Numbers you can defend

Numbers you can defend

Emissions accounting for small and medium sized companies

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Part 1. Orientation

Chapter 1. Why this affects your company, whatever your size

1.1 A Tuesday in March

The email arrived on a Tuesday in March. It went to the general inbox of a maritime components manufacturer I will call Nordvik, a family firm of 42 people. They machine and assemble deck equipment components, most of it delivered to one large customer, a shipyard group with operations in three countries. The attachment was a supplier questionnaire, 14 pages, with a deadline six weeks out.

The questionnaire asked for the company's total greenhouse gas emissions for the previous year, split into three categories Nordvik had never used. It asked for the emission intensity of the main product lines. It asked for reduction targets. The covering letter was polite and clear. The answers would form part of the yard's supplier evaluation.

Nordvik had no reduction targets. It had never calculated its emissions. It had a finance manager, Karin, who handled everything with numbers in it, and an owner who now had to decide what this document was. A formality, a threat, or a cost waiting to happen.

They called a consultancy. The quote was high enough to rank among the largest advisory purchases in the company's history, for work nobody in the building could evaluate. So the owner did what many do. He put the questionnaire in a drawer, answered the parts he could, left the rest blank, and hoped.

I have seen this story many times, in shipping and outside it. Let me be precise about what it is and what it is not. It is not a story about a company that failed at sustainability. Nordvik ran an efficient operation, and the owner knew his cost base better than most. It is a story about how this topic arrives at small and medium sized companies. It arrives from the outside, on someone else's schedule, in someone else's format, with commercial consequences attached.

That is the starting point for this book. Not the planet and not your values, though you may hold both. The starting point is that decisions about your company are increasingly made using climate information, whether you provide it or not. A blank field in a supplier evaluation is not neutral. It is read as an answer.

The reason this book exists is simple. Most of what the questionnaire asked for was within Karin's reach. Not in six weeks, from a standing start, under pressure. But as a working method, built over a few months, most of it is spreadsheet work resting on records Nordvik already kept. Energy bills. Fuel receipts. Purchase ledgers. The company did not lack capability. It lacked a map of what mattered, what could be ignored, and what the words in the questionnaire meant.

This chapter is the first page of that map. Before you calculate anything, you should answer a simpler question. Through which channels does this topic reach a company like yours, and how strong is the pull in your case? There are four. Some may not apply to you today, and I will not claim otherwise. But you should know which ones. You should be the one who checked.

1.2 The four channels

Climate reaches a company through four channels. Customers, capital, costs, and people. They are not trends and they are not policy. They are mechanisms, and mechanisms outlive the rules that happen to implement them in any given year. Rules change name, tighten, get delayed, come back. The channels remain. If you understand them, you do not need to follow the regulatory news to know where you stand.

I take them in order of how often they hit first.

Customers

The questionnaire that landed in Nordvik's inbox was not the shipyard's idea of a good time. The yard sent it because it had to. Its own customers, ship owners, were asking the yard for the carbon footprint of newbuilds and refits. The owners were asking because their customers, cargo owners and charterers, were asking them. And behind the cargo owners stood banks and investors asking everyone.

This is the cascade, and it is worth understanding properly, because it explains both why the pressure exists and why it will not go away.

A large company with a public climate target has a problem. Most of its footprint does not sit in its own buildings. For a manufacturer or a yard, typically 70 to 90 percent of total emissions sit in purchased goods and services. Steel, components, equipment, transport. The large company cannot report its own number, and cannot reduce it, without data from the companies it buys from. So it asks. First politely, with a questionnaire. Then structurally, by scoring suppliers on their answers. Eventually contractually, by writing data requirements into tenders and frame agreements.

Notice what drives this. Not the large company’s values. Its arithmetic. As long as big buyers carry targets, and as of the mid 2020s most large industrial buyers do, the requests must flow downward. The supplier is where the data lives. There is no other place to get it.

Three properties of this channel matter for you as a decision maker.

First, you do not control the timing. The request arrives when the customer’s reporting cycle needs it, in the customer’s format, with the customer’s deadline. Nordvik got six weeks. That is normal.

Second, silence is an answer. Supplier evaluations do not have a neutral option. A blank field scores as a blank field. When two suppliers offer comparable price and quality and one can document its emissions, the choice has been made easier, and not in your favor. I have sat on the buying side of these evaluations. Nobody phones the supplier who left the field empty to ask why. They just score it.

Third, the requests only travel in one direction. A customer that asked for a total company footprint this year asks for product level numbers in two years, and for reduction evidence in four. I have watched this sequence repeat across industries. The first questionnaire is never the last. It is the easiest one you will ever get.

If a meaningful share of your revenue comes from large companies, or from suppliers to large companies, this channel is open for you. The only question is how soon.

Capital

The second channel is quieter, and for many SMEs it is still closed today. I will not pretend otherwise. But it opens at moments you do not choose, which is exactly why it belongs in your assessment.

Banks and insurers price risk. Climate enters their models in two forms. Physical risk, meaning flood, storm, and heat exposure of your sites and your key suppliers. And transition risk, meaning how exposed your revenue is to customers and products that a lower carbon economy needs less of. A lender does not need to care about the climate to care about these. They affect whether the loan comes back.

For a small company, this rarely shows up as a letter about the climate. It shows up as extra questions at refinancing. As a line in an insurance renewal. Or, most sharply, at an ownership event. When a company is sold, or handed to the next generation with external financing involved, due diligence increasingly includes energy dependence, emission intensity, and customer concentration in exposed sectors. I have seen the question asked across the table, and I have seen what it does to a valuation when the answer is a shrug.

The practical point is this. You will meet this channel on a date already in your calendar. A loan expiry, an insurance renewal, a planned sale. You know when that date is. The bank's questions are far cheaper to answer two years early than a few weeks before signing.

Costs

The third channel runs entirely inside your own walls, and it is the one channel that is open for every company, in every sector, at all times.

Emissions and costs overlap because they largely come from the same physical things. Energy, fuel, materials, waste, transport. Every kilowatt hour Nordvik's machines draw is both a line in the electricity bill and a line in the footprint. Every kilo of machining scrap is paid for twice, once as purchased metal and once as waste handling. A footprint calculation is, among other things, a map of where your company burns money in physical form.

This is why the first 20 to 30 percent of emission reduction in a typical SME is not a sacrifice. It is a cost program wearing different clothes. Compressed air leaks, idle running machinery, heating of unused space, poor route planning, material yield. None of this is exotic. Most of it is visible in bills you already pay. What the climate lens adds is a reason to finally look, and a structure for looking.

I want to be careful here, because this argument is often oversold. Not all reduction is profitable. Beyond the efficiency layer, real reductions can require investment with real payback periods, and some cost money outright. Part 3 treats that in full. But the overlap at the start is genuine, and for a manager who is skeptical of everything else in this book, the cost channel is the honest place to begin. It pays even if every customer questionnaire stops tomorrow.

People

The fourth channel is the one I will claim the least for, because the evidence is softer, and you should distrust anyone who tells you otherwise.

The claim you often hear is that companies without a climate position cannot recruit young people. That is too strong. Pay, location, the job itself, and the boss still decide most recruitment, at every age. What the evidence and my own observation support is weaker but real. A visible, honest approach to the topic tilts decisions at the margin. It comes up in interviews, asked by the candidate. It affects how your own employees describe the company to others. And in thin labor markets, margins decide.

There is a second order effect that I find more interesting in practice. The work itself builds capability. The person who owns the footprint calculation learns the company's cost structure, energy flows, and supplier base at a depth few roles offer. In several SMEs I have worked with, the climate task became a development role for someone the owner wanted to grow. That is not why you start. It is a return you collect along the way.

Weigh this channel lightly in your assessment. But weigh it.

Four channels, one question

Customers cascade their requirements down to where the data lives. Capital asks its questions at refinancing and ownership events, on dates already in your calendar. Costs overlap with emissions inside your own walls, open to every company from day one. People tilt at the margin.

The channels differ in strength from company to company, and that is the point. A subcontractor with 60 percent of revenue on one large customer, like Nordvik, lives primarily in the first channel. A local service firm with private customers may find only the third channel open today. Neither position is wrong. What is wrong is not knowing which position you hold. The rest of this chapter is about finding out.

1.3 An honest word on exposure

Books like this one usually skip the section you are about to read. The standard move is to argue that every company is exposed, urgently, starting now. I will not make that argument, because it is not true, and because you would notice.

Exposure to the four channels is unevenly distributed. It depends on who you sell to, who you owe money to, what your cost structure looks like, and where you hire. Two companies of identical size in the same town can hold completely different positions.

Consider three examples.

A subcontractor like Nordvik, with 60 percent of revenue on one shipyard group, lives in the customer channel whether it wants to or not. Its exposure is high and already active. The questionnaire proved it. For Nordvik, the question is not whether to act but how fast and how much.

A regional electrical installation firm with 30 employees, working mostly for private homeowners and small landlords, faces almost no customer pressure today. No homeowner sends supplier questionnaires. Its live channels are costs, always open, and possibly capital if a generational handover with bank financing is a few years out. Its exposure is low to moderate. A calm, minimal approach is rational.

A wholesaler importing components from Asia and selling to large Nordic industrials sits in between. High customer exposure, because its buyers are exactly the companies that cascade requirements. But its own operational footprint is small; the emissions its customers ask about sit with the wholesaler's suppliers. Its work is less about meters and bills and more about getting data out of its supply chain. Same channel, different job.

The point of these three sketches is not the sketches. It is that "should we work on this" is the wrong question, and it is the question that wastes the most money. I have watched SMEs commission full sustainability strategies they did not need, because a seminar frightened the owner. I have watched others ignore a customer signal that was, in hindsight, a two year warning of losing their largest account. Both mistakes come from the same source. The company never actually checked its own position. It reacted to a mood.

Checking your position costs an afternoon and requires no expertise. That is what the next section is for. But before you get there, three habits of honest assessment are worth naming, because they run through the whole book.

First, judge on mechanisms, not headlines. The news cycle around climate policy swings hard, and in recent years it has swung in both directions. Requirements get announced, delayed, softened, reinstated. If you calibrate your company to the headlines you will change course every quarter. The four channels move slowly and in one direction. Calibrate to them.

Second, distinguish exposure from activity. High exposure does not mean you must do everything in this book, and low exposure does not mean you may do nothing. It sets the pace and the ambition level. A low exposure company might sensibly stop at the cost channel and a one page answer bank for the occasional questionnaire. That is a legitimate outcome of reading this book, and I will say so again in the final chapter.

Third, revisit the assessment when the facts change, not when the mood does. New major customer, upcoming refinancing, planned ownership change, entry into a new market. These events change your exposure. A documentary on television does not.

One more thing, because it belongs under honesty. You may work through the self-check and conclude that your exposure is genuinely low. If so, I would rather you spend two days on the cost chapters and put this book on the shelf than force a program your company does not need. The book will still be here when a channel opens. They tend to open.

Now, the check itself.

1.4 The exposure self-check

What follows is ten questions. You can answer most of them from memory, and all of them within an afternoon using your customer list, your loan overview, and last year's accounts. Answer them honestly. Nobody sees this but you, and an inflated answer only misleads the person paying for the mistake.

For each question, note yes or no. Some questions ask for a number. Keep the notes; they become the first page of your working file, and we will use them again in later chapters.

Customer channel

1. Does any customer above 10 percent of your revenue have a public climate target? You can check this in ten minutes on their websites. Look for a target with a year attached, not general statements about caring for the environment.

2. Have you received a climate or sustainability questionnaire, a data request, or a tender question about emissions in the past two years? Include the ones answered partially or not at all. Ask whoever handles tenders; these requests often stall in an inbox without reaching management.

3. Do you supply companies that themselves supply large corporations or public buyers? The cascade does not stop at one level. Being two steps from a large buyer delays the request; it does not cancel it.

Capital channel

4. Is a refinancing, a significant new loan, or an insurance renewal of unusual size due within the next three years?

5. Is an ownership event plausible within five years? A sale, a generational handover, taking in an investor. If yes, assume climate questions in the due diligence. At the time of writing they are standard practice in most of Northern Europe.

Cost channel

6. What do energy and fuel amount to as a share of your total costs? Take the number from last year's accounts. Above roughly 5 percent, the cost channel alone justifies the work in Parts 2 and 3. Above 10 percent, it justifies it urgently.

7. Do materials make up a large share of your costs, and do you generate meaningful scrap, rework, or waste? If you pay for material twice, once buying it and once discarding it, note it here.

People channel

8. Have candidates or employees raised the topic in interviews or reviews in the past two years? Ask whoever hires. The usual answer is "once or twice", and that is a data point, not a crisis.

9. Do you compete for scarce technical talent against larger companies with visible climate positions?

The forcing question

10. If your largest customer sent Nordvik's questionnaire tomorrow, 14 pages, six weeks, could you answer more than half of it? This question does not measure exposure. It measures readiness, and the gap between the two is what the rest of this book closes.