



Sustainable procurement:

a guide to win a procurement area
engaged with ESG issues

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INTRODUCTION

Actions taken today will determine the future of our planet. People, businesses and governments must mobilize quickly, and adapt their choices and activities to good practices, in order to make sustainable development a reality.

To have only a glimpse of the urgency of this situation, about 30 billion tons of garbage are generated annually in the world. The average global temperature has risen by 5°C in 10,000 years.

The World Bank estimates that 150 million people live in extreme poverty in the world, amounting to nearly

10% of global population. In 50 years, more than 11,000 natural disasters have been attributed to weather events, causing a loss of 3.47 trillion dollars to several countries, according to the UN.

These are alarming numbers, which stress the urgency for current and future generations.

In this unique material from Mercado Eletrônico, understand how your procurement area can help to achieve a more prosperous, sustainable and humane society.

Have a good reading!



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WHAT IS ESG AND HOW THE SUPPLY CHAIN CAN HELP YOU ACHIEVE IT

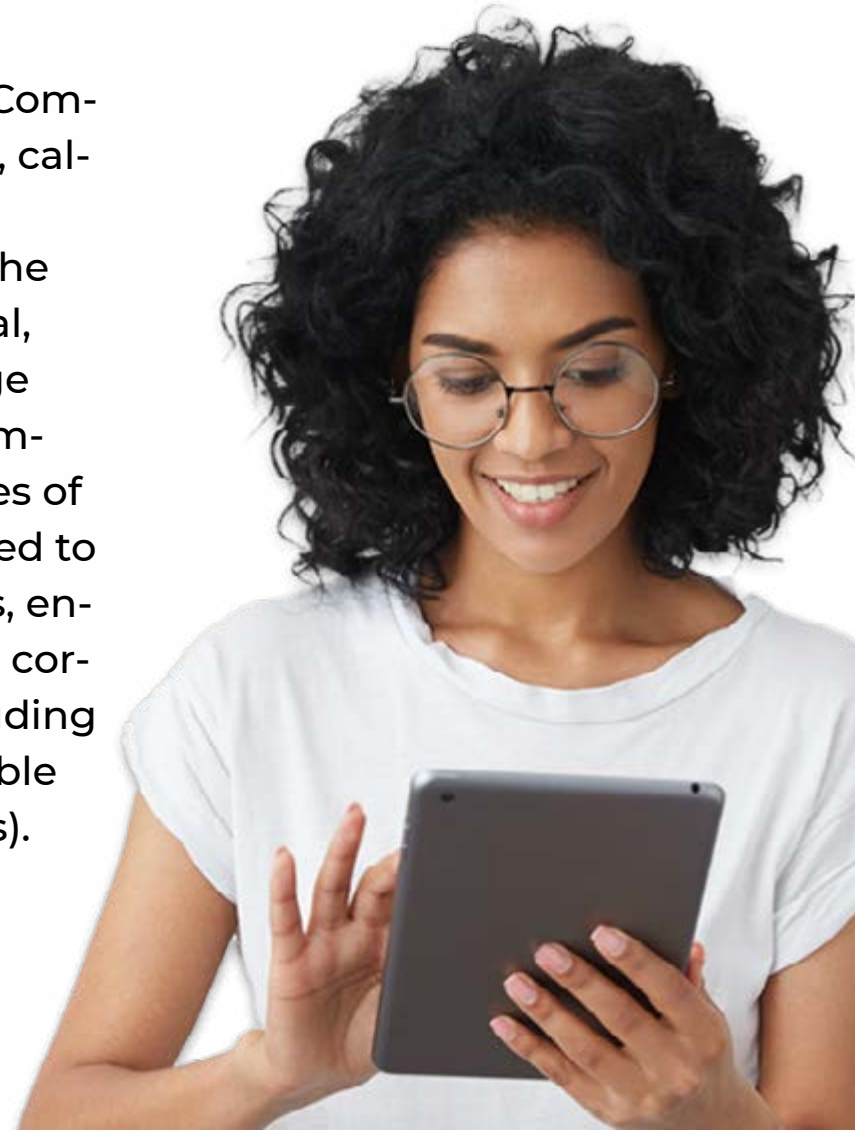
ESG is an acronym that stands for Environmental, Social and Governance. The term is used to measure the engagement of companies with regard to initiatives that decrease negative impacts on the environment and promote a fairer society.

It's also an indicator of sustainable investment that represented more than R\$ 2.5 billion in transactions, in 2020 alone.

Such movement appeared for the first time in 2004, in a

publication of the Global Compact with the World Bank, called "Who Cares Wins".

The initiative, created by the then UN Secretary-General, had the purpose to engage 50 CEOs of large-sized companies in the Ten Principles of the Global Compact, related to human rights, labor rights, environment protection and corruption combat, and including the agenda of 17 Sustainable Development Goals (SDGs).



Understand the meaning of each letter of this acronym

E

(environmental)

It involves issues related to environment protection and its natural resources, and includes themes such as global warming, carbon emissions, pollution, deforestation, water scarcity and waste disposal, among others.

S

(social)

Here the concerns regard society as a whole – from basic issues, such as customer satisfaction, to those of overall importance, such as diversity, privacy & data security, human rights and labor laws.

G

(governance)

Last but not least, there are topics related to the conduct of organizations: Audit committee structure, board composition, and relationship with governments and politicians are some examples that encompass governance.

The role of supply chain in ESG development

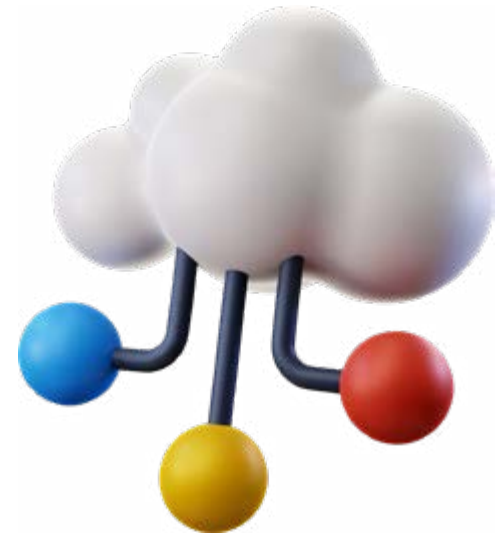
See below the key practices that the supply chain can adopt to make the company environmentally and socially responsible, and also more valuable in the market:

Adoption of cloud technology

In a post of our blog, we have recently mentioned the benefits of cloud computing for B2B procurement.

By adopting a cloud solution, such as those offered by Mercado Eletrônico, procurement teams will be able to manage processes at any time, place and device. This helps controlling operations, and also promoting more transparent, fair and com-

pliant business relationships. As to sustainability, the adoption of cloud solutions eliminates IT infrastructures that generate heat and require cooling – which helps to decrease electric power consumption. Additionally, it helps to reduce electronic waste. In fact, despite recycling possibilities, 53 million tons of electronic equipment are discarded on a yearly basis.



Efficient and sustainable transport & logistics

Transport is the most polluting industry, followed by industrial organizations. But there are ways to decrease the negative impacts caused by logistic activities and cargo transportation.

For this reason, pay attention to your suppliers' choices, such as vehicles powered by clean

energy, route optimization and less travel time.

A supply chain management with strict sustainability rules will be also concerned with details, such as preventive maintenance of vehicles and correct disposal of lubricating oils.



Supplier management

Choosing good business partners – that is, suppliers with socially and environmentally responsible processes throughout the production chain – is crucial to build a more sustainable supply chain.

To promote supplier adequacy to the organization's goals and guidelines, and to minimize the risks of your supply chain, consider the es-

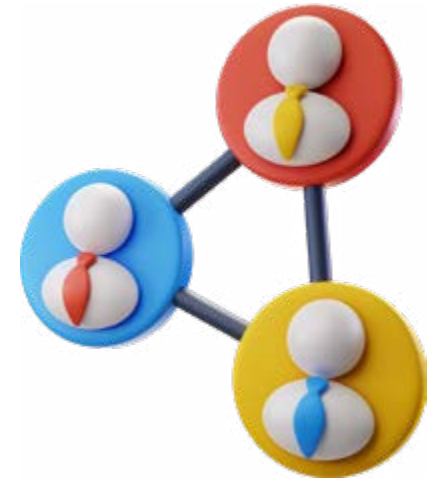
ential checklist, such as certification, performance evaluation, inspection and third party management. Besides promoting a greener world, a collaborative and transparent supplier management fosters closer relationships and benefits all parties involved in the process.



Contract management

Managing contracts means analyzing and controlling all business agreements with suppliers and third parties – which is vital to reduce financial risks and losses in businesses. With an efficient contract ma-

nagement, your negotiations will be safer, with visibility and control, meeting the compliance and audit requirements of all processes.



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SUSTAINABILITY AS AN ORGANIZATIONAL CULTURE

In the dictionary, the word “journey” has the meaning of “travel” or “walk”. The truth is that the race for sustainability never ends. It’s a means, not an end.

In the corporate world, the procurement area is one of the main protagonists in this journey. And sustainable purchases go far beyond the inputs chosen for their production.

It’s vital – and very challenging – assuring that the whole production chain doesn’t

violate human rights. It’s also essential that there is no bribery or corruption in negotiations.

These and all other issues involving sustainability and compliance must be a priority on CPOs’ agenda – whose mission is to broaden discussions within businesses.

In spite of this, the procurement area can’t and shouldn’t walk alone in the sustainable journey. The entire company must act responsibly and commit to ESG

aspects.

For sustainability to become a reality – that is, to become a culture, circular economy, ESG and supplier management must comply with more than legal aspects.

Supplier engagement starts at home

Like circular economy and ESG, supplier management and procurement must walk together in the journey towards sustainability.

In businesses, sustainability policies include supply requirements, but unfortunately they aren't enough to ensure good practices from suppliers. That's why it's important having supplier management practices, such as certification – a stage in which tax, labor and environmental aspects are checked, among others. In addition to well-designed

processes, in this journey, suppliers must be seen as strategic partners, with a close relationship – and must be heard, of course.

To comply with all such requirements and being able to engage suppliers, it's crucial that sustainability, in fact, happens from inside out – and not the other way around. In addition to environmental issues, adopting policies that consider aspects of diversity and inclusion are no longer a trend, and have increasingly become a reality.



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SUSTAINABILITY AND PROCUREMENT: A VISION BEYOND ENVIRONMENTAL ISSUES

Although common sense indicates that ‘sustainability’ refers only to the sustainable use of natural resources, being sustainable includes also the social and economic aspects of enterprises.

That’s why, besides paying attention to their own manufacturing, transport, distribution and procurement activities, companies are emphasizing more and more social impact actions that comprise diversity and inclusion in their hiring practices, both of workers and suppliers.

And procurement is integral part of the process by which organizations can create value, by influencing and developing the chain in favor of a more conscious logic for business. However, while some businesses are based on the new economy (conscious capitalism) and have already anticipated the new culture, others still keep price, service level and quality as the only parameters for supplier selection.

At this moment, adopting a balanced approach is the ideal choice. More than just

the economic issue, we must think – in a comprehensive way – about the social and environmental impacts induced by procurement.

Sustainability agendas must be linked to risk, efficiency and the creation of value and innovation. Managing supply risk and its practices is a way to chart a more sustainable path.

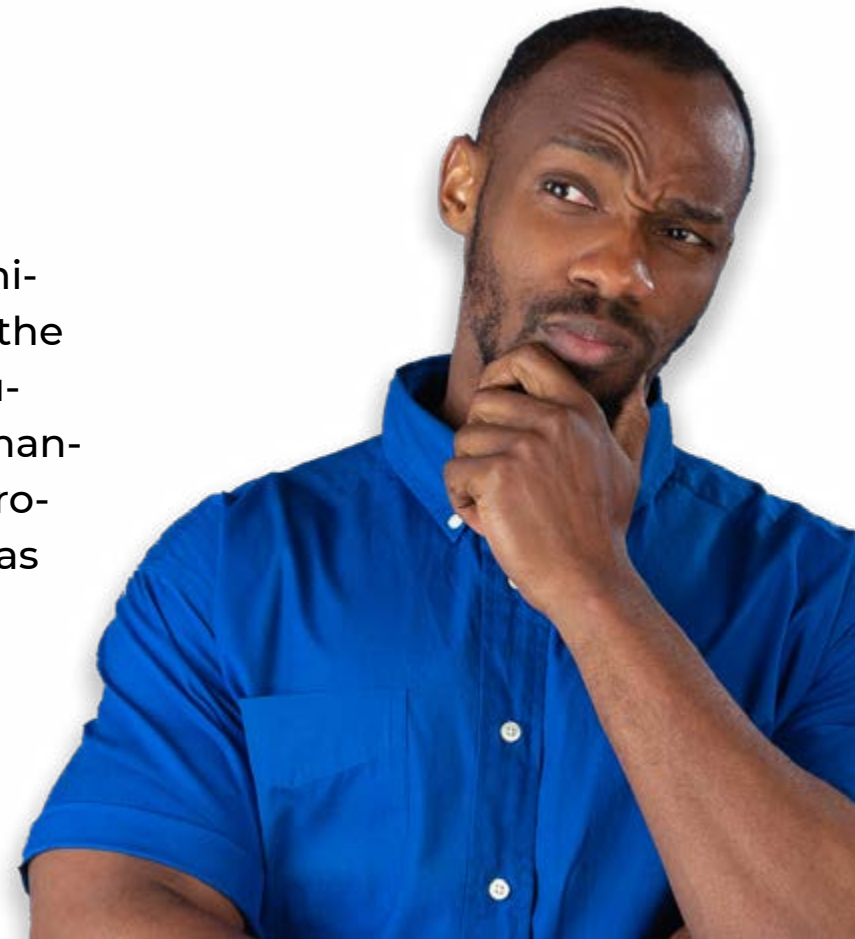
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THE PROCUREMENT AREA'S BIGGEST CHALLENGES IN THE RACE FOR ESG

Being sustainable doesn't imply following a "green" guide strictly. It's about promoting change throughout the value chain.

Process change

The introduction of conscious procurement can cause significant changes in a company's organization. There can be the need, for instance, to change processes and systems for supplier selection and employee training, along with performance check and evaluation procedures. This can also affect product design, logistics and maintenance processes, as well as skills and competencies of procurement professionals.





Unexpected expenses

While some studies consider the lack of legislation about conscious procurement as a barrier for businesses and public organizations, other issues – such as additional costs – may arise in the short term, due to the need of developing systems for data collection.

Lack of training and information

Poor knowledge regarding social, ethical and environmental principles and processes in the supply chain can be a major barrier in the deployment of sustainability. Even if organizations make use of advanced systems to deal with accountability principles, everyone must be aware of oncoming changes. In this case, training is crucial.





Senior leadership involvement

The level of commitment of senior leadership is also a decisive factor for the deployment of conscious procurement. In fact, leaders must make a difference when making decisions and considering the basic ESG criteria in their strategy. Based on this involvement and commitment, a culture focused on sustainability and compliance will naturally make buyers commit to this agenda.

Audits for responsible procurement practices

Inspections and audits require time and financial resources. However, they are important to identify possible risks related to the supply chain and their negative impacts. Additionally, by finding faults and improvement points, the audits will significantly contribute to value generation of the area in the organization's business.



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ESG AS A GREAT FACTOR FOR INNOVATION AND COMPETITIVENESS

Sustainability helps to promote organizational and technological innovations, which can generate profitable and financial returns. There's no choice in these days: either the company is competitive and innovative or, sooner or later, it will be left behind. Therefore, the sustainable agenda is no longer for the future – it must be done now.

In this sense, the search for ESG is transforming the competitive scenario and forcing

businesses to change the way they create their products, technologies, processes and business models, and put people at the center of all decisions. Perhaps being eco-friendly, for instance, won't contribute to reduce costs, but it certainly improves brand image and creates value for the organization. As another positive side, concern for the environment often generates additional revenue for products, and also allows organizations to create

innovative business processes. Considering that these are some of the key goals of corporate innovation, smart companies are starting to address sustainability and ESG criteria in all their procurement-related processes, particularly in supplier selection and hiring. In procurement, the principle of supplier relationship governance must have a mid- and long-term view of the impact that the partner can bring to your business model.

To understand how this is related to innovation, you have only to think about how a company can help its suppliers, and vice versa, to go beyond the transactional relationship – in order to share strategies and understand the capabilities of suppliers from a technological viewpoint. This applies to all kinds and sizes of businesses.

To incorporate sustainability factors into the supplier relationship cycle, you must define who will be part of your network in the first place. At this point, company values and the way it operates – which should be similar to that of the supplier – will enter the scene.

In the same way that a company affects the whole supply chain, procurement attribution is very important for the success of an innovative journey. This process begins still at certification time, when thinking about what will be your supplier evaluation criteria – along with the possible questions to be asked in audits, to check compliance with social and environmental policies and the social externalities that the supplier monitors.

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SUSTAINABILITY IN SUPPLIER MANAGEMENT

During the supplier selection process, they can be qualified through analysis, which can include different criteria – such as, for instance, about the innovation structure, waste management, and investment in employee education, among other factors that are relevant to their sustainability goals.

From a strategic and business viewpoint, the procurement professional must adopt a decision-making process that involves several data from suppliers and consistent with the company's culture. A cycle

of influence can be then started, to enable the whole chain to work in a sustainable way. However, the level of supplier information that must be managed is complex and involves several risks. But there are now resources that allow you to track processes and have organized data for audits, along with the automation of all stages of supplier management, with the possibility of integrating the tool with any type of ERP

Important steps to mitigate supplier-related risks are:

- Checking the company's legal existence and basic data;
- Evaluating corporate, tax, labor, financial, technical and regulatory aspects;
- Monitoring company's performance throughout the supply period;
- Audits and inspections, to ensure compliance with the quality and reliability standards;
- Management and control of information from businesses and outsourced employees.

SRM (Supplier Relationship Management) solution

Mercado Eletrônico's SRM (Supplier Relationship Management) solution allows consolidating and managing all information from business partners. With the use of this tool, businesses can achieve greater integration in the chain, as well as compliance, promptness in processes related to quotation and negotiation, and a significant cost reduction.

Mercado Eletrônico developed the tool using the Software as a Service (SaaS) and Platform as a Service (PaaS) models,

with quick deployment, low investment and customized dashboard, to monitor all indicators involving suppliers and third parties.

The solution favors governance issues too, as it enables the management of risks related to suppliers and the implementation of auditing routines for all business relationships with partners.

Other features of this platform are the automation of reports, charts and access to a control panel, with selected information from each user.

In addition to flexibility in a secure environment, with an intuitive interface, businesses can also benefit from user support services, along with document checking and due diligence options.



See below the key practices of Mercado Eletrônico's SRM solution:

1. Registration

The supplier registration step is among the most important ones, because at this point businesses can check if their future partners meet the minimum legal requirements. When registration is done manually, buyers spend a lot of time checking data with the competent public entities and filling out Excel sheets, which can easily become outdated.

2. Certification

The certification of suppliers is vital to keep possible risks under control, as they could impair the quality of the product or service provided and the reputation of your company. Certification involves checking fiscal, labor, financial, technical & operational, and environmental & social responsibility aspects, in addition to compliance with the buyers' internal rules.



3. Evaluation

To reduce supplier-related risks, their performance can be evaluated on a regular basis, throughout the supply period. In most cases, the supplier evaluation step is carried out through a questionnaire, with questions that must be answered by requesters, service managers and the suppliers themselves.

4. Third party management

Third-party management is a topic that has increasing evidence in businesses. To decrease the risks of labor co-responsibility, it's crucial to have access to information on contracted companies and their employees – such as aspects related to health and safety at work

5. Inspection

Inspection refers to a complementary survey to third-party certification, evaluation and management processes. When opting for an SRM solution, the supplier inspection practice allows configuring several processes related to technical visits – such as creation of specific forms for each inspection type, for instance.

Key benefits of the SRM solution for businesses

Mercado Eletrônico's Supplier Management (SRM) solution helps your company to use a collaborative, transparent and effective partner management process:

Allows analyzing partners and checking if they are suitable for compliance

Managing and control of all your suppliers and outsourced services

On-line process monitoring, anytime and anywhere

Building of sustainable and reliable partnerships with suppliers and third parties

More savings and agility in supplier management

More collaboration, transparency and compliance among partnering businesses

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HOW TO BE MORE ASSERTIVE WHEN CHOOSING SUPPLIERS

Making the right choice of suppliers is vital to boost business results. This is quite a challenge for businesses, particularly with the direct purchase type – that is, the one related to the product or service sold.

Therefore, before making any decision, the buyer must consider some criteria at negotiation time, to be assertive when choosing new suppliers. In spite of being a very relevant factor in procurement management, price is just

one of the requirements to be considered when selecting suppliers.

To avoid problems, you must prioritize partners who are aligned with the company's goals and committed to quality and deadlines.

In this context, businesses that want to keep good reputation and increase their competitive edge should be attentive to suppliers' commitment to environmental, social and governance (ESG) issues – because they are demanding

initiatives and actions related to such aspects.



See below some aspects to consider when choosing your suppliers:

Aligned goals

Choosing suppliers with goals aligned with those of your company is the first step towards the achievement of reliable and lasting relationships.

In this sense, collaboration between buyers and suppliers, with an agile and transparent communication, is beneficial to strengthen both sides.

If your company puts great value on sustainability, for instance, your reputation can be affected if you buy from a supplier whose business doesn't contribute at all to mitigate the greenhouse effect.

Quality of products or services

There is no point in negotiating good prices with suppliers if the quality of the product or service they offer is impaired. As it's difficult to have 100% guarantee that a product or service excels in quality, conduct tests and evaluations with ease, if possible, and rely on the help of expert professionals. Thus, you shall prioritize product quality, to avoid bringing significant losses to your company, decreasing profits and even stopping its production line, along with the very continuity of the business.

Supplier reputation

One of the most common mistakes when selecting suppliers is failing to check them in depth. This can really impair your company's reputation. Try to better understand the path taken by your future partners. Check if their companies comply with legal, tax and technical regulations, among other important aspects. Before signing a partnership, hear from the companies that have already been served by such suppliers. Their time of operation in the market must also be considered.

Rely on more than one supplier

Unexpected events, failures, mistakes and errors can happen in any business. Therefore, have always a plan B for the supply of products and services that your company needs.

Even if your current supplier can assure a proper service and has no history of problems, it's important to rely on other partners, who can serve your company in a similar way.

Additionally, having more suppliers can help your company in a sudden demand increase, for instance, so your customers won't have to wait too long for an order.

Value communication between companies

Communication is a two-way street. To achieve better results, buyers and suppliers must be willing to communicate in a clear, objective and simple way.

Therefore, consolidating data in a single place, easily accessible to everyone involved, can greatly facilitate the routine of those who buy and sell.

The importance of a compliance culture

The commitment to ethical, upright and responsible conduct must be aligned with the organization's culture, reflect its interests and guide all employees in the most diverse risk situations – which can impact its competitiveness and reputation in the market.

In this sense, to make people engage with compliance, it's crucial to seek clear communication, in order to properly talk to your different stakeholders (employees, customers, suppliers and society as a whole, for instance).

Training is one of the most common ways to communicate compliance. In a survey conducted by KPMG, 77% of respondents stated that they received guidance on compliance and anti-corruption (related to the code of ethics and conduct), while 52% said that the training didn't include third parties (risk management).

It's important to clarify that compliance and internal audits are different, although complementary, tools. Compliance establishes guidelines for risk

management, while internal audits ensure compliance with such processes.





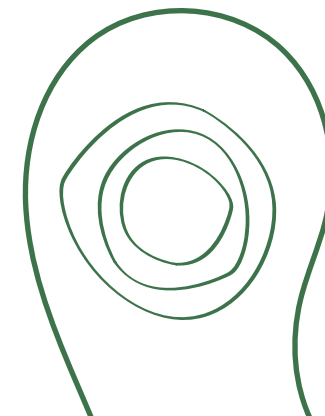
RISK MANAGEMENT IN THE SUPPLY CHAIN

In the contemporary world, businesses are more and more vulnerable to different risk sources. There are internal risks to the organization, and risks that are inherent to relationships with partners; and there are also market or environmental risks.

The manager must perceive what sources of risk exist and assess the company's exposure to it, considering the probability of occurrence and its impact on the business. From these steps, it will be possible to de-

velop mitigation and response plans for the different events. In this context, it's important to stress that, as our operation increasingly depends on external agents, risk management becomes even more complex. Therefore, it's vital to understand how your suppliers and customers can affect the continuity of your results. This framework intends to explore the risks arising from your supply chain, and provide some strategies to monitor and mitigate them.

Regardless of your company's industry, it buys products or services from third parties and depends on your providers' performance.



So in which ways can the supplier affect your company?

Operational: It regards the ability to deliver products within your specifications. Then the credibility of suppliers is associated with their competence in providing quality, time, quantity and availability of products. Here are some examples of possible issues: capacity constraint, noncompliance with specifications, delays, quantity and documentation divergences, variability in delivery pattern, and poor flexibility.

Technological: It regards the suppliers' competence in adapting to new technologies and seeking innovative solutions. Here are some examples of possible issues: unpredictability of performance in new processes/products, improper use of new technologies, and delay in the development of new products.



Business continuity: It regards financial health and business continuity. Here are some examples of possible issues: supplier bankruptcy, inability to manage costs, high dependence on few customers, and tax / legal problems.

ESG issues: They regard poor care for the environment, community and employees, along with problems involving values, such as diversity and compliance, for instance. Here are some examples of possible issues: deforestation or environmental pollution, slave or child labor, corruption, tax evasion and piracy.



For technology and sustainability issues, you shall be attentive to the market. You must develop a new competence, known as business intelligence.

Buyers must constantly look for product and technology trends and benchmark with regard to their suppliers' processes, but must be also aware of new environmental and social requirements, before they become a must.

Here, visibility is the keyword. Strive

to understand the supply options, and substitute and alternative products – and demand from your suppliers to keep up with trends and new requirements.

In risk management, there's no one-size-fits-all solution. In fact, there's high dependence on context and markets. However, developing an organization-wide risk culture can make the difference in building resilience features.

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CORPORATE GOVERNANCE IN PROCUREMENT DECISIONS

Corporate governance is, above all, synonymous with decision making. In other words, it means doing a proper housekeeping, without sweeping dirt under the rug.

But where to start using an effective management practice in business?

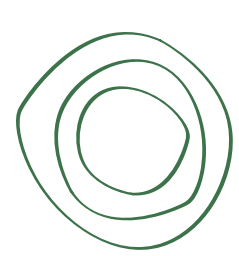
A good start is to take the reins of the company; and overcoming mishaps is to exercise full control over the procurement

sector, a strategic area of the company – as its negotiating power directly interferes with the final price of products and, therefore, with competitiveness.

For a manager, automating these processes guarantees the confidence that everything is being done in compliance with the processes. The buyers, in turn, gain self-reliance by complying to the rules with

little effort. And without taking any risks in the future.

Among the practices that can be streamlined by mechanisms that provenly record and organize everything are: price quotations, order management, reverse and direct auctions, certification and evaluation of suppliers, and catalog management, among others. Even outsourcing can be managed now. With the au-



tomation of third-party management, the risks of co-responsibility are reduced, and full control can be achieved of payment information, collection of charges, safety and occupational health of employees with allocated labor. There are even optional services that check all information related to third parties, pointing out latent risks.

The results of technology applied to the procurement area are more efficiency, productivity, information security and operational cost savings.

When organizations decide to invest in governance, they will have a wide variety of approaches at their disposal and a competitive edge too – thus improving their image in the market.





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