

THE CHALLENGE – AND OPPORTUNITY–IN CARBON REDUCTION



Carbon reduction ambition varies dramatically across the value chain. In the main, companies closer to the customer are making bigger commitments.



To deliver on carbon commitments manufacturers will need to 'pull' suppliers on the carbon reduction journey. Will the current supplier base respond or try to pass carbon cost on to their customers?



Suppliers should expect to be increasingly 'disrupted' by customer pressure to develop alternative products, sources and methods to reduce emissions.



There is significant headroom for suppliers to gain competitive advantage, and for manufacturers to lead on new ways to compete and derive new value from their supply chain.



HOWEVER, CARBON REDUCTION IS COMPLEX TO CALCULATE AND IMPLEMENT

The building blocks of supplier CO2 reduction:

Using financial & ESG metrics to enable real decision making, prioritisation & action taking

Driving pragmatic change internally and externally with suppliers

Building capability to do what is needed in the short and long term

The challenges we consistently hear about:

Which standards should we use? Carbon transparency is really difficult.

We spend too much time talking about how to measure vs. action

We have so many metrics and commitments, where should we prioritise?

How do we prioritise and accelerate partnerships with suppliers that will step change our impact?



Targets have been set and now we need to move from reporting to doing

We've covered some 'easy steps' with carbon pledges and supplier scorecards

Does Carbon reduction need to cost more? – How can we both mitigate the cost and even drive competitive advantage?

We need new ways of incentivising suppliers to bring them with us on the journey

Should-Carbon™ cuts through the complexity

WHAT IS SHOULD-CARBONTM?

Sustainability is a complex, dynamic stakeholder environment and decarbonization is a global imperative for every industry. Yet COP26 has highlighted that companies are not on track to deliver Net Zero, and a dramatic shift from strategic intent to action and results is needed.

AlixPartners' Should-Carbon™ methodology and toolkit cuts through the complexity of

calculating and actioning carbon reduction, making it easier to measure, map and reduce supplier carbon.

Most organizations will have baselines and plans in place to improve their directly

controllable Scope 1 & 2 emissions. However, the biggest challenge they face in effectively managing carbon reduction is in their supply chain – typically categorized as Scope 3 and driven by 'upstream' suppliers.

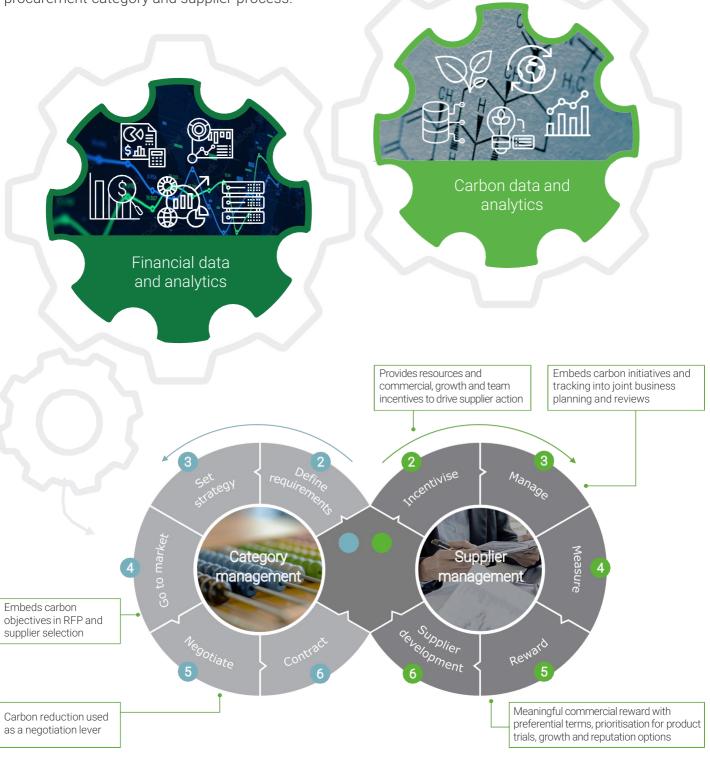
Should-Carbon™ translates carbon measurement into actionable plans at each stage of category planning, procurement and supplier management processes. This

practical and pragmatic approach accelerates cross-business decision-making to mobilize, speed up and scale carbon reduction initiatives with an organization's supplier base.



SHOULD-CARBON™ MAKES IT EASIER TO MEASURE, MAP AND REDUCE SUPPLIER CARBON

Integrating carbon data and analytics with financial data and analytics provides you with the ability to embed carbon reduction into each stage of the procurement category and supplier process.



SHOULD-CARBON™ CREATES TRANSPARENCY AND BUILDS A CARBON REDUCTION ROADMAP

Companies understand the need to reduce carbon but face practical challenge:

- Lack of reliable carbon data in the supply chain
- Greater focus placed on more controllable Scope 1 & 2 emissions
- Mismatch between targets, operational execution capability and engagement within partners and suppliers
- Shared responsibility is not the same as accountability

Should-Carbon™ accelerates carbon reduction from whatever stage you are on the journey

Should-Carbon™ drives carbon reduction through metrics, action and capability building



Metrico

Creates baselines, supports decision making and tracks improvement

1. Carbon metrics setting

Identify standards (compliance vs. strategic) and translate into business metrics/KPIs that can be monitored and are influenced.

2. Granularity

Define pragmatic levels of carbon mapping granularity and data refresh to support decision making.

3. Analytics

Map Should-Carbon™targets to actual supplier carbon baseline highlighting current performance drivers and levers for improvement.

4. Scenario modelling

Models the impact and feasibility of carbon improvement options e.g. Ingredients/Product design, and supplier footprint scenarios.



Actions

Creates roadmap and accountability for action

5. Carbon value creation levers

Assesses range of carbon reduction levers & implementation options – promotes cross functional decision making to decide action.

6. Accountability

Creates cross functional business accountability and mobilizes delivery teams to operationalize actions.

7. Monitoring

Predicts and manages reaction to roadblocks and changed environment, e.g. compliance changes, supply/demand issues, supplier failure.

8. Governance

Visibility, regular review and robust governance process to ensure progress.



Capabilities

Educates and engages the team Builds long-term capability

9. Data management, analytics and performance reporting capabilities

Establishes ongoing supplier carbon metrics management tools and capability.

10. Category management

Embeds carbon management into category strategy, supplier selection, negotiation and contracting methods and training.

11. Supplier management

Embeds carbon management into supplier communications and performance, development and incentive frameworks.

12. Specialist carbon value creation expertise

Access to SMEs for specialist solutions. E.g. carbon economic product modelling, regenerative agriculture, electrification.

SHOULD-CARBON™ ACCELERATES CROSS-BUSINESS DECISION-MAKING

Key benefits

Identifies supplier carbon value drivers and creates an action pathway connected with other business initiatives

Defined roadmap with clear action levers

Enables rapid supplier response

Focus on key underlying drivers of supplier carbon

performance with appropriate incentives

Drives holistic performance

Rapidly targets the most effective ways to improve carbon impact linked to other cost/capacity etc; initiatives

Embeds capability

Boosts immediate capability building and embeds carbon reduction capability longer term across the business



Communicates and engages with teams across the business

Results and coaching ways of working motivate, energise and support team to drive results – predicts and avoids roadblocks

Engages clearly with suppliers

Carbon reduction will be built 'by design' into supplier incentives and interactions, reinforcing action not just words

Focuses on results

Focusses on what really matters – Carbon results not reports

Streamlined approach

Cuts through cross functional and external complexity to limit duplication and maintain clarity across all areas of the business

OUR TIMELINE MOBILISES AND SCALES SUPPLIERS' CARBON REDUCTION INITIATIVES...

Timeline achievements

Should-Carbon™ QuickStrike® (4 to 6 weeks)

Defines the Should-Carbon™ gap and future blueprint

- · Assess current carbon mapping and progress
- Use industry and supplier data to compare current carbon with 'Should-carbon' scores for priority categories & suppliers
- Assess and heatmap current carbon reduction levers and progress analysis of incentives and blockers
- · Scenario model carbon impact levers across priority areas
- Quantify business case framework for action including supplier investment and incentives
- Define costed Should-Carbon™ recommendations/road map

Should-Carbon™ Quick Wins

(6 to 12 weeks)

- Sign off priority projects for focus
- Allocate internal and external expert resources and identify roles, owners and success metrics
- Launch team and supplier communication
- Launch Should-Carbon™ accelerator pilots to rapidly engage, co-build and kickoff incentive based plans to with suppliers to unblock carbon reduction
- Set up **carbon dashboard** to track supplier carbon activities and performance
- Roll-out mapping to quantify full **Should Carbon™** reduction potential across supplier base

Should-

Carbon™

(3 to 6 months)

- Train team in Should-Carbon™ methodology and tools
- Embed Should-Carbon™ into **supplier communications** and supplier management frameworks
- Embed Should-Carbon[™] targets in category strategy and sourcing decision making
- · Identify internal and external carbon lever experts
- Track and energise priority carbon reduction projects
- Detailed planning and roll out of incentives and tracking for Should-Carbon™ targets to rest of the supplier base

...AND ARMS YOU WITH A TOOLKIT TO IMPROVE SUPPLIER COLLABORATION AND MAKE THE RIGHT ONGOING DECISIONS

Should-Carbon™ Implementation toolkit



Should-Carbon™ indicators

- Design for sustainable value' models
- · Embedded product carbon (BOM) benchmarks
- Supply market geography and lifecycle indicators
- Supply market incentive ratios (e.g. Global trade, carbon markets, border tariffs)
- Should-Carbon™ gap calculator

Should-Carbon™ Category management tools

- Should-Carbon™ Carbon category and product strategy framework
- Weighted Should-Carbon™ value driver scorecard embedded in bid evaluation
- Should-Carbon™ negotiation levers Cost/Benefit of offsets, intensity reduction, energy efficiency, funding, payment terms and financial structuring options
- Should-Carbon™ contracting frameworks

Should-Carbon™ Supplier management tools

- Should-Carbon™ Supplier carbon performance tracking
- Carbon under management and Carbon maturity scores
- Should-Carbon™ supplier collaboration frameworks
- Should-Carbon™ metrics and incentives



A 'VALUE CREATION' APPROACH IDENTIFIES LEVERS AND INCENTIVES THAT PRAGMATICALLY REDUCE SUPPLIER CARBON

Examples of Should-Carbon™ levers and incentives

Tier 2 Supplier projects

- Switch to more sustainable processes
- Substitute materials
- · Circularize resources, e.g. returnable packaging
- Improve process and waste efficiency
- Embed sustainable sourcing criteria and supplier carbon target setting
- Accelerate adoption of sustainable technologies
- Address Tier X supplier hotspots

Upstream raw material projects

- Accelerate low carbon alternative sourcing
- Decarbonise material extraction/ production/distribution
- Carbon insetting in priority regions

Design to sustainable value projects

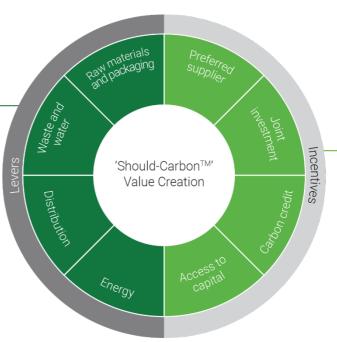
- Increase product lifespans
- Design out upstream carbon from product BOM
- Design out downstream carbon from product usage

Logistics decarbonisation projects

- Outbound logistics and distribution network/routing optimization
- · Inbound logistics distribution network
- · Carrier selection and fuel usage

Sustainable resources projects

- · Accelerate adoption of renewal energy
- Water conservation
- Reduce supplier energy/emissions production and consumption
- Accelerate low carbon alternative



Preferred low carbon supplier status

- · Advantageous commercial terms
- Opportunity for growth
- Access to company resources and support
- Joint innovation opportunities

Joint investment

- Joint investment in low carbon projects
- Shared resources, e.g. working teams
- Joint ventures and wider industry influence through joint ventures and collaboration, e.g. customers

Business model innovation

- · Carbon pricing and credits
- Co-design products for sustainable value, e.g. lifespan, lifecycle emissions, integrated circular economy principles in
- Shift to product/service systems
- Insetting projects

Access to capital

- Provide suppliers with access to capital
- Enable access to low carbon funds

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THE ROAD TO DECARBONIZATION IS CHALLENGING

It involves detailed operational thinking and commitment to new ways of working. Companies and their supplier base need aligned targets, but they must also find practical ways to move from strategic intent and targets to action.

Should-Carbon™ is AlixPartners' proprietary collaborative supplier and product carbon reduction methodology.

Contact us to learn more about Should-Carbon™ and how we can help you with operational solutions to accelerate your carbon reduction programme.

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ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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