VIOTAS

5 Ways To Make Sustainability & Profitability Go Hand In Hand

One of the biggest misnomers about becoming a more sustainable business is that it costs the business in profitability. However, at VIOTAS, we prove every day that sustainability can make business sense. In a recent media interview, Unilever's CEO Alan Jope highlights what's possible, "We believe that the sustainability commitments we have made have saved us €1bn over the last eight years, and a lot of it comes from an early decision we made on shifting into green energy. One hundred per cent of Unilever's electricity used around the world now comes from green sources, we've saved an enormous amount of money."

Respected research by **Oxford University** confirms that good sustainability and ESG practices correlate with a reduction in operating costs, better company profitability and increased share price performance. Here's what business leaders need to do to realise increased profitability, hand-in-hand with increased sustainability.

1. Earn from sustainability initiatives.

Government grants and tax incentives for sustainability have a pretty good level of awareness, though these schemes are subject to change and it's hard to make long-term strategic decisions based on this alone. However, these aren't the only ways to earn from sustainable activity.

97% of Australian executives we **surveyed** said energy management was part of their sustainability action plan. Yet only 34% were even aware of demand response, one of the key tools in profitable energy management. Demand response is an electricity market mechanism whereby large electricity customers are financially rewarded for balancing the grid at times of peak demand, reducing the reliance on using conventional power stations to do so.

This is already widely participated in by large industrial electricity customers around the world, who reduce their electricity consumption at peak times, and is gaining rapid traction in the data centre market also.

"Increasing our participation in Demand Response was a no-brainer for us and partnering with VIOTAS enabled us to enter the FCAS market with minimal effort and disruption on our side. Intercast is not only supporting the grid through demand response but is now able to react instantaneously to frequency control events in a commercially beneficial partnership which helps keep the lights on and reduce carbon emissions across South Australia."
Brett Lawrence, General Manager, Intercast & Forge

If you're interested to see how this forward thinking Australian company is already making this work to their benefit, you can read their story **here**.

2. Focus on efficiency

One of the easiest ways to provide a tangible link between sustainability and profitability is through operational efficiency. If you can reengineer the way you do things to use less resources and still have the same outcome in terms of product or service, you'll make savings that drop straight to the bottom line. There are plenty of examples of companies doing this successfully, for example as far back as **2009, Florida Ice & Farm's Pepsi** bottling plant became the world's most water-efficient, using just 2.2 litres of water per litre of beverage, down from a company average of 12 litres. During that period, the company saw a compound annual growth rate of 25% and EBITDA margins of 30%, both twice the industry average.

There are some great examples of similar efficiency gains in Australia, take the cotton market as an example. This industry has recorded **increased profitability** thanks to sustainable measures such as a reduction in water usage.

In the report, **"Innovating for a Sustainable Future"**, NTT partnered with ThoughtLab and found that 44% of companies experience improved profitability due to sustainability. Among the top benefits attributed to sustainability initiatives, 33% of organisations experience decreased costs through improved efficiencies, 32% experience greater innovation and/or new business models and 24% experience increased revenue growth. There are two excellent examples from the Australian SME sector that were featured in **this report**. The research makes clear that taking a "lean and green" approach to sustainability has a positive economic output.

There are savings to be made in energy too. The U.S. Department of Energy (DOE) states that the United States spends over $200 billion dollars per year to power manufacturing plants. In September 2019, the DOE reported that its Better Plants and Better Building partners (focused on energy productivity improvements and accelerated adoption of energy-efficient technologies) have cumulatively saved $6.7 billion in energy costs. These partners have more than 3,200 facilities and represent roughly 12% of the U.S. manufacturing energy footprint.

As early as 2014, **McKinsey** found a significant correlation (95 to 99 percent confidence) between resource efficiency and financial performance in sectors as diverse as food products, specialty chemicals, pharmaceuticals, automotive, and semiconductors.

3. Repair, reuse, repurpose

There are two main elements to this strategy, both of which play into the wider idea of the circular economy. The first looks at equipment and fixed assets that you hold within the business. Extending the life of equipment through intelligent maintenance or adding upgrades and alterations rather than wholesale replacement not only saves your capex budget, it's also better for the planet.

The second element is around raw materials and consumables. By purchasing recycled materials and indeed recycling waste materials produced within your business, you reduce your environmental impact and reduce costs. An easily relatable example of this is shipping pallets. If you insist on using ones of a specific colour, for instance your brand colour, you'll be buying pallets made from virgin materials. However, if you can buy recycled, you radically reduce your cost per unit.

4. Make sustainability a differentiator

Many companies are choosing to do business with those that share their values and hit ESG metrics, rather than automatically going for the cheapest option. By making your sustainability efforts part of your market positioning, you can avoid the race to the bottom on price and shoulder out competitors who haven't embraced it yet.

A great example of this is the automotive industry, where many manufacturers won't work with suppliers who aren't ISO 14001 compliant, the international standard that specifies requirements for an effective environmental management system (EMS). This immediately narrows the pool of potential suppliers to these companies, giving those with good environmental credentials a competitive advantage.

Global megabrand Unilever have been seeing that their purpose led brands consistently outperform their conventional brands. In 2019, they **reported** that "Brands taking action for people and the planet grew 69% faster than the rest of our business last year". Many sustainability themed Australian brands have **recorded** outstanding YoY sales growth, indicating the consumer appetite for more green credentials in their purchasing.

5. Educate and encourage your value chain

If your suppliers aren't leveraging the gains offered by the first three points in this guide, they'll be charging you more than they need to, as their operating costs will be higher. Encouraging or even mandating sustainable practices as we saw in the automotive example from the previous section, should mean you fend off price hikes more easily or get better prices.

For your customers, encouraging them to support sustainability initiatives and getting them to see the benefits allows you to become more than simply a supplier. You become more of a partner for them, and they'll value your commitments to sustainability as a contributor to their own efforts.

It also protects you from reputational damage by association, which can really hurt sales figures. You may recall **Nike's supply chain scandal** of the 1990's. Whilst the first response was to deny all knowledge of inhumane practices in its contract factories, in 2005 it disclosed who all of them were, their names and addresses, the first company in that industry to do so. This was followed more recently by a global interactive map where you can see not only where the factory is and what's made there, but also key stats like the proportion of women and migrant workers employed there. They've turned this transparency into a marketing tool and for the most part turned a scandal into a success story.

Your next step towards profitable sustainability

Now that you've read our "5 Ways To Make Sustainability & Profitability Go Hand In Hand", it's time to take the simplest first step towards making it work in your organisation. VIOTAS market-leading technologies allow your organisation to take full advantage of **FCAS** and **Demand Response** services and get paid. Not only are you adding another revenue stream to your bottom line, but you're also enabling more sustainable and renewable energy usage.

To discover how you can implement this in your business at zero cost and without bringing any additional people or skills into the company, get in touch:

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