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Talk is Ahead of Action on Green Supply Chain, According to McKinsey Study

One Challenge: Most of a Company's Carbon Footprint is in its External Supply Chain

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It probably shouldn't be a surprise, but a recent McKinsey study finds that for most companies, Green Supply Chain strategies and rhetoric are outpacing real action.

A recent McKinsey survey of more than 2,000 global executives found that while nearly half of respondents say that climate change is a somewhat or very important issue to consider in purchasing and supply chain management, fewer than 25% say their companies always or frequently take climate change into consideration in making supply chain decisions (see figure below). Similarly, among high-tech and other manufacturing executives, 54% and 56% of respondents, respectively, say climate change is important in purchasing, yet these executives were no more likely than average to say it was considered in practice.

Interestingly, a sizable number of executives in manufacturing companies view climate change issues as either positive for them or equally a threat (higher costs) and an opportunity (new Green products to develop and market). 37% of manufacturing executives surveyed, for example, thought the risks and opportunities were roughly balanced for their firms, and another 21% thought the opportunities far outweighed the risks.

Only 21% of manufacturers thought there were mostly risks and limited opportunities, with another 10% not expecting much impact either way.

Fully 61% of all respondents expect a somewhat or very positive effect on profits should their companies manage the issues related to climate change very well – which in part explains the general corporate enthusiasm around sustainability, and the limited action thus far. Many companies may be waiting for new product markets to develop, but are taking a very slow approach to supply chain changes that might add costs for now.

This means any significant carbon-abatement activities will require collaboration with supply chain partners – a time consuming and potentially expensive process.

Relatively few companies as yet actually set emission targets. More than 60% of executives whose companies consider managing environmental issues to be at least somewhat important report at the same time that their companies haven't defined corporate emission targets for greenhouse gases; another 15 percent don't know if their companies have or not.

Upstream Supply Chain is Often the Real Driver of Emissions

But the real challenge may be the fact that a preponderance of the carbon emissions from the supply chain of many companies comes from their upstream supply partners, whose operations of course they do not directly control.

McKinsey says its analysis shows that for con-

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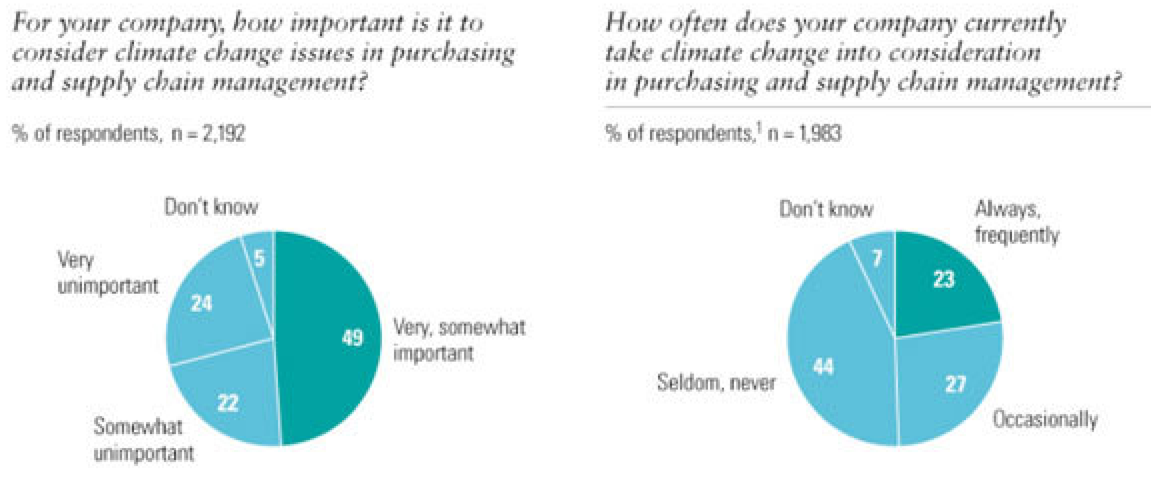
Importance of climate change in business strategies



[1]Figures do not sum to 100%, because of rounding.

Source: 2007 McKinsey survey of 2,192 executives on climate change

sumer goods makers, high-tech players, and other manufacturers, 40-60% of carbon footprint resides upstream in the supply chain—from raw materials, transport, and packaging to the energy consumed in manufacturing processes. For retailers, the figure can be 80% or more.

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First, a company needs to understand in detail the emissions associated with purchased products or materials, and then to analyze abatement opportunities systematically, including reduction opportunities and any potential costs.

McKinsey, however, believes that the cost impact will often be negligible.

"We find that many of the opportunities to reduce emissions carry no net life-cycle costs—the up-front investment more than pays for itself through lower energy or material usage," McKinsey's **Chris Brickman** and **Drew Ungerman** say. "Others, however, will require tradeoffs between emissions and profitability, in areas such as logistics and product design (including product specification and functionality)."

They say forward-looking companies are using such discussions as opportunities for supplier development, for example by transferring best practices in manufacturing, purchasing, and R&D—as well as energy efficiency—to key suppliers.

"This opens the possibility of still lower costs and improved operational performance, in addition to helping suppliers remove more carbon from their supply chains," they say.