

**WELCOME**

Sustainability Purchasing  
Network

Applying Total Cost of Ownership to Sustainability Purchasing

April 28<sup>th</sup>, 2006

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**Purpose & Learning Objectives**

1. To investigate & understand the concept of Total Cost of Ownership
2. To understand how TCO is applied in the purchasing process
3. To understand the components and use of a TCO tool

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**Workshop Agenda**

Part 1: Applying TCO to Sustainability Purchasing  
Part 2: TCO with Vancity / Grand & Toy  
Break  
Part 3: Group Activity – UPS Case Study  
Part 4: Dialogue  
Part 5: Workshop Evaluation & Consultation

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**Acknowledgements**

- Vancity
- BC Hydro
- Mountain Equipment Co-Op
- Fraser Basin Council
- Grand & Toy
- PWGSC

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**About the Sustainability Purchasing Network**

- What is the SPN?
- What does the Network offer?
- Why participate?
- Who can join?
- Who's leading the way?

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**Module 1: Total Cost of Ownership & How it Can Advance Sustainability Purchasing**

- What is sustainability purchasing?
- What is Total Cost of Ownership evaluation?
- Business case for Sustainability Purchasing

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## Purpose

The purpose of this module is to help you understand the concept of Total Cost of Ownership (TCO) and how you can apply it in your purchasing process to make more cost effective and sustainable decisions.

## What is Sustainability Purchasing?

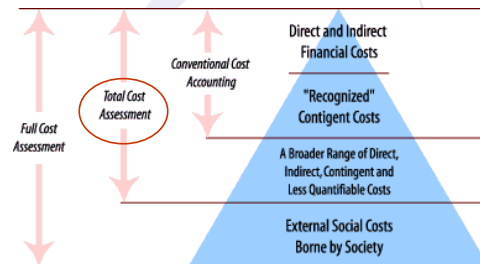
Buying supplies or services by taking into account:

- Price, Quality, Availability
- Functionality
- Life cycle environmental aspects
- Social and ethical aspects

## What is Total Cost of Ownership?

- Evaluation of full range of costs
- Quantitative and qualitative
- Lifetime of product or service
- Financial terms
- Helps quantify policy factors
- Helps measure & track impact

## Types of Cost Assessment Tools

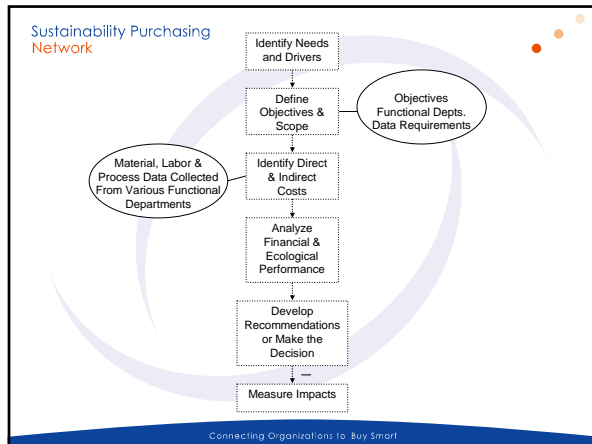


## Module 2: Total Cost of Ownership in 6 Steps

- Step 1: Identify Needs and Drivers
- Step 2: Define Objectives and Scope
- Step 3: Identify Direct & Indirect Costs
- Step 4: Analyze Financial & Sustainability Performance
- Step 5: Develop Recommendations / Make the Decision
- Step 6: Measure Impacts

## Purpose

The purpose of this module is to help you understand each step of a Total Cost of Ownership (TCO) evaluation.



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## Step 1: Identify Needs & Drivers

- Sourcing needs
- Factors driving your needs

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## Step 2: Define Objectives & Scope

- Management framework or strategy
- Case specific objectives
- Environmental, social, ethical
- Scope
- Departmental & stakeholder consultation

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## Step 3: Identify Direct & Indirect Costs

- Direct costs – initial purchase price, materials
- Indirect costs – labor, risks & liabilities
- Measurable – qualitative & quantitative
- Across life cycle

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## Step 4: Analyze Financial & Sustainability Performance

- Give costs units of measurement
- Define business options
- Calculate costs for various options
- Compare TCO outputs
- Key Performance Indicators
- Specifications for RFPs & Tenders

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## Step 5: Develop Recommendations / Make the Decision

- Advantages & disadvantages
- Tradeoffs
- Internal organizational review & decision-making process

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### Step 6: Measure Impacts

- Assess sustainability impacts
- Track & monitor
- Report
- Continually improve

### Case Study: LED Shop Window Lighting

- Organization: Lighting Research Center, New York City
- Timeline: 2005
- LED vs. incandescent lighting
- 30-50% reduction in energy use = 5,500 kWh savings per year
- 37% annual energy savings
- 91% shopper satisfaction

### An Inside Look at Total Cost of Ownership with Vancity and Grand & Toy

- Bari Kellington
- Mark Jeffrey
- Chris Mazur
- John Gleeson

### Integrating Total Cost of Ownership & Sustainability in Procurement Decisions

Vancity's Office Products  
Procurement Process

Vancity

#### Vancity Group of Companies

- \$11.8 billion in assets
- 330,000 members
- 46 branches
- 2,000 employees
- 160 business units

Vancity

#### Living our Values

- Statement of Values & Commitments
- Ethical Policy
- Procurement Policy – Ethical Code of Conduct Philosophy
  - Community Economic Development
  - Living Our Values
  - Members as Suppliers
  - Local Preference

Vancity

**Procurement Policy** *“three philosophies”*

- Ethical Code of Conduct
- Quality & Continuous Improvement
- Total Cost of Ownership

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**Procurement Process**  
*“linking procurement activities to our values”*

- Formal procurement process
- Cross functional decision team
- Ethical Policy screen

Vancity

**Total Cost of Ownership Toolkit**

- Understanding sustainable supply chain cost drivers that impact procurement decisions

Vancity

**Office Products - Evaluation Criteria**

- Terms & Conditions, Quality of Proposal
- Business Requirements
- Technology
- Price
- Corporate, Social & Environmental Responsibility (Sustainability)

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**Cost Drivers - Business Requirements**

- “Third Party” products
- Product offering
- Reporting, TQM & Summary billing
- Customer support & Training
- Recycling programs, Packaging
- Delivery & Inventory fill rates

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**Cost Drivers - Technology**

- On line order entry & inventory status
- Custom lists
- Ability to block items & categories
- Alternative items & substitutions
- Ability to highlight environmental products

Vancity

Cost Drivers - Price

- Stationery products
- Environmental stationery products
- OEM & remanufactured toners
- Copy paper: 30% PCW, 100% PCW

**Vancity**

Cost Drivers - Sustainability

- Healthy Lifestyles
- Environmental Leadership
- Respect & Fair Treatment
- Ethical Business Practices
- Peaceful Communities


**Vancity**

Conclusions

- Vancity Culture & Policy
- Sustainable Values – supported by the vendor community
- Total Cost of Ownership – making “balanced” decisions


**Vancity**

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### Sustainability within the RFP Response

- TCO/TCM relationship – how it fits within Office Products
  - Small relative spend
  - Touches numerous end users
- The TCM relationship to Sustainable Procurement Decisions
  - Same process applies
  - Environmental Initiatives
- Is it measurable?

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### Sustainability within the RFP Response

- What is the market telling us in regards to Corporate Sustainability
  - Who/where are the driving forces
  - Specific Questions
    - “What does your organization see as the most important environmental impact of it’s operation”
    - “Do you have a sustainability program in place”
- How should the questions as they relate to sustainability be presented to maximize vendor engagement
  - “How does your organization measure, monitor, and manage these impacts. Please provide historical performance data if available, and an explanation of the metrics used”
- Accountability

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### Sustainability within the RFP Response

- Our Growing Pains
- What are our Key Performance Indicators as we look to implement sustainable habits
- The TCM relationship to Sustainable Procurement Decisions
  - Same process applies
  - Environmental Initiatives

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**Sustainability within the RFP Response**

**Thank You!**

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**10 minute Break**

Please help yourself to a fresh cup of coffee!

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**Group Activity: United Parcel Service**

Key Facts:

- UPS \$36 billion package delivery company
- High sustainability impact of disposable packaging
- Alliance for Environmental Innovation challenge to reduce waste
- TCO demonstrated substantial cost savings for recycled packaging business option

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**Small Group Activity: Instructions**

- Timeline: 30 minutes
- Choose a facilitator, timekeeper, recorder & reporter
- Walk through 6 steps of TCO
- Discuss key questions
- Report back on assigned steps & questions

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**About the Alliance for Environmental Innovation**

- Joint initiative of Environmental Defense and The Pew Charitable Trusts
- Scientists & economists
- Works cooperatively with businesses to build environmental considerations into business decisions

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**Small Group Reporting**

- 5 minutes for each group to report
- Present the findings of your analysis and observations about the process

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## UPS Case Study



- Needs & Drivers
- Objectives & Scope
- Business Options
- Direct & Indirect Costs
- Measurement Units
- Sustainability Impact
- Group Reflections

## Large Group Dialogue

- Workbooks
- Web resources
- Questions on the session
- Share your experience

## Workshop Evaluation

- Expectations
- Information Level
- Format
- Frequency
- Future workshop topics

## Thank you

- Watch for the Sustainability Purchasing Network website in Summer 2006!
- Join our Distribution List to keep up to date with Network news and events.
- Upcoming SPN Learning Circle on May 17.
- Business Case Workshop on June 27