

## Sustainable profits, manageable risk

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"Companies that take the lead on sustainability will be market makers rather than market takers." Those are not the words of an environmental guru, but the words of the World Economic Forum's Consumer Industries community, which features consumer giants like Nestlé, Kraft and Unilever.

Market makers know that sustainability is all about profitability. They know their consumption of commodities needs to be as efficient as possible if they are to have a viable future. They know they must look at the raw materials consumed, the type of energy used in operations, the logistics for supply chains and the potential costs associated with emission regulations, and then act to minimize the impact -- and the costs -- of each.

In other words, they know that sustainability isn't part of the warm and fuzzy agenda: it's top-of-mind for hard-nosed, successful businesses. For a business to be sustainable -- if it is to have a viable future -- it must make the most efficient and effective use of resources.

Market makers also know that increased commodity price volatility and global product movements means sourcing and supply chain management has gotten riskier and more complex. Businesses need better visibility and decision-support tools to operate in this fast-changing environment. They need something more than crude applications and traditional supply chain tools; they need systems that enable a move to "market-based" supply chains, where success is measured not only against plan and budget, but also against the market. The question is not only did you achieve the plan, but could you have sourced at better prices and improved gross margins more?

And Managers intuitively understand that their current system environment of home-grown software and Excel spreadsheets does not provide the advanced functionality required to manage a "market-based" supply chain. Instead of driving efficiency and effectiveness, the current systems are creating risk.

### The sustainability imperative

Between 2010 and 2030, the world's middle class, with their middle-class purchasing power, will triple in size. An extra 70 million people each year will acquire the disposable income to spend on discretionary items, rather than just bare essentials.

But if everyone in this newly emerging middle class were to adopt the historic consumption patterns of the average UK citizen, three planet Earths would be required to support them. For a North American lifestyle, five planets would be needed.



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Of course, any discussion of this nature will almost inevitably lead to renewable fuel sources. "New energy technologies will open up new energy sources, and new end-use technologies will reshape demand patterns, just as they have over the last 150 years," according to *Outlook for Energy -- A View to 2030* by ExxonMobil. Although it's an important topic, to make alternative fuels the primary focus of the sustainability conversation is to miss the point. "It is important to remember, however, that these shifts happen slowly, over the course of decades," continued the *Outlook for Energy* report. We've seen the primary sources of energy change slowly in the past; wood was the largest energy source in the mid-1800s and by 1900 coal overtook wood and then by the mid-1900s oil became the dominant energy provider. Biofuels currently account for around three percent of fuel consumption and growth estimates don't anticipate it breaching the ten percent mark by 2030.

And sustainability is not limited to energy consumption. It extends to all raw materials. Constraints on resources will affect every business, regardless of sector or geography. From the energy and fuels required by manufacturing plants and transportation sources, through to the raw materials and commodities that are the core ingredients in food and beverage products, the global value chain is increasingly exposed to tighter availability -- and to rising, more volatile prices as a result.

In this environment, the businesses that will survive and thrive are those that are best equipped to manage their commodity sourcing and supply. True business sustainability will come from the ability to tie market-based decisions to supply chain management.

### **The new supply chain**

Improvement of supply chains has historically focused on moving products from one place to another as efficiently as possible. The goal has been to increase information visibility and minimize inventory in order to lower costs.

This approach works, as an example, for companies that buy car parts from dedicated suppliers for their auto-making businesses and move these parts to assembly plants. But commodities, by their very nature, are different. For example, flour can be made from a mix of Hard Red Winter Wheat, Dark Northern Spring Wheat and Soft White Wheat. The decision of what and where to source can be based on the market price of each wheat, the availability and efficiency of alternative processing plants and the cost to transport. Commodity supply chains give participants different options compared to traditional supply chains and require different decisions to be made that affect profitability.

These decisions must be based on market conditions, not just cost and budget, and must be made at multiple points along the supply chain. Complete transparency of the entire "source-to-cash" business process is vital, with all commodities accounted for in the transaction decision, including the base commodity or raw material, fuels -- biofuels, electricity, oil, coal or natural gas -- to run operations, whether it's for a utility, a refinery or a manufacturing plant, packaging such as metal and cardboard, transportation costs like shipping, emissions, FX, and secondary costs such as broker fees, insurance and port fees.

### **Sustaining the supply chain**

In this world of true sustainability, where a profit focus is synonymous with efficient consumption of commodities, a real-time, enterprise-level, transparent view of the entire supply chain -- the sourcing, the movement and the storage of multiple commodities -- is critical.

Organizations must invest in advanced solutions, in order to operate a "market-based," "source-to-cash," supply chain in real-time. Such solutions have been designed from the ground up to handle the sourcing, trading, risk management, physical movements and accounting of commodities on an integrated platform. These valuable resources can provide simulation modelling of various scenarios, along with real-time business intelligence to support decision making.

This is the new paradigm for raw material sourcing and risk management. For organizations, the issue is no longer whether plan and budget were met, but whether better decisions could have been made, resources used more effectively and more money made based on the behavior of the commodity markets.

These smart decisions now extend to developing a sustainable business model. And the bottom line is that as companies come under growing pressure to safeguard and manage natural resources; getting sustainability wrong can put a business out of action. That's the message of the World Economic Forum, and it's the message that Boards take seriously.

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