



DRIVING THE ESG AGENDA WITH SAP IN THE CPG INDUSTRY

Introduction

Sustainable Practices Are Claiming Increasing Attention in Today's World, Across The Board

Focusing on sustainability is vital for humankind, countries, further down to businesses and even individuals. The CPG industry in particular, with its high number of direct and indirect stakeholders, complex supply chain, and inherent characteristics of the business and products, is under serious scrutiny even from end consumers. As a major contributor to environmental and social impact, the CPG industry must intensify efforts to make the world more sustainable.

Although acknowledging it as a major focus area, many CPG players are still seen at the 'novice' stage of integrating Environment, Social & Governance (ESG) practices into their core

strategy and business operations. However, there is a bright side – plans in force at CPG companies are more mature and comprehensive in comparison to most industries.

ESG practices aim for long-term business benefits and risk mitigation by visibly impacting the environment and/or society. Genuine concern, sincerity, transparency, and commitment to compliance must be the binding spirit behind ESG efforts.

However, regarding ESG policy as an isolated business aspect can render these efforts ineffective. In fact, ESG-centric processes must be contained and designed within core business practices to improve success potential and profit.

ESG – An Evolving Account

It was mid-20th century by the time, the world first woke up to the long-term ill-effects of certain business practices on the environment and society, at large. The initial call for action required from businesses and governments led to the establishment of the UN World Commission on Environment and Development (WCED) in the 1980s. The WCED went on to define Sustainable Development as *"development which meets the needs of the present without compromising the ability of future generations to meet their own needs."*

In 1994, the need to address **People, Planet and Profits** together for sustainable business growth became crystallized and prominent. The concept of 3 Ps was formalized through the ESG approach, as noted by the then UN Secretary General Kofi Annan in the 'Who Cares Wins' report. It factored the role of ESG performance into capital markets and the resulting impact on better social outcomes.

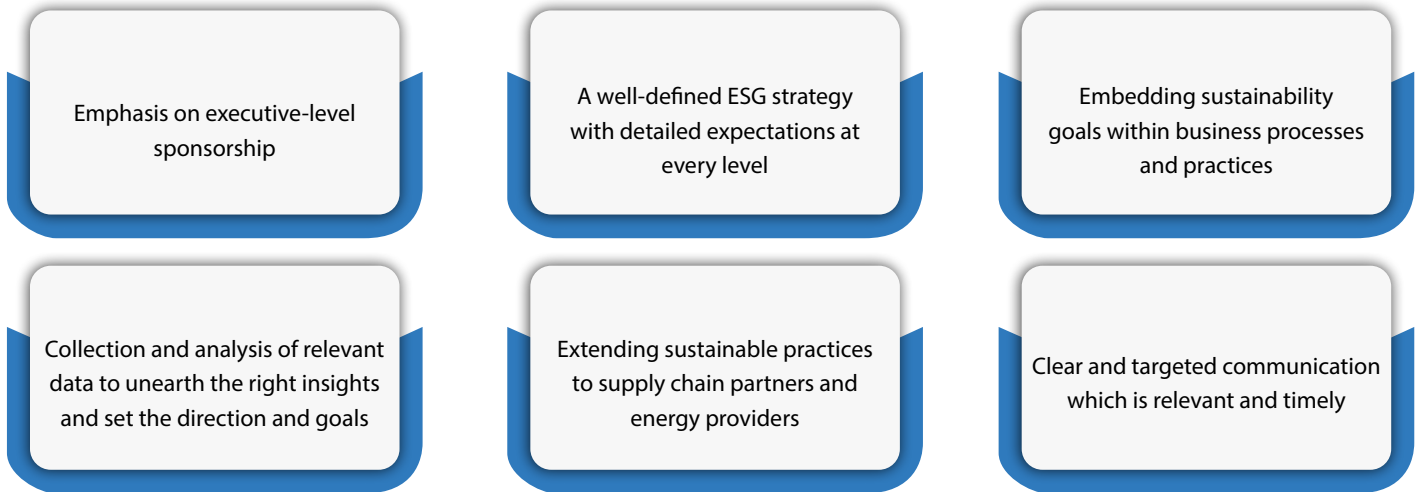
Since then, numerous countries have adopted the Sustainable Development Goals (SDGs) to promote global actionizing to end poverty, protect the planet, and ensure peace and prosperity for all. This has translated to ESG goals and activities that must be undertaken at the organization or business level.



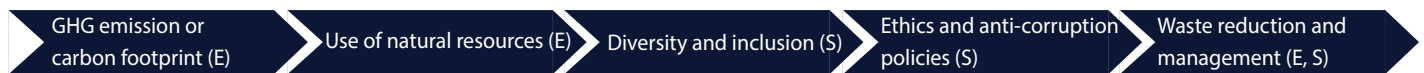
Considerations and Implications for CPG Industry under the SDGs

CPG organizations contribute heavily to environmental and social impact, especially in terms of GHG emissions and global waste.

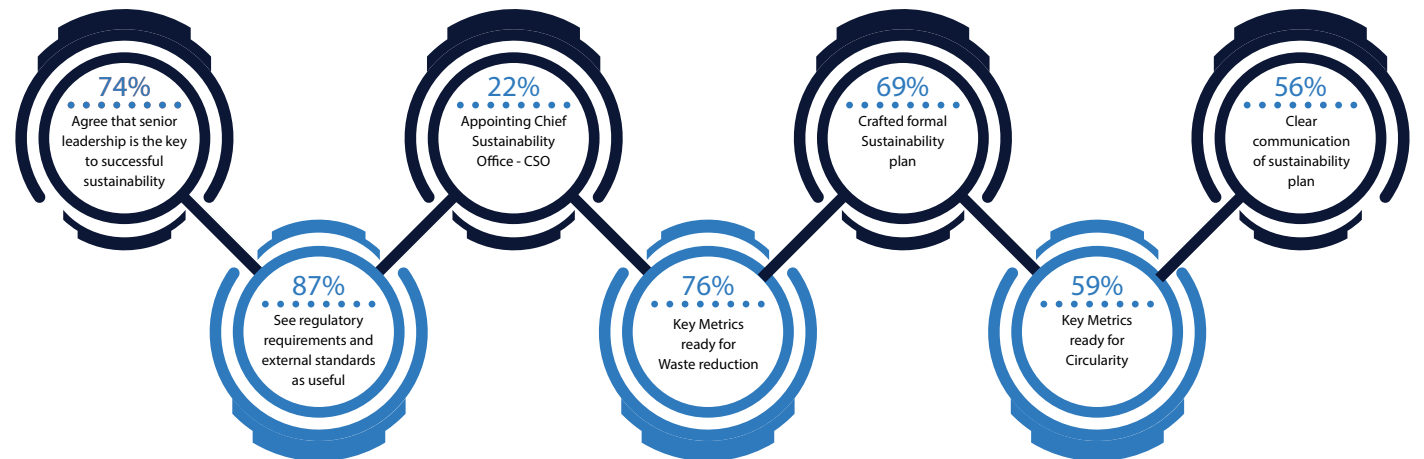
Important considerations for those embarking on their ESG journey include:

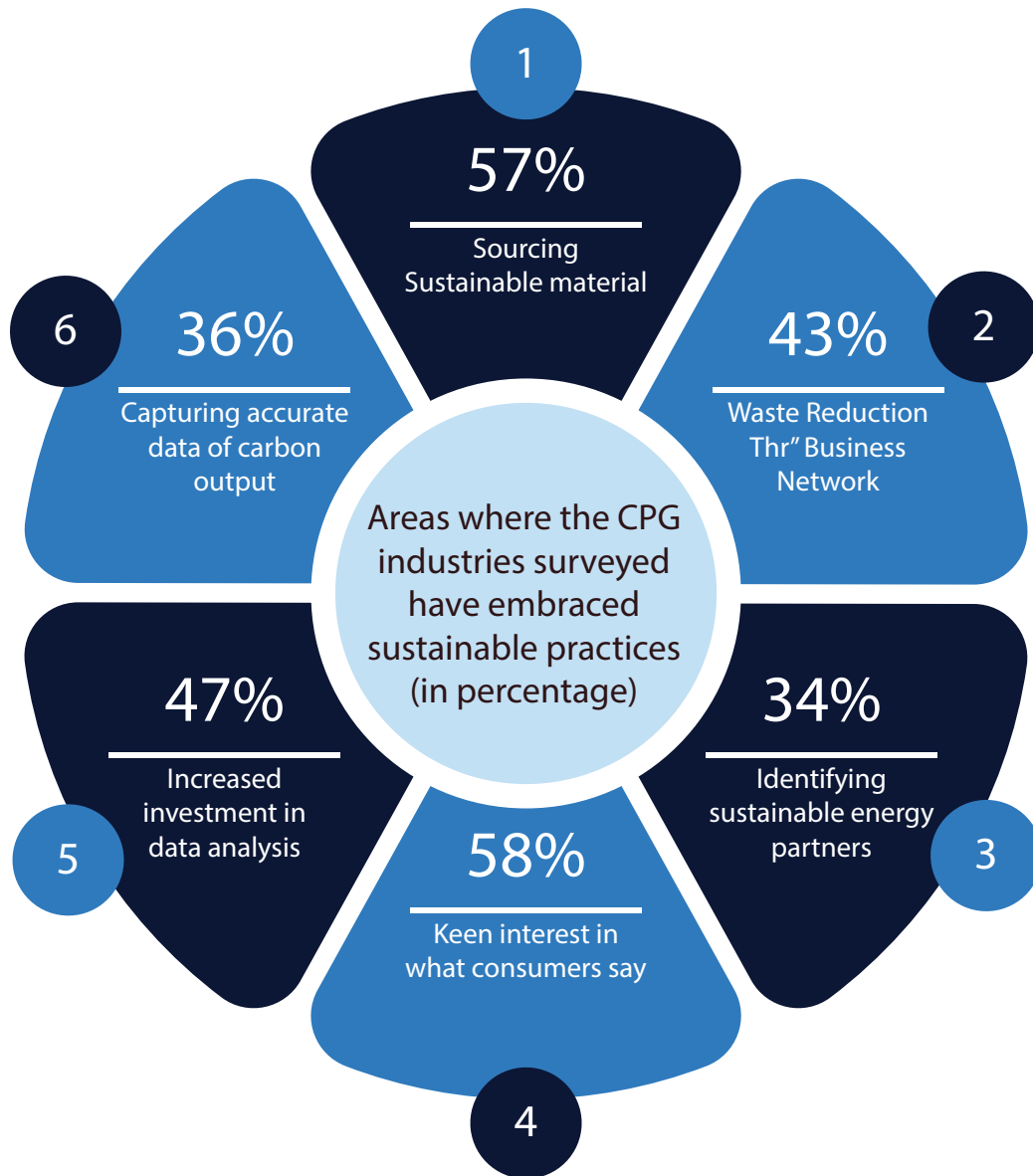


Different ESG frameworks define different performance indicators or KPIs to measure sustainability performance of an organization. Most organizations track the KPIs listed here:



Under these considerations, here are some key statistics from a survey by Oxford Economics & SAP on 'Sustainability in Consumer Products,' 2022.





Top names in CPG industry are taking steps towards more sustainable systems, processes, materials and are, for example, [rethinking packaging](#).

On the flipside though, instances of clear non-compliance or greenwashing (across industries) have proved detrimental to the action taken towards ESG goals. Some key examples are mentioned here:

<p>Burberry</p> <p>(2018) burnt USD28 million worth of unsold stock of bags, clothes to prevent stealing and cheap selling.</p>	<p>Richemont</p> <p>(2018) destroyed expensive, unsold watches to save their brand value.</p>	<p>Coach</p> <p>(2021) slashed unsold bags</p>	<p>Deutsche bank</p> <p>(2020) was fined USD583 million for not implementing effective anti-money laundering controls and also criticized for investing big in Oil & Gas industries.</p>	<p>Volkswagen</p> <p>(2015) – installed emission manipulation devices to cheat pollution testing processes/present false results during emission testing.</p>
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Challenges for CPG Industries on Their ESG Commitment, and What Can Be Done to Counter Them

While it is heartening to see CPG companies implementing various sustainability and compliance measures, they need systems and solutions that facilitate continuous improvements in their ESG compliance.

Given the current state of ESG performance and compliance in the industry, there is a need to adopt a data-driven approach to devise policy and define KPI goals that can drive operational efficiency. Companies must also have a clear view into the costs, risks, trade-offs associated with the transition to sustainability practices.

Sustainability must be built into end-to-end processes rather than in isolation, with focused attention on areas of concern such as waste reduction during manufacturing, sourcing, and offering a product range with healthier or sustainable choices. One way

to do this would be to embrace circularity and re-purpose at the product design stage itself to use products to the maximum extent.

Sustainability efforts will also receive a boost by setting up a conducive environment for diversity, inclusivity, fairness, ethical labor practices, innovation and creativity within the workforce and beyond.

Modern technologies like Generative AI, AI, ML, IoT, blockchain help improve ESG compliance through automation, process re-engineering, enhancements, innovation capabilities, and a system for measurement and tracking. Technology leaders are stepping up to provide solutions, platforms, and frameworks that bolster an organization's sustainability journey.



Solutions from SAP to Formulate, Track and Improve ESG Performance and Compliance

SAP has recognized that embedding sustainability in the core business process is an important challenge. It has created a framework to measure ESG relevant data. From a compliance and performance standpoint, SAP has a complete suite of offerings – record, track, and improve ESG KPIs. These solutions also address some of the challenges in an organization's journey towards sustainable operations.

SAP's various solutions harness data and insights to create sustainable business models. It presents a holistic steering approach to zero waste with circular economy with a focus on waste management, takeback management etc. With features for energy-efficient logistics, reducing carbon footprint, responsible waste management, recycling, these solutions also include customer feedback in sourcing decisions etc.

SAP's top solutions for ESG include:

- **SAP RDP**
Responsible Design and Production - more sustainable products and packaging, calculating and paying EPR plastic taxes
- **SAP SFM**
Sustainability Footprint Management – cloud-based approach to record, report, and act on carbon footprints across corporate, product, facility, transportation with accuracy and granularity
- **SAP SCT**
Sustainability Control Tower – an action-ready solution foundational to ESG metric management, reporting, tracking and finance integration
- **SAP Sustainability Data Exchange**
enabling exchange of Scope 3 emissions data through collaboration with trading partners and identifying carbon reduction opportunities
- **SAP Green Token**
tracker for commodity sustainability characteristics
- **SAP Green Ledger (due 2024)**
Carbon prices/taxes built into every transaction
- **EH&S EM**
Environment Management – linked to equipment to reduce energy and emissions and avoid emerging carbon prices/taxes
- **SAP IRM**
Intelligent Returns Management – for reverse logistics and seamless returns
- **Responsible Sourcing and Marketplace Solutions**
to predictably sell and source recyclable/recycled feedstock

A Sampler of Infosys' Offerings for Enhancing ESG Compliance

1. Infosys ESG Reporting Dashboard

Infosys capabilities in the CPG industry as well as HR and Analytics have helped develop this dashboard that augments the SAP SCT standard content, with reporting that caters to multiple standards.



It promotes embedding of sustainability metrics into business processes thereby, helping improve sustainable performance, and furthering the goals of zero emission, zero waste, zero inequality, and zero grievance.

- a. **Environment KPI Dashboards** help Consumption and Emission KPI tracking, with actionable insights for better compliance.
- b. **Social KPI Dashboards** help track Wage and Diversity KPIs

2. SAP IBP S&OP Carbon Footprint Management



This solution aims to efficiently calculate the carbon footprint at Scope 1, 2, 3 for an organization, using data from a 3rd party ESG data provider.

3. Sustainable sourcing



This provides view of ESG relevant KPIs for suppliers using the 3rd Party dataset (e.g. D&B, EcoVadis, ESGBooks). The information is fed back to S/4 HANA procurement processes to support informed decision-making.

4. AI-based solutions



These cater specifically to aging waste management, returns management, paperless office practices, localized and social data driven promotions etc.

5. Compliance to European Union Deforestation Regulation (EUDR)



It addresses EU deforestation regulation, MVP requirements, helps compliance with documentation of important certificates (FSC and PEFC) for relevant commodities (Soy, Palm oil, Cocoa, Rubber etc.) that are imported in the EU region.

6. Green IT



This encourages collaboration with Sopht to provide an end-to-end platform to monitor and manage energy usage across the organization's IT infrastructure.

7. Ethical Supplier Network



This solution helps validate the entire Supplier network (till the nth level) as ethical, based on the ESG ratings. It also maps the suppliers on GeoMap to track any other potential impact on the supply chain.

Summary

As the CPG industry gears up for a more sustainable future, it involves a long journey ahead. Companies can make a real difference to building a healthier planet by minimizing waste and environmental impact while fostering ethical sourcing and product innovation.

SAP, as the widely used ERP within these industries, has a huge focus on ESG compliance and ESG performance improvement for its customer network. Infosys SAP practice, working in tandem with SAP and other partners, strives to build new and improved solutions that can ease the industry's journey to a more sustainable future.

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Rajashri is a certified SAP MM and SD Consultant with overall 25+ years of organizational experience, of which 16 years in ERP / SAP. She has a perfect blend of expertise in Program Management, Delivery Management, Consulting, CoE management, along with 9 years of strong domain industry experience. She has been shouldering the responsibility as the Centre of Excellence (CoE) Lead for CPG vertical within Infosys SAP practice.

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