

# FIVE REASONS WHY

This document was prepared by a working group of the True Cost Initiative (TCI). The document provides TCI members or businesses that want to apply True Cost Accounting (TCA) with arguments in its favour. The information is addressed to top managers (CEO, CFO, etc.) but can also be used to convince and motivate others in the company to start the TCA journey.

1

## Transparency

Through TCA Assessments, quantitative and qualitative data are collected in a uniform manner using a digital questionnaire format. This enables the organisation to take a structured approach, as well as rendering a wide range of information comparable. The transparency which is thereby created across supply chains is not only useful for evaluating TCA assessments, but also contributes to other sustainability goals, and management goals more broadly.

By calculating the true cost, a company can transparently and comprehensibly disclose its effects on the environment and society, demonstrating that it is willing to take responsibility for its own supply chains.

2

## Long-term risk management

Regulatory authorities and financial markets increasingly confirm the fact that business impacts on the environment and society, or dependencies on them, entail direct physical or indirect transitory risks. TCA assessments show the magnitude of these risks through monetisation, giving a comprehensive picture that allows for more precise internal risk management. By collecting and calculating primary data, supplier-specific risks can be identified, e.g., water stress, child labour, health risks, etc.

3

## Measuring impact

In many cases of sustainability reporting, it is not the impact that is measured, but the output, such as tons of CO<sub>2</sub>, water consumed, or number of accidents. In some cases, sustainability projects are described selectively and qualitatively. True Cost Accounting measures impact by examining the effects on the environment and society and considering what it would cost to avoid this impact. Thus, the impact becomes tangible and assessable.

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## Comparability of different sustainability topics

Monetisation makes different environmental and social impacts comparable: in this supply chain, are greenhouse gas emissions or workers' payment a bigger issue? While it is debatable to what extent these issues should be monetised, the question often highlights that, for example, climate is not always the most pressing issue in a supply chain. Thus, monetisation can influence the prioritisation of areas for action.

Monetisation is also a powerful tool for communication. Since the units in which sustainability information is measured are not assessable for most stakeholders, it can be used to make clear why certain sustainability issues are prioritised, or how the social and environmental benefits stand in relation to the costs.

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## All-in-one tool

As already described above, true cost results have many areas of application, both internally and externally. The sustainability, procurement, finance, and marketing departments as well as product development can benefit from the collection of true costs.

The following publication also provides a good overview of the topic from a corporate perspective with a slightly different focus: <https://www.wbcso.org/content/wbcso/download/12974/190792/1>

# RESPONSES TO COMMON CRITICISMS

## → A TCA assessment is too much effort

One can base a TCA assessment on secondary data, the outcome of which provides an indication of the true cost in terms of crop and cultivation area. This requires little time but can help identify hotspots. If a company wants to investigate where exactly in its own cultivation the greatest true costs arise, it is worthwhile basing a TCA assessment on primary data. If some information is already available through supplier interviews, the effort is reduced. If hardly any data is available, TCA can be an incentive to improve the data situation, leading to an increase of knowledge of the cultivation methods and circumstances on site, the uses of which go beyond the TCA result.

## → Suppliers already have enough to do and no incentive to participate; possibly they are wary as they may fear being disadvantaged in procurement by a TCA result

A TCA result can also contain interesting information for suppliers, e.g., about site risks such as water stress or the free receipt of a value for the greenhouse gas emissions of their production. The companies should forward the relevant information to the suppliers and could also jointly develop measures based on the results. TCA results should not be used to exclude or discriminate against suppliers - this is especially true as results can be misinterpreted on their own and always need contextualisation.

## → A TCA assessment is only based on models and is too inaccurate

Most sustainability assessments are based on models or self-created assessment systems, e.g., life cycle assessments. A more precise evaluation, e.g., through samples and on-site investigations, would increase the effort immensely. Moreover, this is not possible for all indicators. Nevertheless, TCA allows a better understanding of the order of magnitude of the environmental costs of a product or process.

The final results should not be over-interpreted and should always be put into context by (local) experts when TCA results are used as a decision-making tool. Though TCA calculations draw on many indicators, not all externalities which should influence decisions around production, sourcing, management or strategy, are presently considered in the assessment. This includes topics like circular economy or land use, which could be included once adequate indicators and models are available. Nevertheless, TCA provides a first basis for such discussions and unifies different locations, crops, and cultivation methods through the standardised assessment of externalities, as no other method can do.

The “True Cost – From Costs to Benefits in Food and Farming” initiative was founded in 2019. It brings together a broad network comprising businesses, non-governmental organisations, auditing firms, and scientists. The project group participants generate technical guidelines for calculating the true costs of food and agricultural products. More information about the initiative can be found on the website [www.tca2f.org](http://www.tca2f.org).

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