Supplier Engagement Strategies to Achieve Scope 3 Targets

EDF Climate Corps Fellows

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Introduction

Ellen Shenette (she/hers)

Director, Net Zero Action Accelerator

eshenette@edf.org

Jane Eisenhardt (she/hers)

Manager, Net Zero Engagement

jeisenhardt@edf.org

Chloe Hoang (she/hers)

Coordinator, Net Zero Action Accelerator

choang@edf.org

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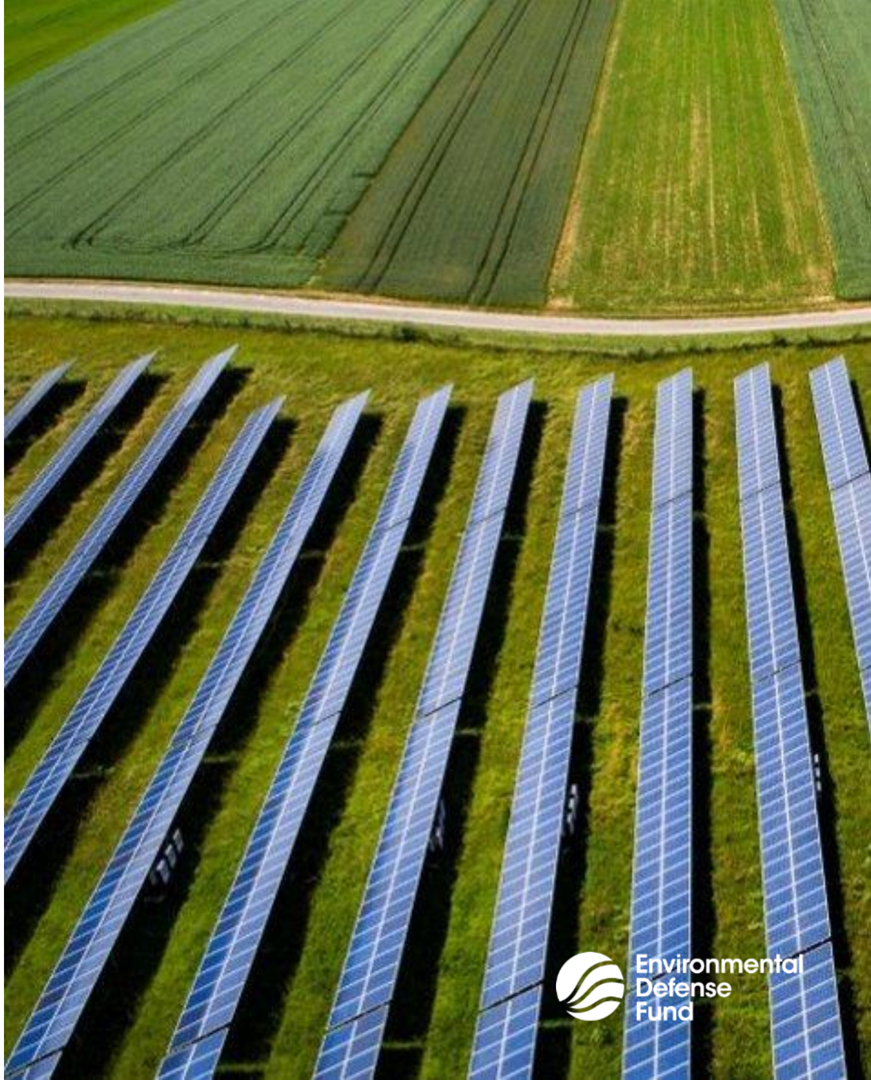
Learning Objectives

After this workshop session, attendees will be able to:

- ✓ Justify the value of establishing a supplier engagement program.
- ✓ Determine the appropriate approach to supplier engagement based on organizational needs.
- ✓ Develop a strategy to implement and monitor progress toward supplier engagement goals.



Steps to Build Towards a Supplier Engagement Program

- Why
- Identify Managed Suppliers
- Assess Maturity and Impact
- Prioritize Suppliers
- Identify Activities and Resources
- Implement
- Tracking and Continuous Improvement

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Tackling one of the biggest climate challenges: Scope 3 Emissions

Scope 3 emissions are crucial as they represent the **largest share** of a company's total carbon footprint and are, on average, **26x more** than operational emissions (Scope 1 & 2).

SCOPE 3 - UPSTREAM

Indirect emissions from purchased or acquired goods and services

1. Purchased Goods and Services
2. Capital Goods
3. Fuel/Energy-related activities
4. Upstream Transport
5. Waste Generated in Operations
6. Business Travel
7. Employee Travel
8. Upstream leaded assets

Owned operations

Scope 1 & 2

SCOPE 3 - DOWNSTREAM

Indirect emissions related to sold goods and services

9. Downstream Transport
10. Processing of Sold Products
11. Use of Sold Products
12. End-of-life treatment
13. Downstream leased assets
14. Franchises
15. Investments

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Climate risk is a growing threat to supply chains

An estimated **US$162 billion** in potential financial costs are tied to climate-related risks in the supply chain, which is **2.9x greater** than the **US$56 billion** required to mitigate these risks.

Physical risks

Direct impacts of climate change on assets, operations, people and supply chains, resulting from:

- Acute hazards (floods, storms, wildfires, heatwaves)
- Chronic changes (rising temperatures, water scarcity, sea level rise)

Transition risks

Business risks related to the shift to a lower-carbon economy, driven by:

- Policy and regulations
- Technology
- Market and consumer changes
- Reputation

Sources: CDP, C2ES, Supplier Engagement for Resilient Supply Chains (WMBC, BSR, CDP, EDF, ERI, WBCSD)

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Scope 3, Categories 1 & 2

Categories 1 & 2 are **upstream emissions** directly tied to **supplier activities**, which require **engagements** with key suppliers to **measure and manage impact**

1. **Purchased Goods and Services**
2. **Capital Goods**
3. Fuel/Energy-related activities
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9. Downstream Transport
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Purchased goods & services

BOUNDARY: All upstream (cradle-to-gate) emissions of purchased goods and services

DESCRIPTION: Extraction, production, and transportation of both goods (tangible products) and services (intangible products) purchased or acquired by the reporting company in the reporting year. *Example: purchase of raw materials such as aluminum and steel*

Capital goods

BOUNDARY: All upstream (cradle-to-gate) emissions of purchased capital goods

DESCRIPTION: Extraction, production, and transportation of capital goods purchased or acquired by the reporting company in the reporting year. *Example: Machinery purchased for your operations.*

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Companies face major challenges in measuring and reducing Scope 3 emissions

Measurement gaps

- Lack of primary data
- Lack of standardized methods, fragmented guidance.
- Complex calculations
- Limited internal expertise
- High software costs
- Data privacy concerns

Supply chain complexity

- Limited visibility beyond tier-1 suppliers
- Thousands of suppliers to assess and prioritize
- Emissions embedded far upstream, outside direct control

Supplier readiness

- Wide variation in supplier maturity and technical capability
- Duplicative data requests across buyers
- Engagement is time- and resource-intensive

Business model resistance

- Complexity of aligning goals across sustainability, procurement and other business functions
- Short-term business cycles limit long-term transformation

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Supplier engagement is one of the biggest untapped climate solutions

- Only **41% of companies** report engaging their suppliers on climate-related issues.
- Companies that actively manage supply chain emissions have saved **US$13.6 billion**.
- Supplier engagement is a powerful lever to cut emissions while strengthening resilience.
- Stronger partnerships with suppliers improve visibility into climate risks and allow companies to adapt and recover faster.
- More resilient companies **outperform their competitors** in periods of disruption.

Sources: Bain, BCG, CDP, C2ES, MIT, Supplier Engagement for Resilient Supply Chains (WMBC, BSR, CDP, EDF, ERI, WBCSD)

Adopting a strategic, impact-driven supplier engagement program can help realize reductions

Reactive

- × Individual "Building the plane as you fly it"
- × Accounting "accuracy"
- × Casting a wide net
- × Bespoke approaches
- × Individual action

Vs.

Proactive

- ✓ Strategic approach
- ✓ Focusing on impact
- ✓ Targeted Engagement
- ✓ Embracing Standardization
- ✓ Industry Action

Why → Identify Managed Suppliers → Assess Maturity and Impact → Prioritize suppliers → Identify Activities and Resources → Implement → Tracking and Continuous Improvement

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What role does your organization play in managing upstream impact?

Why should your organization take action?

- Customers drive upstream production - suppliers are producing what you ask for
- Consumers expect brands to take responsibility
- Customer purchase power - the most effective way to influence change in a supply chain is to put a financial incentive in place

How can your organization take action?

- Be clear about what suppliers need to do
- Develop objective engagement programs to focus resources where it matters most
- Provide active support to key suppliers to accelerate progress

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Identify Right-Sized Supplier Objectives

Categories 1 & 2 are **upstream emissions** directly tied to **supplier activities**, which require **engagements** with key suppliers to **measure and manage impact**

Identifying supplier objectives

- What data do you need suppliers to report?
- What are the primary drivers of supplier emissions?
- What timing do you need suppliers to meet?
- Can you align with industry standards?

Potential objectives

- Net Zero Goal
- SBTi Approved Target
- 100% Carbon Free Electricity
- Report Scope 1, 2, & 3

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Identify Managed Suppliers

Focusing emission reduction efforts on the top 80% of emissions enables more efficient and effective engagements

- Typically, managed suppliers are around 300 suppliers
- Ensure highly strategic suppliers are included, even if they fall outside the initial assessment
- Remove suppliers with low strategic value from the managed list
- The bottom 20% of suppliers that are less significant to operations and emissions become your unmanaged suppliers

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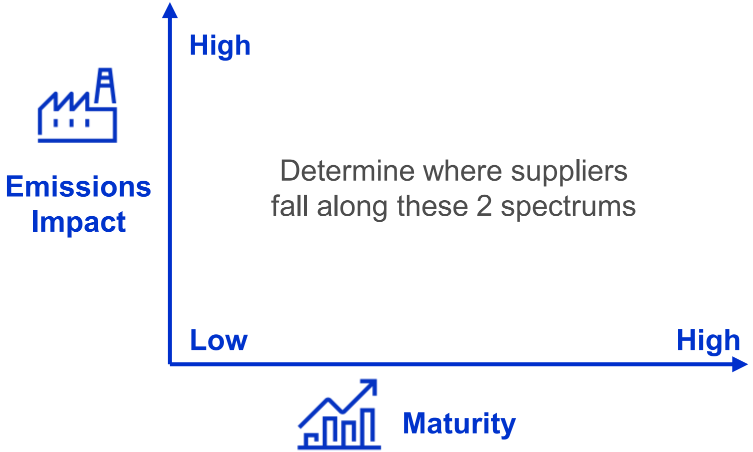
Assess individual suppliers’ relative emissions impact and their sustainability maturity



Emissions Impact
How high is their impact relative to other managed suppliers?

Sustainability Maturity
Where is the supplier on their sustainability relative to your supplier objectives?

Why → Identify Managed Suppliers → **Assess Maturity and Impact** → Prioritize suppliers → Identify Activities and Resources → Implement → Tracking and Continuous Improvement

Suppliers can now be placed in their segments

Segmenting suppliers enables objective and repeatable prioritization of engagement efforts

Emissions Impact

Emissions Impact	**Priority 1:** Low maturity/High emissions These suppliers **need the most help** and are **critical for goal achievement**. Want to focus the most direct engagement and resource provided.	**Priority 2:** High maturity/High emissions These suppliers can be expected to **engage in targeted reduction projects** that can be captured in reporting. These suppliers can be the most active reduction partners.
	Priority 3: Low maturity/Low emissions These suppliers still need **passive support** to mature but are **less critical** to goal achievement.	**Priority 4:** High maturity/Low emissions These suppliers need less support but can be held to higher standards given their maturity. Work with these suppliers to incorporate more granular data into reporting.
	Maturity	

Why → Identify Managed Suppliers → Assess Maturity and Impact → **Prioritize suppliers** → Identify Activities and Resources → Implement → Tracking and Continuous Improvement

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Managing 300 suppliers can be difficult; prioritize suppliers to deploy resources more effectively

Additional Prioritization Considerations

- Build off existing programs in procurement
- Direct the highest effort engagements to the highest impact suppliers
- Meet suppliers where they are on their journey
- Assess strategic priorities with internal teams
- Ensure engagement efforts and timing are aligned with your organization’s ambitions

Why → Identify Managed Suppliers → Assess Maturity and Impact → **Prioritize suppliers** → Identify Activities and Resources → Implement → Tracking and Continuous Improvement

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Identify Appropriate Key Performance Indicators (KPIs) and Supporting Activities for Each Segment

Right-size KPI's for each segment

Meet suppliers where they are:

Tailor to the maturity level and create reasonable objectives and milestones

Prioritize actions:

Focus on high-impact objectives that have minimal barriers to achieve and expand over time

Adjust as needed:

Be flexible and adjust targets as needed based on supplier feedback

Continuous improvement:

Encourage all suppliers to advance sustainability practices, regardless of their current maturity level

Identify supporting activities

Consider supplier resources:

Conduct research and benchmarking to understand common resource constraints

Focus on capacity building:

Support suppliers to become accountable for their operations and value chain

Engage internal stakeholders:

Ensure there are sufficient internal resources to provide and maintain support

Build resources over time:

As a need arises, add more support to overcome barriers and provide clarity

Why → Identify Managed Suppliers → Assess Maturity and Impact → Prioritize suppliers → **Identify Activities and Resources** → Implement → Tracking and Continuous Improvement

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Bring all the elements together for a clear view

Priority 1:
Low maturity/High emissions

Supplier KPIs:
- Commit to set an SBT
- Report Scope 1, 2 & 3 emissions
- Set 100% RE by 2030 target

Supporting Activities:
- Training/capacity building
- Performance tracking and business reviews
- Model gap-to-goal and reduction opportunities
- Mentorship and incentive programs

Priority 2:
High maturity/High emissions

Supplier KPIs:
- Net Zero Goal
- SBTi Approved Target
- 100% RE
- Report Scope 1, 2, and 3

Supporting Activities:
- Utilize product and service level accounting (module 3)
- Performance tracking and business reviews
- Engage directly on specific emissions reduction projects
- Model gap-to-goal and reduction opportunities

Priority 3:
Low maturity/Low emissions

Supplier KPIs:
- Commit to set an SBT
- Report Scope 1, 2 & 3 emissions

Supporting Activities:
- Passive access to resources and training
- Influence through RFPs

Priority 4:
High maturity/Low emissions

Supplier KPIs:
- Net Zero Goal
- SBTi Approved Target
- 100% RE
- Report Scope 1, 2, and 3

Supporting Activities:
- Compliance monitoring
- Utilize product and service level accounting for key hot spots

Emissions Impact

Maturity

Implementation - Four Common Approaches

Commercial Mechanisms

- Long-term contracts with sustainability commitments
- Financial incentives or penalties tied to performance

Sustainable Sourcing

- Sustainability criteria in supplier selection
- Requesting emissions data

Capability-building

- Training / resources to help suppliers cut emissions

Verification and Compliance

- Requiring third-party audits or certifications

Why → Identify Managed Suppliers → Assess Maturity and Impact → Prioritize suppliers → Identify Activities and Resources → **Implement** → Tracking and Continuous Improvement

Sources: MIT

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Implementation - Establishing a Supplier Program

Develop and Document Program Structure

Documenting the defined prioritization process will support follow-through even as stakeholders change.

Define roles and responsibilities

Outline the resource requirements needed to support implementation and integrate into your organization.

Align contractual language

Including supplier objectives in a supplier code of conduct and terms and conditions lays a foundation to encourage buy-in.

Leadership Alignment

Build support within the organization for advancing sustainability within the supply chain.

Engage Stakeholders

Buy-in is essential to foster productive collaboration.

Resource Development

A library of publicly available and/or resources specific to your organization will help to drive action.

Launch + Scale

Communicated program and then use learnings to reach even more stakeholders.

Why → Identify Managed Suppliers → Assess Maturity and Impact → Prioritize suppliers → Identify Activities and Resources → **Implement** → Tracking and Continuous Improvement

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Implementation - Accounting Readiness and Harnessing Data

To see results of these efforts, there needs to be a process to capture suppliers' progress

Jointly pursue more advanced accounting methods to ensure progress is captured appropriately by both you and the supplier

Allocation methods need to be granular enough to realize reductions and may require detailed methodology development

Utilize product carbon footprints, service-specific accounting, and project-level accounting where appropriate

Establish reporting guidelines and pathways to ingest and analyze data on a periodic basis

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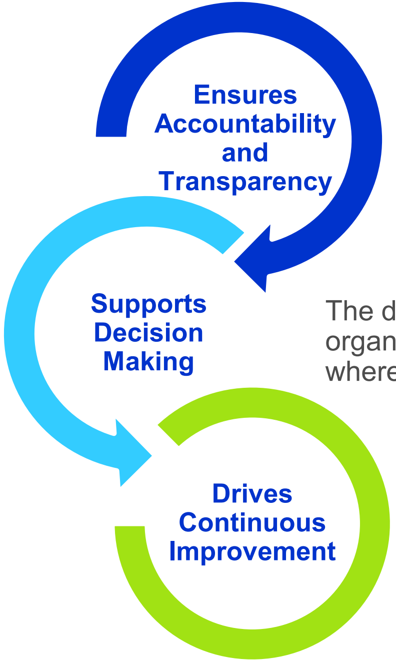
Regular communications & monitoring are foundational for effective supplier engagement programs



Builds trust among stakeholders by maintaining transparency about performance and progress towards targets

The data and insights gathered empower organizations to make informed decisions about where efforts and resources should be focused

Establishes a feedback loop that allows organizations to track progress, learn from past experiences and implement continuous improvement

Why → Identify Managed Suppliers → Assess Maturity and Impact → Prioritize suppliers → Identify Activities and Resources → Implement → **Tracking and Continuous Improvement**

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Define frequency to assess and communicate progress with managed suppliers

Emissions Impact

Priority 1:
Low maturity / High emissions

Meet **at least 2x a year**, but consider quarterly for the **most strategically critical suppliers that are lagging**

Priority 2:
High maturity / High emissions

Meet at **least 2x a year**, but consider quarterly, or more to **track progress of critical projects**

Priority 3:
Low maturity / Low emissions

You may not want to meet with these suppliers at all, but consider annual evaluations or **inclusion in regular business reviews**

Priority 4:
High maturity / Low emissions

Likely not needed more than an **annual evaluation** unless there is a project that needs frequent progress tracking

Maturity

Why → Identify Managed Suppliers → Assess Maturity and Impact → Prioritize suppliers → Identify Activities and Resources → Implement → **Tracking and Continuous Improvement**

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Performance Status Key		
Does not meet expectations	Needs Improvement	Meets Expectations

Performance Areas (PAs), and **Key Performance Indicators (KPIs)** vary by supplier segmentation and maturity

The score (0-100) reflects supplier performance against **KPIs**

Supplier scorecards will differ between organizations and should be right-sized to fit with other supplier tracking mechanisms

Performance Area	Key Performance Indicator	Score	Total
CDP Reporting	Reporting Scopes 1 & 2	100	**70**
	Reporting Scope 3	50	
GHG Target	SBTi approved goal	100	**96**
	Net Zero target	100	
	Progress to goal	80	
RE Target	100% carbon free	100	**90**
	Progress to goal	n/a	
Engagement	Attends required trainings	50	**70**
	Responsive to ad-hoc requests	50	
	Participation in emissions reduction projects	50	

Performance Status will be a strategically determined scale

Total Score	**81.5**
Performance Status	Meets Expectations

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Key Takeaways

- ✓ Scope 3 emissions are often the largest category, and improving the granularity of supply chain emissions can support the identification of reduction opportunities.
- ✓ To effectively reduce Scope 3 emissions, it's crucial to establish a clear reduction goal and a develop a supplier engagement plant to meet the goal.
- ✓ Segment suppliers by emissions impact and maturity to identify managed suppliers and develop KPIs for suppliers to meet.
- ✓ Implement the supplier engagement strategy, utilizing tools like the supplier scorecard to drive progress
- ✓ Regular monitoring and reporting are foundational for effective supplier engagement programs

Why → Identify Managed Suppliers → Assess Maturity and Impact → Prioritize suppliers → Identify Activities and Resources → Implement → Tracking and Continuous Improvement

Questions?

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Activity Instructions

Excel based simplified activity of creating a supplier engagement plan for fake companies. In this exercise, you will follow the steps discussed in this presentation for a creating a successful supplier engagement program.

Steps:

1. Identify the managed suppliers
2. Prioritize suppliers based on emissions
3. Develop supplier objectives
4. Assess maturity
5. Segmentation of suppliers
6. Assign key requirements and resources

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