What Can Green Do for You?

Gaining Strategic Advantage in Retail via Environmentally Sound Practices:

Benchmark Study 2008

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Executive Summary

"Green" is everywhere today. Media focus has been on reducing carbon emissions, or the "CO_2 footprint" of individuals and companies. Virtually all components of a "reduce, reuse, or recycle" program ultimately require burning less carbon-emitting fuels and reducing emissions put into the planet's atmosphere. The goal of all environmentally friendly practices is to reduce carbon footprints and minimize waste in general. These practices include reducing traditional energy consumption, using alternative energy sources, reducing and reusing materials, more efficient and using cleaner transportation, and reducing use and improving disposal of hazardous materials.

But what tangible opportunities do greener practices hold for retailers? And can these opportunities affect the bottom line? What we found might surprise you.

Business Challenge

We suspected that rising oil costs would be the biggest challenge forcing retailers to evaluate green alternatives. However, the data shows that ***Winners aren't as interested in cost reduction as they are brand building. They also care more about the global impact of their actions than we expected.*** At the same time, their poorer performing competitors are fixated on cost, and feel little to no ethical obligation to go green. Further, Winners' focus on elevating their brand identity is fueled by a desire to be in line with consumers' growing green demands, and undertake all initiatives with this demand in mind.

Opportunities

Beyond the brand building exercise, the most valid near-term opportunities for retailers exist across three areas: within the supply chain, in stores, and the biggest "right now" opportunity to enhance the bottom line of all - in packaging improvements and reductions.

Organizational Inhibitors

The usual suspects return, as lack of immediate ROI and a negligible supply of proof-of-concept plague retailers' efforts to make their practices more environmentally-friendly. However, it is important to note that the single greatest force to overcome these traditional inhibitors exists within the grip of the empowered customer. Seventy-two percent of those surveyed readily admit that customer demand is the number one reason to challenge the ROI-based argument. Additionally, winners have a bit more vision: they expect full and real ROI within 2-3 years, while underperformers see none.

TECHNOLOGY ENABLERS

Amid the hype, retailers are paying close attention to solutions that help reduce energy costs, particularly within the store. Supply chain conservation also ranks highly. Though they are primarily economic decisions, both solution sets dramatically reduce carbon emissions.

BOOTSTRAP RECOMMENDATIONS

So far, retailers' adoption of greener practices has been more philanthropic than economically robust. However, what makes this overhaul far different than others retailers have faced (RFID adoption, for example, which met with significant consumer resistance along with its economic challenges), is that the customer plays such a vital role in determining how far retailers must go. For these reasons, we offer the following BOOTstrap recommendations:

- **Know More**: Through any number of data-collection methods available, we strongly suggest that retailers identify how serious their specific customer-base demands are. Customers will ultimately be the ones to pull green technologies; understanding how demanding they are can help identify your own commitment to green initiatives.

- **Store Up**: Mitigating the amount of energy consumed in the store – and the supply chain – makes good common sense for ethical and bottom-line reasons. Our respondents indicate that technologies limiting energy use throughout the store and the supply chain are highly attractive, and the means to do so already exist.

- **Package Better**: Some old retail stories remain true, even in new "greener" times. Packaging has always been expensive. Retailers, Winners in particular, see this as the first battlefront to tackle. Requiring the lowest amount of tech infrastructure, efforts to minimize packaging materials not only reduce the obvious amount of landfill created but also significantly minimize carbon emissions. It will also improve gross margins across the value chain.

- **Build your Brand for the Windfall**: The best performing retailers are evaluating both how seriously and how soon the customer will demand more environmentally conscious behavior. In particular, winning retailers are "hedging their bets" on elevating their green profile in anticipation of greener customers who will vote with their wallets.

- **Face Facts**: A 2008 US Presidential hopeful recently said, "We are the ones we've been waiting for." While it is still early to determine the true cost-effectiveness of many eco-savvy practices, Winners recognize that this is no ordinary tech implementation. The results of retailers' behaviors here truly have a greater impact than just dollars and cents.

Table of Contents

Figures

SECTION I: OVERVIEW

WHY THIS STUDY WAS CONDUCTED

It's difficult to view any media (or even entertainment) outlet without hearing about green today. While several cutting-edge retailers are genuinely at the forefront of discussion, the inundation of "green talk" has become nearly overwhelming. In fact, the controversy that circles the practicality of several proposed energy alternatives (including ethanol "E85" fuel, biodiesel fuel sources and elctro-hybrid technologies), coupled with the typical hype of the media has resulted in many cynics labeling the environmental friendliness movement as a fad: a trend to be as easily dismissed as the revival of swing dancing.

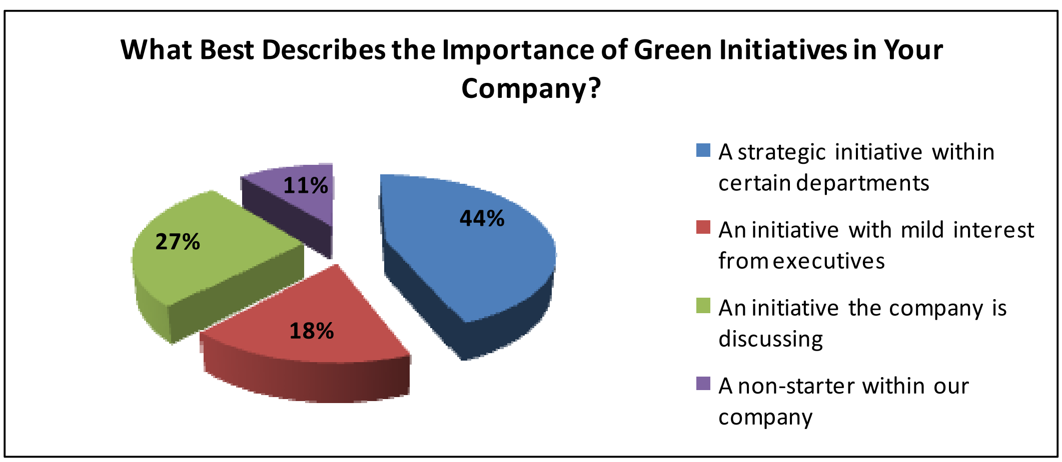
Yet RSR knows that while the topic is certainly overexposed, oil prices are sky high and global warming is a new sobering fact of life. Hence, green practices for our industry are no fad, and pose real opportunity to both better our world and maximize corporate capital.

In other industries, green initiatives are taking foothold. Ski resorts are using wind power to fuel chairlifts. Newly constructed high-rise buildings are built with grass roofs to reduce heating and cooling costs: HVAC requirements are reduced, traditional insulation is mitigated, and water drainage and cooling can be maximized. Even baseball's Fenway Park is utilizing solar panels to eliminate reliance on natural gas throughout the park's facilities (eliminating eighteen tons of CO_2 emissions annually), while also using bio-diesel maintenance equipment on-field and energy-efficient signage throughout the park.

However, in retail, an industry known for its resistance to change, the true benefits of environmental overhaul, apart from ethical value, remain unknown. RSR approached this study to discover whether green practices have morphed from brand building and PR initiatives to become cost-effective. Further, assuming they have indeed "turned the corner," we sought to identify precisely where the most realistic opportunities lie.

Figure 1 shows how our retail respondents view the status of their green initiatives. With 89% seeing at least some value in green initiatives, and 44% believing it to be a strategic initiative, clearly it's time to tease out where the best "today" opportunities exist.

Figure 1:
Most Retailers See the Value



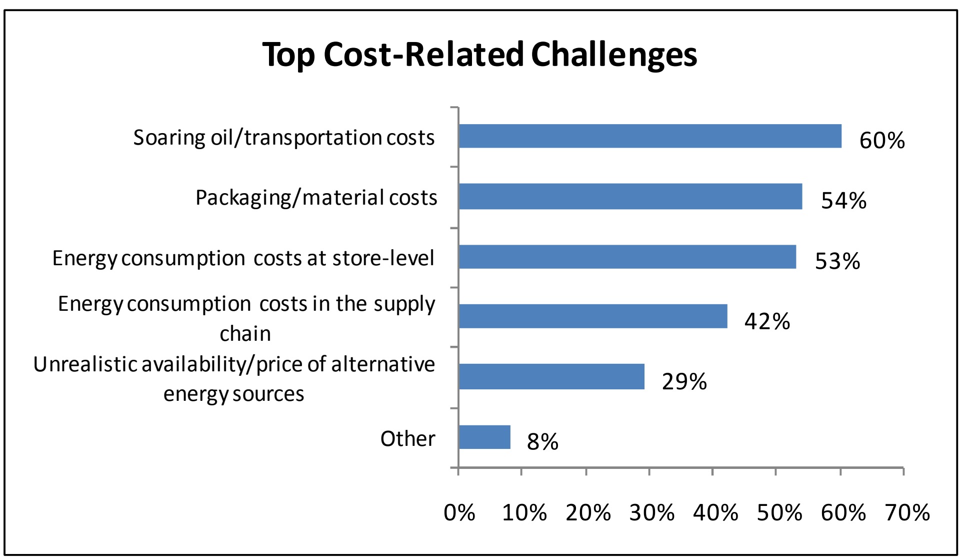
Source: RSR Research, April 2008

Digging in the Dirt

All living things become carbon. Once dead, plants and animals buried deep in the earth's crust fossilize, and are entirely harmless to its environment if left alone. However, the human race "recently" discovered that by digging up this carbon in the form of oil, coal, and natural gas, these fossil-derivatives can be burned to fuel a far more modern way of life. Yet this process emits literally millions of years' worth of carbon into our atmosphere that never was meant to be re-introduced. In this agitated state, carbon molecules are highly unstable and look to bond with other elements. Oxygen in the air is a "perfect fit," and thus creates CO_2. The vegetation existing on earth simply can't process this much carbon dioxide through photosynthesis. 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.

For retailers, the challenge to lessen the amount of carbon they create is most certainly a noble endeavor. But with oil trading at upwards of $115 dollars a barrel as of this writing, nobility is just part of the equation. Green practices are becoming cost-effective alternatives across the retail enterprise. Our respondents validate this sentiment. **Sixty percent identified oil and transportation costs as the number one cost-related reason to become more environmentally conscious (Figure 2)**. However, packaging, material and energy costs are not far behind.

Figure 2:
Barrels of Trouble



Source: RSR Research, April 2008

Methodology

RSR uses its own model, called the "BOOT," to analyze Retail Industry issues. This model is built with our survey instruments. An explanation of the methodology can be found in Appendix A.

Winning is not an accident in the world of Retail. Customers vote with their wallets. Sustainable sales improvement and successful execution of brand vision are direct results of an enterprise's recognition of external and internal business issues, its ability to take advantage of opportunities for improvement, and its use of technology enablers to simplify and rationalize business processes. Data that emerges from the BOOT model helps us understand the behavioral and technological differences between Winners and their peers.

Defining Retail Winners and Why They Win

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 or RSR's research findings that **Winners don't merely do the same things better, they tend to do different things**.

Survey Respondent Characteristics

RSR conducted an online survey from March-April 2008 and received answers from 76 respondents. Respondent demographics are as follows:

- **Job Title**:

Senior Management (CEO, CFO, COO)	24%
CIO/IT Leader	4%
(Senior) Vice President	7%
Director	25%
Manager	25%
Other Staff	15%

- **2007 Revenue ($ Equivalent)**:

$50 Million or less	43%
$51 - $249 Million	11%
$250 Million - $999 Million	10%
$1 Billion - $5 Billion	17%
Over $5 Billion	19%

- **Geographic Reach (where they sell)**:

North America	92%
Europe	29%
Asia Pacific	15%
Middle East/Africa	12%
Latin America	5%

- **Segments**:

Fast Moving Consumer Goods (FMCG)	20%
General Merchandise and Apparel (GMA)	47%
Hardware/Do-it-Yourself	29%
Food and Hospitality	4%

- **Year-Over-Year Comparable Store Sales Growth Rates**:

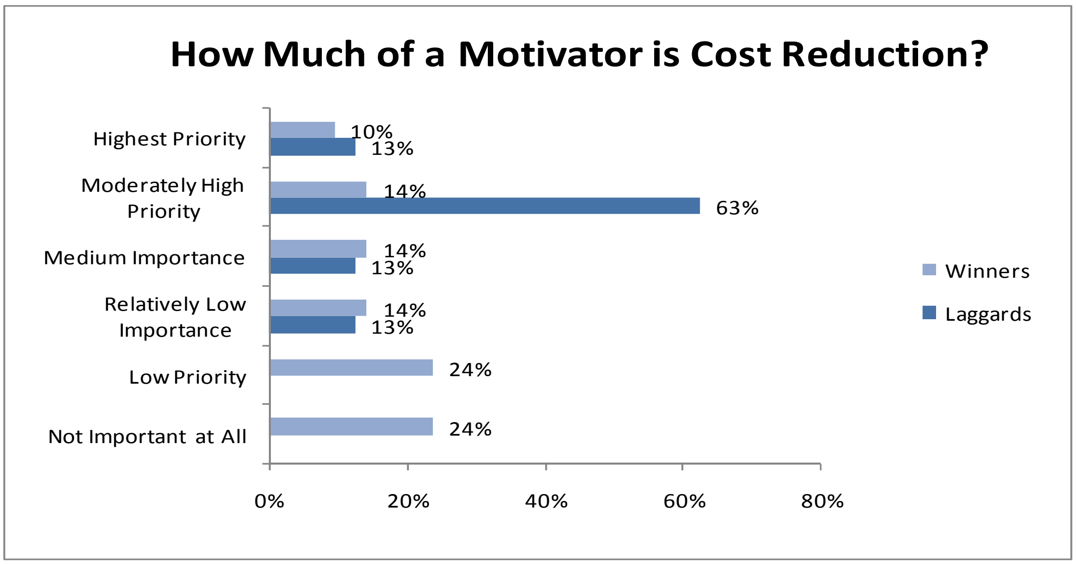
- Better than Average: 45%
- Average: 44%
- Worse than average: 11%

SECTION II: BUSINESS CHALLENGES

THE GAP WIDENS

When it comes to green, the age-old adage is still true. Winners do not cost-contain their way to success. When asked how important cost savings are in the discussions surrounding green implementations, 48% of Winners identified it as unimportant (versus NO Laggards). Looking at Figure 3, we can see that **even as most winners place a low priority on cost reduction as a driver for green initiatives, 76% of Laggards view cost reduction as a high priority**.

Figure 3:
Winners Care Much Less about Cost Reduction…

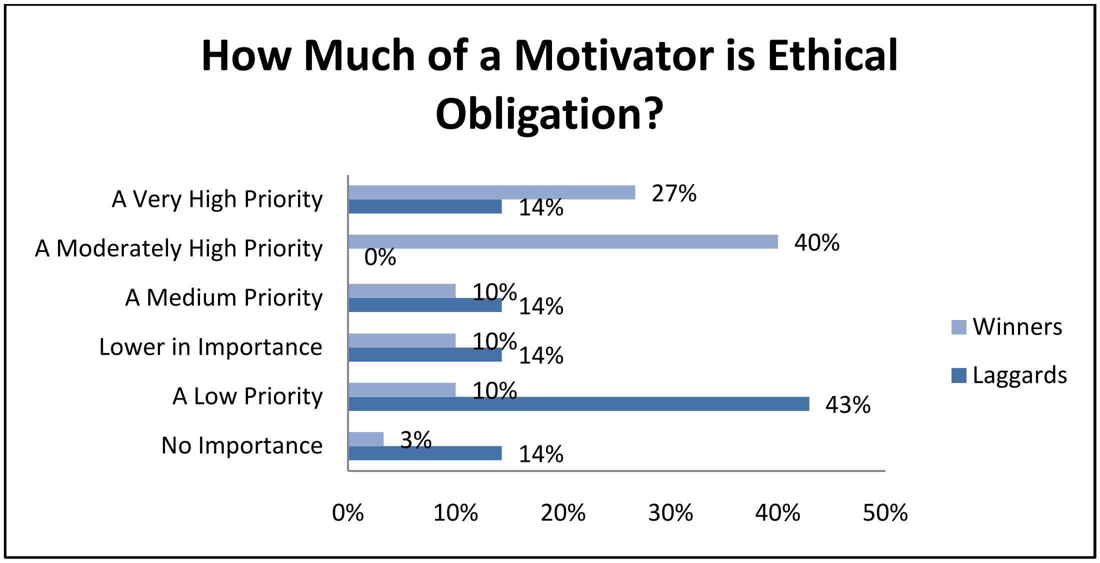


Source: RSR Research, April 2008

What's more, is that when asked about social responsibility, the same pattern as seen with cost reduction reemerges. In Figure 4, we see that 77% of Winners view ethical obligation as an "medium or higher" motivator to bring about more environmentally responsible products and practices. Only 28% of Laggards identify ethical obligation as any type of importance at all.

Conversely, 71% of Laggards pointed to ethical obligation as "less than important," with 57% identifying it as of "little to no" value at all. This is a staggering contrast in overall viewpoint.

Figure 4:
…And Feel Morally Beholden



Source: RSR Research, April 2008

At RSR, we often speak of retailers in the context of Maslow's Hierarchy of Needs. Clearly retail laggards are more concerned with survival than they are with seemingly esoteric issues of planetary health and the overarching human condition.

From this, one of the most basic fundamental differences can be drawn out between retail segments. When pertaining to environmental issues, all segments agree that the customer will be the driver, and whether errant or not, that her time has not yet fully arrived.

Yet *underperforming retailers continuously ask how much green initiatives will cost, and feel no accountability to the environment in which they live*. **Retailers that outperform their peers are actually investing now, giving less thought to cost-reduction, and viewing the brandbuilding done today as smart business for when customer demand invariably heightens**. In addition, winning retailers recognize that their actions have greater impact than that of just financials.

OUT OF TOUCH?

A tertiary goal of our study was to understand why retailers who have begun to act have done so, while slow movers display such reticence. At its core, we learn that the proactive have given little thought to cost-savings: **Retailers who have shown a strong commitment to employing greener practices and selling greener products have done so with an eye on elevating their brand-identity**. However, most retailers we surveyed indicate that to date, customers are not yet demanding greener products (Figure 5). This suggests one of two scenarios. The first: that our respondents may be slightly out of touch with their consumers' latest needs, as recent consumer polls have shown consumer interest markedly higher than our respondents believe. The second possibility is that there is a disconnect between what customers say and what they buy. Are retailers seeing behavior that differs from consumer polls? Are consumers "all talk," and have yet to start spending real money on greener products?

Figure 5:
The Battle of the Brands

Source: RSR Research, April 2008

Winning retailers are cynical, but acting anyway, as 39% of Winners (compared to 13% of Laggards) view the media as a sensationalized force that has swayed consumers. This represents something of a “bet-hedging” policy. These retailers don’t believe the customer is fully demanding greener products yet, but are working to ensure that their brand is seen as green-friendly when she ultimately does.

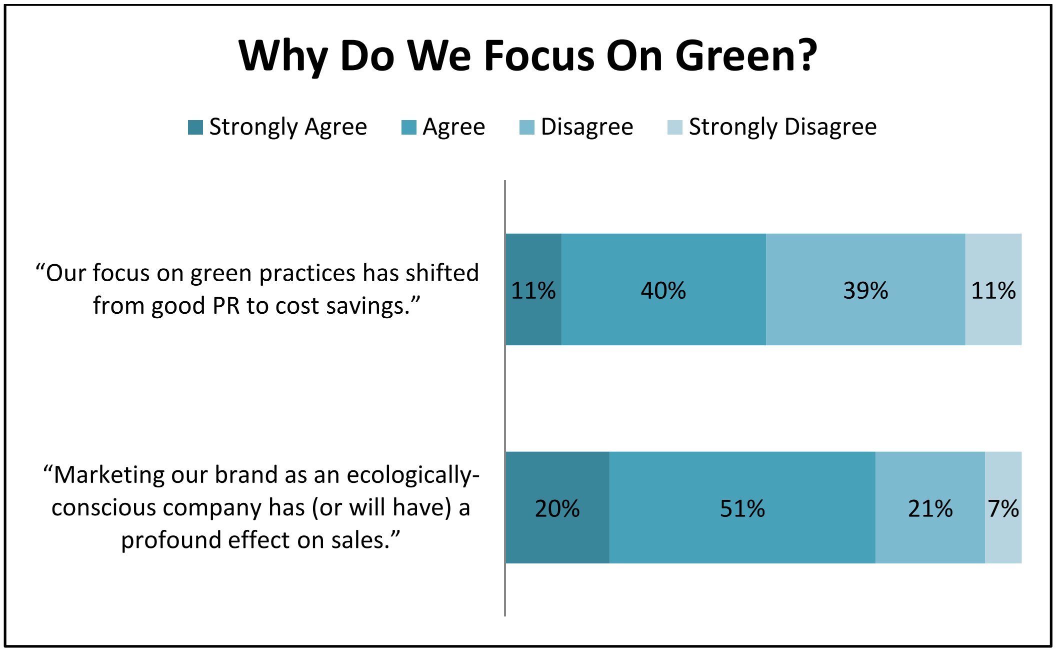
So what has been the motivation to date behind green initiatives? Is it all about brand identity, or have green alternatives matured to the point where retailers stand to save money as well? Do retailers see the equation changing to the point where there actually is a “hard” business case for green?

SECTION III: OPPORTUNITIES

AN EVEN SPLIT BETWEEN COST SAVINGS AND BRANDING FOR TOP LINE GROWTH

Winners (who represent almost half of our respondent base) care less about cost reduction and more about elevating their brand identity in line with consumers' growing green demands. Therefore, it comes as no surprise that when asked to rate their support of the following statement, "Our focus on green practices has shifted from good PR to cost savings" our total pool of respondents literally split down the middle 50/50 (Figure 6).

Figure 6:
Savvy Retailers Still Care More about the Top Line



Source: RSR Research, April 2008

Marketing the retail brand as ecologically friendly promises to have profound effect on sales – if not today, than certainly soon. But immediate opportunities are at hand to combine brand-building, noble sentiments *and* cost savings. Seventy-one percent of our overall respondents believe that marketing the brand as an ecologically-conscious company has (or will have) a profound effect on sales. This shows that even laggards, who are purely cost-driven when it comes to green, are starting to believe that there is going to be some value on the customer/brand side eventually.

Further, Winners believe there is certain Return on Investment (ROI). Thirty percent of Winners expect ROI from green initiatives in 2-3 years. By way of comparison, 50% Laggards "don't know" if there is any ROI opportunity at all. So when we look at the people who actually believe that green can drive sales, where do they anticipate these opportunities to come from?

THE VISIBLE: PRODUCTS, PACKAGING AND TECHNOLOGY

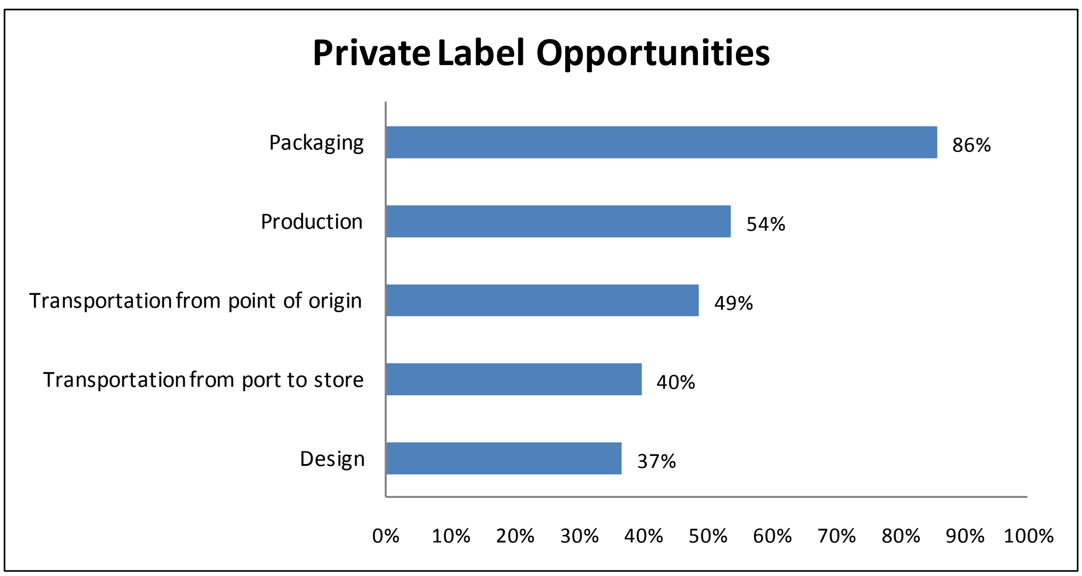
The customer is acutely aware of what she sees when she enters a retailer's domain – whether that domain is virtual (web site), brick and mortar (store) or printed material (catalog). Each of these elements can paint the retailer as eco-friendly or eco-ignorant and each provides an opportunity for the retailer to build the brand. Each of these elements also provides unique and specific opportunities for cost-savings through reduced energy consumption or improved carbon footprints.

Products and Packaging – The Private Label Opportunity

Private label goods have evolved. Once seen as generic or less desirable products, private label goods have become more attractive and higher quality merchandise to meet customers' needs while improving retailer gross margins. Selling private label merchandise also gives retailers control over their offering. This is particularly important when thinking about taking a leadership position in the world of green. The classic example is *The Body Shop,* which made history by creating an eco-friendly line of "cosmeceuticals." *Patagonia* is another vertical retailer that has made its reputation on ecologically sound practices across the entire value chain. *Publix*, *Wal-Mart* and other grocers are touting their environmentally friendly products and processes as well.

While our retail respondents cite a mixture of cost and brand-building opportunities associated with Private Label Merchandise (Figure 7), it's clear that improved packaging is the most visible tool they have at their disposal to drive eco-brand awareness.

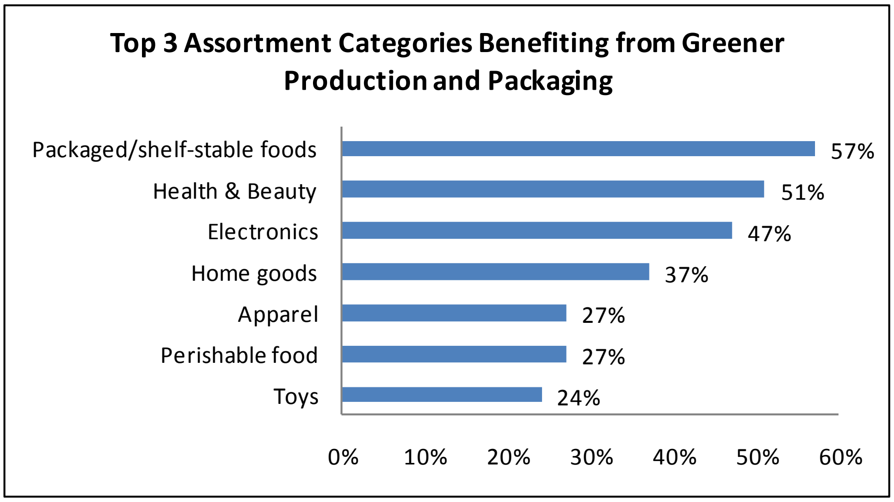
Figure 7:
Private Label: A Greenfield Opportunity



Source: RSR Research, April 2008

Not every product category promises the same opportunities for both brand building and cost savings. Our retail respondents find their greatest opportunity in fast moving consumer goods. Specifically, a majority of retail respondents consider packaged and shelf-stable goods and health and beauty aids as the strongest candidates for green opportunities. Electronics follow closely behind (Figure 8).

Figure 8:
Products that Drive Opportunity

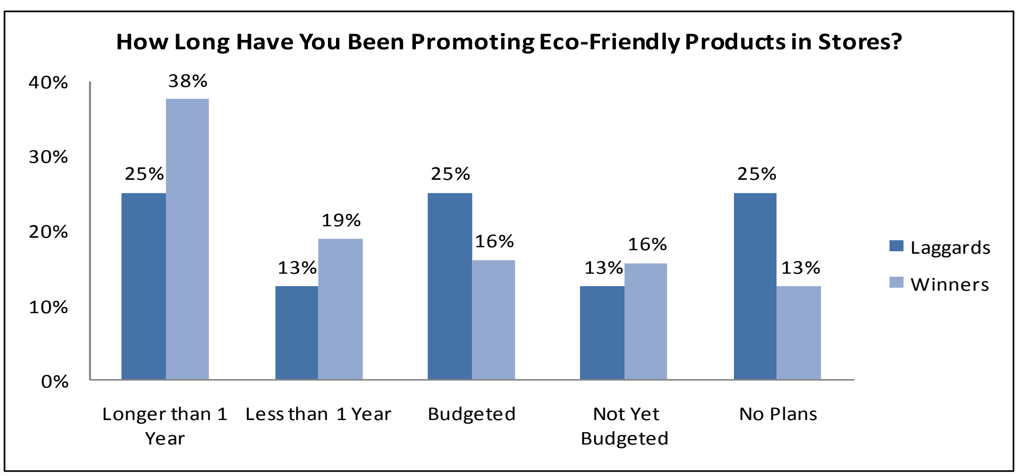


Source: RSR Research, April 2008

TECHNOLOGY: REDUCING ENERGY CONSUMPTION AND PROMOTING THE VALUE

The last thing a consumer sees when leaving a retailer's store is the Point of Sale, or check-out stand. While a majority of retailers still don't recognize the explicit value of energy efficient POS systems, the implicit value is clear. **Visually identifying POS hardware and peripherals as eco-efficient affords retailers the opportunity to build their eco-friendly image, and dual displays at POS allow retailers to list and market other carbon conserving initiatives they have taken**. Along with highlighting the energy efficiency of POS equipment itself, Retail Winners, in particular, use technology to promote the eco-friendly products they sell (Figure 9).

Figure 9:
If You've Got it, Flaunt It

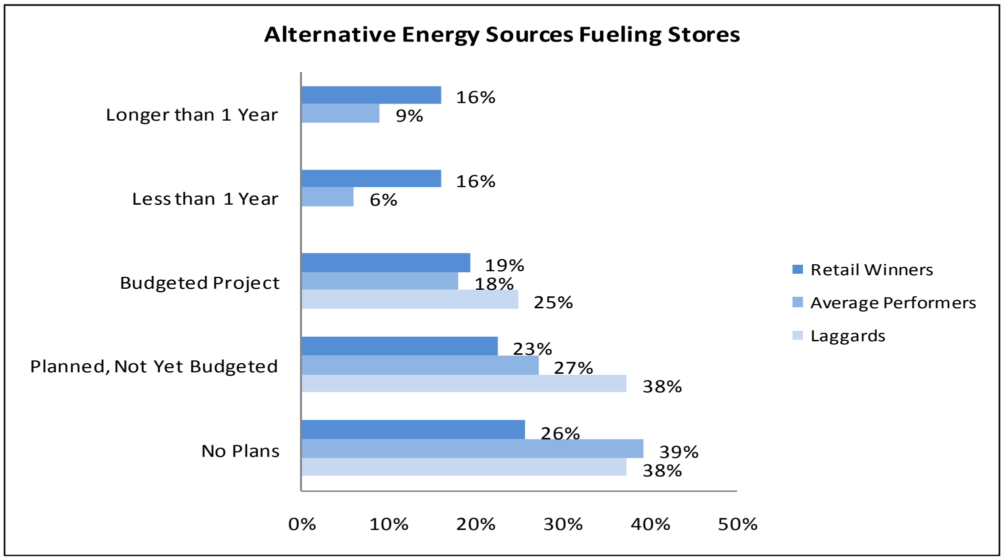


Source: RSR Research, April 2008

The Invisible Part 1: Stores 2.0

The notion of using alternative energy to control store equipment is not new. Sixteen percent of Retail Winners and 9% of average performers have been working on this for longer than one year (Figure 10).

Figure 10:
Winners Begin Running Green Stores



Source: RSR Research, April 2008

Laggards, on the other hand, are more survival focused. None implemented any alternative energy sources in their stores. Average performers and laggards may have plans, but the stress of a difficult economy may well put them in a cycle of spending more because they can't afford initiatives that will ultimately allow them to spend less.

Winners also expressed greater interest in the physical attributes of stores themselves. Twenty-eight percent have already implemented greener construction practices in new stores, compared to Laggard's 0%. Winners are also already reducing the amount of send-home waste with consumers (67% to Laggards' 25%), including programs that employ reusable vs. plastic bags.

The Invisible Part 2: Supply Chain 2.0

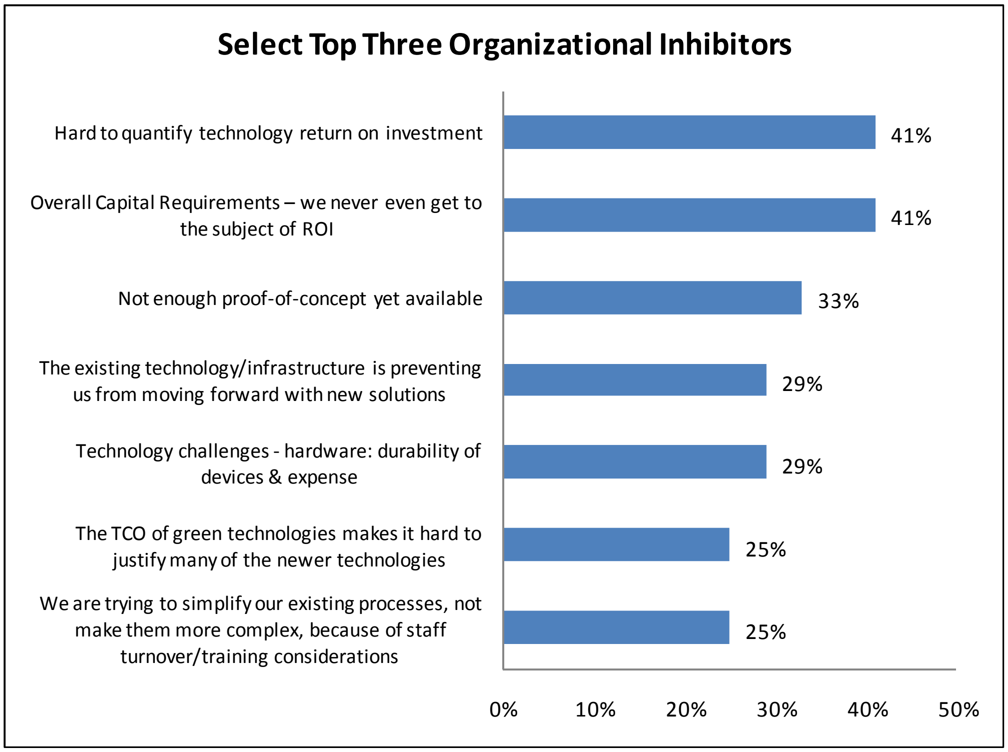
Supply chain costs rise along with the cost of oil. Our retailer respondents cite the supply chain as their second most important opportunity to reduce costs in areas customers don't necessarily see. As we saw in Figure 7, retailers view their private label initiatives as an opportunity to reduce costs in production and transportation both to distribution centers and to stores. Controlling and auditing their outsourced manufacturers' use of eco-friendly practices falls into the realm of Product Lifecycle Management, specifically in the area of Supplier Scorecarding, but it is clear our retail respondents see cost benefits and make it well worth their efforts.

SECTION IV: ORGANIZATIONAL INHIBITORS

THE BOTTOM LINE PREVAILS

Figure 11 shows the usual suspects that blockade any classical technology refresh or implementation also inhibit green initiatives. ROI and capital requirements impede overwhelmingly (82% combined).

Figure 11:
Usual Internal Suspects Inhibit Adoption



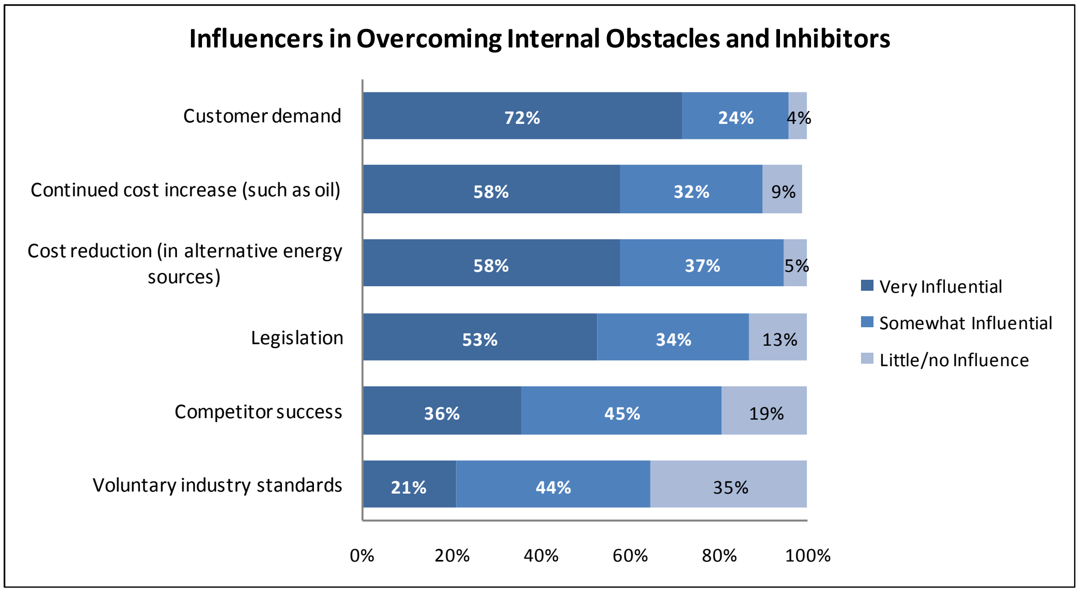
Source: RSR Research, April 2008

THE CUSTOMER HAS THE POWER TO UPSET THE APPLECART

Typically, the classic response to organizational inhibitors is "executive mandates for change," or "cross-functional teams working on the project." However, what makes green different from other enterprise-wide overhauls is the *customer*. For example, the customer may want cross-channel transparency, but she really doesn't care how the retailer makes it happen. She will not expect the retailer to invest in integrated systems – she just wants it to look cohesive. Green is different. The customer is quite likely to drive the retailer to go green. For example, she wants to see the "Green" sticker on POS equipment.

Our retail respondents recognize this (Figure 12). Customer demand trumps cost concerns as the number one way to overcome organizational resistance to new initiatives. Here, external business challenges meet internal organizational inhibitors.

Figure 12:
The Customer has Final Say

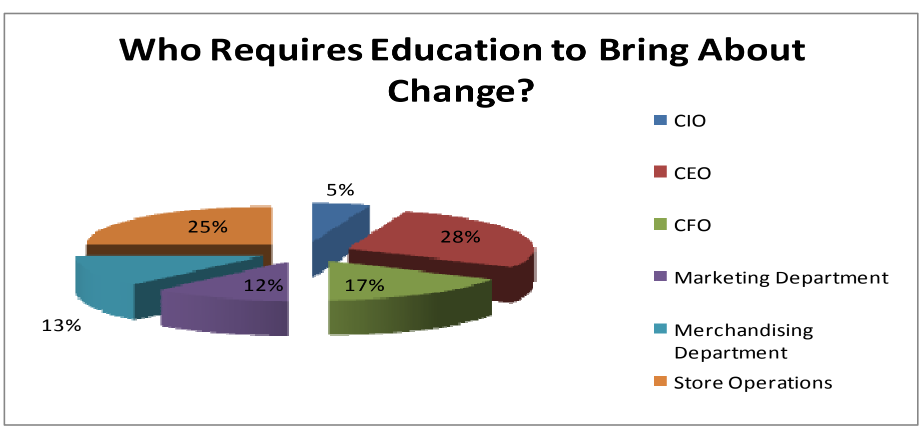


Source: RSR Research, April 2008

WHO WILL CHAMPION INTERNALLY?

In fact, green initiatives have turned traditional organizational issues upside down. Twenty-eight percent of total respondents point to the CEO as the person requiring the most education to bring about green reform (Figure 13). But when looked at by financial performance, Laggards place a much higher emphasis (50%) on the CEO's role while winners' responses indicate the value in spreading the education around. Winners include the CFO (20%), Store Operations personnel (19%), the CIO (10%), Marketing (13%), and Merchandising Departments (13%) as key enablers to green initiative success. Laggards place the burden squarely on the CEO and store operations divisions, with no other departments needing to be "in on the revolution."

Figure 13:
An Executive and Store Ops Decision?



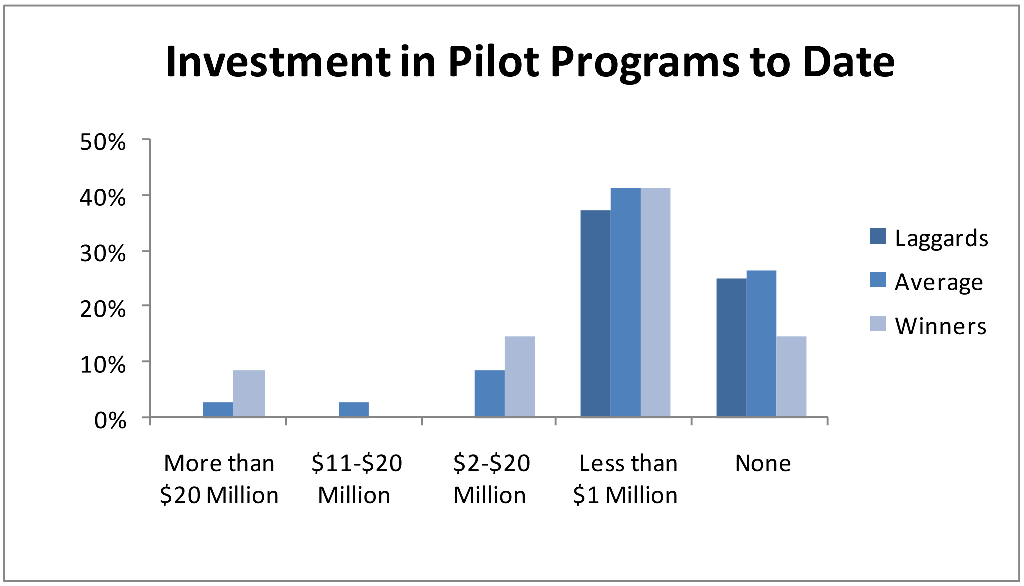
Source: RSR Research, April 2008

SECTION V: TECHNOLOGY ENABLERS

TOTAL SPEND

We asked our respondents to quantify their investments in greener practices to date. In figure 14, we can see that on average, Laggards are spending less than $1 million on their green initiatives, while Winners are being much more aggressive.

Figure 14:
Money on the Table



Source: RSR Research, April 2008

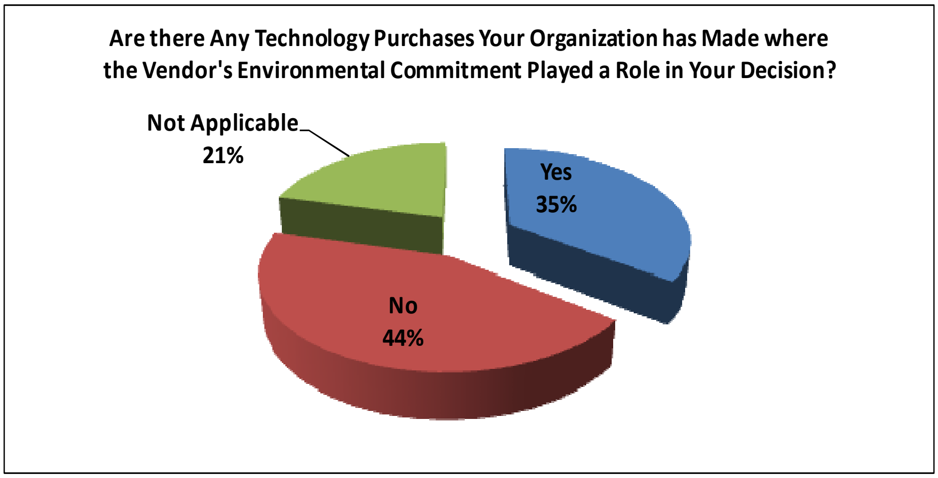
And while we can see in Figure 15 that vendor's commitment to environmental issues may have somewhat of a significant effect on technology purchases from the entire respondent pool – particularly considering how early we are in the game. Here we can see from Winners' perspective that vendors' green commitment will become an even stronger trend to watch out for. When asked if a vendor's ability to be green played a role in a purchasing decision, 44% of Winners verified that it has. If Winners' indications of how strongly the role of customer demand may soon become are correct, we expect a serious wake-up call for technology vendors looking to maximize business with above-average performers.

In fact, if we were to look back just five years, we would find the number of retailers asking about a technology vendor's "Green Commitment" to be near zero. Green is growing in importance – not just as a way to keep store expenses down, but as a way to satisfy frustrated consumers.

It's important to remember that a green commitment is more than just a commitment to energy conservation. Technology purchases typically come in massive packages: boxed in cardboard or heat-sealed plastic, protected by Styrofoam and covered with metallic or plastic wrap. The total carbon

footprint of a technology purchase has to include its packaging as well, not just its everyday energy consumption.

Figure 15:
Green Starting to Drive Buying Decisions



Source: RSR Research, April 2008

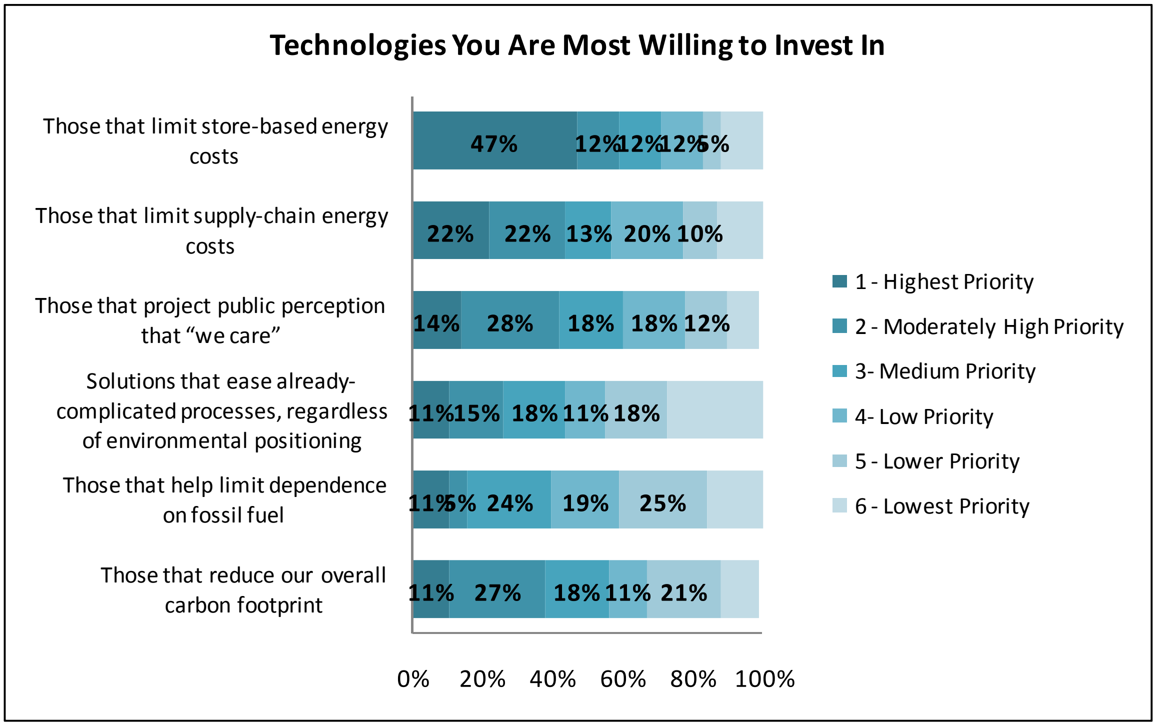
ENERGY REDUCTION UP FRONT

Which then, are the technologies that most interest retailers? **Energy conservation** scored highly with our respondents, both in the store and the supply chain (Figure 16). This is not surprising. The American Gas Association has predicted a 4.5% annual increase in energy prices for the next four to eight years. Within stores, this cost can be crippling to a retailer's day-to-day business, as energy prices continue to swing drastically from peak to off-peak months.

Something as simple as improper or uncontrolled fan settings can contribute to a large percentage of a retail store's wasted energy consumption. Employees and service technicians overriding temperature regulations also have significant effect. And as energy consumption is directly related to carbon production (each 1 kilowatt per hour [kWh] of energy used equals 1.5 pounds of carbon consumption), technologies that limit energy consumption automatically improve a retailer's carbon footprint.

In the store, this can include temperature sensors, low-energy POS systems, and myriad energy settings capable of control from a remote location. Across the enterprise, these include solutions that limit energy consumption of IT equipment, RoHS and WEEE (Reducing Hazardous Substances, Waste from Electrical and Electronic Equipment), compliant hardware solutions, as well as supply chain consumption reduction solutions.

Figure 16:
Technologies with Promise



Source: RSR Research, April 2008

Further, many retailers may be surprised to know that carbon offsets, the financial tool used to represent a retailer's reduction in carbon emissions, may be actively traded for profit on the Chicago Climate Exchange here in the US, or the European Climate Exchange internationally. This presents an even greater opportunity for retailers to gain ROI from their green initiatives. In order to reach this goal, retailers must first gain a comprehensive understanding of their current energy usage and carbon footprint.

Other creative incentives are available for companies seeking to offset their carbon usage. The Pacific Forest Trust, founded by former entrepreneurs Connie Best and Laurie Wayburn, helped craft laws in California to help individuals or companies buy carbon credits, or offsets. These credits are available to retailers as well.

SECTION VI: BOOTSTRAP RECOMMENDATIONS

Face Facts

During the height of the cold war, musician Sting put forth a preachy nuclear weapons protest song entitled "Russians." The hook of the song alluded to a polarized globe of blame, suggesting that ignoring the danger of nukes would be "such an ignorant thing to do, if the Russians loved their children too."

Today, the state of the global environment affects us all. And while there is no singular or military opponent to place blame on, Westernized countries have thus far committed the lion's share of carbon dioxide production and consequent damage to the earth's atmosphere. To further compound the issue, India and China are poised to open dozens of fossil-fuel based plants in the coming years, and have openly expressed that, "Western economies were built at the peril of the environment: why should our growth be stunted now?" As it stands, many of the industrialized nations that have ratified the Kyoto Protocol are adhering to mandatory market conditions, but acknowledge that true change is an opportunity *only on the voluntary market*.

RSR believes the time for responsible action is at hand. Our respondents continuously show us that while making their practices and processes "greener" is not yet a slam-dunk for saving pennies and dollars, the need to do so is, quite simply, the right thing to do for future generations.

Build your Brand for the Windfall

We recognize that few retailers will adopt greener practices out of the goodness of their hearts. The best performing retailers, however, are gauging how soon the customer will demand more environmentally conscious behavior and how serious she really is. In particular, winning retailers are "hedging their bets" on elevating their green profile in anticipation of greener customers who will vote with their wallets. Underperforming retailers' apathy is likely to bode poorly for those who are already struggling to stay in the game.

Package Better

While progress continues to play out in realistic alternative fuel sources that may one day safely limit carbon dioxide emissions, the means exist to limit the amount of landfill and waste retailers currently create ***right now***. For those retailers offering private label goods, these opportunities abound. Diminishing the amount of extraneous packaging currently utilized not only mitigates landfill and CO2 footprint, but is currently one of the best near-term battlefronts for cost-reduction in the retail enterprise.

Store Up and Announce Your Initiatives

Mitigating the amount of energy consumed in the store – and the supply chain – makes good common sense for ethical and bottom-line reasons. Our respondents indicate that technologies that limit energy use throughout the store and the supply chain are highly attractive. These means also exist today, and it is highly advised that retailers conduct a simple energy profile of their existing facilities as a first step. We also believe retailers should brand and label every green device, tool and initiative they make. Prince Charles has proposed that every item for sale should be labeled with its carbon footprint. While this may not happen tomorrow, it will eventually come to pass.

Know More

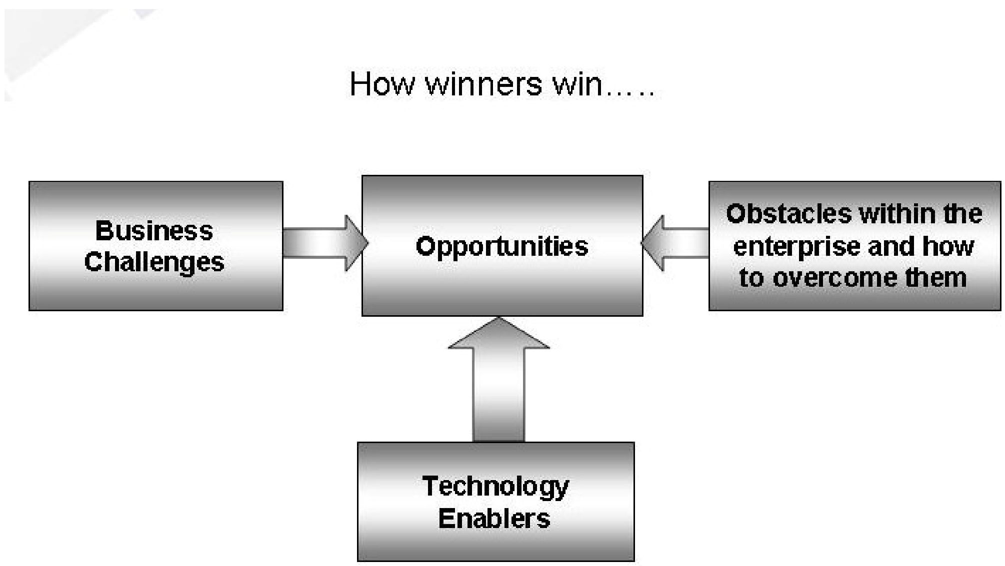
Finally, the adoption of more environmentally responsible practices is a highly personal decision for any retailer. A proactive corporate culture has thus far been the single greatest driving factor. Yet we encourage all retailers to investigate their own clientele's appetite for green. Winning retailers certainly are expecting it to grow. Customers will ultimately be the ones to pull green technologies; knowing how demanding they are can help identify your own commitment to green initiatives.

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.