

JUNE 2024 | Vol. 11, No. 6

MedTech STRATEGIST

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RETHINKING ENVIRONMENTAL SUSTAINABILITY FOR HEALTHCARE SUPPLIERS

While plenty of uncertainty around sustainability remains, it is clear that medtechs and other healthcare suppliers will need to take action to stay abreast of evolving regulation and customer expectations. Sustainability is here to stay, and the pace of change is likely to accelerate due to network effects.

► ILYA TRAKHTENBERG, JONAS FUNK, STUART JACKSON, JOHN GODDARD, AND KATE BOYNTON, L.E.K. CONSULTING

In an era marked by escalating environmental concerns, the discourse around sustainability has shifted from a peripheral consideration to an emerging imperative for global corporations. Approximately 40% of Fortune Global 500 companies and around 80% of FTSE 100 companies have set net-zero carbon emissions targets. Although the pace of change varies across global regions and sectors, momentum is clearly building. This reflects a confluence of factors: increased regulation; changing cultural

norms and generational expectations; increased availability of tools, talent, and third parties disseminating best practices; and cascading network effects from organizations requiring emissions reporting and reductions from their suppliers. While the healthcare industry, and medtech specifically, has been relatively slower to embrace environmental sustainability, the pace of change is accelerating there too.

Many medtechs, distributors, and other healthcare suppliers have made strides in reporting, setting, and beginning to

pursue goals of reducing emissions. By the end of 2023, all 10 of the top 10 medtechs (by revenue) published an annual sustainability report and 7 of 10 had measured emissions and made external commitments via the Science-Based Targets initiative (SBTi) for reductions in Scope 1 and Scope 2 emissions (see Figure 1 for definitions). However, only 4 of the top 10 had set Scope 3 targets and even fewer had begun to incorporate sustainability efforts into strategy and day-to-day operations. Outside of the top 10, progress is unsurprisingly much more modest.

As pressures mount to support environmental sustainability in a more meaningful way, many leaders are grappling with several questions:

- Is sustainability here to stay?
- How fast should sustainability efforts be embraced?
- Are sustainability initiatives realistically compatible with financial goals?

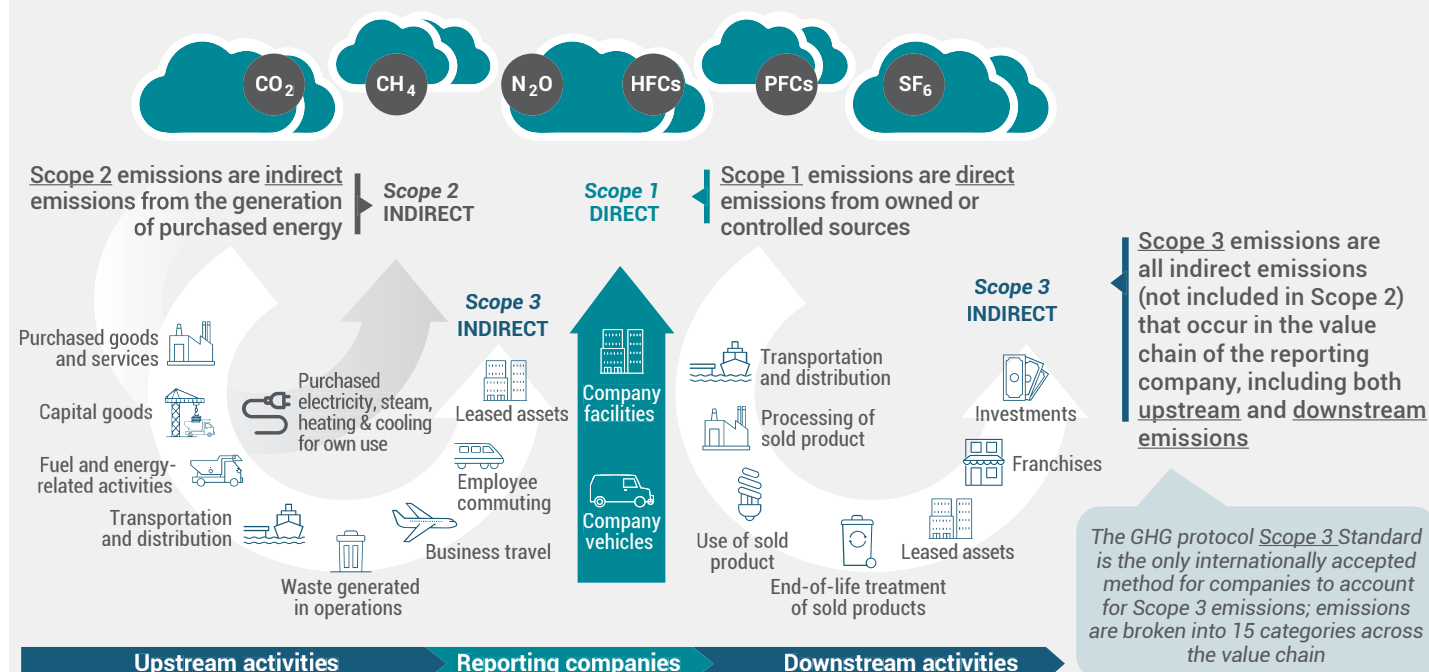
The slow, but ongoing evolution in the regulatory landscape suggests that the sustainability train has “left the station” and while the pace of change may speed up or slow down, depending on government administrations, the direction of

travel is quite clear. Eventually, compliance with sustainability requirements will be mandated to a much greater extent than it is today. Suppliers should err on getting ahead of these compliance requirements.

Hospital and health system customers in Europe and increasingly in the US (especially among large, leading institutions) are progressively setting expectations for suppliers to support their efforts to reduce emissions. The importance of being able to participate in European tenders and to be positioned to win with leading US health systems is gradually elevating sustainability initiatives from a nice-to-have to a must-have to compete.

Against this backdrop of evolving regulations and customer expectations, medtechs and other suppliers have a choice—do what is required to keep apace of regulation and customer demands or take a more proactive approach to get ahead and help set the direction of regulation and serve as thought partners to customers. The benefits of leadership are clear if pursued carefully and thoughtfully. Choosing to lead does not necessitate overinvesting and moving too quickly but does require progressing beyond paying “lip service” to sustainability or superficially supporting sustainability programs on the edges of the business (often by linking existing initiatives to sustainability to gain credit). It means finding ways to

Figure 1
GHG Protocol Definition of Scope 1, 2, and 3 Emissions



Source: L.E.K. Consulting

incorporate sustainability efforts into the core business and ensuring that it is not just the “right” thing to do in the eyes of customers and as global citizens, but also the “right” thing to do financially for shareholders and other stakeholders.

In practice, these efforts need to be financially sustainable (i.e., not lose money), but can also be financially attractive (and very much compatible with financial goals). Sustainability efforts, especially if developed proactively, can provide several sources of financial and broader strategic value:

- **Create competitive differentiation:** Particularly in categories and services where sustainability is disproportionately an issue (e.g., high-volume consumables, other single-use devices), the ability to demonstrate commitment to helping customers meet their sustainability goals can drive differentiation, especially with some of the leading, “winning” health systems; differentiation, however, requires being ahead of the curve as eventually compliance with environmental sustainability will become a table stake (which is already becoming evident in some European tenders).
- **Protect (and grow) market share:** Sustainability-driven differentiation can propel switching to products or services with a lower carbon footprint (i.e., share gain)—assuming sufficient performance on other key purchasing criteria—and/or can help secure volume commitments (i.e., share preservation), especially in categories under increasing pressure from lower-cost, “good enough” products.
- **Bolster price premiums:** In a similar vein, differentiation from sustainability (e.g., product with recycled content) can help prevent price erosion or, in some circumstances, merit a price premium.
- **Improve cost position:** Switching product feedstock to alternative and/or recycled materials can improve an organization’s cost position, especially in times when raw material prices are high. Altering material sourcing, R&D, and manufacturing processes can be time-consuming (and can create risk that needs to be managed), but “low-hanging fruit” opportunities do exist and can yield nearer-term value.
- **Mitigate longer-term risks and compliance costs:** The costs of compliance with sustainability regulation will grow over time as carbon taxes, Extended Producer Responsibility (EPR), and other

reporting requirements will likely become part of the regulatory landscape (more below). Acting proactively can reduce risks associated with noncompliance as well as minimize potential disruptions in the supply chain (e.g., being forced to source new materials or alter supply chain network design) and for marketed products (e.g., costly expedited R&D to meet mandated standards, share loss to competitors who invested early).

All things considered, sustainability presents a net positive opportunity for medtechs and other suppliers to not just “do the right thing” but generate meaningful differentiation and financial value for the enterprise. Taking action proactively and staying ahead of regulation and customer expectations (but not too far ahead) is expected to yield meaningful benefits to early movers.

Regulatory Landscape: The Train Has Left the Station

The regulatory landscape governing sustainability is undergoing a gradual but noticeable evolution. While subject to possible oscillations from different administrations in coming years, the overarching trend points toward intensified scrutiny and enforcement mechanisms aimed at reducing emissions. Particularly notable is the growing emphasis on addressing Scope 3 emissions, a shift indicative of a broader movement toward net-zero efforts impacting organizations holistically. Policy activities in Europe, in progressive US states like California, and among federal agencies all indicate this trend will continue, and potentially even accelerate as more incentives (“carrots”) and an increasing number of regulated penalties (“sticks”) for noncompliance are legislated by lawmakers.

Europe is leading the way with environmental sustainability regulation and setting the standards for the rest of the world, with comprehensive regulations to drive down emissions across all scopes. Renewable energy targets have seen a remarkable 10% increase in the region over the past decade, but recent focus has shifted to addressing Scope 3 emissions through initiatives like the Corporate Sustainability Reporting Directive (CSRD), enacted in January 2023. This directive will require upwards of 50,000 EU companies to report Scope 3 emissions, with subsequent targets and reduction plans expected. Prior to CSRD, the EU had already been considering Scope 3 emissions, with regulations such as the Circular Economy Action Plan II of 2020, which aimed to normalize sustainable products and reduce waste through lifecycle assessments and consumer education. Regional laws, like France’s DASTRI Sharps Collection Scheme (which now processes approximately 83% of all home-use sharps), underscore Europe’s commitment to

Extended Producer Responsibility (EPR)—whereby manufacturers are held responsible for waste generated by their products—as a method to incentivize circularity and penalize poor practices.

In the US, near-term policies, both regulations and incentives, are expected to have minimal impact on healthcare suppliers given limited geographic or product-based scope. There continue to be efforts to create widespread federal environmental regulations, such as the SEC Climate-Related Disclosure Rules, proposed in 2022, but implementation timelines are slow, and many remain in flux. Additionally, state- and local-level regulations (e.g., New York City's sustainable building law) have been more limited in scope and impact (i.e., narrow set of products, materials, emission types involved). For incentives, the focus on the energy transition to lower carbon emissions and/or transition to renewable sources (i.e., Inflation Reduction Act) is expected to continue, thus mainly focused on Scope 1 and 2 emissions. Finally, additional policy frameworks, such as EPR, are continuing to expand across the US, but on a local and state level, and are aimed at controlling household waste, not yet medical or health system waste, except for a few policies in select states (e.g., California Pharmaceutical and Sharps Waste Stewardship Program, passed in 2018).

While medtechs and other suppliers should be tracking near-term policy evolution to ensure compliance, they also should be determining their sustainability priorities based on the longer-term regulatory trajectory. As such, the US can look to Europe to see signs of what is to come; if the US follows a similar trajectory, the following changes can be expected:

- **A focus on Scope 3 emissions:** federal and state policies are expected to require the calculation and tracking of harder-to-calculate Scope 3 emissions, similar to the EU's CSRD.
- **Federal agency early movers:** federal agencies, like the Centers for Medicare and Medicaid Services (CMS), are expected to introduce sustainable procurement requirements ahead of broader state and federal policies; while CMS currently does not include sustainability in its strategic pillars, it is being encouraged to address climate change, and it may look to the UK's National Health Service (NHS) to model sustainability targets and standards for suppliers.
- **EPR expansion:** state-level EPR bills are expected to continue to increase in number and scope across the US, as they have in the EU since they were introduced in the 1990s and now have expanded to most EU countries;

Recent L.E.K. surveys indicate that approximately 40% of hospitals have sustainability requirements and around 50% plan to implement them in the next three years.

for example, during the 2023 legislative sessions, lawmakers considered 43 bills in 14 states related to EPR standards and New York, New Jersey, and Maryland all have EPR legislation bills in process.

Provider Customers: Growing Expectations From Suppliers

Regulatory maturity and value chain participant action typically evolve concurrently. Healthcare providers, historically slow to embrace sustainability due to limited incentives and regulations, are now recognizing the incongruence of poor environmental practices with their healthcare missions. Despite the industry's regulated and inherent complexities (e.g., health and safety concerns related to delivering patient care, product performance requirements, and FDA acceptance of recycled content in medical products) and slower pace of change compared to sectors like consumer products, leading US health systems and hospitals are increasingly committing to sustainability pledges, calculating emissions baselines (across Scope 1, 2, and sometimes Scope 3), setting reduction targets, and drafting implementation plans. Key activities include introducing energy efficiency, waste reduction, and recycling programs, pursuing green procurement practices (e.g., focus on certain material types, inclusion of recycled content, company sponsored end-of-life programs, etc.), and starting to engage with value chain partners (e.g., medtechs, GPOs, distributors, building and service providers) to pursue eco-friendly practices. Recent L.E.K. surveys indicate that approximately 40% of hospitals have sustainability requirements and around 50% plan to implement them in the next three years. As the healthcare sector more broadly aligns its mission with environmental responsibility and especially as leading health systems embrace sustainability, suppliers are compelled to respond to emerging demands from their customers.

While most systems have focused on Scope 1 and 2 emissions to date, and many have made progress reducing their organization’s direct carbon footprint, leaders are increasingly trying to tackle Scope 3 and are asking their supplier partners to support these efforts. In some cases, there is growing recognition that paying a “green premium” for products and services may be advantageous or even necessary as they pursue their goals. “First movers,” in both Europe and the US, that are more mature in their understanding of sustainability goals provide a window into future health system efforts and opportunities for their partners.

For example, as mentioned previously, the National Health Service (NHS) in the UK has rolled out an Evergreen sustainable supplier assessment framework to drive supply chain emissions reductions (see Figure 2). The Evergreen Sustainable Supplier Assessment is a self-assessment and reporting tool for suppliers to share sustainability information with the NHS, providing a single route for information and data sharing between suppliers and the NHS. After completing the assessment, suppliers receive a sustainability maturity score against NHS priorities, which signposts their current position and pathway to progress (e.g., minimum expectations, Level 1, 2, or 3). Furthermore, this tiering allows NHS hospitals to assess their suppliers and take action to drive down Scope 3 emissions accordingly, as more than 60% of the NHS’ carbon footprint is contributed by its supply

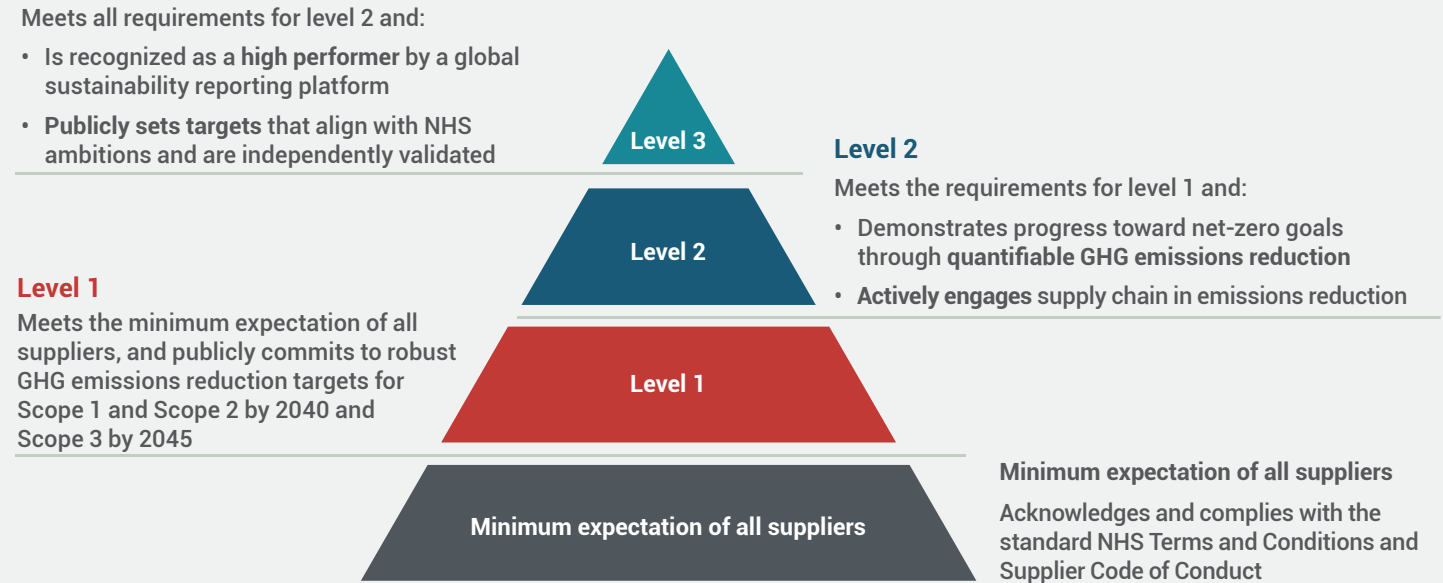
chain. Across Europe more broadly, there are several prominent hospitals (e.g., Asklepios Klinikum Harburg in Germany, University Medical Center Utrecht in the Netherlands, Odense University Hospital in Denmark) launching limited-scale circular economy programs serving as a proof of concept for broader waste management and procurement changes.

Within the US, there are some progressive “hot beds” of activity, where sustainability activity is starting to mirror the sustainability actions in Europe. Progressive leading health systems in particular, especially in states where sustainability regulation is further along, are pursuing various initiatives and have signed the White House and Health and Human Services (HHS) Health Sector Climate Pledge (see Figure 3). For example, in Boston, Mass General Brigham has made a Science Based Targets initiative (SBTi) commitment to net-zero emissions by 2050 including Scope 3, and in New York, Northwell Health has similarly set 2050 net-zero goals, and aims to inventory all Scope 3 emissions by the end of 2024.

Pioneering Suppliers: Turning Sustainability Into a Source of Competitive Advantage

Some medtechs and distributors have made meaningful strides in leading the way in sustainability and getting ahead of the

Figure 2
National Health System (NHS) Evergreen Sustainable Supplier Assessment
Level 3



Source: L.E.K. Consulting

curve. Companies like **BD** (Becton Dickinson), **Cardinal Health**, **Baxter Healthcare**, **Siemens**, and **Novo Nordisk** are setting precedents by establishing net-zero targets, supporting industry collaborations, and pioneering initiatives that concretely link sustainability efforts to their core businesses.

For example, BD has emerged as a medtech sustainability pioneer, launching multiple initiatives aimed at reducing its environmental impact and promoting sustainable practices. In September 2021, BD committed to achieving net-zero emissions by 2050 by signing on to the Race to Zero through the SBTi. The company further solidified its commitment by establishing the Sustainable Medical Technology Institute (SMTI) in April 2022 with the goal of facilitating collaboration across business units to drive emissions reduction via activities such as sustainable product design, developing and deploying sustainable sterilization technologies, and addressing materials of concern

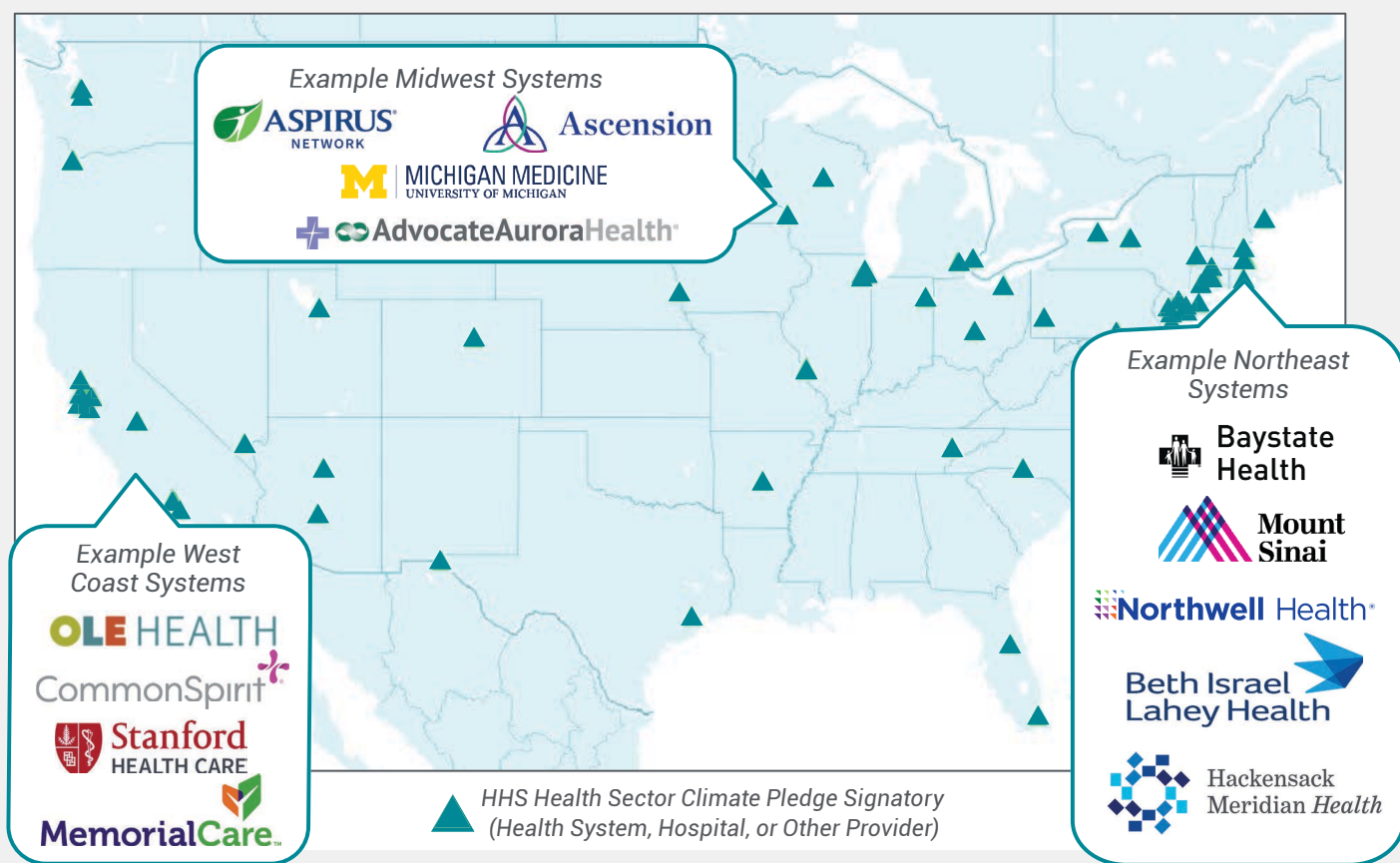
(MOC). Notably, BD completed a circular economy pilot in October 2023 with Casella Waste Systems to recycle medical waste found in sharps containers, showcasing its recognition of the importance of circular economy programs for reducing end-of-life Scope 3 emissions and proving such programs are operationally feasible and financially viable.

Cardinal Health has also established itself as a sustainability pioneer within the broader healthcare supply chain. The company has made significant efforts across environmental, social, and governance (ESG) more broadly, not just environmental sustainability, demonstrating the particularly impactful role that distributors can play in addressing carbon emissions. Cardinal has been pursuing efforts to reduce Scope 1 and 2 emissions since 2021 and formally expanded its goals in March 2024 when it received approval from SBTi to target a 50% reduction in absolute Scope 1 and 2 emissions by

Figure 3

Health Systems Leading on Sustainability

Signatories of the White House & Health and Human Services (HHS) Health Sector Climate Pledge



Source: L.E.K. Consulting


Leading organizations are proving that sustainability tied to the core business is not only possible, but is also a potential source of competitive advantage and can be supportive of financial goals.

2030, from a 2019 baseline, while also ensuring that 75% of its suppliers adhere to science-based targets by 2028. Across its supply chain, Scope 1 and 2 efforts have cascaded into a wide range of initiatives from switching distribution centers (DCs) to LED bulbs and improving the efficiency of HVAC systems to investing in electric tractor-trailers and incorporating emissions considerations into transportation decisions (e.g., optimizing truckloads, encouraging mode shifts from air to ocean). Many of these efforts are also able to deliver financial cost savings benefits in addition to emission reductions. Adding to efforts around its supply chain, Cardinal has continued to invest in core businesses linked to sustainability such as its Sustainable Technologies division, which provides single-use device collection, reprocessing, and recycling services to more than 3,100 hospitals and ambulatory service centers across the US.

More broadly, a range of leading healthcare companies are making strides to “get ahead” on sustainability. Baxter, for instance, collaborated with Northwestern Medicine in 2023 to divert over six tons of polyvinyl chloride (PVC) IV bag waste, repurposing it for industrial floor mats and protective edging for docks and landscaping. Similarly, **Siemens Healthineers** partnered with the University of California, San Francisco, in 2023 to utilize technologies from the Siemens Xcelerator portfolio to monitor and analyze MRI power consumption data, demonstrating the potential for significant carbon reduction and cost savings in medical centers by optimizing MRI usage. Meanwhile, within the drug delivery device space, players like Novo Nordisk, **Eli Lilly**, **Sanofi**, and **Merck** are initiating pilot programs across Europe to collect used injection pens, due to skyrocketing auto-injector usage for GLP-1 drugs. A 2023 pilot program in Denmark successfully collected 2.4 million used injection pens, and, as part of Novo’s broader ReMed program, recycled the plastic from injection pens into office supplies.

Rethinking Sustainability

Moving forward on sustainability can be tricky given a lack of internal expertise, systems, and capabilities. Furthermore, incorporating sustainability initiatives into strategy development, supply chain operations, R&D, etc., requires substantial change management and building clear linkages between sustainability goals and the day-to-day work of different stakeholders. Setting sustainability goals is one thing, operationalizing them is another. For this reason, supplier organizations can look to partners to help them along the way. For example, BD partnered with key collaborators to develop its regulated medical waste circularity program—Casella Waste Systems provided its expertise in collecting, processing, and recycling of waste while L.E.K. Consulting helped develop the commercial and operational design of the program (e.g., building the financial business case, incorporating health system input, defining engagement with customers and partners, developing an execution roadmap).

While plenty of uncertainty around sustainability remains, it is clear that medtechs and other healthcare suppliers will need to take action to stay abreast of evolving regulation and customer expectations. Sustainability is here to stay, and the pace of change is likely to accelerate due to network effects. Leading organizations are proving that sustainability tied to the core business is not only possible, but is also a potential source of competitive advantage and can be supportive of financial goals. For those who have waived on whether to embrace sustainability and how quickly to invest, consider this: it is better to be early and help build the future, than to play catch up on someone else’s terms. By embracing sustainability proactively and at a strategic level, medtechs and other suppliers can navigate the uncertainties of the present and lay foundations for both doing the right thing and doing well by it. 

For more of L.E.K.’s insights into MedTech and Healthcare Supply Chain sustainability as well as L.E.K.’s global Sustainability Centre of Excellence (SCE), please reach out to SCE@lek.com.

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Posted on MyStrategist.com May 20, 2024