

Sustainability for consumer
business companies
A story of growth



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Introduction

“The transition to more sustainable patterns of production and personal consumption is not optional. Governments understand this and will regulate and tax accordingly to shape consumer and business behaviors. Leading businesses recognize this as an opportunity and want to be part of the solution rather than part of the problem, as more and more consumers look to buy smart and will increasingly establish new norms for socially acceptable behavior.”

Guy Battle – Consumer Business Leader for Sustainability Services, Deloitte United Kingdom

Sustainability is firmly on the agenda for leading companies and there is growing recognition that it is a primary driver for strategic product and business model innovation. Businesses that view such change as an opportunity and develop innovative products and business models to thrive in a more sustainable way are likeliest to reap first-mover advantage, be more relevant to consumers, capture market share and continue to operate effectively in a changing world. From an external perspective, there is a growing expectation by investors and consumers that companies should operate in ways that can be considered ‘green’ and ‘ethical’ and, of course, companies are rightly keen to be understood as responsible corporate citizens.

Looking forward to 2020, it is expected that consumers will continue to place strong emphasis on price, convenience, and quality in making their decisions about where to shop and what to buy. Many consumers, especially the millennials, will also want explicit reassurance that what they buy will be good for the planet by turning to independent, credible consumer information organizations. Most though, will simply expect and assume that businesses will operate to the highest possible standards in this respect. In this increasingly transparent world, where vast numbers of consumers are digitally empowered, information on brands and products is commonly found and candidly discussed on blogs, forums, and social media sites. Brands and corporations have little control over the power of the internet, and companies that do not respond to this development increase the likelihood of finding themselves in the spotlight of unwelcome publicity.

Many leading companies are not waiting for regulators and consumers to reshape their businesses. They have, for example, realised the potential cost savings to be gained from energy efficiency and carbon reduction measures. Operational changes such as reducing dependence on fossil fuels by diversifying the energy supply to include renewable sources, implementing LEAN manufacturing practices in factories and reducing product packaging and waste can help companies to save significant amounts of money as well as make important steps towards a more sustainable business model in the longer term.

Some companies have also embarked on the process of engaging with and encouraging consumers on the journey to a more sustainable model of consumption by working to implement closed loop value chains. Business leaders are increasingly recognising that they have both a responsibility and the capability to achieve real beneficial change in consumer behaviors through the way they touch people’s lives on a daily basis.

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A story about growth

There is a misconception that longer-term sustainability only adds near-term cost. While this may be true for less-well conceived strategies, a core element of any successful sustainability strategy should be a focus on value creation – increasing brand value, as judged by known adjudicators, such as Interbrand’s ‘Best Global Brands’ ranking – and revenue growth along with reduced risk and operating costs. Such strategies are characterized by long-term business partnerships, a strengthened proposition for the consumer, improved operational efficiency, and increased margins and growth – all key enablers and drivers of value.

Global Fairtrade sales reached \$5.71 billion in 2010¹.

A recent Walmart Global Responsibility report estimates that their Balzac Fresh Food Distribution Center in Canada will boost energy efficiency by 60 percent over the company’s traditional refrigerated centers, while cutting costs by \$4.8 million (USD \$4.83 million) over the next five years².

The combination of business proactivity, regulatory intervention, and shifting consumer attitudes to environmental and broader sustainability issues will result in increasing demand for products that are greener, cleaner, and more responsibly produced. Organizations will need to respond to these changing patterns, encouraging consumers to buy smarter, and not less. This can be done, for example, by reducing the environmental impact of production methods, integrating sustainability into the supply chain, strengthening relationships with suppliers, and developing products that help consumers reduce their own carbon foot print or enable them to buy ethically. Companies that neglect to embrace these changes may ultimately find that their products become less relevant to consumer sentiment and less affordable. So what is driving these developments?

All figures have been converted to \$USD.

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A changing marketplace

“It takes 20 years to build a reputation and 5 minutes to ruin it. If you think about that you’ll do things differently.”

Warren Buffettⁱⁱⁱ

Complex supply chains

Today, many Consumer Business companies have complex supply chains spanning continents and involving numerous suppliers and contractors. This makes it more critical than ever to invest in supplier relations and work collaboratively to solve sustainability challenges, improve efficiency, reduce costs, and promote innovation. Moreover, neglecting to take responsibility over the entire supply chain can lead to the serious legislative breaches experienced by many textile and apparel companies in the 1990’s that resulted in wide-scale consumer boycotting and had lasting commercial impact. Issues relating to social rights, including child and forced labour, living wages, unionism, and collective bargaining are becoming key management issues.

Corporate transparency

Thanks to social media platforms such as Facebook and Twitter the consumer has access to more information than ever before. As a result, corporations are under increasing pressure to meet sophisticated corporate transparency, responsibility and accountability standards. In addition, the perceived responsibility of the financial sector for the global downturn and the 2010 Gulf of Mexico oil spill has only served to weaken consumer trust in business, which currently stands at an average 56%^v. In today’s information society, corporate misdemeanours can no longer be swept under the carpet and bad behavior has lasting reputational and financial repercussions for companies.

The rise of the millennials

Today’s young people are increasingly aware of the impact that their buying choices can have and they want to buy from organizations that are doing what they consider the right thing by placing their trust in organizations that stand for more than profit. In a recent survey, 84% of millennials agreed that it is their generation’s duty to change the world through what they do and who they work for^v.



Resource and commodity stress

Economic development, urbanization, increased population, and the rise of the middle class are straining the capacity of our natural resources and ecosystems. This creates a huge paradox for consumer businesses: although a rising global population and a growing middle class in countries such as China and India create a massive economic opportunity, this same growth and demand places alarming pressure on natural resources and raw materials such as water and energy. As a result, commodity price volatility can cause disruption in the supply chain which can affect operations and undermine competitiveness.

Legislative and regulatory

Organizations today must respond to an increasingly complex set of environmental policy mechanisms around the world. In Europe these include the EU Emissions Trading Scheme; the EU RoHS and REACH regulations on management; and restrictions on the use of a variety of substances. In the U.S., examples include guidance on disclosure related to climate change from the Securities and Exchange Commission (SEC); “Green Guides” from the Federal Trade Commission (FTC); and labelling requirements in the state of California. And Australia recently introduced the Australian Carbon Price Mechanism, a carbon cap and trade scheme. Environmental legislation now goes beyond operational and compliance issues, which can create financial and commercial risk for organizations that do not respond.

Climate change

Today, the public is increasingly aware of the far-reaching and destructive effects of global warming including rising temperatures and sea levels leading to increased flooding and drought, soil infertility, and more extreme weather events. In many countries there is an expectation that the private sector will lead the fight against climate change by providing the world with adaption strategies and implementing alternative business models.

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The Anatomy of the 'Green' Consumer: 2020



Harry (17 years old)

- Harry swaps as much as he shops. Trading is on the rise and consumers regularly use the internet as a forum to trade used items such as furniture, books and clothes for new items that they need and want.
- Harry loves branded clothing, but will only buy from a company that meet his ethical standards. By scanning a label with his smart phone, Harry has instant access to information about his potential purchase, including carbon footprint data and the labour rights record of the factory in which the product was manufactured.
- Although the government will offer some incentives for those who buy electric and hybrid cars they offer bigger incentives for those who chose to travel by bike or public transport. Harry plans on purchasing a new bike for his 18th birthday to take advantage of the government subsidy and the new bike lanes in his town.

John and Susan (couple in late 20s)

- Nanotechnology means that many textile and apparel items will become more durable, longer lasting and even self cleaning, enabling fashion conscious John and Susan to buy clothes that they know will help them to minimise their carbon and water footprint.
- John and Susan only use hygiene and domestic cleaning products that are organic and chemical free. They have turned back to nature and prefer simplicity – they want a little to go along way and are even experimenting with homemade remedies.
- John and Susan are committed to buying locally and when visiting the farmer's cooperative ensure they only purchase organic fruit and vegetables, grown within a 100 mile radius of their home.

Paul and Ruth (couple in 70s)

- Rising energy and water prices and strict government legislation encouraged Paul and Ruth to invest in technology to make their home as self sufficient as possible. Smart insulation helps them to stabilise the year round temperature in their house, solar panels in the roof allows them to heat water for domestic use. They harvest rain water which is purified and stored, making it fit for human consumption and a bio fuel generator in the basement meets the majority of their energy needs.
- Now retired, Paul and Ruth have turned their entire garden into a vegetable patch and grow seasonal produce for personal consumption. To capitalise on this trend retailers offer in store discounts to people who grow and farm their own produce. This incentivizes local production and acts a loyalty mechanism for customers.
- Paul and Ruth have lived through times of prosperity and recession. As a result, they have developed strong views about the social and environmental impacts of products and favour brands that work to create affordable products that meet development needs in emerging economies, such as affordable water purification systems and nutritional balanced snack foods.

How should the industry respond?



Finding the right way to engage with consumers on the sustainability agenda is not straightforward.

There is little doubt that Consumer Business companies will be increasingly forced to operate in a resource-constrained, climate-impacted world, where embracing sustainability as a core business strategy and value is a prerequisite for survival and success. This requires *sustainable business transformation* that places sustainability at the center of what businesses do and how they do it. Businesses that do not integrate sustainability into their change management strategies are likely to find themselves rapidly losing market share and competitiveness. Those that commit to this transformational process will most likely need to engage in one or more of these processes:

The most successful companies of the future will be those that ensure transparency and honesty are fundamental elements of their brand. Doing the right thing is good for business.

Create new business models

As legislative and societal norms evolve to adapt to meet sustainability challenges, business will have to evolve to compete in a changing environment and those that do not make this initial investment could cost themselves out of business in the long term. The European Union has set a carbon dioxide reduction target of 80% by 2050 and this will require a radical shift in how business is conducted in terms of sourcing, operational efficiencies and recycling of products.

The conversion to a low-carbon economy will require up-front investment, and latecomers will only be penalized more heavily. For example, it has been calculated that the cost of an energy and infrastructure transition beginning in 2010 will cost the EU around €65 billion a year by 2035; by comparison, a ten-year delay in the process will increase the cost to €90 billion a year by 2035^{vi}.

Organizations such as Unilever have begun this journey and have committed to doubling revenue while keeping their absolute footprint as a constant, implying a 50% reduction in their environmental impact.^{vii} Although these changes will require considerable input and resourcing, organizations that integrate them into their business strategy will be likeliest to reap the financial benefits.

Innovate and collaborate

Even if more consumers become greener, commodity prices will likely continue to rise and be volatile. As regulation and taxation ensure that consumers increasingly bear the true resource costs of the products they buy, consumers will increasingly demand a broader selection of 'green' products, requiring leading organizations to invest in R&D and product innovation. Practices such as closed loop and localised supply chains, water management, and carbon labelling will help enable organizations to not only create value but competitive differentiators. In addition, leading organizations are increasingly collaborating with government, civil society, and even competitors to solve society's largest problems such as water scarcity and deforestation. Such collaboration can act as a driver for innovation and mutually beneficial solutions.

Engage with consumers

Finding the right way to engage with consumers on the sustainability agenda is not straightforward. As demonstrated through DTTL and its member firms' work with the World Economic forum, consumer choice is highly complex because it is influenced by social context, cultural attitudes, and education as well as by the availability of product information, the range of choice, and how goods and services are marketed^{viii}.

Consumer decision-making operates at three levels: rational, emotional and contextual. At the rational level conscious decisions are made based on information about the price, attributes and performance of products and services – some of which may relate to utility to an individual, some of which may be more social. Though price is the single greatest factor in consumer decision-making, purely rational decisions are rare. Most of the information presented to consumers is confusing.

At the emotional level, beliefs, emotions, brand image, established habits, social influences and heuristics – mental short-cuts – all play a role. A large part of consumer decision-making depends on emotion, intuition or habit. Some seventy percent of grocery items purchased every week are repeat purchases, with little or no conscious consideration of alternatives. Behavior breakers tend to relate to price and promotions.

At the contextual level choice is also influenced by the environment in which a consumer makes a decision, both the immediate physical environment and the broader social and cultural context. Social norms matter, particularly when the choice of a particular product or service is visible to others. Personal recommendations can be highly influential.

Consumer engagement strategies need to reflect the complexity of the ways in which consumers choose, spanning these three levels of consumer decision-making. This, in turn, has implications for how consumers are engaged in sustainability, and where the leverage points may be to encourage real changes in consumer behavior and at the same time ensure relevance of products and brands in a shifting social context.

The good news is that it is the world’s leading brand owners and retailers that are most experienced and accomplished in communicating with consumers across different media channels and informing choice, reinforcing the positive role that business can play.

Working with civil society, including independent consumer groups and issue-based NGO’s can also help provide organizations with a broader understanding of specific issues or problems. Working in partnership with these organizations can also improve trust in commercial initiatives, as consumers are more likely to trust a corporate partnership than a third party organization or a corporation acting on its own.



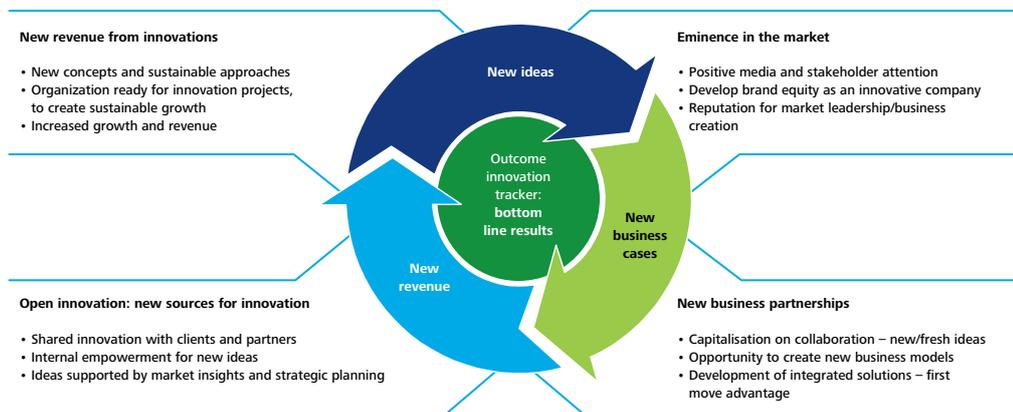
A large part of consumer decision-making depends on emotion, intuition or habit.

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Sustainable marketing and innovation

Truly innovative companies have moved beyond select initiatives targeting specific issues such as carbon emissions or sourcing commodities like fish or wood sustainability. Instead, they have put sustainability at the heart of their business, examining and developing strategic decisions through the lens of sustainability. This can be termed sustainable Innovation because it contributes to long-term value creation for the company and for society at large. Deloitte Netherlands has identified *three distinct and replicable phases of sustainable innovation*:

Figure 1: Innovation TrackerSM



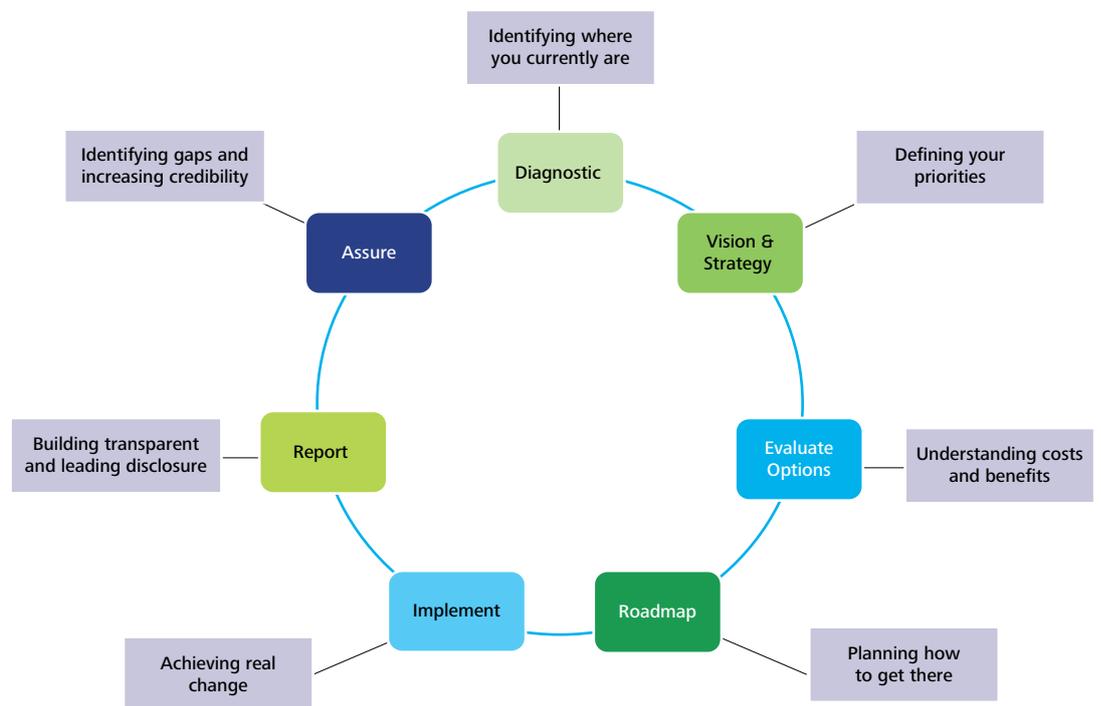
The green journey

Understanding the material sustainability risks and opportunities that affect long-term growth and profitability is the first step to integrating sustainability into your business.

Understanding evolving consumer behavior and responding to changing patterns of consumer spending means that sustainability is now an essential part of business planning and success. Consumer business companies must ask themselves how they can respond to these sustainability challenges and opportunities.

The decision to integrate sustainability at a strategic and operational level requires strong executive leadership, investment and long-term commitment. However, a lack of progression will lead to competitive disadvantage, consumer desertion, and compliance and reputational risks.

Figure 2. Pathway to sustainable business transformation

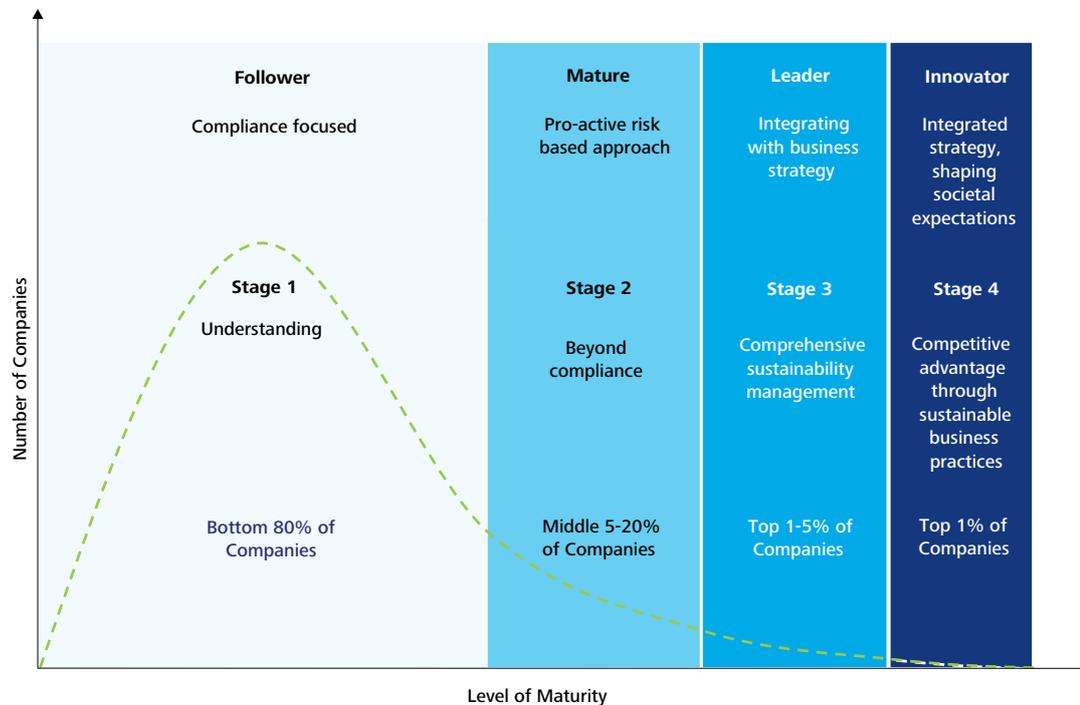


Source: Deloitte UK

How ready are you for the future?

Understanding the material sustainability risks and opportunities that affect long-term growth and profitability is the first step to integrating sustainability into your business. It is essential to understand your current position in order to maximise new opportunities (see figure 3 overleaf). In addition, benchmarking your sustainability positioning against the competition will enable you to better understand your own performance and key drivers of leading practice, helping you to identify key actions and priorities and act as the foundation for a comprehensive sustainability strategy.

Figure 3. "Where are you?"



Source: Deloitte UK

Where do you want to be and how do you get there?

Businesses need a strategy and a roadmap to affect change. Building executive consensus, gaining staff buy-in, and understanding the needs of external stakeholders like consumers and suppliers, will enable organizations to understand material sustainability issues, facilitating the development of a comprehensive and material sustainability strategy. However, strategic implementation is often the hardest part of the journey. Embedding sustainability into the DNA of your organization and developing tools and metrics to track performance and facilitate decision-making in the C-suite is crucial to integrating sustainability into the core of your business.

How do you manage sustainability performance beyond your core operations?

Understanding and managing social and environmental risks and opportunities beyond your own operations and across the whole supply chain can help to identify cost-savings, encourage product innovation, and mitigate reputational risk. Looking along the value chain, retailers have an important part to play in the transition to a low carbon economy. By adopting sustainable procurement strategies, training suppliers on Environmental, Social, and Governance (ESG) risk, conducting life cycle assessments, 'greening' buildings, and using market intelligence to anticipate consumer trends retailers and consumer products companies can work together to help create responsible business norms and shape consumer purchasing practices.

What is the role of reporting and transparency?

Identifying relevant metrics and shaping a compelling narrative around sustainability performance, as well as independently assuring publically disclosed information is increasingly important in ensuring that sustainability can drive business change. Reporting and assurance is seen by leading practice companies as a tool with which to engage stakeholders, reinforce credibility, and build trust.

For young people, business transparency and honesty are the prerequisites for trust – “The Consumption Dilemma (World Economic Forum, 2010)”.



Sustainability case studies

Case study 1: Sustainability reporting and strategic development for a consumer goods company

A global consumer goods company engaged the Deloitte member firm in the U.S. to: 1) benchmark the ways companies organize around sustainability; 2) support the development of their multi-year Corporate Responsibility report; 3) refresh their global sustainability strategy; and 4) gain board support for a new approach to sustainability and business model innovation.

Client challenges

- Similar to other companies, the client faced resource constraints and was under pressure to consistently deliver high-quality products and sustainable business performance (a common challenge in the consumer goods business model).
- The effectiveness of their first Corporate Responsibility report was undermined by challenges from external stakeholders who determined that it was too self-endorsing and idealistic. Stakeholders wanted more transparency into the pain points and improvement opportunities.
- The client was keenly interested in understanding how other leading multinationals, both in the U.S. and globally, were organizing their leaders and workforces around climate change and sustainability.

Engagement details

The Deloitte member firm in the U.S. was asked to help the company's global sustainability group move their agenda forward by advising on ways companies organize for innovation in sustainability; the team also assisted the group's efforts to gain support for its corporate responsibility program from three key stakeholder groups:

1. **The company board of directors:** In order to clarify and quantify the benefits of new sustainability initiatives, the U.S. member firm aided in the development of a board presentation
2. **The internal employee community:** The U.S. member firm worked with the leadership to develop and release a new global corporate strategy focused on innovation, integration, and mobilization
3. **External stakeholders:** Based on early feedback gathered from external stakeholder focus groups, the U.S. member firm helped to fuel a new age of reporting for the company, challenging the legacy reporting method with the development of a more consumer-focused, interactive, and transparent reporting style that was embraced by both external and internal stakeholders

Key results

Based on the U.S. member firm's benchmarking of how over 15 leading companies organized around sustainability, the company's sustainability team was able to draw insights on the roles, responsibilities, and skills required for a successful program, and developed a short list of recommendations for governance models for sustainability. Related successes included:

- Publication of an internationally acclaimed multi-year Corporate Sustainability report and a new approach to reporting.
- Release of a new global sustainability strategy to perform against a focused innovation portfolio, build accountability for strategic levers within the heart of the business, and deliver scalable solutions.
- A board presentation that successfully described to the company's most senior executives how the sustainability lens was being used to incubate business model innovation.

Case study 2: A major retailer*

This consumer business company's sustainable business strategy, launched in January 2007, set out 100 commitments to be achieved in five years. These were extended to 180 commitments to be achieved by 2015, with the ultimate goal of becoming the world's most sustainable retailer.

- Of 180 sustainability commitments introduced, 95 have been achieved and 77 are on plan.
- The combined initiatives have contributed a net benefit of over almost \$115, up on the \$80m last year, which has been invested back into the business.
- Breakdown:
 - \$21.6m Energy efficient stores and distribution centers
 - \$3.2m Using less fuel
 - \$1.6m Hanger recycling and reuse
 - \$17.6m Packaging reductions.

The Deloitte global network

With a strong network of member firms operating in more than 30 countries throughout the Americas, Europe, and Asia Pacific, Deloitte member firms' Consumer Business specialists at Deloitte member firms combine deep industry experience and understanding of regional markets to help companies around the world succeed wherever they operate.

Deloitte member firms serve 79% of the 95 Fortune Global 500 CB companies, among them:

- 24 of the 27 consumer products companies
- 17 of the top 20 retail companies
- All of the wholesale and distribution companies

Clients in Consumer Products and Retail include

- Ahold
- Anheuser-Busch Inbev
- Avon Products Inc.
- Best Buy
- Carlsberg
- Carrefour
- Casino/Fonciere Euris
- Clorox Company
- The Coca-Cola Company
- Columbia Sportswear Co
- Danone
- Delhaize Le Lion SA
- El Corte Ingles
- FEMSA (Fomento Economico Mexicano, S.A. DE C.V)
- Grupo Bimbo
- Grupo Modelo
- Itochu
- Kraft
- L'Oréal
- Marks & Spencer
- Nestlé
- PepsiCo
- Procter & Gamble Company
- Tesco
- Unilever
- Wacoal International Corp

Deloitte's eminence and perspectives on Sustainability

DTTL and its member firms continue to develop provocative and relevant publications that address the issues that matter most to executives addressing sustainability, with dedicated professionals focused on research and eminence providing both practical and visionary solutions. Working with clients and leveraging their collective experience, Deloitte member firms provide robust and innovative solutions associated with governance and risk management, performance management, operational efficiencies, product/service development and stakeholder engagement. 750 sustainability practitioners at member firms worldwide gather and organize the knowledge and experience of engagement teams that have worked with global companies on sustainability programs. A sampling of our eminence includes the following publications:

Working with clients and leveraging their collective experience, Deloitte member firms provide robust and innovative solutions associated with governance and risk management, performance management, operational efficiencies, product/service development, and stakeholder engagement.



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Endnotes

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