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Invest in Sustainable Supply Chains

By Nada Elmasry

“Organizations that get it understand that you can reduce your cost by reducing your environmental footprint.”

-Roger Eacock¹

In recent years, the word “sustainability” (referring to the idea of using resources without totally exhausting them) has become an important buzzword that businesses use to describe their organization’s production strategy to consumers. This is because consumer expectations for the products and services that they buy have increased. Consumers used to simply pick their products based on quality, cost, and brand, but they now expect businesses to implement sustainable measures that create a smaller environmental footprint. One way organizations are trying to fulfill this expectation is investing in sustainable supply chains.

Companies should manage and improve their environmental performance throughout their supply chains. By doing so, companies will conserve resources, optimize their processes, and save costs.² In the scope of this discussion, having a sustainable supply chain does three important things for a company:

1. Manages business risks
2. Increases efficiencies
3. Creates sustainable products

Manages Business Risks

Implementing sustainable supply chains enables businesses to manage their risks. Steven Swartz, a consultant at McKinsey & Company, explains how companies that enforce sustainable practices in their supply chains can reduce business disruptions from environmental, economic, and social impacts.³ Additionally, George Kell, an executive director at the UN Global

Compact Office, discusses how businesses that set regulations with their suppliers and manufacturers regarding which environmentally friendly materials to use are less likely to face supply chain interruptions.⁴ If businesses mitigate these risks, they are better able to meet their customers' demands without having delays in their supply chains.

With sustainable supply chains, businesses can also protect their brand image and reputation. Aron Cramer, president and CEO of the UN Global Compact Office, suggests that when consumers are aware that a company cares about its corporate impact on the environment, consumers are more likely to stick with that company.⁵ Along the same lines, BCG energy consultant Maurice Berns explains that having sustainable supply chains gives businesses a competitive advantage because consumers are more likely to purchase a product or service from an environmentally conscious business.⁶

Businesses use the *triple bottom line*, which is a term coined by John Elkington, to not only focus on making profits but also on improving the lives of people and sustaining the environment for future generations.⁷ The idea is that businesses reach optimal "sustainability" once they accomplish all three.

Increases Efficiencies

The efficiencies of a company increase when it can implement a sustainable supply chain. Companies that implement sustainable practices minimize the cost of resources, energy, and transportation. Specifically, sustainability efforts focus on reducing the high costs of using nonrenewable energy such as gas and oil.⁸ Companies can thus reduce those costs by using renewable energy.

In the last 20 years, global consumption of renewable energy has increased significantly. Figure 1 shows that in 2019, consumption levels for renewable energy reached 29 exajoules, which is almost 11 times the amount consumed in the year 2000.⁹ To put this into perspective, using 29 exajoules of renewable is equivalent to saving 4740 million barrels of oil, which is extremely cost-efficient for those that use them. However, even though renewable energy use is rapidly increasing, it is not consumed as much as nonrenewable energy sources such as coal and natural gas.

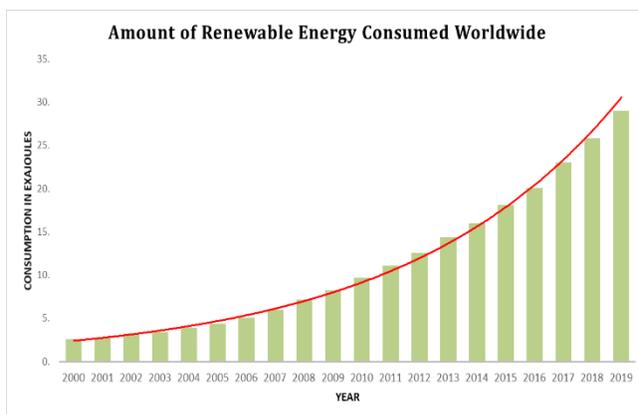


Figure 2- Global Consumption of Renewable Energy

Source (Statista, 2020)

combats climate change. Additionally, businesses that use renewable energy have a more reliable, price-stable power source.

To continue growing both feasible and sustainable energy systems, governments need to implement procedures to encourage the use of renewable energy sources. This will

Thankfully, Christina Nunez, a writer from the National Geographic, argues that renewable energy is the fastest-growing energy in the world because of benefits that it provides, both environmental and economic.¹⁰ Organizations that use renewable energy have a smaller carbon footprint than those that use nonrenewable energy. This reduced carbon footprint decreases pollution and

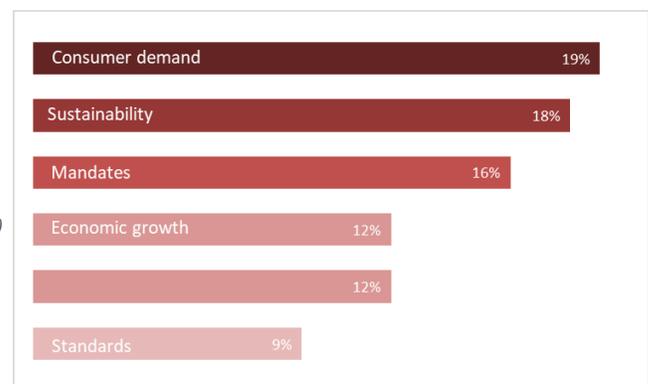


Figure 1- Consumer demand is the #1 reason to invest in sustainable technology

Source (Statista, 2020)

include using renewable energy in infrastructure and organizations, which will begin to increase energy efficiency in these places.^{xi}

With increased efficiencies in sustainable supply chains, labor throughput will also rise. Companies can then reduce costs by using their employees, machines, and resources to the fullest capacity. This will in turn improve the overall productivity of the business.

Creates Sustainable Products

Companies that improve their sustainability create sustainable products. This means creating innovative products and services that use fewer materials and have easier disposal methods.^{xii}

Consumers are becoming more aware of the negative effects manufacturers and supply sources can have on the environment, with the gas emissions and waste created by supply chains. As a result, customers are updating their preferences. Over the past few decades, sustainability has become a priority for consumers. Figure 2 demonstrates that among the top six reasons for organizations to invest in sustainable technologies, consumer demand and sentiment are the most prominent, according to a sample of utility executives. .^{xiii}

In 2015, the company Nielson conducted surveys in which consumers reported that they want more sustainable products.^{xiv} This data shows that consumers are becoming more aware of topics such as climate change and global warming, which influence those consumers' purchasing habits. Consumers are changing their purchasing habits because they understand that the power to influence companies to become more sustainable lies within their dollar bills.^{xv} In those surveys, consumers said they are willing to pay more money for sustainably produced products. And even if this is not their biggest priority in purchasing an item, sustainability makes the idea of buying certain products more attractive to consumers.

Therefore, companies need to understand customer demands for sustainable products.^{xvi} As this demand increases, companies need to balance it with more and more convenient and reasonably priced products that fit consumers' desires for sustainability.

Conclusion

Companies can reduce the negative environmental impact of their production by investing in sustainable supply chains to manage business risks, increase efficiencies, and create sustainable products. This will help businesses—including yours—conserve resources, enhance processes, reduce costs, and attract customers.



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Notes

¹ “Cost Savings and Sustainability in Supply Chain: Interview with Roger Eacock,” Argentus Supply Chain Recruiting, February 2015, <http://www.argentus.com/cost-savings-sustainability-supply-chain-interview-roger-eacock-part-2/>.

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⁴ Sisco, Chorn, and Pruzan-Jorgensen, “Supply Chain Sustainability.”

⁵ Sisco, Chorn, and Pruzan-Jorgensen.

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⁷ John Elkington, “25 Years Ago I Coined the Phrase ‘Triple Bottom Line.’ Here’s Why It’s Time to Rethink It,” *Harvard Business Review*, June 25, 2018, <https://hbr.org/2018/06/25-years-ago-i-coined-the-phrase-triple-bottom-line-heres-why-im-giving-up-on-it#:~:text=Sustainability-,25%20Years%20Ago%20I%20Coined%20the%20Phrase%20%E2%80%9CTriple%20Bottom%20Line,become%20a%20mere%20accounting%20tool>.

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¹⁰ Christina Nunez, “Renewable Energy, Explained,” *National Geographic*, January 2019, <https://www.nationalgeographic.com/environment/energy/reference/renewable-energy/>.

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^{xii} Alexandra Spiliakos, “What Does Sustainability Mean in Business?,” Harvard Business School Online, October 2018, <https://online.hbs.edu/blog/post/what-is-sustainability-in-business>.

^{xiii} N. Sönnichsen, “Reasons to Invest in Clean Energy Technologies According to Utility Executives in the U.S. and Canada as of December 2018,” *Statista*, December 2018, <https://www-statista-com.eri.lib.byu.edu/statistics/521483/reasons-for-investing-in-clean-energy-among-electric-utilities-in-the-us/>.

^{xiv} CPG, FMCG, and Retail, “Global Consumers Seek Companies that Care About Environmental Issues,” Nielsen, September 9, 2018, <https://www.nielsen.com/us/en/insights/article/2018/global-consumers-seek-companies-that-care-about-environmental-issues/>.

^{xv} CPG, FMCG, and Retail, “Companies that Care About Environmental Issues.”

^{xvi} Robert C. Bird and Vivek Soundararajan, “The Role of Precontractual Signals in Creating Sustainable Global Supply Chains,” *Journal of Business Ethics* 164, no. 1 (June 2020): 81–94, <http://web.a.ebscohost.com.erl.lib.byu.edu/ehost/pdfviewer/pdfviewer?vid=0&sid=7ce4f552-4107-4fe0-9a86-1b0a4c282f81%40sessionmgr4007>.