

RETAIL

A Pivot Point for Sustainability

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Pivot - a person or thing playing a central part in an activity or organization.

-Oxford English Dictionary

RETAIL A PIVOT POINT FOR SUSTAINABILITY.

The recently released Wal-Mart sustainability scorecard may become the new baseline of information for all companies concerned with their environmental and social performance. The scorecard assesses Wal-Mart's suppliers on their performance in four key areas: energy and greenhouse gas emissions; waste and water use; natural resources; and responsible and ethical production. Although its development is a very significant move from the world's largest retailer, the score card is just an early sign of things to come. Smart companies know they will need to go beyond simply responding to Wal-Mart's latest efforts.

What has become clear is that major retailers are now a pivot point for corporate sustainability. On the one hand, they influence thousands of suppliers; on the other, they interface with millions of consumers. In late 2006, Five Winds postulated that a “tipping point” may be in reach in regard to the development of sustainable technologies and products, and that retailers could play a major role in driving the demand for these products. (see our [Ten Signs article](#) from 2006). Since that time, environmental and social issues have grown in importance and retailers have demonstrated a strong desire to capitalize on a critical mass of consumers willing to purchase products that reflect their values. The release of the Wal-Mart score card is one indicator of how retailers are going to do this. Material suppliers, product manufacturers and others along the value chain need to respond to this new reality and they need to do it quickly. This paper examines the current situation and provides advice to companies on how to get out in front of the growing demand for environmentally and socially responsible suppliers and products.

Why the Sustainability Performance of Companies and Products is Important

Consumer and media consciousness of sustainability issues – climate change, toxic substances, ethical sourcing and excessive consumption – is at an all time high. Faced with growing concerns over the state of the planet, consumers want to do their part and are increasingly willing to reward companies that conduct their business and provide products in ways that are more environmentally and socially responsible. While they may not be able to get government to move faster on climate change policy, they can act by buying products with lower carbon footprints from companies they trust.

There is no doubt it is early days, and debate continues on the emphasis the average consumer will put on environmental and social factors versus traditional factors such as brand, convenience, price and performance. However, the rise in the purchasing of products that are perceived to be more sustainable is undisputable. The LOHAS (lifestyles of health and sustainability) market segment is one of, if not, the fastest growing market segment in many countries. The current estimate for the U.S. LOHAS market alone is \$209 billion US dollars, covering a wide range of product categories from personal care to building and transportation.

Governments – having maintained a passing interest over the years in reducing the impacts of companies, products and packaging – sense the shift in the public consciousness and are intensifying their focus on policies that promote more sustainable patterns of production and consumption. Key jurisdictions such as the European Union and (under the new Obama administration) the U.S., are trying to determine how to support a market transformation in the supply and demand for more sustainable products. Apart from environmental and social policy objectives, a primary driver behind these efforts is a growing understanding that stimulating the demand for sustainable products is linked to a competitive industrial strategy and jobs.

Not Just a Fad

A quick dip into the research and literature makes it clear that the major drivers behind the growing consumer consciousness will not subside in the near future.

By way of example, consider the findings of the Millennium Ecosystem Assessment (MEA). Initiated by the United Nations in 2001, and completed in 2005, the MEA evaluated the consequences of ecosystem change (brought on by human activity) for human well-being and looked at the scientific basis for action to protect, conserve and enhance major ecosystems (e.g. forests, fisheries and watersheds). It involved over 1,300 scientists who looked at the state, trends and future scenarios for ecosystems based on current and predicted patterns of consumption and production. A key focus of the assessment was on the ability of ecosystems to provide the “services” that underpin our economy. These services include: the provision of goods (e.g. food, water, fibre and fuel); the regulation of systems (e.g. climate, water and disease); cultural benefits (e.g. aesthetics, spiritual, recreation and education); and supporting benefits (e.g. primary production and soil formation).

The MEA scientists’ efforts were reviewed by governments and independent scientists and a major finding of the assessment was as follows:

“At the heart of this assessment is a stark warning. Human activity is putting such strain on the natural functions of Earth that the ability of the planet’s ecosystems to sustain future generations can no longer be taken for granted”.

Tough stuff indeed, and given the seriousness of the assessment it is more than likely that: 1) governments will accelerate their efforts to

promote sustainable consumption and production; 2) consumers will continue to respond accordingly and adjust their purchasing; and 3) companies who are in front of this trend will prosper.

The Claims Tsunami

The development of more environmentally and socially responsible products over the last two decades was largely undertaken by a small group of leading companies. Today, a multitude of companies have joined the cause by trying to respond to the growing consumer interest and demand. The result is a dizzying array of green, natural, socially responsible and sustainable product offerings – many with dubious credentials when it comes to actual environmental and social performance benefits. Labelling schemes and certifiers are also jumping into the game with myriad labels and product rating schemes that have little to no oversight with respect to the process and science behind the analysis.

Five Winds International recently conducted a study on the need for sustainable product standards for CSA International. Thought leaders and experts from government, industry and non-governmental organizations (NGOs) interviewed for the study were in general agreement that, while there is considerable market activity related to sustainable products, there are no clear standards of performance available for many product categories. In the U.S., concern over the plethora of labels and claims has led to a call from many experts for some form of regulation of the situation – both to protect the consumer, and to ensure that true leaders are justly rewarded by the marketplace.

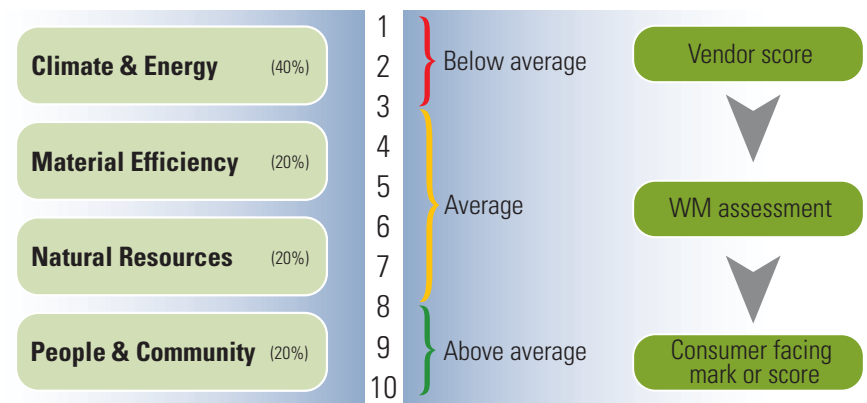
Enter the Retailers

Although some of them are late entrants into the sustainability scene, major retailers are pivotal players due to their vast influence. While Wal-Mart's environmental and social record has its faults, their move into sustainability has had more influence over improving the performance of their suppliers than virtually any other factor. It's one thing when a pesky NGO asks about your social and environmental performance but quite another when a retailer the size of Wal-Mart starts posing the same questions; the ensuing rush to move sustainability into the domain of the boardroom is nothing short of miraculous. Can low cost, quality and sustainability go hand in hand? We suspect not, but for now retailers like Wal-Mart and IKEA are driving a lot of action in this area.

But Do They Know What They're Doing?

Retailers know their power and they are devising their own systems to evaluate suppliers, operations and products. Wal-Mart is at the forefront of this effort. Retailers, however, are not scientists. Wal-Mart wisely engaged an army of NGO's, academics, leading suppliers and government regulators to help them design a system for rating suppliers' sustainability performance. The output of this well-meaning advice (see Figure 1) will be a supplier sustainability index or "score" that will presumably influence Wal-Mart's purchasing and positioning (e.g. shelf location and space). The jury is still out on this index given the uncertainty of its influence with Wal-Mart when considering sustainable suppliers and products that do not meet other criteria of concern to the company like high product turnover. One thing that is certain is that, while there have been many such systems developed in the past, no one has been able to apply them on the scale that Wal-Mart will.

Figure 1. Five Winds Current Understanding of the Wal-Mart Sustainability Scorecard and Future Direction



NOW: Score company performance in four areas: Energy & Climate; Material Efficiency; Natural Resources and People & Community.

Score intended to influence Wal-Mart buyer decisions.

LATER: Score Products (based on life cycle data).

Score intended for consumer/seen at point-of-purchase.

What Should You Do?

A colleague once told me that when it comes to environmental and social performance, "it is better to do it to yourself before someone does it to you." Unfortunately for many firms, Wal-Mart has already started to define sustainability performance for them. However, given the evolving nature of the field it is certainly not too late to get back in front. The following constitutes our advice on key steps to respond to the Wal-Mart scorecard and other

rating schemes. We believe these steps will take companies one step further and enable them to shape their own future when comes to defining performance and leadership.

Step 1. Assess the world around you and your place in it

There are a lot of social and environmental trends that can affect your business. You need to deepen your understanding of customer expectations, competitor and supplier activity, and the interface of your operations and products with key issues like climate, water, toxics and labour rights. You also need to keep an eye to the future. While climate change is a critical issue today, many companies have already honed in on water as being equally if not more important to their business down the road. As one Five Winds client noted, "We never shut down a factory over climate change issues, but we have shut one down because of lack of access to water."

So while Wal-Mart's priorities are obviously an important input into this analysis (even if you are not one of their suppliers), it is important to broaden your scope and gain a wider perspective on the risks and opportunities facing your company. A benchmark of your environmental, social and governance performance is key information. It will provide a "footprint" of your operational impacts and an assessment of your ability to create sustainable products.

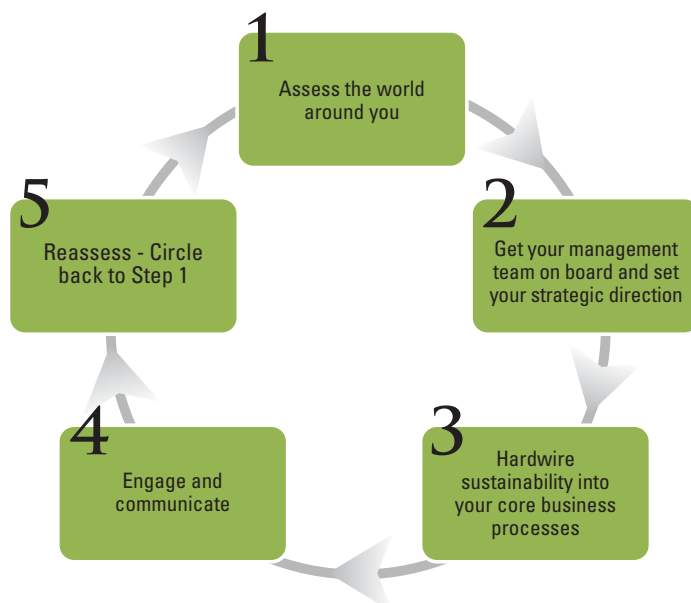
Step 2. Get your management team on board and set your strategic direction

Our experience indicates that when Step 1 is done thoroughly, most executive teams decide to shape their own destiny and get out in front of environmental and social performance expectations. This alignment takes some effort. Team members usually have different priorities, but it is essential that everyone understand the value of a leadership strategy from the perspective of their individual area (e.g. operations, supply chain, marketing) and of the company as a whole. Once the executive team is aligned, it is important to collectively agree on the strategy (which may include adjustments to the corporate mission/vision, principles, etc.), the priority areas for action, and the implementation framework that the company will use to roll out the new strategic direction.

Step 3. Hardwire sustainability into your core business processes

Once direction is set, priorities are in place and a plan is developed, it comes down to effective integration into business processes. The best companies we have worked with know how to do this in a way that is independent of individual champions. They engage the hearts and minds of the whole organization and tie sustainability into performance measurement and accountability mechanisms. This is what takes sustainability from a good idea to a way of doing business that creates lasting value for the company and its major stakeholders.

Systematic and steady progress coupled with strategic investments in innovation is the objective, as typically a company cannot change everything at once. The information from Step 1 is critical; it helped set the priorities identified in Step 2 and this is where implementation should focus. While this may mean an early focus on the Wal-Mart scorecard, many Five Winds clients have priorities that go well beyond immediate customer demands for information. Smart companies recognize that integrating sustainability into product development and innovation processes will help them stay in front of customers. They understand that incremental improvements in material and energy efficiency are important for improving performance and reducing risks and costs. At the top, leading-edge companies know that breakthrough product and service solutions are where the real pay-off resides. Companies who can get traction in their innovation and R&D activities are the ones who will be better positioned over the long term.



Step 4. Engage and communicate

To realize the value of your sustainability program, it is critical to engage internal and external stakeholders and effectively communicate your commitments and performance. The noise in the system makes communication today more and more challenging, and consumers in particular are increasingly wary of environmental and social performance claims. Efforts to measure performance must meet the highest standards (e.g. ISO life cycle assessment standards) and they need to involve stakeholders through review processes or advisory panels. In our view, a strong engagement and review process separates the leaders from the pretenders. Wal-Mart seems to recognize this; they engaged a multitude of people in their effort. At a company where low cost is the law, free advice is probably considered a good thing and it has the added benefit of getting a lot of people invested in Wal-Mart's program and success.

Five Winds clients know that the more interactive the communications and engagement the better. Responding to scorecards is one thing, but engaging directly with customers and others to find solutions to environmental or social hot spots in the product system will help deepen relationships and secure continued market access.

Step 5. Circle back to Step 1

Our [CSRInsight tool](#) helps us keep track of stakeholder expectations on over 40 categories of environmental, social and governance performance. These expectations are always changing, as are customer priorities. Reaching out to customers and thought leaders is important for companies in order to understand where expectations are headed over

the next five to ten years. This information can then be fed back to the R&D and innovation processes, so that the company can develop products and services that will best serve future markets. Additionally, we use a [Green Product Readiness Assessment tool](#) with our clients to ensure they are capable of incorporating this information properly and aligning their processes to create more sustainable products.

Closing Thoughts

The growing importance of sustainability to the retail sector is having a major effect on suppliers. If Wal-Mart and others start publishing the relative sustainability performance scores of their suppliers, the business implications could be substantive. Many of Wal-Mart's advisors want these scores published at the product level so consumers can access this information. But what do these scores ultimately mean? It is important to consider that retailers are designing their sustainability programs and rating schemes based on their own 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.

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