

Article

SUPPLY CHAIN SUSTAINABILITY

Catch the opportunity to accelerate your journey towards a sustainable supply chain

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In the aftermath of COVID-19, focus on the sustainable agenda will strengthen. Therefore, companies need to act now to accelerate or kick-start their transformation towards a sustainable supply chain. Here, we introduce five key transformation areas, and how they can support the sustainable agenda in your organisation.

Over the past years, the Sustainable Development Goals (SDGs) have received increasing attention. But with the current COVID-19 pandemic, focus has temporarily shifted towards mere business survival and away from accelerating the sustainability agenda. However, from the end of 2020 onwards, we will likely see a strong rebound of focus on sustainability, and the importance is expected to drastically increase in the years ahead as the lack of environmental, social and economic sustainability is the long-term crisis of modern society.

The sustainability crisis shows profound similarities with the current COVID-19 crisis. Both are global public health issues and both require considerable changes from how we do business today to mitigate future potential risk scenarios and ensure that the business stays viable. Looking at ways in which corporations have responded to the COVID-19 pandemic, we see that many are capable of changing fast when they need to.

Through its imminent health threat, COVID-19 is leaving its mark on societies across the globe, and as a result people have become more conscious about health and safety. This is expected to have a lasting effect on consumer and investor behaviour and will give rise to companies that understand how to incorporate sustainability awareness and transparency into their supply chains.

Create supply chain flexibility and resilience with five transformation areas

How can you turn the COVID-19 response into an opportunity? Organisations will need increased flexibility and resilience while also enhancing sustainability. This requires you to rethink your supply chain and focus on five transformation areas: **structure, transparency, alignment, agility and antifragility and risk management.**

- **Structure:** A nearshoring trend is likely to occur, and this can help companies reduce emissions along their supply chain and revise their labour standard policies.
- **Transparency:** Visibility across all supplier tiers, stock levels and orders is more important in a volatile, uncertain, complex and ambiguous (VUCA) world.
- **Alignment:** Fragmented supply chains need to be aligned and consolidated.
- **Agility and antifragility:** Organisations need to act on shorter planning cycles and make agile decisions.
- **Risk management:** End-to-end work on risk exposure, risk transparency and proactive risk management is required.

Reinforced attention on sustainability in the years to come

Looking at the pre-COVID-19 situation, the concept of sustainable corporations is not new. The topic first got recognition through the introduction of Rachel Carson's book *Silent Spring* in 1962. But it is only in the last decade that the sustainability agenda has received large-scale attention in the business world with the release of the SDGs in 2015 giving the agenda a significant push. COVID-19 and the resulting economic crisis, however, abruptly moved the attention from sustainability to fighting for an organisation's survival.

In the years to come, we expect a renewed focus on supply chain sustainability. Looking ahead, we anticipate a division into the following four stages:

Stage 1. Fighting for survival

- Focus is on surviving the crisis, reducing costs and keeping the business running rather than focusing on the internal sustainability agenda and SDGs.
- Uncertainty of future demand and supply makes it difficult to follow through with the current sustainability agenda – if any is available.

Stage 2. Redefining and re-evaluating the supply chain

- The pandemic uncovered weaknesses of current supply chains, and there will be a shift away from minimum lead times at the lowest possible price and towards dual sourcing and regionalisation.
- This gives companies the opportunity to redefine their sustainability agenda and put increasing focus on the topic when redesigning their supply chain.

Stage 3. Implementation of the sustainable supply chain

- A fast and successful implementation of the sustainable supply chain will cater to reaffirmed demands of stakeholders and customers on full sustainability disclosure and transparency.

A fast implementation will also give a competitive advantage and can lead to financial benefits.

- Upcoming laws and regulations, e.g. on EU and national level, will demand increased sustainability. By making sure to stay up to date and keeping the supply chain sustainable and agile, compliance will be secured.

Stage 4. Continuous improvement

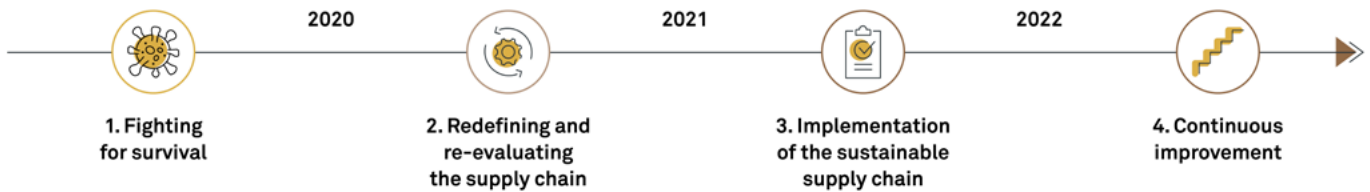
- The supply chain needs to be constantly improved and adapted to market trends and regulations.
- Relevant Sustainability Performance Indicators (SPIs) will guide correct decisions.

Even though uncertainty currently prevails, we can turn the learnings from the pandemic into an opportunity towards developing sustainable supply chains with potential financial benefits as well as contributing to the economy of the future.

Accelerate your sustainability transformation by focusing on five key areas

The COVID-19 crisis has forced corporations to rapidly change their way of working, and now it is up to them to leverage the pandemic to create a positive impact on the environment. The most important rule is that you must incorporate the sustainability agenda into all projects and tackle challenges step by step to reach the goal.

The sustainability transformation of supply chains



Focus on supply chain sustainability

| Low | High | Very high | |
|--|--|--|---|
| <p>Focus is on surviving the crisis rather than making the supply chain more sustainable.</p> <p>Due to the crisis, health and safety will be more in focus for investors and customers in the years ahead.</p> | <p>Organisations will redefine the supply chain across five transformation areas:</p> <ol style="list-style-type: none"> 1. Structure 2. Transparency 3. Alignment 4. Agility and antifragility 5. Risk management | <p>A fast and successful implementation of the sustainable supply chain will cater to reaffirmed demands of stakeholders and customers on full sustainability disclosure and transparency.</p> | <p>The supply chain needs to be constantly improved and adapted to market trends as well as regulations.</p> <p>Relevant Sustainability Performance Indicators (SPIs) will guide correct decisions.</p> |

From the five transformation areas, *structure* and *transparency* show more concrete implications from a supply chain sustainability perspective. It is essential that you incorporate sustainable solutions across these areas to meet customer and stakeholder expectations.

From a **structural perspective**, it is crucial that you make the correct decisions related to the redesign of your supply chain footprint and strategy as well as introducing relevant SPIs as structural decision criteria, e.g. carbon emissions. Moreover, a circular supply chain with reuse of material can decrease your company's need for importing primary and secondary material from distant countries, and hence also reduce your supply risk as well as lower your environmental impact.

To make supply chains more sustainable through **transparency**, a first step is to use upcoming supplier dialogues to upgrade the maturity of the collaboration to the next level and at the same time push sustainability requirements into new contracts to also hold your suppliers accountable for sustainability. By creating transparency across the supply chain both upstream and downstream, you also support your company in staying agile and reactive to new sustainability laws, regulations and stakeholder expectations which quickly need to be implemented.

We believe that the accelerated sustainability transformation has already started. Let us leverage this opportunity together through tailored solutions across the five key transformation areas to achieve a sustainable supply chain. It is important to evaluate what supply chain changes are required within your organisation, and how they then can support the sustainability journey. We are keen on making supply chains fit for a sustainable future. Please reach out to start a conversation and assess the potential for your supply chain. It is your time to leverage the opportunities of one crisis to prevent another.

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