

# SUSTAINABILITY – BEYOND GOOD INTENTIONS

MOST RETAILERS TALK ABOUT SUSTAINABILITY –  
BUT FEW REALLY ACT

## **Interview:**

Jürg Peritz, former Vice  
Chairman of the Executive  
Committee, Chief Marketing  
and Chief Purchasing Officer  
at Coop Switzerland.  
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More and more retailers are issuing sustainability reports, selling organic or fair trade products, and launching some type of “sustainability initiative”. “Making our business more sustainable is one of our top priorities” has become a standard element of just about every CEO interview or letter to the shareholders. But there is still a huge gap between ambition and reality. In fact, when we talk to retailers about how the drive for more sustainability has affected their businesses day to day, most tell us little has changed. A recent Oliver Wyman study suggests that, while sustainability now routinely figures in evaluating investment decisions and corporate projects, it has had little effect on the key commercial activities of the business – buying, store operations, or supply chain decisions.

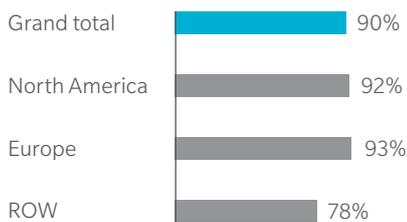
Despite this disparity between ambition and reality, retailers do agree that sustainability matters. Our study reveals broad retailer consensus that they will almost certainly face potentially wrenching supply cost and availability problems in the coming decades, and likely be confronted with very different patterns of demand as customer priorities and regulations change. The study also suggests that those who seize the opportunity to build a more sustainable operating model early can drive growth and gain market share.

## PLENTY OF CONCERN, BUT NOT MUCH HAPPENING

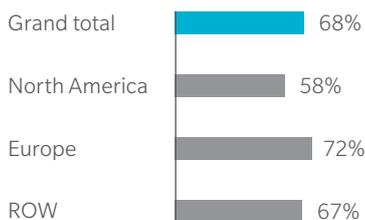
“Sustainability” has been on most retailers’ agenda for some time. Our research indicates that some 90%<sup>1</sup> of the top 50 global grocery retailers market their own organic product ranges and 68%<sup>1</sup> publish a sustainability report. In their annual reports, 82% of retail CEOs cite sustainability as a key priority. And more than one in three have opened “green” pilot stores. While these developments are encouraging, the reality behind these flagship initiatives continues to be largely “unsustainable”. In most cases, sustainable product lines account for only a few percent of sales revenue, and, with new product development and space decisions still dominated by other priorities, this is not changing fast. Although retailers’ advertising campaigns are increasingly built around green messages and products, their in-store price promotions largely ignore them – and these account for a very significant proportion of sales. As far as store estates are concerned, the vast majority of new stores have little to do with their “green” concept stores; as a result, over 99% of all stores are still “traditional”, “non-green” formats.

### Share of top 50 worldwide grocers

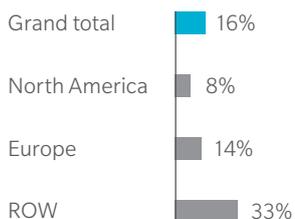
... offering an organic own label product range



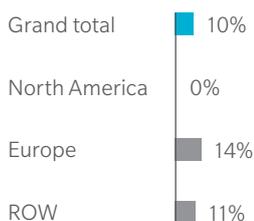
... publishing a sustainability report



... measuring and communicating the financial impact of sustainability initiatives



... systematically measuring personal performance against sustainability KPIs



2011/12 data; Oliver Wyman analysis

## WHY SUSTAINABILITY IS NOT “STICKING”

Retail is characterized by low margins, pressing day-to-day challenges, and an ever more globalized and complex supply chain – so it is not surprising that really achieving, rather than merely talking about, sustainability has taken a back seat. Most retailers focus on the urgent, and sustainability for many is not urgent enough. But even deeply committed retailers often struggle to generate real impact. In our experience, two factors are at work here:

**Failure to drive sustainability into daily decision-making.** In many, and perhaps even most retailers, decision-making is devolved across hundreds of buyers, category managers, procurement managers, store associates, logistics specialists, and ordering managers. 42% of the top 50 global grocery retailers have established a sustainability function, and 14% now have a Chief Sustainability Officer. But only 10%<sup>1</sup> of these companies actually measure and incentivize personal performance against sustainability KPIs. In this context, it’s not surprising that sustainability often remains limited to a few corporate “lighthouse projects”, and rarely filters down into such decisions as what products to carry, or what to promote next month. If sustainability is not an important factor alongside sales, volumes and margins, decision makers will tend to ignore it.

**You can’t manage what you don’t measure.** Making the core business model sustainable relies on understanding the financial impact of sustainability initiatives. But only 16%<sup>1</sup> of the top 50 grocers evaluate in any detail how their efforts to achieve sustainability translate into financial outcomes. This is a key problem; it is hard to define realistic targets, shape decision-making and measure progress without understanding and measuring cause and effect. KPIs are crucial here. But identifying and generating the right KPIs is hard. Often there is a simple lack of data. And

even when the data exists, disentangling the link, for example, between improving a company's ecological footprint and its economics is far from straightforward. Nonetheless, leaders in sustainability have shown that it is not only possible to find ways to measure the impact of their efforts, but also to use this knowledge to achieve their ambitions.

### MAKING SUSTAINABILITY HAPPEN

Given how devolved decision-making is in a typical retailer, making sustainability a reality means getting "into the bloodstream" of the whole organization, particularly the decision makers in trading and operations. Our work with clients points to five important success factors:

**1. A clear strategic intent**, underpinned by continuous and unambiguous top level support, regularly reinforced over multiple years. Achieving this means acknowledging the organizational and cultural challenges involved in targeting longer-term and more holistic objectives – while not losing focus on short term sales, cost and margins.

**2. More transparency over the ecological and social footprint of products and operations.** Measuring this is very difficult (especially on the product side where most of the resource usage happens upstream), but not impossible, although it requires going beyond what has been done over the last few decades. To date, most retailers have focused on availability, cost and time-to-market in their attempts to better understand upstream supply chains. In future, supply chain management and supply chain collaboration will need to put as much, if not more, emphasis on resource usage, renewable resources and social standards.

**3. Translation of the overall sustainability strategy into quantified, operationalized objectives** for functions and individuals, in both the short- and the long-term. For sustainability to become a reality, decision makers need to see it on par in importance with financial performance – not just a "nice to have". This requires setting specific targets.

**4. The introduction of "sustainability" into daily decision making** in a dispassionate, transparent and quantitative way. To become really effective, this needs to be based on a detailed understanding of how, when, and by whom decisions are being made, as well as how to influence and change them. Just throwing more data at buyers, category and operations managers is not enough.

**5. Detailed and quantified measurement of the impact** delivered against the targets set. As described earlier, ongoing measurement using KPIs is a vital part of embedding sustainability into the organization: without it, it is very difficult indeed to know how successful the strategy has been, or to ensure that sustainability remains top of mind for those making day-to-day decisions.

An explosive global food demand growth will meet an already stretched supply in the next decades.

Global demand for agricultural production is projected to grow by 70% by mid-century. The global average per capita calorific intake is projected to grow by about 40% during the next four decades as the global population moves towards 9.5 billion<sup>4</sup>.

At the same time global food production *already* utilizes about 50%<sup>4</sup> of the viable land surface available, while the global agricultural sector *already* consumes about 70%<sup>4</sup> of the fresh water abstraction for human use, and fertilizer manufacturing *already* consumes about 3-5%<sup>4</sup> of the world's annual natural gas supply.

The emerging supply-demand imbalance has the potential to erode the profit of the entire food value chain by 2050. ("Unless we change direction, models show that the profit of the entire consumer goods sector could be wiped out by 2050." – Paul Polman, CEO, Unilever)

### Sources

<sup>1</sup> Oliver Wyman research of the top 50 grocery retailers globally. Ranking based on retail sales 2009/10, including supermarkets, hypermarkets, convenience/forecourt and discount stores (with substantial grocery), not including Cash & Carry/wholesalers

<sup>2</sup> Coop sustainability report 2012  
<http://www.coop.ch/pb/site/common/node/71067544/Len/index.html>

<sup>3</sup> M&S Plan A Report 2012  
[http://corporate.marksandspencer.com/documents/publications/2012/plan\\_a\\_report\\_2012.pdf](http://corporate.marksandspencer.com/documents/publications/2012/plan_a_report_2012.pdf)

<sup>4</sup> Institute of Mechanical Engineers Global Food: Waste Not, Want Not  
<http://www.imeche.org/knowledge/themes/environment/global-food>

## IS IT ALL WORTH IT?

Building a sustainable retail business model is not easy, costs money and is not without risk. The argument for becoming sustainable is fundamentally underpinned by a need: coping in a world of finite resources and increasingly stark trade-offs. The business case for sustainability is fundamentally a long-term one, driven by the need to address emerging but anticipatable realities – ones that only become obvious in the long term. But sustainability also offers tangible opportunities to drive growth and market success and to reduce costs *today*.

Coop Switzerland's leadership in pushing a more sustainable product proposition has generated substantial growth; sales of Coop own-label sustainability brands and quality labels is now CHF 2bn<sup>2</sup> – more than 18% of food revenues. Coop's market share in Organic products exceeds its structural market share by more than 100%<sup>2</sup>. In the UK, Marks & Spencer's "Plan A" has generated net benefits of more than £100m<sup>3</sup>, mostly through improved resource efficiency including reduced packaging, reduced landfill waste, transport improvements and improved energy efficiency. Both companies have won awards for their sustainability initiatives, and are regularly labeled "sustainability leaders". These and other pioneers have shown that there can be a path to profitability in sustainability. For companies who heed the lessons of those who have succeeded, as well as those who have not, doing the "right thing" could also mean doing the "smart thing".

# SUSTAINABILITY IN RETAIL

AN INTERVIEW WITH JÜRIG PERITZ

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## **Mr. Peritz, why do you believe that sustainability can be an effective strategy for growth in retail?**

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Growth basically comes from two sources: addressing a large and growing customer demand, and differentiating vis-à-vis the competition on dimensions which matter to the customer. In many ways, driving growth is no more complicated than that. However, growth is not an end unto itself – it must also be profitable. And profitable growth will not happen by doing what everyone else is doing, or pursuing a strategy that anyone can copy. Freshness, choice, availability, supply chain management, store design and price are all critically important in retail, but at the same time “basics”. They are things which every company must deliver on, and where continuous improvement is crucial. Everyone is working hard to get things right here, and every year everyone gets better. But will it really yield differentiation? Every retailer must therefore ask itself two simple but very important questions: “What can we offer customers which others cannot copy?” and “how do we make our company unique in the eyes of these customers?” Achieving real sustainability provides good answers to both questions, and offers the prospect not only of profitable, but also defensible growth over the long-term.

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## **Freshness, Price, Choice as basics! It almost sounds as if you're saying that these are no longer important.**

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No, of course not. Getting the basics right is essential in any industry. Efficiency is important, processes can always be improved, and maintaining price competitiveness is critical. But traditional recipes for generating growth in our industry have in many ways “had their day”. We are also now facing new realities. The era of space growth and expansion is coming to an end. So is the time of wasteful exploitation of resources – resources that we cannot replace. We cannot expect the strategies of the past to help us with the challenges of the future. Retail needs a new paradigm. Our future will increasingly be characterized by global resource shortages, dramatically changing customer expectations, and skyrocketing energy costs. Quite frankly, the future is already here – we must deal with it.

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## **Why is sustainability such a good answer?**

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Because there is no alternative. We are facing huge challenges – continued global population growth, steadily increasing calorie consumption in the developing world, a shift to more processed products, to name just a few.



### JÜRIG PERITZ

joined Coop Switzerland in 1990. He served as a member of the Executive Committee and, in addition, held the positions of Chief Marketing and Chief Purchasing Officer from 2004 until his retirement in 2012. In 2008, Mr. Peritz was named Vice Chairman of the Coop Executive Committee. During his time at the company, he was a strong advocate for sustainability. Today, Coop is recognized as a global sustainability leader among retailers and has won several international awards for its efforts. Most recently, Coop was awarded the Ethical Corporation's Responsible Business Award for “Authentic Communications” (2011). The company was also named top retailer worldwide for sustainability by oekom research (2011) and chosen for inclusion in the Sustainia100 (2012), a list of the 100 most innovative, sustainable solutions from around the globe.

These and other realities will all have major ecological and social impacts. The agricultural industry is an excellent example. The ecological footprint of today's industrialized food production is far too large, and almost totally dependent on oil and chemical derivatives. The negative implications for our planet are massive. If we want to continue to generate continued economic growth, as well as maintain biodiversity, all while protecting our water resources and fertile soils, we need a fundamental re-think. And for retailers, that means changing our approach and attitudes toward farming, fishing and forestry.

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### **Fair enough. But is sustainability really something that customers care about?**

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Environmental problems and food scandals are already prominently featured in the media – and the internet is making people even more aware. The fact is that our customers have never been better informed. Social media are creating transparency not only around the issues, but also the companies who are found wanting – this creates risks for some, and opportunities for others. Sustainability is a theme which already resonates strongly with our customers – and will continue to grow in importance. Consumers care today, and will care even more tomorrow. The chance for retailers to differentiate themselves and their brand is enormous. A credible, sustainable offer represents a great opportunity to build trust and drive long-term profitable growth. By the way, the fact that resource costs have continued to rise has already led to new technologies that can help realize substantial cost savings – and which are sustainable. Bottom line, sustainability is not just about achieving ecological and social benefits, but also very much about addressing a real customer need, and creating lasting economic advantage.

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### **But don't most retailers label themselves as sustainable already?**

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There is a big difference between changing the message and actually changing the DNA of an organisation. There are two big challenges here: First, retail is a business with a laser-like focus on the short term. Year-on-year revenue changes, monthly market share updates, and constant, daily attention to how we are doing against the competition – these are the tools we use to manage and drive performance for the current year. Very few retailers succeed in defining and achieving a long-term vision, because the tools needed are very different, and the benefits felt only in the long-term. The tendency therefore is to address today's opportunities and challenges – 2020 ends up taking a back seat. Second, achieving sustainability is not easy. It requires embracing complexity – at times tremendous complexity. Retailers cannot fall back on what they know, because most of the challenges are new. When it comes to sustainability, even things which seem simple – like getting the right information to make the right decisions – can present huge challenges. Where do we find information on our ecological footprint? What do we need in order to start measuring it? How can we establish even a rough view of the ecological and social impact of our supply chain? How can we create sustainability scorecards if we are not sure what the KPIs should be? The challenge is immense, and there is much still to do.

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### **How can companies overcome these challenges?**

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Leadership at the highest level is crucial. Leaders need to anticipate what the world will look like in a decade, and start addressing now the challenges they will be facing then. At the end of the day, that is what they are paid to do. It is their “call” – will they choose business as usual, or have the courage to transform the business into a more sustainable one? Honesty, transparency, competence and discipline are all important elements of the mix. The people who run companies have a duty not only to shareholders and employees, but also to future generations. Leaders must take responsibility, not just when in office, but far beyond – even beyond their own time here on Earth. Like it or not, we must prepare ourselves for very different times. By 2050, we will have to find a way to support some 9 billion people on the basis of the finite and depleting resources of our planet. Business as usual is no solution; the clock is ticking.

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### **There is much said about the importance for sustainability of green and fair-trade products. Aren't they really “niche” products? How important can they ever really become for a retailer?**

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I guarantee you that these products not only can be successful, but also enjoy very broad appeal – as long as they meet three important criteria: First, they need to address lifestyle and customer needs. Second, they need to be competitive with conventional products. Third, the fact that these products are sustainable must matter to the customer – and retailers need to be able to communicate effectively why it should matter. Sustainable and fair-trade products can and do meet these three important criteria. With the know-how which exists today, we can develop truly wonderful, modern products which really provide value to the customer – and to our planet.

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### **During your many years at Coop Switzerland, you were responsible for Sustainability. In 2011, Coop was named the “World’s Most Sustainable Retailer”. What made this possible?**

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Coop’s leadership recognized the importance of protecting our environment early on. In the 1970s, protecting our environment became a part of our business philosophy. Organic farming was identified as an alternative to conventional farming at the time, and an opportunity for the company. In the early 90s, we were the first big retailer to launch own-label organic products – we called them Naturaplan and Naturaline. They are still with us, and we continue to develop them. As the pioneer in the Swiss market, we had a platform from which we could develop a very unique product offer early on – and therefore were ready when customer demand really took off. For example – in 1998 we had 300 products in our range generating less than CHF 200m turnover. Today Coop has over 1600 organic products, and generates with these some CHF 900m in revenues. Sustainability has for us developed into a true driver of growth, and become a decisive factor for our customers in choosing where they wish to shop.

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In the Retail practice, we draw on unrivalled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in retail: an obsession with serving the customer, constant dedication to better execution, and a relentless drive to improve capabilities. We believe our hands-on approach to making change happen is truly unique – and over the last 20 years, we've built our business by helping retailers build theirs.

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