Lythouse

# Plan ~~B~~S

## Suppliers : The Secret Source to ESG Compliance

We analyzed the sustainability reports of 1500 suppliers, so you don't have to.

Here's what we found.

#1 OF THE SERIES

# Executive Summary

## Nearly 60% of listed companies globally disclosed their Scope 1 and/or Scope 2 emissions, as of Jan. 31, 2024, an increase of 16 percentage points in two years.

Building a sustainable supply chain requires transparency from all stakeholders. In a groundbreaking effort, we leveraged a unique data collection method to analyze sustainability reports from a massive dataset of **1,500** suppliers. This innovative approach, employing AI-powered web scraping, streamlined the process of gathering information from publicly available reports.

Our analysis, based on this extensive data collection, sheds light on current practices in scope reporting, a critical metric for measuring environmental impact. The analysis reveals a lack of comprehensive scope reporting, with a concerning number of suppliers failing to disclose emissions data for all three scopes (1, 2, and 3). This limited transparency raises concerns about potential environmental risks embedded within our supply chain. Furthermore, the focus on Scopes 1 and 2 by some suppliers, while important, overlooks the broader environmental impact associated with their operations. This lack of comprehensive data hinders our ability to accurately assess the sustainability of our supply chain and limits opportunities for collaborative improvement.

This report delves deeper than ever before, providing a comprehensive starting point to improve your understanding of your supply chain's ESG performance. By analyzing scope reporting practices across different regions and industries, you can identify areas for improvement and develop targeted strategies to enhance the sustainability performance of your entire supply chain.

PREPARED BY
The AI Team at Lythouse

# Scoping Out Our Impact

## Unveiling the Sustainability Reporting Gap: A Deep Dive into How Suppliers Address Scopes 1, 2, and 3

484 / 1589

**30.5%**

**Comprehensive Scope 1,2,3 Reporting**

In a survey of **1,589** organizations, a total of 484 reported comprehensive greenhouse gas (GHG) emissions data encompassing all three scopes. This translates to nearly one-third (30.5%) of the organizations taking full responsibility for accounting for their environmental impact across their entire value chain.

**Scope 1:** This includes direct emissions from their own operations, such as fuel combustion in vehicles and on-site facilities. It's often the easiest scope to measure and report.

**Scope 2:** This captures indirect emissions associated with purchased electricity, heat, or cooling.

Scope 3 encompasses a broader range of indirect emissions that occur throughout their value chain, including:

- Upstream emissions: These arise from the production and transportation of materials they use.
- Downstream emissions: These result from the use and disposal of their products by consumers.

By focusing solely on Scopes 1 and 2, organizations might miss a crucial opportunity to comprehensively understand their environmental impact and develop effective strategies for emission reduction.

While transparency regarding Scope 1 emissions is a positive step, the survey identified a surprisingly low number (only 39) of organizations solely reporting on this scope. This represents a mere 2.4% of the surveyed entities. This limited focus on direct emissions highlights the importance for stricter environmental, social, and governance (ESG) standards that encourage comprehensive reporting across all three scopes.

**39/**1589

**2.4%**

**Solely Scope 1**

1043/
1589

**65%**

**Both Scope 1 & Scope 2**

Companies are recognizing the multifaceted benefits of scope 2. Take a data center, for example. By focusing on Scope 2 and switching to renewable energy sources for electricity, they can significantly reduce their carbon footprint. This not only aligns them with growing customer demand for sustainable practices, but also translates to substantial cost savings from lower energy bills. This benefit has translated into a giant proportion - 65%, actively reporting on both scope 1 and 2.

But there's more than one way to calculate the scope 2 footprint, and the chosen method can significantly impact the reported numbers. Here, we explore the two primary approaches: location-based and market-based.

**Location-Based Emissions: Reflecting the Grid Reality**

This method focuses on the average emission intensity of the local power grid you source electricity from. It's a straightforward calculation, simply multiplying your electricity consumption by the grid's emission factor (measured in kg of $CO_2e$ per kWh). Think of it as a reflection of the overall "dirtiness" of the electricity you use.

**Market-Based Emissions: Accounting for Your Choices**

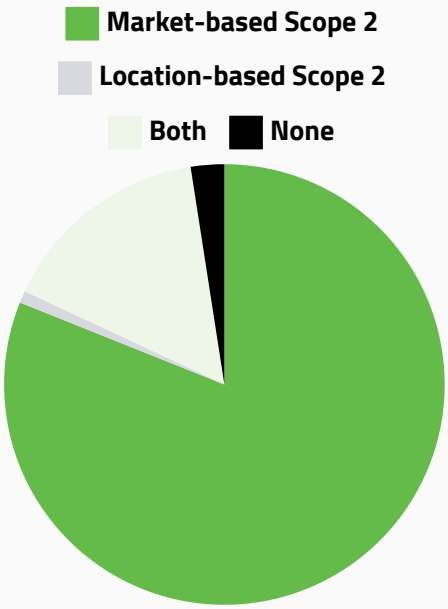
This method takes a more nuanced approach, factoring in your energy purchase agreements. It considers instruments like Renewable Energy Credits (RECs) that allow you to claim the emission reductions associated with renewable energy sources, even if you're still connected to the grid.

**1,289 organizations (81.1%)** reported only market-based emissions. This suggests a focus on showcasing their renewable energy investments.

Only **14 organizations (0.9%)** reported solely location-based emissions. This might indicate limited transparency about their grid dependence.

A combined **248 organizations (15.6%)** reported both methods. This demonstrates a commitment to comprehensive reporting.

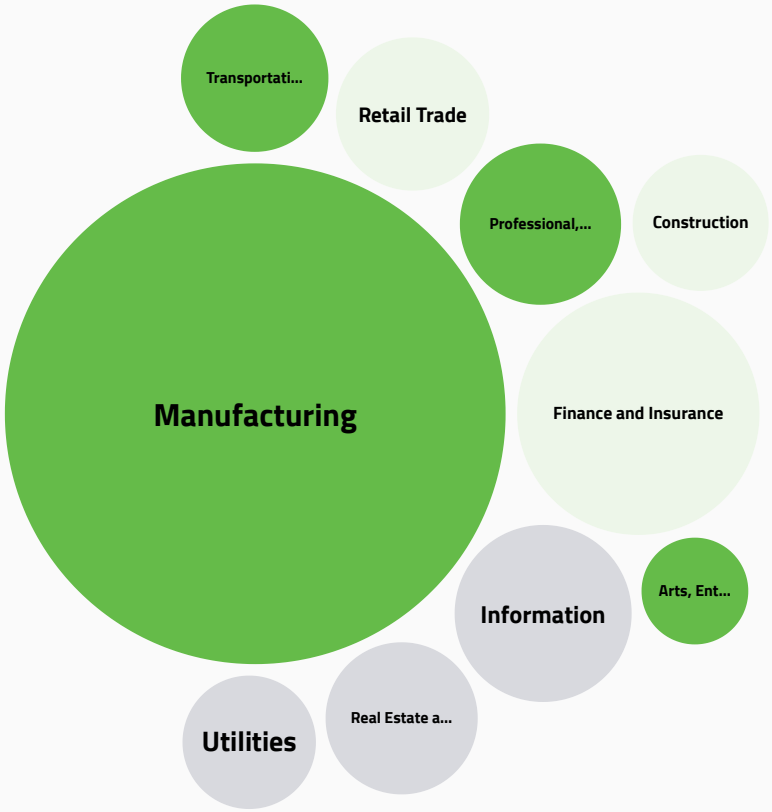
Surprisingly, **39 organizations (2.4%)** didn't report either method. However, this number is on the downstream compared to last year. This suggests growing awareness of the importance of ESG reporting



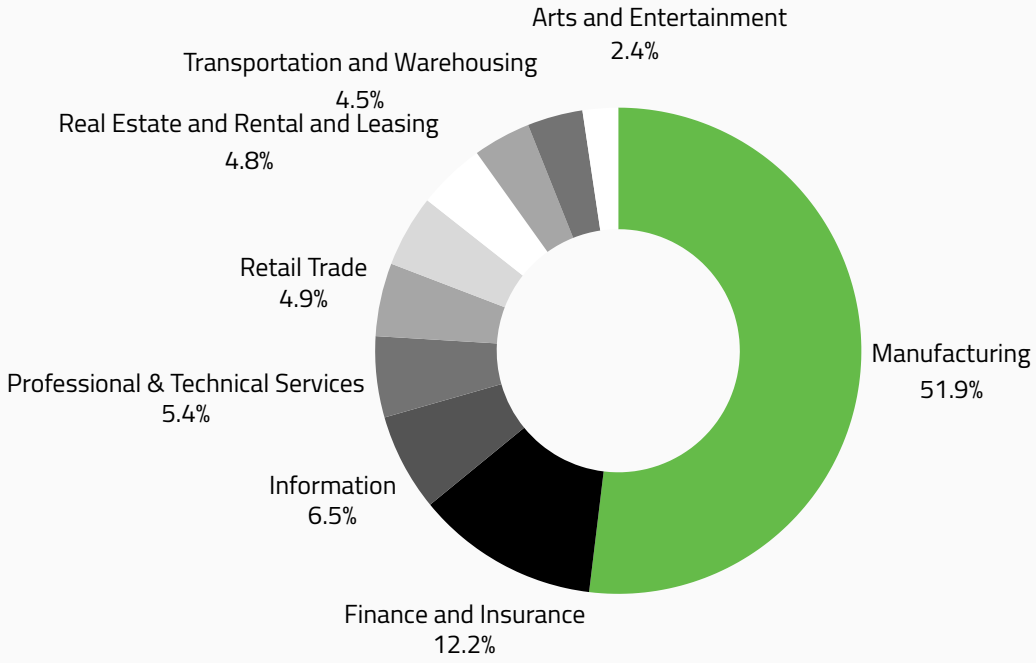

**Scope 2 Declaration**

# Industrial Metamorphosis

How various lines of businesses are adapting and faring in the evolving road of sustainability & reporting

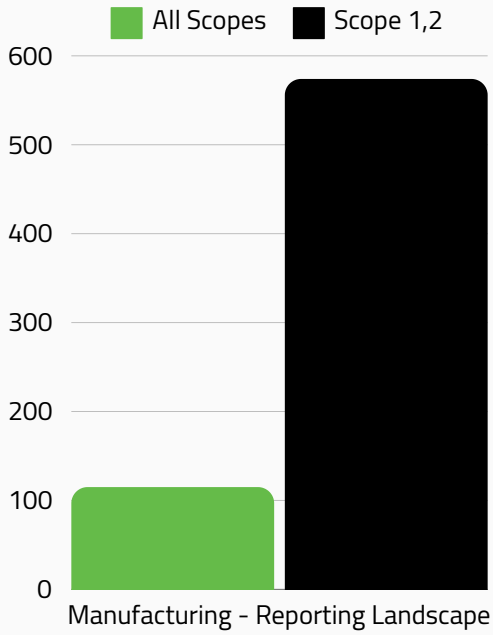



**The detailed percentage breakdown for each industry is provided in the accompanying graphs, offering a visual representation of the distribution.**




**Percentage - wise breakdown of the line-of-business of the 1589 suppliers we analyzed**

# Manufacturing




**Leading the Charge:** Nearly one-third (30.5%) of manufacturing organizations are taking a comprehensive approach, reporting on all three scopes of emissions (1, 2, and 3).

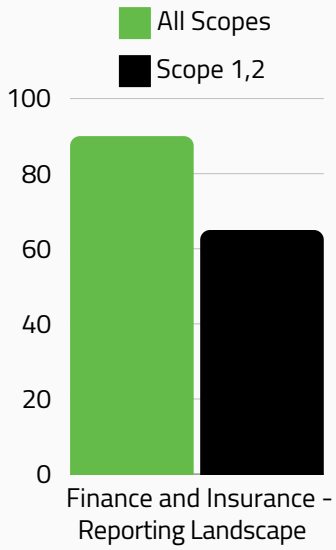
**Focusing on Efficiency:** A larger group (65.7%) reports on Scopes 1 and 2 (direct and indirect purchased electricity emissions).

**Market-Driven Sustainability:** Within those reporting Scope 2, a surprisingly high number (81.1%) prioritize market-based emissions.

**Room for Improvement:** A combined 50 organizations (2.4%) didn't report on either Scope 1 or 2.

The data reveals a stark disparity in emissions reporting across the different scopes, with a significant drop from Scope 1 and 2 to full Scope 1, 2, and 3 disclosures. While 574 manufacturing companies reported Scope 1 and 2 emissions, only 115 companies declared all three scopes. This gap highlights the unique challenges manufacturers encounter when accounting for Scope 3 emissions, which include complex global supply chains, reliance on upstream and downstream transportation, and lack of direct control over external partners' operations. Obtaining accurate and complete emissions data from suppliers, logistics providers, and distributors is often an arduous task. Additionally, the lack of standardized methodologies for Scope 3 calculations across diverse product lines and geographies complicates matters further.

# Finance and Insurance




**Leading the Charge:** Over half (54.5%) are taking a comprehensive approach, reporting on all three scopes.

**Focusing on Efficiency:** A significant portion (39.4%) reports on Scopes 1 and 2 (direct and indirect purchased electricity emissions).

**Market-Driven Transparency:** Within those reporting Scope 2, a dominant majority (79.4%) prioritize market-based emissions.

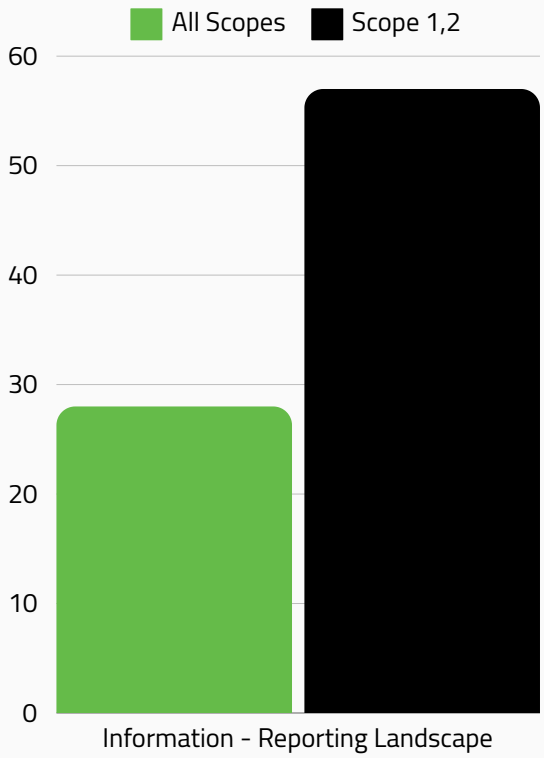
**Room for Improvement:** A concerning number (3.6%) only report location-based Scope 2 emissions, potentially overlooking the impact of their energy purchases. Additionally, a small number (1.8%) didn't report on either Scope 1 or 2.

The finance and insurance sector has emerged as a frontrunner in comprehensive emissions reporting, driven by its understanding of the strategic importance of ESG factors. The data reveals that a significant portion (90 out of 165 companies) declared emissions across all three scopes, a higher proportion compared to other sectors. This proactive approach stems from the industry's recognition that the variable cost of obtaining Scope 3 data, which includes financed emissions and investments, is relatively minimal compared to the substantial benefits of comprehensive disclosure. Notably, most of the sector's emissions fall under Scope 3, including financed emissions and investments, which are central to their operations. For example, banks report on the carbon footprint of their loan portfolios.

Moreover, as a globally interconnected industry with a diverse portfolio spanning regions, the finance sector proactively tackles emissions reporting to stay ahead of rapidly evolving ESG regulations and disclosure mandates across jurisdictions. Institutions are cognizant that a patchwork of localized legislation could impede their operations and render them non-compliant.

By voluntarily adopting rigorous Scope 3 assessments and aligning with international reporting frameworks, financial companies can maintain consistency, credibility, and avoid potential legal consequences or reputational damages from greenwashing allegations.

# Information Industry



Information - Reporting Landscape

**Leading the Charge:** Over a third (31.8%) are demonstrating leadership by reporting on all three scopes (1, 2, and 3).

**Focusing on Efficiency:** A significant portion (64.8%) reports on Scopes 1 and 2 (direct and indirect purchased electricity emissions).

**Market-Driven Sustainability:** Within those reporting Scope 2, a dominant majority (77.3%) prioritize market-based emissions.

**Room for Improvement:** A small number (4.5%) report only location-based Scope 2 emissions, potentially overlooking the impact of their energy purchases. Additionally, a small number (2.3%) didn't report on either Scope 1 or 2.

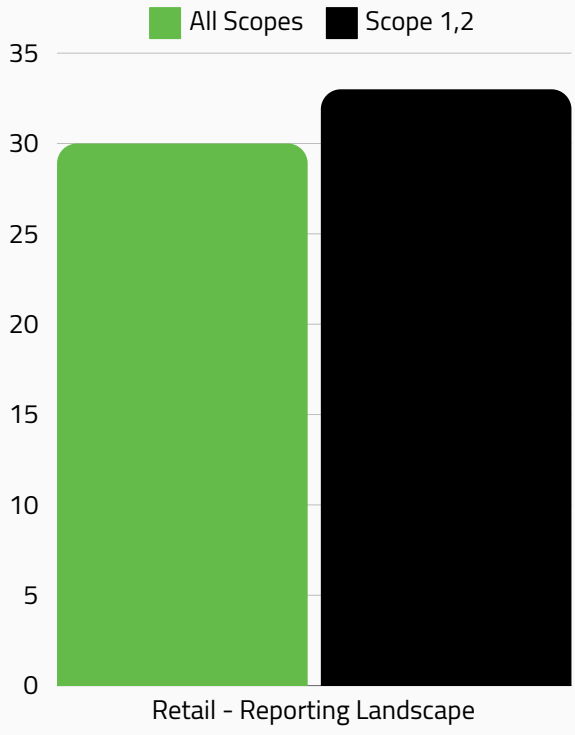
The information industry, known for its technology and data-driven operations, exhibits a mixed picture when it comes to comprehensive emissions reporting. While a significant portion (57 out of 88 companies) disclosed Scope 1 and 2 emissions, only 28 companies provided full reporting across all three scopes, including the crucial Scope 3 emissions.

This discrepancy can be attributed to the unique challenges faced by the sector in quantifying Scope 3, which encompasses emissions from activities like employee commuting, business travel, and the use of sold products and services. However, the information industry's core competencies in data analytics and digital transformation position it favourably to overcome these hurdles.

Scope 3 reporting enables information companies to accurately account for emissions from data centers, software/hardware product lifecycles, and the carbon footprints of the digital services they provide. This granular view can inform strategic decisions around green data center designs, energy-efficient coding practices, and sustainable product development.

Moreover, as catalysts of digital transformation across sectors, information companies have an opportunity to develop cutting-edge emissions tracking and reporting solutions that can be integrated into their enterprise offerings. This can create new revenue streams while positioning them as enablers of industry-wide decarbonization efforts.

# Retail



Retail - Reporting Landscape

**Leading the Charge:** Nearly half (45.5%) of retailers are taking a comprehensive stance, reporting on all three emission scopes (1, 2, and 3).

**Focusing on Efficiency:** Another significant group (50%) reports on Scopes 1 and 2 (direct and indirect purchased electricity emissions).

**Market-Driven Sustainability:** Within those reporting Scope 2, a dominant majority (74.2%) prioritize market-based emissions.

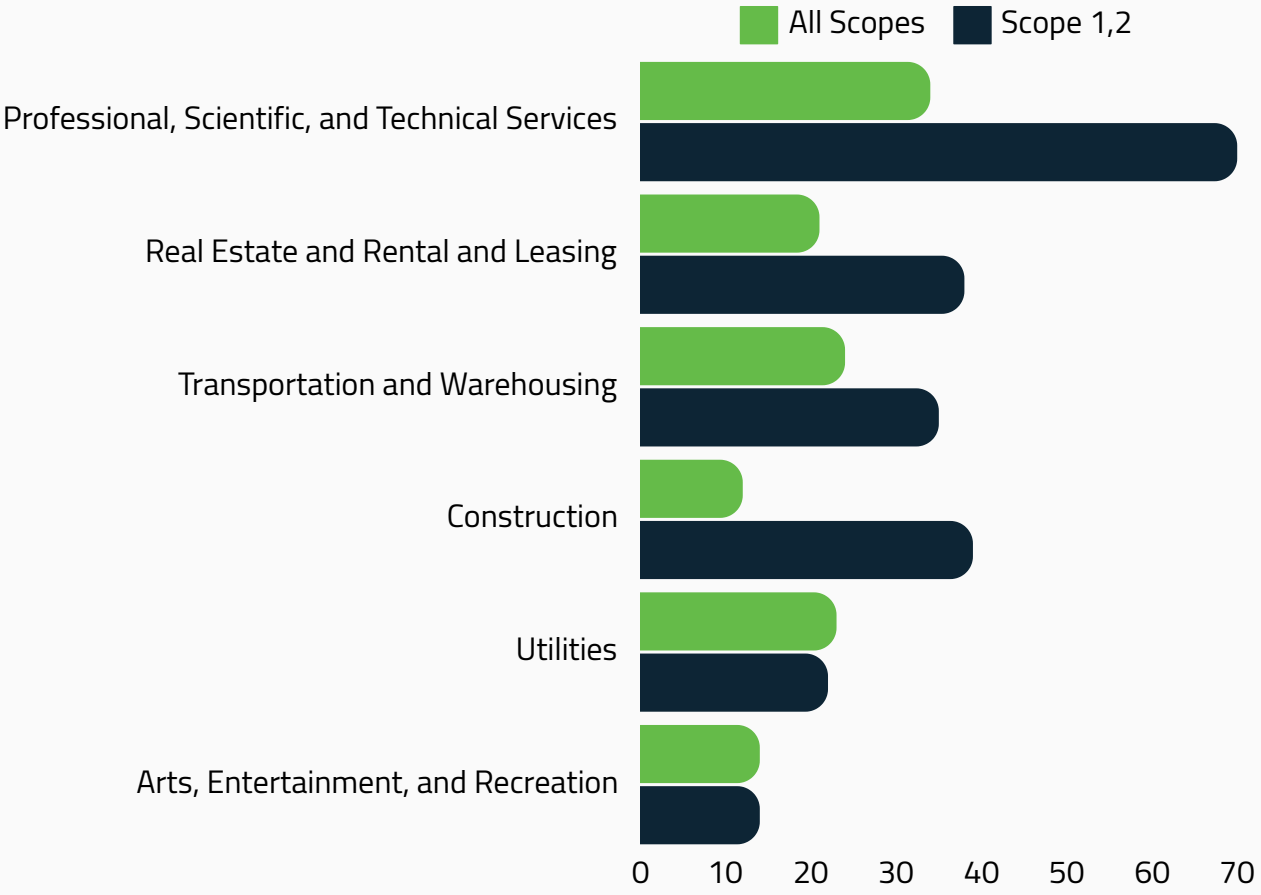
**Room for Improvement (4):** It's important to note that a small number (6.1%) didn't report on either Scope 1 or 2.

The retail sector is navigating a pivotal shift as consumer preferences increasingly favor environmentally and socially conscious brands.

Retailers are recognizing the immense competitive advantages of comprehensive emissions transparency. By partnering with sustainable suppliers, implementing advanced data tracking throughout their value chains, and promoting circular economy models, retailers can enhance their Scope 3 reporting capabilities. Crucially, this positions them to meet the growing demand for eco-friendly products, attracting environmentally-conscious customers seeking brand accountability.

Robust Scope 3 assessments enable retailers to quantify their products' lifecycle emissions, empowering conscious consumers with credible environmental impact data. This builds brand loyalty, strengthens customer equity, and creates a competitive edge in an increasingly eco-conscious marketplace. Furthermore, by collaborating with logistics providers focused on green transportation and implementing consumer education initiatives, retailers can actively reduce their Scope 3 footprint while cultivating a reputation as sustainable industry leaders.

# Other Industries in Spotlight



# Key Insights

Comprehensive Scope 1, 2, 3 reporting remains a challenge across sectors, with a notable gap between companies disclosing only Scope 1 and 2 versus all three scopes. This highlights the persistent difficulties in quantifying value chain and upstream/downstream Scope 3 emissions.

Market-based Scope 2 reporting is the predominant methodology across industries, likely due to its alignment with market dynamics, global operations, and risk management strategies employed by these sectors.

Location-based Scope 2 reporting remains minimal, with very few companies opting for this approach, potentially due to the complexities involved in tracking emissions across multiple geographic locations.

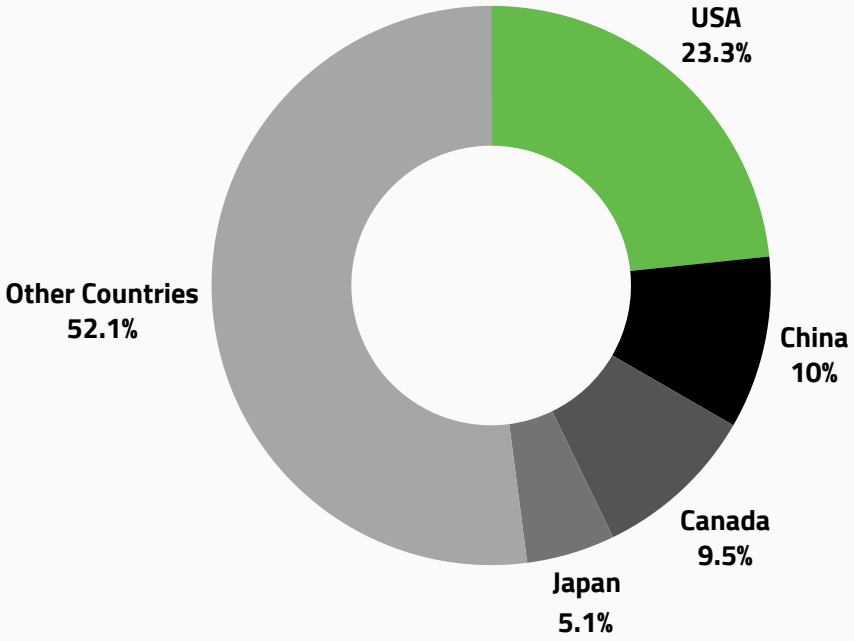
Certain industries with higher environmental impacts, such as utilities and transportation, exhibit a relatively stronger focus on comprehensive Scope 1, 2, and 3 reporting, driven by regulatory pressures and stakeholder scrutiny.

Asset-intensive sectors like real estate, construction, and utilities face unique challenges in accurately capturing Scope 3 emissions from their development projects, value chains, and the use of sold products/services.

Service-oriented industries, such as arts and entertainment, while having a relatively smaller environmental footprint, are recognizing the importance of ESG reporting as a means to enhance brand reputation and meet evolving consumer expectations.

# An Ecosystem beyond Borders

## Exploring ESG Performance Across Geographies




Breakdown of the surveyed suppliers across countries


Comprehensive Scope 1,2,3 Declaration across Countries

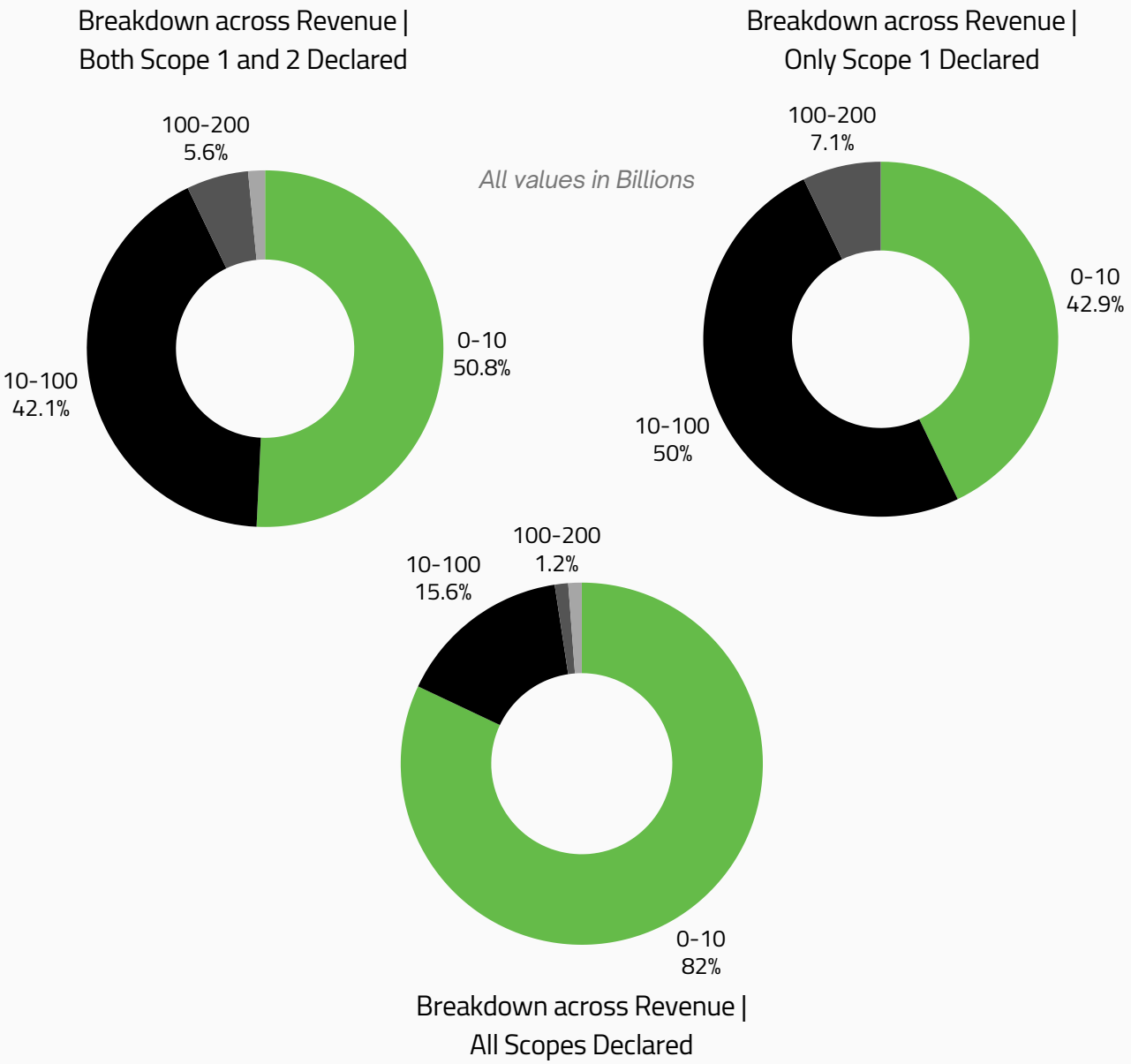
Environmental, Social, and Governance (ESG) reporting is no longer a niche practice reserved for a select few. The data reveals a clear trend – ESG reporting is becoming all-encompassing, with a significant portion of companies across various revenue brackets embracing transparency. Nearly a third (484 out of 1,589) report on all three emission scopes (1, 2, and 3), showcasing a commitment to comprehensive environmental accountability. This trend extends beyond large corporations – even companies with revenue under $10 billion are taking significant steps, with nearly 200 reporting on all scopes.

This movement towards comprehensive reporting is coupled with a positive correlation between strong ESG practices and financial performance. While a direct causal link is difficult to establish, many companies demonstrating a commitment to ESG are experiencing positive trends. This could be due to several factors, including improved operational efficiency, attracting environmentally conscious investors, and building stronger customer loyalty through brand reputation. Many companies are reporting rising Net Promoter Scores (NPS), a metric that gauges customer satisfaction and loyalty, which further bolsters the case for ESG as a strategic business driver.

The integration of ESG principles is becoming increasingly visible across all aspects of corporate communication. Annual reports, press releases, and marketing materials are dedicating more space to ESG initiatives. This transparency fosters stronger investor relations, as investors increasingly prioritize companies with robust ESG practices. Larger companies, with their resource advantage, are leading the charge, implementing innovative solutions and setting ambitious sustainability goals. But even smaller companies are taking significant strides – their "baby steps" demonstrate a long-term vision and a commitment to proactive environmental and social responsibility, rather than a reactive approach solely driven by short-term tactical considerations.

While large companies (over $100 billion) have a higher percentage reporting all scopes (6%), a significant number of smaller companies (under $10 billion) are taking the first steps – nearly 41% report Scopes 1 & 2, and almost 20% report on all three scopes.

Overall, the data paints a promising picture. ESG reporting is no longer a peripheral concern, but a core component of modern business strategy. Companies of all sizes are recognizing the value of transparency and proactive action in creating a more sustainable future. This shift towards comprehensive ESG reporting signifies a maturing market where environmental and social responsibility are not just buzzwords, but cornerstones of responsible business practices.

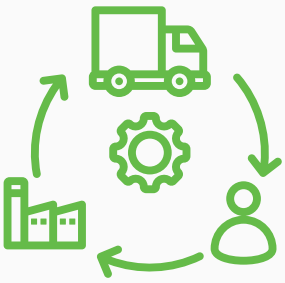



# The Ripple

Interestingly, the pace of change in the US landscape is swift. While a national mandate might not be immediate, various states are enacting their own ESG-related legislation. With CSRD on the horizon, pressure from investors and stakeholders is mounting. This dynamic environment necessitates a proactive approach from US companies. Keeping a close eye on evolving regulations, both domestically and abroad, is essential. Developing a centralized ESG reporting strategy that anticipates future requirements will be crucial. Investing in robust data collection and management systems will ensure companies are prepared to comply with stricter regulations when they inevitably arrive. The time for US companies to adapt is now, and those who embrace ESG transparency will be best positioned to navigate the changing landscape and thrive in the years to come.

# Food Seed for Thought

Companies across industries are actively embracing environmental, social, and governance (ESG) practices, quantifying their sustainability efforts and fostering a culture of responsibility. Regardless of size or revenue, organizations are taking tangible steps towards environmental stewardship. For example, Goodman Group, an Australian industrial property group, has already achieved approximately 75% of its 2025 target of 400MW global solar PV installations, with 306MW of total solar installations and commitments, transparently reporting their progress.



Supply chain sustainability has emerged as a crucial focus area, with companies recognizing the interdependencies within their supplier ecosystems. Leading organizations are implementing robust assessments and engagement programs to ensure alignment with ESG principles throughout their supply chains. For instance, Wyndham Hotels has implemented comprehensive metrics to evaluate supplier sustainability, underscoring the importance of supply chain responsibility. Similarly, Eli Lilly has made a concerted effort to increase its spend with small business suppliers year-over-year, demonstrating a commitment to supporting diverse and sustainable supply chains.

Innovation is driving ESG initiatives beyond traditional corporate social responsibility (CSR) programs, with companies exploring creative avenues to embed sustainability into their core offerings. For example, Netflix has curated over 200 series, films, and specials that highlight sustainability themes, with over 70% of its members watching at least one such story in 2022. This "Sustainability in Storytelling" approach showcases how businesses can leverage their unique capabilities to promote environmental and social awareness while delivering value to customers.

As global operations span diverse regions with varying regulatory landscapes, companies are adopting localized strategies to optimize their ESG efforts while respecting regional boundaries. For instance, AltaGas, a North American energy infrastructure company, acknowledges that "local directives on decarbonization pathways may differ," and embraces "custom, situation-based approaches" tailored to each operating location. This flexible mindset allows organizations to navigate regional nuances while maintaining a consistent sustainability commitment.

Furthermore, companies recognize that ESG standards will only strengthen over time, prompting them to establish clear pathways and interim goals towards long-term ambitions. For example, Tanger has set hyper-visual dashboards for targets like achieving net-zero emissions and fully electrifying their operational fleets, with a clear bifurcation of goals achieved and in-progress targets. This has created a sense of ownership and urgency. This visionary approach is evident in most supplier reports, demonstrating a resolute dedication to continuous ESG improvement and further solidifying the age old saying of “this (ESG) is here to stay”

# The Power of Data

While ESG is evolving at a rapid pace, it is still poised with significant challenges. Collecting accurate supplier data for any scope or emission is fraught with challenges such as data availability, quality, complex supply chains, supplier engagement, and regulatory changes. Our survey of 1,500 sustainability reports reveals that many suppliers, particularly smaller ones, lack the robust systems needed to track and report emissions, resulting in significant data gaps. The quality and consistency of supplier data remain critical issues, as variations in reporting standards and methodologies lead to inaccuracies. Managing data across complex, multi-tiered supply chains is resource-intensive and overwhelming. Additionally, suppliers often hesitate to share information due to confidentiality concerns and the administrative burden, further complicating data collection.

Evolving regulations add another layer of complexity, requiring adaptable processes to ensure compliance. Even among those suppliers who excel in reporting, success is driven by sophisticated systems that enable thorough ESG management, monitoring, and data integration. These advanced systems ensure precise data collection, continuous monitoring, and comprehensive reporting, highlighting the importance of investing in strong ESG infrastructure to achieve a very comprehensive ESG picture.

To achieve this comprehensive ESG picture, the importance of good supplier data cannot be overstated. This data is essential for several reasons:

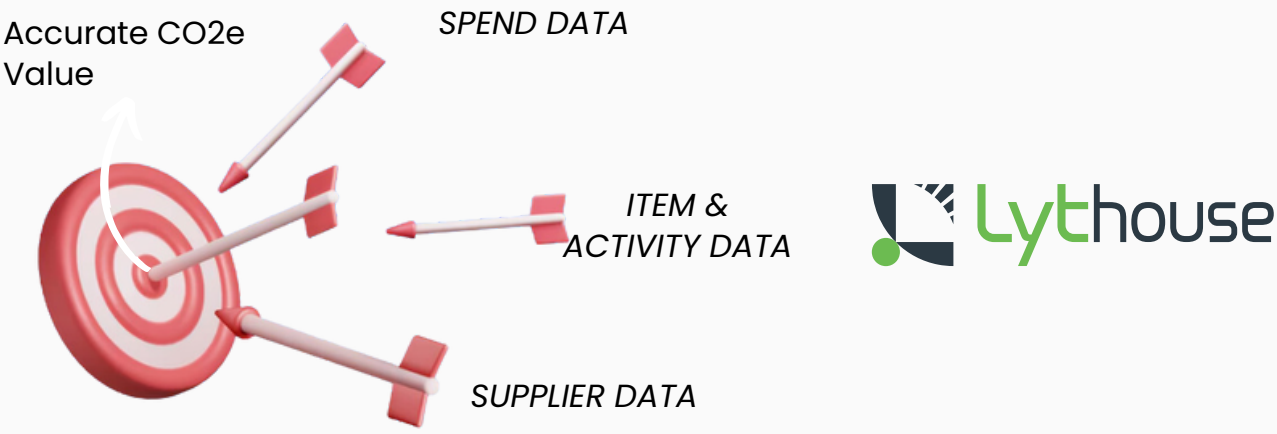
- **Comprehensive Carbon Footprint:** Supplier data allows for a more accurate calculation of Scope 3 emissions, which often constitute the largest portion of a company's total carbon footprint. By understanding the emissions from suppliers, organizations can better manage and reduce their overall greenhouse gas (GHG) emissions.

- **Transparency and Accountability:** Access to supplier data enhances transparency and accountability, ensuring that all parties within the supply chain are contributing to the organization's ESG goals. It fosters a culture of responsibility and encourages suppliers to adopt sustainable practices.

- **Risk Mitigation:** Detailed supplier data helps identify and mitigate sustainability risks within the supply chain. Organizations can pinpoint critical suppliers and potential areas for improvement, reducing the risk of non-compliance with ESG standards.

- **Strategic Decision-Making:** Accurate supplier data supports strategic decision-making that is vital for setting realistic ESG targets and developing effective initiatives.

# How we can help?




While other organizations often rely solely on spend, item, or activity data, Lythouse uses the perfect trifecta of all three to deliver precise and accurate emissions calculations, eliminating guesswork for a clear carbon footprint. Our platform, built on the strength of collaboration and legacy, enhances interaction through the Green Supplier Network. This network, featuring pre-seeded suppliers, streamlines data collection and fosters cooperative sustainability efforts. By integrating these elements, we've created a comprehensive suite that not only simplifies data management but also empowers organizations to achieve their ESG goals effectively and efficiently.

Our AI-powered classifier, having processed $10 trillion in supplier spend data, automates manual tasks, allowing organizations to transition swiftly to proactive strategic decision-making. With robust modules like Goal Navigator and ESG Report Studio, we offer comprehensive tools for materiality assessment, goal setting, and detailed ESG reporting. This ensures that you can track your progress, manage compliance, and achieve your sustainability goals efficiently.

Lythouse is the ultimate ESG platform, designed for those who are fully committed to driving sustainability. Our solutions provide the highest level of precision and support, empowering you to make informed decisions and lead in ESG excellence. With Lythouse, there are no half measures—only full commitment to a sustainable future.