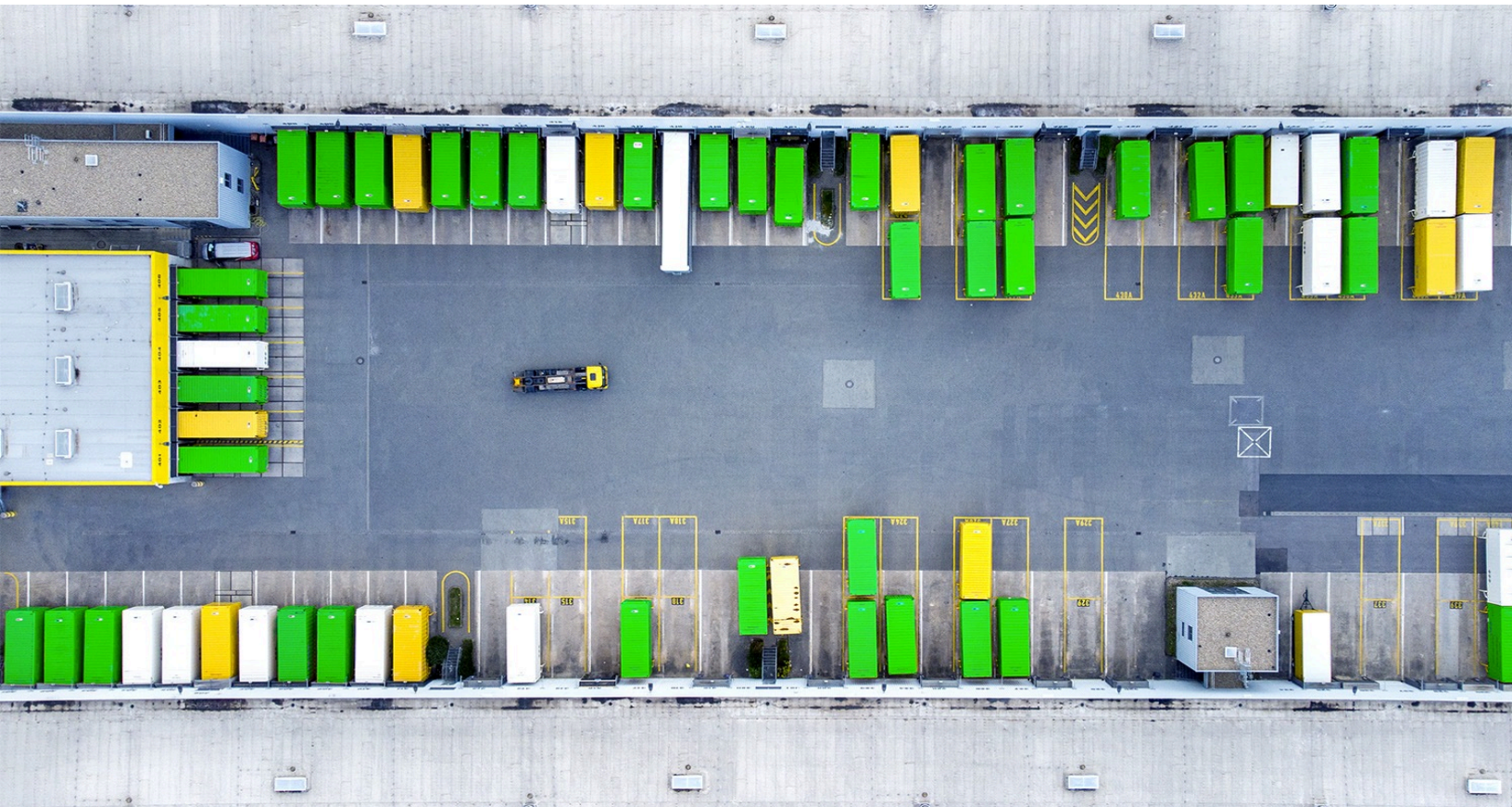


Travel, Logistics & Infrastructure Practice

# Making green logistics services profitable

Logistics companies have struggled to commercialize decarbonized services. A new approach could help win over customers and boost margins while reducing emissions.

*by Andrea Bertelè, Matteo Pacca, and Benjamin Weber*



**Both customers and regulators** have signaled a strong desire for logistics providers to reduce their emissions. The market for green logistics, while still nascent, could expand quickly. Based on the Scope 3 reduction targets and logistics needs of about 2,800 of the world's largest companies across industries, we estimate the demand for green logistics in 2025 will be approximately \$50 billion, comprising roughly 2 percent of overall logistics spend. We expect this demand to increase to roughly \$350 billion in 2030, comprising about 15 percent of overall logistics spend.

Logistics companies are eager to meet customer demand, comply with regulatory targets, and capture this expected growth. But [decarbonizing the sector](#)—given its fundamental reliance on transport, which can be difficult to abate—will involve significant expense. Reducing emissions in an economically viable manner will require logistics companies to devise effective commercialization strategies. But nearly every logistics company we've spoken with is not yet even aiming to derive profits from green logistics services. Instead, these companies' focus is simply on recovering costs.

What would it take for logistics companies to escape current market dynamics and begin to create profitable green solutions? To assess the state of commercialization efforts in green logistics, we supplemented extensive industry research with conversations involving more than 20 executives in logistics organizations and more than 20 additional experts in adjacent sectors. Analysis flowing from this fact-finding suggests there is opportunity for logistics companies to identify the most promising customers for green products, actively shape those customers' demands, and work together to create green products that are desirable, premium offerings, thereby providing positive returns on decarbonization investments while also accelerating abatement of the industry.

## **Commercialization models are emerging, but logistics companies still struggle to find margin**

Many cargo owners are searching for ways to reduce their Scope 3 emissions. Their buying decisions regarding green logistics will largely be based on how effectively a product can help them meet their own emissions targets. A green logistics product may be most successful in addressing this need if its emissions reductions are auditable (a challenge at the moment, as frameworks for allocating and calculating transport emissions are still fairly new) and significant enough to affect the customer's overall emissions numbers (also challenging, given that logistics is only a fraction of most cargo owners' total emissions).

Of course, customers are also looking for products that are affordable. But reducing emissions created by transport can be particularly expensive (exhibit). For example, decarbonizing an air shipment—using [sustainable aviation fuel](#), which is about three times more expensive than standard aviation fuel—could increase the shipment's costs by approximately 60 percent by 2030.

Implementing green logistics services can be challenging for many reasons. It requires [significant capital expenditures](#), in an environment rife with uncertainty about which technologies will prevail and how soon those winning technologies may become viable. It can also involve collaboration with complex networks of subcontractors that have their own incentives, which are not necessarily aligned with those of the logistics provider.

In our discussions with logistics sector experts and executives, a consensus emerged: customers want green logistics products but aren't willing to pay for them (or at least aren't willing to pay the premium that would be required to fund them). And these

customers generally enjoy strong bargaining power. Our analysis suggests that more than 80 percent of logistics customers are not willing to pay even as much as a 10 percent premium for a green product. We further estimate that only about 10 percent of customers would be willing to pay a 20 percent premium.

As a result of the high costs and difficulty of implementation, coupled with low customer willingness to pay, only about one in four leading logistics companies offers green products. Among those that do, green transport makes up less than 5 percent of overall transport volume.

This could be considered a bridge period, in which many technologies remain expensive, much infrastructure is immature, and renewable-energy sources are often not yet available at scale. But the fact is that very few of the logistics companies we interviewed are currently able to realize a profit

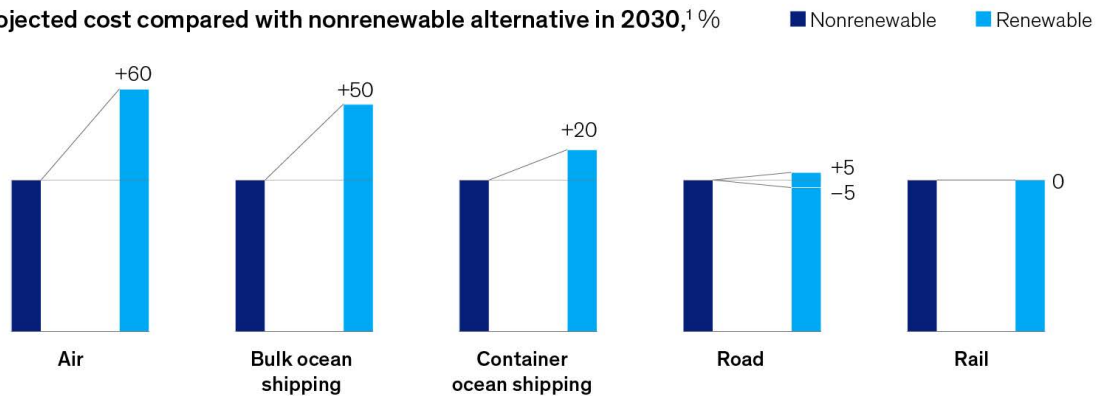
from green solutions. All the others we spoke with have essentially given up on finding margin from green products. Instead, they hope merely to cover costs. Despite their trimmed ambitions, these companies still offer green products to protect market share (since core customers might leave if green products aren't available), position their brands (since a differentiating image as a green carrier could lead to future growth), aid the quest to abate the sector's emissions (by complying with emissions targets, either internally or externally imposed), or prepare for anticipated future demand increases (which could be accelerated if cargo owners' regulatory costs eventually exceed the costs of logistics abatement).

As logistics companies encounter the challenge of commercializing green products, they have begun to gravitate toward four emerging models—none of which has offered consistent profitability.

Exhibit

## Emissions abatement costs for some cargo transport may remain elevated.

Projected cost compared with nonrenewable alternative in 2030,<sup>1</sup> %



<sup>1</sup>Assumes use of biofuels. Synthetic fuels could add further cost.

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### **Fuel cost plus zero**

Sectors such as air and ocean freight, which rely on the use of expensive sustainable fuels as their only means of substantial carbon reduction, typically attempt to pass on the costs of fuels to their customers. The customer receives a carbon reduction credit (linked to the amount and specifics of the fuel), which can be claimed to help address the customer's Scope 3 reduction targets. This pricing model allows the logistics company to recoup transparent and defensible expenses. A customer can choose how many liters of sustainable fuel—and thus, how many carbon credits—it wishes to purchase and associate with its transport volume.

### **Fixed fee**

In the courier, express, and parcel (CEP) subsector—in which services often require a combination of short-haul transport, warehousing and sorting, and [long-haul transport](#)—it's generally impractical to connect specific carbon reduction measures with individual shipments. For example, if a particular sorting center installs solar panels, should only the parcels that get routed through this sorting center be labeled green (and priced slightly higher)?

Instead, a flat fee is often introduced and applied to most or all shipments. This approach involves less transparency about how the CEP company spends the surcharge. It also often means that customers can't claim individual carbon credits (though customers can assume that they are helping to reduce overall emissions).

### **Dedicated solutions with full-cost pricing**

Some customers—especially in the retail sector, in which companies are often closer to end consumers—demand a direct, physical connection between their cargo and emissions reduction efforts. They don't want to use a book-and-claim

system that grants carbon credits decoupled from the actual activities involved. They want their cargo transported only on electric trucks and handled only in net-zero warehouses. Some carriers and third-party logistics companies have purchased carbon-neutral vehicles or built net-zero warehouses that are dedicated to serving these individual clients. In these cases, an open book approach provides transparency, allowing the client to pay a premium that fully recovers the costs, including capital expenditures.

### **No fee**

Some greener logistics products are offered at no additional cost. Currently, these situations generally involve emissions reduction measures that create slower delivery times, such as bundling multiple shipments together or shifting modes—for instance, from road to rail or from air to ocean. But early indications from logistics companies suggest that customers express very limited willingness to accept longer delivery waits in exchange for reduced emissions. (As costs drop for greener road transport technologies, the no-fee approach could become more common for standard road deliveries.)

## **Finding the right customers, and collaborating with them, could boost margins**

How can logistics companies rise above current market dynamics?

Companies hoping to capture the expected future growth in demand for decarbonized logistics by successfully commercializing green products should consider adopting a fresh mindset. Instead of reacting to customer demand by providing green services that simply check the necessary boxes, logistics companies can look for ways to actively



shape customer demand with an eye toward pleasing end consumers. Instead of creating incremental products—with the ambition of merely passing along costs to customers—logistics providers can create premium, bundled products that offer their customers strategic and brand value.

Embracing this new mindset begins with targeting the right set of customers. Amid a widespread lack of willingness to pay, a small group of customers push for [green transport](#) and are willing to cover the extra costs in full. Some of these customers hope to burnish their branding by positioning themselves as green leaders—they tend to be companies (in the retail sector, for instance) that are closer to end consumers and have publicly announced their internal goals to reduce Scope 3 emissions. Some of these customers are enabled by monetary power—they tend to be large companies (such as those in the pharmaceutical or automotive sectors) that have higher-priced products and healthy product margins. And some customers are motivated by regulatory concerns or stakeholder desires—they tend to be companies that have made capital market statements about sustainability or are headquartered in regions (such as Scandinavia) with more stringent environmental regulations and significant public awareness of sustainability issues.

It is important to identify these trailblazers and design products for them first. Creating a target list can be aided by searching through company reports, press statements, and other sources. A customer-by-customer estimate of demand for green transport can be calculated based on each customer's emissions reduction targets, the timelines for those targets, the [importance of logistics](#) within the customer's decarbonization efforts, broader industry requirements, and other factors.

Once the proper customers have been identified, logistics companies should consider working hand in hand with those customers to shape an enticing value proposition for end consumers. Green transport does not need to be cost-prohibitive when approached this way. For many products, green transport might represent less than 5 percent of the consumer's purchase price.<sup>1</sup> Green logistics services might add less than 2 percent to the cost of a pair of jeans or less than 1 percent to the cost of a smartphone. Many logistics customers that have close relationships with consumers believe that those consumers will be happy to pay a small premium if it is associated with easy-to-comprehend emissions reductions.

Logistics companies can collaborate with these customers to identify specific segments—categorized by brand, product, or consumer archetype—in which green logistics services might add limited cost while greatly improving consumer perceptions. To make the use of decarbonized logistics clear to consumers, logistics companies might codevelop special branding for customers' products (for example, a label saying “transported green”). Logistics providers and customers can jointly find ways to develop transparent and granular reporting on their abatement efforts. This approach can also be augmented with a few useful commercialization tactics.

### **Elevate discussions from questions of cost to questions of value**

A customer might be more persuaded by a conversation about [value and strategic importance](#)—in the context of the customer's broader sustainability and brand ambitions—instead of a straightforward discussion of cost. Conversations might be more fruitful if they're conducted with customers' upper-management teams in addition to their purchasing departments. Purchasing

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<sup>1</sup> *Net-zero challenge: The supply chain opportunity*, World Economic Forum, January 2021.

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departments are increasingly considering sustainability factors, but for now they remain laser-focused on budgets, so as long as green products are more expensive (while offering no direct monetary benefit to the purchasing department), it could be challenging to sell through these traditional channels.

Upper management might be encouraged to get involved if logistics companies attempt to negotiate framework agreements or sell in bulk instead of dealing in one-off transactions. Services can be framed as premium, high-value products by bundling them with other preferential treatment, such as priority handling, later cutoff times, dedicated support, and increased insurance coverage.

### **Equip sales forces with proper knowledge and skills**

Every sales representative can be trained to acquire basic literacy on sustainability topics. A central expert team can be established to offer on-demand answers to more in-depth questions about complex topics such as carbon credits and regulations. When necessary, this expert team can be looped in to support local sales staff in discussions with customers.

Specialized sales skills can come into play when commercializing green products. A sales rep might decide it will be more productive to engage in strategy discussions instead of simply offering the

best price. Establishing an interpersonal connection with a customer, based on values, could be helpful. Familiarity with abstract concepts, such as book-and-claim systems, can be a useful tool for a sales rep.

### **Enhance brands to achieve differentiation**

As green products eventually evolve into the industry standard, logistics companies will need to find ways to differentiate themselves. Some companies might wish to position themselves as thought leaders and decarbonization partners. Hosting symposiums and other events in which the newest industry decarbonization trends and best practices are discussed can aid this effort.

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The market for green logistics is changing fast. Time horizons are getting closer for many cargo owners' decarbonization targets. Carbon taxes could rise for many logistics customers, while green solutions could potentially become cheaper. Now is the time for logistics companies to assess their strategies for commercializing green products—and to prepare themselves for the evolution of the market.

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