

## Predicts 2024: Sustainability Reshapes IT Sourcing and Procurement

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Initiatives: [IT Sourcing, Procurement and Vendor Management Operating Model](#); [IT Contracts Negotiations](#)

IT sourcing is in the midst of an environmental revolution. Environmental performance and transparency are now core to enterprise reputation and strategy. IT leaders must set a course for sourcing transformation to select, contract and manage vendors with aligned environmental credentials.

### Overview

#### Key Findings

- Environmental sustainability is increasingly a core selection and disqualification criterion for IT products and services.
- As the market shifts, IT vendors identify environmental credentials as a prerequisite to participate in RFPs with governments and large organizations. Environmentally superior offerings will gain market share, even if they cost more than alternatives.
- Increasing adoption of generative AI (GenAI) will lead to dramatic increases in energy use, with annual information and communication technology (ICT) electricity increases of 25% or more. Increased emissions and water consumption could result in vendors failing to meet environmental performance targets established in application selection processes.
- Commencing from the 2024 financial reporting season, environmental sustainability regulations are progressing to implementation, demanding that sourcing, procurement and vendor management (SPVM) leaders take action to secure required data from vendors.

#### Recommendations

SPVM leaders must take the following actions to realize their organization's environmental sustainability objectives:

- Exclude vendors that are significantly out of alignment with the enterprise's environmental sustainability expectations by evaluating vendors' sustainability performance, either as a prequalification mechanism or within RFP processes.
- Track and champion vendors that advance progress to the enterprise's environmental objectives by measuring their impact and identifying what performance premium may be acceptable to meet the objectives.
- Assess the value and cost equation of augmenting SaaS applications with GenAI capabilities offered by vendors by including the impacts of increased energy and water consumption and greenhouse gas (GHG) emissions on environmental objectives.
- Take urgent action to prepare for new regulatory reporting requirements by formulating and continuously aligning RFPs and contract negotiations to legislative frameworks, in conjunction with legal.

## Strategic Planning Assumptions

- By 2027, 50% of technology sourcing decisions will use environmental sustainability as a core selection and disqualification criterion.
- By 2027, over 50% of enterprises will pay IT premiums of 10% or more annually to purchase alternatives that satisfy sustainability objectives.
- By 2027, the environmental impacts of GenAI will cause 25% of the top 20 SaaS providers to delay their net-zero objectives.
- By 2027, 50% of organizations with software and cloud contracts that lack environmental sustainability commitments will risk noncompliance with nonfinancial disclosure regulations.

## Analysis

### What You Need to Know

Sustainability is an executive priority. Moving forward, sustainability will become a transformational change catalyst for yielding productivity improvement. CEOs will more than merely respond to customer, investor and regulator demands for enlightened business practices; they will actively pursue waste reduction, product innovation, climate adaptation, and employee and customer engagement. Some CEOs are poised to use sustainability as a disruptor and competitive advantage to outperform the market through the next business cycle (see [2023 CEO Survey: Grow Through Digitally Enabled Sustainability](#)).

Organizations with sustainability targets across sectors such as banking and finance, technology, media, professional services, and healthcare have realized that IT vendors within their ecosystem will have a significant part to play in their success or failure. Dramatic digital adoption has amplified an already material IT environmental footprint, which increases further due to the demands of GenAI (see [Balance the Environmental Perils and Promises of Generative AI](#)).

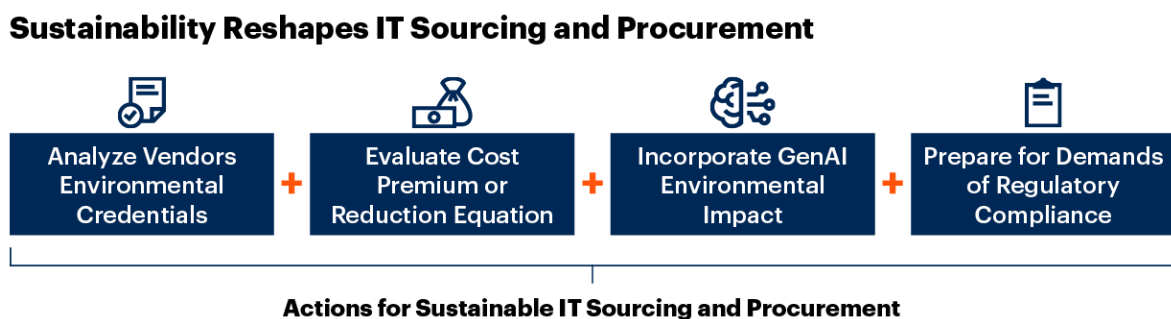
**A significant and growing portion of greenhouse gas emissions within IT stems from Scope 3 emissions of IT vendors, which increases further still as services migrate to and are adopted in cloud platforms.**

Operating at the nexus of the enterprise and its IT vendors, sourcing and procurement teams must ethically and efficiently ingest technology and technology services that deliver environmental efficiency. Accordingly, sustainability will be a driver of, or fully operationalized in, the day-to-day IT sourcing decision-making process by default. Key skills must be developed to identify misleading vendor behaviors (such as “greenwashing” and “greenhushing”), including targets and ambitions that lack operationalized plans and evidence of progress, thus risking “greenshifting.” Subsequently, it will be critical to monitor vendors to ensure they maintain high environmental standards.

SPVM leaders must set the course and pave the route forward, address the requirement for meaningful action, enable sustainable consumption of technology by evaluating vendors, pursue meaningful contracted vendor commitments, and manage vendors. Selecting vendors that advance environmental stewardship, with minimal dependency on carbon offsets (see [How to Effectively Navigate 3 Common Voluntary Carbon Offset Risks](#)), and pursuing performance data to demonstrate reduced consumption of natural resources will become the norm. Doing so requires a new value equation that balances sustainability priorities of environmental performance and impact with costs, function and expected output.

Forthcoming regulation demands that the IT value chain provide environmental reporting that incorporates meaningful data that demonstrates progress. This data must be supported by forward-looking actions that qualify how vendors will progress toward targets. As these actions become core within the sustainable sourcing process, technology vendors with poorly aligned sustainability objectives will be identified by SPVM leaders and stakeholders. Eventually, the services of those vendors will be scaled down, and alternatives will be found. Ultimately, the successful SPVM function will have a positive impact and minimize environmental impact in the value chain, while also enhancing perception and brand.

**Figure 1: Sustainability Reshapes IT Sourcing and Procurement**



Source: Gartner  
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## Strategic Planning Assumptions

**Strategic Planning Assumption:** By 2027, 50% of technology sourcing decisions will use environmental sustainability as a core selection and disqualification criterion.

**Analysis by:** Stephen White

### Key Findings:

- Environmental sustainability became a top 10 CEO priority in 2022 for the first time, entering as the eighth item in the Gartner 2022 CEO survey. Nine percent of the respondents named it as one of their top three, increasing to 12% in 2023. <sup>1</sup>
- CEOs are directing their reports to prioritize environmental sustainability, creating aligned objectives. In turn, CIOs are establishing environmental-sustainability-aligned performance objectives for their functions, including for SPVM leaders.
- Environmental sustainability is increasingly becoming a core selection and disqualification criterion when choosing IT products and service providers, with options to prequalify vendors' environmental credentials <sup>2</sup> or include significant weightings in RFPs.
- IT vendors who cannot substantiate their sustainability goals or performance will risk losing business by being cut out of the selection process.

### Market Implications:

- Executive leaders will add environmental sustainability to their requirements charts with a weighting sufficient enough that it will become a decision driver, in some cases exceeding the weight and priority given to cost.
- Sourcing, selection and contracting will incorporate environmental requirements. In many cases, vendors' sustainability practices will be a prerequisite for technology market choices.
- Environmental performance is so important that it will become the determining factor between vendors whereby, if Vendor A has a marginally better requirement fit but Vendor B has stronger environmental credentials, customers will pick Vendor B.

- Environmental practices will become a competitive advantage and will alter the spectrum of market leaders. The new era of technology market leaders will invest in their capacity to transform and demonstrate progress with credible reporting to retain or obtain their position by virtue of environmental transformation.

## Recommendations:

- Initiate and sustain engagement with the head of sustainability to align SPVM activities with the organization's environmental objectives, standards and requirements.
- Incorporate environmental sustainability at the core of sourcing by mandating that the IT product and service sourcing process includes the analysis of natural-resource and electricity consumption, as well as GHG emissions, at a minimum.
- Prioritize vendors that are most closely aligned to enterprise expectations by evaluating vendor environmental performance either as a prequalification mechanism or within RFP processes.
- Break beyond basic statements of intent by vendors by demanding mature standards of disclosure through verified data. Utilize direct and specific questions that demand granularity of performance across GHG emissions, renewable energy and energy efficiency, responsible water management, and circularity.

## Related Research:

[Adopt an Environmental Sustainability Framework for IT Sourcing](#)

[Toolkit: Environmental Sustainability Framework for IT Sourcing](#)

[Three First Steps for Incorporating Sustainability in Your IT Sourcing Initiatives](#)

[2022 Sustainability Survey: Use Sustainability to Drive Value and Mitigate Disruption](#)

[Environmental Sustainability Has Become a Software and Cloud Contracting Priority](#)

**Strategic Planning Assumption:** By 2027, over 50% of enterprises will pay IT premiums of 10% or more annually to purchase alternatives that satisfy sustainability objectives.

**Analysis by:** James Smith and DD Mishra

## Key Findings:

- Customers are expressing a willingness to pay a premium for solutions that address their sustainability requirements. In the 2022 Gartner IT Services Buyers Survey, more than 60% of the respondents reported that their organizations were willing to pay 11% to 20% on top of current IT services spending to incorporate and realize their sustainability goals. <sup>3</sup>
- Companies around the globe have agreed, based on their customer, shareholder and stakeholder feedback, to reduce their emissions as stated in climate accords. <sup>4</sup> Despite customer demands, vendors may choose to defer the costs of environmental transformation or pursue extra revenue to meet client demands.
- As the market shifts, IT vendors identify environmental credentials as a prerequisite to participate in RFPs with governments and large organizations. Environmentally superior offerings will gain market share, even if they cost more than alternatives.
- Although sustainability carries capital and operational costs, improved resource efficiency when incorporating sustainability in IT sourcing initiatives can offset price increases and potentially deliver a net cost reduction.

## Market Implications:

- SPVM leaders will weigh the additional costs of a “greener” solution and, in some cases, disqualify vendors altogether if the vendor does not have a credible sustainable option.
- Vendors such as Google <sup>5</sup> have already started to offer services where customers can address carbon intensity and determine the source of power generation for the services they are utilizing. <sup>6</sup>
- Hardware and device manufacturers will stop providing chargers, cables and peripherals, reducing “e-waste” and articulating that many customers already have too many of these items; they will use sustainability as justification for “shrinkflation.” Many customers will need to purchase these add-ons, increasing manufacturers’ total revenue, but this could crucially have a negative impact on sustainability due to additional packaging and duplicate transit.

- To support competitive advantage, solutions that are proven to meaningfully address sustainability goals through independently verified data will become attractive. Cost benefits will flow from improved resource efficiency, maximizing the value of existing resources, eliminating waste and reducing costs of renewable energy.

## Recommendations:

- Govern procurement of more expensive products and services that enable environmental objectives by establishing policies or guardrails in alignment with enterprise objectives and incentives.
- Determine the performance data required from vendors to report your Scope 3 emissions, the required auditability of those results and the acceptable premium appropriate for demonstrable environmental credence.
- Champion vendors that offer opportunities to advance progress toward sustainable goals, measuring their impact as a basis for paying nominally more to underpin a brighter future.
- Determine the amount (currency or percentage) of uplift or performance pay that is acceptable as a sustainability premium for environmental performance, such as price per ton of Co2e avoided. If no uplift is acceptable, make this a criterion in all bidding engagements to clarify that vendors are expected to operate with enhanced resource efficiency and pass on the cost benefits.

## Related Research:

[Quick Answer: How to Mitigate a Missing Price Cap on SaaS Renewals](#)

[Market Guide for Supplier Sustainability Applications](#)

[Gartner Fast Answer: What Should I Know About Cloud Sustainability?](#)

**Strategic Planning Assumption:** By 2027, the environmental impacts of GenAI will cause 25% of the top 20 SaaS providers to delay their net-zero objectives.

**Analysis by:** Hannah Decker

## Key Findings:



- Increasing adoption of generative AI may lead to a power availability gap. Annual IT electricity consumption increases of 25% risk significantly outpacing added grid energy sources (see [Maverick Research: Net Zero Will Stall Tech Growth and Innovation](#)). GenAI threatens to push this consumption even higher,<sup>7</sup> contributing to higher GHG emissions and thwarting customers who previously included environmental performance in their vendor selection process.
- Although some vendors, such as Salesforce<sup>8</sup> and Workday<sup>9</sup> have publicly claimed that they are already meeting their net-zero targets, customers will need to further clarify and verify these targets and net-zero definitions.<sup>10</sup> With the rise of GenAI, ongoing performance is not assured, particularly given the extensive processing demands, power demands and secondary impacts through cooling and water consumption. Greenwashing and vendors shifting their net-zero targets further into the future (greenshifting) will occur more frequently.
- GenAI incorporation into SaaS offerings has only just begun, with SaaS vendors expected to use GenAI to enhance their products and, in turn, their clients' productivity. By 2027, the use of GenAI in applications will be mainstream.
- Directional guidance from governments and industries for the procurement of cloud services that incorporate environmental standards, such as the European Commission's Green Public Procurement Criteria<sup>2</sup> and guidance from the European Broadcasting Union,<sup>11</sup> will support SPVM demands for greater disclosure from vendors that implement GenAI.

## Market Implications:

- IT's relentless demand for electricity poses a significant risk to environmental objectives. Clients will increasingly demand transparency and reporting of emissions by SaaS vendors, accompanied by clear plans to maximize usage of renewable energy and minimize consumption through efficiency enhancements.
- A number of software and SaaS vendors will underreport or hide their environmental credentials, known as "green hushing." This will make it even more difficult for prospective customers to assess vendors during sourcing and selection and to continuously track their performance.
- GenAI augmentation not only drives costs and prices higher, but also prompts concerns that SaaS vendors will fail to meet their current environmental sustainability targets, impacting their clients' GHG Scope 3 emissions.

- More SPVM leaders will include environmental sustainability targets in their evaluation criteria. Vendors that continue to be credible by transparently demonstrating progress toward meeting their sustainability goals will win more business over vendors that fail to appropriately measure and report progress.

## Recommendations:

- Monitor greenshifting by software and SaaS vendors. Track your key incumbent vendors' progress in meeting their environmental goals and targets. If these goals are recalibrated or extended, assess the impact to your own sustainability reporting.
- When a key vendor stops reporting their environmental performance, advise C-level stakeholders of the risk. Discuss whether this change in performance requires you to evaluate alternative vendors in the market.
- Assess the value and cost equation of augmenting SaaS applications with GenAI capabilities offered by vendors by including the impacts of increased energy and water consumption on sustainability objectives.
- Incorporate key sustainability criteria within sourcing and contracting for SaaS. Require reporting and third-party validation of GHG emissions, power usage effectiveness (PUE), renewable energy factor (REF) percentage, water usage effectiveness (WUE), and circularity in line with your organization's standards and objectives.

## Related Research:

[Balance the Environmental Perils and Promises of Generative AI](#)

[Quick Answer: Dealing With Information Deficit for Purchased IT Products/Services Scope 3 Emissions](#)

[Emerging Technologies: Enterprise Storage Will Consume More of the Available Data Center Power Budget and Undermine Sustainability](#)

[Quick Answer: How Do I Make AI Environmentally Sustainable?](#)

**Strategic Planning Assumption:** By 2027, 50% of organizations with software and cloud contracts that lack environmental sustainability commitments will risk noncompliance with nonfinancial disclosure regulations.

Analysis by: Rob Schafer

## Key Findings:

- The continued rapid growth of software and cloud services adoption demands that environmental sustainability initiatives address vendor credentials through the sourcing and contracting process.
- Environmental sustainability regulations are progressing toward implementation, commencing from the 2024 financial reporting season,<sup>12</sup> demanding that SPVM takes action to secure required data from its vendors.
- The imperative for achieving net-zero targets has grown, and so too has the risk of *greenwashing* by IT vendors.
- In the immediate term, relative influence, authority, and leverage may impact negotiation of required commitments. However, without explicit codification into software and cloud contracts, environmental sustainability objectives risk failure. Negotiations with large, established vendors whose environmental sustainability targets, progress and timelines are less aggressive than those of your organization may be challenging.

## Market Implications:

- SPVM operates at the contracting junction between the enterprise and its software and cloud vendors. As dependence on software and cloud services continues to grow, SPVM's role will continue to grow in importance in enabling their enterprise's environmental performance.
- Failure to disclose or adequately substantiate environmental performance through the value chain — for example, Scope 3 emissions from cloud providers — risks noncompliance with a range of reporting and disclosure requirements, including the European Sustainability Reporting Standards (ESRS). European member states will dedicate their own supervisory body to enforce the directive and be able to define how noncompliant organizations are penalized. Penalties can range from public denunciation to orders to change conduct and financial punishment, as well as exclusion from public contracts.<sup>13</sup>

- SPVM's responsibility extends beyond simply taking the vendor's word for its environmental sustainability claims. Without robust verification through independent certification bodies, SPVM runs the material risks of vendors falling short of pledged environmental sustainability objectives and consequent noncompliance.
- The near-term challenge is that a number of large vendors have already set their strategic GHG emission goals and are unlikely to "adjust" them to a shorter-term date, potentially forcing a reevaluation of your committed environmental sustainability targets and objectives.

## Recommendations:

- Develop strong contractual terms that align with your organization's environmental sustainability goals, targets and timelines, requiring prospective vendors to agree to such terms during the prequalification and/or selection process.
- Take urgent action to prepare for regulatory reporting requirements by building environmental sustainability into your RFPs and contract negotiations.
- Remain vigilant against vendor greenwashing by requiring independent verification of vendor environmental sustainability claims. See [A Product Manager's Guide to Voluntary Environmental Certifications](#) for a view of certification bodies that can help minimize the risk of greenwashed vendor claims.
- Facilitate vendors meeting your environmental sustainability objectives by leveraging the terms that they contractually require of their vendors. Software and cloud vendors often encourage (or contractually bind) their vendors to adhere to stringent environmental sustainability T&Cs. If so, it is certainly reasonable to require them to adhere to the same robust standards.

## Related Research

[Environmental Sustainability Has Become a Software and Cloud Contracting Priority](#)

[Predicts 2023: Environmental Sustainability Is Now an IT Sourcing Imperative](#)

[Supply Chain Executive Report: Balancing Sustainability and Resilience for Our Climate Future](#)

[Quick Answer: 5 Essential IT Sourcing Steps to Support Sustainability Goals](#)

## A Look Back

*In response to your requests, we are taking a look back at some key predictions from previous years. We have intentionally selected predictions from opposite ends of the scale – one where we were wholly or largely on target, as well as one we missed.*

*This report is too new to have on-target or missed predictions.*

## Acronym Key and Glossary Terms

|               |  |
|---------------|--|
| greenwashing  | A communications practice that makes misleading or unsubstantiated claims about the environmental credentials of a product, service, market or enterprise. It can be intentional or unintentional. |
| greenhushing  | Where an enterprise underreports, or even hides, its sustainability credentials from external stakeholders to evade scrutiny and/or avoid the risk of being accused of greenwashing.               |
| greenshifting | Realization that ambitious sustainability goals cannot be achieved and must be recalibrated.   |

## Evidence

<sup>1</sup> [2023 CEO Survey – The Pause and Pivot Year](#); see Figure 1.

<sup>2</sup> This approach is in line with section 7.4.2 of the [ISO 20400 Sustainable procurement guidance standard](#) and the European Commission’s Green Public Procurement criteria: “At the pre-competitive stage, contracting authorities can test the market potential for cloud service providers to respond to sustainability criteria.” [Criteria for Data Centres, Server Rooms and Cloud Services](#), CIRCABC, Section 1.4.1, Page 6.

<sup>3</sup> **2022 Gartner IT Services Buyers Survey:** This study was conducted to understand how the delivery and engagement model is evolving for IT services, how organizations are introducing sustainability as a criterion for selecting IT services providers, and the impact on IT service budgets in the next 12 months. The research was conducted online from August through October 2022 among 626 respondents from North America (n = 237), Asia/Pacific (n = 169), Western Europe (n = 168) and Latin America (n = 52) with at least \$50 million in annual revenue. Organizations were from most industries – except agriculture, real estate, services and nonprofits/charities/NGOs – and were outsourcing IT services (infrastructure, applications or business process services) to a third-party vendor or contractor. An index was created to classify organizations into traditional and progressive organizations based on the stage of execution/plans of execution of changes in the IT services outsourcing delivery model. Respondents were required to have been personally involved in service provider identification, evaluation/selection or contracting in the last 24 months. Respondents were required to have a job title of manager or above, depending on the functional areas they were involved in (corporate/line-of-business leadership, application management, enterprise architecture and technology innovation, finance, human resources, infrastructure and operations, marketing, program and portfolio management and sourcing, or procurement and/or vendor management). Disclaimer: Results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed.

<sup>4</sup> [100+ Global Corporations Commit to Science-Based Targets Aligned With Paris Agreement](#), UN Climate Change; and [Climate Pledge Signatories](#).

<sup>5</sup> [24/7 Carbon-Free Energy by 2030](#), Google.

<sup>6</sup> S. Pichai. [“Giving You More Sustainable Choices With Google.”](#) 2021.

<sup>7</sup> [Rising Data Center Costs Linked to AI Demands](#), The Wall Street Journal.

<sup>8</sup> [Salesforce Achieves Net Zero Across Its Value Chain and 100% Renewable Energy](#), Salesforce.

<sup>9</sup> [Sustainability in the Cloud](#), Workday.

<sup>10</sup> The Salesforce definition of “net zero” differs. See [Salesforce has net zero residual emissions. What does that mean?](#)

<sup>11</sup> [Sustainability Requirements for Procurement of Cloud Services](#), European Broadcasting Union.

<sup>12</sup> Examples of the gathering storm of mandatory environmental sustainability reporting requirements:

- The recently adopted [European Sustainability Reporting Standards](#) requires both EU and non-EU entities that are subject to the new EU [Corporate Sustainability Reporting Directive](#) (“CSRD”) to report against the ESRS, starting in the 2024 reporting year.
- U.S. Securities & Exchange Commission (SEC) is finalizing its long-awaited [rules to enhance and standardize climate-related disclosures](#) for public U.S. companies.
- In June 2023, the [International Sustainability Standards Board \(ISSB\)](#) issued its [global sustainability and climate disclosure standards](#).
- California’s state assembly passed the [California Climate Accountability Package](#), which requires most large companies doing business in California to credibly disclose the GHG emissions of their full value chain, incorporating independent third-party verification.

<sup>13</sup> [European Sustainability Reporting Standards](#).

## GHG Protocol

The international standard for greenhouse gas emissions reporting is the GHG Protocol. It breaks emissions into three scopes:

- **Scope 1 emissions** are those directly controlled by an organization during their processes, such as the generation of greenhouse gasses during the operation of a furnace or when generating electricity.
- **Scope 2 emissions** are GHGs that are generated indirectly by an organization during their processes, such as energy consumption of IT equipment, during the conduct of normal business activity.
- **Scope 3 emissions** are those GHG emissions that are not owned by the organization but are indirectly generated in the supply or value chain of the organization.

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## Recommended by the Authors

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