

RETAIL

Stocking the Shelves with Green

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STOCKING THE SHELVES WITH GREEN: FINDING OPPORTUNITIES IN RETAILERS' SUSTAINABILITY PROGRAMS

This article is one in a series by Five Winds International about the retail sector's strategies to improve its sustainability performance and that of its suppliers. In this article we examine the activities of the retailers and ask the question: Are retailers taking significant steps to increase the number of greener products on their shelves? Please visit www.fivewinds.com for copies of the other articles in this retail series

Stories abound about retailers “going green” by installing solar panels, shipping products in more fuel-efficient ways, and adopting other cost saving measures. But it was Walmart’s July 2009 announcement about a supplier assessment questionnaire and sustainable product index that elevated these stories into the executive suites of consumer goods companies. With the help of this announcement, the retail sector became a pivot point¹ for corporate sustainability, as the world’s largest retailer sought to “green” its own operations and stock its shelves with products sourced from suppliers who deliver greener consumer goods.

Walmart is not the first retailer to put forth supplier requirements for sustainable products and packaging. IKEA has sought to use wood from responsibly managed forests since 1992 and Costco has worked with suppliers over the last two years to increase packaging recyclability. The difference is that Walmart’s announcement is indicative of a growing interest within the retail sector to stock shelves with green products, and it is an interest driven by customer preference and profits.

Stocking greener products can increase the value proposition for the consumer, especially in the growing LOHAS (lifestyles of health and sustainability) market segment where the preference is greener, healthier products. Retailers that understand this growing consumer trend are either developing their own more sustainable private label brands or sourcing them from suppliers. In the words of Walmart, *“Our customers want products that are more efficient, last longer and perform better. They want to know the product’s entire lifecycle. They want to know the materials in the product are safe, that it is made well and is produced in a responsible way.”*² Additionally, greener products can reduce retailers’ costs for example, by cutting dumpster costs through the elimination of excess shelf packaging or by reducing energy costs by making fuel using equipment more efficient.

Research Reveals Important Trends for Consumer Goods Suppliers

Since 1998, Five Winds International has worked with some of the largest global consumer goods manufacturers to improve the sustainability performance of their products. To help this

sector better understand retailers’ supply chain programs and especially those aimed at sourcing greener products, we have researched the sustainability practices of 25 retailers in North America and Europe -- including the world’s ten largest retailers and high-profile stores like Whole Foods and Boots. Using our CSRIInsight™ tool,³ we benchmarked over 400 aspects of retailers’ sustainability programs, and discovered important trends that specifically focus on stocking shelves with greener products. This paper discusses these trends, and offers recommendations and insights to consumer goods suppliers to help them stay ahead of rapidly evolving retail trends.

Demand for Greener Consumer Products Grows Across All Retail Sectors

The desire for greener products is huge, global, and growing.

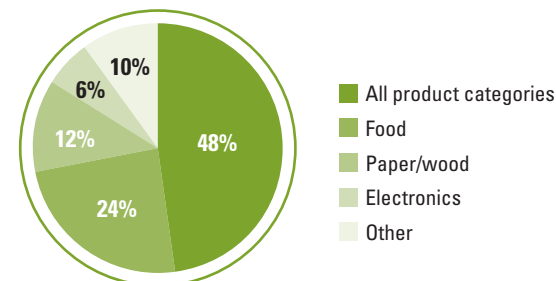
Retailers with \$900 billion in purchasing power now consider a product’s environmental performance as part of their decision to stock a product. Most large retailers have at least one sustainability supply chain program and the world’s three largest retailers – Walmart, Carrefour, and Tesco – all have one or more programs in place to source greener consumer goods for their shelves. While Walmart’s program made newspaper headlines, the practice extends well beyond U.S.-based companies. Large retailers operating in Canada, Great Britain, and the European Union have well-established sustainability supply chain programs that have been in place for many years.

All sectors, all product categories. Retailers’ programs are diverse: we uncovered over 50 different sustainable product sourcing programs that address a variety of retail sectors and product categories. Most retailers have only one or two specific programs aimed at sourcing greener products, but larger retailers (especially

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In retail purchasing power is seeking greener products and including “green” as part of a buyer’s selection criteria

Retailers’ Sourcing Programs Target Different Product* Categories



*Analysis includes product and packaging programs

¹ See <http://www.fivewinds.com/english/resources/publications/retail-a-pivot-point-for-sustainability.html>

² <http://walmartstores.com/Sustainability/9292.aspx>

³ Five Winds’ CSRIInsight™ tool has benchmarked over 150 companies and helped our key clients compare themselves against stakeholder expectations, identify performance gaps, and more effectively integrate sustainability and corporate social responsibility (CSR) considerations into their core business functions.

those in Europe) tend toward more. For example, Carrefour has eight supply chain initiatives focused on stocking more sustainable products.

These retailers are also not confined to any one sector. Grocery (Safeway, Carrefour), office supply (Staples), drugstores (CVS, Boots), discount (Walmart, Target), and specialty stores (Best Buy) are all making their mark. And while sustainable product sourcing programs have typically focused on one product category (e.g. wood, food, or electronics), there is a clear recent trend toward programs that cover all product categories the retailer sells.

Sustainability: from competitive advantage to required program.

Another clear trend is the shift towards mandatory retailer sourcing programs. Historically, most retailers have worked in voluntary supply chain partnerships with key suppliers to promote and procure more sustainably sourced products, like seafood or paper products. Consumer goods companies with the vision and capacity to develop sustainability programs could participate or extend their existing brands to market a sustainable product line and gain competitive advantage.

However, almost half of the retailer supply chain programs we investigated now evaluate a product's sustainability performance as part of a buying decision, which indicates that sustainability is no longer a voluntary partnership proposition but a growing retailer requirement. All retail categories have these purchasing decision programs, but grocery and home improvement stores in particular have the largest number and variety of sourcing programs involving a purchasing decision.

Tell Me is now Show Me. In the past, many retailers simply asked suppliers to report ("tell me") about their sustainability programs; the value to the retailer was a better understanding of its risks along the supply chain. Our research shows that many retailers are now asking for improved product performance ("show me") – not just information. Almost 25% of the supply chain programs we looked at linked to a product-related performance standard (e.g. a third-party eco-label like Energy Star). At present, this trend is focused on specific consumer goods products – paper, seafood, and

electronics. Consumer goods companies that already understand the environmental footprint of their products and have a strategy to improve performance will be at a significant advantage as this shift toward "show me" continues. Also of note, several retailers are starting to make their sourcing targets public; one has even included a numerical target and timeline (e.g. 100% of suppliers will meet minimum requirements by a specific date). This trend mirrors what we have observed over the past decade as we worked with consumer goods companies to develop sustainability programs: as companies' sustainability programs mature, metrics are defined (and refined) so that overall corporate performance and business value can be tracked. We expect to see this move toward more public targets continue in the retail sourcing arena as well.

Greener products come from greener companies.

While many retailers' programs focus on the sustainability attributes of a product or its packaging, we have noted an increase in requests for information from suppliers about their organizational sustainability

performance. For example, Boots, Carrefour, Marks & Spencer, Walmart, and Whole Foods have programs that address the sustainability of their suppliers' products and operational practices. For example, Walmart's Supplier Sustainability Assessment asks its U.S. suppliers to report on a number of operational indicators, including the amount of waste generated at their facilities and their total annual greenhouse gas emissions.⁴ This means that consumer goods companies with sustainability programs focused on marketing a few flagship green products will now need to address organizational performance and develop a strategic approach that embeds sustainability across all business operations.

A Closer Look at Some Supply Chain Program Requirements

From our research we extracted a number of best practices relating to retailers' supply chain programs and the following examples are of particular importance to consumer goods suppliers.

Large Retailers Seek to Source More Sustainable

- Amazon.com
- Best Buy
- Boots
- Carrefour
- Costco
- CVS
- Home Depot
- IKEA
- Kroger
- Lowe's
- Marks & Spencer
- Office Depot
- Safeway
- Sainsbury's
- Sears
- Staples
- Target
- Tesco
- Walmart
- Whole Foods

⁴ <http://walmartstores.com/Sustainability/9292.aspx>

Good things come in sustainable packaging.

Retailers' packaging programs are of particular interest to consumer goods suppliers, as they typically relate to every packaged product the retailer sells. Our research shows that almost one third of the top retailers have programs that target sustainable packaging and most of these programs ask for improved environmental performance – not just a report on current practices. Retailer packaging programs (like those at Amazon.com, Costco, CVS, and Walmart) ask suppliers to either reduce product packaging or replace conventional packaging materials with alternatives such as biodegradable, PVC-free, or recyclable plastics.

Different retailers use various tactics with their suppliers to meet these packaging goals. Costco's buyers work with suppliers to replace PVC clamshell packages with more recyclable packaging, like paperboard and PET plastic.⁵ Walmart's packaging scorecard program, unveiled in 2006, has suppliers competitively evaluate performance relative to other suppliers based on specific metrics such as recycled content and greenhouse gas emissions. More recent programs include Best Buy's Greener Together program, which has packaging suppliers fill in a material survey aimed at reducing PVC in packaging of its private label electronics⁶ and CVS's push to eliminate excess overwrap and shrink wrap before goods are shipped to the retailer's distribution centers.⁷ Ultimately, all the packaging programs we reviewed fit into one of two categories – either a replacement of materials of concern with more eco-friendly materials or a reduction of the amount of packaging used.

Transparency is still an opportunity for competitive advantage.

Whether it's divulging the pedigree of all raw materials used in a product or publicly disclosing the ingredients in a formulation on a company website, transparency is a growing trend with consumer package good sustainability

Examples of Retailer's Leading Practices in Sourcing More Sustainable Products

Third Party Verification Home Depot uses a third party to review and verify manufacturer's environmental claims.

Decision Support Tools Carrefour provides its private label suppliers with a 49-criteria decision support tool to guide sustainable product development.

Public Reporting Carrefour and Walmart encourage suppliers to publicly report on sustainability performance by participating in the Carbon Disclosure Project.

Targets for Sustainable Product Sourcing Marks & Spencer sets goals for sales increases in organic products; IKEA sets numeric goal for the share of wood used in IKEA products coming from forests certified as responsibly managed.

programs. Our research shows that transparency has yet to become a widespread retailer requirement, and appears to be an area where consumer goods suppliers can still differentiate their brands because most retailers' programs remain focused on specific products – most notably paper products and seafood. Home Depot, Lowes, Staples, and Sears, for example, encourage (or require) sustainable wood sourcing from forests that are certified by a third party. Some retailers, however, view transparency as a competitive differentiator: Walmart's Love, Earth® program "gives customers the ability to trace the path of their Love, Earth® jewelry from mine to store by simply going online"⁸; Marks and Spencer's "Plan A" program tracks how products are delivered to their

stores; and IKEA allows customers to discover the specific plantation where the company's private label coffee was sourced on its UTZ-certified website.⁹

Private labels emerge with more sustainable options.

Private labels now bring in about \$88 billion in business for retailers, accounting for one in every four items sold by U.S. supermarkets, drug stores, and mass merchandisers.¹⁰ These private label brands allow retailers to offer better customer value and extend their brand to product lines, and our research confirms that greener private label products are clearly emerging as a way for retailers to differentiate their brand. We identified eight programs aimed specifically at sustainability requirements for private labels. It is interesting to note that although Carrefour, the second largest retailer in the world, has offered private label food products free of genetically modified organisms (GMOs)¹¹ for over ten years, most retailer sustainable product sourcing programs aimed at private labels tend to be newer programs, with over half having been created in the past year. Only two

⁵ <http://www.icscseed.org/node/2990/view>

⁶ http://www.bestbuyinc.com/assets/corporate_responsibility/08_report/CSR_2008_Final.pdf

⁷ <http://info.cvsaremark.com/our-company/corporate-responsibility/environment/reducing-waste>

⁸ <http://www.loveearthinfo.com/home.htm>

⁹ <http://utzcertified.org/ikea/>

¹⁰ Private Label Manufacturing Association <http://plma.com/storeBrands/sbt09.html>

¹¹ <http://www.carrefour.com/cdc/responsible-commerce/our-commitment-to-the-environment/responsible-sourcing/>

of the eight programs we identified are focused solely on packaging, and retailers are also looking to other attributes in their private labels such as overall product sustainability, restricted materials, and free trade.

Sustainability is linked to healthier packaged foods. With the rising focus on obesity and health, it's no surprise retailers are creating programs to encourage suppliers to provide healthier – and more sustainable – food products. The link between sustainability and health is most obvious for retailers promoting products that are harvested locally or organically. Whole Foods is particularly known for its wide variety of organic and sustainable food, both packaged and non-packaged, and has a Whole Trade Guarantee: “a buying initiative that expands our social responsibility to bring together a set of strict criteria for products sourced from developing countries.”¹² Marks & Spencer, a British retailer, holds itself to the goal of tripling organic food sales and increasing the sustainability of raw materials going into the products it sells, and actively seeks suppliers that can help it reach this goal.¹³

What's on the horizon? To determine the extent to which retailers are looking at emerging product-related sustainability issues and incorporating them into their product sourcing initiatives, we investigated retailers' programs using two issues – water footprinting and restrictions on product ingredients. Water footprinting is building momentum as a strategic sustainability program focus (especially among food and beverage companies), but has yet to achieve global adoption among retailers we researched. European-based retailers like Sainsbury's, Carrefour, and Marks & Spencer all address water use in their supply chain programs, suggesting that interest in this environmental practice will grow. Companies whose consumer goods touch on any agricultural products along the value chain will be increasingly be affected by these programs.

A Practical Approach to Getting Started with Sustainability Programs

1. **Understand** the implications of sustainability issues for your business and product portfolio, and know the sustainability footprint across your product's life cycle.
2. **Improve** your performance by taking action to capture new market opportunities or lower your footprint.
3. **Succeed** in the marketplace by communicating your success and engaging with suppliers and customers.

In the area of product ingredient or material restrictions, most retailer programs that incorporate these restrictions focus on foods – in particular, organic ingredients or genetically modified organisms (GMOs). Nanotechnology, which involves the use of molecular-scale additives in products, was not specifically addressed by any retailer sourcing program in our research. And while some retailers' packaging programs address polyvinyl chloride (PVC), few have publicly posted limits on other chemicals, like bisphenol A (BPA), where there has been controversy over safe use. These practices with material restrictions can be partly explained by government regulatory

activity; Europe has strong regulations in place that govern the use of toxic materials, while the United States has fewer material regulations. We expect that if consumer interest in material restrictions continues to grow and regulators do not act, then retailers will step in to adopt their own specific programs.

Strategies and Tactics for Consumer Goods Companies

The growing retail trend toward sourcing greener products means that

companies that make consumer goods need to act to maintain their share of retail shelf space – and be proactive if they want to grow it. The sheer number of retailer programs, the different requirements, product categories, and sustainability priorities can make sustainability overwhelming. Companies that understand the breadth of retailers' programs will be better positioned to respond as new requirements emerge and existing requirements evolve. The following are some practical pointers on how to anticipate the trends:

- **Stay ahead of evolving retailer requirements by understanding your products' sustainability attributes.** Retailer's sustainability programs are widespread and cover many product categories. At the same time, today's

¹² <http://www.wholefoodsmarket.com/company/pdfs/ar08.pdf>

¹³ http://corporate.marksandspencer.com/howwedobusiness/our_policies/sustainable_raw_materials/sustainable_processes

requirements will evolve. Consider, for example, that all eyes are watching to see how quickly the Sustainability Consortium's requirements will be adopted as they embark on their exciting and ambitious goal to develop a greener product scoring system for retailers built on life cycle assessment (LCA) data. Companies that are successful in the long term will work now to understand their products' environmental attributes so they are prepared to respond to changing program requirements. Life cycle screening to determine product footprints, coupled with targeted LCAs, will provide valuable information and inform strategic product and packaging initiatives. The added advantage of knowing your product footprint is that retailers are increasingly looking for "good stories"; suppliers with a product story and a valid environmental claim will continue to have a competitive advantage.

- **Weigh your priorities and know which sustainability programs will deliver overall business value – not just a high mark on a retailer's scorecard.** While it's important to align your sustainability programs with that of your retail customers, it's not necessary to be in lockstep. For instance, Walmart's Supplier Assessment Questionnaire does not look at a product's downstream environmental impacts – either the use phase or ultimate disposal. An electronics company that recognizes that its products' greatest environmental impact occurs when the consumer plugs in a device, and is focused on reducing that load, will not find good alignment with this type of retailer scorecard. As another example, a food and beverage company may understand that a regional water issue is critical to its business goals but may not be aligned with a retailer's primary interest to reduce shelf packaging. Knowing where there are gaps between your programs and key retailers will help you weigh priorities and use the right set of tactics.
- **Know what consumers want.** Retailers may be the new green gatekeeper, but greener products that are well placed on the shelf still need to respond to the voice of the consumer to maintain high turn. Now that retailers are making sustainability a purchasing requirement, consumer goods companies

need to comply. But to remain profitable, products must entice consumers and what drives consumer demand may not coincide with what retailers' sustainability scorecards ask for. In addition, consumer demands change rapidly. British retailer Boots found in customer surveys that toxic chemicals – previously a hot issue – had been replaced by climate change and ethical trade as the new focus of its customers' attention.¹⁴

- **Boost the value of collaborations by understanding how sustainability priorities align along the value chain.** Consumer goods suppliers can achieve great gains by participating in retailers' voluntary programs; it's a way to stay abreast of retailers' priorities and advance big programs that need full industry support. Suppliers that realize the greatest advantage from these opportunities (like the Sustainability Consortium or supply chain programs like Social Accountability International) are those that have a sustainability strategy, know which specific issues are most important for their products and can articulate the degree to which their business needs will be met through a collaborative approach.
- **Harness the power of sustainability data management systems.** Many consumer goods suppliers have leveraged their marketing expertise and gained competitive advantage either by being first to market or extending an existing brand to include a greener product. Smart marketing strategies for sustainable products are still critical, but now that retailers are requiring all suppliers to have more sustainable products, consumer goods companies will find it more difficult to replicate prior successes using only marketing savvy. In addition, retailers are now asking for regular, routine reporting (like the Carbon Disclosure Project submittals requested by Walmart and Carrefour). Product suppliers who adopt data management systems to help make sustainability part of their day-to-day operations, increase the efficiency of preparing these routine reports, and provide real-time sustainability information for decision-makers will be at a distinct advantage.

¹⁴ <http://www.greenchemistryandcommerce.org/downloads/uml-rptbestprac1209.pdf>

If your company supplies products to retailers, you will no doubt be facing sustainability supply chain programs in the near future that will require you to report on and “green” your products, as well as your operations. Companies that embrace this trend will emerge as leaders; others will fall behind.

To arrange for a private briefing on Five Winds’ research findings or for more information about sustainability for the retail supply chain and consumer goods companies, please contact

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You can also find more information on the retail page of our website

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