

Supply Chain Sustainability and the Pursuit of Operational Excellence



By Alex Hadwick, Supply Chain Editor, Reuters Events

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Introduction

It's time for supply chain professionals to change how they see sustainability. It may seem easy to dismiss it when you are thinking about expediting shipments, dealing with the ongoing supply chain disruption, or working towards this year's financial targets, especially in this period of upheaval. However, the fact is that sustainability and financial success already go hand-in-hand, especially for logistics, as creating sustainable practices increasingly means building efficiencies into your logistics train. Every single one of those efficiency savings translates into a better chance of business success.

Furthermore, plummeting costs for green energy technologies and massive expansions in data capabilities means that the up-front investment cost for instituting sustainable technologies and practices has decreased significantly. This means that although there are some up-front costs to installing photovoltaic (PV) cells, transitioning to low-emissions vehicles, constructing to higher standards, or adding in Internet of Things (IoT) devices to vehicles and buildings, for example, it is easier than ever to realise the long-term savings and superior business performance that these provide.

Indeed, you are likely already working to be a more sustainable supply chain operative by trying to make sure each piece of equipment is used as well as it can be, that vehicles travel the lowest possible distance and that your energy bill is as low as it can be. Sustainability is no longer a fringe business concept, it is at the heart of logistics operations.

Why Should You Care About Sustainability?

The reasons why you should care about sustainability can be summarised into the following four key points:

- Increased efficiencies and cost savings
- Growing regulatory pressure from local, national and international authorities
- Increased interest and scrutiny from investors and customers
- And last but not most definitely not least, we all need to be working to minimise the effects of the ongoing climate emergency.

First and foremost, from a business perspective, comes the lowered costs from taking a keen interest in sustainable practices, such as reducing fuel usage and lowering the weight or bulk of products for cheaper shipping.

Already, managers are doing this. "If you start to talk to the [supply chain managers], [and ask] 'Did you find ways to reduce your fuel consumption?' They will say, 'of course I did'. That's a step towards environmental sustainability," says Stephan Vachon, Associate Professor of Operations Management at Ivey Business School.

"I always say to people what is it about using less energy, using less materials and wasting less stuff is going to cost you more? I think it's a myth that sustainability costs more in that respect."

Shaun McCarthy, OBE, Chair at the Supply Chain Sustainability School and owner of Action Sustainability



"If you ask them 'Did you try to reduce waste' they will say 'yes we did'. I think they are doing it, but they don't know they are doing it. Managers often equate environmental sustainability to compliance, with a mindset of respecting a regulation," believes Vachon, instead of an active thought process currently.

"The goals of a great supply chain and sustainability are often pretty well aligned," remarks Roy Anderson, Chief Procurement and Digital Transformation Officer at Tradeshift. "It is better to fly full planes and have full trucks than it is to ship air around the world, which is very bad for logistics but even worse for the environment."

Shaun McCarthy, OBE, Chair at the Supply Chain Sustainability School and owner of Action Sustainability, emphasises the cross-over between business success and sustainable practices. "I always say to people what is it about using less energy, using less materials and wasting less stuff is going to cost you more? I think it's a myth that sustainability costs more in that respect. A lot of organisations in the logistics business and the retailers are pretty savvy to efficiency, [such as] fuel efficiency and efficiency in time. And that is sustainability."

The benefits stretch beyond just this, however, he notes, as "I think when you look at the more social aspects of sustainability, then clearly there are issues there in terms of licence to operate and how your customers are seeing you, whether you are a business to business organisation or just a consumer organisation. I think that's been amplified in the current situation. Businesses reputations are being won and lost in an instant.

"Then if we look at, when the COVID-19 crisis is over, we've still got climate change. And that's an existential threat to the human race, probably far greater than the one we are facing at the moment. So that trend is only going one way. That's not going to go away. I think there's an enhanced stake on the sentiment around ethics and its particularly in supply chains that we need to consider and some issues around resilience. I think all these things are business-critical things and I think people still think of sustainability as something soft and fluffy," even though it increasingly coexists and helps hard-nosed business realities.

The evidence is also out there when it comes to the businesses that are burnishing their sustainable credentials, not only winning respect from customers¹ but also in terms of the business performance. From studies suggesting sustainably-focused businesses are more successful and resilient² in the long run, to how sustainable funds are beating the market³ right now.

This latter point could be crucial, as investor relations are going to become critical and those investors and going to be scrutinising environmental credentials carefully says McCarthy. "They're going to be much more important after the crisis because there isn't going to be much cash around. When you look at companies like Blackrock, they are really looking at climate change as a significant risk around where they place investors' money. You need to think about that as well, so I think there is something about investor relations, customer relations, competitor advantage and just sheer efficiency of doing things," that results from a sustainable focus.

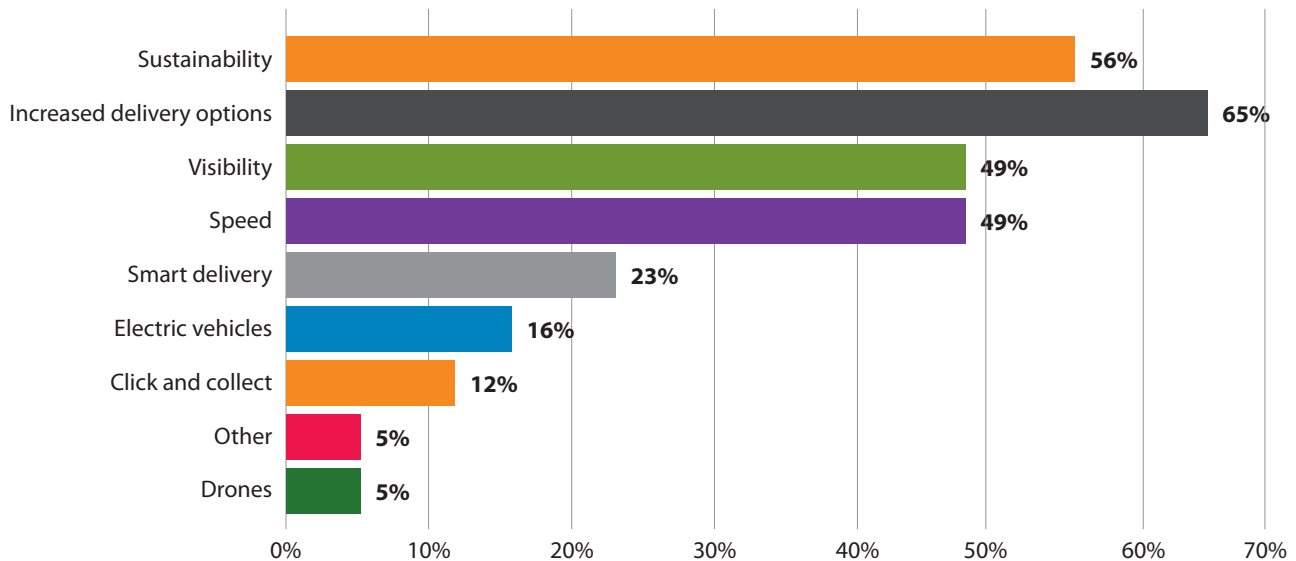
It seems businesses are taking note, as in research from our [2020 Supply Chain Last Mile Report](#), sustainability is the now second-most important objective for companies operating in last mile logistics over the next three years, behind only increasing the number of delivery options for consumers. More than half – 56% – said that sustainability will be critical to achieving long-term success in the last mile.

1. It's Official: Customers Prefer Sustainable Companies. Entrepreneur Europe. <https://www.entrepreneur.com/article/324001>

2. The Comprehensive Business Case for Sustainability. Harvard Business Review. <https://hbr.org/2016/10/the-comprehensive-business-case-for-sustainability>

3. Graphic: 'Sustainable' funds a safer harbour in coronavirus market meltdown. Reuters. <https://uk.reuters.com/article/us-health-coronavirus-funds-esg/graphic-sustainable-funds-a-safer-harbour-in-coronavirus-market-meltdown-idUKKBN21O1AF>

Which Areas of the Last Mile Do You Think Will Be the Most Important in the Next Three Years?



“We have an enormous opportunity in the supply chain field to look at a more holistic play and be able to say how do we do this better next time” says Anderson, “not only making it more efficient at each level but rethinking how this entire process is done. That is all going to come from data.”

However, he believes that before we can arrive at this, “We need better understanding of the data from the beginning to the end and then to be able to connect those data points and then look at it more holistically.

“I think the loss of data or the lack of data is actually forcing people to make wrong decisions on wrong data points. We’ve got to improve that along the entire structure.

“A McKinsey report came out and said 90% of our environmental impact is coming from the supply chain, meaning if we could create a more efficient supply chain using data all along the way, so the consumer can make decisions based upon its carbon level, its total cost structure, its use of labour, its environmental impact – all of those things would create changes in decisions that would allow us to create better products that are more environmentally sensitive ... at a cost structure that is actually less than what we are dealing with today.”

Operational Excellence

The first place to look towards reducing your footprint is increasing operational efficiencies and reducing wastage. This is because it can be done with a relatively small up-front investment, such as through new management software, training schemes or improved processes, but then has dual benefits in increasing supply chain efficiency and capacity, while reducing waste, which helps both planet and company.

Training and Education

It is easy to be intimidated by the issue of becoming more eco-friendly. However, often the places where you can make solid real-world gains aren't in installing big infrastructure items, it is in the colleagues and employees you have. Just by making them part of the sustainability goals of your company can have a real-world effect on not just emissions or the social side of sustainability but also the company's bottom line.

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"Me [alongside] 50,000 colleagues worldwide have gone through Henkel's Sustainability Ambassador program – the largest global training program in the company's history."

Dirk Holbach, Corporate Senior Vice President Supply Chain Laundry & Home Care at Henkel
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"From our perspective we build it into what we do every day," says Gary Allen, Vice President of Supply Chain Excellence, Ryder System, Inc. and this manifests itself in their employee measurement and training. "On the transportation side we have telematics and ELDs [Electronic Logging Devices] in every truck, but



the telematics also give you better data around driver behaviour. As an example, part of the operational metrics that we look at daily include engine related performance, like over-rev and idling. All of that has an impact on fuel and a direct correlation to emissions.” Once they have that data, they can then take it and apply it to “tools that have been developed over the years to help guide behaviours” not just for truck drivers but “the same thing applies in warehouses. We have telematics on forklifts now and it does the same thing. Not only does it extend the life of an asset but it tracks how well our drivers utilise that piece of equipment.” By changing behaviours and incentivising good operational habits, they can translate this to lower costs across a range of criteria, including fuel, maintenance, vehicles and spare parts, all of which translates into not just lower emissions but a better bottom line.

For Henkel, they have gone all-in on preparing their workforce for a sustainable future. “To contribute to sustainable development in our daily business lives, Henkel has developed a special initiative to educate its employees on sustainability,” declares Dirk Holbach, Corporate Senior Vice President Supply Chain Laundry & Home Care at Henkel. “Me [alongside] 50,000 colleagues worldwide have gone through Henkel’s Sustainability Ambassador program – the largest global training program in the company’s history.”

Leading by Example

Leadership is absolutely critical to putting your organisation onto a more sustainable footing. “If you don’t have a genuine commitment of the top management percolating down, it won’t stick,” warns Vachon. “People will go back to their old ways of doing things. Aligning the incentive might be difficult for mid-management but they should avoid having an incentive contradicting what you are trying to do.... You need candid management that walks the talk. You also need an appraisal system that will at least not contradict or send mixed signal to the mid-management and frontline employees as well.”

Holbach notes that having a leadership on board can then trickle down through the whole supply chain. “Supply chain and logistics leaders can contribute to sustainability by building collaborative supply chains and by optimizing their operations. One of our key objectives at Henkel is to become a climate-positive company by 2040 and we are starting by focusing on our own production, which we can influence directly.” Then it is up to the company’s leaders to widen this to “the raw materials we purchase,” which “have a decisive impact on our environmental footprint along the value chain. Therefore, we expect our suppliers and partners to set ambitious targets and to contribute to the reduction of CO₂ throughout their supply chain.”

Troy Hicks, SVP for Herbalife Nutrition also espouses baking sustainability into your company’s culture by starting at the top: “Make it part of your operational competitive advantage and translate sustainability into value for your customers. Herbalife’s ‘Seed to Feed’ strategy has translated into value for our distributors by promoting product integrity through transparency of our ingredient supply chain. This transparency is a way to tell our quality story and helps separate our brand from our competitors. We continue to build on this story and are working toward new ways of highlighting our investment in sustainability into our product labels & marketing strategy.”

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Stephan Vachon, Associate Professor of Operations Management at Ivey Business School.
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Case Study: Sustainability's Role in Protecting Supply Chains

Sustainable practices and being close to your suppliers can help build the strength necessary to weather a crisis says McCormick, a flavour company that sources locally but operates globally. According to Brant Matthews, the company's Vice President of Global Strategic Procurement they "Have an extremely complex supply chain," encompassing "over 14,000 raw materials from over 85 different counties."

Despite this unenviable complexity, McCormick has been able to keep business running throughout the COVID-19 pandemic. "With very minor exceptions, we've been able to keep our supply functioning smoothly. So, we haven't had any significant shortages throughout all the different phases in all the different countries," says Matthews, adding "I don't want to jinx it."

The reason behind this has been resilience fostered through sustainable supply chain practices.

Most of their original product suppliers are primarily small-holder farmers "in developing countries located along the equator," which makes them potentially vulnerable to supply chain shocks. By figuring out "where the pain points are with our farmers, with our sourcing communities, where our herbs and spices are coming from and [then to] really address those pain points," McCormick is able to address many fundamental community- and farmer-oriented issues.

"A challenge that the vanilla farmers have, is normally for vanilla, it's harvested once a year. They harvest the vanilla, in some cases they will cure it, they will do an additional step and they sell that and get paid once a year, which is primarily their subsistence that they rely on. So, one of the areas that we focused on is to set up a village savings and loan association to help bridge the year for them, to bridge the time for when they would be getting income and things like that.

"Obviously, that helps them from a cash flow prospective, but it also helps drive out some bad behaviours in the value chain with harvesting vanilla early. It helps the farmers from being taken advantage of by other folks, which may give them a loan at a really unreasonable rate or have them sell their vanilla at a bad price as well. That's just one example of really trying to understand what the pain points are and putting solutions in place that get after those pain points."

Going this deep into their supply chain and working directly with the suppliers to make them more resilient and more tightly integrated into the company supply chain has therefore been a major source of resilience in this current turbulent period.

Providing "a lot of good agricultural practices to the farming communities not only drives quality levels, which then directly translates into our benefits for our consumers with those quality levels and their flavour, but also improves the economics for the farmer. The farmer gets the benefit of that and importantly, I would say, with COVID-19 and the world we are living in now and working our way through, our ability to access product and enough supply to keep our customers supplied is critical. Our sourcing sustainability work, the sourcing with purpose work that we do, directly feeds into that and supports our ability to access the products that we buy."

Digitalisation as a Driver of Sustainability and Success

According to Ryder's Allen, "Visibility and transparency is key," to both more sustainable outcomes and also increased efficiencies. Part of this is through much greater clarity into what is happening in supply chains and therefore extrapolating the carbon costs more accurately by way of more digital processes.

"The technology and data analytics tools are rapidly improving," says Allen. "There was a bit of a black hole and the data was latent, non-standardised and typically only a portion of what's needed. With the enhancements in technology, we have greater transparency down to task level detail, exception-based or performance utilisation, taking me from having to lean on a lot of assumptions to a more precise calculation around achieving our sustainability goals.

"It used to be that the CO₂ and emission calculations were based on high-level estimates like square footage, how many people you have, how many assets, but most of it didn't really account for task level utilisation and efficiency data. It was typically built on averages. We always had fuel spend and how many gross miles driven but being able to tie that down to actual per route, driver and equipment compared to the plan is just far more accurate and granular than it ever was."

"If I can drive a 20% improvement in productivity in a warehouse, through better labour management, analytics, telematics and IoT, all of that eliminates waste as well [leading to] significant emission reductions."

Gary Allen, Vice President of Supply Chain Excellence, Ryder System, Inc.

He gives the example of their new Ryder Share product, which is based around "real-time tracking, so you can reduce overall exceptions, dwell time, people waiting and that carries into the warehouse. If I have an inbound shipment that is going to hit a warehouse and if I can measure that down to the minute, to the second where that truck is ... I'm probably going to improve my productivity in the warehousing crew and warehouse, as an example.

"If we can improve the travel distance and a forklift driver's performance down to minutes per day, all that stuff adds up when you have thousands of people in a warehouse. Now, you can say 'that's not a huge impact on emissions,' well if I can drive 20% [improvement] in labour productivity in a warehouse, through better labour management, analytics, telematics, IoT ... all of that does add up."

Henkel is seeing a similar effect from embracing digital processes as part of its sustainability drive. "Another important aspect is the digitalisation of our global supply chain," says Holbach. "With increasing service levels for customers, an optimisation of our production and logistics processes and a more effective management of our production sites, we are accelerating our sustainability performance. In my opinion, data and digital tools are also an integral part to optimise operations and supply chains – at Henkel for example, our real-time tracking of deliveries can be continuously monitored by all our trading partners.

"Using information from more than 3,500 sensors, we can record how much energy and water each plant uses. The system can even recognise patterns and identify potential for optimisation. Since 2011, our Laundry & Home Care business unit was able to reduce energy consumption by 27%."

Dirk Holbach, Corporate Senior Vice President Supply Chain Laundry & Home Care at Henkel

"We are also pioneering new solutions for our production sites worldwide. One of our best practices is our 'Digital Backbone' project: Our production sites and processes for our Laundry & Home Care business unit worldwide are all connected, and all information is centrally collected in real time. Using information from more than 3,500 sensors, we can record how much energy and water each plant uses. The system can even recognise patterns and identify potential for optimisation. Since 2011, our Laundry & Home Care business unit was able to reduce energy consumption by 27%. This is a great achievement and proves that digitalisation is a key driver to sustainability. I am proud that our project has met with such a positive response – we have been recognised as a 'Global Lighthouse' and frontrunner of the 4th Industrial Revolution by the World Economic Forum. It shows that we are on the right track and will keep pushing the great spirit and sustainable development at our organisations."



Measuring Your Impact

It can seem tough to start down the road of measuring and acting on sustainability. “I think what puts a lot of people off particularly in the supply chain is you work with very low margins,” explains McCarthy. “So, it doesn’t seem like it’s worth investigating going into this, especially when it seems so intimidating.

“You’ve got to think about the land use, you’ve got to think about the aggregate, you’ve got to think about where all the materials are sourced and came from, so what’s the best way to get people down this road and start thinking about embodied carbon? Should they get outside help? What sort of structures are there to sort of help, assess and understand it?”

However, this challenge is diminishing rapidly as more standards become available and more companies, international bodies and governments are offering capabilities to measure and understand the impact of carbon.

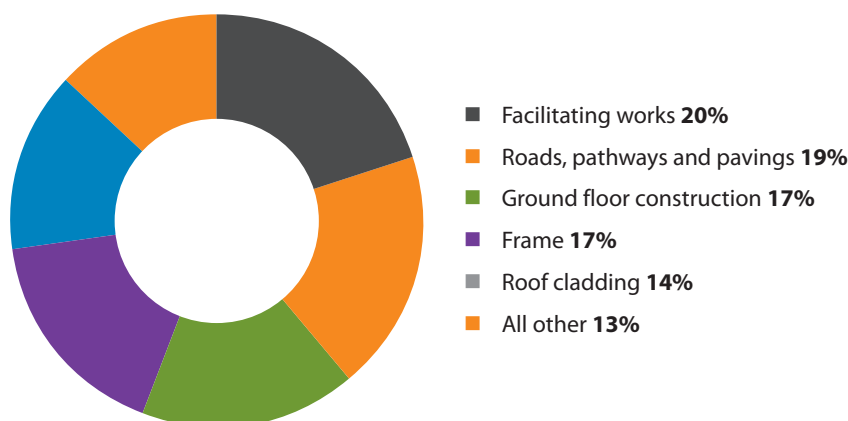
Embodied Carbon

A good place to start is to understand the journey of carbon emissions in your facilities and their processes through something called ‘embodied carbon’.

“Embodied carbon is really all of the emissions that relate to the construction of the building,” explains Mark Gaterell, Professor of Sustainable Construction and Associate Dean (Research) at the University of Portsmouth. This encompasses “all that goes into the materials and then the process of putting the materials together. So it takes a lot of energy to make concrete, [meaning] lots of embodied carbon in concrete,” for example, “then it takes quite a lot of energy to dig the aggregate out of the gravel pit so there’s embodied carbon in the aggregate ... so, its two phases really. Those emissions tied up in the production of the materials and then those emissions tied up in the process of putting those materials together to form a building.”

The other, and usually larger, element is the carbon released from the ongoing day-to-day operations of a facility. This operational energy is even more critical to understand and handle. “When you look at the whole life of buildings, the embodied impacts are generally quite small in relation to their whole life impact. So, if you build it and then you operate it for 60 years, the in-use energy consumption far outweighs the impact of the embodied energy. It’s the operational phase of most buildings where the key impacts arise,” says Gaterell.

Embodied Carbon Hotspots in Warehouse Construction



Working to Standard

Reducing embodied and operational carbon levels are going to be critical in the battle against climate change. The “Construction industry is responsible for 40% of global carbon emissions,” says Philippa Birch-Wood, Chetwoods Thrive - Sustainability – GLP’s Sustainability Consultant. “So obviously any player in the construction industry has got a part to play here ... and it’s something that GLP are trying to reduce as much as possible in schemes and we are constantly and picking away at that.”

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Philippa Birch-Wood, Chetwoods Thrive - Sustainability – GLP’s Sustainability Consultant
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Gaterell suggests that organisations can start by understanding and applying a “Life Cycle Assessment” (LCA), “which is a ... standardised way of trying to assess the whole life impact of products or processes. He also suggests a “good start point are places like the BRE in UK.... They’ve done a lot of work on rating construction products and materials in their green guide for specification which uses an LCA approach to quantify the embodied impact the different construction products.”

It seems that supply chain businesses are coming around to doing just this. “I’d say that we’ve seen more activity in sustainability through logistics and distribution supply chain, the providers of warehousing for example, coming forward and doing more in this space,” says James Fisher, Head of Real Assets, BREEAM, BRE. “We have lots of portfolio holders who are trying to manage the day-to-day operations of their buildings in the best way.”

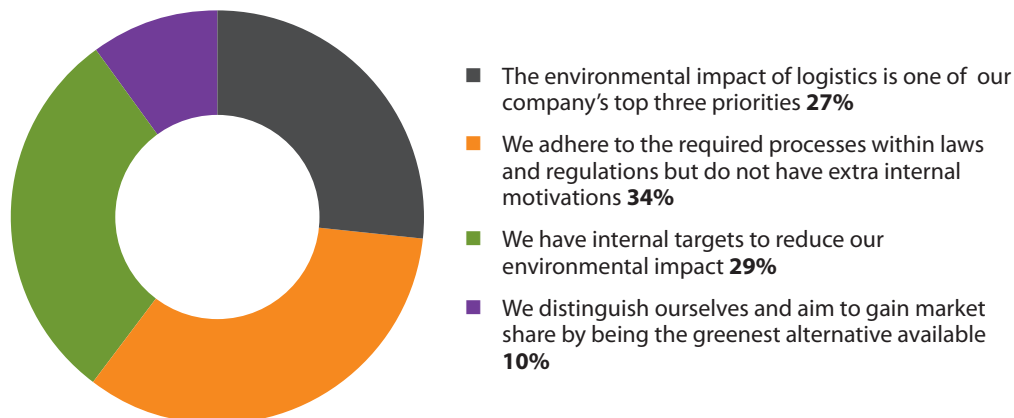
BREEAM assessments look at “the building for the potential that it has rather than comparing it against maybe newer assets, where more money has been spent. So, [it] deals with some of the more traditional existing buildings and making them the best that they can be. Some of that is about the actual physical performance of the [building’s] fabric, for example, and systems, but a lot of the efficiencies as well are around the management and practices that can be implemented across large portfolios.”

At GLP they work across multiple different certifications, including BREEAM, which go above and beyond basic requirements and stretch across different countries. According to Graeme Munro, the company’s Head of Construction in Europe, “It’s each country to its own. You have to take each country on its own when it comes to managing sustainability.”

For example, Dutch government regulations and incentives have a higher standard than many other European structures and focus more on circularity. “In 2020 BREEAM Excellent is not good enough anymore,” says Mark Boots, Construction Director Holland working on GLP’s ground-breaking Venray project, “you have to go to BREEAM Outstanding to get the incentive.”

These government programs and incentives will be critical in pushing forward companies to adopt more sustainable practices [as our research](#) found that 34% of companies only make changes to their processes if required by legislation.

Which Statement on Environmental Impact Does Your Company Agree With?



Expertise Is Key

The Dutch government are also leading the way in producing “A library that you can import materials and your construction principles and set an end date for that. When the end date is about to arise, other developments can gain from buildings like ours. That’s the basic principal for the circularity,” explains Boots, meaning your building materials can be re-used again and again.

The different international regimes and systems are why GLP also uses the independent Planet Mark to monitor the carbon footprint of their company. This is done by GLP submitting evidence of energy, waste, water and purchasing data and GLP’s product is then also measured across social sustainability goals.

They also have “Put together material passports for a lot of the building elements,” says Graeme Munro, Head of Construction Europe at GLP, which “monitor things like the toxins within them or their production to make sure we have a benchmark of what we expect to be achieved on every site and if a contractor wants to deviate from that, then they have to provide a similar passport document which shows that material is equal or better, from a sustainability point of view.”

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“If they don’t have the capability to look at operational carbon emissions then why are you doing business with them?”

Stephan Vachon, Associate Professor, Operations Management, Ivey Business School
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These standards and a rising number of available sustainability experts, alongside a growing repository of information, are changing the ability of companies to understand the emissions present in their buildings. McCarthy notes that while “Calculating the embodied carbon of a building or infrastructure is actually quite complex, on the other hand you can use things like environmental product declarations to get some idea of what are the more sustainable materials to use. That’s really about being an intelligent client and picking the right consultants, who in turn have the capability to understand what some of these environmental product declarations are telling them. There is also a move towards more digital design using Building Information Modelling (BIM) and that’s where a lot of materials that you buy now actually have codes in the material itself that will give you a lot of information about the materials.”

Vachon, likewise, emphasises that knowing the right experts is key. "I think there are two things to think about in terms of building: One is the energy efficiency of the building during the construction process and [the second] is if you are a customer who is having something built, then actually getting your understanding of the architects and engineers that are designing your building: What capability they have to design you a carbon building and their track record doing that. [This is] because some of them are a lot better than others and finding the right consultants is really important as a starting point. If they don't have the capability to look at operational carbon emissions then why are you doing business with them? You need to be able to pick the right people to do it for you."

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"It's using a hunting rifle not a shotgun. It's actually being very targeted in what you are asking your supply chain to do."

Shaun McCarthy, OBE, Chair at the Supply Chain Sustainability School and owner of Action Sustainability
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Approaching Operational Emissions

McCarthy also emphasises the importance of defining your sustainable goals on the operational side. "So the first step for me is to actually define what you mean as a business by sustainable, because its different for every business and every organisation depending on what you are, who you are, what you do, who your stakeholders are, who your customers are."

This means "being intelligent in what you ask your supply chain to do in terms of breaking down your sustainability objectives into relevant chunks for different bits of your supply chains. It's using a hunting rifle not a shotgun. It's actually being very targeted in what you are asking your supply chain to do. Then I think for me it's all about having the right contracts, the right performance indicators and actually measuring supply and performance."



About GLP

GLP is a leading developer, investor and manager of European logistics warehouses and distribution parks with a 2.4 million square metre portfolio concentrated in the strategic logistics markets of the UK, Germany, France, Spain, Italy, Poland and the Netherlands. In addition to its operating portfolio, which is 98% leased to blue chip customers such as Amazon, UPS and Volkswagen, GLP has a prime land bank which allows for the development of an additional 2.8 million square metres. GLP is GLP's Europe platform.

A GLP Development: MPMK Magnitude

- Unit: 312,000 sq ft
- Speculative build for UK market
- Infrastructure: Fen Street extension

The Logistic Centre features two key components on Sustainability - Carbon Lifecycle Assessment Certification, and certification as part of the Planet Mark accreditation on carbon reduction. LCA measures carbon reduction throughout the build process in embodied carbon, ready for the customer to enhance and continue the reduction in operational carbon.

New GLP Specifications feature in Magnitude for a new look and feel. Its sustainability credentials strongly feature through the Eco Passport of the building materials utilised in the construction of the building. Another key feature also new for GLP is the innovative SMART lighting technology being utilised in the lighting systems to feed data on measuring building operational efficiency for its customer once in use.

A GLP Development: Venray Holland

The second part of the redevelopment of the former Rank Xerox site has begun. GLP will create a new 30,000 m² cutting-edge logistics facility, which will be one of the first Logistics buildings in Holland to be certified to 'Circular' standard.

Its construction will display all the sustainability features that comes with this accreditation. This example of commitment from GLP aligns with our aspirations for overall carbon reduction – both embodied and operational.

Works will start in the fourth quarter of this year and the project is expected to be delivered halfway through 2021, delivering a market leading logistics centre.