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German Firms Seen Missing out on Significant Opportunities in Green Procurement

Less than a third of companies in the country currently actively engaged in sustainable procurement, BrainNet survey finds; most companies still reactive, lack green strategy

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By Editorial Staff

Bonn, Germany — August 25, 2008 — German companies have a lot of catching up to do regarding sustainable procurement, with less than a third of companies in the country currently actively engaged in so-called "green procurement," according to a recent study by supply chain management consultancy **BrainNet**.

German organizations still view "green" with some skepticism and, as a result, are missing out on significant opportunities since sustainable procurement practices offer not just ecological benefits but also economic benefits, the consultancy reports.

Generally, green procurement means the responsibility of procurement for compliance with ecological but also ethical standards in the entire supply chain and over the entire product life cycle from manufacturing, via transportation and processing, to disposal and recycling.

"More than half of all processes between businesses and their social, ecological and economic environment are related to procurement," says Simone Luibl, coordinator of the survey and practice head of green procurement at BrainNet. "Therefore it is only consistent if a stronger environmental orientation is already in place in procurement."

BrainNet believes that the price of goods or services is increasingly being influenced by ecological factors and that an attitude that is not "environmentally friendly" can have serious consequences for a company's image and economic clout. Companies that do not attach enough importance to the ecological use of resources risk having a significant strategic disadvantage compared with the competition, the consultancy asserts.

New Criteria for Procurement Decisions

As a rule, procurement decisions are made based on criteria such as product, quality, coordination and risk costs. A purchase that is undertaken in line with the principles of green procurement also takes greater account of the costs of the environmental pollution and damage caused by production, supplying and processing of goods.

Behind the increasing importance of sustainable procurement, there are primarily three major drivers: rapidly rising and extremely volatile prices for energy and raw materials, considerably tightened legal requirements, and growing public awareness of the threat posed to the environment.

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These factors put tremendous pressure on companies to redesign their processes so that they are environmentally friendly.

"The recycling of valuable raw materials and the use of alternative resources will have a significant impact on the profitability of companies in the next few years," says Luibl. "Environmental orientation is no longer the hobbyhorse of idealists but instead offers concrete economic advantages in the medium term and increases the value of the company."

Green Procurement as a Value Driver

The development of sustainable procurement into a strategic value leverage has now been recognized by nearly one in two European companies. Germany, however, is trailing behind, at only about 30 percent. But in the context of a global procurement organization, this topic is very controversial.

However, the mere knowledge that something needs to be done is not sufficient for strategic and operational implementation. At the present time, procurement is still primarily lacking the human and financial resources. Very few European companies currently have an individual green procurement strategy; instead, the survey results show that three out of four companies (72 percent) primarily have a project-based approach to the topic.

The strategic importance of the topic is not yet reflected in the organization of companies. The responsibilities for green procurement are only clearly regulated in one in four European companies, and German companies are below average here as well, with only 18 percent.

In this context green procurement should by no means be understood as a reactive approach, but rather should be viewed as significant value leverage. More than half of European companies thus attach long-term importance to the topic and are therefore taking long-term measures.