

BrainNet analysis

What Price Sustainability in Procurement?

Bonn, March 1st, 2010 – Legal, social and ecological sustainability in procurement is crucial to the success and public acceptance of a company – at least in theory. But how willing are companies to invest in this sustainability, and how is it possible to guarantee effective and cost-efficient sustainability management? BrainNet, a consultancy firm specializing in supply chain management, analyzed these questions at a conference with prominent invited guests.

Corruption, child labor, pollution or contaminated pre-products: when incidents like these come to light, companies face enormous problems. Even healthy and successful businesses can be shaken to the foundations by draconian fines, the loss of trust of customers and employees, and the serious damage done to its image and brand. Companies must account not only for their own actions, but also for the actions of their vendors. As a driving factor in external value creation, procurement is particularly affected by these risks, especially in the context of global supply chains. Ensuring legal, social and ecological sustainability is therefore a core procurement task. But how willing are companies to pay for all-embracing sustainability in procurement, and how is it possible to achieve effective and cost-efficient sustainability management? These were the questions under discussion at the Green Procurement Day hosted by BrainNet in partnership with the Supply Chain Management Institute (SMI) of the European Business School.

How much will businesses pay for sustainability?

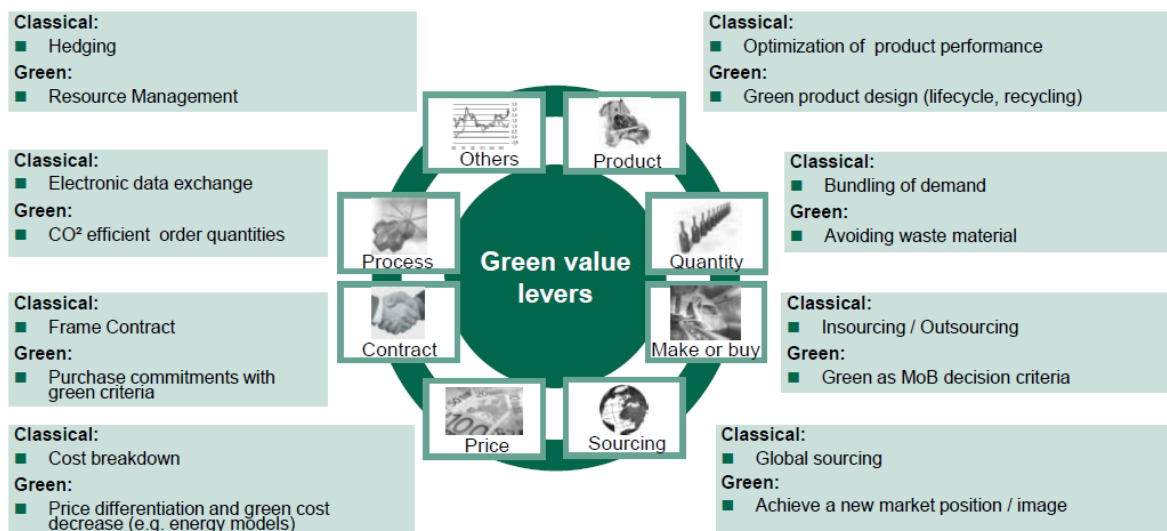
“While most people today accept the need for a sustainable value-added chain, the willingness to invest in ensuring this sustainability is still relatively low,” says Sven Marlinghaus, Partner and Managing Director of BrainNet. “Companies are afraid to pass on ‘sustainability costs’ to customers for fear of being overtaken by competitors or losing out on sales.”

A recent study by SMI, also presented at the conference, came to a similar conclusion. It analyzes procurement managers’ ‘willingness to pay’ to avoid corruption and ensure social and ecological sustainability. The study revealed that one of the most important drivers of sustainability in procurement is not the much-vaunted training, but a functioning system of sanctions. Sustainable procurement is rewarded and non-sustainable procurement is

penalized. If these sanctions are not consistently applied, even the best sustainability training, the most impressive sustainability website, and the most sophisticated sustainability strategy will be of little use.

Sustainability: value driver, not cost driver

“Our studies show that procurement with an ecological and social conscience is not a cost factor, but a value factor,” says Marlinghaus. “Companies that pursue a consistent approach to green and sustainable procurement receive an above-average return on capital deployed.” However, these successes do call for strategic modifications. To this end, BrainNet has developed a comprehensive system that identifies eight key value levers:



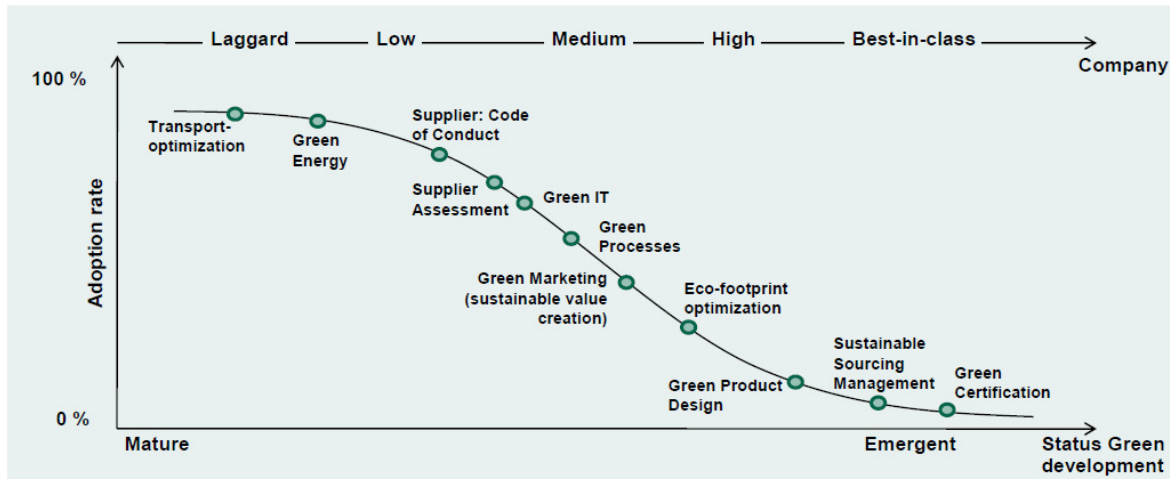
Green value levers in procurement

Source: BrainNet, 2009: Green and Sustainable Procurement: Drivers and Approaches

Tools and methods not mature

As Marlinghaus emphasizes, sustainable procurement will only deliver significant results and impact positively on business performance if all the relevant dimensions of procurement are taken into account. This includes strategy, processes and organization, performance management, IT, risk management, training, and vendor management. “The problem is, firstly, that there is a lack of binding international codes and certification processes, which are essential to effective vendor and process management,” explains Marlinghaus. “Secondly, many tools and methods for the consistent management of

sustainable procurement are not yet mature, and are only used by pioneers – albeit with striking success.” BrainNet has developed an evolution curve for sustainable procurement that incorporates both the maturity of various approaches and the areas where action is urgently needed:



Green Procurement Excellence Evolution Curve

Source: BrainNet, 2009: Green and Sustainable Procurement: Drivers and Approaches

“Essentially, it is misleading to formulate a question in terms of willingness to pay for sustainability. In actual fact it’s a question of investing in the future competitiveness of a company. How fast this investment pays for itself depends primarily on the company’s strategic approach to the task and the level of commitment among senior managers in the organization,” Marlinghaus concludes.

About the BrainNet Supply Management Group AG

BrainNet is one of the leading international brands for supply chain management consultancy. Employing 220 members of staff, BrainNet turns over €30 million globally. BrainNet develops and realizes tailored solutions for more than 80 of the companies listed in the Global Fortune-500 and around 240 fast growing SMEs. For years, BrainNet has had offices in Bonn, Boston, Budapest, Chicago, London, Mumbai, Munich, São Paulo, Shanghai, St. Gallen, Stockholm, Tampa and Wroclaw.

The study "Hidden Champions of the Consulting Market" by the Scientific Society for Management and Consulting (WGMB) puts BrainNet as the number 1 purchasing consultant in Germany. The company is – together with Roland Berger – also the only consultancy to be listed in the Hidden Champion top 5 ranking in all the supply chain management disciplines (purchasing, internal supply chain & processes and distribution logistics).

Through its close collaboration with the Supply Chain Management Institute (SMI) at the European Business School (EBS), BrainNet offers a totally unique value-creation chain ranging from research and training young talent at leading business schools to implementing consultancy projects and strategic qualification of top managers and supply chain managers.

For more information about BrainNet, please go to www.brainnet.com

BrainNet – people creating connected solutions

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