

# RETAIL

A Sustainability Benchmark

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**Benchmark:** a standard or point  
of reference.  
*-Oxford English Dictionary*

# RETAIL A SUSTAINABILITY BENCHMARK.

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 sustainability activities of a select group of retailers and ask the question: Are retailers walking the talk when it comes to environmental, social and governance performance? Please visit [www.fivewinds.com](http://www.fivewinds.com) for copies of the other articles in this retail series.

Long-time proponents of sustainability know it is very important that you “walk the talk” when it comes to environmental and social performance. In today’s marketplace, this means having the policies, management systems and programs in place to drive environmental and social performance, as well as the capacity to publicly report on progress. This is particularly necessary if a company asks its suppliers to improve their performance as many major retailers are now doing. If retailers are taking significant actions to reduce the footprint of their own operations, it is a good indication to their suppliers that their sustainability programs are serious undertakings and will be around for some time to come.

But what does sustainability performance look like for a major retailer? Five Winds International has been benchmarking corporate sustainability performance in a number of sectors since 2000 and has recently undertaken an analysis of a select group of retailers to see how they measure up.

## Business Drivers for Improving Sustainability Performance

Our research shows that the development of comprehensive sustainability strategies and programs by major retailers is being driven by a number of internal and external factors, including:

- **Employees** – who are expecting fair labour practices, healthy work environments and competitive wages and benefits;
- **Communities** – that expect companies to conduct philanthropic activities, follow proper procedures for community engagement when it comes to land use/site selection, consider local business impacts, and participate and engage in community development;
- **Sustainable Product Development** – which involves activity by material suppliers, brand owners and other value chain actors to develop more sustainable products that allow retailers to meet consumer demand;
- **Competitors** – who are positioning themselves to gain the reputation and brand benefits that come with being a sustainability leader (although to date this has been limited somewhat to environmental aspects);
- **Green Buildings** – which includes trends in building design and construction to optimize environmental and total cost considerations through smarter application of things like natural lighting, improved energy systems, more efficient refrigeration and natural landscaping;
- **Waste** – often motivated by regulatory and stakeholder pressure to manage and reduce packaging and food waste;
- **Transportation and Logistics Costs** – that are often the result of energy cost and climate change concerns, and involve retail companies improving fleet efficiency and considering new fuel options (it should also be noted that there is growing interest among consumers in how their food travels (e.g. distance travelled and environmental impact of transportation involved);
- **Carbon Efficiency** – which, as climate change concerns rise, involves a growing number of customers evaluating the energy and greenhouse gas performance of products, and in some cases, looking for informational product labelling;
- **Rising Demand for Certified Products** – as a result of customers who are increasingly looking for organic, locally sourced, ethically and/or fairly traded products that meet Marine Stewardship Council (MSC), Forest Stewardship Council (FSC) and/or other certified criteria.;
- **Expectation for Reporting and Performance Measurement** – which involves third-party validation of performance and public reporting expected by a growing number of stakeholders; and
- **Product Safety** – whereby safe products are ensured and clear chains of custody are established.

These drivers are transforming the retail sector and they are opening up competitive opportunities for retailers who can demonstrate their sustainability performance. Beyond operational efficiencies, competitive advantage can come from working with brand owners and other supply chain partners who are more open to innovative solutions that will reduce costs and improve performance. Like in other sectors, strong sustainability performance can also help attract and retain employees who want to work for companies that do the “right thing” and can accelerate approval processes in communities that are looking for businesses that will enhance their well-being.

## Determining Who Measures Up

We conducted our sustainability benchmarking study of the retail industry using CSRI Insight™ – Five Winds’ sustainability benchmarking tool that assesses a company’s performance against a

comprehensive set of business practices drawn from leading international standards, codes of practice, and financial ratings schemes and reporting protocols. CSRI Insight defines sustainability using a matrix of over 500 sustainable business practices categorized in three areas: environment, social, and governance and conduct.<sup>1</sup> Each of these categories is broken down into subcategories of performance (e.g. policy, management systems, procurement, emissions management and community engagement). Companies are evaluated to determine whether they have the business practice in place using publicly available information such as corporate websites, annual reports, sustainability reports, CSR reports and carbon disclosure project responses. This is information stakeholders can use to understand a company's perspective, commitments, practices and progress on sustainability performance.

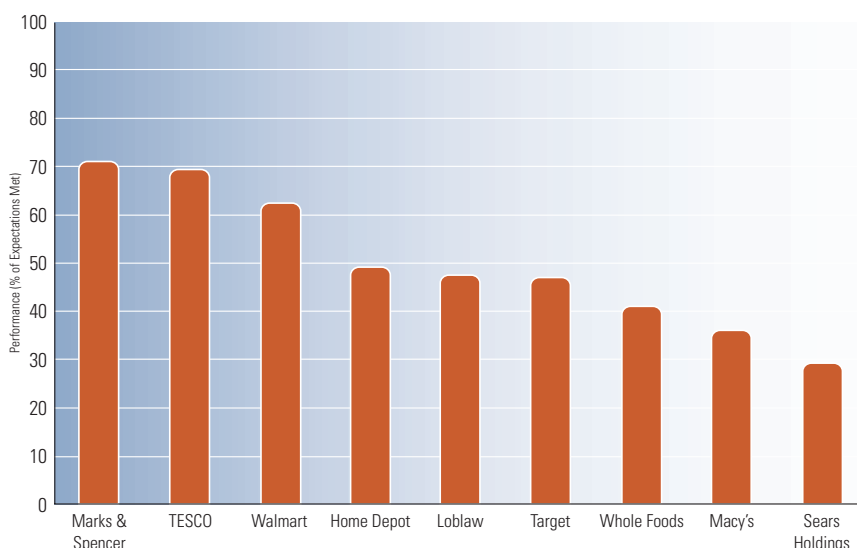
The tool was adjusted to eliminate sub-categories of performance that were not relevant for the retail sector and then used to benchmark the following companies: Walmart, Target, Tesco, Sears, Macy's, Marks & Spencer, Home Depot, Loblaw and Whole Foods. For the most part, the companies were selected because they had public sustainability commitments. Macy's was included because it is an iconic brand and, as a leader in the retail industry, would be expected to demonstrate leadership on sustainability. The benchmark is based on publically information available as of September 2009.

## The Results Are In

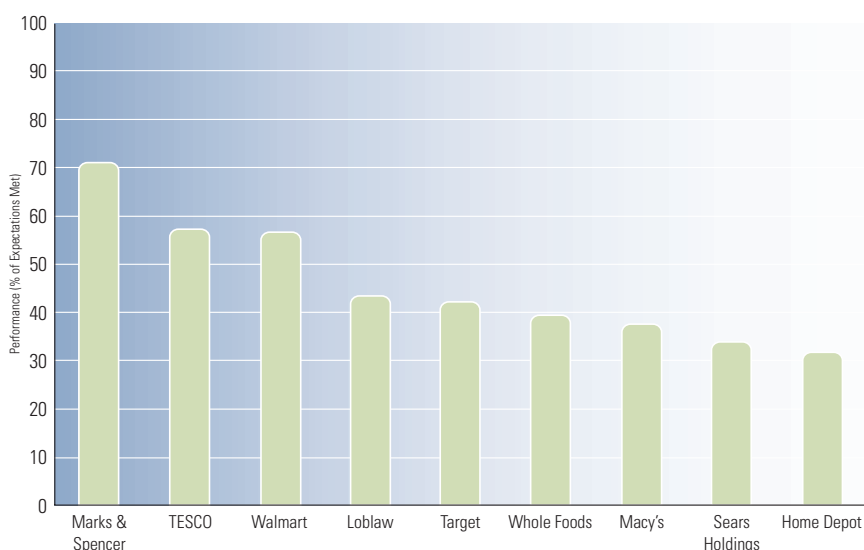
Figure 1 shows the overall sustainability performance for all retailers considered in our analysis. In general, they ranked fairly well. In our experience, a CSRI Insight score of 50% or greater is a good score given that the requirements measured using the tool are based on leading practices and are very comprehensive. Scores above 60-65% typically indicate leading companies, although in some sectors leadership scores are now above 70%. In this study, most companies scored at consistent levels in each category (environment, social and governance) rather than being very strong in one area and weak in another).

Marks & Spencer's - definitely stood out, but Tesco and Walmart also had very strong overall performances. Home Depot, Loblaw and Target were in a second tier of performance, while Whole Foods, Macy's and Sears rounded out the

**Figure 1.** Overall sustainability performance of select retailers



**Figure 2.** Overall environmental performance of select retailers



lagging group. Figure 2 considers environmental performance and it tells a similar story.

Table 1 provides further details of environmental performance in specific sub-categories. In each sub-category we looked at a set of business practices drawn from leading standards and guidelines. Companies were rated based on the number of business practices they reported on, as follows: if they had 0-19% of practices in place performance was ranked as poor; 20-50% was considered fair; 51-75% ranked strong; and over 75% was the highest ranking and demonstrated leadership within that sub-category.

Most companies had fairly comprehensive environmental policies, programs, targets, etc. Marks & Spencer, Walmart and Tesco led the

<sup>1</sup> For more information on CSRI Insight, please see <http://www.fivewinds.com/english/resources/tools/csr-insight.html>.

- Environmental impacts of products/supply chain;
- Green Procurement;
- Energy Efficiency; and
- Climate Change/GHG Emissions.

Areas of increased activity by the retailers tend to correspond with direct reductions to their operating risks/cost of business (i.e. reduced packaging or energy costs) or are linked to high-profile issues that consumers would be likely to care about, such as climate change.

Some weaknesses in environmental performance within the retail sector that emerged from this analysis included a lack of formal environmental management systems and a general lack of information and targets on total water usage and total emissions to water (with the exception of Marks & Spencer). There was also very little reported activity related to hazardous waste management (Walmart and Home Depot were exceptions). It should be noted that this area may not be significant for some of the retailers if they do not generate much hazardous waste.

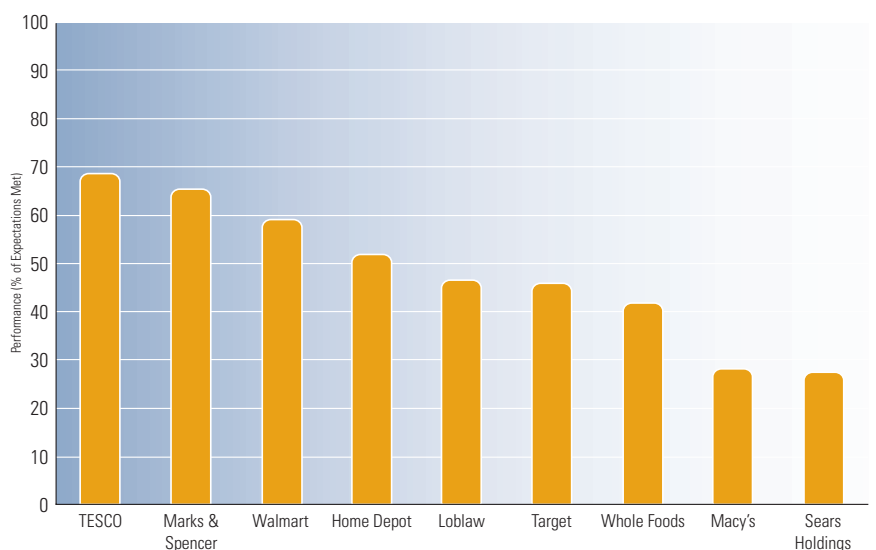
Figure 3 shows overall social performance, which was high relative to some sectors Five Winds has benchmarked over the years. Typically, most companies have more formal environmental programs and less well developed social programs. The mid-level analysis shown in Table 2 reveals that retailers that achieved higher rankings did so by supporting high-level commitments with specific goals/targets and programs. Some also had good performance on employee salaries/benefits and in regard to activities related to improving social performance along the value chain. Whole Foods'

<20%	20-50%	51-75%	>75%
○	◐	●	●

Environment	Marks & Spencer	TESCO	Walmart	Loblaw	Target	Whole Foods	Macy's	Sears Holdings	Home Depot
Overall	71%	57%	57%	43%	42%	40%	38%	34%	32%
Environmental Policy	●	●	●	●	○	●	○	●	●
Environmental Management Systems	○	○	○	○	○	○	○	○	○
Green Purchasing/Procurement	●	●	●	●	●	●	●	●	●
Energy Efficiency & Alternative Energy of Operations	●	●	●	●	○	●	●	●	○
Climate Change/GHG's	●	●	●	○	●	○	●	○	○
Emissions to Air (Non-GHG)	○	○	○	○	○	○	○	○	○
Emissions/Discharge to Water	○	○	○	○	○	○	○	○	○
Water Use/Efficiency	●	○	○	○	○	○	○	○	○
Waste Management (Solid, Non-Hazardous)	●	●	●	●	○	●	●	○	○
Hazardous Waste Management	○	○	●	○	○	○	○	○	○
Biodiversity/Natural Resource Management	●	○	○	○	○	●	○	○	○
Environment Impact of Products and Services	●	●	●	●	●	○	○	○	○
Environmental Value Chain Management (Supplier, Customers, Business Partners)	●	●	●	○	○	●	●	●	●

Whole Planet Foundation – with a mission “to create economic partnerships with the poor in those developing-world communities that supply our stores with product” – is a good example. They use direct microcredit loans and other means to support entrepreneurship and to develop community partnership projects in emerging economies.

**Figure 3.** Overall social performance of select retailers



Among the group, one weakness identified in social performance was a lack of information related to workers' freedom of association. It was unclear, however, if this information exists but is simply not publicly reported. One exception was Tesco, which provided evidence of relationships with various unions and publicly states that *"Employees across our business are free to join unions, and we have an industry leading partnership agreement with Solidarity in Poland and Usdaw in the UK."* Other potential weaknesses were uncovered in the areas of Employee Health and Safety and Employee Working Conditions. In these areas, high-level policies are common, however, auditing and reporting practices tend to be lacking. This may be a result of low injury rates (i.e. it is possible that formal tracking is not a high priority as retail sector jobs could involve lower risks in these two areas in comparison to other industries).

As seen in Figure 4, overall governance performance – which includes senior management commitment, governance structures for sustainability, ethical performance, reporting and stakeholder engagement – was the strongest area of performance. The first and second tier companies all performed strongly. Details of this performance can be found in Table 3. High scores were driven by high-level commitment to, and integration of, sustainability throughout the sector and generally high performance on stakeholder engagement across the sector. Marks & Spencer provides a good example of strong engagement through its consultations with key stakeholder groups to help shape its overall policies and corporate goals/priorities. One area of concern for governance performance involved inconsistent reporting across the sector. The level of detail reported varied significantly and may account for some of the lower overall scores for some companies given that scores were based on reported information.

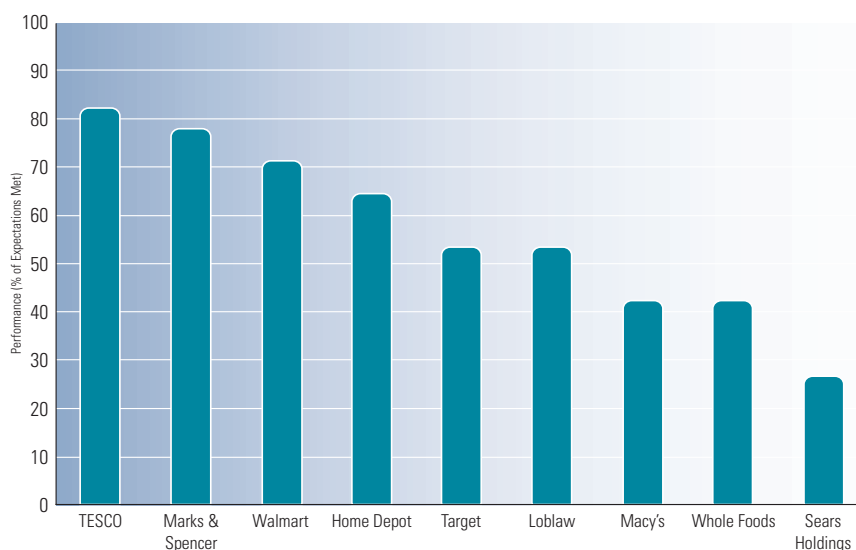
needs. At the end of the day, companies must control their own corporate and product-level sustainability strategies and information.

At Five Winds, we believe the markets of the 21st century will continue to demand social and environmental performance information. That is why we have spent the last eleven years honing our ability to prepare our clients for leadership in this marketplace. In our experience, real sustainable product innovation comes from a deep understanding of the environmental and social attributes of products, the materials that go into them and the product development processes used to create them.

**Table 2.** Retailer performance in specific sub-categories of social business practices

						<20% ○	20-50% ◐	51-75% ◑	>75% ●
Social Performance	TESCO	Marks & Spencer	Walmart	Home Depot	Loblaw	Target	Whole Foods	Macy's	Sears Holdings
Overall	69%	65%	59%	52%	47%	46%	42%	28%	28%
Social Policy	●	●	●	●	●	●	●	●	●
Human Resource Investment	●	●	●	●	●	●	●	●	◐
Employees--Salaries & Benefits	●	●	●	●	◐	●	●	●	◐
Employees--Working Conditions	●	●	◐	●	●	◐	◐	◐	◐
Employees--Health & Safety	●	●	◐	●	●	◐	◐	◐	◐
Local Communities--Health & Safety	◐	◐	◐	◐	◐	◐	◐	◐	◐
Employees--Non-Discrimination / Equal Opportunity	●	●	●	●	●	●	◐	◐	◐
Employees--Freedom of Association	◐	◐	◐	◐	◐	◐	◐	◐	◐
Local Communities--Development	●	●	●	●	●	●	●	◐	◐
Social Impact of Products / Services	●	◐	◐	◐	◐	●	●	◐	◐
Social Value Chain Management (Suppliers, Customers, Other Business Partners)	●	●	●	◐	●	◐	●	◐	◐

**Figure 4** : Overall governance performance of select retailers



**Table 3:** Retailer performance in specific sub-categories of governance business practices

business practices						<div>&lt;20% ○</div>	<div>20-50% ◐</div>	<div>51-75% ◑</div>	<div>&gt;75% ●</div>
Governance	TESCO	Marks & Spencer	Walmart	Home Depot	Loblaw	Target	Whole Foods	Macy's	Sears Holdings
Overall	82%	78%	71%	64%	53%	53%	51%	42%	27%
High-Level Commitment to SD / Integration of Triple Bottom Line	●	●	●	◐	●	●	●	◐	○
Ethics	●	●	●	●	◐	●	◐	◐	◐
Governance and Accountability	●	◐	●	●	◐	●	◐	◐	◐
Corporate Sustainability Reporting	●	●	●	●	●	◐	●	●	○
Stakeholder Engagement	●	●	◐	●	◐	○	◐	◐	○

## What Does This Mean for Suppliers?

Among the select group of retailers we benchmarked, the leading companies are certainly walking the talk with very comprehensive sustainability initiatives that position them as sector models on how to approach sustainability. Companies such as Tesco, Marks & Spencer and Walmart are differentiating themselves by effective branding of their efforts, setting clear priority areas and establishing comprehensive implementation programs.

Based on our analysis, the companies studied appeared most focused on climate change, ethical sourcing and supply chain impacts of products. This is likely due to customer demand for action in these areas, as well as the retailers' efforts to reduce their business risks and costs. From the perspective of suppliers, communicating how their products align with these focus areas will help efforts to gain access to, or retain relationships with, the retailers. Similarly, targeting emerging areas of concern or risk for retailers by demonstrating product characteristics that address specific needs or costs for the retailer may prove beneficial. This could include focusing on specific emerging environmental or social areas of consumer concern, such as water use or local sourcing. Other targeted efforts could work to fill gaps in retailers' environmental or social performances that would help them differentiate themselves among their competitors.

Given the breadth and scope of these programs it will be challenging for retail leaders to show continuous progress internally. This may well turn the focus on their suppliers, where greater opportunities for performance improvement are available.

*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

<http://www.fivewinds.com/english/retail/retail-stocking-the-shelves-with-green.html>