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FT REPORT - SUSTAINABLE BUSINESS 2007: Pressure to save carbon cascades to suppliers

 By Mike Scott, Financial Times
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Many of the most environmentally aware companies are starting to get to grips with the impact of their own operations - they have measured their emissions and resource usage, they have environmental management systems in place and they are starting to see the effects of their efforts in resource and cost savings.

But it does not stop there - very few businesses generate more carbon in their own operations than are generated through the goods and services they buy, according to Richard Mattison, managing director of Trucost, the environmental research group.

"For retailers, their suppliers have a carbon footprint of about 30 times their own," he says.

Furthermore, according to David Oglethorpe, Professor of Logistics and Supply Chain Management, New-castle Business School at Northumbria University, large companies, particularly those that deal with end consumers, are finding that "you can no longer confine your efforts to your own operations - you have to accept responsibility for the actions of your suppliers because your supply chain is organised to your needs".

The first step is to gather information - the most high-profile example of this is Wal-Mart's recent move to make its suppliers gather information on emissions using the Carbon Disclosure Project's questionnaire.

"There's a huge opportunity to do some relatively simple things to save energy," Jim Stanway, head of Wal-Mart's greenhouse gas strategy, told the FT last month.

"We hope to help suppliers get the costs of the carbon out of the system."

In some ways, moves to cut emissions will not be new to suppliers because companies have been focusing on stripping costs out of their supply chain for some time.

"Anything that makes the supply chain more efficient generally saves carbon," says Holly O'Neill, senior account manager at Greenstone Carbon Management.

Nonetheless, many suppliers coming under pressure to measure their environmental impacts are bewildered about what they have to do. "If you look at something like Tesco's move to carbon footprint all its products - it's fine for a company like Coca-Cola, which has the resources to deal with it, but smaller companies are a bit scared of what will be asked of them."

Many companies, of course, are both customer and supplier, so as their customers press them to make changes, they pass that pressure down to their own suppliers. Real estate group British Land has found that many high profile clients will not let premises unless they have the top British Research Establishment Environmental Assessment Method (BREEAM) ratings.

Its Ropemaker development, in the City of London, for example, will use measures such as heat recovery, biofuel boilers, solar water heating and photovoltaic panels to displace 10 per cent of carbon emissions and 20 per cent of energy used in the building. "We have to work in partnership with our suppliers and our customers," says Claudine Blamey, director of corporate responsibility.

Such requirements have a knock-on impact on the company's suppliers, who have to meet minimum standards to win business. Equally, suppliers that offer innovative products and proof of high environmental performance are likely to be better placed to win business.

BT, the leading telecoms group in the Dow Jones Sustainability Index, has a series of standards on issues such as the environment and labour issues that it expects suppliers to take account of. "We engage with suppliers to ensure that they put the relevant training in place and have an environmental management system, for example," says Liz Cross, who oversees the corporate social responsibility aspects of the company's procurement activities.

The company also has a product stewardship process that looks at the entire life cycle of a product - the materials that go into making it, the energy consumed in making and using it and the extent to which it is recyclable. Energy consumption and environmental performance will shortly become mandatory criteria in the company's tendering processes, Ms Cross says.

BT has found that its leadership on sustainability issues has opened up new business opportunities. Its newly formed Global Services sustainability practice has launched a service to help large businesses and public sector organisations cut energy use and their carbon footprint. "We found that people were coming to us and asking how they could do what we had done," says Dinah McLeod, head of sustainability practice, BT Global Services.

However, there are other benefits as well, according to Euan Murray, general manager of carbon footprinting at the Carbon Trust. "We worked with 5,000 companies last year and helped identify carbon reductions of 4m tonnes, which equated to savings of £400m."

Working with Boots, the UK high street pharmacist, Mr Murray's team were able to cut the footprint of its supply chain for shampoos by a third, by implementing relatively mundane changes, including making bottles 30 per cent recycled plastic; reconfiguring the distribution network to make deliveries more fuel efficient and adjusting the way changeovers from one shampoo to another were managed. "There is rarely one answer - huge savings are made up of individual projects at different stages of the production process, often involving different suppliers," he says.

Ultimately, pressure on suppliers is being driven by consumer preferences. "All of these initiatives are about keeping customers," says Prof Oglethorpe. "If consumers do not have confidence you are dealing with sustainability issues, they will vote with their wallets."

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