

INTERVIEW

CHEP, 10 YEARS OF LEADING THE TRANSITION TO THE CIRCULAR ECONOMY

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1. Despite the optimism at the beginning of 2021, this was another year dominated by COVID-19. How did the current evolution of the pandemic affect CHEP's business in Romania?

Since the pandemic outburst, our logistics business increased its dynamics and succeeded to maintain double digit growth. This period urged manufacturers to find flexible ways to keep the supply chain moving by available and affordable equipment, and efficient solutions. Pallet pooling allows turning the CapEx into OpEx, that generates the necessary cash-flow. Despite the context we continued to offer companies support in mitigating financial risks in their supply chains and navigate well through the storm.

2. CHEP celebrates 10 years of operations in Romania. What were your biggest achievements in this period?

A decade of successful pioneering work that resulted in a mentality shift from linear to circular, from competitive to collaborative. Double digit year on year growth. A business ecosystem of

hundreds of companies that lead the transition to the circular economy in Romania. CHEP is the market leader on the pooling services niche and has been supporting the business and sustainability goals of champions in the industry since 2012.

3. Looking forward, what are your top priorities for the upcoming years?

We aim to maintain a double-digit growth by improving our operational efficiency and our product and service offer, as well as by investing in digitisation. An action in our internal optimization plan is the opening of the sixth service center to better cover the national supply chain.

In terms of Sustainable development, our 2025 mission is to lead the transition to the circular economy and pioneer regenerative supply chains. This means evolving from doing 'less bad' (i.e. reducing our negative impact) to creating a positive impact on the planet and society. As part of this plan we will advocate for our customers and suppliers to become carbon neutral in their operations following our recent achievement of carbon neutrality in our own operations (scope 1 and 2). We will advocate,



educate and impact one million people to become circular economy change makers by 2025 and we will expand our collaboration projects to more customers globally.

4 ■ Digital transformation is one of the global priorities for CEOs across the globe. How did Digital Transformation improve your operational, sales and marketing processes?

We made significant investments in digitisation to transform our business and reinvent pooling for the supply chains of tomorrow. Among our strategic priorities is indeed digital transformation it is about improving efficiency inside the company and making it easier for customers to do business with us. For example, we will use big data and digital insights to increase visibility of the supply chain and unlock new sources of value for customers, we will deploy asset digitisation and advanced analytics to provide visibility into our asset pools and networks and we'll use data-driven insights to create new customer solutions focused on improving business performance and sustainability.

effective flow of our pallets and other platforms. This includes working with retailers to ensure empty pallets are returned to CHEP promptly to sort, repair and re-issue to manufacturers, and making investments to support more inventory. We are also identifying new sources of efficiency to lower the impact of the upcoming price increases on companies we work with.

6 ■ Sustainability is now a hot topic for most companies in Romania. How can you help your customers reduce their carbon footprint?

It's true, COVID-19 has accelerated the transition to a more sustainable world. Customers, consumers and wider stakeholders are increasingly focused on the sustainability of goods and supply chains. As a pioneer of the sharing economy, CHEP is one of the world's most sustainable logistics businesses. Through our circular business model, we facilitate the 'share and reuse' of the world's largest pool of reusable pallets and containers. This enables us to serve our customers while minimising their impact on the environment.

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5 ■ The supply chain crisis might also affect 2022. How do you perceive this crisis and its impact on global business?

Global supply chains have seen unprecedented and unpredictable shifts since the Covid-19 pandemic began over a year and a half ago. These have led to challenges in major markets including Europe, such as constraints in transportation, labor and lumber. In addition, there is an increase in customer finished goods inventory holdings, due to the volatility of consumer demand. These challenges continue to place pressure on the global supply chain.

There has been a surge in e-commerce as more consumers shopped online. This combined with a scarcity of local supplies and the fact that both Asia and USA have dramatically increased purchases in Europe, has created the current market volatility and reduced materials availability.

CHEP is working around the clock to minimize disruptions to the supply chain and manage the

Based on our pooling system, the beneficiaries only rent the necessary quantity of reusable pallets to send their products in the modern and traditional stores. Once emptied, the pallets are collected, inspected and repaired when necessary by CHEP, who puts them back in circulation for other producers and retailers to reuse them in an efficient and sustainable cycle. This makes our platforms intrinsically sustainable and hence it means that our customers are already contributing to a greener supply chain only by using our pallets. Moreover, a key aspect of CHEP's logistics model is that we source all the wood from certified, sustainably managed forests. This is of immense importance since the linear supply chain is based on single-use wood pallets that directly impact large-scale deforestation and waste management. The pooling system is the only way for companies to avoid waste in the main environmental impact areas: not only in tertiary wood packaging waste, which is automatically removed by pallet rental

and timber waste, but also in carbon emissions. CHEP also offers Collaborative Transport Solutions thanks to technologies allowing synergies for the transport of goods on best routes and avoiding empty trucks and CO2 emissions.

7 What are top 3 opportunities you see in 2022 for companies in Romania?

■ The COVID-19 pandemic highlighted the importance of collaboration. We have seen hundreds of companies, operators in manufacturing, transport, logistics and commerce becoming more agile and more collaborative. I continue to believe that the top priority for companies of any size is collaboration. This is due to its multiple competitive benefits - from cost effectiveness and solving operational inefficiencies and disruptions to maximizing data quality and usage.

By capitalising on collaboration, companies have the opportunity to also lower their carbon footprint and grow their overall business sustainability. Organisations must adapt their business to a low carbon world because sustainability in practice means becoming resilient to the challenges of the new normality, opening opportunities and competitive advantages while creating long-lasting value and trust. Sustainability is no longer a trend, but rather the norm. Big players will be held accountable for the environmental and social resources preservation and valuation, as well as for the transparency on how these commitments are being carried out.

Another opportunity is eliminating hidden costs in the supply chain and outsourcing activities that generate financial, human and natural resources waste. Warren Buffet said that “cash is to a business as oxygen is to an individual: never thought about when it is present, the only thing in mind when it is absent”. The effects of the pandemic have certainly increased the financial risks of companies in most of the economic sectors. The pressure on cash-flow will continue to persist not only for low capitalized companies, but for market leaders as well. Producers must reduce the risk of a financial deadlock by avoiding value-adding investments

such as those in warehouses, transport equipment, cars and giving up non-core assets. I would mention here the recommendations of McKinsey consultants who have put forward some ways to improve the supply chain for a pandemic-resistant business. They said that we should put employee safety first, identify alternative sources of supply and be transparent across the entire supply chain, get a handle on the full inventory tied up in the value chain – such as spare parts., identify and secure logistics capacity aiming to have a minimal exposure to potential cost increases and manage our cash reserves and cash flow by running stress tests to see where will our company’s finances be hit hardest.

8 How do you see the Romanian market evolution in 2022?

■ The equipment pooling market will grow steadily over the traditional logistics model, due to its increasing relevance in the current context. In terms of the connected sectors, the current crisis is favourable for mergers and acquisitions, which means that I expect to see a consolidation in some FMCG sectors. I also expect to see a rearrangement in the Retail sector in the next 5 years. It’s for the first time that modern trade reached a 70% market share (Source GFK) in total trade and it continues to gain ground over the traditional trade. As the consumer preference change towards online shopping, the supply chain might get shorter on some segments, we’ll see goods being delivered to consumers directly from deposits. Retailers are already adapting to this trend, by offering digital consumer new experiences, such as augmented reality. It wouldn’t be a surprise to see that in a 3-year time-frame the in-store traffic will drop by 15-20%.

In terms of sustainability, our clients and prospects are ever more interested in becoming carbon neutral, which is an area we can help with. For decades we’ve been onboarding our partners and customers in the purpose of reducing their environmental footprint.