Real-World Green: The Role of Environmental Savings in Retail

Benchmark Report 2009

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EXECUTIVE SUMMARY

Much has changed in the brief 12 months since our 2008 report on environmental sustainability in retail. Not only has the overall sentiment about green evolved, but the areas where retailers are investing have changed significantly. Retail Winners (those retailers whose sales are already outperforming their competitors') have made even greater progress: for them, green is rapidly creating a strategic advantage in ALL corners of the enterprise, and has become a major component of the planning for any new IT investment.

Business Challenges

Cost reduction remains the primary motivator for retailers of all performance groups, but Retail Winners give equal weight to the **Brand**-building potential of an eco-friendly strategy. They recognize that customers expect them to act more so than do their underperforming competitors, are more interested in lowering their carbon footprint, and are much more in tune with creating the image that they "care." They associate environmentally sound practices with their Brand image to consumers and the industry, and associate these practices with their ethical responsibility to the community in anticipation of stealing market share as the customer's green demands grow.

Opportunities

The tide has clearly turned against the argument that green is just a fad. Compared to our 2008 report, more respondents agree that a commitment to green practices is not just a good PR initiative, but rather a genuine opportunity for cost savings: fewer disagree that marketing the brand as green will have a positive effect on sales. The biggest opportunities pertain to reducing energy consumption: Ninety-two percent see real opportunity in the store, and 88% in the supply chain.

Organizational Inhibitors

Winners acknowledge that green investments are still difficult to quantify. What is different is that the majority of laggards, or underperforming retailers, stop there - never getting to other questions such as where to find proof-of-concept examples, finding the capital required to invest, the cost efficiency of new technologies, or even where to begin. Winners ask all of these questions.

Technology Enablers

Last year, 53% of overall respondents identified the store energy costs as a challenge that could benefit from a green overhaul. Since that time, at 92% this year, all the electricity required to run a retail store's POS systems, overhead lighting, backroom systems, mobile/handheld devices, signage, security systems - not to mention the energy costs of heating, air conditioning, water, and refrigeration, where needed – has come into focus. **The cost of operating a competitive retail store in the 21st century is high; the opportunity to lower those costs across multiple stores is tremendous**. Winners have an even sharper focus on consolidating store systems, and lowering the IT department's environmental impact.

Bootstrap Recommendations

Make "green" an integral part of the ***Brand*** Promise, and don't wait to be pushed into action by eco-savvy consumers. The store is a great place to begin – there is something every retailer can do today to reduce the amount of energy used. But there is no "magic bullet" tactic for building a "green" Brand. In addition to the store, retailers should focus on product packaging, recycling, supply chain, logistics & fleet management, and even store construction. IT is a big opportunity too; retailers should identify opportunities to consolidate in-store systems. Although the CEO's commitment to "green" far outweighs the influence of line-of-business leaders, the VP of Marketing should be the CEO's top partner within the company to push the "green" agenda. Adoption of eco-friendly practices is a "when", not an "if". Early adopters gain a leadership position in the eyes of consumers who want and expect change.

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SECTION I: OVERVIEW

WHY THE STUDY WAS CONDUCTED

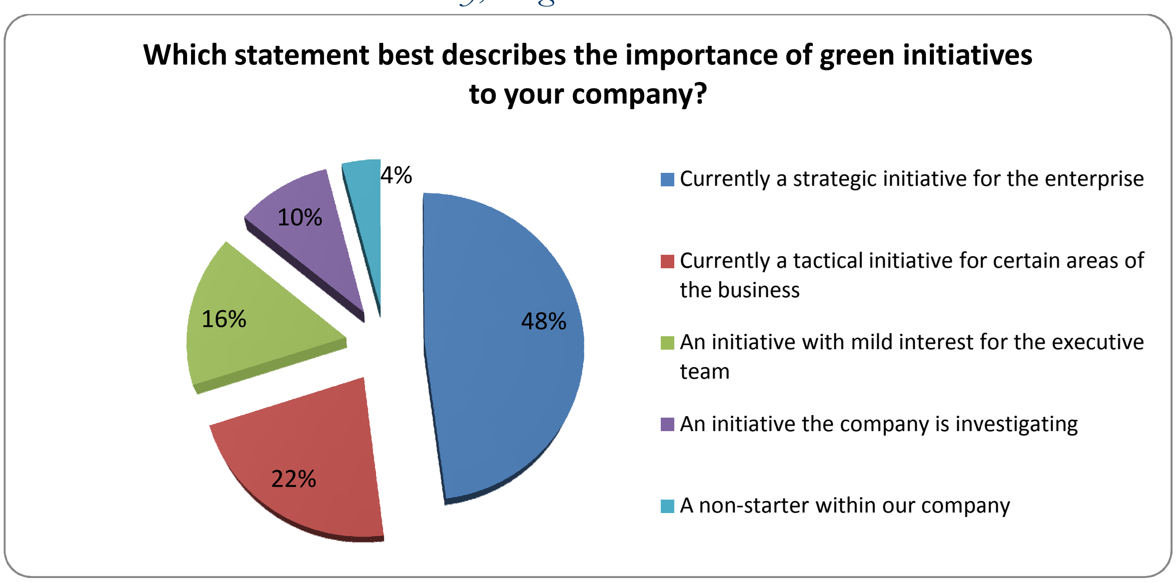
Green retailing presents a very real opportunity for retailers in virtually all aspects of their businesses, yet due to its "newness," still lacks the benefit of compelling industry-specific statistics or case studies to back it up. Last year, we conducted our first survey of retailers' attitudes about green initiatives to gauge their understanding of the challenges, risks and rewards of employing more environmentally sustainable practices[1]. Much has changed in a brief 12 months.

A year ago, environmental sustainability was on the lips of every media source; as a result, retailers were scrambling to incorporate it into their PR messaging, as well. But that was when oil was trading at $150/US a barrel, and it was also before swirling economic uncertainty forced most to re-evaluate literally every investment made across the retail enterprise. At that time, ***reduced product packaging and transportation costs represented the most viable near-term opportunity to both improve the brand image and bring revenue savings***. On the surface, only 44% of our respondents identified green as a strategic issue, and even then, that its place was to be discussed within specific departments. Put simply, the overall view of green's potential was "favorable," but had it not reached "enterprise" status.

STEADY AHEAD

Today, retailers of all sizes and performance levels are interested in how "greening up" their practices across the entire enterprise can squeeze greater efficiency and boost their brand image to an increasingly interested consumer (Figure 1). More think it is a strategic initiative (48% in 2009 vs. 44% in 2008); fewer think it is a non starter (4% in 2009 vs. 11% in 2008).

Figure 1:
Today, Progress All Around



Source: RSR Research, July 2009

[1] ***What Can Green Do for You? Gaining Strategic Advantage in Retail via Environmentally Sound Practices: Benchmark Study***, May 2008, by Steve Rowen and Paula Rosenblum, © 2008 RSR Research LLC

As we will see in the coming pages, it is not just that overall sentiment about green has evolved, but that the areas where retailers are investing have changed significantly. Energy conservation in the store has gained tremendous attention and investment, as has lowering the energy requirements for IT functions, supply chain systems, and distribution centers. Retail Winners (those retailers whose sales are already outperforming their competitors') have made even greater progress. For them, green is rapidly creating a strategic advantage in ALL corners of the enterprise, and has become a major component of the planning for any new IT investment. We will examine their leadership on this issue (and the benefit they derive from it) in more detail throughout this report.

Methodology

RSR uses its own model, called the "BOOT," to analyze retail industry issues. We build this model with our survey instruments. Appendix A contains a full explanation of the methodology.

In our surveys, we continue to find differences in the thought processes, actions, and decisions made by retailers who outperform their competitors and the industry at large. The BOOT model helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

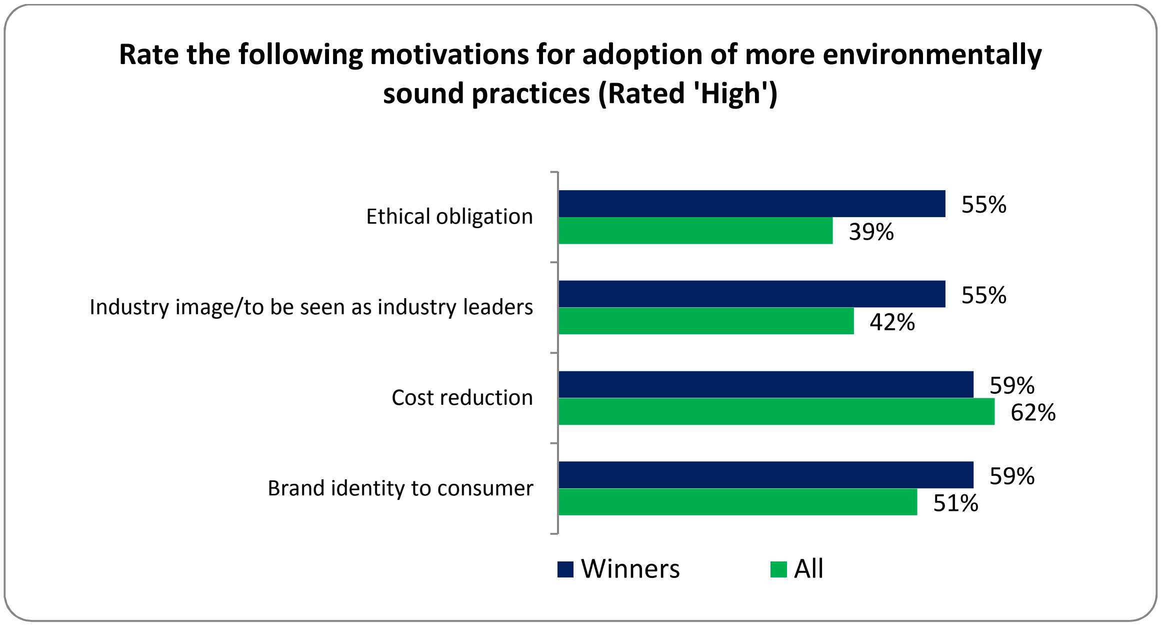
Defining Retail Winners: Why They Win, and Why Laggards Fail

Our definition of Retail Winners is straightforward. We choose to follow Wall Street. Wall Street judges retailers by year-over-year comparable store sales improvements, and we do the same. Assuming industry average comparable store sales growth of three percent, we define retailers with sales above this hurdle as "Winners," those at this sales growth rate as "average," and those below this sales growth rate as "laggards" or "also-rans." It is consistent throughout much of RSR's research findings that **Winners don't merely do the same things better, they tend to do different things**. They think differently. They plan differently. They respond differently.

Laggards also tend to think differently. They may have spectacular vision, but often fail on execution. They may forget the power and breadth of choices today's consumer has. They fail to re-invent themselves when it becomes obvious their existing business model is no longer working. They don't change their business processes in an effective manner, and so they either eschew technology enablers, or don't gain expected Return on Investment on those they DO buy. In good times, they skate by: in tough times these weaknesses come back to haunt them.

The differences between Winners and other retailers come into focus when we examine their motivations for addressing environmental responsibility (Figure 2). Although cost reductions are important to most retailers, Winners also associate environmentally sound practices with their brand image to consumers and the industry, and associate these practices with their ethical responsibility to the community. Winners seek to create a sustainable *Brand* advantage by projecting an image of corporate responsibility. Laggards, on the other hand, merely view energy savings from the perspective of cost control.

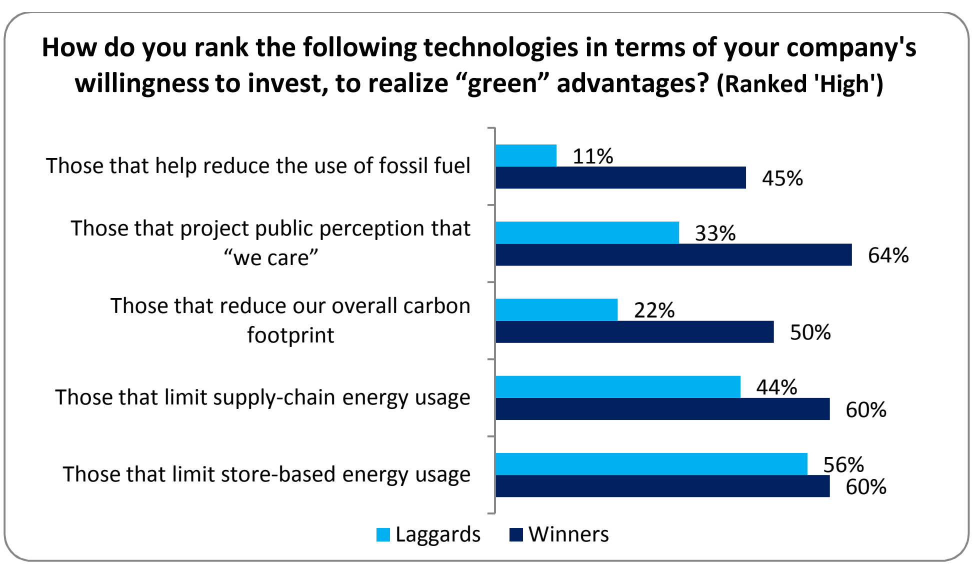
Figure 2:
More than Cost Reductions



Source: RSR Research, July 2009

These motivations affect how Winners invest in technologies to achieve green advantages. For example, although retailers across all performance groups see the value in limiting energy usage both in the stores and throughout the supply chain, Winners take a holistic view – reducing their overall carbon footprint (Figure 3).

Figure 3:
Winners See the Whole Picture



Source: RSR Research, July 2009

SURVEY RESPONDENT CHARACTERISTICS

RSR conducted an online survey from April – July 2009 and received answers from 94 retailers. Respondent demographics are as follows:

- **Job Title**:

Senior Business Management (e.g., CEO, CFO, COO)	16%
Senior IT management (CIO, CTO, VP)	12%
"Line of Business" Vice President/ Director	33%
Line Management	18%
Internal Consultant	7%
Staff	9%
Other	5%

- **2008 Revenue ($ Equivalent)**:

Less than $50 million	30%
$51 million - $249 million	7%
250 million - $499 million	7%
500 million - $999 million	0%
$1Billion to $5 Billion	24%
Over $5 Billion	32%

- **Locations (Headquarters & Retail Presence)**:

	HQ	Retail Presence
North America	88%	91%
Latin America	-	13%
South America	-	13%
UK & Ireland	4%	25%
Continental Europe	3%	21%
Middle East or Africa	-	16%
Asia/Pacific (including India)	1%	22%
Australia/New Zealand	4%	18%

- **Year-Over-Year Comparable Store Sales Growth Rates (assume average growth of 3%)**:

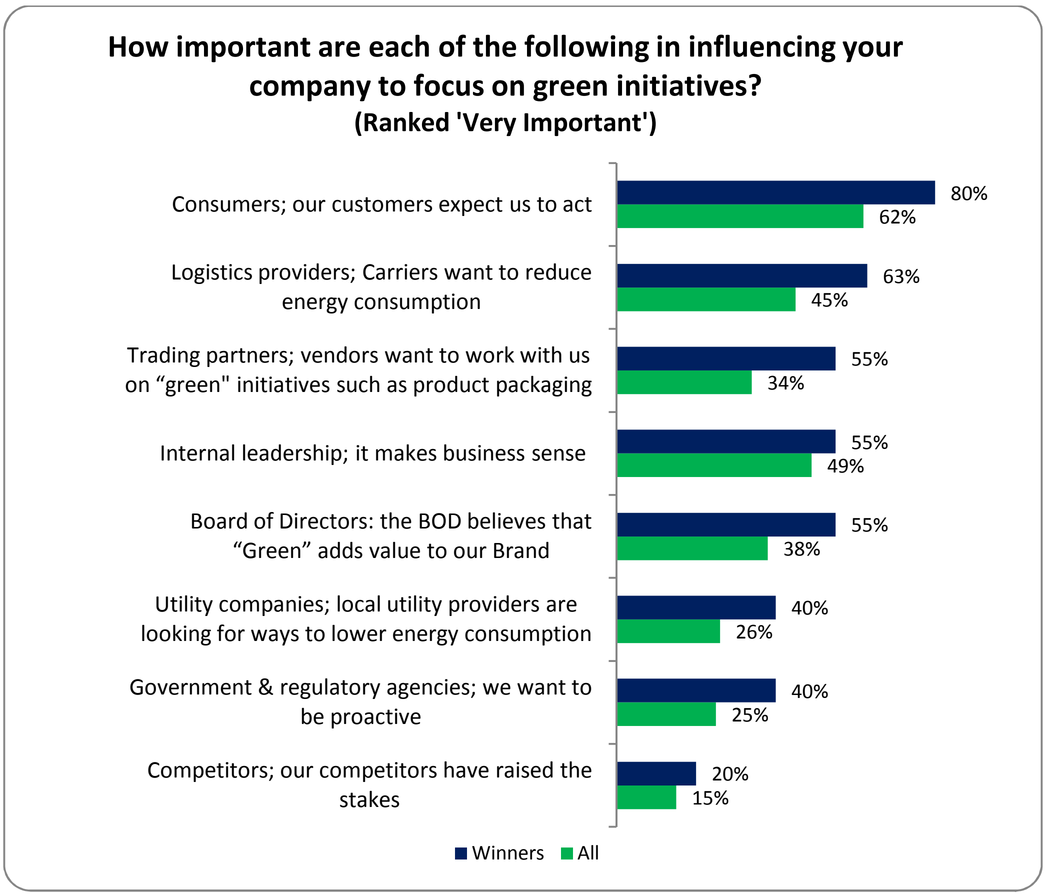
Worse than Average	23%
Average	44%
Better than Average	33%

SECTION II: BUSINESS CHALLENGES

Pressure To Act – But Many Distractions

Retailers across the spectrum of the industry are paying attention to the expectations of consumers, whether about assortment, price, service levels in the store, or cross-channel capabilities. The same holds true of green initiatives. Although internal leadership has an important influence on retailers' environmental initiatives, consumer expectations are the primary driver (Figure 4). As is invariably the case, Retail Winners maintain the sharpest focus on the consumer (80% compared to 62% of the total response group and 50% of laggards).

Figure 4:
Consumer Expectations Guide Retailers' Green Agendas



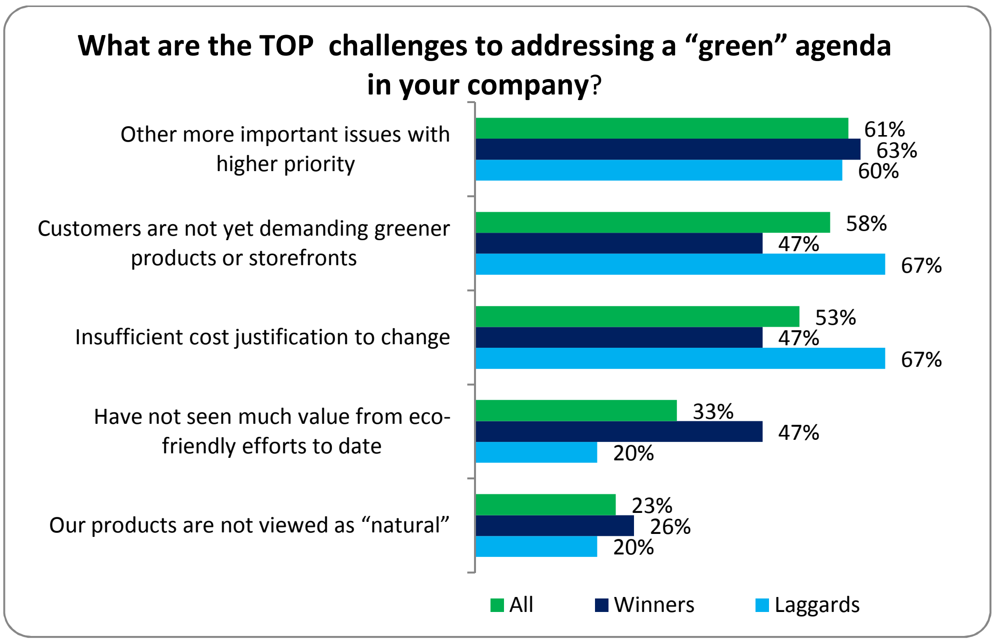
Source: RSR Research, July 2009

Retail Winners also differ from other retailers in that they are also paying more attention to their logistics providers and trading partners to find savings in energy consumption and product packaging. Not so for laggards; only 31% of those retailers cite logistics providers' desire to work with retailers to reduce energy consumption as an important influence, and even less (25%) make the claim that trading partners' desire to collaborate on green initiatives such as product packaging is an influence.

When it comes to the impact of internal leadership, Winners are taking their cue not only from line-of-business leaders but from the Board of Directors itself. For these retailers, green initiatives go well beyond operational objectives and are integral to the company's strategic agenda.

But in the current economic climate, retailers' willingness or ability to focus on environmentally sound practices is hampered by the need to address other, more pressing business priorities (Figure 5). This is true for retailers across all performance groups, but in the case of laggards, it has also fed their skepticism about the cost justification of green initiatives. Even Winners express that to-date, they have not seen as much value from eco-friendly efforts as they want. But unlike laggards, a majority of Winners still see a sufficient cost justification to act.

Figure 5:
The Impact of a Tough Economy



Source: RSR Research, July 2009

Significantly, laggards do not acknowledge that there is sufficient pressure from consumers to act, even though as we have seen, one-half of those retailers recognize that consumers do have green expectations of retailers. These retailers have little desire to lead the green agenda, and don't see its importance to the Brand image of the company. Winners are paying attention to consumer sentiment, even though they are more suspicious of how that sentiment is generated. Indeed, 26% of Winners are concerned that green initiatives are merely a fad (compared to only 13% of Laggards), and 21% feel that consumer sentiment is being swayed by the media (compared to 7% of Laggards). The message here is twofold: Winners want to lead on this issue for a complex set of reasons, even though doubts may have crept into their thinking; laggards want to follow, and won't act until pushed to do so.

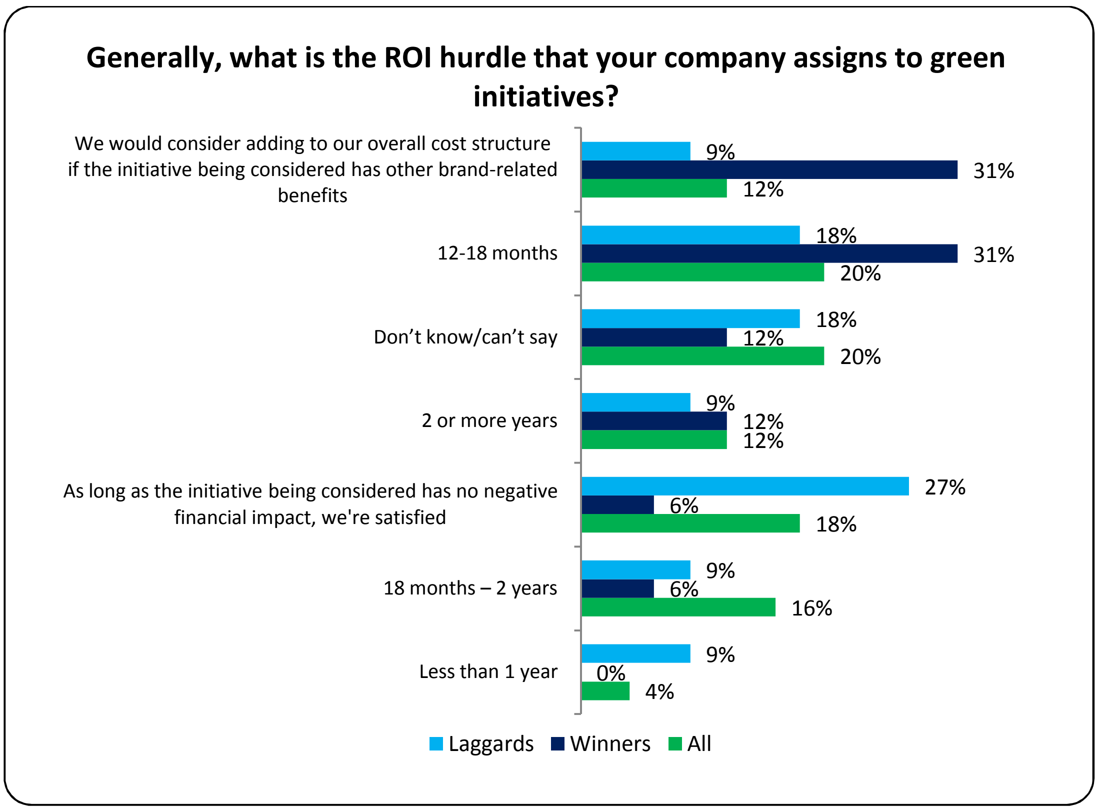
How Fast Must "Green" Deliver an ROI?

As we mentioned earlier in this report, "cost reduction" is the primary motivator for retailers across performance groups (Figure 2), although it is also true that Winners give equal weight to the brand-building potential of an eco-friendly strategy. But at the end of the day, retailers are savvy business people, and razor thin margins demand fiscal discipline.

We asked our respondents to identify the ROI hurdles that green initiatives are expected to surpass (Figure 6). Responses underline how retailers in different performance groups view the opportunities. No Winners expect an ROI in less than a year, although 9% of laggards do. On the other extreme, many laggards (27%) set the vague objective that, "As long as the initiative being considered has no negative financial impact, we're satisfied". Given Winners' hypersensitivity to consumer expectations, and the importance that internal leadership including the Board of Directors gives to the strategic value of these initiatives, it is no surprise that they also exhibit a more reasonable expectation of an ROI. Nearly one-half (47%) of Winners are looking for an ROI after one year.

Winners underline the importance of a green positioning on the brand: 31% say that, "We would consider adding to our overall cost structure if the initiative being considered has other brand-related benefits."

Figure 6:
ROI Expectations Underline Attitudes



Source: RSR Research, July 2009

What About Pressure From Competition?

Much has been made of retailers such as Walmart, who are clearly leading the charge in adoption of green practices and technologies, not only within their own operations, but in cooperation with their supply chain partners. Few retailers have as serious a commitment to green practices. The company is implementing energy efficient technologies which include "daylight harvesting" and centralized energy management. Even the products within stores are benefitting from the company's green mandate: for example, the company has refused to allow any farmers whose cows were treated with bovine growth hormone (rBST) to provide product for its private-label "Great Value" brand milk.

We asked our respondents to assess the impact of competition on their green agendas. Perhaps surprisingly, retailers express very little concern about what their competition is doing. When we asked retailers to rate various statements about how their competition stacks up on the subject of environmentally sounds practices, the highest rated response (at 30%) was, “We don’t care what the competition is doing in green initiatives.” This response is consistent for retailers across all performance groups.

Juxtapositioning this finding over responses about the motivations for addressing green initiatives (Figure 2) helps shed some light on how retailers perceive the challenge. Winners see this issue as a “leadership” and a Brand challenge, an opportunity to create some leveragable market advantage over competition: they are taking the long view, not necessarily today’s bottom line. “Green” is a “green field” opportunity, and they are not looking for success stories before proceeding. Laggards are looking for cost saving now, and think of green as less of an opportunity to address today’s bottom line challenges than other efforts.

SECTION III: OPPORTUNITIES

A TURNING TIDE

In RSR's 2008 Report, we recommended that retailers make use of the numerous data-collection methods that are available to identify how serious their specific customer-base demands are. From that report:

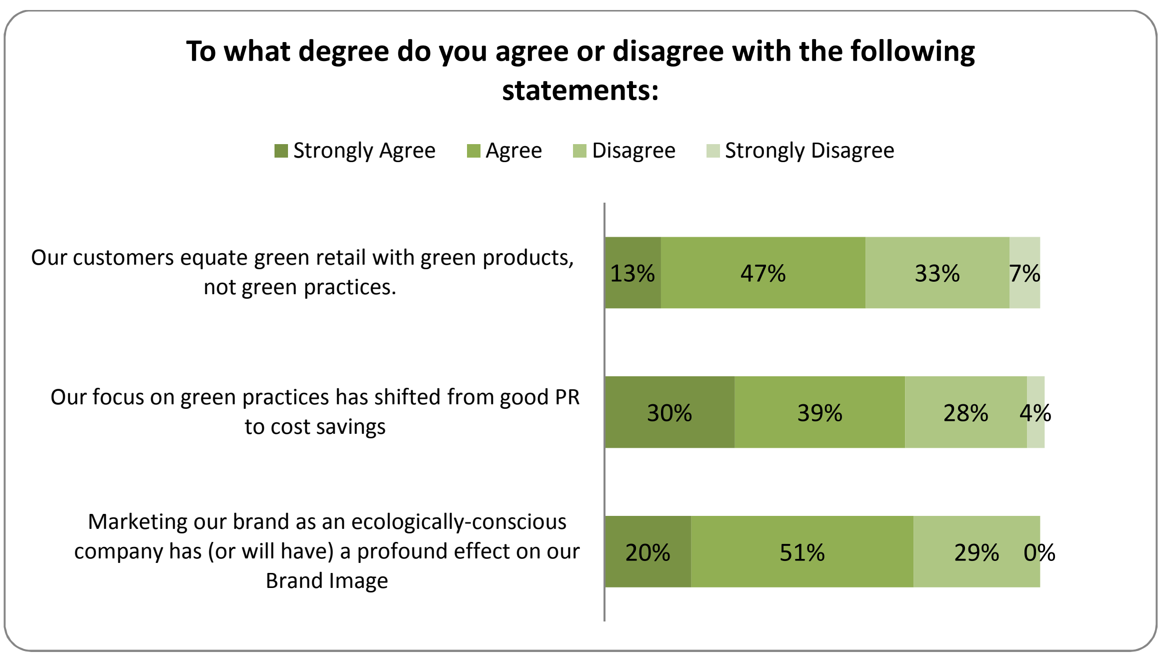
> *"Customers will ultimately be the ones to pull green technologies; understanding how demanding they are can help identify your own commitment to green initiatives."*[2]

From what our respondents tell us this year regarding the opportunities that green initiatives enable, they are finding that customer demand not only to be a significant motivating force, but one that also creates nearer-than-expected financial benefits.

BEYOND PR, BUT ALSO BEYOND PRODUCT

Thirty percent of our overall respondent pool strongly agrees that a commitment to green practices is not just a good PR initiative, but rather a genuine opportunity for cost savings (Figure 7). Last year, that number was only 11%. As we have seen in the Business Challenges section, the tide has clearly turned against the argument that green is just a fad. At the same time, fewer of our respondents strongly disagree this year than last that marketing the brand as green will have a positive effect on sales (0% vs. 7% last year). These results indicate the customer's increasing power and demand for more ecologically-conscious behavior and products as a trend that retailers *must* heed in order to remain competitive.

Figure 7:
Work Needed for Retailer Practices



Source: RSR Research, July 2009

[2] ***What Can Green Do for You? Gaining Strategic Advantage in Retail via Environmentally Sound Practices: Benchmark Study***, p.18

That being said, 60% of the overall pool agrees that customers' interests lie expressly in green products and are not yet looking deeper into the retailer's means of delivering those products. There is significant room for improvement here, as only certain retailers are starting to get the picture that green means more to today's educated consumer than just products. Who in particular? Winning Retailers. Fifty percent (vs. 40% of the general response base) completely disagree that customers only equate green to products, not practices. This is yet another sign of how Winners have a deeper and more holistic view of green, and also a greater understanding of the overall education, interest, and wishes of their customers.

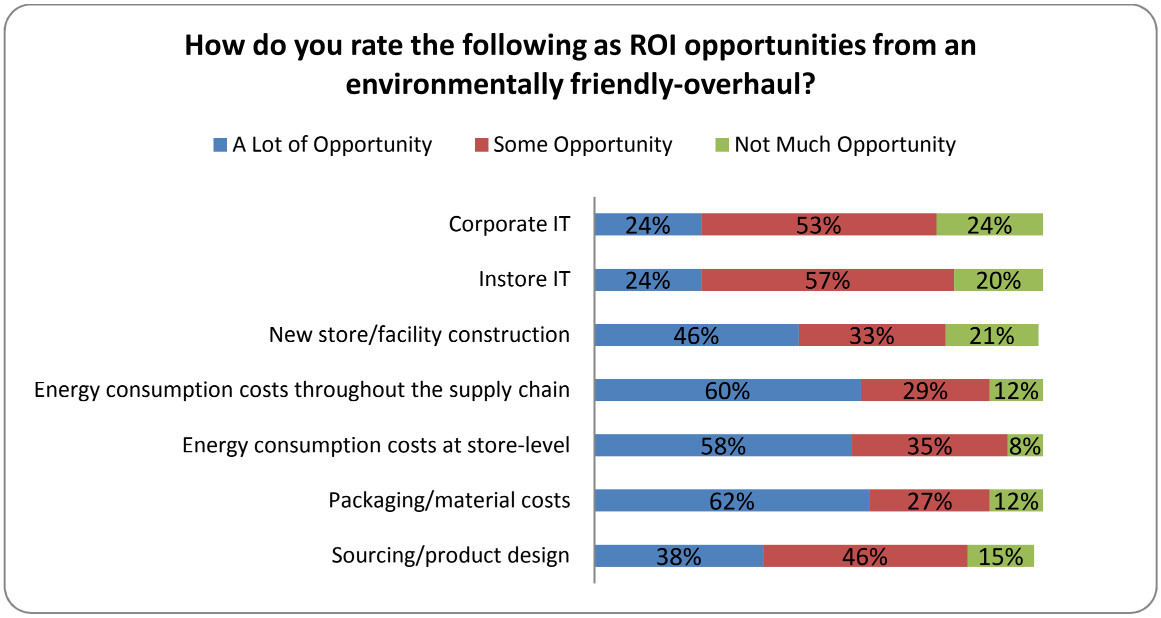
If one needs practical proof of this, the most winning green advocate of all, Walmart, is now requiring its manufacturing partners to determine **the full environmental costs of producing and delivering each product it sells**, and will provide that information in customer-facing green ratings do be displayed alongside prices in stores.

Energy Consumption Takes Center Stage

When we asked where the biggest ROI opportunities exist for an environmentally-friendly overhaul (Figure 8), our respondents point decidedly to reducing their energy consumption: Ninety-two percent see real opportunity in the store, and 88% in the supply chain. Interestingly, last year, when most retailers were just starting to evaluate the real-world opportunities of the "new" concept of green, oil consumption and product packaging were the top areas of focus. While reduction in product packaging and material costs is still a high point of interest for our respondents (62% identify it as having a lot of opportunity, compared to 54% last year), the data suggests that retailers soon realize that this strategy is difficult to implement. Only those offering private label goods or who have tremendous leverage over their supply partners can enact significant change in this regard. Here, Winners and large retailers will set the product design parameters from which all others will benefit.

For the majority of retailers, reductions in energy consumption *ARE* feasible, and represent the most viable quick-hit ROI. Due to the store multiplier factor alone, the most logical place to begin an energy reduction initiative is the store. Eighty percent of overall respondents also see opportunity in mitigating the energy requirements specific to *IT in the store* – more on that later – and another 76% view lowering corporate IT's energy draw as an ROI-rich initiative, as well. But the real mover this year is in-store energy consumption.

Figure 8:
Energy: Battleground Store and Supply Chain



Source: RSR Research, July 2009

Only 53% of last year's overall respondents identified the store energy costs as a challenge that could benefit from a green overhaul. Since that time, at 92% this year, all the electricity required to run a retail store's POS systems, overhead lighting, backroom systems, mobile/handheld devices, signage, security systems - not to mention the energy costs of heating, air conditioning, water, and refrigeration, where needed – has come into focus. The cost of operating a competitive retail store in the 21st century is high; the opportunity to lower those costs across multiple stores is tremendous.

The dramatic escalation from last year to now in retailers' awareness of the store's potential is an indicator that retailers are simply further along in their investigations of real-world green. The deeper a retailer gets into examining their options, the clearer it becomes that the store is, often times, the best "right now" opportunity. For most retailers, it is difficult (and expensive) to re-tool the entire supply chain. It is not easy to place restrictive logistics, transportation, and materials measures on suppliers. Changes within the store, however, are squarely within every retailer's wheelhouse. With available options ranging from simple energy-saving policies to full-scale, real-time remote energy management, there is ***something every retailer can do today*** to reduce the amount of energy used within the store, reuse resources within that store, and recycle products and materials that would previously have been relegated to waste.

It is also important that our respondents, particularly Retail Winners, note that reducing energy consumption in the supply chain is an initiative with highly worthwhile ROI. Eighty-eight percent of our overall respondents identify it has having overall opportunity. Whether retailers have the bandwidth to address both store-level and supply chain opportunities at the same time is another question, but it is clear from the results that most retailers see the opportunities.

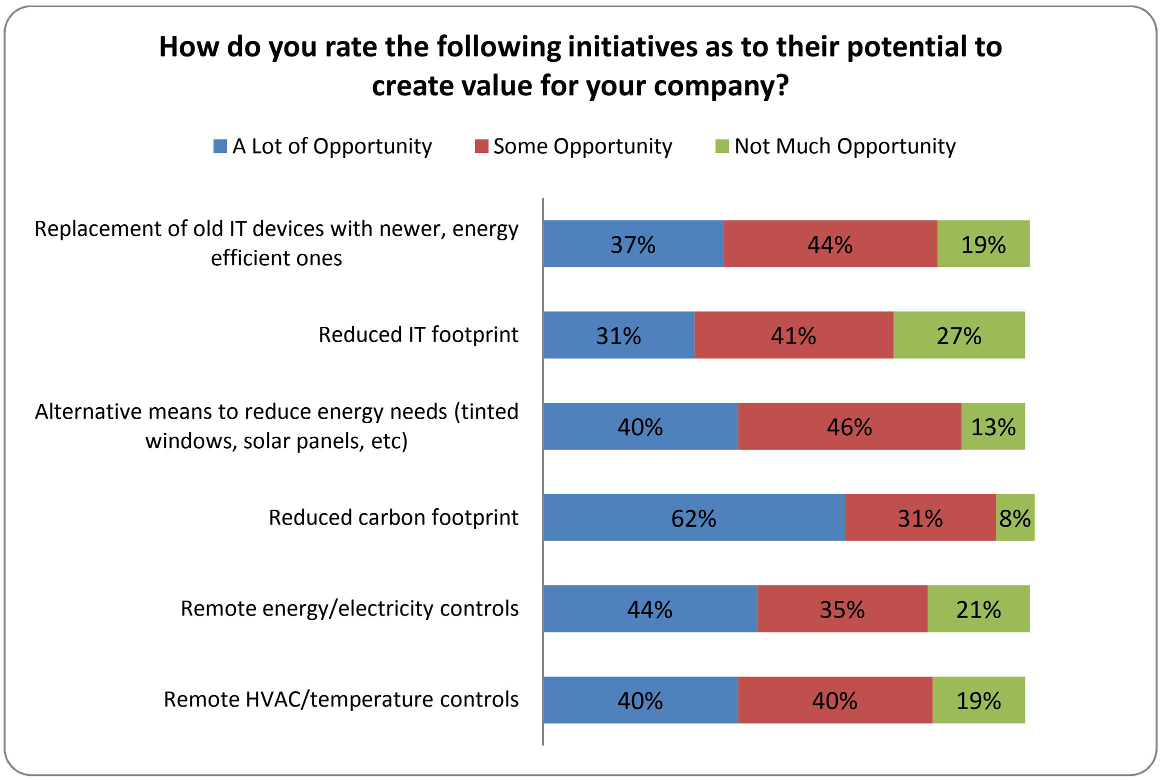
The Forest for the Trees

The ultimate goal of green initiatives is to reduce carbon requirements. From last year's report:

> *"Experts estimate that purely by burning fossil fuels, humans produce 21.3 gigatons of CO_2 each year, only half of which can be absorbed naturally. Even the most conservative scholars now agree CO_2 emissions are steadily unhinging our environment".*[3]

At that time, only 11% of retailers identified reducing their carbon footprint as a high priority. In the brief year since that report published, the story has changed, and virtually all of our respondents have become interested. As we can see in Figure 9, 62% see it has having a lot of opportunity, and only 8% of respondents do not see any opportunity in lowering the amount of carbon they (and soon, their products) require.

Figure 9:
Carbon Reduction Now the Goal



Source: RSR Research, July 2009

So far, among the general response pool, there is no overwhelming consensus as to how to lower that footprint: Remote control of store and DC energy/electricity controls is one of the least expensive – and fastest – technologies to implement, so at 44% - the highest rated - it gets the nod from many retailers right now. However, virtually all of the subsequent options that we provided scored highly with our general response base, as 40% see great opportunity in lowering HVAC and temperature controls, 40% identify alternative means to reduce energy consumption (such as solar panels and tinted windows in stores) as a priority, and 37% see a big opportunity in replacing their older IT devices with newer and more energy efficient models. The good news is that all of these options lower a retailer's overall carbon footprint, and in contradiction to last year (when respondents' perceived value of the technologies

[3] ***What Can Green Do for You? Gaining Strategic Advantage in Retail via Environmentally Sound Practices: Benchmark Study***, p.2

outweighed the outcome), this data point demonstrates how much progress the retail industry as a whole has made in understanding the opportunities green affords.

Once again, however, Winners have even sharper focus. Sixty-seven percent of Winners (compared to 36% of laggards) view lowering their carbon footprint as an initiative that holds a lot of opportunity for their organizations. That trend continues into their view of IT-specific energy consumption, as well, as 33% of Winners vs. 9% of laggards identify reducing the IT department's footprint as a prime opportunity. We will see more of how Winners view the IT department as key component to a greener enterprise in the Technology Enablers section of this report, and how their relentless focus on green as a strategic, company-wide initiative separates them from their more project-oriented underperforming peers.

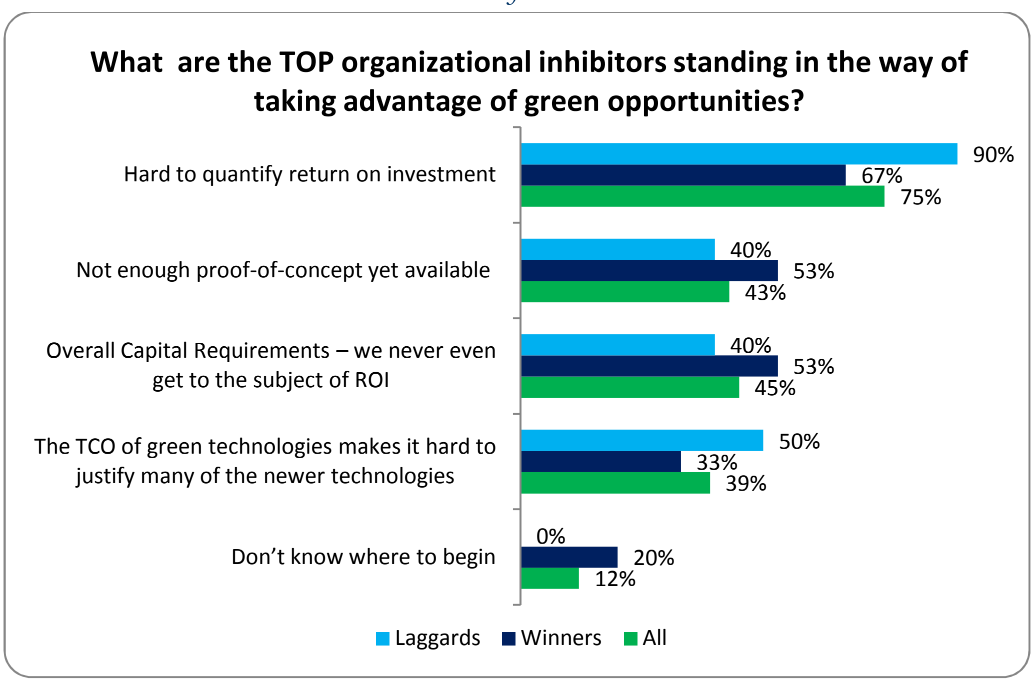
SECTION IV: ORGANIZATIONAL INHIBITORS

LACK OF 'HARD BENEFITS'

As we have already seen earlier in this report, there is a clear line in the sand between Retail Winners – who see green initiatives not only for their potential cost savings but also for their strategic value in the eyes of consumers and the community, and under-performing laggards – who definitely do not want to lead the charge when it comes to environmentally responsible practices. There are many other "hot" issues in today's economy as retailers fight for survival, and non-winning companies are distracted away from the green agenda by those pressing challenges. But even though they share in general skepticism about the causal factors that have created consumer awareness of the green agenda, Winners nonetheless see the opportunity for potential competitive advantage in the future. For that reason, Winners have to a certain degree relaxed the "hard benefit" ROI objectives that might be expected.

Winners, however, aren't suffering any allusions when it comes to the difficulty in justifying green projects (Figure 10). They too acknowledge that investments are very hard to quantify (although 33% *don't* make that claim, compared to only 10% of laggards). What is different is that the majority of laggards stop there, never getting to other questions such as where to find proof-of-concept examples, finding the capital required to invest, the cost efficiency of new technologies, or even where to begin. Winners ask all of these questions, and for some of them, the lack of strong answers is a potential inhibitor. Most laggards stop at the ROI question, and don't even consider other potential inhibitors.

Figure 10:
Hard Benefits Unclear



Source: RSR Research, July 2009

It is also worth noting that 30% of laggards state that their current technology infrastructure prevents them from moving forward on green initiatives, whereas only 13% of Winners make that claim.

But if Consumers Press Hard Enough…

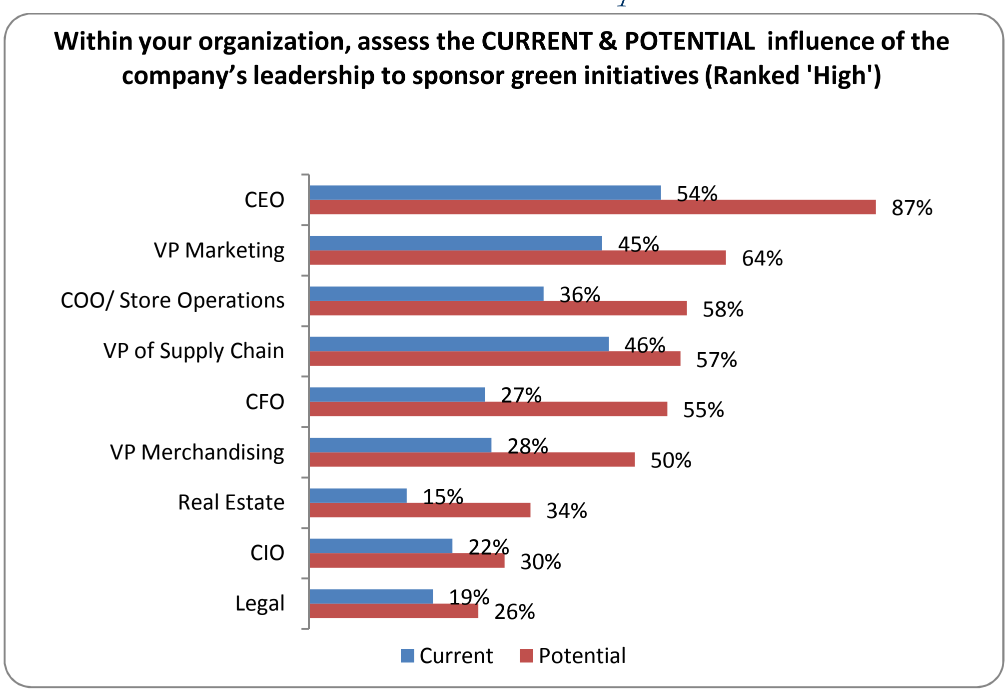
In virtually every study that RSR has undertaken in the last 18 months, "Executive Mandate" ranks as the single most effective way to overcome internal organizational inhibitors. Although executive leadership still ranks very highly for respondents in this study (77% overall and 86% for Winners), consumer expectations are viewed as more important to overcome inertia within the company. As we saw earlier, most retailers cite customer expectations as a prime motivator to address the green agenda (Figure 4), but it's also apparent that the majority of non-winners are not yet feeling sufficiently pressed by their customers to act (Figure 5).

In this study, the total response group rated "customer demand" as the top way to overcome organizational inhibitors (82%), and laggards feel even more strongly (89%) that if consumers press hard enough on the issue, they will be forced to act. Even though Winners also rate "customer demand" highly (80%), they believe executive mandate is even more important. Since they have already taken their cue from consumers, Winners are looking beyond the need to act and towards getting the right internal sponsorship.

The Need For Executive Commitment

As we saw earlier, the majority of Retail Winners are influenced to act on eco-friendly efforts by not only their customers but by their executives and the Board of Directors (Figure 4). For these retailers, ecological responsibility is fast becoming part of a differentiating Brand proposition to consumers. But retailers across all performance groups are looking for more leadership from their executive team (Figure 11).

Figure 11:
Business Leaders Need to Step Forward



Source: RSR Research, July 2009

The CEO's commitment to a green strategy far outweighs the potential influence of line-of-business leaders. Interestingly, given the Brand value of a green positioning, the VP of Marketing is seen as the CEO's top partner in promoting an agenda, superseding the potential influence of the COO, VP of Supply Chain, and the CFO. Although - given the lack of clarity of the financial benefits of green projects - the CFO isn't currently viewed as influential in overcoming organizational inhibitors, our respondents expect that financial considerations will rise in importance and with them, the role of the CFO.

Due to the importance that retailers (particularly Winners) give to eco-friendly products in store, it's no surprise that the VP of Merchandising is viewed by one-half of our respondents as having strong potential influence in overcoming internal inhibitors. Also, as retailers focus more on green construction practices in new stores and retrofits for existing stores, the VP of Retail Estate is expected to wield more influence in the future.

SECTION V: TECHNOLOGY ENABLERS

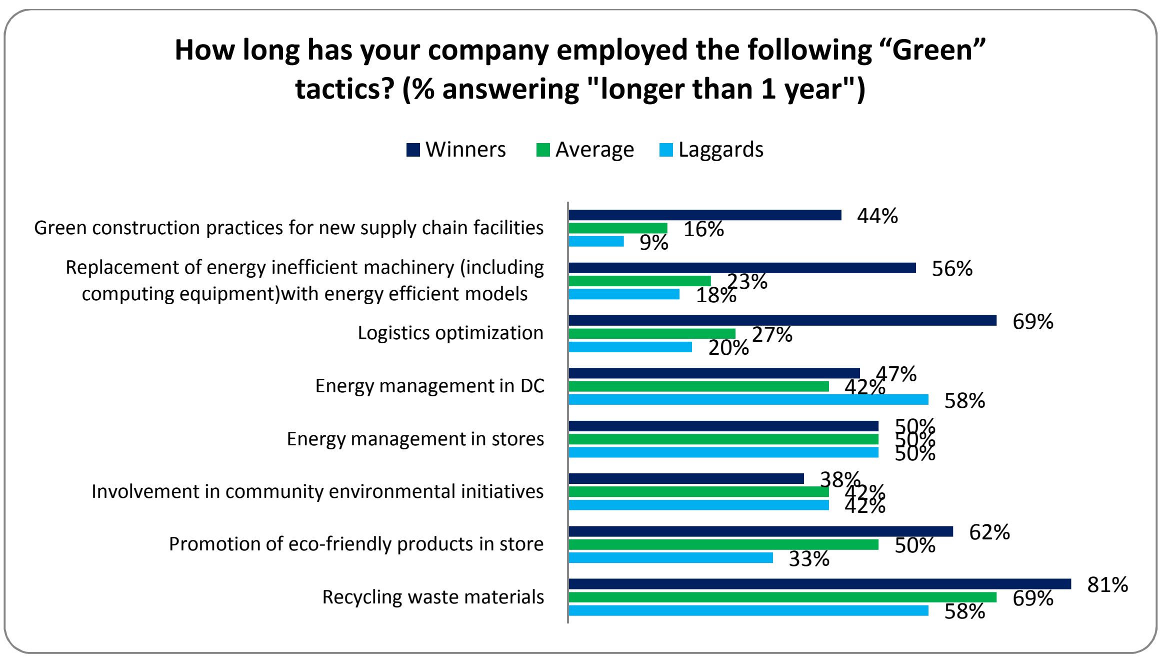
GREEN IS A STORY OF WINNERS

Typically, when RSR studies identify "technology enablers," the focus in on information technology. However, in the context of green initiatives, the discussion of technology must go beyond information technology to include machinery, energy management, construction, and even product packaging. Making the assumption that different technologies play a key role in meeting retailers' green objectives, we asked retailers to identify how long they have been employing various green tactics, so that we can compare those tactics to technology investments made to enable them.

In Figure 12, Winners demonstrate an enterprise-wide view of the challenges and opportunities associated with an eco-friendly position. These retailers show that there is no single "magic bullet" tactic to building a more environmentally savvy brand. Instead, they think about how the environmental impact of every aspect of their business can be lessened.

For example, Winners are much more aggressive in adopting greener construction practices for any new supply chain facilities (44% compared to 16% of average and 9% of lagging retailers). They have also have been utilizing green tactics in their logistics optimization efforts longer than their peers (69% vs. 27% of average and 20% of laggards). Winners have enacted more recycling programs (81% have been recycling waste materials for longer than a year, in comparison to 69% of average retailers and 58% of laggards), and have a far greater understanding of the economic impact and brand building opportunity of making sure the customer perceives them as a green retailer. A staggering 62% of Winners (compared to only 32% of lagging retailers) actively promote the eco-friendly products that they sell in stores.

Figure 12:
Currently in Play



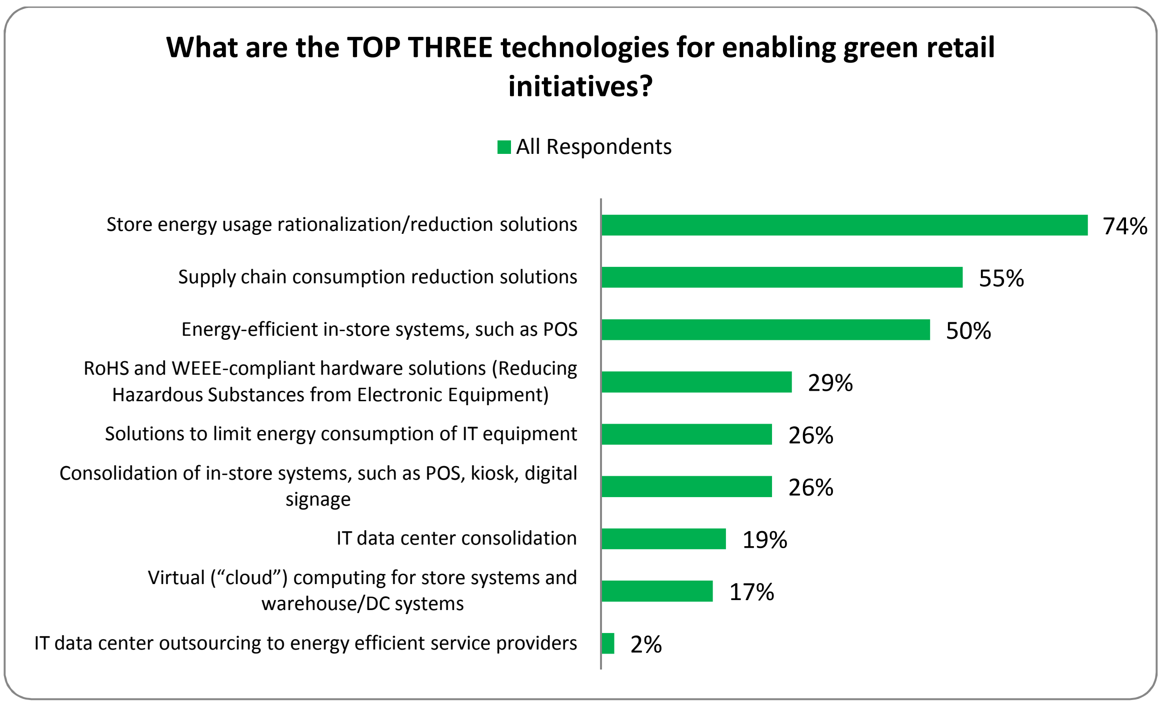
Source: RSR Research, July 2009

Winners are also much more cognizant of IT's piece to the green puzzle. We've seen that they have greater desire to lower the carbon footprint specific to IT in both the store and corporate headquarters. ***Here, they demonstrate a key element to how that footprint can be lowered***. For more than a year, 56% of Retail Winners have been steadily replacing energy-inefficient technologies – including computing equipment – with more modern, energy-saving machinery. By way of comparison, average and lagging retailers are well behind this curve: only 23% of average and 18% of lagging retailers have taken steps to reduce their technology's energy consumption. Winners have more than doubled their peers' IT-specific efforts.

INDUSTRY GROWTH

For the general response pool, two of the top three responses pertain to the store: the third pertaining to the supply chain. In aggregate, 74% of our respondents identify technologies that limit (or rationalize) the usage of energy in the store as the top green available to them today (Figure 13).

Figure 13:
Energy All Around



Source: RSR Research, July 2009

In 2008, technologies that limit store-based energy costs also won top honors when asked about buying intentions – but at that time, only 47% (compared to 74% this year) cited such technologies as a high priority. Further, 50% identify energy-efficient in-store systems (such as POS, in-store servers, mobile devices and backroom systems) as top technologies for enabling green initiatives. Retailers' education regarding the need to, and relative ease of conducting more energy conscious behaviors in the store has been swift.

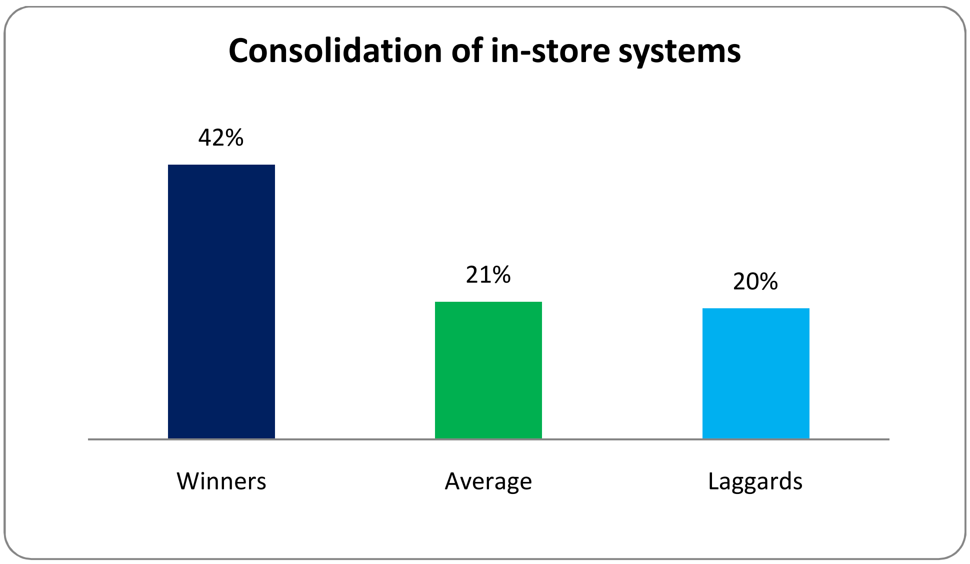
Additionally, 55% of our total respondents view supply-chain consumption reduction solutions as top technologies. This falls directly in line with the 60% of respondents who identified "energy consumption costs throughout the supply chain" as having a lot of ROI opportunity previously in Figure 8. Once more,

for practicality alone, retailers of all sizes are well advised to shore up their in-store processes before taking on the daunting task of "greening up" the extended supply chain.

IT's Role

Finally, throughout this study, Winners have indicated that they vary from other retailers in their view of IT's role in the enhanced ecological practices of the overall enterprise. This is particularly apparent as it pertains to consolidation of in-store systems such as the POS system, in-store servers, in-store computing devices, backroom systems, kiosks – even digital signage (Figure 14). Retail Winners identified consolidating these technologies as most valuable at a much higher rate than did their average and underperforming colleagues.

Figure 14:
More Winners Want to Consolidate Store Technologies



Source: RSR Research, July 2009

SECTION VI: BOOTSTRAP RECOMMENDATIONS

IT'S ABOUT THE BRAND

Winners seek to create a sustainable *Brand* advantage by projecting an image of corporate responsibility. Although cost reductions are important to most retailers, Winners also associate environmentally sound practices with their brand image to consumers and the industry, and associate these practices with their ethical responsibility to the community. This interest is driven by consumers, but Winners are also influenced to act on eco-friendly efforts by their executives and the Board of Directors. To make "green" an integral part of the Brand promise, retailers shouldn't wait to be pushed onto action by eco-conscious consumers, but should proactively promote eco-friendly products in the store, demonstrably manage energy consumption throughout the enterprise, and engage in responsible product packaging and recycling practices.

START AT THE STORE…

For the majority of retailers, reductions in energy consumption *ARE* feasible. The real mover this year is in-store energy consumption. There is ***something every retailer can do today*** to reduce the amount of energy used within the store, reuse resources within that store, and recycle products and materials that would previously have been relegated to waste. Implementation of remote control energy/electricity controls is one of the least expensive – and fastest – ways to deliver measurable value.

…BUT DON'T STOP THERE

Winners show that there is no single "magic bullet" tactic to building a more environmentally savvy brand. Instead, they think about how the environmental impact of every aspect of their business can be lessened. In addition to store-level energy consumption opportunities, product packaging, recycling, supply chain energy consumption, logistics & fleet management, and new store & facilities construction are all good opportunities.

IT IS A BIG OPPORTUNITY, TOO

Winners are also cognizant of IT's ability to contribute to a lower carbon footprint. Retailers have an opportunity to reduce IT-related energy usage by identifying particular opportunities to consolidate in-store systems such as in-store servers, in-store computing devices, backroom systems, kiosks – even digital signage.

IT TAKES LEADERSHIP

The CEO's commitment to a green strategy far outweighs the potential influence of line-of-business leaders. But the VP of Marketing should be the CEO's top partner in promoting an agenda, along with the COO, VP of Supply Chain, and the CFO. Due to the importance that retailers give to eco-friendly products in store the VP of Merchandising has the opportunity to influence the corporate "green" positioning. The VP of Retail Estate can wield more influence in the future as retailers focus more on green construction practices in new stores and retrofits for existing stores.

Have Patience – and Persevere

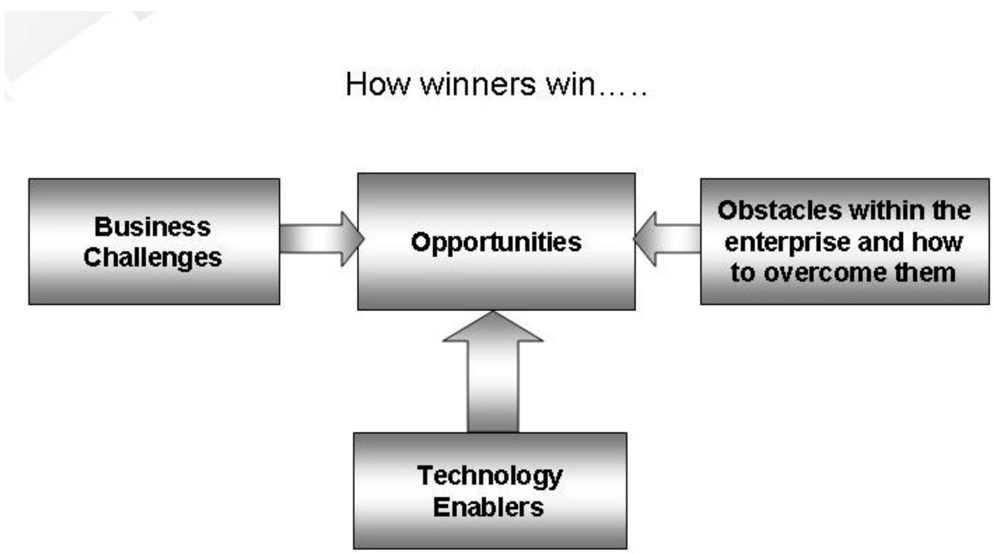
Winners aren't suffering any allusions about the difficulty in justifying green projects. They acknowledge that investments are very hard to quantify. Given their hypersensitivity to consumer expectations and the strategic value of green initiatives, it is no surprise that they also exhibit a reasonable expectation of an ROI. But many Winners would consider adding to our overall cost structure if the initiative has other brand-related benefits. Retailers should consider the strategic Brand value of their green positioning, and not merely the short term tactical cost savings that might be won with targeted "green" projects. ***Adoption of eco-friendly practices is not "if" but "when".*** Early adopters may incur risks that late adopters could avoid, but they gain a leadership position in the eyes of consumers who want and expect change.

APPENDIX A: THE BOOT METHODOLOGY

The "BOOT" methodology is designed to reveal and prioritize the following:

- **Business Challenges** – Retailers of all shapes and sizes face significant **external** challenges. These issues provide a business context for the subject being discussed and drive decision-making across the enterprise.
- **Opportunities** – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. **The ways retailers turn business challenges into opportunities often define the difference between Winners and "also-rans."** Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **Organizational Inhibitors** – Even as enterprises find opportunities to overcome their external challenges, they may find **internal** organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **Technology Enablers** – If a company can overcome its organizational inhibitors it can use technology as an enabler to take advantage of the opportunities it identifies. Retail Winners are most adept at judiciously and effectively using these enablers, often far earlier than their peers.

A graphical depiction of the BOOT follows:



APPENDIX B: ABOUT RSR

Retail Systems Research ("RSR") is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, providing thought leadership and advice on navigating these challenges for specific companies and the industry at large. We do this by:

- **Identifying information** that helps retailers and their trading partners to build more efficient and profitable businesses;
- **Identifying industry issues** that solutions providers must address to be relevant in the extended retail industry;
- **Providing insight and analysis** about a broad spectrum of issues and trends in the Extended Retail Industry.

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