

CONVOY

THE STATE OF SUSTAINABILITY IN TRANSPORTATION

Survey analysis of sustainability trends in trucking



November 2020

Macro-level trends in the industry

Convoy's mission to build the most efficient digital freight network is rooted in our desire to eliminate waste in the supply chain. We enable our transportation industry partners to increase their supply chain efficiency through our optimized, connected network of carriers. Our business is inherently tied to the sustainability of the supply chain, and we are focused on improving both the environmental impact and social responsibility of our network. This State of Sustainability in Trucking report outlines the priorities, management, and future outlook of sustainability in the transportation industry. We believe our findings and analysis will enable our partners to improve their understanding of sustainability and to engage with others along the journey.

To build this report we gathered insights from over 120 companies to find out how they are approaching sustainability. Companies such as The Home Depot, Molson Coors, and Nestlé face a multitude of sustainability risks and opportunities in their supply chains. This report will highlight the viewpoints of these companies, along with others, about how they and their transportation departments are structuring their approach to supply chain sustainability.

The vast majority of companies understand that improving sustainability in the supply chain is a vital task. More than 80% of the companies we surveyed said that sustainability was important or very important to their business. There was, however, less cohesion around how to define and manage sustainability. We will outline and compare the different approaches to managing sustainability risk and offer insights into how best to get started or continue progressing.

The Council of Supply Chain Management Professionals defines supply chain sustainability as “the management of environmental and social impacts within and across networks consisting of suppliers, manufacturers, distributors, and customers in line with the UN Sustainable Development Goals”. Using this initial framing, this report will identify the biggest levers that transportation companies can use to have a positive impact and increase their sustainability. For some companies, this includes reductions in greenhouse gas emission through the reduction of empty miles or other efficiency improvements. For others, implementing policies that improve carrier safety and diversity, or increase driver quality of life, will have a lasting impact upon their sustainability performance and reputation.

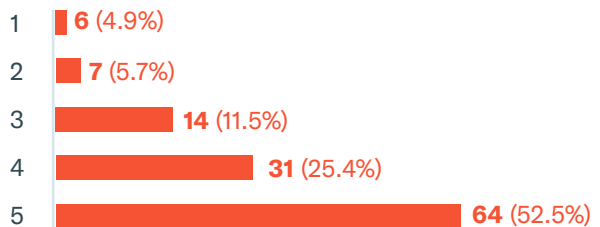


THE OPPORTUNITY OF A DIGITAL FREIGHT NETWORK

One of the largest sustainability risks in the transportation industry comes from the emissions associated with transporting products through the value chain. Some amount of these emissions are unavoidable, especially as we continue to be reliant on fossil fuels to power our transportation vehicles. Even without the mass adoption of EV or alternative fuel vehicles, there are many strategies to improve transportation efficiencies. One clear strategy that came to light during our data collection was the capability to reduce the number of empty miles driven by carriers. More than three-quarters of our surveyed companies said that reducing empty miles was important or very important.

Percent of respondents on a scale from 1 (not important) to 5 (very important).

How important is reducing empty miles to your transportation team?



What was also clear, however, was that there was no universal strategy on how to reduce empty miles. When asked what their most effective strategy for reducing empty miles was, companies reported a variety of approaches such as “round trip planning”, “cooperative transportation”, “access to better data and transparency”, “optimizing carrier networks”, and “intermodal shipping”. Many others struggled to describe a strategy that they were using to reduce empty miles. The reality is that what works for one company might not work for another. An account manager for Clofine Dairy & Products Inc. describes how they are getting better at anticipating their customers and suppliers.

“We’ve been better planning our moves to help reduce empty miles. If we have a delivery for a customer close to a potential pick up from one of our suppliers, we do our best to keep the same truck on both moves to make sure he’s as empty for as little time as possible, and running longer loaded with product. It works better for us, the driver, and the environment.”

Louis Cavaliere, Account Manager at Clofine Dairy & Food Products Inc.

We believe that our digital freight network provides an opportunity to consolidate many of these techniques into an approach that can save money and time, all while having a positive impact on the world. Our network also provides transparent data and insights that can help measure sustainability performance across the supply chain.



WHO WE TALKED TO

During October of 2020 we surveyed 122 transportation professionals from across the country. The stakeholders that we surveyed come from a wide variety of industries and company sizes, allowing us to gather diverse input representative of the various interests and viewpoints within the industry.

Respondents at a glance

122 survey respondents

Headquarters in **29** states

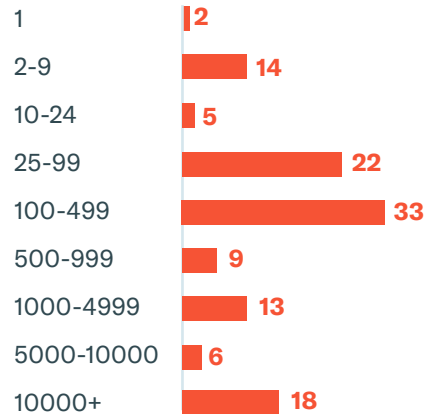
43 industries represented

Number of respondents

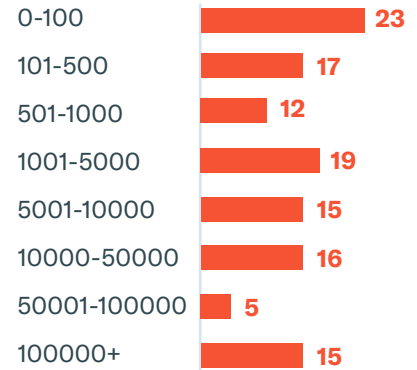
Job Level



Company Size # of employees



Annual Truckload Value # of Shipments

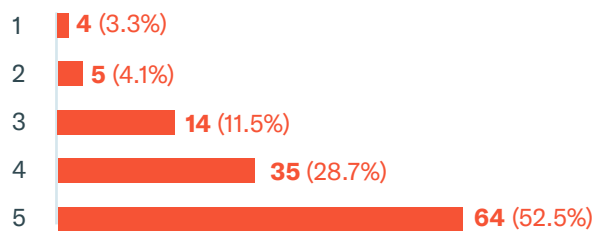


THE LINK BETWEEN SUSTAINABILITY AND THE SUPPLY CHAIN

There is near universal recognition of the importance of sustainability to the transportation industry. More than 80% of respondents said that sustainability is important or very important to their business. The pressure to act sustainably is present across all of the geographies and industries. In fact, just 3% of respondents do not believe that sustainability is important to their businesses. While these initial results aren't surprising, how companies define and manage sustainability can vary widely depending on industry or organizational structure. These are the nuances we wanted to investigate.

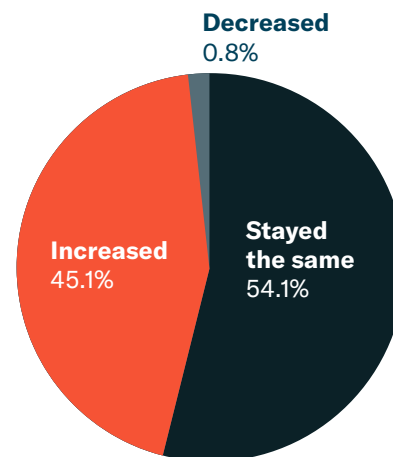
Percent of respondents on a scale from 1 (not important) to 5 (very important).

How important is sustainability to your business?



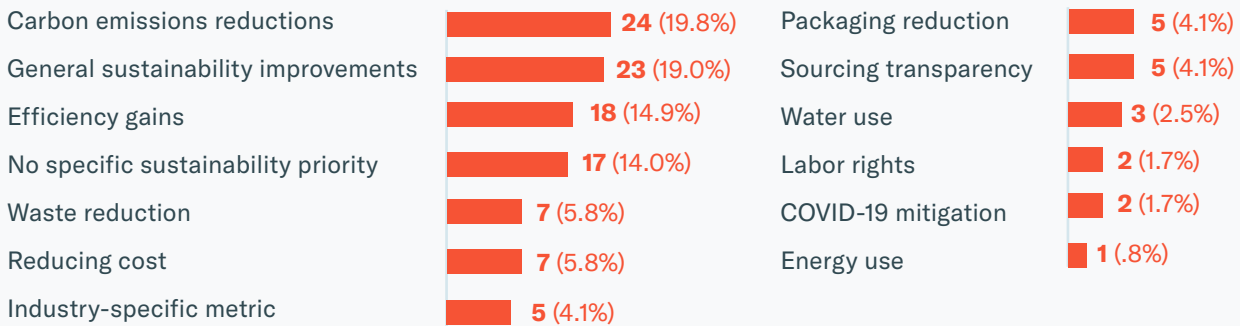
Nearly half of the companies that were surveyed increased their investment in sustainability initiatives over the last 12 months. The other half indicated that they had kept their level of investment constant, with only one respondent reporting a decrease in their sustainability investment. Even in a highly uncertain year with numerous disruptions, companies have remained confident that sustainability spending is a sound investment.

Investment in sustainability over the last 12 months



However, defining, measuring and improving upon sustainability is a more complicated proposition than simply acknowledging it. The broad term of sustainability can be understood differently by different companies, especially considering the wide range of size and regions that were surveyed. We also wanted to investigate how transportation companies manage their sustainability risks. By understanding the priorities, challenges, and underlying forces behind sustainability, we can better understand the current state of the industry.

What is your main sustainability priority right now?



The most frequently cited sustainability priority is the reduction of carbon emissions. Climate change is increasingly seen as a defining environmental risk for many companies, and the appearance of carbon at the top of this list is not surprising. The transportation industry is responsible for 28 percent of the emissions of the entire country. Any reduction in the per-mile carbon emissions from trucking could have a drastic impact on the country’s ability to reduce emissions to more sustainable levels. Thankfully, many of the other frequently mentioned priorities will have the added benefit of also decreasing carbon dioxide emissions from transportation. For example, implementing efficiency gains, such as reducing the empty miles driven by freight vehicles can result in significant carbon emissions reductions.

Some companies, such as Stein Fibers, take a holistic approach by combining many different approaches in an effort to reduce carbon emissions.

What has been your most successful strategy for reducing your carbon footprint this year?

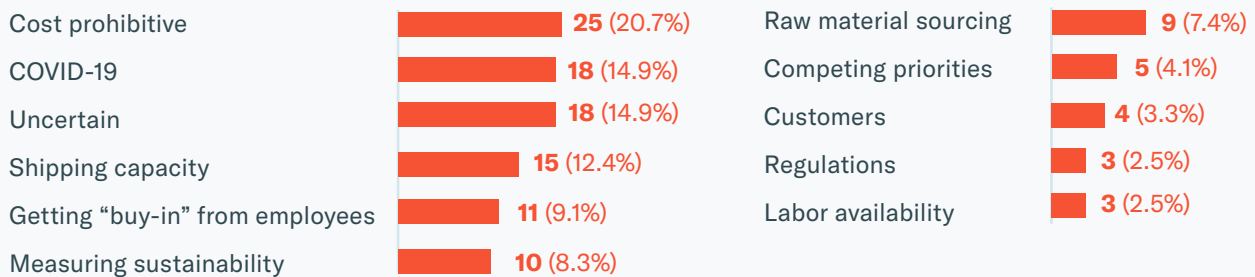
“In office, transitioning from paper to paperless. In regards to shipping, dropping trailers when possible, so drivers aren’t sitting with idling trucks for loading/unloading. Combining partial shipments and doing 2 picks/2 drops rather than using LTL for smaller loads.”

Michelle Jordan, Logistics at Stein Fibers

Some respondents have also identified the fact that sustainability improvements can be beneficial to the bottom line. More than 5% of respondents indicated that reducing cost is their main sustainability priority. But beyond this single priority, increasing efficiency, reducing emissions, or reducing packaging are also activities that can contribute to significant cost-savings. Investing in these activities takes both time and effort, but companies that recognize the simultaneous wins for both profit and planet are companies that understand the full power of sustainability.

The journey to becoming a sustainable transportation company is not without difficulty. We also asked companies what their biggest challenges were when it came to making sustainability improvements. Their responses highlight a number of barriers that must be overcome.

What is your biggest challenge in achieving your sustainability goals right now?



Despite the recognition by some companies in the previous question that sustainability improvements can reduce cost, more than twenty percent of respondents reported that their biggest challenge in achieving their sustainability goals was cost. In fact, cost was the most frequently cited challenge in making sustainability progress. Particularly at companies where there is no leadership buy-in on sustainability, or companies that have too many competing priorities, implementing or acting on sustainability can be a challenge. Convoy remains convinced that sustainability and profitability can work hand-in-hand, but a full understanding and appreciation of sustainability is necessary in order for this to work.

Other frequently cited challenges include the COVID-19 market conditions that many companies are facing, as well as a general sense of uncertainty on identifying sustainability challenges. Companies that are uncertain about sustainability challenges are unlikely to make headway in making sustainability improvements.

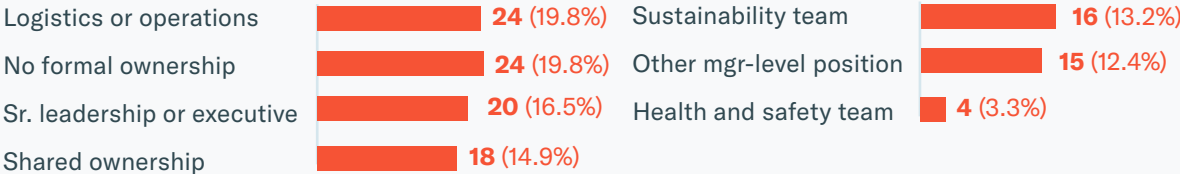
Can you explain how ‘complexity’ is the biggest challenge in reaching your sustainability goals?

“Production complexity is always a challenge for a big shipper like us with multiple ship locations. Monitoring production issues, sourcing changes, demand patterns and carrier capacity all play into this equation.”

Jake Killgore, Regional Transportation Manager at MolsonCoors

We also asked how companies govern sustainability issues and what the primary drivers were for sustainability improvement. **There were a variety of responses regarding where sustainability was located within an organization, with no single role or team receiving more than 20% of the total.** The most commonly reported team with sustainability ownership was the logistics or operations teams, with 24 companies reporting that sustainability was managed from these teams.

What role or team is responsible for managing sustainability at your company?



Only 13% of companies reported a dedicated sustainability team with ownership over sustainability risks, opportunities, and improvements. US Foods is one example of a company which manages sustainability through a centralized office.

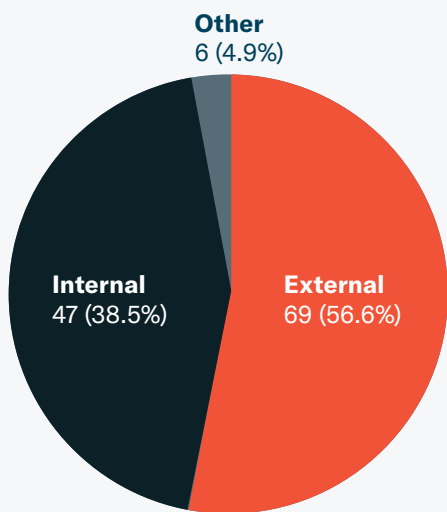
“Corporate Social Responsibility (CSR) is responsible for managing sustainability at our company. In our 2019 Corporate Social Responsibility Report, we are pleased to share current progress highlights for each of our key CSR focus areas: People, Planet and Products.”

Eric Williams, Lead Logistics Analyst, Planning & Analysis at US Foods



We found that the reason why companies take action to improve sustainability are split between external and internal forces.

Who is the primary driving force for commitment to sustainability?



External	69 (56.6%)
Customers	61 (50.0%)
Investors	8 (6.6%)
Internal	47 (38.5%)
Executives	32 (26.2%)
Transportation department	15 (12.3%)
Other	6 (4.9%)

57% of respondents reported an external driver for sustainability. **The most commonly reported reason for making sustainability a priority is customer demand.** End-users and retailers want to be sure that they are being sustainable when they buy or sell a product. Much of the impact of a product is associated with physically transporting it through the value chain, and customers recognize the need to decrease the environmental impact of this process. Investors were mentioned less frequently as a driver of sustainability, but we expect this to increase over time with recent announcements from leading firms such as Blackrock on the importance of sustainability in investing.

Another 39% of companies identified internal stakeholders as the guiding force behind the desire to make sustainability improvements. Company executives, driven by their Board of Directors or by investor pressure, are increasingly looking for ways to improve the sustainability reputation of their company. These executives are often aware of the link between sustainability and the bottom line, and push for sustainability improvements as a way of improving efficiency and cutting costs. For companies like Nestlé, the existence of a separate transportation department can also be a driving factor for improving sustainability.

How did Logistics and Manufacturing Operations become the leaders in driving sustainability at Nestlé?

“Logistics KPIs that are implemented across the day to day manufacturing and delivery operations have played a significant role in the business successes, especially as tracked against key business sales & growth initiatives. KPIs that include supply chain inventory & working capital tracking, space utilization, on-time & accuracy of customer deliveries and tracking total logistics costs as a % NN sales ensure that the Logistics operations remain at or below the business objectives and provide a quick, detailed view of the operations as they support the business strategies.”

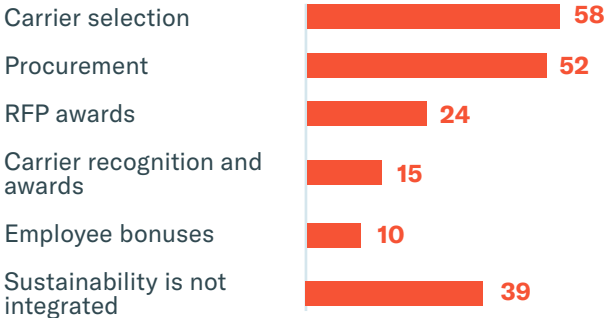
Dave McShane, Director of Physical Logistics at Nestle



Integrating Sustainability into Operations

Once a company has identified sustainability risks and opportunities present throughout their business, the next step is to decide how to manage these factors. We asked companies what policies and practices had been put in place to manage sustainability. Many companies reported that sustainability is integrated into either carrier selection or procurement processes.

In which of the following transportation processes does your company integrate environmental sustainability?



For those companies which integrate sustainability into procurement processes, there was a split between whether

those policies covered environmental or social issues. Only 12 companies reported having a procurement policy which covered both environmental and social issues.

Companies with a formal procurement policy covering the following sustainability topics

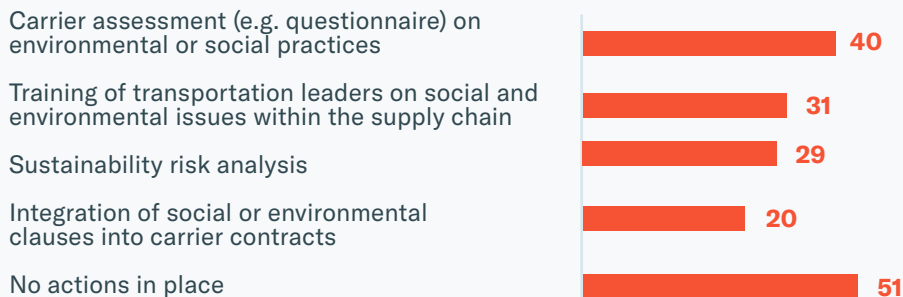


Can you share more about your procurement policy on improving environmental issues? “Increased purchasing materials domestically vs overseas. Shipping direct to customers from producers rather than keeping goods in warehouses for later delivery in order to cut down on shipping costs and less consumption of fossil fuels.”

Michelle Jordan, Logistics at Stein Fibers

Within transportation departments, we asked about the presence of specific actions related to sustainability. There is a wide mix of strategies on how companies integrate both social and environmental factors into their transportation departments.

What actions are in place regarding the integration of social or environmental factors within transportation?



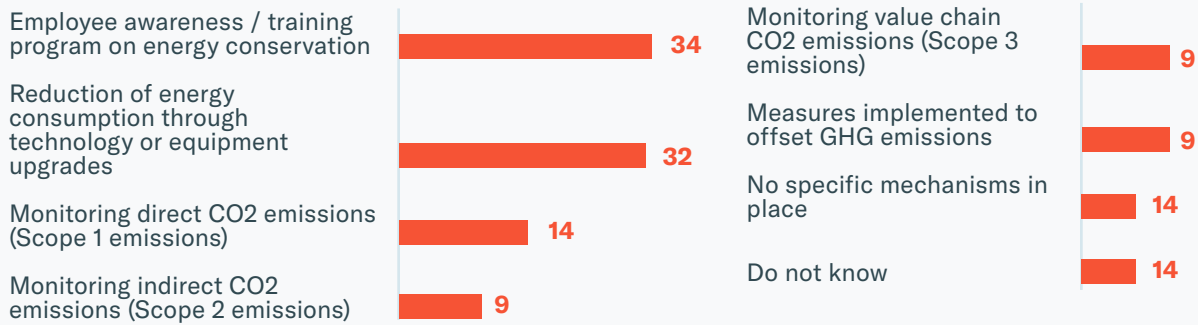
The most common action in place to reduce greenhouse gas emissions is the existence of employee training programs on energy conservation. Many companies are also investing in technology and equipment that will reduce energy consumption. **However, only 14 respondents reported that their company was tracking their direct carbon dioxide emissions.** Even fewer were tracking their indirect or value chain emissions.

How do you integrate sustainability into your carrier selection and procurement policies?

“We check if the carrier is working on sustainability. We check their target carbon emissions and we prioritize the one with more sustainable vehicles like commercial EVs.”

said one respondent from a nationwide car manufacturer.

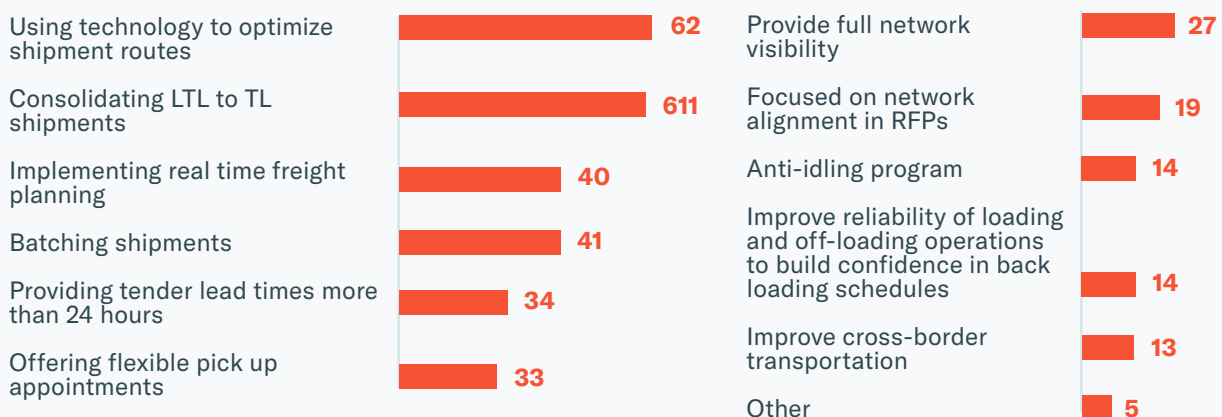
What actions are in place by your transportation team regarding the reduction of energy consumption and the emissions of greenhouse gasses (GHG)?



“We are committed to sustainability both in our production process as well as in our supply chain and logistics network. By increasing operational efficiency and reducing waste and idling we hope to reduce carbon emissions by 10% next year.”

Steven Schreiber, co-founder at Two Rivers Coffee

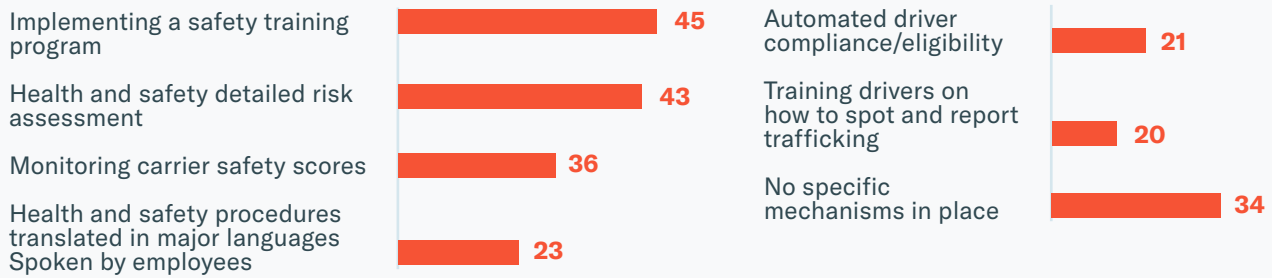
What technologies and processes are in place to improve your transportation efficiencies?



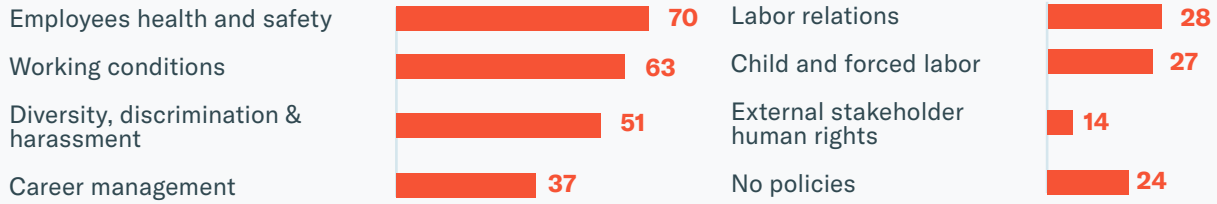
Social Responsibility

For some companies in the transportation industry, sustainability might only mean including factors related to the environment. Convoy believes that the long-term success of transportation companies is also dependent on how well the industry addresses its people-related risks and opportunities. Workforce engagement and the governance of social issues also fits under the umbrella of sustainability. We asked our respondents about policies or actions that their companies had put in place to manage labor rights, employee health and safety, as well as working conditions. Here is what we found.

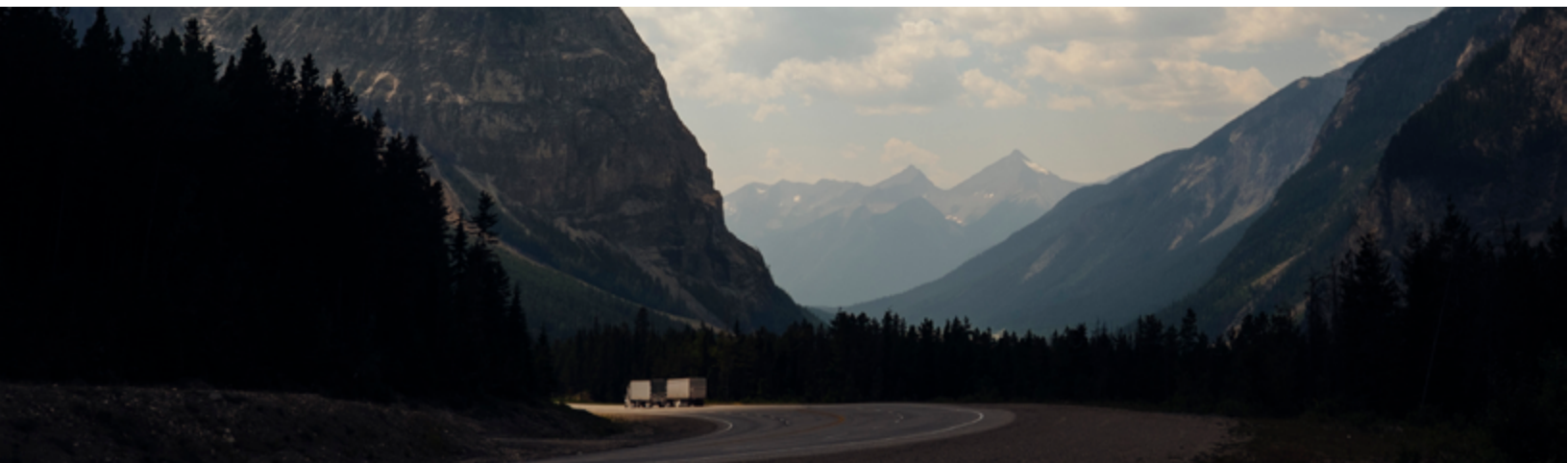
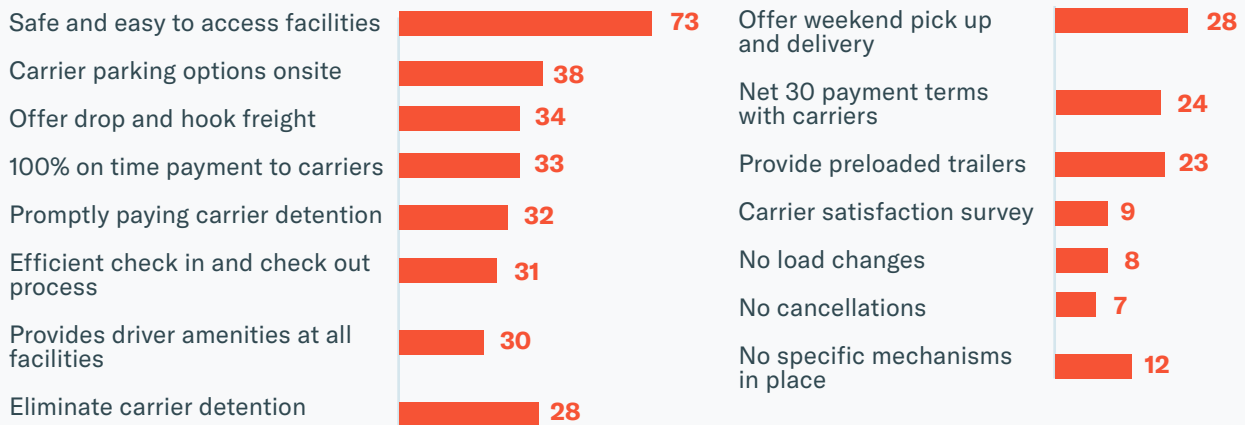
What actions are in place regarding the health and safety of workers in your transportation department?



Does your transportation department have policies regarding labor practices or human rights issues?



What actions are in place regarding working conditions?



THE ROAD AHEAD

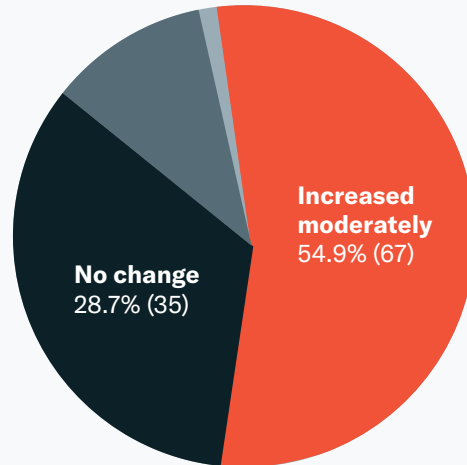
Where the Transportation Industry is Headed

Sustainability is about taking the long view. Understanding and investing in sustainability can have lasting impacts far into the future. We asked our respondents about their view of the future of sustainability and transportation over the next few years. More than 70% of respondents expected to increase their investment in sustainability in 2021.

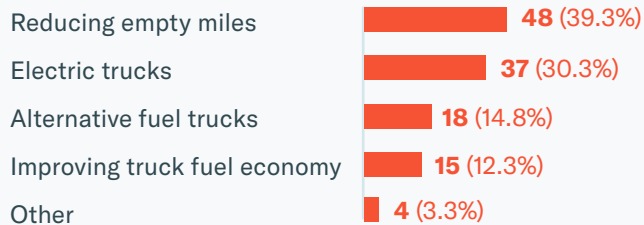
There was also a general sense of optimism about how technology improvements will increase the efficiency and sustainability of the transportation industry. **The change that is expected to have the biggest impact over the next 2-5 years is the systematic reduction of empty miles through technological improvement.** Convoy and our digital freight network are in a prime position to help make this a reality. More ambitious technological improvements are also nearer than ever before. Electric or alternative fuel trucks are an additional tool that have the potential to reduce waste in the transportation industry and lead us all into a more sustainable future.

Do you expect your investment in sustainability to _____ in 2021?

Increase substantially 15.6 (19)%	Decreased moderately 0.8% (1)	Decreased substantially 0% (0)
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Which of the following technologies do you think will have the biggest impact on reducing the environmental footprint of your transportation network over the next 2-5 years?



In the next decade, the importance of sustainability will continue to increase, and transportation professionals will continue to need to continue to innovate in order to make the supply chain more efficient and environmentally friendly. As investors and executives place renewed focus on the reduction of carbon dioxide emissions, more and more companies will join those who have already set ambitious emissions reductions goals. Our research shows that 74% of S&P 500 already set clear sustainability goals.

Transportation leaders have an opportunity to make significant sustainability improvements and they can begin by implementing technological improvements that can reduce empty miles without having to invest in new capital equipment. When transportation networks are operating efficiently, EV and alternative fuel trucks can also be utilized to make lasting gains. Combining the power of an efficient freight network with promising vehicle and charging networks will ensure that the transportation industry can contribute to a sustainable future long into the future.



CONVOY

About Convoy

Convoy is the nation's most efficient digital freight network. We move thousands of truckloads around the country each day through our optimized, connected network of carriers, saving money for shippers, increasing earnings for drivers, and eliminating carbon waste for our planet. We use technology and data to solve problems of waste and inefficiency in the \$800B trucking industry, which generates over 72 million metric tons of wasted CO2 emissions from empty trucks. Fortune 500 shippers like Anheuser-Busch, P&G, Niagara, and Unilever trust Convoy to lower costs, increase logistics efficiency, and achieve environmental sustainability targets.

