



Looking Around the Corner on Sustainability in Retail and CPG

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Contents

- **The greatest opportunity in the history of retail and packaged goods**
- Overview of the results of the recent survey McKinsey did with FMI/GMA
- Evolving both internal and cross-company ways of working
- Unlocking the future value

Today, world is facing sustainability challenges on multiple fronts



By 2050, world population will surpass **9 billion** which requires active conservation of cropland, freshwater, energy, and biological resources

By 2020, global emissions will **increase by 33%** from 2002 levels which translates into a loss of 5% of annual GDP if no action is taken



Over **1.4 billion** people in developing countries live on \$1.25 a day or less

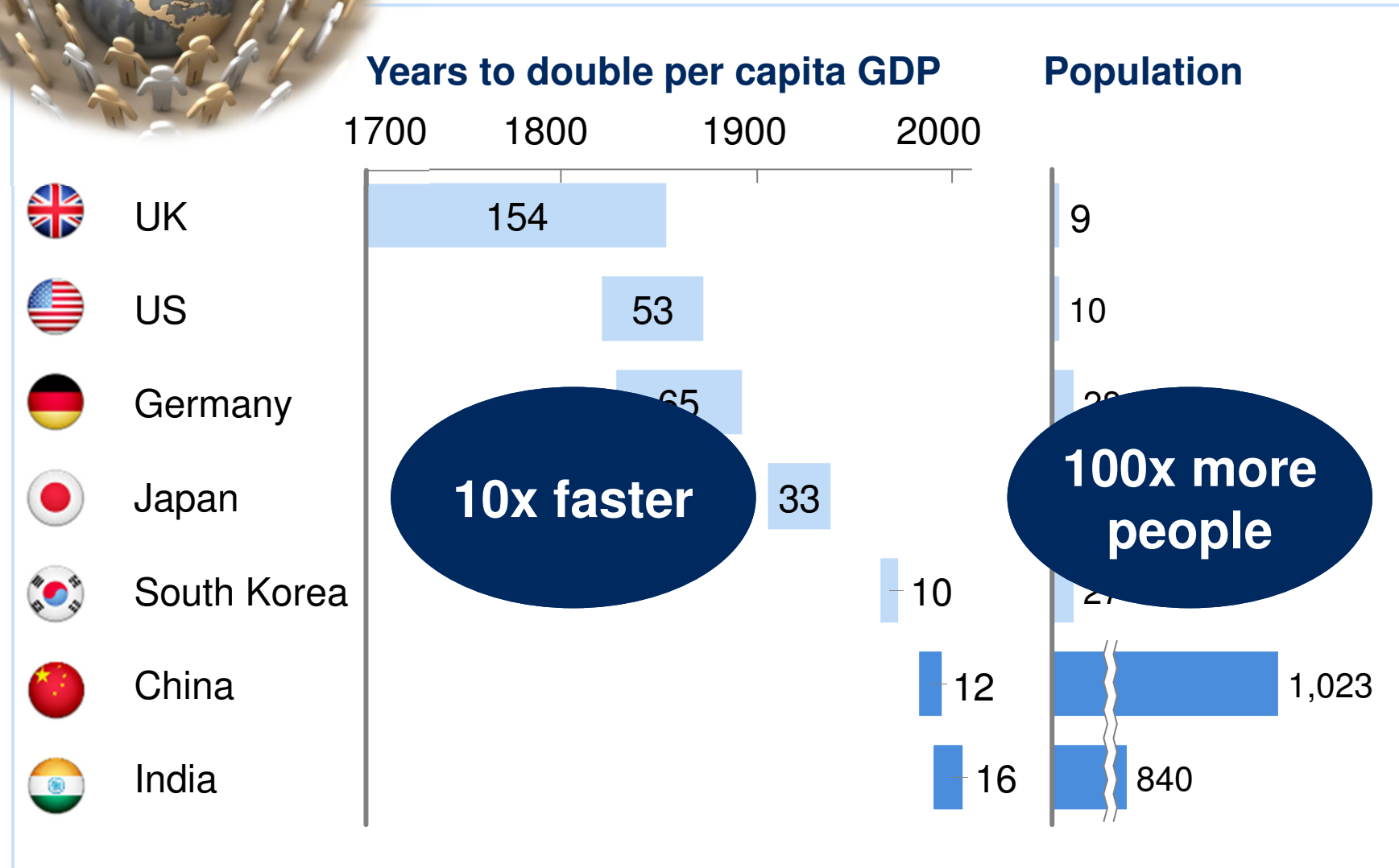
1.6 billion people are facing water shortage



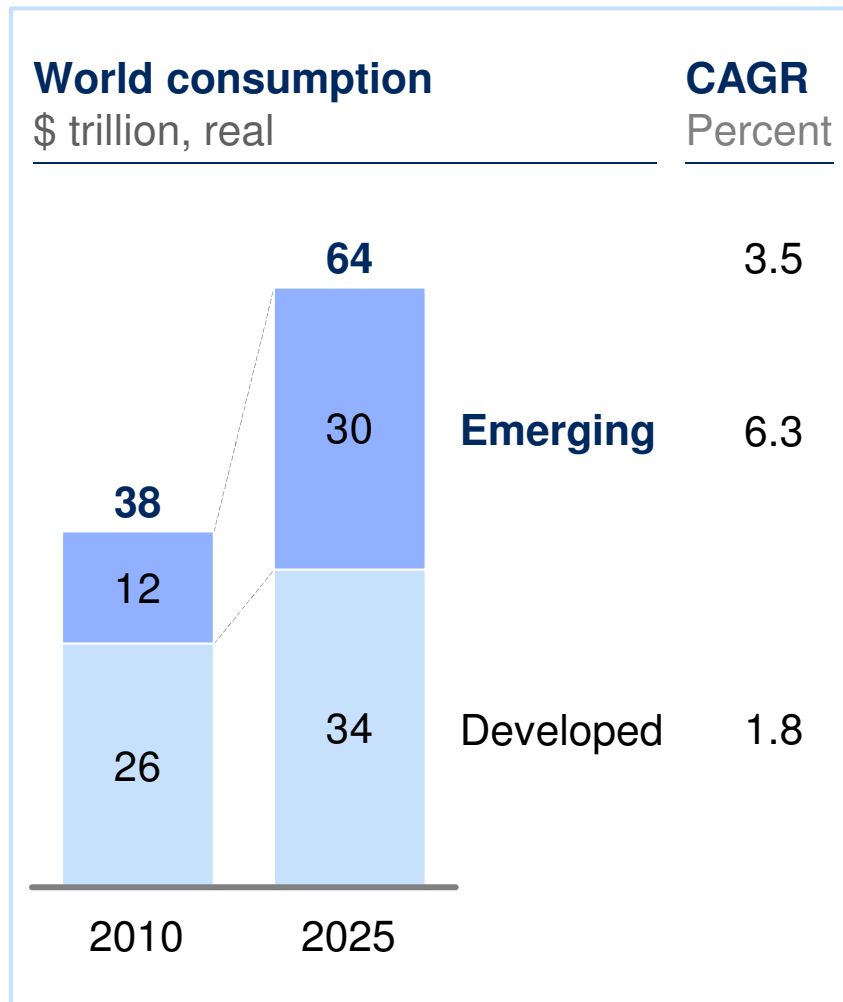
How do we create a world in which people are living well and businesses can prosper within the limits of the planet?



The largest economic event in history is happening before our eyes



Next 10 years should be an unprecedented opportunity for Retail and FMCG



SOURCE: McKinsey Global Institute

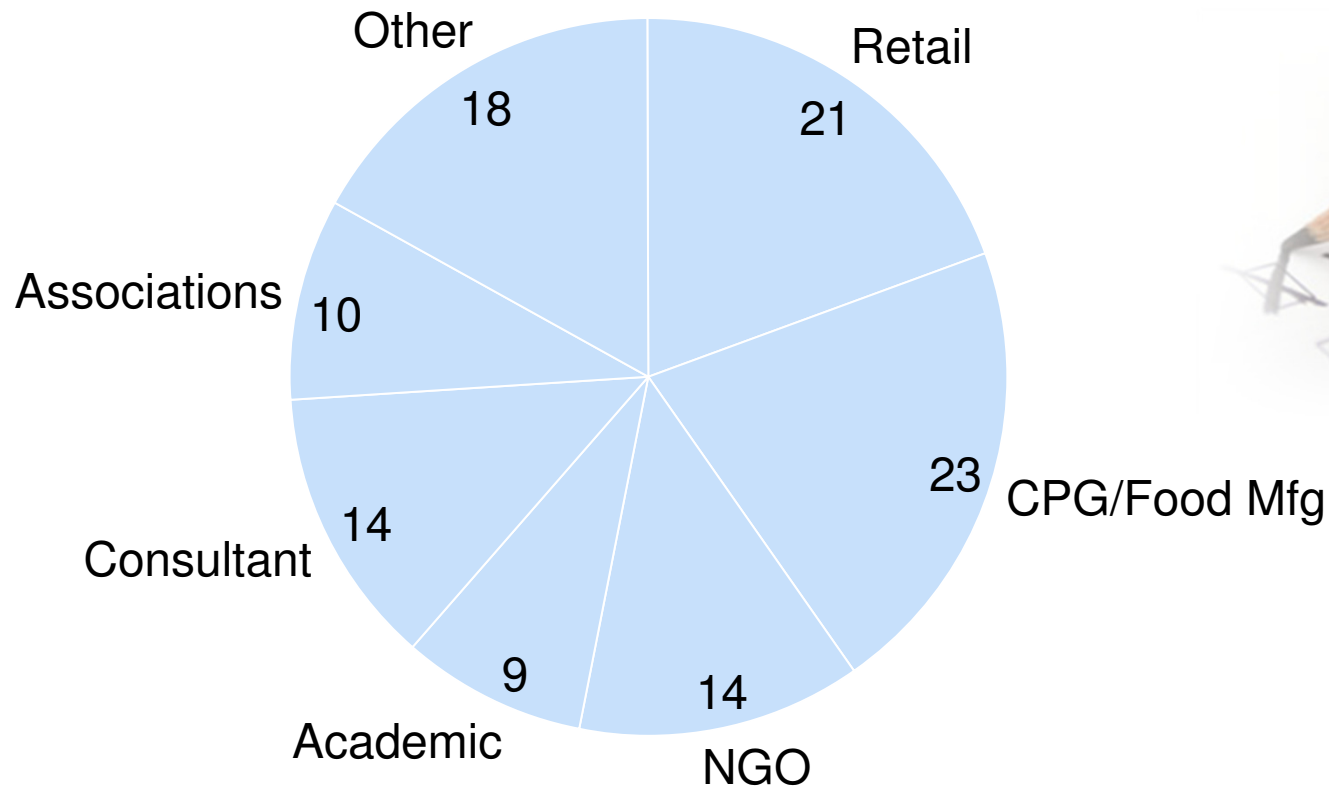


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We reached out to a broad set of thought leaders to get their opinions on the future of sustainability within Retail and CPG

% Respondent by industry



Respondent's functions within their respective organizations are clustered within several primary categories

% Respondent by function



Sustainability survey overview

- What sustainability topics are likely to emerge as priorities in coming years?
- What technologies will play a role in the evolution of Retail and CPG sustainability?
- What organizational practices are key to tackling these emerging sustainability issues?
- How should the Retail and CPG industries be approaching these emerging sustainability issues?



Resource scarcity, product/supply chain sustainability and organization are seen as the most pressing emerging issues

% respondents ranking theme as most important

Resource scarcity

32

**Product/
supply chain sustainability**

27

Organization

14

Consumer engagement

7

**End-use/ Product
end of life/ circularity**

7

Energy

6

**Stakeholder engagement/
management**

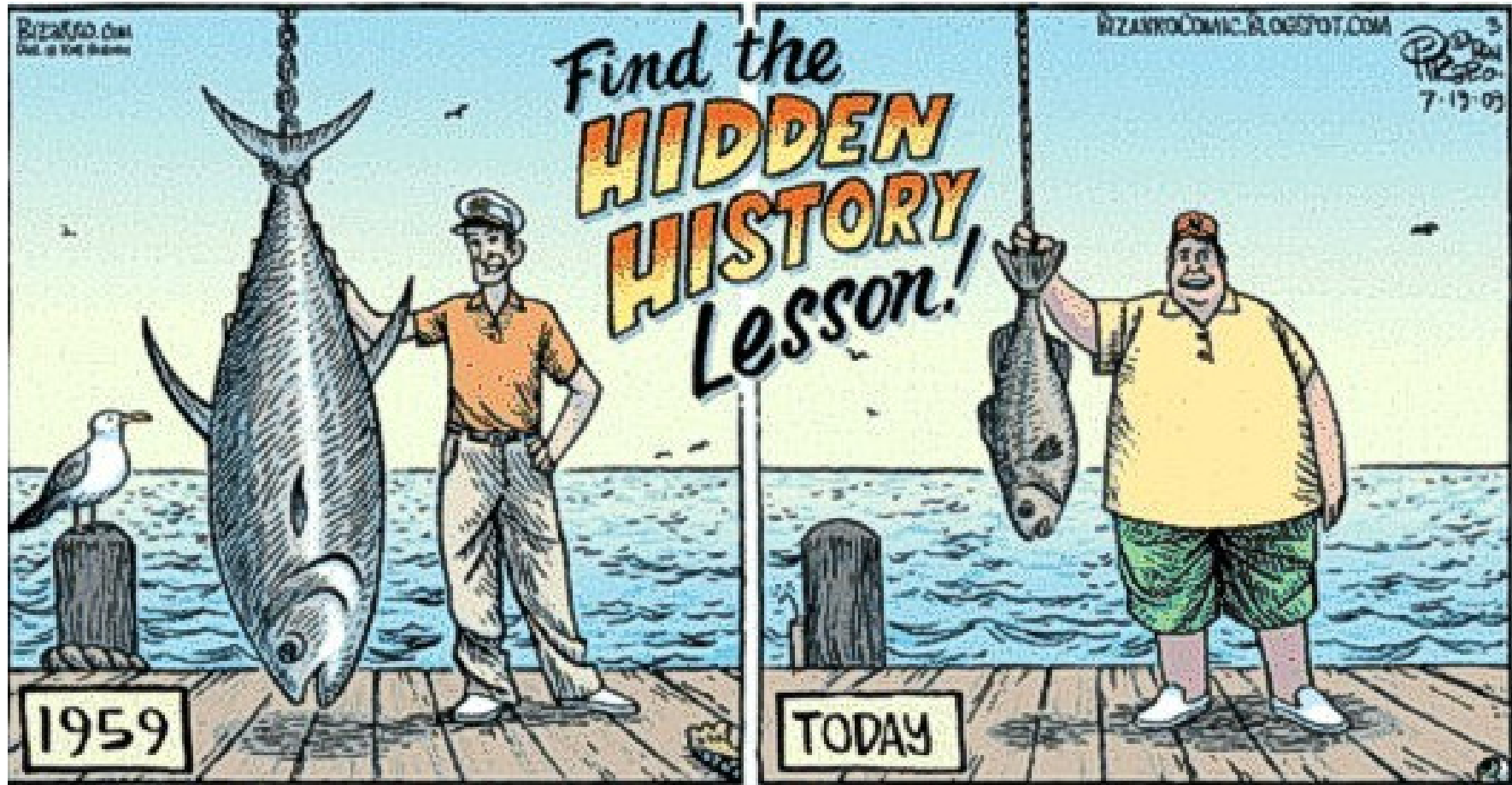
6

Total

100

Resource Scarcity

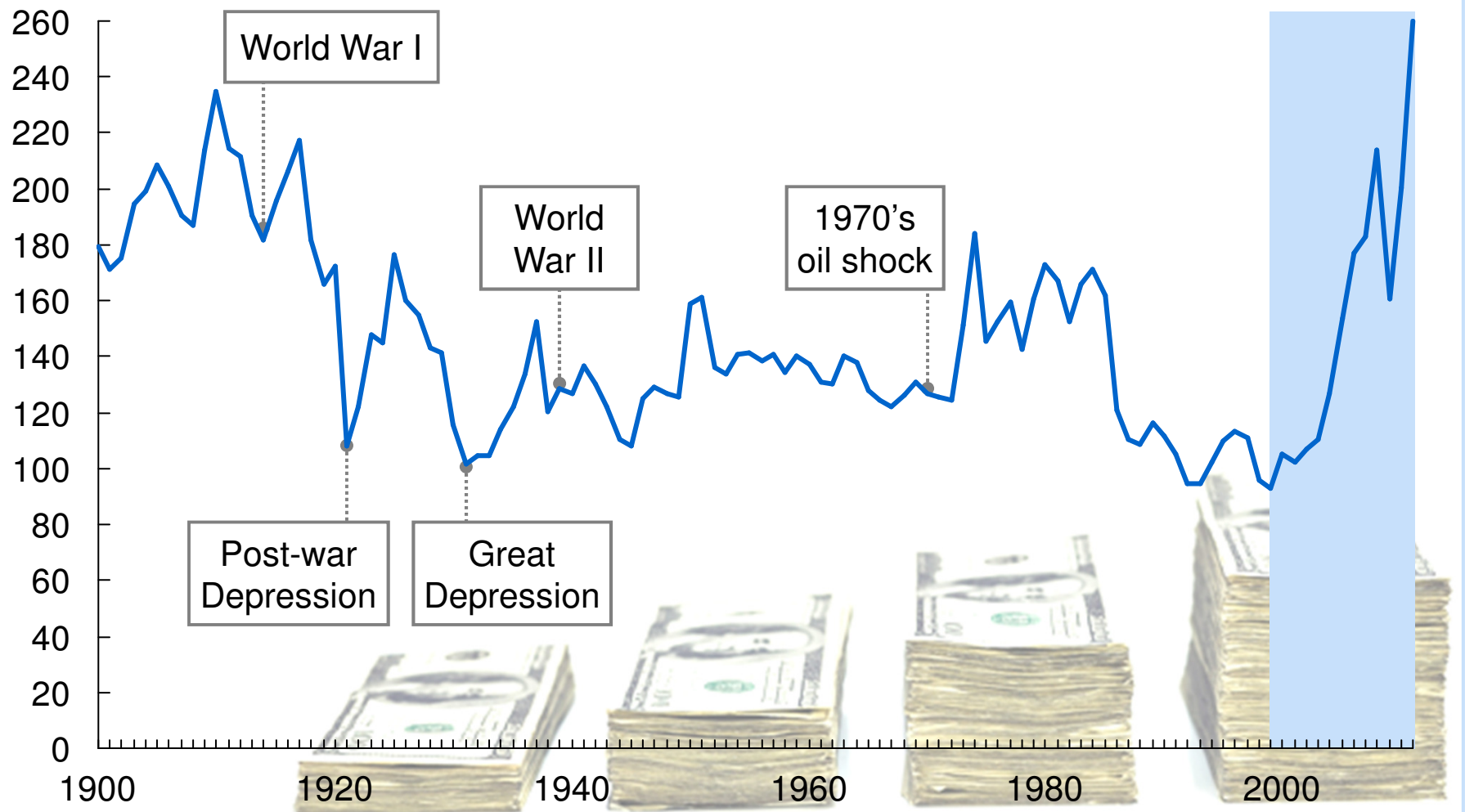
60% of the world's ecosystems have been degraded



Resource Scarcity

Commodity prices have increased sharply since 2000, erasing all 20th century declines

McKinsey Commodity Price Index (years 1999–2001 = 100)

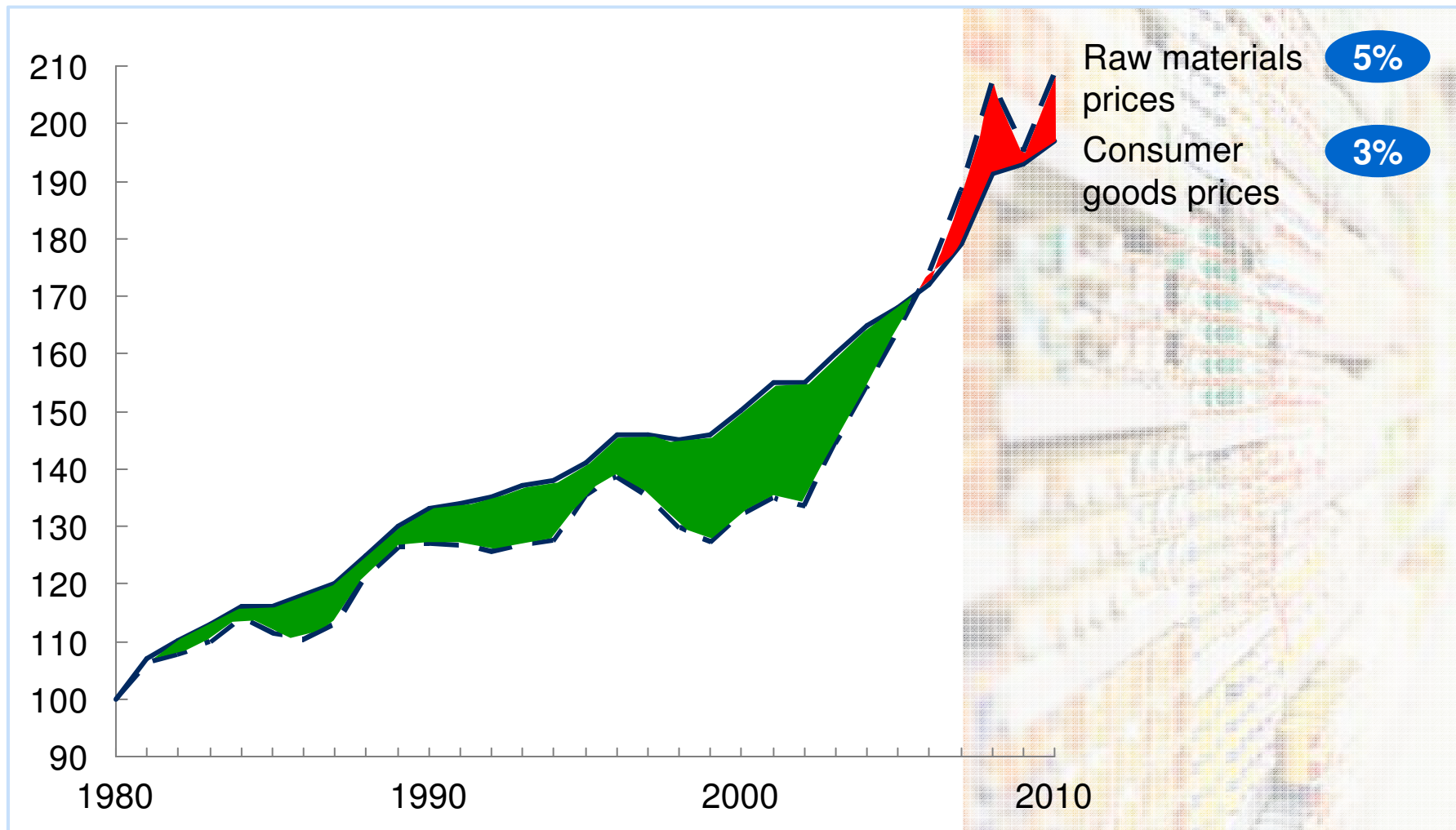


Resource Scarcity

Value is migrating and consumer margins are being compressed

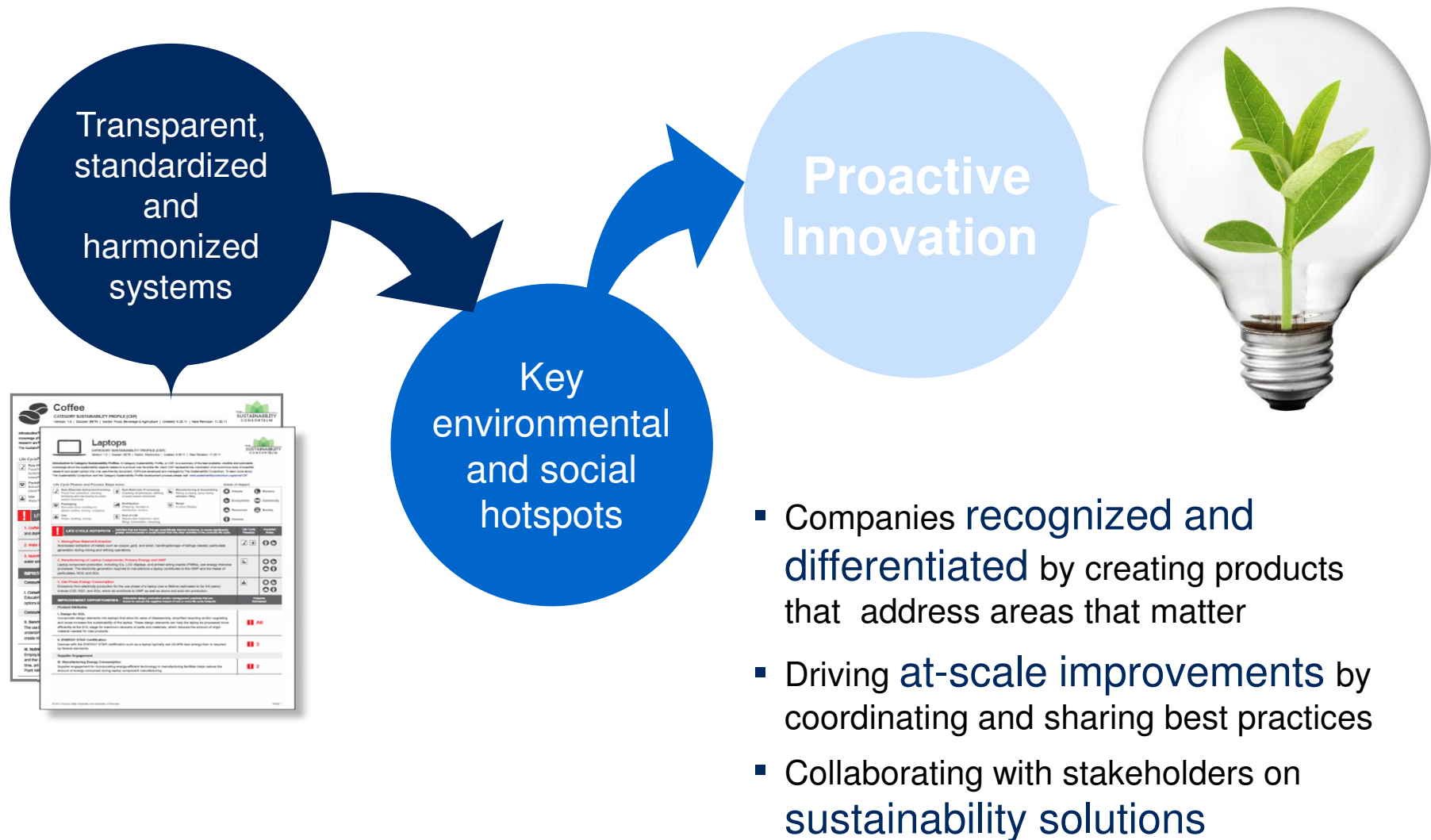
Index – product price and raw-material price in 1980 = 100

CAGR 2004-10



Product/supply chain sustainability

Product sustainability is about delivering proactive innovation

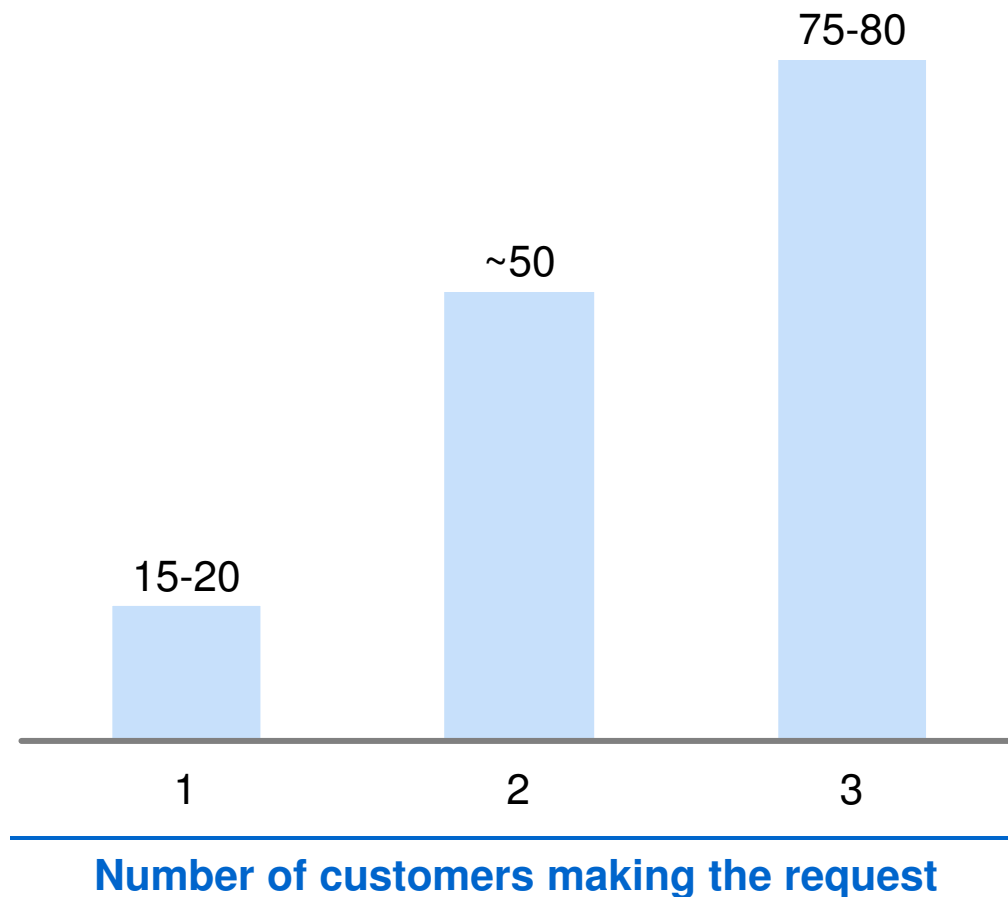


Product/supply chain sustainability

Driving product sustainability, especially the roughly 85% of the impacts embedded in your input materials, can be like dealing with teenagers

Supplier compliance with sustainability requests from their customers

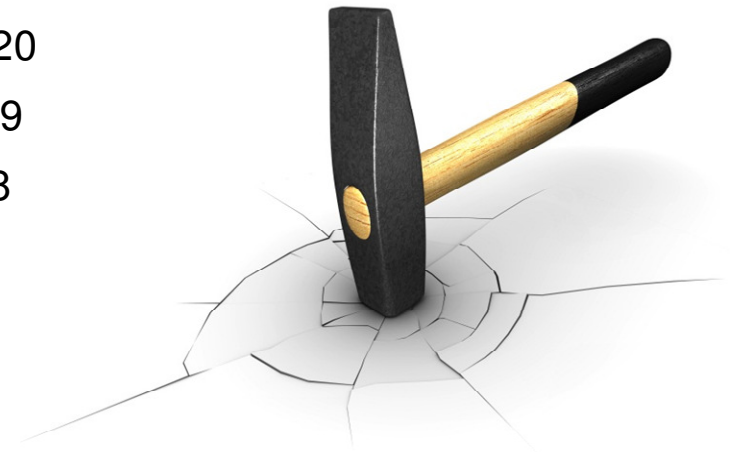
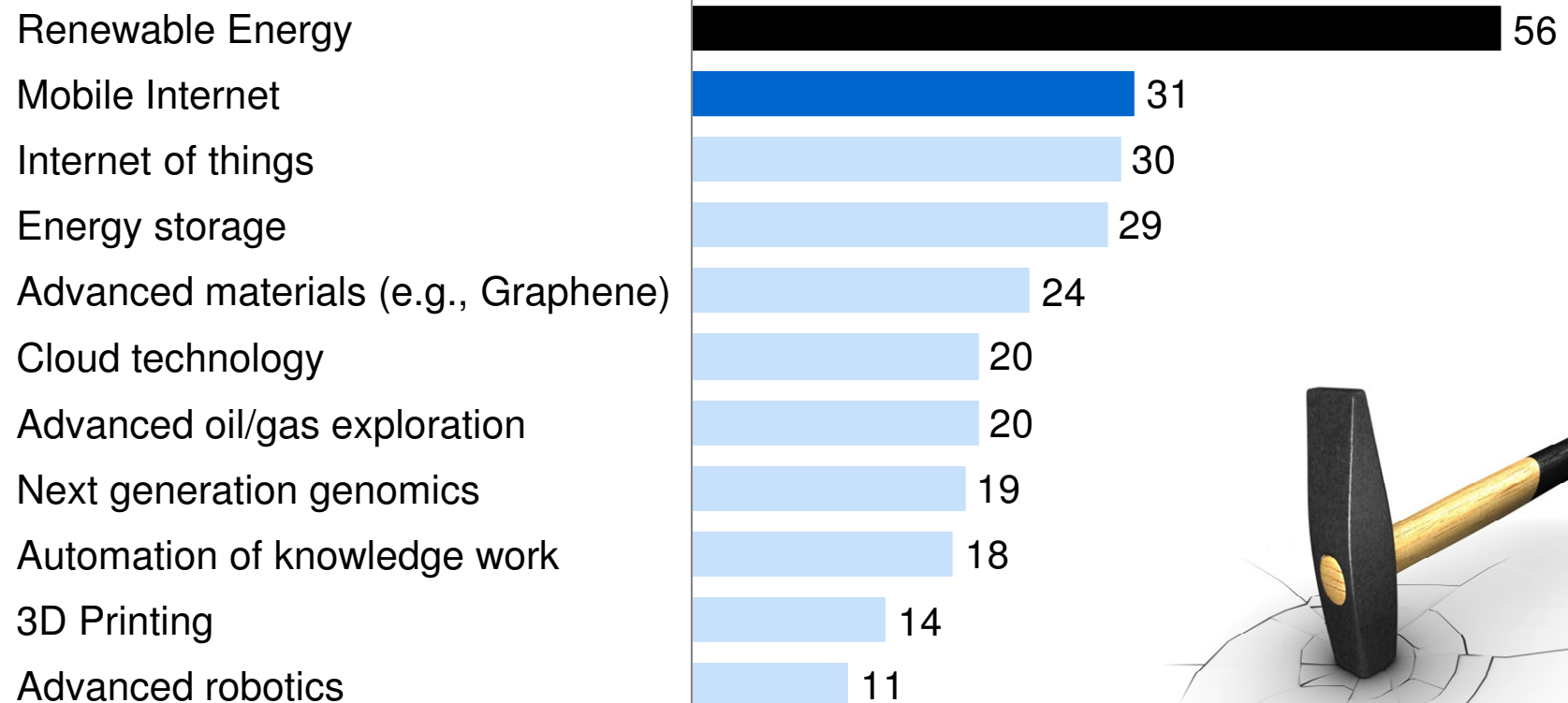
Percent



Evolving technology

Renewable energy was seen as the most critical technology impacting Retail and CPG sustainability – role of mobile likely underestimated

% Respondents listing technology as one of top 3 to impact sustainability of retail and consumer goods



Evolving technology

Peapod has launched an interactive, virtual supermarket for Chicago commuters



Overview

- Ahold subsidiary is #1 U.S. online grocery
- Located in Chicago's State & Lake subway
- Features ~70 items (including fresh produce)

How it works

- Consumers use an app to scan items on wall and add to virtual shopping cart
- Link to 20,000+ items
- Items are delivered next-day

Potential impact

- Expected to **increase mobile order size**
- **Drives loyalty:** 90% of those who scanned an item have ordered again from Peapod

Evolving technology

All of Tesco's core food growth is coming from on-line, and they are using "dark stores" for fulfillment



Impact

- All 5 dark stores among Tesco's top ten sites by revenue in 2012
- Achieved 57% market share of online grocery shopping
- Online sales expected to double in the next five years

"Tesco.com provides all the growth we have in our core food businesses these days."
– Philip Clarke, Tesco CEO

What they did

- Built five **"Dark Stores,"** (grocery stores that are not open to the public and are used fulfill online orders)
- Installed **automated picking and handling system** at two new dark stores, doubling pick rates
- Transferring online shopping operations from nearby local stores

Why they did it

- **Capitalize on shift from in-store to online sales**
- **Address challenge from Ocado**
- **Revitalize the business**

What it took

- **\$1.5 B** makeover of stores and website
- **Investment of a further \$879 M** this year to accelerate the roll-out of digital services
- **Adding 8,000 full-time equivalent staff** in the UK

Evolving technology

Growing wave of transparency



GS1 Source Started in 2011, Launching Now

A framework for sharing trusted product information in consumer-facing digital channels

Companies use GS1 Source to share information about their products

Application developers provide this product data to consumers

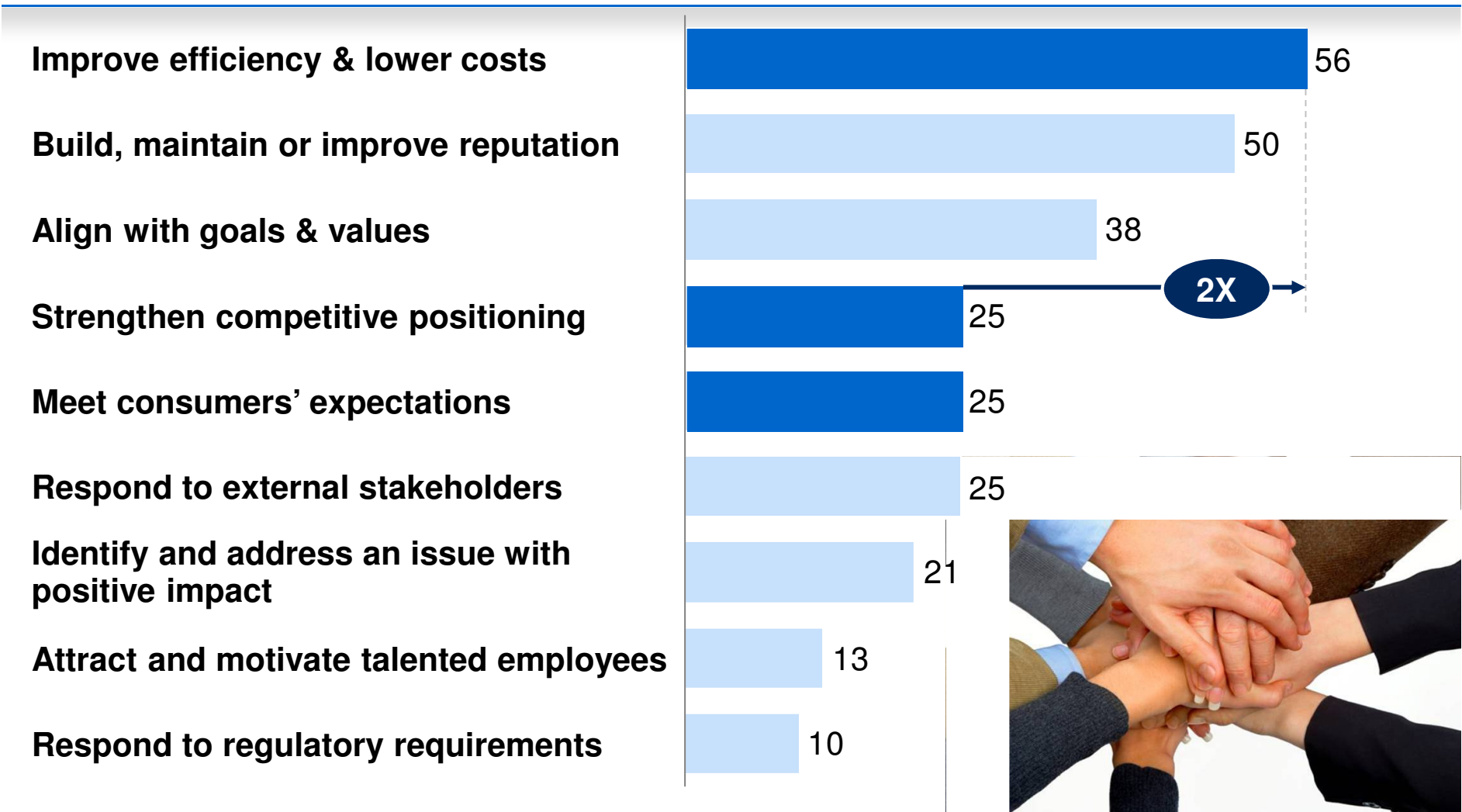
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Organization

Cost savings are a popular driver of sustainability – but driving the positioning of the company and engaging consumers is an opportunity

% Respondents listing rationale as one of top 3 to drive sustainability involvement



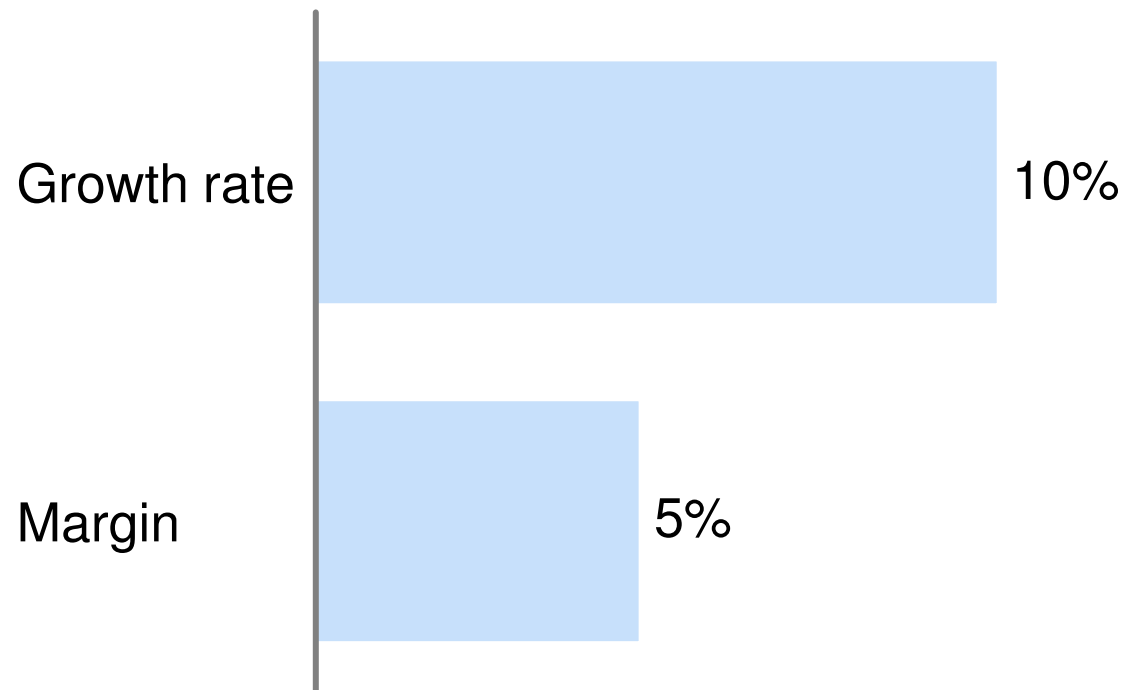
Organization

Unlocking growth through sustainability is an exceptional opportunity for Retail and CPG companies to create shareholder value

ESTIMATES

Percent

Average estimated share price effect of sustained 10-year, 1%-point increase in...

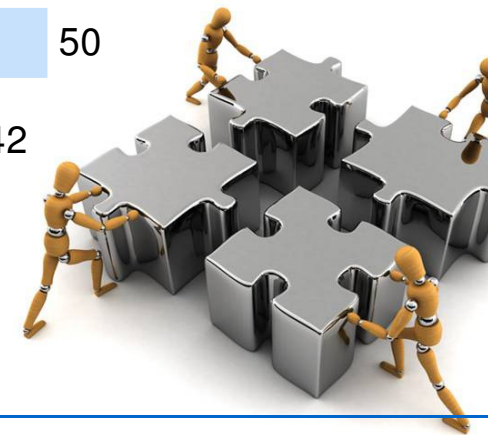


~\$140 billion of incremental market cap at stake if 20 large Retailers and CPGs can ride these trends to 1 ppt higher growth rate

Organization

Respondents indicated that their companies are already implementing a number of organizational practices meant to foster sustainability

% Respondents listing org practice as being currently implemented by their organization



Organization

On a number of issues, survey respondents report wanted to work together to shape the regulatory approach

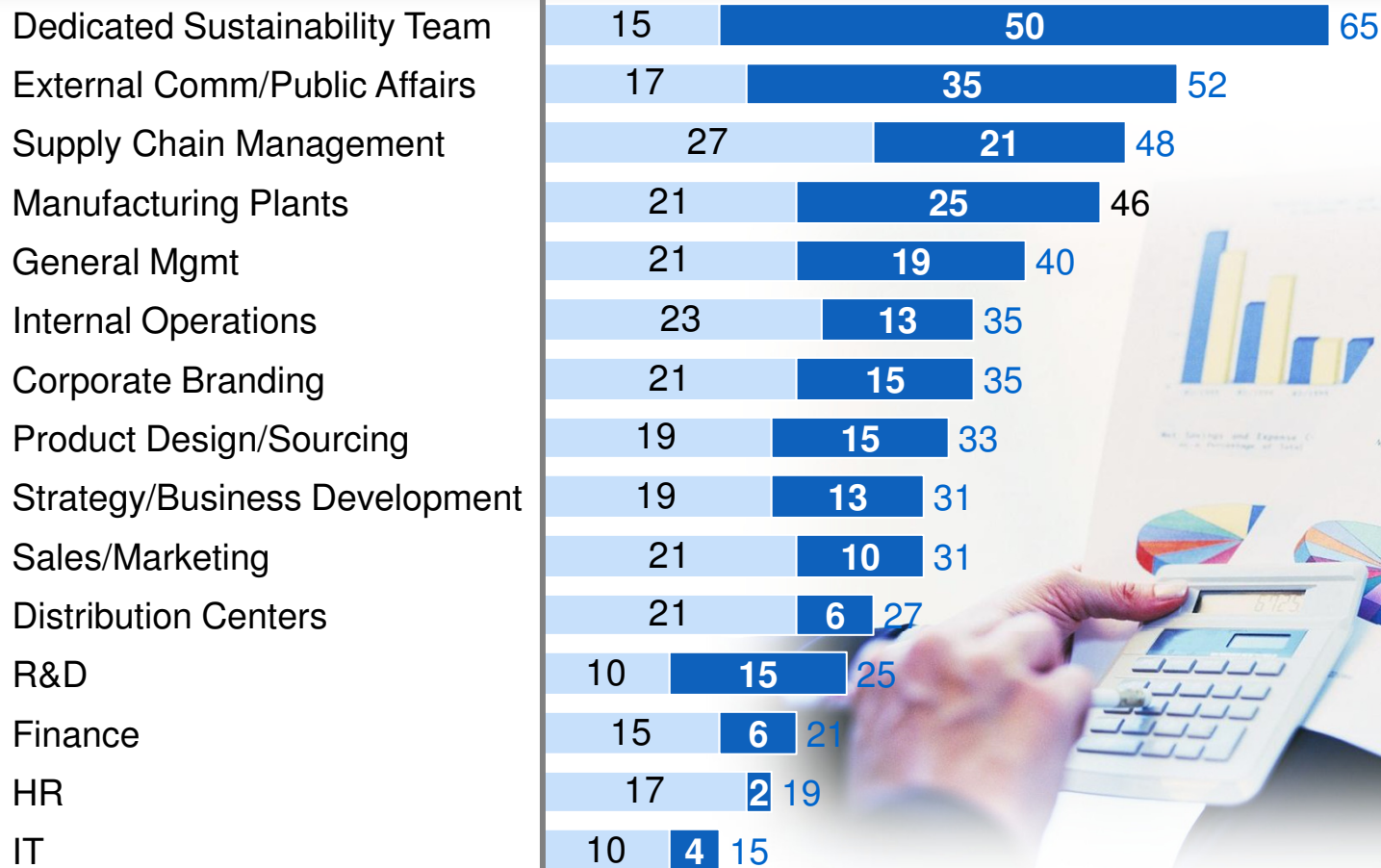
		Collective action Approach	Individual Action Approach
<div>Potentially opportunities to drive an industry-level agenda</div> <div>Legislative/Regulatory Approach</div> <div>Voluntary Approach</div>		<ul style="list-style-type: none">▪ Agricultural Labor Conditions▪ Animal Rights/Welfare▪ Antibiotics in Meat▪ Food Safety▪ Food vs. Fuel▪ Human Rights▪ Pesticide Use▪ Scope 3 Accountability▪ Seafood Growing Practices	<ul style="list-style-type: none">▪ Workplace Safety at Suppliers
		<ul style="list-style-type: none">▪ Accessing Materials Value▪ Food Losses in Agriculture▪ Food Waste▪ Metrics/Performance Management▪ Supply Chain Transparency▪ Sustainable Agriculture	<ul style="list-style-type: none">▪ Building Efficiency Standards

Organization

Levels of engagement on sustainability show opportunities to increase involvement of many functions

% Respondents identifying function within their organization as “very” or “fully” engaged in sustainability efforts

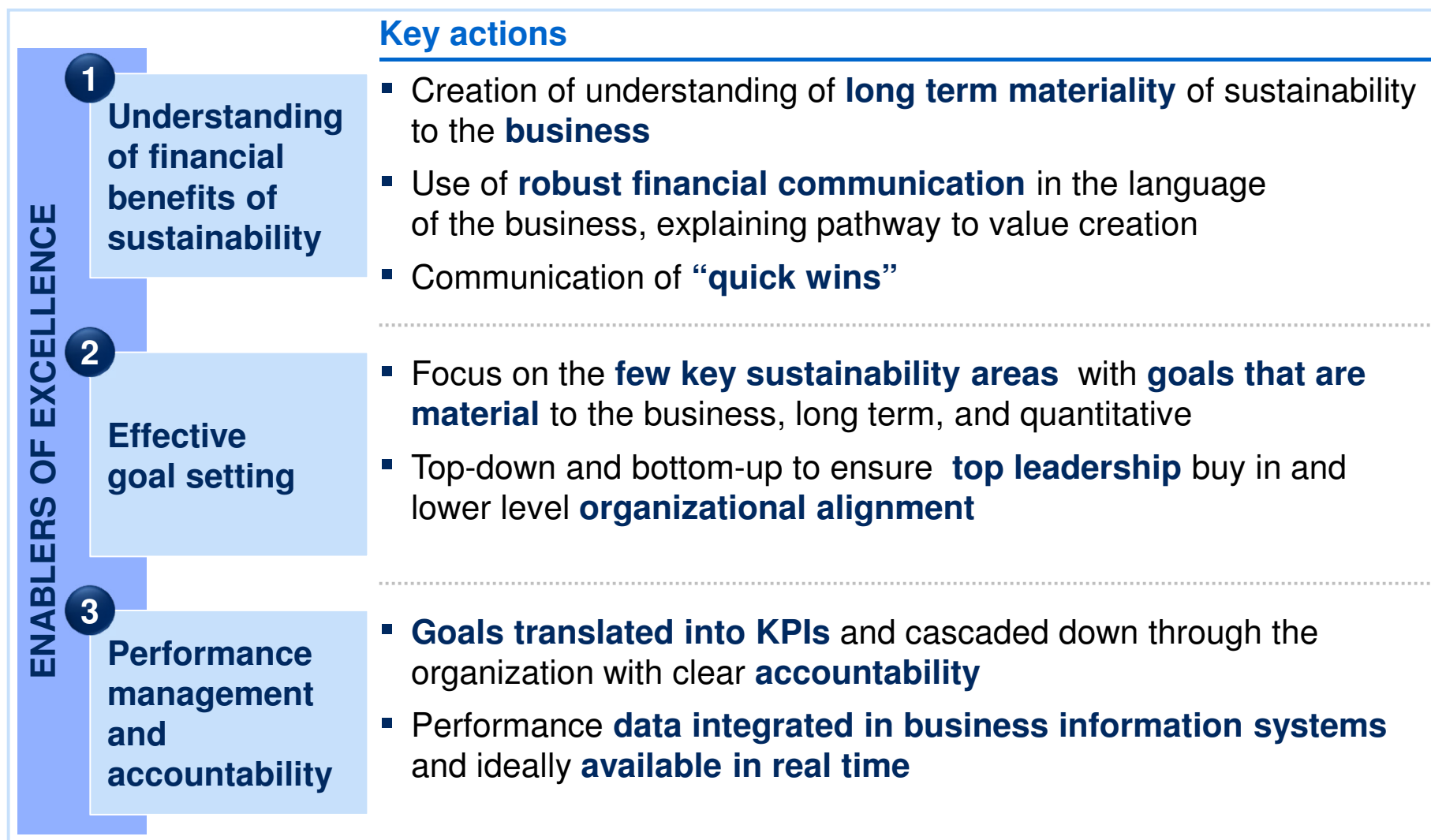
Very engaged
Fully engaged



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- **Unlocking the future value**

Survey results and interviews point to three major enablers of excellence in sustainability



Lack of understanding of financial value of sustainability is a great barrier to sustainability success

48%

... of participants say that the pressure of short-term earnings performance is at odds with sustainability initiatives.

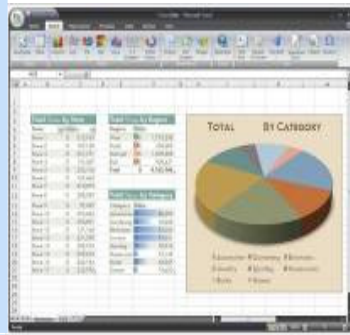
Without understanding of financial value, it is very hard to obtain sufficient resources and long term commitment to sustainability

44%

of participants say that resources made available for sustainability initiatives are insufficient.

Communication is key to creating understanding of financial impact

Long-term materiality



- Create understanding that sustainability affects **long term viability** of the **business**

Robust financial communication



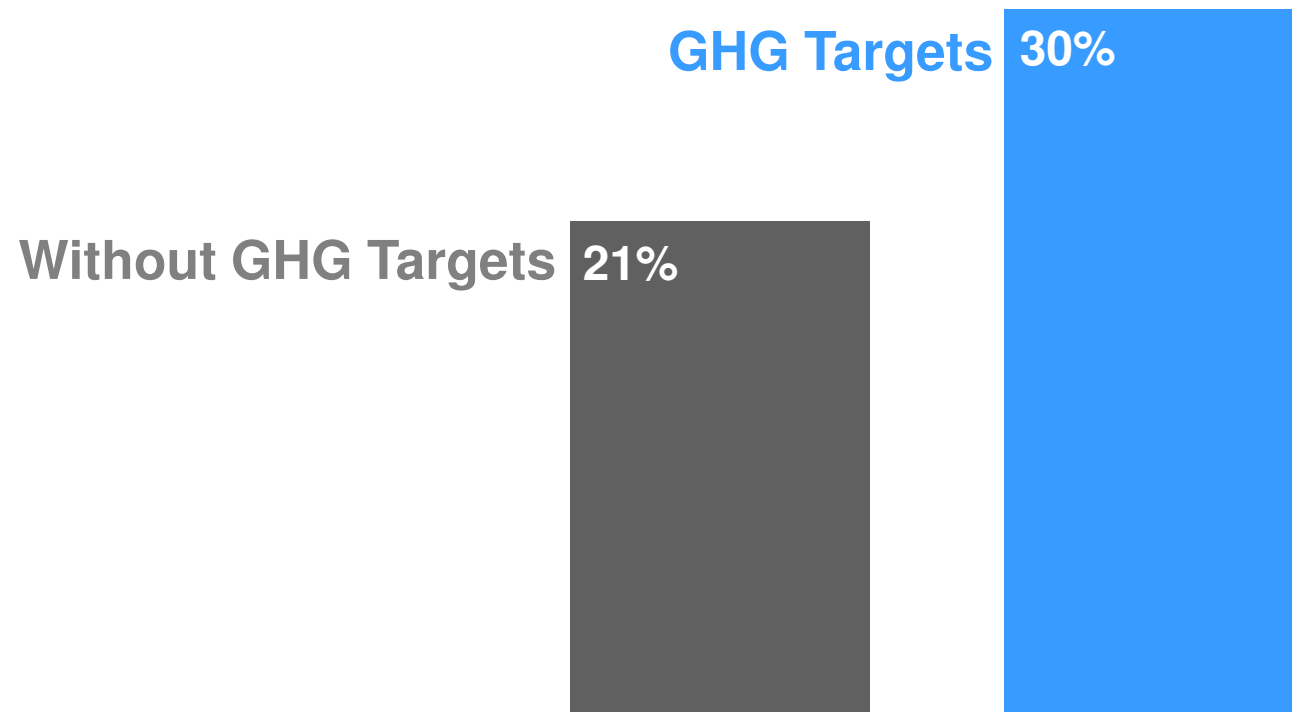
- Translate sustainability data into financial data
- Explain **pathway to value**
- Use **language applicable to the business**

Communication of “quick wins”



- Communicate **tangible results** of the “**low hanging fruits**” of sustainability

S&P 500 companies reporting to CDP that **set GHG reduction** targets achieved an average of **9 percentage points better return on investment (ROI)** than those without goals





79%

US companies reporting to CDP saw a higher ROI
from investments targeting GHG emission
reductions than their average investment portfolio

Effective goal setting serves four critical functions within an organization



Even leaders note the difficulty of translating sustainability strategy into results

#1

Almost 40%

Leaders rate...

...reason that participants note as cause of inability to capture full value of sustainability is **lack of incentives** tied to sustainability performance

... of participants say that **not enough people are accountable** for sustainability at their company

...**improving data or information** used to implement sustainability initiatives successfully as top sustainability effort over next 12 months

Respondents indicated that nearly 2/3rds have KPIs to track progress, but that very few tie back to individual compensation

% Respondents listing org practice as being currently implemented by their organization

Sustainability-related KPIs
used to track progress

63

Formal governance structures
used to drive accountability

25

Sustainability KPI's integrated
into employees' performance

21

Sustainability KPIs linked to
employee financial compensation

15



To recap – our sustainability survey looked at four areas

- What sustainability topics are likely to emerge as priorities in coming years?
- What technologies will play a role in the evolution of Retail and CPG sustainability?
- What organizational practices are key to tackling these emerging sustainability issues?
- How should the Retail and CPG industries be approaching these emerging sustainability issues?



Sustainability survey summary

What sustainability topics are likely to emerge as priorities in coming years?

- Resource scarcity continues to be a major area of focus
- Executing a “double pivot” where you deliver more products/output but with an absolute decrease in sustainability impacts is key to the industry realizing its growth potential in coming decades
- Need to start really embracing the supply chain as a leverage point to reduce total end-to-end footprint



Sustainability survey summary

What technologies will play a role in the evolution of Retail and CPG sustainability?

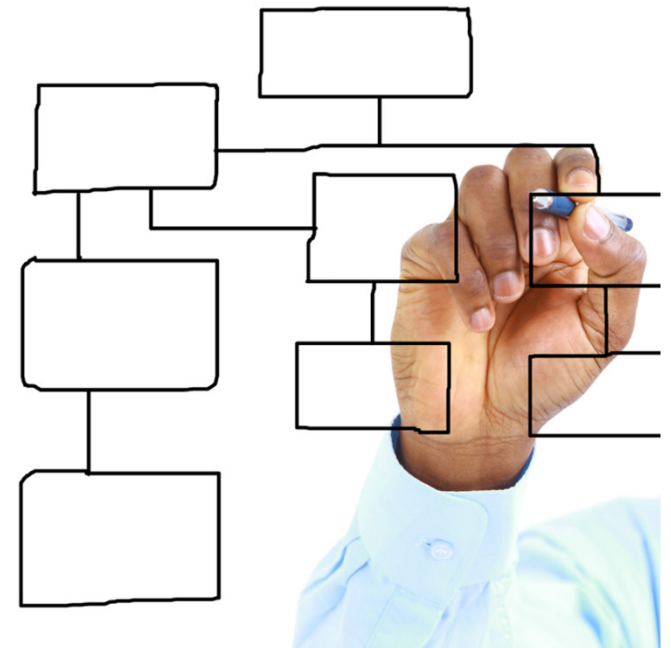
- Renewable energy is a key theme today and it will continue to be an important area
- Many sustainability executives are likely under-emphasizing the overall impact mobile technology will have on their business and therefore new sustainability demands
- There will be nowhere to hide when it comes to transparency



Sustainability survey summary

What organizational practices are key to tackling these emerging sustainability issues?

- Start embracing sustainable growth in addition to delivering eco-efficiency (*the companies in this room are the shapers of consumer demand, not the “reactors”*)
- Most companies have a long way to go on “organizational maturity” related to sustainability
- Big opportunity to find new models for cross-company collaboration



Sustainability survey summary

How should the Retail and CPG industries be approaching these emerging sustainability issues?

- Relatively few survey respondents reported a long list of issues that were single-company approaches
- Many issues were perceived to require some type of regulation to create and sustain a level playing field



So, what can you do on Monday morning?



Ruthlessly focus
on financial value
creation



Set and
communicate
compelling goals



Push for more
effective
metrics/KPIs

Any questions?

?

?

?