Finding Financial Benefits of Sustainability Reporting in Supply Chains

November 17, 2016

Pamela Griesemer, VP Sustainability Services
KERAMIDA Inc.
Sustainability - a working definition:

“I know it when I see it.”
-Supreme Court Justice Potter Stewart, 1964

The definition of Sustainability is:

- Not standardized across industry (or anywhere)
- Stakeholder and context dependent
- Evolves with time and technology

Sustainability in logistics is a dynamic state where cost, speed and risk are in balance.
Sustainability Reporting - Outline

- Why Report
- What to Report
- How to Report
Why report?

“You can only manage what you can measure. In God we trust; all others must bring data.”
– Father of Management Systems, W. Edwards Deming

- Management Tactic
- Regulatory or Other Requirements
- Stakeholder Demand
Sustainability reporting is an effective tactic to **manage**: 

- Compliance
- Cost Savings and Efficiency (Best Practices)
- Risk Reduction and Cost of Capital
- Reputation, Marketing/Brand Perception
- Talent Attraction and Retention
- Corporate Responsibility
- Marketability (M&A)
Sustainability reporting is not wholly regulated but some reporting may be **required**:

- Client requirements (vendor qualifications)
- SEC requirements (10-K, etc.)
- EPA and CAA requirements
- Internal requirements to drive performance goals
Who are the **Stakeholders** demanding that the Logistics Industry report on their sustainability?

- Customers (you are part of their supply chain)
- Investors
- Employees
- Political leaders and Communities
- Industry alliances
Why Report? - Stakeholder Demand

RANKING OF THE MOST SERIOUS PROBLEMS

- Climate change: 60%
- Poverty, lack of food and drinking water: 58%
- International terrorism: 43%
- A major global economic downturn: 42%
- The increasing world population: 30%
- Armed conflicts: 24%
- The spread of an infectious disease: 19%
- The proliferation of nuclear weapons: 17%

Fig. 06

Ranking of the most serious problems currently facing the world as a whole, according to the Green Trends Survey (N.A. 2%, N = 1,800)

What to report?

“The reports of my Death have been greatly exaggerated.”

-American Author and Humorist, Mark Twain

- Types of metrics that define cost, speed and risk
- Examples of metrics that are material to the industry
What to Report? - Types of Metrics

1. **Financial Capital**
   - Larger market share
   - Operational efficiency/reduced costs

2. **Human Capital**
   - Talent retention and attraction

3. **Intellectual Capital**
   - Spur Innovation and creativity

4. **Social Capital**
   - Safe and Healthy Jobsite and Community
   - Transparency and Trust Improves Relationships

5. **Natural Capital**
   - Reduced impact on natural resources (water conservation, energy efficiency)

6. **Manufactured Capital**
   - Increased flexibility and speed to market of new products
   - Strategic use of Technology (Bio-mimicry)
What to Report? - Example Metrics

1. Accidents and Safety Management
   - Number of incidents and accidents
   - Total recordable injury rate
   - Fatality rate
   - Near miss frequency rate

2. Environmental Footprint of Fuel Use
   - Total fuel consumed and % renewable
   - Scope 1 emissions
   - NOx and PM air emissions

3. Competitive Behavior
   - Amount of associated fines and settlements

4. Fair Labor Practices

5. Working Conditions
What to Report? - Example Metrics
How to report?

“I did then what I knew how to do. Now that I know better, I do better.”

-Pulitzer Prize winning poet and author Maya Angelou

- Management Strategy (e.g. ‘decarbonization’)
- Show progress for increased market share
- Innovation for cost savings and increase profit
- Value Creation for investment capital
Reporting can be a management **strategy** to:

- foster Innovation
- catalyze the breakdown of silos
- advance organizational change
- ID new markets and new services
- plan for improving performance, making progress
How to Report? - Innovation

Report on innovative ways to impact metrics:

- **Sourcing raw materials and supplies**
  - Near shoring
  - Regional sourcing
  - Consider mode and time criticality

- **Manufacturing, assembling**
  - Forward stocking (customize ‘on demand’ nearer the customer)
  - Packaging design (excludes distribution packaging)
    - Consolidation of items into smaller volumes
    - Substitution with alternative materials
    - Packaging elimination
    - Light-weighting
How to Report? - Innovation cont’d

- Distribution
  - Distribution network design (urban consolidation centers, improve load factor)
  - Geographic distribution of warehouses
  - Packaging design
  - Route Management
  - Capacity Management
  - Modal mix strategy
Example: Carbon emissions risk can be managed with an innovative modal mix strategy which takes into account the cost, speed and CO2 efficiency of the various modes shown.
Operations

- Engine retrofit/replacement
- Modernized fleet, body redesign for reduced drag
- Hybrid or alternative fuel vehicles
- Regenerative breaking
- No or Low idling
- Eco-Driving

How to Report? - Create Value

Success factors of cooperation for ecological sustainability in logistics

- Information availability
- Performance measurement systems
- Collaborative decision-making
- Process integration
- Cost-benefit sharing

Areas of cooperation for ecological sustainability in logistics

- Standardization of supply and distribution processes, planning approaches, and packaging
- Consolidation of transports, reduction of empty runs through collaborative return freight, collaborative use of logistics infrastructure
- Collaborative optimization of volume and weight-based load efficiency

Ref.: Delivering Tomorrow: Towards Sustainable Logistics, Deutsche Post AG, 2010. Pg 104
How to Report? - Create Value

IDEAL IMPACT OF SUSTAINABILITY ON CASH FLOW

Operating cash flow

- Increase in sales
  - Better brand perception
  - Consumer demand for green products
  - Access to (new) markets
  - Attraction of skilled workers

- Decrease in costs
  - Increased energy efficiency
  - Access to subsidies and decrease of tax liabilities

Financial cash flow

- Easier access to finance
  - (Privileged) access to funds earmarked for sustainable companies
  - Better ratings
  - Investors attracted by long term shareholder value and better performance of stocks

How to Report? - Create Value

- Improved reputation
- Increased employee loyalty
- Reduced inaccurate information about the organization's corporate social performance
- Helped the organization refine its corporate vision or strategy
- Increased consumer loyalty
- Led to waste reduction within the organization
- Improved relationships with regulatory bodies
- Monitoring long-term risk and improving long-term risk management
- Led to other forms of cost savings within the organization
- Helped the organization to take measures to increase long-term profitability
How to Report? - Create Value

Value Creation

Sustainability Reporting

Management Systems

Best Management Practices

Compliance

EHS
✓ Environmental
✓ H & S
✓ Energy
✓ Natural Resources
✓ Raw Materials
✓ Green Product - LCA

EHS
✓ Community
✓ Governance

EHS
✓ FastTrack™
✓ Environmental
✓ H & S
✓ Energy
✓ Sustainability

✓ Environmental
✓ H & S
Thank you!

Pamela Griesemer  
V.P., Sustainability Services  
KERAMIDA Inc.  
pg@keramida.com  
www.keramida.com