



# ARE SMES FORCED TO CHOOSE BETWEEN KEEPING THEIR COSTS DOWN OR BEING ENVIRONMENTALLY FRIENDLY?

**S**MEs have been identified as the leading group that supports a substantial part of economic activities in the Asia Pacific (APAC) region, for example, Singapore alone has 150,000 SMEs. Due to their sheer number and vital influence, one cannot ignore the environmental impact that SMEs have. Although their environmental impact is not easily quantifiable, economists believe that internationally, SMEs contribute up to 70 percent of all industrial pollution with the APAC region reflecting higher numbers due to its rapid economic growth. It is therefore, important that SMEs take the lead in implementing environmentally friendly strategies into their businesses.

Previously, SMEs solely believed that companies had to choose between being environmentally friendly or generating profits for their firm. While this belief is slowly being eroded, a significant number of SMEs still believe that they need to choose one over the other. This perception makes them think that competitiveness would be affected if they incorporate green technologies into their processes; another belief is that adoption of technological innovation to achieve corporate social responsibility is costly. Moreover, SMEs are not incentivised to incorporate such innovation into their organisations because there has been no demand imposed by their global or regional clients.

## A CASE FOR USING IT LOGISTICS SOLUTIONS FOR GREEN TRANSPORTATION

Companies spend an average of 6.8 percent of their annual revenue on transportation costs. According to a study by Gartner, advanced functionality such as



load consolidation, shipment optimisation and low-cost carrier assignment, can reduce freight costs by as much as 10 percent.

With such a significant portion of annual revenue going towards transportation costs, enterprises should find methods to reduce costs without requiring large investments and yielding high returns. The question then begs to be asked, why should companies invest in IT logistics solutions as compared to increasing the energy efficiency of carbon dioxide emitters or using alternative sources of energy in the supply chain?

By increasing the energy efficiency of carbon dioxide emitters, firms aim to improve the energy efficiency of its own fleet. Alternatively companies could select "green" logistics providers. Despite being viable options, both these strategies require heavy investment and the returns are not yet substantive enough to entice SMEs to adopt such policies.

A consideration would be for companies to look for alternative sources of energy - biofuels or by using vehicles that run on electricity. However, studies by both Princeton University and the Nature Conservancy have shown that biofuels could in fact, cause further ecological damage. Additionally, the usage of electricity is not feasible, as many countries still do not have outlets where

vehicles can be re-energised.

Moreover the recharging process can take as long as half-day so it is impractical when logistics companies have to consider optimising their fleet. Finally, the return on investment for both these options is negligible; hence it would not be in a company's best interests to choose either option.

After studying the aforementioned choices, one can erroneously conclude that 'Green Strategies' are not viable options for SMEs. However IT Logistics Solutions does allow companies to affordably go 'green'.

IT Logistics Solutions such as Transportation Management Systems (TMS) enable companies to reduce their carbon footprints AND save costs. Optimising the transportation network, consolidating shipments and allowing firms to select more energy efficient modes of transportation seems the logical choice. TMS enables companies to select the least expensive mode of transportation through an automated carrier selection, which considers the necessary service levels for the shipments; when the shipment is packed, TMS calculates costs for all carrier options including multiple transportation legs and automatically selects the least expensive option.

By using a state of the art TMS, companies are able to

improve the quality of their transportation network, reduce the overall costs that are incurred during the shipment of goods and improve their carbon footprint through effective routes. Moreover, operational cost savings can increase up to 10 percent and an excellence in logistics execution enables further improved downstream processes - such as easier freight cost controlling and visibility into the supply chain.

## GOING ONE STEP FURTHER

Besides institutionalising IT logistics solutions into the supply chain, companies can consider environmental issues when making procurement decisions. By making ethical and sound procurement choices, companies can make their products more attractive to global and environmentally aware consumers and buyers, and at the same time reduce operating costs and comply with the increasingly stringent environmental regulations.

## CONCLUSION

With countries pushing for clean and green economies, 'greening up' could translate into business opportunities for enterprising SMEs and give them that key advantage. More government agencies, venture capitalists, angel investors and financial institutions are willing to fund businesses that are environmentally aware.

It seems like a profitable decision for SMEs to consider green options and adopt environmentally friendly strategies both into the supply chain and in their day-to-day business processes since it is likely to increase their bottom line going forward. **SME**