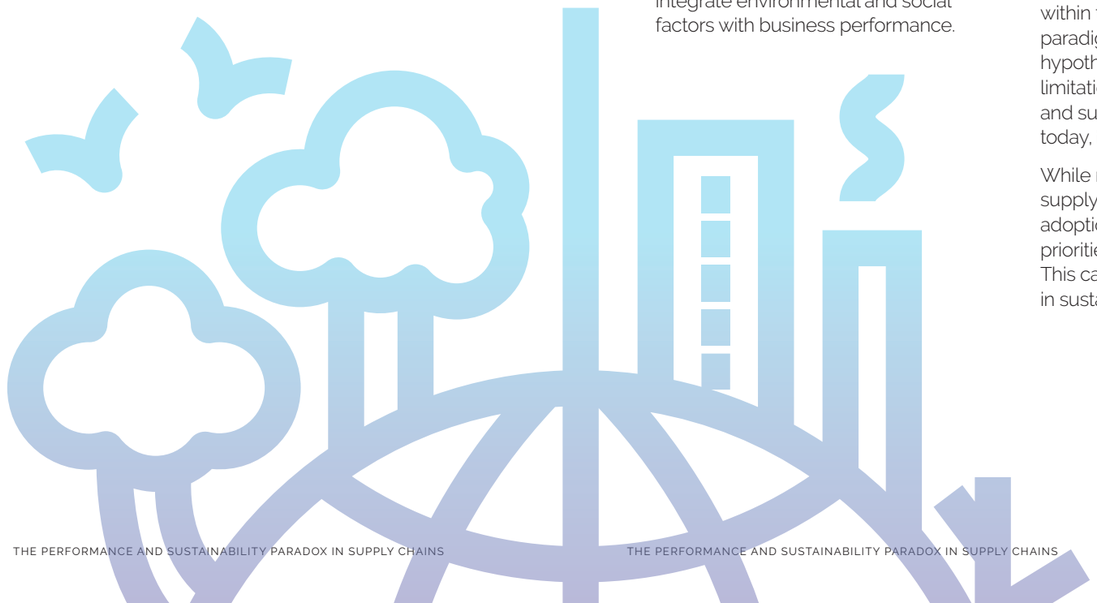
SUPPLY CHANGE

The Performance and Sustainability Paradox in Supply Chains

Can We Have It All?

FM LOGISTIC | BearingPoint

TABLE OF CONTENTS



FOREWORD

Is it possible to reconcile the twin goals of economic efficiency and sustainability within the current economic paradigm?

Since the Paris Agreement and growing public scrutiny of corporate environmental practices, companies have been increasingly committed to sustainability. However, many remain hesitant due to concerns about financial costs. As climate impacts intensify and accusations of greenwashing rise, there's a pressing need for adaptable strategies that integrate environmental and social factors with business performance.

While sustainability has become a priority for all of us, the relationship between sustainability initiatives and financial performance remains complex. More specifically, the pursuit of sustainability in supply chains often clashes with the demands of short and medium-term profitability. In this white paper, we delve into the complex interplay between economic performance and sustainable responsibility within the context of modern supply chains.

In the Spring of 2024, FM Logistic and BearingPoint set out to investigate both preparedness for a more performant and sustainable supply chain and the potential for end-to-end collaboration. On our behalf, Phronesis Partners undertook a series of expert interviews and surveyed 258 executives from a cross-section of industries in 18 countries across Europe, the Middle East, Asia, and the Americas.

Our central question was: Is it possible to reconcile the twin goals of economic efficiency and sustainability within the current economic paradigm? We formulated several hypotheses that delved into the limitations of existing high-performing and sustainable supply chain models today, their awareness and adoption.

While resilient and virtuous sustainable supply chain models exist, their adoption is hindered by conflicting priorities in the cost-benefit trade-off. This can lead to a reluctance to invest in sustainable practices, even when the long-term benefits are clear. Moreover, the implementation of sustainable supply chain models can be complex. Companies may face challenges in measuring and reporting on sustainability performance, collaborating with stakeholders, and adopting new technologies. These factors can create significant barriers to entry for businesses seeking to transition to more sustainable practices.

Despite these challenges, there is growing momentum towards sustainable supply chains, but the puzzle of sustainable supply chains is too complex for a lone player to solve. It requires a collective effort for change. This white paper explores the potential solutions and future directions that can help businesses navigate the apparent paradox of performance and sustainability. ◆

EXECUTIVE SUMMARY

KEY INSIGHT 01

Cost savings is the deciding factor for sustainable supply chains

56%

of companies stated that the primary motivator remains cost savings and efficiency gains for sustainable initiatives over ESG commitments

This finding highlights the ongoing challenge for businesses to balance short-term financial pressures with long-term sustainability goals.

KEY INSIGHT 02

There is a gap between ambition and reality

Only

36%

of respondents have a comprehensive roadmap in place to reach net zero

This figure jars with the high level (93%) of respondents confident that their organisation is ready to meet Scope 3 requirements.

KEY INSIGHT 03

Mutualisation is already a proven model

80%

are sharing facilities and services in order to reduce costs

Circularity is also gaining ground, with more than half of respondents implementing closed-loop manufacturing processes.

KEY INSIGHT 04

High investment costs remain a stumbling block

60%

view the cost required for technology and process change as prohibitive

Among those who did not believe sustainability and financial performance could co-exist, 80% could not quantify the financial benefits.

KEY INSIGHT 05

External help could unlock the barriers to transition

68%

would consider external support for "external" intervention to expedite their transition

The most critical areas for intervention are digitisation and the management of operational change.

KEY INSIGHT 06

There is no success without partnership

86%

believe supply chain collaboration is essential for positive outcomes

To achieve those positive outcomes, effective governance, shared strategic goals, and seamless cross-functional communication must be prioritised.

SECTION

#01

The Performance-Sustainability Paradox: The Cost Imperative

Though sustainability is gaining traction, cost reduction still dominates decision-making. This creates a paradox: businesses value sustainability long-term, yet prioritise short-term savings, often leading to sustainable action driven by cost efficiency rather than environmental value. This, coupled with a lack of concrete plans, highlights the urgent need to bridge the gap between sustainable aspirations and action.

COST REDUCTION ABOVE ALL: THE PRICE OF EFFICIENCY

In today's competitive landscape, cost reduction and efficiency improvement reign supreme for companies across the supply chain. A resounding 65% of businesses prioritise these factors as central to their operations, underscoring the relentless pursuit of streamlining processes and minimising expenses. Even as inflationary pressures subside from post-pandemic peaks, rates remain above 2% in key economies like the US and UK, keeping cost considerations top of mind for both consumers and businesses.

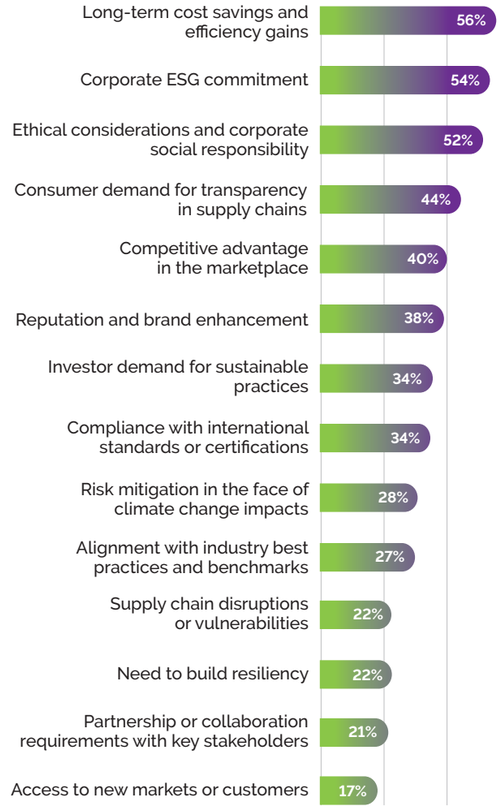
Sustainability: A Neglected Necessity

Despite the growing recognition of sustainability's importance, it appears to remain of lesser priority for many businesses. "Implementing sustainable and ethical practices" ranked sixth when asked about priorities for supply chain optimisation. This suggests that while sustainability is acknowledged, it is still not a clear priority for most companies. Cost reduction and efficiency remain the primary drivers, and sustainability is often seen as a consideration to be implemented only when it aligns with these core objectives.

THE SUSTAINABILITY-PERFORMANCE CONNECTION: A GROWING RECOGNITION

However, despite the cost imperative, a growing number of businesses are recognising the symbiotic relationship between sustainability and financial performance. A significant 94% of supply chain professionals believe that sustainability and financial performance can coexist harmoniously. They see sustainable practices as a catalyst for innovation, competitive advantage, and meeting evolving customer and stakeholder expectations. This alignment can lead to increased brand loyalty, market share, and long-term success.

SIGNIFICANT DRIVERS FOR IMPROVING SUPPLY CHAIN SUSTAINABILITY



TOP PRIORITIES FOR ORGANISATIONS IN OPTIMISING SUPPLY CHAIN OPERATIONS

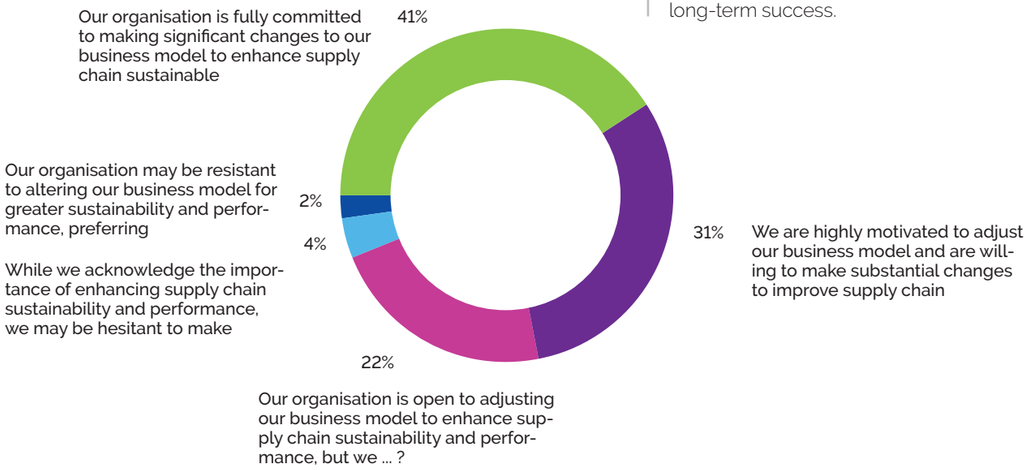
COST SAVINGS AS THE CATALYST FOR SUSTAINABLE ACTION

Interestingly, when asked about the primary motivators for adopting sustainable practices, long-term cost savings efficiency gains once again emerged as the top priority, accounting for 56% of responses. This suggests that while sustainability is increasingly valued, cost reduction remains the key driver for businesses to implement sustainable initiatives. It highlights the paradoxical nature of the performance-sustainability relationship: while sustainability can offer long-term benefits, cost reduction is often the immediate catalyst for action.

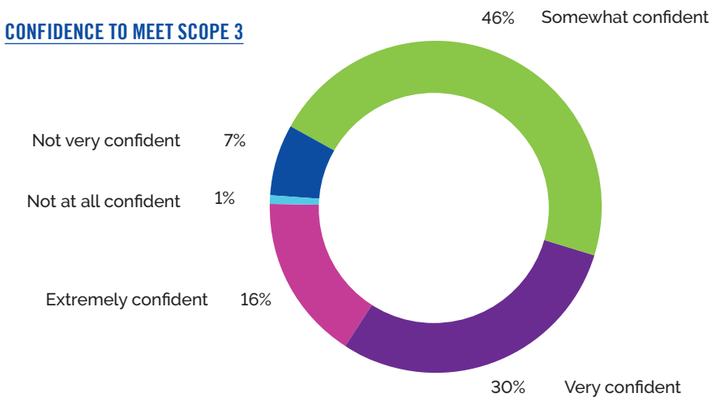
MIND THE (CLIMATE) GAP: WHEN INTENTIONS MEET ON-THE-GROUND REALITY

However, despite the cost imperative, a growing number of businesses are recognising the symbiotic relationship between sustainability and financial performance. A significant 94% of supply chain professionals believe that sustainability and financial performance can coexist harmoniously. They see sustainable practices as a catalyst for innovation, competitive advantage, and meeting evolving customer and stakeholder expectations. This alignment can lead to increased brand loyalty, market share, and long-term success.

ALTER BUSINESS PREPAREDNESS TO ALTER BUSINESS MODELS TO MAKE THE SUPPLY CHAIN MORE PERFORMANT AND SUSTAINABLE



CONFIDENCE TO MEET SCOPE 3



Organisations worldwide face a daunting challenge: bridging the gap between ambitious climate goals and the concrete actions required to achieve them. Despite a prevailing optimism—72% believe they can alter their business models for a more sustainable supply chain—a significant disconnect exists between intentions and execution. While 93% express confidence in meeting Scope 3 requirements, only 36% have a detailed roadmap. This disparity underscores the urgent need for strategic planning and tangible steps to transition towards a low-carbon economy. A majority (66%) prioritise low-emission logistics and transportation, showcasing a commitment to reducing Scope 1, 2, and 3 emissions. However, the ambitious targets—50% carbon reduction by 2035 and carbon neutrality by 2050—demand more than well-intentioned efforts. They require a comprehensive, actionable approach.

The Asia Pacific region, particularly vulnerable to climate change, is leading the way, with 53% of organisations already having a detailed roadmap. However, the global supply chain's interconnectedness means that progress in one region can be hindered by lagging efforts in others.

Several factors may contribute to the lack of comprehensive roadmaps in many organisations:

Complexity of Supply Chains: Modern supply chains are often intricate and global, involving numerous suppliers, transportation modes, and facilities. This complexity can make it challenging to assess emissions accurately and develop effective strategies for reduction.

Data Limitations: Many organisations may still lack the necessary data to quantify their emissions accurately or to identify the most significant sources of greenhouse gas emissions within their supply chains.

Resource Constraints: Developing a comprehensive roadmap requires significant time, expertise, and financial resources. Smaller organisations or those with limited sustainability budgets may find it difficult to allocate the necessary resources.

Uncertainty: The future of climate policies, regulations, and technologies can be uncertain. This uncertainty may make it difficult for organisations to invest in long-term strategies for emissions reduction.

Short-Term Focus: Many organisations may prioritise short-term financial performance over long-term sustainability goals. This can lead to a reluctance to invest in initiatives that may not yield immediate returns. ◆

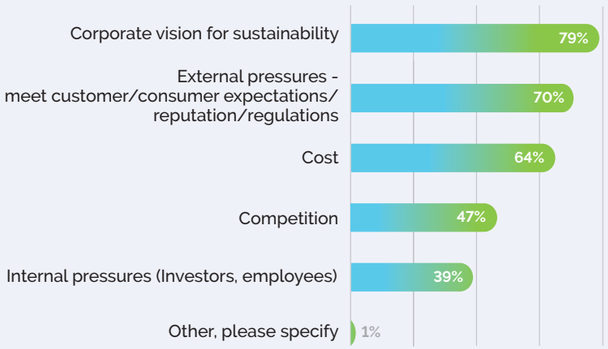
SECTION

#02

Quick Wins, Long Road: The Limitations of Easy Success

Stakeholders demand genuine sustainability, rejecting greenwashing. Mutualisation and circular economy both cost and environmental benefits by optimising resource sharing and promoting reuse, signaling a promising shift towards truly sustainable practices.

PRIMARY INCENTIVES DRIVING ORGANISATIONS TO PRIORITISE SUSTAINABLE INITIATIVES IN THE SUPPLY CHAIN



PUBLIC IMAGE: THE ROLE OF STAKEHOLDERS IN SUSTAINABILITY

According to the United Nations Global Compact, "Supply chain sustainability management is key to maintaining the integrity of a brand, ensuring business continuity and managing operational costs." Just as many firms have seen upward momentum in their brand reputation and market positioning by introducing new sustainability initiatives, there is a risk of customer loss if there is insufficient evidence of progress or program implementation. And the price of rebuilding a customer base is significant: in the software industry, for example, it can cost 4-5 times as much to acquire new customers, rather than retaining existing ones. Research published in the Harvard Business Review suggests the arrival of a major shift in consumption patterns, in which the advantage will sit firmly with truly sustainable brands, and where sustainability will be viewed as "a baseline requirement for purchase."

In a world sceptical about greenwashing, "It's not enough to just have a logo or to appease the public," said the Vice President of Global Supply Chain, Logistics and Procurement for an e-commerce firm. "It's really to do something tangible, as opposed to before, where you could just make statements and have high-level responses. Investors and shareholders want to see real proof – real, measurable initiatives."

The FMCG sector appears to be particularly aware of this, with 84% saying that external pressure from consumers and regulators was the primary driver for undertaking more sustainable measures.

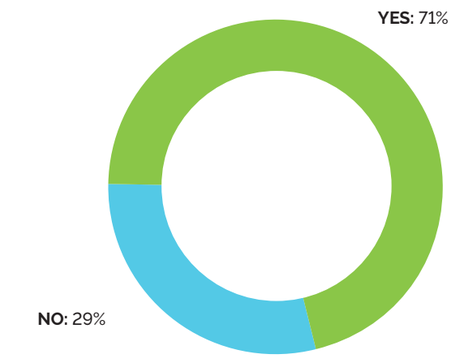
"Customer Retention vs Customer Acquisition," Forbes, December 12, 2022
Research: Consumer Sustainability Demands are Rising," Harvard Business Review, September 18, 2023

PROVEN MODELS FOR HIGH-PERFORMING SUSTAINABLE SUPPLY CHAINS

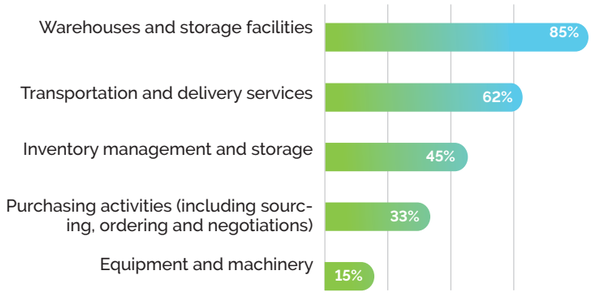
Mutualisation: the supply chain synergy

Mutualisation is a proven model for boosting supply chain efficiency and collaboration and effectively managing costs. Our research showed that a sizable majority (71%) of organisations are involved in mutualisation. Most of the shared resources and services among organisations are built around warehousing, storage, and transportation. Mutualisation is predominantly driven by a desire to reduce costs – the most significant reason given by 80% of respondents.

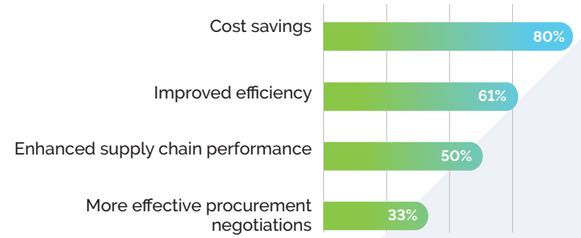
ORGAINSATIONS INVOLVED IN MUTUALISING SUPPLY CHAIN INVESTMENTS



MUTUALISING OCCURING IN THE SUPPLY CHAIN



REASONS FOR MUTUALISING



"We use a kind of sharing economy," said a regional Supply Chain and Quality Assurance Manager of a retail chain. "We are trying to share our assets or borrow assets or services instead of buying or owning them directly. Instead of utilising 60% of the truck space in a delivery, you can share your delivery route with other clients and reduce logistics costs. Reducing social impact does not mean you should be paying more."

World Go Round: The Circular Economy

The circular economy – which focuses on the ongoing circulation of products and materials through processes like reuse, refurbishment, remanufacture, and recycling – is also gaining momentum. This shift towards circularity will be accompanied by a greater emphasis on local supply chains to reduce transportation distances, minimise lead times, and mitigate the bullwhip effect that can amplify demand fluctuations in long, complex supply chains. The potential for cost savings through efficient resource utilisation and waste reduction is tremendous, estimated at $4.5 trillion of global economic output by 2030. Adopting best practices from the circular economy, such as sharing, leasing, and repairing will increase product lifecycle and cut waste and energy consumption.

"Mutualisation is predominantly driven by a desire to reduce costs – the most significant reason given by 80% of respondents."

The World Bank believes that in Europe alone, ambitious circular economy policies could reduce aggregate material use by up to 11 percent and effectively decouple growth from the use of raw material resources by 2032. Early evidence suggests a growing commitment to circular economy principles among organisations: over half of the businesses we surveyed have taken steps to reduce their environmental impact by locating manufacturing closer to raw material sources (53%) and implementing closed-loop production processes (52%). Close to half (46%) are designing products for easy disassembly and recycling.

As sustainability becomes more deeply embedded into supply chain operations, circularity will become an integrated part of company operating models. Many large firms – including those in the FMCG, retail, and beauty and luxury sectors – are already engaged in collaborative discussions on circularity through networks such as the Ellen MacArthur Foundation and the World Economic Forum's Platform for Accelerating the Circular Economy. ◆

"The Circular Economy Could Unlock $4.5 Trillion of Economic Growth, Finds New Book by Accenture", Accenture, September 28, 2015.
Squaring the Circle: Policies from Europe's Circular Economy Transition", World Bank, December 2022

SECTION
#03

Barriers to Going Green

High investment costs and the difficulty of measuring ROI are major barriers to sustainable supply chains. This is worsened by supply chain fragmentation, which hinders collaboration due to multiple stakeholders, geographic dispersion, and competing interests.

INITIAL INVESTMENT COSTS ARE A MAJOR HURDLE

It's not all plain sailing towards a more sustainable environment. 60% of respondents cited high initial investment costs as the primary barrier to improving their supply chain sustainability. This suggests that implementing sustainable practices often requires substantial upfront financial resources. These costs might include:

Technology upgrades: Implementing new software, hardware, or equipment to track and manage supply chain operations more efficiently and sustainably

Process changes: Overhauling existing processes to reduce waste, emissions, and energy consumption

Certifications and audits: Obtaining certifications (such as ISO 14001 – the international standard for environmental management) and undergoing regular audits to verify sustainability compliance

Research and development: Investing in research to develop innovative sustainable solutions and products.

Upfront costs can be a deterrent for many companies, especially smaller businesses or those operating on tight budgets. This financial hurdle underscores the need for economic incentives, government support, or accessible financing options to encourage greater adoption of sustainable practices within the supply chain.

SIGNIFICANT DRIVERS FOR IMPROVING OBSTACLES TO IMPROVING SUPPLY CHAIN SUSTAINABILITY

THE COMPLEXITIES OF MEASURING THE ROI OF SUSTAINABILITY

When asked about cost-effective sustainable strategies, a large majority (83%) identified renewable energy, energy-efficient technologies and low-emission transportation as top choices. Among companies that have invested in sustainable investment strategies reported measured benefits, including reduced emissions and environmental footprint (71%) and enhanced brand reputation and market positioning (62%).

However, a majority of respondents expressed concerns about the potential negative impact of sustainability initiatives on financial performance. Of those who disagreed with the notion of sustainability and performance co-existing, 93% believed that sustainability initiatives negatively impacted financial performance, and 80% struggled to quantify the financial benefits.One reason for this difficulty is the long-term nature of many sustainability investments. While these investments can lead to significant cost savings over time, the initial upfront costs can be substantial. Additionally, the benefits of sustainability initiatives, such as improved brand reputation and reduced regulatory risks, can be difficult to quantify in monetary terms. This can make it challenging for businesses to justify these investments based on short and medium-term financial returns alone.

SUPPLY CHAIN FRAGMENTATION HINDERS COLLABORATION

The complexity and fragmentation of modern supply chains pose significant challenges to effective collaboration and the implementation of sustainable practices. The following factors contribute to these difficulties:

Multiple Stakeholders: Supply chains often involve numerous stakeholders, including suppliers, manufacturers, distributors, retailers, and logistics providers. Coordinating the efforts of these diverse parties can be challenging, especially when they have different priorities and objectives.

Geographical Dispersion: Supply chains can span vast geographic areas, making it difficult to ensure consistent communication, coordination, and compliance with sustainability standards.

Information Asymmetry: Different stakeholders may have varying levels of access to information, leading to misunderstandings, inefficiencies, and delays. This can hinder collaboration and make it difficult to implement sustainable practices effectively.

Competing Interests: Stakeholders may have competing interests that can make it difficult to reach agreements on sustainability initiatives. For example, suppliers may be reluctant to share information about their environmental practices if they fear that this could give competitors a competitive advantage.

Lack of Trust: Building trust among stakeholders is essential for effective collaboration, but it can be difficult to achieve, especially in complex and fragmented supply chains. Lack of trust can lead to suspicion and a reluctance to share information or cooperate on sustainability initiatives. ◆

EXPERT VOICE

Founder of Sparknews, writer & social entrepreneur

Questions to Christian de Boisredon

How can supply chain collaboration effectively address sustainability challenges and create a competitive advantage for all stakeholders involved?

Resource pooling, like shared warehouses and trucks, is highly effective for decarbonisation and cost reduction. Optimising truck filling can yield 30% cost and carbon savings with minimal investment, far exceeding the impact of switching to electric trucks, which are significantly more expensive. This potential remains largely untapped. The challenge lies in marketing these initiatives effectively, similar to promoting the use of electric vehicles. For large retailers, optimising truck utilisation has a greater immediate environmental impact than electric truck adoption. Developing compelling marketing arguments emphasising the benefits of pooling and optimisation is crucial and requires collaboration between logistics providers and clients.

How can companies build trust among diverse stakeholders in a supply chain, particularly when there are competing interests or information asymmetries?

Building trust requires transparency regarding the environmental impacts of supply chain operations. FMCG companies and retailers need to provide accurate carbon footprint information for their products and services. This transparency aligns stakeholders and promotes accountability. Limited profit margins for logistics providers hinder large-scale decarbonisation investments. Collaborative systems, supported by regulations and economic incentives, are necessary to ensure equitable responsibility and cost sharing.

Can you share an example where collaboration within a supply chain led to significant improvements in both sustainability and financial performance?

FM Logistic's project with the Madrid metro exemplifies this. Goods are loaded onto metro trains, stored overnight on the outskirts, before their first morning run. This drastically reduces truck trips, congestion, and emissions while optimising costs. Similarly, the use of barges on the Seine for Parisian deliveries by retailers like Franprix and Monoprix combines economic and environmental benefits.

How can technologies like blockchain or IoT facilitate collaboration by enhancing transparency and efficiency within supply chains?

These technologies can optimise routes, particularly reducing empty runs. A shared platform could connect carriers with empty trucks to businesses needing transport along the same routes, similar to carpooling. Consolidating efforts into a single, well-funded platform is key. A unified platform, perhaps mandated by regulation, could maximise impact. AI also offers promise for optimising warehouse locations, transportation modes, and delivery routes. A cooperative platform for all carriers could be beneficial.

In a context where regulations drive sustainability, how can companies collaborate to balance competitive risks while meeting legal requirements?

Regulations are crucial for aligning companies on sustainable practices. A carbon tax based on delivery speed or transportation mode could incentivise less emission-intensive options. Taxing services based on environmental impact would fund the logistics sector's ecological transition while discouraging unsustainable practices. ■

"Optimising truck filling can yield 30% cost and carbon savings with minimal investment, far exceeding the impact of switching to electric trucks, which are significantly more expensive."

SECTION

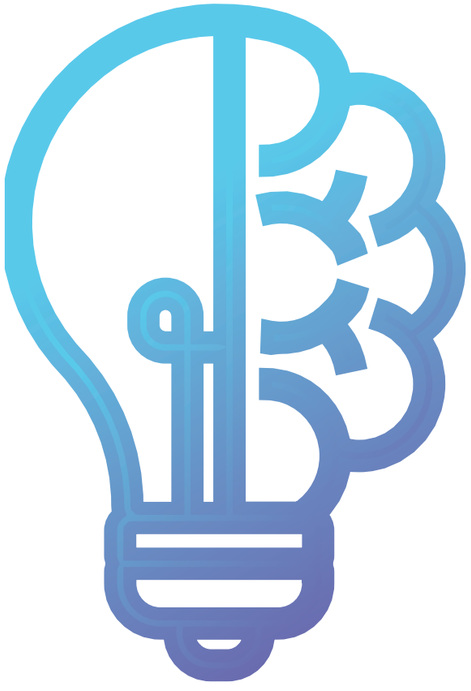
#04

Reimagining the Solution: How to Go Beyond Existing Practices

Transforming supply chains requires more than good intentions. Companies need support for implementation, particularly in digitisation and change management. Collaboration, effective governance, and smart regulations are essential, but careful planning is crucial to address challenges and ensure success.

THE NEED FOR EXTERNAL SUPPORT IN IMPLEMENTING SUSTAINABLE PRACTICES

A significant majority of companies (72%) are committed to transforming their business models to achieve sustainability goals. However, they face substantial hurdles in implementation. Our research shows that companies primarily require external assistance in two key areas:
Digitisation (64%): Leveraging technology to enhance supply chain visibility, efficiency, and sustainability is a top priority, but many companies lack the in-house expertise
Change management (63%): Companies struggle to adapt their operations and organisational structures to align with sustainability objectives.
Closing the gap between lofty sustainability ambitions and realistic outcomes is lik ely to require the catalysing effect of outside assistance with specialist experience. 68% of our respondents said they would consider support from a 4PL provider or consultancy to achieve a more performant and sustainable supply chain. European respondents and those in the industrial manufacturing sector were most likely to seek such support, at 74%.
Technology has also a critical role to play in enhancing supply chain visibility and efficiency, and 74% of respondents anticipate cost savings from a collaborative digital ecosystem – rising to 85% in the APAC region.
The transport sector is responsible for around 24% of direct CO2 emissions from fossil fuels, and carbon emissions from the sector need to fall by about 3% per year through 2030 to stay on track for net zero emissions by 2050. This may explain why survey respondents were strongly in favour (75%) of partnering with logistics service providers that used alternative fuels or electric vehicles, if costs remained broadly the same. While globally, only 24% would do so if costs increased substantially, 31% in Europe and 40% in APAC would tolerate a significant increase – perhaps envisioning much greater efficiency in the long run.
Furthermore, if all competitors are embracing the cost increase associated with sustainable practices, it would be less painful for individual companies to implement these changes. The industry-wide adoption of sustainable practices creates a more level playing field, reducing the competitive disadvantage that a single company might otherwise face.



"Closing the gap between lofty sustainability ambitions and realistic outcomes is likely to require the catalysing effect of outside assistance with specialist experience."

THE POWER OF COLLABORATION IN DRIVING SUPPLY CHAIN SUSTAINABILITY

The Critical Role of Supply Chain Cooperation
The data overwhelmingly supports the notion that supply chain cooperation is paramount to addressing sustainability challenges. A remarkable 86% of respondents believe it is indispensable for achieving positive environmental and social impact. This strong consensus highlights the growing recognition that collaborative efforts across the supply chain are essential for driving sustainable practices.
The high level of interest in collaboration, with 80% of respondents expressing a willingness to participate, also underscores the immense potential for significant progress in sustainability through joint initiatives. This enthusiasm for collaboration bodes well for the future of sustainable supply chains.

Key Factors for Effective Collaboration
To effectively harness the power of collaboration, respondents identified three key factors: effective governance, shared strategic goals, and cross-functional communication and alignment. These elements will be crucial in building successful collaborative partnerships in their organisations within supply chains.
• **Effective Governance:**
Clear ownership, governance, and processes are essential for ensuring collaboration runs smoothly and efficiently. A well-defined governance structure provides the framework for decision-making, accountability, and conflict resolution.
• **Shared Strategic Goals:**
Aligning on common objectives is fundamental to fostering collaboration. When all parties are working towards the same goals, it becomes easier to coordinate efforts, share resources,

and achieve shared benefits.`

Cross-Functional Communication and Alignment: Effective communication and alignment across different functions within the supply chain are crucial for breaking down silos and ensuring that everyone is working towards the same objectives. Cross-functional teams can help identify opportunities for collaboration, address challenges, and ensure that sustainability initiatives are integrated into the overall business strategy.

Case Studies of Successful Collaboration
Several examples demonstrate the positive impact of global supply chain partnerships on both environmental and financial outcomes. The Responsible Business Alliance and the Sustainable Shipping Initiative are two notable examples of industry coalitions driving sustainability through collaboration.

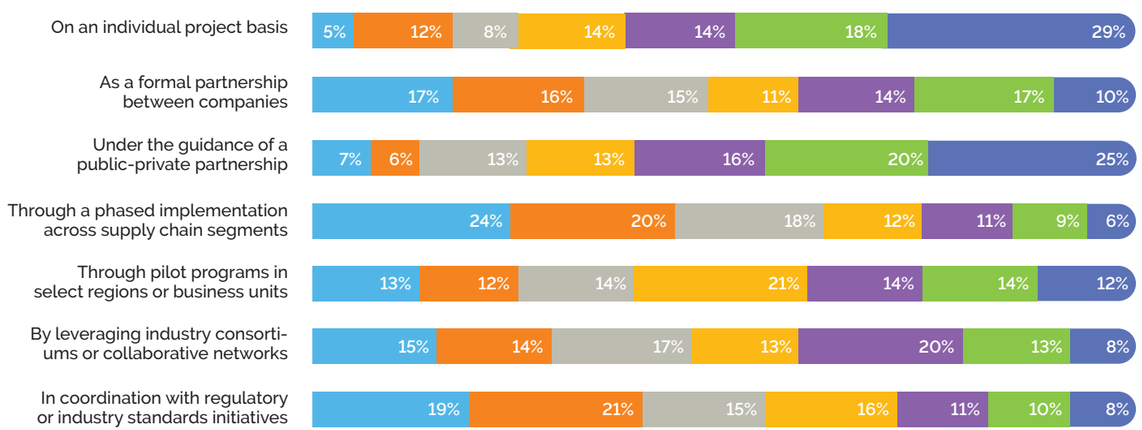
- **The Responsible Business Alliance:** This industry coalition has launched an emissions management tool that helps members accurately measure and report greenhouse gas emissions, enabling them to improve their environmental performance and reduce costs.

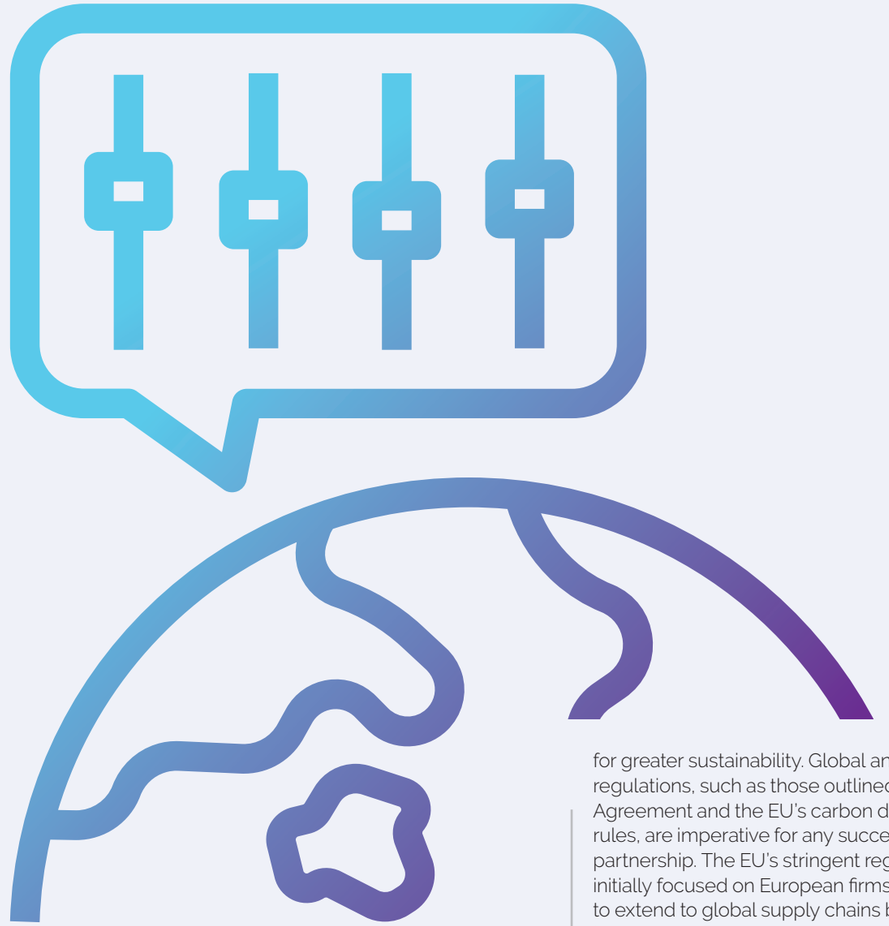
"86% of respondents believe supply chain cooperation is indispensable for achieving positive environmental and social impact."

- **The Sustainable Shipping Initiative:** This initiative is working towards a sustainable shipping roadmap that includes the development of more sustainable fuels and greener shipbuilding practices. It has also created a framework for green shipping corridors, which can help reduce emissions and promote economic development.

The Importance of Phased Implementation
The pace at which collaborative networks are built is often more important than their structure. Globally, 24% of respondents indicated that a phased implementation across supply chain segments was the most effective approach for rolling out a new, collaborative end-to-end supply chain model. In APAC, this figure rose to 34%, suggesting a preference for a gradual approach in this region. This preference for phased implementation highlights the importance of considering the specific needs and capabilities of different supply chain partners

EFFECTIVE ROLL-OUT OF COLLABORATIVE END-TO-END SUPPLY CHAIN MODEL





when implementing collaborative initiatives.

4.3 THE ROLE OF RULES AND REGULATIONS TO EQUALISE COMPETITION RISKS

The regulatory environment is not merely a peripheral factor but a cornerstone in driving the evolution of collaborative supply chains. It creates a level playing field by imposing quasi-synchronous change on all participants, mitigating competitive risks. While not the sole catalyst, regulatory frameworks play a pivotal role in fostering cooperation and sustainability. A significant majority (70%) of companies view regulatory demands as a driving force for greater sustainability. Global and national regulations, such as those outlined in the Paris Agreement and the EU's carbon disclosure rules, are imperative for any successful partnership. The EU's stringent regulations, initially focused on European firms, are poised to extend to global supply chains by the end of the decade. Similar requirements have been introduced by the SEC in the US.
Proactively addressing regulatory issues and ESG standards can mitigate price volatility, availability, and import dependency risks. However, deep-rooted changes within companies and partnerships are necessary to embed these standards across the supply chain. Harmonising diverse environmental standards is another crucial challenge.
As a Supply Chain Manager at a global FMCG noted, "While creating regulatory frameworks is relatively straightforward, ensuring compliance is a complex task. The challenge lies in monitoring suppliers and their suppliers at multiple levels. Despite the growing desire for sustainability, achieving true compliance requires careful consideration and strategic planning." ◆

Why U.S. Companies Should Pay Attention to Europe's New Climate Rules, TIME magazine, May 25, 2023.

SECTION

#05

Finding The Sweet Spot: Reconciling Economic Efficiency and Sustainability

Reconciling economic efficiency and sustainability in supply chains requires collective action, innovative strategies, and a long-term perspective. This involves industry partnerships, supply chain collaboration, adaptive models, technology adoption, and robust risk management.

While the desire for profitability is a fundamental driver of corporate behaviour, the growing imperative to address environmental and social concerns has created a tension between these two objectives. However, a growing body of evidence suggests that it is possible to reconcile economic efficiency and sustainability through a combination of collective action, innovative strategies, and a long-term perspective.

Collective Action:

Industry Partnerships: Collaborations between companies, industry associations, and governments can create shared standards, best practices, and resources to accelerate sustainable practices. For example, the Responsible Business Alliance (RBA) has developed a set of standards for responsible sourcing and manufacturing that companies can use to improve their environmental and social performance.

Supply Chain Collaboration: Working together with suppliers, logistics providers, and customers can help identify and address sustainability challenges throughout the supply chain. For example, companies can collaborate with their suppliers to reduce waste, improve energy efficiency, and ensure that their products are sourced responsibly.

Innovative Strategies:

Adaptive Supply Chain Models: Developing flexible and adaptable supply chain models that can respond to changing economic and environmental conditions. This might involve diversifying sourcing options, investing in resilient infrastructure, and developing contingency plans for disruptions.

Technology Adoption: Leveraging technologies like blockchain, artificial intelligence, and IoT to improve visibility, efficiency, and sustainability in supply chains. For example, blockchain can be used to track the provenance of materials and products, ensuring that they are sourced responsibly and ethically.

Risk Management: Implementing robust risk management strategies to identify and mitigate potential environmental and social risks. This might involve conducting environmental impact assessments, developing contingency plans for disasters, and investing in insurance to protect against financial losses.

Performance Measurement: Developing comprehensive metrics to measure both economic and sustainability performance, allowing for a more holistic assessment of supply chain performance. This might include metrics such as carbon emissions, water consumption, waste generation, and social impact.

Long-term Perspective:

Strategic Investment: Recognising that sustainable practices may require upfront investments but can yield long-term benefits, including reduced costs, improved reputation, and increased customer loyalty. For example, investing in energy-efficient equipment may require a significant upfront cost, but it can lead to substantial energy savings over time.

Risk Mitigation: Considering the potential financial risks associated with unsustainable practices, such as regulatory fines, reputational damage, and supply chain disruptions. By investing in sustainable practices, companies can mitigate these risks and improve their long-term financial performance. Where governments have fallen short on Paris targets, there is "an opportunity, and a responsibility, for business to take a bigger role," sustainable business strategist Andrew Winston wrote in a 2022 article for the Harvard Business Review.

Today, taking planet-friendly action that also benefits the bottom line is more than an opportunity – it's a reality.

Questions to Alain Borri

EXPERT VOICE

Cofounder & CEO of Sightness | Serial Entrepreneur l Logistics & AI Enthusiast

How can companies prioritise sustainability despite cost and profitability pressures?
Economic pressures often delay sustainability efforts, as seen during past crises like 2008. Deferring action, however, has long-term consequences. Many perceive sustainability as inherently costly, but this often stems from a lack of understanding and a focus on simplistic solutions. Switching to electric vehicles, for example, isn't always feasible. Companies need innovative, pragmatic approaches that reduce both costs and emissions. Sustainability should be viewed not just as an expense, but as an opportunity to build efficiency and resilience. Identifying "win-win" solutions that offer both financial and environmental returns is key.

With only 36% of companies having net-zero roadmaps, how can ambition turn into action?
Creating a roadmap is the crucial first step, yet most companies lack one. While execution is more complex, the absence of a plan is a major impediment. Legislation, like the European CSRD directive, plays a vital role in driving systemic change, creating a level playing field, and incentivising responsible behavior. However, implementing regulations in challenging economic climates requires political will. Without effective legislation, progress will likely remain fragmented and insufficient. Clear, long-term regulatory frameworks are essential to provide businesses with the certainty they need to invest in sustainable solutions.

How can businesses justify high upfront costs for sustainability?
The most effective strategy is to link sustainability initiatives to demonstrable cost savings. When businesses can show a clear financial return alongside environmental benefits, the barriers to investment decrease significantly. Mutualisation, as pioneered by FM Logistic, offers a compelling example. By collaborating, even with competitors, to optimise logistics, companies can achieve economic, operational, and ecological gains. However, such initiatives require strong leadership commitment and a willingness to rethink traditional corporate strategies. Demonstrating the long-term value and ROI of these investments is crucial for securing buy-in from stakeholders.

How can cost and efficiency gains drive deeper environmental commitments?
Cost and efficiency are powerful motivators for businesses, often even more so than regulatory pressure. The key is identifying economic models that facilitate decarbonisation while simultaneously delivering measurable cost reductions. Many companies struggle to find these solutions within their existing structures, requiring them to either adapt their operations or embrace innovation, often with the help of external expertise. While cost-driven sustainability is a good starting point, companies must avoid abandoning their commitments in the face of external pressures. Leadership support and systemic changes are essential for translating initial cost savings into sustained environmental progress.

How can companies quantify the ROI of sustainable practices?
Accurate measurement of CO_2 emissions is fundamental. Historically, many emissions reports have been unreliable, hindering accurate assessment of sustainability initiatives. Improved tools are now providing more precise data, enabling better tracking and analysis. Beyond emissions, robust ROI methodologies, similar to those used for other business investments, are essential. While external factors can introduce uncertainty, businesses must act on the best available data and adapt their strategies as needed. Combining accurate measurement, established ROI frameworks, and a proactive approach to evolving conditions will help companies effectively demonstrate the financial and environmental value of sustainable practices. ■

"Historically, many emissions reports have been unreliable, hindering accurate assessment of sustainability initiatives. Improved tools are now providing more precise data, enabling better tracking and analysis."

About FM Logistic

contact us

Facilitating the transition towards sustainable omnichannel supply chains is FM Logistic's ambition. Founded in 1967, this family-owned company is one of the key players in logistics both in France and internationally, with a turnover of €1.7 billion. FM Logistic leverages its expertise in consumer goods logistics to serve major manufacturers, retailers, and e-commerce players. Its services span various stages of the supply chain: domestic and international transport, warehousing and inventory management, order preparation and shipping for both e-commerce and retail, co-packing, and control tower services. The company aims to achieve carbon neutrality in its warehousing activities by 2030 and is recognized as one of the best employers in its sector, as evidenced by its Top Employers France certification for the 8th consecutive year, and its inclusion in Forbes and Capital magazine rankings. FM Logistic employs over 28,000 people across Europe, Asia, and Latin America.

For more information, please visit our website and LinkedIn page.
Site web: www.fmlogistic.com
LinkedIn: www.linkedin.com/company/fm-logistic

About BearingPoint

contact us

BearingPoint is an independent management and technology consultancy with European roots and a global reach. The company operates in three business units: Consulting, Products, and Capital. Consulting covers the advisory business with a clear focus on selected business areas. Products provides IP-driven digital assets and managed services for business-critical processes. Capital delivers M&A and transaction services. BearingPoint's clients include many of the world's leading companies and organizations. The firm has a global consulting network with more than 10,000 people and supports clients in over 70 countries, engaging with them to achieve measurable and sustainable success. *BearingPoint is a certified B Corporation, meeting high standards of social and environmental impact.*

For more information, please visit:
Site web: https://www.bearingpoint.com/en/
LinkedIn: www.linkedin.com/company/bearingpoint

FM LOGISTIC | BearingPoint®