

With global governments pushing for clean and green economies, 'greening up' could translate into business opportunities for forward-looking SMEs



Lean is Green

■ SMEs discover that reducing costs and being environmentally friendly isn't mutually exclusive



Claire Umney

At the last count, the UK had over 4.5 million small and medium sized enterprises (SMEs)¹, accounting for 99.9 per cent of all private sector businesses. But while much of the attention is focused on well-known multinational corporations (MNCs), let's not forget that SMEs actually have a major share in the business world's environmental impact. As far back as 1998, the Marshall Report² estimated that 60 per cent of total carbon emissions in the UK were attributable to SMEs, the commercial sector and non-energy intensive industrial firms. Clearly, SMEs have the potential to make a sizeable contribution towards achieving the Government's objective to ensure that by 2050, CO₂ emissions are at least 80 per cent lower than in 1990.

Unfortunately, many SMEs still think that being environmentally friendly and generating profit is incompatible. The common misconception is that one must be chosen over the other; that incorporating sustainability into their business strategy would make them less competitive and that adopting technological innovation to achieve corporate social responsibility is too expensive. The fact that SMEs' clients usually don't demand green innovation, and climate change campaigners tend to focus on well-known, big corporations in order to gather attention and support,

does not necessarily assist in motivating SMEs to adopt a green approach in their business strategies.

In fact there are good reasons for SMEs to look at their environmental footprint. To begin with, it is widely accepted amongst business leaders that 'being green' is becoming a major selling point as sustainability is becoming more important both for consumers and government. Secondly, experts agree that CO₂ emissions will in the future be directly linked to cost, e.g. via additional carbon taxes, and will become a measure of efficient logistics performance. Supply chain executives will have to scrutinise how CO₂ emissions in their business area can be reduced.

But companies really shouldn't wait until then to change their thinking; there is a strong correlation between supply chain and cost efficiency and carbon reduction – 'going green' can actually save companies money. In fact, green supply chain logistics is starting to show added value, helping companies to increase competitiveness.

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Looking at the various sectors of today's supply chains from procurement to fulfilment, transport management represents an opportune area in which to

start improvements. According to a study carried out in 2013 by Gartner, SMEs spend an average of 6.1 per cent of their annual revenue on transportation costs. This implies that global goods movements significantly impact both CO₂ emissions and the total cost of supply chains; so clearly, this area represents an ideal, win-win opportunity for SMEs to tap into unrealised potentials. Strategies such as shipment consolidation, reverse logistics, payload optimisation, low-cost carrier assignment, efficient order management and strategic delivery route changes can reduce transport costs by as much as 10 per cent and lead to lower CO₂ emissions at the same time. Following such optimisation strategies allows SMEs – and in fact MNCs alike – to combine environmental, operational and financial objectives.

Software for green logistics

Software already plays an important role when it comes to planning and operating complex, global supply chain networks. And the supply chains of today's SMEs are by no means less complex and challenging than those of MNCs. To run truly efficient supply chain operations, reduce costs and environmental impacts, and cater for business growth, SMEs can no longer rely on manual processes and disconnected IT landscapes that operate in isolated 'silos'. The clear disadvantages of manual processes and disjointed systems is that they do not provide transparency over activities, discrepancies or status progress and don't offer links or benefits to other operational areas from procurement and distribution to fulfilment. Modern transport management systems (TMSs), for example, address all the transport optimisation processes mentioned above to reduce carbon footprints, from automated cargo consolidation and batch order processing to criteria-based carrier assignments. They also facilitate options to integrate these processes into the wider supply chain context so that upstream and downstream workflows outside of the TMS – e.g. in the area of order or customs management – benefit at the same time. As well as increasing operational efficiency, this kind of logistics software provides scope for a shift to lower-emission transport modes such as ship or rail, while still meeting the demands of highly synchronised just-in-time (JIT) processes.

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visibility solution. Many transports or expedited deliveries only become necessary because large sections of an entire supply chain lack visibility and a full picture is not available. Delays at one point in the supply chain are often recognised too late to react in a budget-conscious, resource-conserving and environmentally friendly way. When such discrepancies occur, delivery problems can often be resolved only by using air freight or courier services. By contrast, visibility platforms enable logistics managers to react proactively when faced with delays, whether they're caused by traffic jams, accidents, natural events or long waiting times at Customs. They help companies to fulfil their environmental, operational and financial objectives by collating the 'economic' data from existing logistics systems and supplementing these with 'ecological' details, which in turn helps to measure and plan sustainable business growth. Clearly, excellence in execution can also contribute to a company's sustainability goals.

There is also another way in which software can make a decisive contribution, and that is by combining CO₂-IT and comprehensive supply chain management (SCM) software. Comprehensive SCM systems offer complete sets of business services for end-to-end logistics, including TMSs, warehouse management systems (WMSs) and global trade management systems (GTM). They standardise, automate and accelerate supply chain execution processes while creating transparency through visibility platforms. Many operational logistics decisions are already automated today, e.g. selecting a shipper or balancing inventory. If CO₂ emissions are to be considered for such decisions, they have to be made available to such comprehensive SCM systems as a parameter. That is exactly what logistics managers expect of future IT systems – they want to be able to choose and decide: do I need the fastest or the cheapest transport provider; or can I switch to the 'greenest' route? The combination of SCM and CO₂ IT is good for both the environment and business.

For SMEs it's important to find the right provider that offers a portfolio to suit both their existing IT landscape and scope of possible investment. Such solutions should, for example, provide a modular structure so that systems can be expanded with additional functions, as the business grows. Choosing a modular IT infrastructure that enables the selection of functions in accordance with actual demand prevents SMEs from ending up with



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features they don't require or missing out on functional depth where it's needed most. The right solution should also be available in different delivery forms in order to seamlessly integrate them into existing infrastructures, e.g. as a convenient online solution, a powerful client installation or as a slick ERP system integration. This way, it fits any business plan and always offers the possibility of functional expansion in the future.

The future is green

The future will be shaped by data collection, analysing the flow of goods and calculating the resulting CO₂ emissions. The software solutions outlined above show where the most innovative IT for green logistics will be coming from: it's the providers of comprehensive SCM software, who already monitor and operate the entire value chain and collate all data about mileage, transit routes, inventory, distances and itineraries. In a first step,

this data can be merged with the relevant CO₂ benchmarks. In a second step, the 'greenness' of a shipment can then be calculated at the touch of a button.

With global governments pushing for clean and green economies, 'greening up' could translate into business opportunities for forward-looking SMEs, as more and more government agencies, venture capitalists, angel investors and financial institutions are willing to fund businesses that are environmentally aware and open to technological innovation. Since it is likely to increase their bottom line and facilitates business growth at the same time, it seems to be the more profitable decision for SMEs to consider 'green' options and adopt environmentally friendly strategies both in the supply chain and in their day-to-day business processes. Clearly, by being lean, SMEs can also be green.

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ESSENTIALS

ABOUT THE AUTHOR

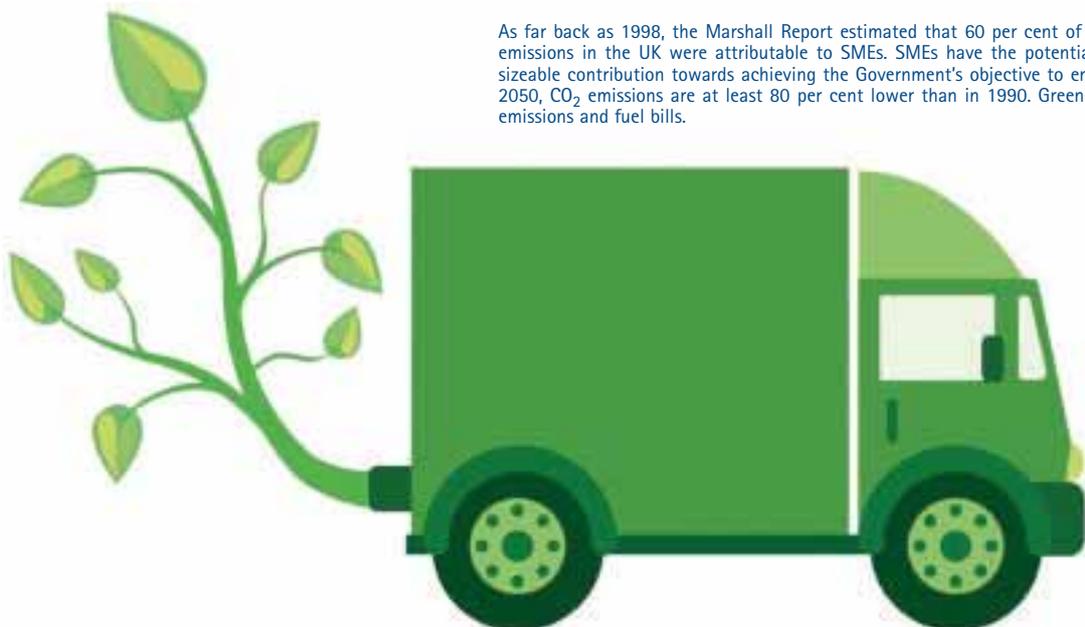
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3. Gartner; 'Large Companies Behind in Transportation Technology Adoption and Paying For It', Publication Date: 8 April 2010

FURTHER INFORMATION

For more information on the issues raised in this article, why not join our Environment and Sustainability Forum? See our website www.ciltuk.org.uk for more details.



As far back as 1998, the Marshall Report estimated that 60 per cent of total carbon emissions in the UK were attributable to SMEs. SMEs have the potential to make a sizeable contribution towards achieving the Government's objective to ensure that by 2050, CO₂ emissions are at least 80 per cent lower than in 1990. Greener trucks cut emissions and fuel bills.