supplier of the Year by Coles.

Figure 7. The Mitolo family, one of the winners of the 2021 Coles Supplier of the Year Awards⁴⁴



⁴⁰ FutureFeed. 2022. FutureFeed. [online] Available at: <<https://www.future-feed.com/>>.

⁴¹ Dunn, J., 2021. Big supermarkets set emissions reduction targets. The Australian Financial Review, [online] Available at: <<https://www.afr.com/companies/energy/big-supermarkets-set-emissions-reduction-targets-20211004-p58x5v>>.

⁴² World Economic Forum and Boston Consulting Group, 2021. Net-Zero Challenge: The supply chain opportunity. [online] Available at: <https://www3.weforum.org/docs/WEF_Net_Zero_Challenge_The_Supply_Chain_Opportunity_2021.pdf>.

⁴³ Coles Group, 2022. Coles Supplier Awards commend businesses leading the way in sustainability, community and innovation. [online] Available at: <<https://www.colesgroup.com.au/media-releases/?page=Coles-Supplier-Awards-commend-businesses-leading-the-way-in-sustainability--community-and-innovation>>.

⁴⁴ 2022. [image] Available at: <<https://www.news.com.au/lifestyle/shopper-interest-in-sustainable-supply-chain-drives-changes-on-the-shelf-at-coles-supplier-awards/news-story/9c4091912667ad99445329bfafb164c5>>.

Furthermore, retailers can cultivate a sustainability culture by providing incentives to high-performing suppliers. Because research shows that small- and medium-sized businesses have limited financial capability to fund climate transformation,⁴⁵ Walmart has partnered with HSBC and CDP in creating a supply chain finance program for these suppliers. Those that participate can be eligible for early payment on their invoices and take advantage of special financing to make the necessary investments in their sustainability journeys.⁴⁶

CONCLUSION

With the knowledge that a huge fraction of their environmental impact lies outside their own direct operations, retailers must turn the spotlight on their supply chains. Data shows that the solution lies in strong, deliberate engagement with suppliers, which retailers can pursue by employing strategies such as communication of targets and sharing of resources. As a result, it is predicted that the dynamics between retailers and suppliers will evolve to more intense, long-term partnerships. Failure to address supply chain emissions will leave retailers vulnerable not only to losing a competitive advantage but also to the searing consequences of climate change.

⁴⁵ HSBC and BCG, 2021. Delivering Net Zero Supply Chains. The Multi-Trillion Dollar Key to Beat Climate Change. [online] HSBC. Available at: <<https://www.hsbc.com/-/files/hsbc/news-and-insight/2021/pdf/211026-delivering-net-zero-supply-chains.pdf>>.

⁴⁶ Walmart, 2021. Walmart Creates Industry First by Introducing Science-Based Targets for Supply Chain Finance Program. [online] Available at: <<https://corporate.walmart.com/newsroom/2021/12/08/walmart-creates-industry-first-by-introducing-science-based-targets-for-supply-chain-finance-program>>.