WORLD ECONOMIC FORUM

COMMITTED TO IMPROVING THE STATE OF THE WORLD

ANNUAL MEETING 2008

CONSUMER INDUSTRIES GOVERNORS MEETING

GROWTH THROUGH SUSTAINABILITY

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Thursday, 24th January 2008

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Growth through sustainability

Every senior executive today understands the consumer advantages—if not the profit—that Toyota enjoys as a result of painstakingly developing its environmentally sensitive Prius hybrid car. But in a tough competitive landscape that holds chief executives responsible for both "sustainable" practices and stellar growth, would it make sense to invest millions in, say, a hybrid railroad locomotive? GE thinks so, and is creating a diesel-electric version of its already efficient Evolution train engine—a 207-ton monster that will transport people and freight in a more ecologically responsible fashion.

In the midst of debates over global warming and the environmental effects of fuel-hungry emerging economies, sustainability is often regarded as a cost of business—a "brand tax" imposed particularly on those companies closest to consumers who, along with non-governmental organizations (NGOs), are demanding eco-friendly policies and supply chains.

But leading companies—like Toyota, GE, The Timberland Company, and Starbucks Coffee Company—are taking a different tack. Instead of a risk-management perspective, their view is that sustainability can be a platform for profitable growth.

GE, for instance, recently established an "Ecomagination" initiative, founded, according to the company, on the belief that financial and environmental performance can work together to drive company growth, while taking on some of the world's biggest challenges.

As part of this project, GE has named a chief sustainability officer for product development, Lorraine Bolsinger, and is committed to increasing revenues from products that provide significant environmental performance advantages to customers to at least $20 billion in 2010. Among other things, GE is betting that, with tax incentives to spur them, railroads will quickly transition to its new engine. Indeed, GE says, if all pre-2001 North American engines were replaced with its new locomotive, railroads would not only save $425 million annually in fuel costs, but the changeover would "cut nitrogen oxide emissions [by] as much as removing one-third of all cars from U.S. roads."

Today, such direct links between sustainability and profitability are usually tenuous—both in the minds of many business leaders and in convincing data proving the case. Among the latter, one 2003 Morgan Stanley study asserted that "sustainability leaders" outperformed laggards financially over a four-year period, while a 2002 survey by Swiss-based Bank Sarasin showed that environmentally responsible policies had a positive impact on shareholder value. The cause and effect may simply be that well-run companies also take pains to be good corporate citizens.

A prerequisite for growth

Certainly, there is a growing understanding that sustainability can be a "prerequisite" for profitable growth. Companies are well aware of the following kinds of statistics: An Environics study in 2004 showed that at least two-thirds of 25,000 consumers in the U.S., Canada and Western Europe form impressions based partly on a company's ethics, environmental impact and social responsibility. Meantime, in the U.S., 60 percent of adults interviewed said that knowing a company is mindful of its impact on the environment and society makes them more likely to buy their products and services, while 40 percent said they would avoid buying products if they thought the packaging disposal would cause a potential threat to wildlife.

About 50 percent of the top 50 retailers and about 70 percent of the top 50 consumer products companies publish sustainability reports

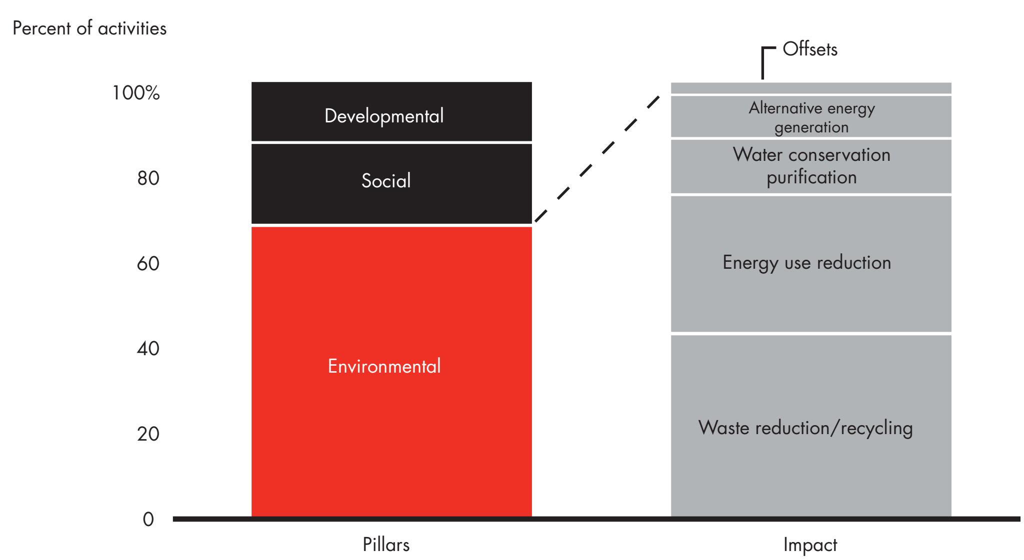
The majority of company activity focuses on supply chain and operational footprint (i.e., eco-impact of stores, plants, HQs)

Because of these trends, and their own convictions, many consumer products companies have rushed to the environmental banner. Innovations in products and processes have proliferated. General Mills, for instance, shrank the packaging of its "Hamburger Helper" product, claiming it has eliminated the need for 500 delivery trucks a year, while Unilever says it has saved plastic equaling 15 million bottles by redesigning its "Suave" shampoo container. The Timberland Company now manufactures "biodegradable" boots and shoes, and lists the carbon footprint—how much fossil fuel it takes to create each pair of footwear—on every shoebox as a "Green Index" label. "At The Timberland Company, we believe that sustainability—that commerce and justice—can be simultaneously pursued and delivered in the marketplace," CEO Jeff Swartz explained at a recent London gathering.

Nor is there much doubt about whether there are cost savings inherent in sustainable activities. (See figure 1.) Ford recently announced, for instance, that it now applies three coats of paint to its cars in one step, eliminating drying time, machinery and emissions, saving $7 per vehicle in the process. More traditionally, Macy's Inc. benefited from significant tax credits by placing solar panels atop 28 stores in California, while Wal-Mart announced a goal of designing a high-efficiency store that will use 20 percent less energy than its standard Supercenter store. And there are outstanding corporate-messaging opportunities in such announcements as Wal-Mart's own hybrid-powered initiative. Recently, the retailing giant said it is working with truck manufacturers to develop the first diesel-hybrid 18-wheeler by next year as the mainstay of the second-largest truck fleet in the U.S.

Moreover, companies have noted an advantage in recruiting and retaining talent when they have a viable sustainability stance. As evidence, MonsterTRAK.com recently reported that 92 percent of young professionals said they were more inclined to work for a

Figure 1: Most environmental activities are likely to have associated cost savings



Source: Bain & Company analysis
Note: data reflects company activities; database excludes intra- and inter-industry initiatives

"green" company. Merrill Lynch thus outlines its environmental policies on the back of every campus-recruiting brochure. Various studies also show that eco-friendly policies help to increase employee productivity. Among other findings are that "green" workplaces tend to favor natural lighting, which may improve the mood of employees, and many green workplaces use advanced air-filtration systems, offering better air quality.

Three levels of sustainability efforts

Many companies, in our experience and in recent study findings, are coming up against the hard fact that the sustainability factors under their control are limited and that wider solutions require collective solutions (a topic we'll return to). But on their own, and where they can with others, many consumer-based companies are incorporating sustainability throughout their businesses: in their product design and assortment, supply chains, operational footprints and messaging to consumers, investors, and employees. These efforts fall into one of three camps: novice, engaged and innovative. Most companies we surveyed have a "portfolio" approach to sustainability, tackling some activities within each category. (See figure 2.)

Novice activities focus on prevention and compliance with standards. They are easily separable from daily business functions. They include corporate-giving programs or taking such steps as using recycled paper in mailing or reducing harmful materials and ingredients by eliminating hazards like PVC plastics or trans-fats in foods. These efforts are part of being a responsible corporation. Swedish home goods store Ikea, for example, reports that 14 percent of materials in its catalog come from certified forest fibers.

Engaged activities have taken the next step: incorporating sustainability into daily business functions and core products. Over half of the activities included in our database fall into this category. Office store Staples thus produces private-label manila folders made

Many companies are collaborating with industry groups, NGOs and other partnerships

- Intra- and inter-industry organizations are active
- Partnerships provide potential opportunity to accelerate impact
- Companies can tackle a significant number of initiatives on their own
- Social and developmental goals tend to be more long-term partnerships

Figure 2: Level of engaging activity

Novice

- Effort is compliant with legal standards
- Can be separated out from daily business functions
- Often linked to general corporate giving
- Helps to publicize the brand

Engaged

- Effort is "expected" by key stakeholders
- May affect daily business function and require internal organizational alignment
- Short-term ROI horizons
- Helps link the brand to sustainability awareness

Innovative

- Effort transforms internal business processes, product design and development
- Requires collaboration with vendors and customers to evoke industry change
- Visionary in the market and society
- Potentially longer-term ROI horizon
- Helps define the brand equity

Source: Bain & Company

from recycled content as an alternative to less-sustainable folders. Crate & Barrel has begun testing a line of sustainable products as well. Meantime, some firms simply decide it's their duty to go environmental. The Home Depot, for example, didn't sell all the roses it could have last Mother's Day in the U.S.: Local producers couldn't meet the supply for organic ones, and the company felt the carbon emissions from shipping inexpensive ones from Venezuela wasn't acceptable.

Such actions have short-term return-on-investment implications and fall into a category of actions "expected" by key stakeholders. These activities require more strategic involvement of one or more business divisions.

Innovative activities complete the journey to full environmental awareness. One method companies use is editing their assortments to provide sustainable offerings only. Wal-Mart has gone this route in some categories, stripping its shelves of standard light bulbs and replacing them with energy-saving ones. Supermarket chain Wegmans now sources its shrimp from a farm in Belize that adheres to strict sustainability standards, and is creating its own organic farm as a test. Tesco provides an example of an innovative supply chain idea: The U.K. retailer is pushing suppliers to deliver merchandise to Tesco stores in double-deck trailers, which carry two-thirds more cargo per load than conventional trailers. In operations, a leader is General Mills, which now sells its oat hulls, a Cheerios breakfast cereal by-product, as fuel to recyclers. Formerly, it paid to have the hulls carted off. Last year, General Mills recycled 86 percent of its solid waste, earning more than it spent on disposal.

Going further, some other firms are embedding sustainability into their initial design and sourcing strategies. Nike's "Considered" brand of clothing, shoes and accessories, for example, is a line made from recycled polyester and reused rubber, as well as organically grown cotton and hemp. The sporting goods giant has also drawn a 200-mile shipping circumference around its manufacturing plants that make these clothes to reduce emissions and transportation costs.

Such forward thinking translates into activities that transform business processes, product design and development. They require cooperation from vendors and customers—who often pay more for eco-friendly offerings—and help to define the company's brand on a higher plane.

Steps to expanding your sustainability advantage

Some companies, such as Wal-Mart, have invested a lot of time, thought and money into sustainability issues. Wal-Mart's Personal Sustainability Project is even teaching employees to recycle, cook healthy meals and use alternative transportation. But whether your enterprise's environmental awareness is just beginning or has progressed to creating a new eco-platform for growth, there are four actions that can help you gain an advantage in this critical area.

Start by determining your enterprise vision. Ask yourself: What does sustainability mean to your company and your brand? What is your motivation and what goals can you set? The Timberland Company's family-owned company has a passionate vision, recently expressed by CEO Jeff Swartz: "We believe in our guts that commerce and justice are not separate ideas; that doing well and doing good are not antithetical notions; that being cognizant of this quarter's earnings is part of what we are responsible for—just as being our brother's and sister's keeper is part of what we are responsible for, every business day."

Next, assess where you are. Obviously, different tactics will be necessary for companies that are just getting started, those that are engaged or those leaders that are already innovating. As part of this process, study the sustainability activities of others inside and out of your markets. For instance, many firms could adopt PepsiCo's sustainability filter for capital expenditures. It incorporates a review of sustainability aspects such as watershed impact, green-building opportunities and renewable resource use for proposed new plants and warehouses. Companies may find that they rate as novices in some areas—like product design—but are innovative in other areas—like energy conservation and waste recycling.

Think from the beginning to maximize growth opportunities. The biggest opportunities for innovation and bottom-line impact are at the head of the value chain. In 2001, for example, Starbucks Coffee Company began ensuring both its source of premium coffee beans and its environmental and social responsibilities by adopting principles it calls C.A.F.E., for Coffee and Farmer Equity Practices. These business rules require that suppliers not only meet high-quality standards, but also provide documented evidence of payments made along all levels of the supply chain—particularly to the farmer. Specifically, they provide protections aimed at maintaining fair and humane working conditions, ensuring workers' rights, guaranteeing adequate living conditions, and paying living wages. Last year, Starbucks Coffee Company purchased 53 percent of the 294 million pounds it bought through C.A.F.E. and will increase the amount this year. It's a rigorous application of designing processes with sustainability in mind at the outset versus adding it as a patch later in the value chain.

Measure outcomes to determine your level of success. Common sustainability standards and metrics are still elusive, but there are steps companies can take to track progress. The Timberland Company, for instance, went so far as to create a board-level committee to hold the company accountable for results. It's also a good idea to give such initiatives political heft and genuine expertise. When DuPont hired its first chief sustainability officer, it chose Linda J. Fisher, who had once worked for the U.S. Environmental Protection Agency. Francis Sullivan, deputy head of group sustainable development for the HBSC Group, came from the World Wildlife Fund.

Thinking beyond corporate walls

Eventually, every company begins to realize that the biggest environmental challenges require cross-industry collaboration and work with governmental and NGO entities.

An early collaborative business group was the Outdoor Industry Association (OIA), which numbers such members as Mountain Hardwear, Patagonia, The Timberland Company and VF Outdoor. Founded in 1989, OIA's goals include raising the environmental standards of the industry; increasing participation in outdoor recreation to strengthen business markets; providing support services to boost member profitability; representing member interests in the legislative and regulatory process; promoting professional training and education; and supporting innovation.

Collaboration has also taken the form of teaming with groups that brand and certify the environmental sustainability of raw materials. Such an organization is the Organic Exchange, which Wal-Mart, Patagonia, The Timberland Company and others use to certify that cotton fibers in certain clothing products are organic. Similar organizations exist for fish products and wood pulp, such as the Marine Stewardship Council and Forest Stewardship Council, respectively. Retailers like Unilever, Tesco, The Home Depot and Ikea all support these efforts.

Meantime, companies have learned to engage constructively with NGOs and business-rating organizations, which were formerly viewed with some degree of suspicion. Among these, the Global Reporting Initiative (GRI), which created the world's most widely used sustainability reporting framework, now works closely with such leaders as Nestlé, Tyson Foods, and Green Mountain coffee.

More broadly still is the potential role of global business organizations like the World Economic Forum. Such an entity can transcend competitive pressures to help senior executives develop the business case for sustainable development, as well as serve as a repository for best practices and new ideas across industries and countries.

Government entities, of course, will play a role in all this. But backing from the Forum can help create an international network of environmentally sensitive business people who can work together on broad-scale or sector-specific initiatives, drawing up policies that will engage the best thinking of commerce, science, and NGOs.

The ultimate idea is to create a sustainable business platform in both the environmental and economic sense of the word; one that, in the words of The Timberland Company's Jeff Swartz, will help fulfill "a moral imperative for shareholders, for customers, for employees—and for our planet."

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