Green Supply Chain: from awareness to action

4th Supply Chain Monitor | White paper | 2010-2011

BearingPoint. Management & Technology Consultants

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Editorial



4th Supply Chain Monitor

Two years ago, BearingPoint delivered its first green Supply Chain survey in collaboration with ESCP Europe and Supply Chain Magazine. The document highlighted that environmental actions undertaken by European firms were mostly driven by the need to comply with environmental regulations.

Through this 2010-2011 Monitor we intend to portray the evolution over the past two years in terms of mindset, maturity and actions efficiency. This survey explores the green Supply Chain practices in Europe, in order to identify the significant improvements in the most representative industries. The results clearly underline a growing interest of executive managements in developing products with a low environmental impact. What was seen as a constraint is now considered as an opportunity.

European companies have definitely embarked on the green Supply Chain train. They see it as a tremendous opportunity to create value for their activities on the long term. However, this evolution also implies getting over the classical customer-supplier relationship model, and thinking about new internal and external collaborative forms.

Some companies make the most of the efforts made for green Supply Chain initiatives to enhance their value proposition. They rely on various media channels to promote an eco-responsible and innovative image to shareholders, final and intermediary customers, end consumers and to their own staff. The increasing quality of corporate sustainable reports, especially on the Supply Chain related issues, highlights how companies want to value their commitment to implementing their green actions.

Global companies are increasingly aware of the challenges and trade-offs that face their evermore complex, competitive and transparent Supply Chains. Supply Chain classical strategies focus on costs, time-efficient movement and coordination of goods and services from upstream suppliers to downstream consumers. For sustainable leaders these strategies are not enough and they expect to extend theirs by involving suppliers in emerging economies, but also their suppliers' suppliers and in tiers beyond that.

Companies are stepping up their environmental programmes, where green actions populate various stages of the Supply Chain. The objectives are to minimise risks, make long term profits and be compliant to the regulations.

How mature are green actions operated by companies?
How have companies implemented built-to-last green processes?
How is this new imperative becoming a source of innovation rather than a constraint?

"Sustainable Development is a key word of our strategy and its application is a priority for our group and for all international companies." (Metro Group CEO Eckhard Cordes)

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Executive summary

GREEN SUPPLY CHAIN: A NEW DEAL

Moving forward

The 2008 survey underlined that environmental regulations adopted in Europe (REACH, WEEE, RoHS, European Union Emissions Trading Scheme (EU ETS)) created a sense of urgency. Companies had troubles defining priorities and the way to handle necessary actions. In 2010, an inflexion has clearly become apparent. The emergence of Sustainable Development departments and the rising consciousness of environmental issues among executive managements enabled a better understanding of regulation mechanisms and their consequences. Environmental actions presently address new constraints and motives, which are more mature and integrated to companies' decision processes.

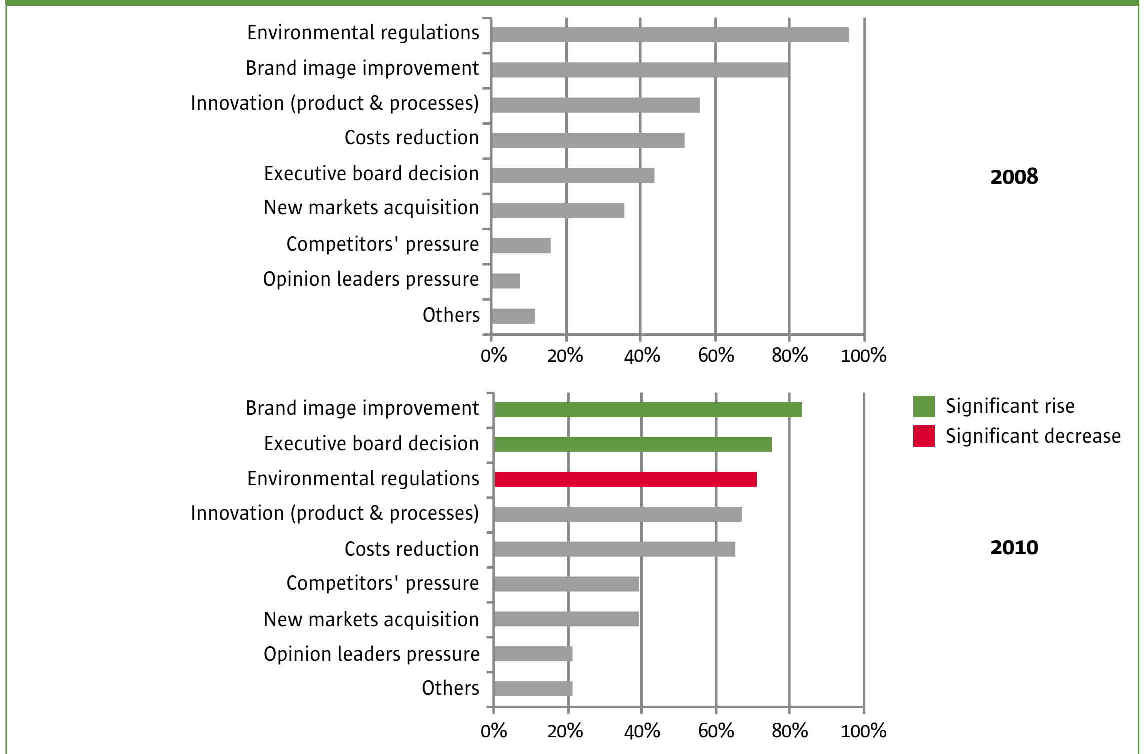
Improvement of the company brand image and executive sponsorship are the two main reasons for launching green actions. Initiated by an individual or a department, they are now supported by executive managements. The support of companies' management committees significantly facilitates and often guarantees the funding and implementation of green projects.

The rising interests and motivations are an indication of a higher maturity of companies. Our analysis of the results shows a correlation between the perception of this maturity and the political and cultural emphasis of European countries over environmental issues. For instance, German companies believe their green Supply Chain is 78% matured. This positive perception confirms the government's position about the reconciliation of economical and environmental motives; progress made thanks to the German law on renewable energies illustrates this reconciliation.

Looking at the bigger picture about the new challenges of green Supply Chain: the conditions for a successful implementation are now gathered!

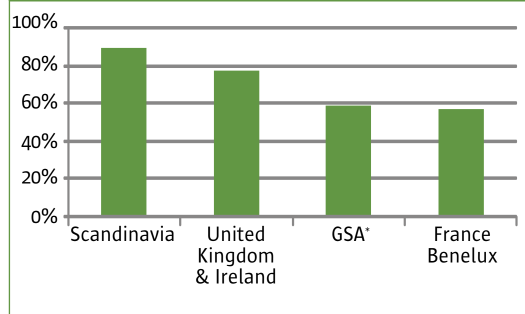
This is confirmed by the facts, as two thirds of companies have intensified their green actions over the past three years. As many consider that green Supply Chain is a strategic priority.

Motivations to implement green actions



Source: BearingPoint, Green Supply Chain Monitor, 2010-2011

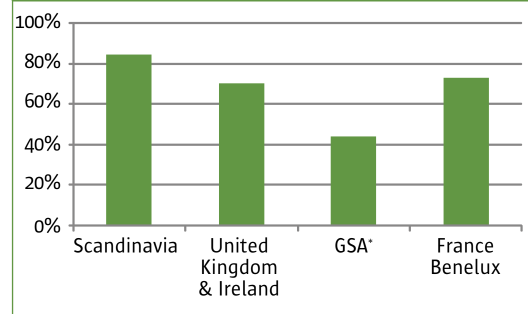
Green Supply Chain is a strategic priority, immediately or on the short run (positive answers)



* Germany, Switzerland and Austria

Source: BearingPoint, Green Supply Chain Monitor, 2010-2011

Companies that intensified their green Supply Chain actions during the past 3 years (positive answers)



* Germany, Switzerland and Austria

Source: BearingPoint, Green Supply Chain Monitor, 2010-2011

Practically, the conditions of the implementation turn towards mastering the risks of green Supply Chain. For some business sectors like large retail players, the environmental impact of their suppliers accounts for 95% of their total impact. Such groups ought to manage their exposition to specific risks. Risks can be linked to the company brand image (atmospheric discharges due to bitumen sand extraction, deforestation for palm oil tree plantations,…), compliance issues with European laws (REACH, RoHS,…) or customers' health and potential penalties.

The new guidelines

New directions for green Supply Chain

Beyond the various initiatives that the media daily present or that were mentioned by the respondents of the survey, environmental strategies are taking shape. Companies' trends linked to green Supply Chain are setting up and demonstrate their maturity.

Convergence of the economical and environmental interests

In this matter, the short term is sometimes sacrificed… More than one third of the interviewed companies declare being ready to start up environmental actions in spite of their low present profitability, provided they create value in the medium term.

Beyond this trade-off, the main change is the perception of companies about a real convergence between economical and environmental challenges for their Supply Chain. Most of the respondents declare that green Supply Chain is a true economical lever (70% of the companies) and a source of easily measurable profits (56%). For 47% of the companies, the return on investment is reached before three years.

Environmental commitment planned on the long run

Taking actions is not the result of a temporary trend! Companies that chose to implement a green Supply Chain invest and commit in the matter on the long run: for these companies which already measured their carbon footprint, 70% evaluate it at least yearly.

The proven ability of green initiatives to face the consequences of the recent economical crisis also proves the sustainability of environmental actions. 66% of companies declare that the crisis did not have a braking effect on planned and on-going initiatives, and that they even accelerated most of them.

Ecology as a performance indicator for Supply Chain

Environmental actions in Supply Chain have to be assessed. To do so green key indicators and metrics are introduced. KPI's like the share of recycled packaging material or the share of trucks better than Euro-class 4 come into consideration. The measure of performance is essential to gain the trust of executive committees and to meet regulations requirements. Furthermore green KPI's become selection criteria for companies and suppliers thus a critical success and competition factor. More than half of European companies adopted this approach, Scandinavian companies being leaders as 77% of them already use green criteria.

Operational trends

Eco-design: a must for the development of activities

"80% of the environmental impact of a product is determined during its design" (German Environment Agency). We believe this percentage is under-evaluated. Anticipating the environmental footprint of a product from the very first steps of its development (eco-design approach) is an essential element to take into account, considering the actions of markets, competitors and national and supranational authorities.

Attentive to the new eco-responsible desires of their clients, some companies don't hesitate anymore in selling an eco-designed product at a higher price to gain market shares. Although few of the interviewed companies claim having taken the path of eco-design, results are very encouraging for those that did as the main objectives they had when beginning are generally reached: compliance with laws, brand image improvement, meeting final customer's requirements or recycling optimisation.

Procurement: the green requirements in sustainable procurement

Beyond requirements that procurement departments have traditionally been promoting over the years, such as the respect of work conditions and non-discrimination, new issues arise about reinforcing environmental requirements towards suppliers. According to the results of our survey, two thirds of companies adopted or plan to adopt a green policy for their purchases. This approach enables better compliance with existing norms (e.g. REACH), improvement of brand image for consumers and better ranking by non-financial notation organisations.

Buyers are preferably choosing suppliers with certified processes (ISO 14001 for instance), but there is more in the balance: companies also encourage suppliers who have a low raw material consumption, controlled emissions and pollution levels and raw material tracking. Furthermore they tend to select products made out of a large proportion of recycled and recyclable materials, and stamped by reliable eco-labels (Energy Star for instance being the most recognised label in the energy consumption field).

Lean manufacturing at the time of green Supply Chain

Cost-cutting culture and industrial know-how have been associated for several decades. For 5 to 10 years, depending on the sectors, broadcasting and implementation of "lean" techniques and practices have known a further development.

The first intentions in the 80s were cost-cutting through the hunt of all kinds of waste and through the use of the minimum resources: the expected result was operational efficiency. They remain unchanged, but are now promoted inside the company as an environmental necessity, and enable to give a more practical view of the company actions.

Logistics: classical optimisation approaches, source of green quick wins

In the past, classical optimisation was driven by costs and lead time. Nowadays a third dimension appears: the environmental impact. Especially the increases of energy costs in 2008 and the European Union Emissions Trading Scheme (EU ETS) drove the need for logistics optimisation. There are various ways to optimise from processes until technical improvements. The good news is every company can launch logistics initiatives to reduce environmental impacts. And quick wins in green projects do exist.

Carbon footprint: measurement as a prerequisite for the optimisation

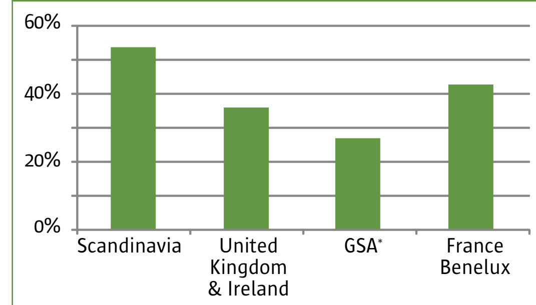
Defining a baseline by measuring an initial carbon footprint is the prerequisite for setting up realistic reduction goals. More and more companies realise that virtual, non hard fact based reduction goals cause more harm than good. It highlights the actions to carry out in order to better control the environmental impact and optimise operational costs. 80% of the companies that measured their carbon footprint identified immediately applicable improvement initiatives that led to concrete improvements, for instance to diminish resources consumption and get rid of waste.

Beyond action, communication

Communication is also part of the economical stakes of a green Supply Chain. Communicate on the environmental improvements made for the "Last Mile" is a strong competitive argument for a logistics contractor. That way the suppliers can give value to their know-how and improve their carbon footprint without degrading their performances.

Showing that your company strategically cares about the environment through the definition of its products use, or through the choice of its components, suppliers, packaging, distribution network, has become an asset... and will most certainly be a survival need tomorrow!

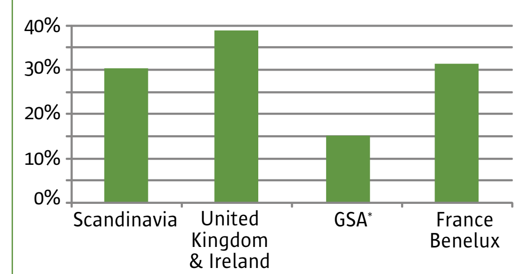
Companies committed to measuring their carbon footprint



* Germany, Switzerland and Austria

Source: BearingPoint, Green Supply Chain Monitor, 2010-2011

Companies that don't measure yet but intend to do it within 3 years



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Source: BearingPoint, Green Supply Chain Monitor, 2010-2011

Study methodology

BearingPoint has led the Supply Chain Monitor for the fourth consecutive year. Thanks to these initiatives, the following themes have been approached:
- 2010-2011: Green Supply Chain, from awareness to action;
- 2009: Risks management;
- 2008: Green Supply Chain, companies' stakes and maturity;
- 2007: Sourcing in Low Cost countries.

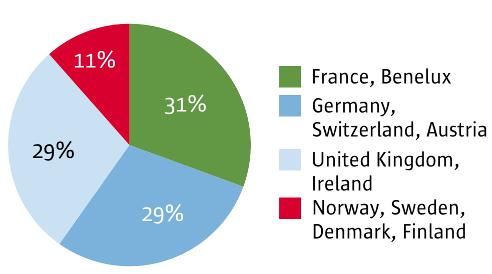
There are numerous objectives of the Monitor:
- Make available a long-term reflection plan for Supply Chain;
- Provide the results of a European poll;
- Write a white paper to record the trends, the actions to be pursued and the related analysis;
- Share the results during an event gathering leaders of the field.

To reach these objectives, a three-step approach was introduced for this edition:
1. Conduct a quantitative study among about 600 European decision-makers with a position within Supply Chain, Sustainable Development or Industrial Divisions (Novamétrie study);
2. Improve the investigation through about forty interviews with managers of big and innovative companies;
3. Bring a complementary perspective integrating feedbacks from our recent missions.

Structure of the questionnaire's sample

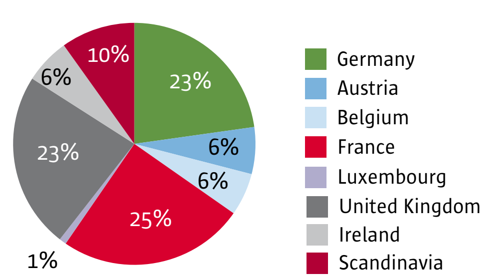
The sample brings together the 582 companies that answered the questionnaire online or by phone.

Ditribution per region



Source: BearingPoint, Green Supply Chain Monitor, 2010-2011

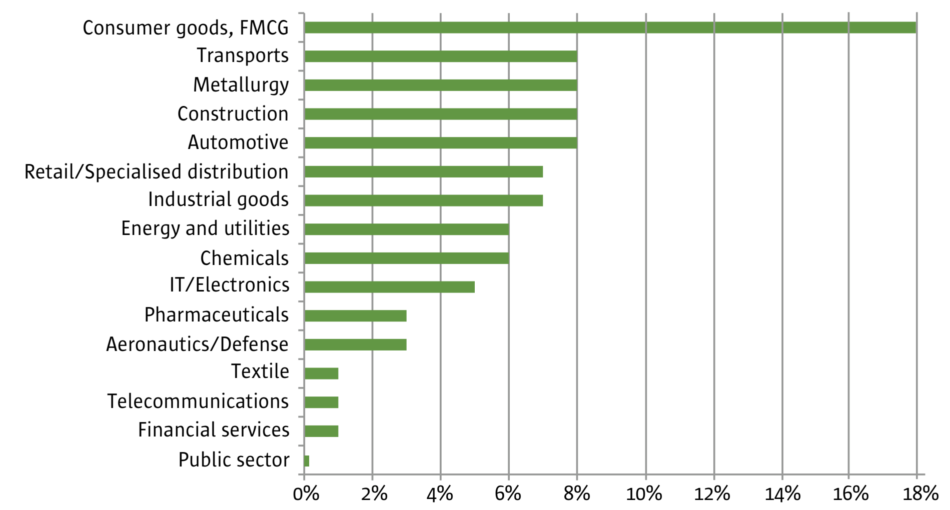
Distribution per country



Source: BearingPoint, Green Supply Chain Monitor, 2010-2011

We have succeeded in maintaining a sample group of answerers equally distributed in the different economic sectors. We were thus able to have more representative results of the global situation and to focus on some business sectors.

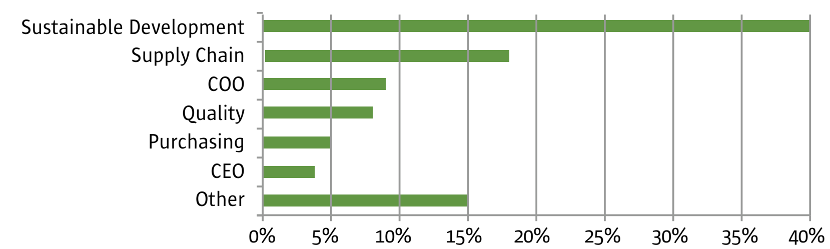
Distribution per sector



Source: BearingPoint, Green Supply Chain Monitor, 2010-2011

A good proof of the companie's growing interest in Sustainable Development is that Sustainable Development departments are structured. They are now the main answerers, in front of the Supply Chain departments.

Distribution per department



Source: BearingPoint, Green Supply Chain Monitor, 2010-2011

BearingPoint

BearingPoint. Management & Technology Consultants.

We deliver Business Consulting. We are an independent firm with European roots and a global reach.

In today's world, we think that Expertise is not enough. Driven by a strong entrepreneurial mindset and desire to create long term partnerships, our 3200 Consultants are committed to creating greater client value, from strategy through to implementation, delivering tangible results.

As our clients' trusted advisor for many years (60% of Eurostoxx 50' and major public organisations), we define where to go and how to get there...

BearingPoint has started a long-term approach to analyse practices and communication about significant progresses in Sustainable Development through:

- Annual Monitors: Supply Chain, Purchasing, Innovation, Client relationship, etc.;
- The BearingPoint Institute, our innovation centre to enhance the strategic thinking of our clients;
- Client stories from our engagement teams day-to-day work.

To get there. Together.

For more information: www.bearingpointconsulting.com

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