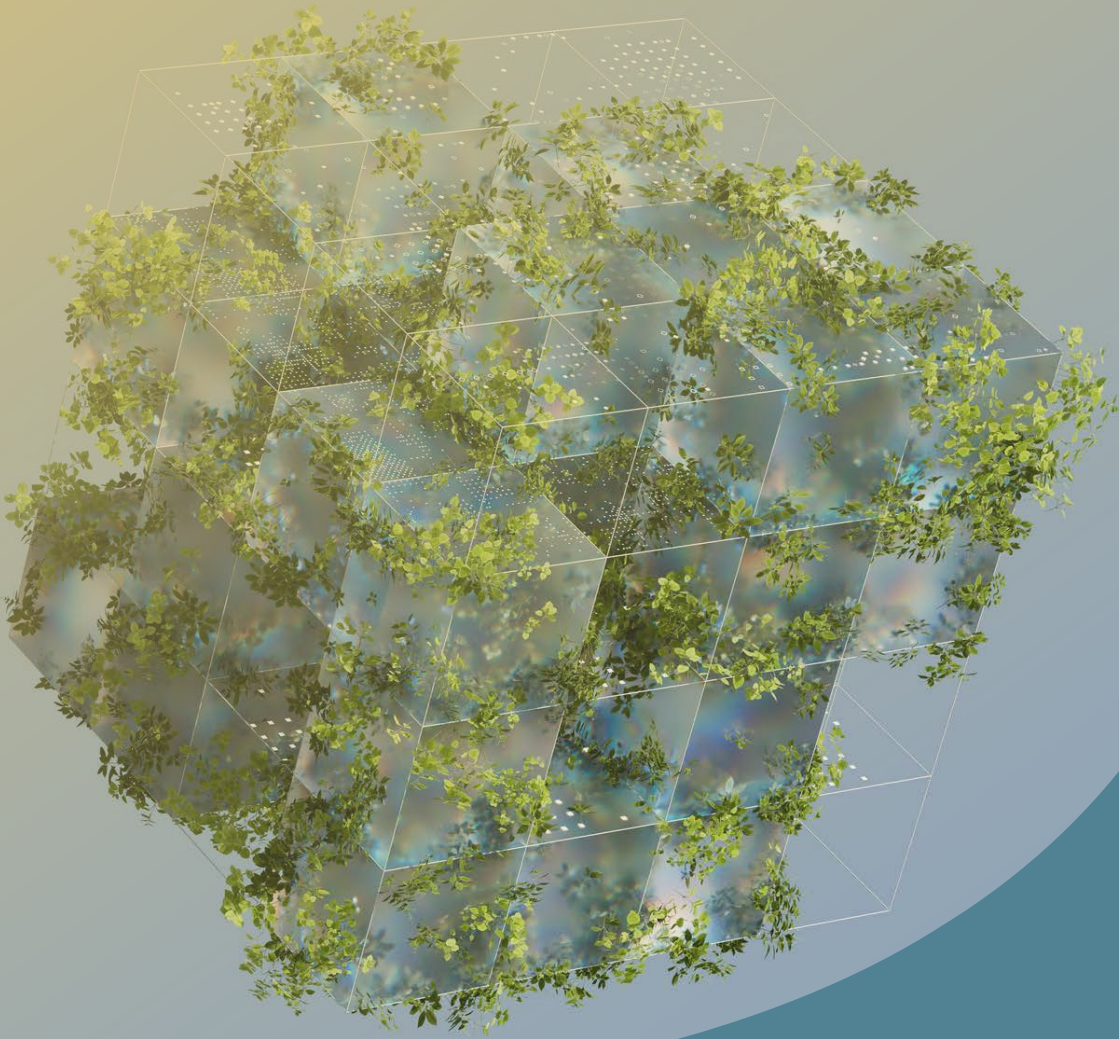


How To Engage Suppliers To Commit To And Achieve ESG Requirements



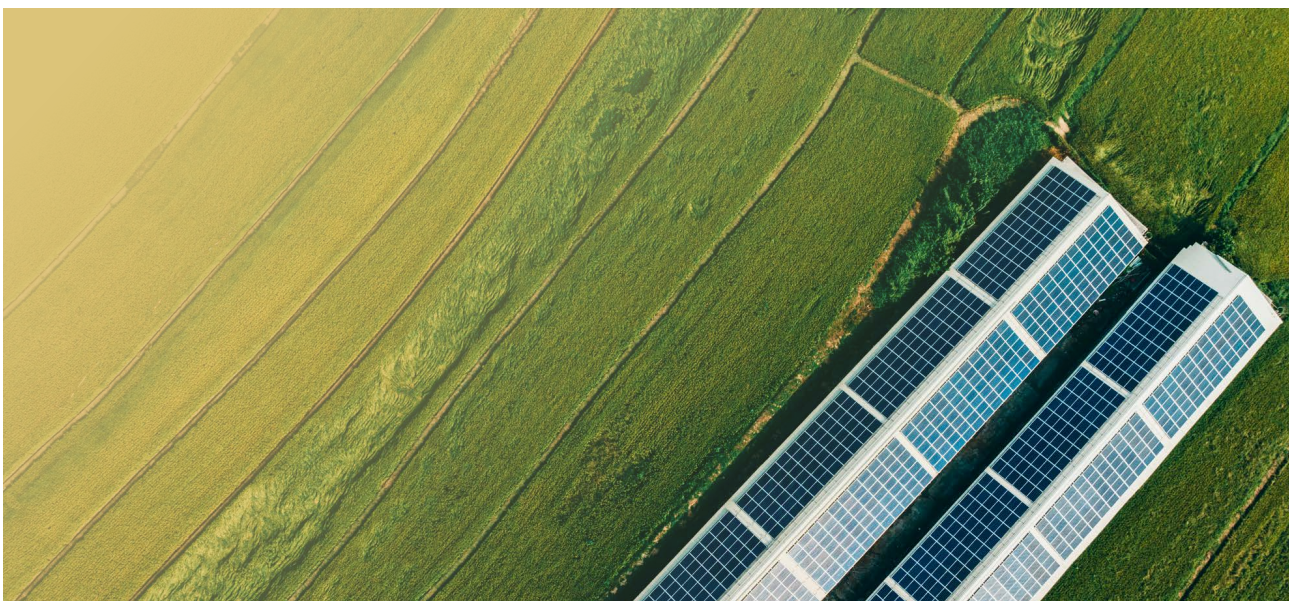
Introduction

A recent report from Deloitte, quoted by the World Economic Forum, finds that third-party Scope 3 emissions of suppliers account for more than [70 percent](#) of the average company's carbon footprint. A similar study from the Intergovernmental Panel on Climate Change (IPCC), the official UN body on reducing emissions, places the footprint at [83%](#).

For companies wanting to reduce Scope 3 emissions, the situation is complicated by the global supply chain, where raw materials and goods are sourced from countless suppliers. Making sense of how much is being emitted and by whom is not only an overwhelming task; it is also a costly one, with new regulations in the United States and Europe requiring regular reporting on emissions and fining companies that exceed expected levels.

The good news is that a technology partner like JAGGAER can help you solve such challenges. In this guide, we'll present a three-step framework that will give you control over your Scope 3 emissions by leveraging the good will and transparency of your suppliers. We'll start off with an overview of best practices for qualifying and onboarding suppliers according to certifications and other Environmental, Social and Governance (ESG) standards. Next, we'll show how once you've approved suppliers, you can leverage a sustainability library and smart contracts to hold them to agreed success factors throughout the life of the agreement. Along the way, we will demonstrate how a leading renewal energy company with more than 170,000 suppliers turned this approach into a winning strategy and give you next steps to apply this strategy to your organization. Let's get started.

Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly affects in its value chain.



Chapter 1

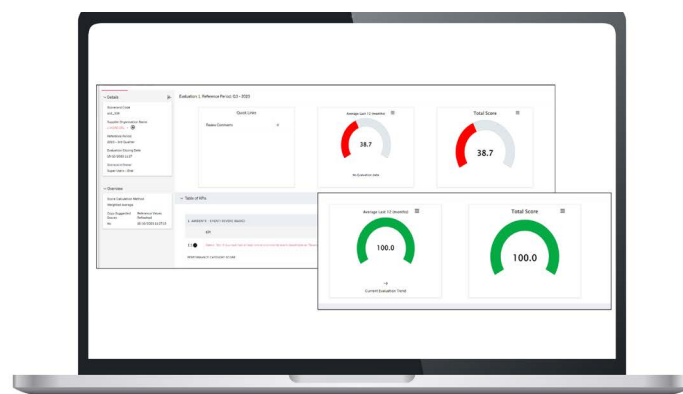
Qualify: Find Out Which Suppliers Meet Requirements Right Out of the Gate

According to [a KPMG study of 550 board members](#), executives, and managers at public and private companies in North America and Europe, there is a disconnect between ESG sentiments and true preparedness. Most distressingly, while more than two thirds of respondents claimed a high level of sustainability reporting, many continue to rely on manual data collection, with 47% still using spreadsheets for ESG data.

When it comes to suppliers, companies need a converged solution right out of the gate. Gone are the days of siloed solutions, populated with redundant and often incorrect data. Companies serious about engaging suppliers to commit to ESG requirements understand there is no alternative, from both a business and an ethical standpoint.

JAGGAER offers a variety of strategies to help you evaluate potential suppliers. Following are some best practices and tools to set you off in the right direction:

- A. Onboarding:** It can take several weeks to gather all the necessary information to onboard a new supplier. By integrating all your standalone systems onto a single platform, you not only speed up the process; you create a shareable knowledge base for all your ESG supplier data.
- B. Vetting:** Every industry has different standards for vetting a supplier. Along with basic compliance, certification, and insurance information, there are human rights and environmental issues to consider. To avoid unnecessary complexity, JAGGAER has created online questionnaires and assessments, which companies can customize based on region and other criteria.



- C. Evaluation:** Scorecards can be instructive tools for showing suppliers how they rank and the progress they've made. Automated rejections can be issued to suppliers who fall below key standards, and, in situations requiring human evaluation, visualizing data eases the burden of internal teams tasked with deciding which suppliers advance to the next stage.

Pro-Tip: Visual is helpful. Use percentages and other cues when giving suppliers feedback.

Chapter 2

Quantify: Set Key Factors for Tender Process

According to EY, there are more than [600 ESG frameworks and standards](#) around the world. Arguably, 600 isn't a huge number, but when it comes to tracking Scope 3 emissions, the actual figure is much larger, when we consider the complexity of the modern supply chain, as well as varying emissions requirements depending on merchandise group, typology, and location.

For companies that have begun the journey of transforming their emissions footprint by way of their suppliers, JAGGAER provides an overview, highlighting areas of potential concern, and allows the user to drill down to the detail to identify causes of underperformance on particular ESG KPIs:

- A. Sustainability Library:** Suppliers who have made it past the initial screening are invited to the Tender. In our current environment, the Tender depends on a sustainability library, which tracks metrics for all the major frameworks and standards.
- B. Technical Envelope:** By turning their supplier platform into a self-service portal, companies create a competitive market. Suppliers who want to do business with companies will step up, offering accurate data on technical factors, sustainability, and requirements.

On the left side, we have all the information needed for each specific sustainability factor and each specific requirement related to it. Suppliers unsure about certain requirements can complete them offline or modify what they have already submitted. Done right, the technical envelope should be automated with the sustainability risks and key factors for suppliers to preview before making a final commitment. Suppliers that stand out are the ones that can commit to at least one key factor during the Tender.

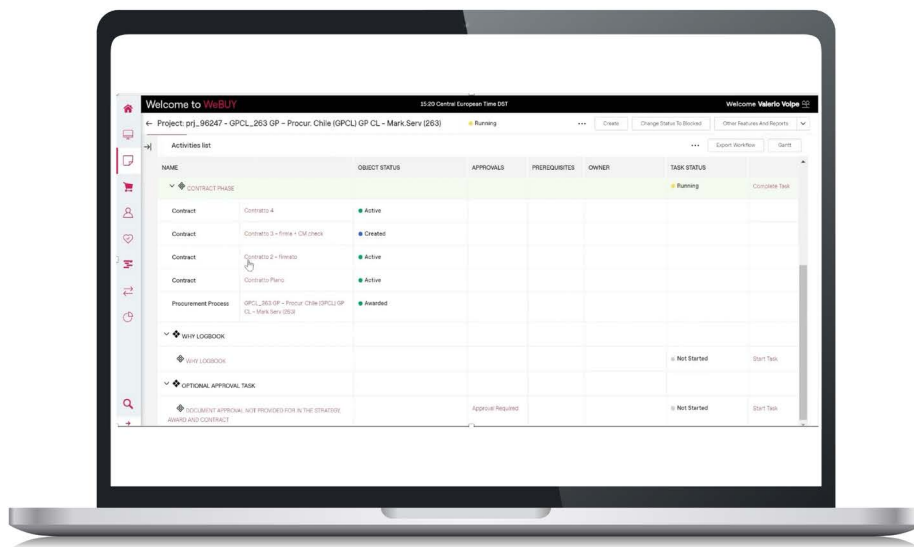
- C. Offers & Assessment:** As with the initial vetting, companies can automate their response to the Technical Envelope with standard rejections, or in cases where suppliers fall into a grey area, human involvement can provide assessment whether a supplier should be awarded a contract.

Pro-Tip: Keep it simple! Get the basic information without making suppliers fill out overly long assessments.

Chapter 3

Monitor: Use Smart Contracts to Assure Suppliers Meet ESG Commitments & Forthcoming Requirements

What suppliers say they are going to do and what they end up doing can be two different things. Fortunately, with the monitoring features that JAGGAER offers, companies can hold suppliers to their word without losing time best spent on other tasks.



The challenge goes beyond the complexities of a given agreement, or the risk of suppliers defaulting on their Scope 3 commitments. Also concerning for companies is the variance in how emissions are monitored. The key regulatory frameworks coming in the U.S. and Europe are after the same goals but have different methodologies of reaching them:

- **The Corporate Sustainability Reporting Directive (CSRD)**, passed by the EU Council and the European Parliament in December 2022, requires updates on corporate emissions as part of financial statements.
- **The Carbon Border Adjustment Mechanism (CBAM)**, taking effect in 2026, places a tariff on steel, cement, electricity, and other carbon-intensive goods imported to the European Union.
- **Climate Disclosure Rule (aka The Enhancement and Standardization of Climate-Related Disclosures for Investors)**, passed by the U.S. Securities and Exchange Commission in March 2024, requires companies to disclose “material” (or “significant”) emissions in financial filings.

Scope 3 emissions reporting are not currently considered in the U.S. ruling. However, companies must disclose the expected costs of [moving away from fossil fuels](#), as well as the impact of higher temperatures and severe weather caused by global warming.

As the new ESG frameworks are enforced, suppliers who have met or committed to requirements drive change upstream into companies and prepare them for annual climate audits and ad hoc customer requests for product footprints. Smart contracts are the common thread that assure data stays within expected guidelines.

Pro-Tip: JAGGAER's Supplier Development Plan module generates the plan that keeps the project on target. See for yourself.

Partner Spotlight

Carbmee

Carbmee was founded in early 2021 with the goal of helping emissions-intensive industries gain visibility of their emissions and take action to reduce them where it matters most. The company has created a carbon management platform that enables organizations to seamlessly collect, analyze, and report emissions data across all three scopes of the Greenhouse Gas (GHG) Protocol. Carbmee combines carbon accounting, product carbon footprints (LCA), and supply chain emissions (Scope 3) into a single, integrated system to centralize complex data streams.

EcoVadis

EcoVadis is the leading provider of business sustainability ratings. Businesses of all sizes rely on EcoVadis' expert intelligence and evidence-based ratings to monitor and improve the sustainability performance of their business and trading partners. Its actionable scorecards, benchmarks, carbon action tools, and insights guide an improvement journey for environmental, social, and ethical practices across 220 industry categories and 180 countries.

TealBook

TealBook tracks supplier diversity. Using AI and ML, TealBook enables procurement teams to unlock and realize the investment made in suppliers, people, source-to-pay, and ERP systems. The world's most innovative procurement organizations are building their data foundations with TealBook's trusted Supplier Data Platform.

Chapter 4

Enel Case Study – How They Are Working with 170K Suppliers Worldwide to Usher in New Era of Energy¹

Enel is a leading renewable energy company operating in more than 29 countries. They are committed to transitioning to an entirely carbon-free value chain and have 170,000 suppliers they are in the process of qualifying for Scope 3 emissions requirements. In November 2020, they launched the WeBUY platform, their totally converged digital procurement solution. The solution was built in 11 months with JAGGAER as their technology provider.

Project Context & Challenges

The company needed an intelligent supply chain that satisfies new emissions frameworks in the US and the European Union.

Approach

- Digitalization strategy initiated by the company streamlines the entire end-to-end procurement process, aimed at suppliers.
- Integrated with its economic and financial management system (company ERP).
- WeBUY, providing specialized support to suppliers and equipment purchases for the duration of the contract, in any country and language.

Solution

- Online vetting and onboarding of potential suppliers.
- More than 8,500 procurement processes supported.
- Online Tender Process has already qualified more than 20,000 suppliers.
- 96% percent of suppliers committed to at least one key factor or sustainability requirement during the Tender.
- Smart contracts and other automation that manages emissions commitments for the entire life of the agreements.

Key Takeaways:

People:

Need buy-in from procurement heads and ICT executives to drive transformation.

Simplification:

Streamline certification information gathering to keep suppliers engaged.

Automation:

Leverage technology whenever possible to reduce complexity and speed processes.

¹Source: How to engage suppliers to commit to ESG requirements and accelerate your decarbonization Journey, Laura Laplana Torres, Procurement Digital Hub ENEL, speech at REV2023

Chapter 5

Putting into Practice What We've Learned

Now that we've walked through our framework and case study, it's time to put what we learned into practice. Below, there is a checklist of key action items to engage suppliers to commit to ESG requirements.

- [] Replace siloed solutions with a unified cloud-based platform. This is your single source of truth.
- [] Create an onboarding mechanism that automates the process of vetting suppliers for certification, compliance, and insurance information.
- [] Offer feedback on applications in scorecard format, which can be easily evaluated by internal teams and show potential suppliers where they fell short.
- [] Create a Sustainability Library that enables suppliers to determine emissions requirements in real time. (No more poring over documents to cross-check merchandise group, typology, and location.)
- [] Be detailed, but don't overwhelm suppliers with requests for too much information about activity-based calculations.
- [] During the Tender, display risks and key factors for suppliers to preview before making a final commitment.
- [] Use JAGGAER's SDP (Supplier Development Plan) module to keep track of supplier emissions commitments during the life of a contract.
- [] Make sure that your supplier emissions data is in auditable format - to prepare for annual reports and ad hoc product footprint requests.
- [] Further enhance your platform with JAGGAER technology partners like Carbmee, who can help you build an RFQ dashboard, EcoVadis, who brings sustainability intelligence, and TealBook, who provides diversity data.
- [] Leverage the competition between suppliers to drive change upward into your organization, with the focus on low emissions and an intelligent supply chain delivering the greatest business efficiency.

Americas

+1 919 659 2600
sales@jaggaer.com

APAC

+61 (2) 8072 0644
apac_sales@jaggaer.com

Europe

+43 1 80 490 80
dach_sales@jaggaer.com

MEA

+9714 360 1300
info-mena@jaggaer.com