



THE SUSTAINABLE SUPPLY CHAIN:

Rethinking Indirect Spend for a Greener Tomorrow



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THE SUSTAINABLE SUPPLY CHAIN:

Rethinking Indirect Spend for a Greener Tomorrow

Indirect Spend Sustainability focuses on reducing the environmental, social, and economic impact of a company's indirect spend activities, including logistics, office supplies, utilities, facilities management, IT, professional services, travel, and marketing.

Traditionally, companies have concentrated their sustainability efforts on direct spend suppliers. However, recognizing the materiality of indirect spend sustainability, particularly for service-oriented firms, has become increasingly important. Upcoming EU legislation will require companies to cover their entire supply chain, further emphasizing the need for indirect spend sustainability.

This guide is based on the information discussed in the "Indirect Spend and GNFR Sustainability" session of The Shift 23, a series of 1-hour virtual sessions by SupplyShift that were held throughout February 2023 and designed to ease the burden of achieving sustainability in your supply chain. Our panelists for that session included sustainability leaders from across the industry. Throughout the discussion, we also welcomed input from our live audience, ensuring a wide range of perspectives and experiences were considered.





What is Indirect Spend?

Indirect spend refers to the expenses incurred by a company for goods and services that are not directly found in the products they make. These are often seen as supporting or ancillary costs that help maintain the company's operations but are not part of the final output. Indirect spend can include a wide range of items, such as:

- **Logistics:** Moving your products from one location to another
- **Office supplies:** Stationery, paper, printer cartridges, etc.
- **Utilities:** Electricity, water, gas, and other utility bills.
- **Facilities management:** Building maintenance, janitorial services, security, etc.
- **IT expenses:** Hardware, software, support services, and telecommunications.
- **Professional services:** Legal, accounting, consulting, and other outsourced services.
- **Travel and entertainment:** Flights, accommodations, meals, etc.
- **Marketing and advertising:** Promotional materials, events, sponsorships, and media placement costs.

Indirect spend suppliers can be contrasted with direct spend suppliers, which refers to suppliers who provide ingredients, raw materials, components, etc.

Sustainability in Indirect Spend

Indirect Spend Sustainability includes all efforts and practices implemented by a company to reduce the environmental, social, and economic impact of its indirect spend activities.

Indirect Spend Sustainability efforts can include a range of initiatives, such as:

1.

Supplier assessment and engagement: Evaluating suppliers based on their environmental, social, and governance (ESG) performance and working with them to improve sustainability practices.

2.

Sustainable procurement: Selecting products and services that have a lower environmental impact, such as using recycled materials, energy-efficient equipment, or eco-friendly office supplies.

3.

Waste reduction and recycling: Implementing waste reduction strategies, promoting recycling, and adopting circular economy principles to minimize waste generated from indirect spend activities.

4.

Energy efficiency: Investing in energy-efficient technologies or infrastructure to reduce energy consumption and associated emissions from facilities, IT equipment, and other indirect expenditures.

5.

Greenhouse gas (GHG) emissions reduction: Tracking and reducing indirect spend emissions by engaging with suppliers, investing in renewable energy sources, and implementing other emission reduction strategies.

6.

Social responsibility: Ensuring ethical labor practices, fair wages, and safe working conditions throughout the supply chain, as well as promoting diversity and inclusion among suppliers.

7.

Monitoring and reporting: Regularly tracking and reporting on the sustainability performance of indirect spend activities to maintain transparency and drive continuous improvement.



UNDERSTANDING THE IMPORTANCE:

Why Sustainability Matters in Your Company's Indirect Spend

Until recently, companies focused their supply chain sustainability efforts almost exclusively on direct spend suppliers, under the assumption that there is more reputational risk and opportunities in materials that end up in final products.

However, companies are beginning to recognize the materiality of indirect spend sustainability, particularly in service-oriented firms. Upcoming EU legislation will require companies to cover their entire supply chain, not just product production, further emphasizing the importance of indirect spend sustainability.

Reputational hazards from poor labor supplier practices are probably similar across direct and indirect spend. Does the consumer care less if there is forced labor in your office cleaning vendor versus in your first manufacturing supplier's factory? Probably not, and that is one reason why companies are starting to place focus on indirect spend suppliers.

By focusing on Indirect Spend Sustainability, companies can reduce their overall environmental footprint, mitigate risks, enhance their brand reputation, and demonstrate commitment to corporate social responsibility. This, in turn, can lead to cost savings, better stakeholder relations, and improved long-term business performance. Indirect spend suppliers often have different employment structures, such as self-employed drivers or waste pickers. As a result, assessing indirect spend sustainability requires asking different questions and utilizing tools specifically designed for this purpose.

NAVIGATING THE PATH:

Fundamental Strategies for Indirect Spend Sustainability

In a poll conducted with attendees during the “Indirect Spend and GNFR Sustainability” session of The Shift 23, results revealed that understanding the risks associated with indirect spend supply chains still presents a challenge for many organizations. While 25% of respondents considered their understanding of these risks to be mature in some categories, a significant 74% admitted that their maturity in managing indirect spend risk either needs improvement or is non-existent. Notably, none of the respondents felt that their comprehension of indirect spend risk was on par with their understanding of direct supply chain risks. This highlights the need for greater attention, resources, and tools to enhance organizations’ ability to manage indirect spend sustainability effectively.

Navigating the complex world of indirect spend sustainability may seem daunting, but with the right strategies in place, you can ensure your company is on the right path. At the very basic level, sustainability in indirect spend is about understanding what you buy and who you buy it from. By adopting a proactive and well-informed approach, you can optimize your indirect spend practices and vendor base to minimize negative impacts on people and the environment. As you embark on this journey, consider the following fundamental strategies to effectively manage your indirect spend sustainability initiatives and create lasting, positive change within your organization and beyond.

1.

Stay informed about sustainability initiatives in the key categories you purchase, as indirect spend varies across categories.

2.

Prioritize user-friendly tools, knowledge, and resources to ensure effective procurement, implementation, and action.

3.

Learn from other companies that have successfully implemented indirect spend sustainability practices.

4.

Engage suppliers in a collaborative manner rather than simply requesting information because their insights can help refine your approach.

5.

Focus initially on areas with the highest spend or consumption, as these can offer the most significant impact and set the stage for future sustainability efforts.

6.

Involve the procurement team and equip them with the right tools to efficiently manage indirect spend sustainability.

ADDRESSING THE CHALLENGES:

Key Concerns in Indirect Spend Sustainability Management

As businesses venture into the realm of indirect spend sustainability, they will inevitably face unique challenges that require thoughtful planning and strategic action. Navigating these obstacles is crucial for creating a sustainable and responsible procurement process. By recognizing and understanding the most common concerns in indirect spend sustainability management, companies can develop targeted strategies to overcome them and contribute to a more sustainable future. The following key concerns outline some of the primary hurdles that organizations must address as they work towards optimizing their indirect spend practices:

- The complexity of managing Indirect Spend, especially managing across multiple categories that vary widely
- Tools and processes for managing sustainability in direct spend, such as factory audits, often do not apply to indirect suppliers
- Perceived lower importance compared to direct spend suppliers
- Limited leverage with Indirect Spend suppliers
- The high volume of suppliers, particularly for service-oriented companies
- Existence of specific risks and opportunities that are specific to each category and that may not apply to direct spend tools and processes
- Increased risks due to the gig economy and subcontracted labor
- Lack of expertise on sustainability topics across a wide breadth of categories

To effectively address indirect spend sustainability, companies must:

- Build the capacity of both the procurement team and suppliers to work together collaboratively
- Understand that suppliers may not have the same incentives to participate, as their indirect spend may represent a smaller percentage of their overall business

Despite these challenges, buyers often spend more on indirect costs than on direct ones, particularly in service-based businesses. This fact highlights the need for a collaborative approach to indirect spend sustainability. With the growing prevalence of informal employment and the increasing need for attention to human rights issues, such as human trafficking and labor exploitation, collaborative initiatives are more important than ever.

Leveraging the Indirect Spend Alliance for Sustainable Procurement

Who is the Indirect Spend Alliance?

The Indirect Spend Alliance (ISA) is a collaborative initiative founded by SupplyShift in collaboration with twentyfifty, Galvanised, and Accenture, aiming to support businesses in their indirect spend sustainability journey. It provides a platform for companies to:

- Access tools and knowledge to help procurement teams identify and measure indirect spend risks and opportunities, including supplier assessments
- Participate in best-practice sharing sessions and open discussions among members
- Benefit from shared due diligence and improvement processes

The ISA works to coordinate and create responsible sourcing best practices across indirect spend categories, making it easier for procurement professionals to implement these practices. SupplyShift's Indirect Spend category assessments, launching as part of ISA's activities, offer valuable benchmarking opportunities to measure sustainability across suppliers in specific categories.

As companies increasingly move towards a holistic approach that combines human rights and environmental aspects, the ISA collectively decided early on to focus on both human rights and greenhouse gas (GHG) emissions. Polls indicate that interest lies in other areas as well, but the emphasis is currently on these two aspects.

The ISA assists procurement professionals in addressing and improving sustainability within their indirect spend supply chains. By joining the Indirect Spend Alliance, companies can overcome the challenges and capitalize on the opportunities presented by indirect spend sustainability, driving value and positive impact throughout their supply chains.

Initial Observations from the Indirect Spend Alliance

The Indirect Spend Alliance (ISA) generally share the following perspectives:

1.

Maturity of Member Companies: Companies joining ISA are typically more mature in their sustainability efforts, having already implemented some initiatives for direct spend suppliers.

2.

Perception of Indirect Spend: Many companies believe they don't have the time or resources to focus on indirect spend sustainability, as it hasn't been a top priority. This makes shared tools and resources even more critical since they help reduce cost and effect.

3.

Reputational Risk: Indirect spend sustainability carries a perceived lower reputational risk for companies than direct spend sustainability, but indirect spend cannot be ignored.

4.

Complexity: Assessing and improving indirect spend sustainability is more complicated due to the diverse nature of the categories involved and because tools designed for direct spend suppliers often do not apply.

The Indirect Spend Alliance was formed to address these challenges. Through collaboration, companies can make faster progress, learn from each other, and speak to their suppliers using the same language.





How the ISA Can Help Your Business

The ISA offers a range of benefits to its members:

- One of the key advantages of membership is access to knowledge and expertise from other companies who are part of the collaboration. The ISA has 17 current members on the cutting edge of sustainability, including GSK, AstraZeneca, Accenture, Evri, and Haleo. Members engage in deep discussions on the how and why of Indirect spend sustainability, providing valuable insights and advice to other members.
- The ISA also offers assessments targeted specifically at suppliers in Indirect Spend, with questions and measurements tailored to the unique issues, risks, and opportunities in each category.
- ISA members deploy these supplier assessments using a common software platform - SupplyShift - so that suppliers can reuse their answers with multiple customers and everyone can gain insight faster.
- The ISA offers support and guidance on engaging senior leadership on the importance of covering human rights and emissions in both direct and indirect spend.
- Additionally, the ISA provides an overview risk assessment in the matrix, which serves as an excellent starting point for assessing risk in Indirect Spend categories and can be customized to fit the needs of individual members.

Centralized Content and Insight

ISA focuses on gathering existing content and insights related to indirect spend sustainability, streamlining the process by bringing valuable information together in one place. This approach eliminates the need to reinvent the wheel and helps procurement professionals understand the necessary steps to take in their sustainability efforts.

Collaborative Learning Environment

With 17 corporate members working together for the past year, ISA fosters an environment where companies can learn from each other's experiences and insights, helping them make more informed decisions about indirect spend sustainability.

Identifying New Insights

ISA's collaborative work has highlighted critical areas for members, such as sustainability issues in solar panel supply chains and key opportunities to reduce greenhouse gasses in last-mile delivery suppliers. These insights can guide businesses in making more sustainable choices in their indirect spend practices.

SupplyShift Assessments & Platform

As part of ISA's activities, two new supplier assessments have been launched, covering Last-Mile Delivery & Warehousing and Waste & Recycling Services. Covering climate change and human rights topics, these assessments provide a single score as well as granular insights, so that companies can make fair comparisons and benchmark their suppliers. ISA plans to add new categories assessments in the coming months, starting with Road Freight and Construction Services, further expanding its offerings and supporting businesses seeking to improve their indirect spend sustainability.

By leveraging the Indirect Spend Alliance's resources and collaborative environment, your business can make significant strides in achieving sustainable procurement, reducing risks, and contributing to a more responsible and ethical supply chain.



Where to Start with Indirect Spend Sustainability

Various strategies will help you navigate the path to achieving a more sustainable approach to your indirect spend. By proactively addressing potential risks, engaging in continuous improvement, and leveraging best practices, you can create a more resilient and responsible supply chain. Implementing these strategies not only contributes to environmental and social sustainability but also drives long-term value for your business, ultimately enhancing your brand reputation, reducing costs, and promoting innovation.

1. Identify high-risk areas and expenditures: Analyze the riskiest categories, such as outsourced work, consultants, and financial services; Remember to regularly review and update your risk assessment to ensure that your business remains prepared for any potential risks.
2. Create impactful inquiries: Incorporate these in upcoming negotiations with suppliers to motivate them to commence monitoring their progress.
3. Start with simpler aspects: Ask suppliers about their plans for fleet electrification or other straightforward sustainability measures.
4. Integrate indirect spend assessments with enterprise risk model: Prioritize areas based on likelihood and impact.
5. Learn from suppliers: Encourage open communication and collaboration to accelerate change.
6. Combine procurement and supplier capability building: Learn from each other's challenges and work together to improve sustainability efforts.
7. Be aware of potential human rights violations: Monitor not just your suppliers but also their suppliers to protect brand value.
8. Seek suppliers using renewable energy: Collaborate on various aspects of operations to improve sustainability.
9. Work together on logistics and packaging: Focus on palette optimization, double-stacking, facility services, and secondary packaging.
10. Engage service providers to improve sustainability: Many service providers are eager to help their clients become more circular businesses and offer solutions to challenges around sustainability, such as waste and recycling.

By using these strategies and working closely with suppliers, you can effectively manage and improve indirect spend sustainability.



Know your supply chain, **know your risk**

Supply chain transparency and responsibility software that helps you discover the insights you need to mitigate risk and improve supplier performance — protecting your business, people, and the planet.

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