OVERCOMING SCOPE 3 DATA COLLECTION CHALLENGES

A Complex Problem Worth Solving

If you're stressed out about responsibilities related to your Scope 3 emissions data, you're not alone. Like many, you need to achieve compliance with the new and forthcoming EU and US climate disclosure rules, but gathering and deriving insights from Scope 3 data in particular poses some vexing obstacles.

For instance:

- You're already disclosing Scope 3 emissions, but defining reporting boundaries is complex, and you worry you may be missing important emissions categories. Your Scope 3 data may also be reliant on rough, spend-based estimates using low-quality data sources for emission factors, leading to incomplete and inaccurate Scope 3 results.

- You do gather some primary data for your Scope 3 reporting, but you are struggling to get more suppliers to respond to emissions surveys and don't have the internal resources to chase them down or incentivize and support their efforts.

- You want to elevate the business-relevance of Scope 3 data with internal decision-makers, but your ESG and carbon accounting systems can't integrate with your company's larger enterprise data systems, leaving the data siloed and difficult to work with.

If any of this seems familiar, keep reading for insights into how to proceed.

Scope 3 Data Collection Challenges & Solutions

At the heart of all these concerns lies the wicked problem of Scope 3 emissions data collection. And it is truly devilish: analytically complex, time-consuming and resource-intensive, and difficult to integrate into existing enterprise data systems and processes. But it can also be solved – strategically and cost-effectively.

For every business that struggles with Scope 3 data collection, solutions point in four major directions:

- **Adopting more sophisticated Scope 3 GHG data calculation approaches** that improve the completeness and accuracy of your data.
- **Engaging suppliers at scale**, efficiently and productively, using both software and people-power to expand your reach cost-effectively.
- **Identifying carbon hotspots, data gaps and deviations** in your supply chain emissions data by pairing carbon expertise with flexible data visualization platforms.
- **Delivering Scope 3 data into existing enterprise data systems** so that it is accessible to your stakeholders and informs business-critical decisions.

Climate Compliance – Are You Ready?

By 2026, 50,000 EU and 10,000 non-EU companies will be subject to **the EU's Corporate Sustainability Reporting Directive (CSRD)**. This regulation requires indirect (also known as Scope 3) GHG emissions reporting where such emissions are material.

The long-awaited global **ISSB voluntary ESG/sustainability reporting standard** released in June 2023 also requires Scope 3 reporting. The UK, Canada, Australia, New Zealand, China, Hong Kong, Singapore, Malaysia, Nigeria and Japan have all signaled their intent to adopt the Standard.

In the US, the proposed **US Securities and Exchange (SEC) climate disclosure rule** would apply to all 4,000+ US listed companies. Scope 3 reporting would be required if either of two conditions are present: 1) If Scope 3 emissions are material to the company or 2) if the company has set an emissions target or goal that includes Scope 3 emissions.

DATA ASSURED

Gain confidence by moving up the GHG calculation method "ladder"

Many companies start out measuring their Scope 3 inventories using methods that are relatively incomplete and inaccurate. This is okay as a way to start, but growing scrutiny from regulators, investors and customers means that data quality must improve. And companies that want to demonstrate progress in reducing their Scope 3 emissions need a meaningful baseline so they can credibly track and communicate progress over time. If your company is considering setting an official Science Based Target, you can submit a Scope 3 emissions baseline to the SBTi using these more rudimentary estimation methods, for the time being. But it's not in your company's best interest to set reduction targets using baselines that may wildly over or underestimate your actual Scope 3 emissions.

A truly high-quality Scope 3 data collection strategy does two things. First, it sets a "scope" that reflects which of the 15 GHG emission categories for Scope 3 are material for your company. You can find the Scope 3 categories most likely to be important for your sector in the CDP's guidance and in the standards developed by the Sustainability Accounting Standards Board (SASB). However, to do this well, many companies seek out external expertise to assess relevant categories and calculate the emissions associated with harder-to-quantify categories,

such as Use of Sold Products and Downstream Transportation & Distribution.

A high-quality Scope 3 data collection strategy also prioritizes gathering data using calculation methods that are higher on the GHG calculation method "ladder," especially for those emissions categories tied to your company's largest carbon hotspots. This means ensuring that the carbon accounting experts you hire are prioritizing more specific and accurate methods, such as using activity or hybrid-based calculation approaches that leverage primary supplier data rather than the rougher "spend-based" method, which estimates emissions based on the financial value of a purchased good or service. It also means that they should be using up-to-date and granular emission factors for their calculations. These are the coefficients used to calculate the carbon emissions of an activity, and they can vary significantly by geography, technology and timeframe. For example, the carbon emissions associated with an automobile trip are calculated as the distance driven multiplied by an emissions factor. The emissions factor would take into account the type of fuel used, the weight of the vehicle, the average speed expected and other factors.

For more on Scope 3 emissions calculation methods, ADEC ESG Solutions provides a useful guide on how to better understand your GHG inventory.

DATA ASSURED
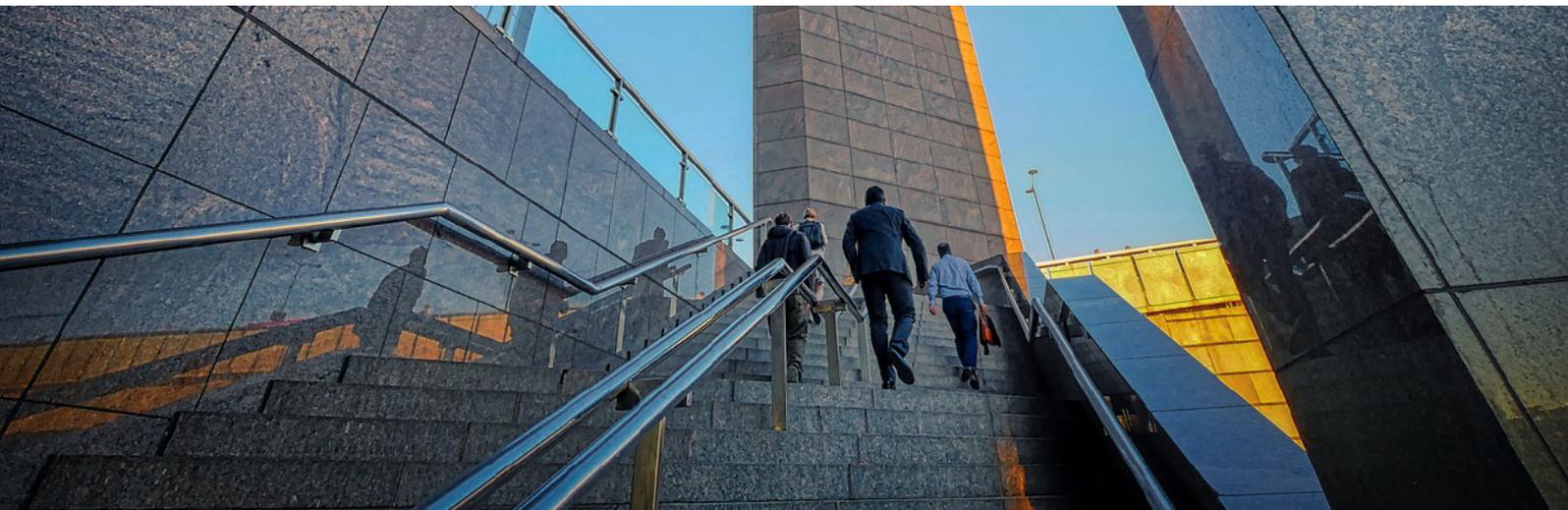
Efficiently Gather Primary Data with Software & People-Power

While the need for more granular, primary data from suppliers for audit-quality reporting, goal-setting and climate strategy development is paramount, for most sustainability leaders allocating your limited staff's time to gathering data from suppliers poses a huge opportunity cost. You and your co-workers need to focus on interventions that deliver immediate business value and real-world greenhouse gas emissions reductions – and not on a prolonged paper chase with a far-flung network of suppliers.

Sometimes, the challenge here relates to a business's lack of size and influence, preventing them from compelling suppliers to respond to surveys on the collection side. Getting suppliers to cooperate, especially when you are asking them to survey their own suppliers for additional data, is challenging, especially when there is no one there to follow up in a nice way. You don't want to strain business relationships when managing such complex supplier interactions.

Next is how to engage suppliers at scale and to do it efficiently and productively. Software is one part of the answer – SaaS-based solutions can help you efficiently and thoughtfully engage and collect data from your suppliers. But additional people power is also needed. Service providers that extend the reach of your sustainability and procurement team through outsourced experts (who sit in the time zones and speak the languages of your suppliers) play a critical role in filling your primary data collection gap.

Identify Carbon Hotspots, Performance Bright Spots, and Sketchy Supplier Data

The heaps of data you collect from suppliers is only as valuable as the insights it generates. You need to understand your carbon hotspots – which emissions categories, regions, and suppliers are most carbon-intensive? Where are the biggest opportunities for reduction? Which suppliers are reporting data that appears to be incomplete or deviates from averages? Are these suppliers poor performers, carbon-efficient "bright spots" or just providing you with bad data? Sifting through spreadsheets is not the most efficient or effective way to answer these questions.

Generating answers requires both experts who understand Scope 3 emissions categories and sectoral nuances, as well as data visualization that helps you pinpoint carbon hotspots and data quality concerns. Pairing expertise with business intelligence platforms that visualize your supply chain emissions in meaningful ways (i.e., by source, geography, supplier type, etc.) and that pinpoint data gaps and deviations, can help you accelerate your engagement strategy, sharpen your reporting, improve product design and transform carbon hotspots from financial risks into opportunities.

DATA ASSURED

Delivering Scope 3 Data – Where it's Needed, When it's Needed

Integrating the Scope 3 data you've gathered into existing business systems presents yet another critical challenge. Scope 3 data can't sit in a silo if you want it to drive meaningful decisions about how to prioritize suppliers, adjust product design, or engage suppliers on reductions. Yet for many companies, carbon accounting and ESG systems are disconnected from larger enterprise and procurement-related systems. This can render your carbon data decision-useless and diminishes the business-relevance of your data collection efforts.

However, the task of seamless integration demands balancing the need for integrated, decision-useful data with resource constraints. Overcoming this yourself can be complex and time intensive. It's also rarely a one-time exercise.

The reality is that for many companies, there is a need for ongoing delivery of Scope 3 data beyond conventional ESG reporting software and disclosure platforms so that it can be used in more valuable ways.

Solving the Scope 3 Data Collection Challenge

Businesses wrestling with Scope 3 data collection can chart a course to success by embracing thorough, robust calculation approaches, engaging suppliers at scale and implementing flexible information management solutions.

Learn more about ADEC's Scope 3 DataAssured solution.

ADEC INNOVATIONS
WHERE IMPACT MATTERS