



OUR PLANET

SUSTAINABILITY IN RETAIL

IS POSSIBLE

BUT THERE'S WORK

TO BE DONE



WORLD RETAIL
CONGRESS
AN ASCENTIAL COMPANY
A WORLD RETAIL CONGRESS PUBLICATION

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BCG BOSTON
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INTRODUCTION

The retail industry regularly feels the weight of responsibility for connecting suppliers and consumers in our everyday lives. That was all too apparent during the COVID-19 pandemic, when retailers were on the front lines of providing food and essential items while keeping their customers safe. The aftereffects of supply-chain shortages and inflation are keeping the pressure on the industry, which simply cannot fail to deliver.

But bigger, more existential concerns now also weigh on retailers, as the importance and impact of climate change and sustainability loom larger with each day. As retailers understand their roles in driving toward a more sustainable future, they are setting more targets, announcing more initiatives, and writing more reports. This raises a question, though: how much progress is really being made?

BCG is deeply committed to sustainability. We know that the World Retail Congress shares our commitment, and so we have chosen to partner with them on sustainability in retail, which is one of BCG's key sustainability initiatives. Together, we set out to discover where retailers are on their journeys toward sustainability, and to see where there is promising progress and where more attention is urgently needed.

This report, the product of close collaboration between BCG and WRC, gives a clear view of the current state of sustainability in retail. It provides reasons for optimism, revealing that many retail companies are rising to the challenge by incorporating sustainability in the heart of their strategies, but also cause for concern—as our survey shows, progress toward targets is slow. Overall, we hope that retailers seize the nine tangible principles for action we identified and use them to accelerate progress toward enduring sustainability in the retail industry.



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INTRODUCTION

Looking back to the pre-pandemic world, one of the biggest issues identified by retailers was sustainability. But when COVID-19 arrived, the focus suddenly switched, unsurprisingly, to sheer survival as retailers did what they had to in order to serve their customers and support their businesses. However, it didn't take long for the reality of the climate crisis to refocus minds and with a new impetus. Locked down consumers suddenly became even more focused on what they were buying and from retailers and brands that demonstrated their "purpose". Which is why the pillar we have called "Our Planet" is so important and why we are delighted that

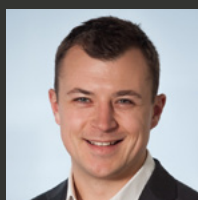
the global team at BCG undertook this detailed study to produce this report. It shows that beyond the headlines and genuine expressions of intent by retailers around the world, there is still much to do. More than that, this report shows that the majority of retailers have still to start the journey towards delivering effective actions to tackle the climate crisis. The retail industry needs to embrace this enormous challenge and this report helps identify the blockers identified by retailers. In knowing the problems, positive action can begin and the World Retail Congress and BCG hope that this report will form the catalyst for change.

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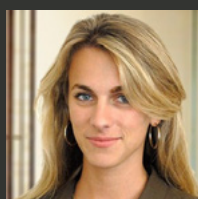
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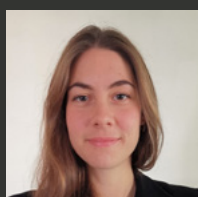
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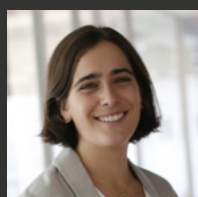
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SUSTAINABILITY IN RETAIL IS POSSIBLE BUT THERE'S WORK TO BE DONE

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A new maturity survey from BCG, developed in collaboration with the World Retail Congress, finds that sustainability is now a strategic priority for retail businesses. That's the good news. The more important finding from the survey, which polled employees at 37 major retail chains around the world ([See "Survey Methodology" sidebar](#)) is that the sector as a whole has some way to go before it can claim truly green credentials.

The fact is that only a few large retail operations are significantly reducing the climate impact along their value chains or embedding sustainable behavior throughout their own organizations. Most have yet to put in place comprehensive sustainability agendas, and less than 20% indicate that they are on track to abate their direct and indirect emissions to perform in line with the goal of no

more than a 1.5°C rise in global temperature set by the Paris Agreement in 2015. Many retailers concede that they don't have clarity on how to improve their performance.

This article underscores the pressing need for the retail sector to augment and accelerate its climate-change responses. Today, retailers are one of the biggest contributors of plastic packaging, which represents 40% of global plastic usage. Additionally, retailers are responsible for more than 25% of global emissions – mainly through scope 3.

The results of the survey make it possible to envision retailers' levels of sustainability as a journey along a maturity curve. ([See Exhibit 1](#)).



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EXHIBIT 1: MATURITY CURVE OF SUSTAINABILITY

Overall Maturity | Most Retailers are Achieving Opportunistic Initiatives but Very Few are Harnessing Sustainability as an Advantage



Source: BCG Global Survey on Retail Sustainability Maturity, N=150 respondents from 37 companies, March 2022; BCG Analysis

Some of the world's largest retailers are making real headway in reducing the climate impact of their operations. The survey findings show that most retailers fall within the “opportunistic initiatives” stage of the journey, in which retailers have set bold ambitions but have not yet achieved full integration of sustainability in corporate strategy or within business functions. A good number are already on to the third stage: setting sustainability as a core pillar of their operations, where sustainability is considered in decision-making throughout the organization. Some are back at “sustainability basics” – concerned largely with complying with regulations and minimum stakeholder expectations.

RETAILERS ARE COMMITTED, BUT STILL HAVE A LONG WAY TO GO

Around 70% of the survey respondents agree that sustainability is a priority for their boards and executive committees and that their leaders are sufficiently empowered to create the change required to meet their goals. The respondents are nearly unanimous in the belief that sustainability initiatives will drive value in the next 5-10 years (and about half believe their companies will invest “whatever it takes” to reach their stated goals). The retailers that align with that belief know that harnessing sustainability as a competitive advantage can unlock sources of value, reduce costs, grant access to new revenue pools, and reduce the cost of capital.

Additionally, our survey finds that 57% of respondents say they think their companies have invested enough in sustainability initiatives over the past 3-5 years to reach

Only a select few companies reach the most mature level, “sustainability as an advantage,” with sustainability core to the company strategy, decision-making, and value creation.

That spread indicates progress, to be sure. It is a positive sign that the retail sector as a whole is taking sustainability more and more seriously. However, the optimism shown by the more than 60% of respondents who believe their company's goals are bold and differentiated is in disconnect with the level of maturity observed. There is an opportunity for the industry to learn from the leaders that are using sustainability as an advantage.

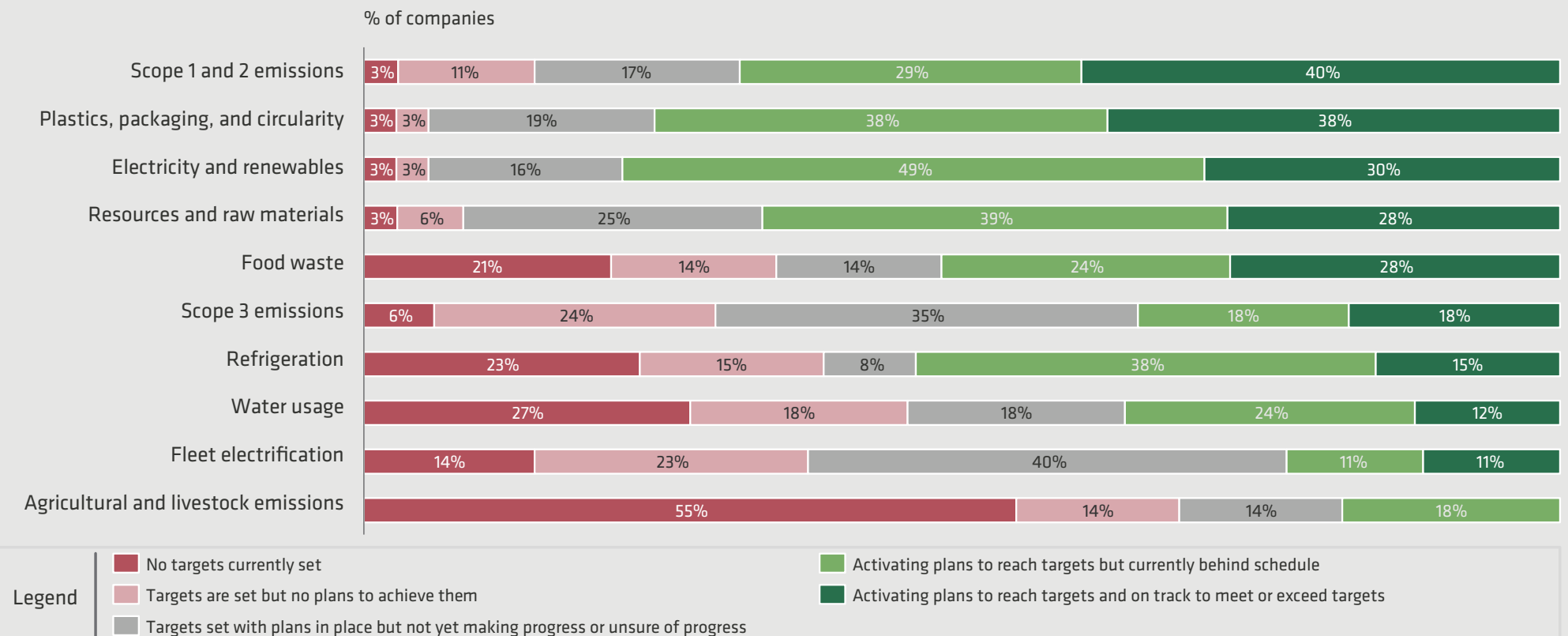
their climate goals. But a closer look at the data reveals some important trends.

Gauged against performance across 12 key environmental targets (See “[Survey Methodology](#)” sidebar), retailers have made the most progress against scope 1 and 2 emissions – respectively, direct greenhouse (GHG) emissions from sources controlled or owned by an organization such as fuel combustion in boilers, furnaces, vehicles, and GHG emissions associated with the purchase of electricity consumed by the company. BCG finds almost 40% of respondents indicating that they are on track to meet scope 1 and 2 targets. (See [Exhibit 2](#)). Unsurprisingly, progress is greater on scope 1 and 2 where retailers have the control and flexibility to implement changes.

EXHIBIT 2: TARGET PROGRESS COMPARING PERFORMANCE OF SUSTAINABILITY LEADERS

Targets and progress | 40% of retailers are on track to meet Scope 1 and 2 targets but less than 20% are meeting Scope 3

T1. To the best of your knowledge, please indicate the extent to which your company has set and is activating targets for each of the following topics:



Sources: BCG Global Survey on Retail Sustainability Maturity, N=150 respondents from 37 companies, March 2022; BCG analysis

However, less than 20% of retailers say they are on track to meet their scope 3 targets – a significant issue since scope 3 GHG emissions typically account for over 90% of companies' total environmental impact. While progress has been made on the quick wins, little movement has been made on the harder-to-address areas.

So where do those discrepancies come from? In practice, agreeing that sustainability is a priority and achieving progress are two different things.

BIGGEST HURDLES LIE IN EMBEDDING SUSTAINABILITY AND ACHIEVING DATA TRANSPARENCY

Nearly 50% of respondents say they do not believe that transformational change is needed to reach sustainability performance targets. And less than half believe that a scarcity of sustainable resources is a major challenge, despite forecasts of major shortfalls in terms of natural resources, carbon credits, and clean energy. The reality is that both transformational change and quick action will be required. Retailers will need to embed sustainability throughout the organization: involve cross-functional teams, create incentives, harness data, and engage suppliers to drive change.

Organization and incentives: Few retailers have actually integrated sustainability into their operations, culture, and incentives. Most have yet to introduce sustainability performance drivers across their businesses. More than 50% have not set any sustainability KPIs beyond those that apply to the sustainability team, nor have they established sustainability metrics within their business planning. Without clear accountability among those responsible for operational performance, sustainability will not gain traction. (See Exhibit 3).

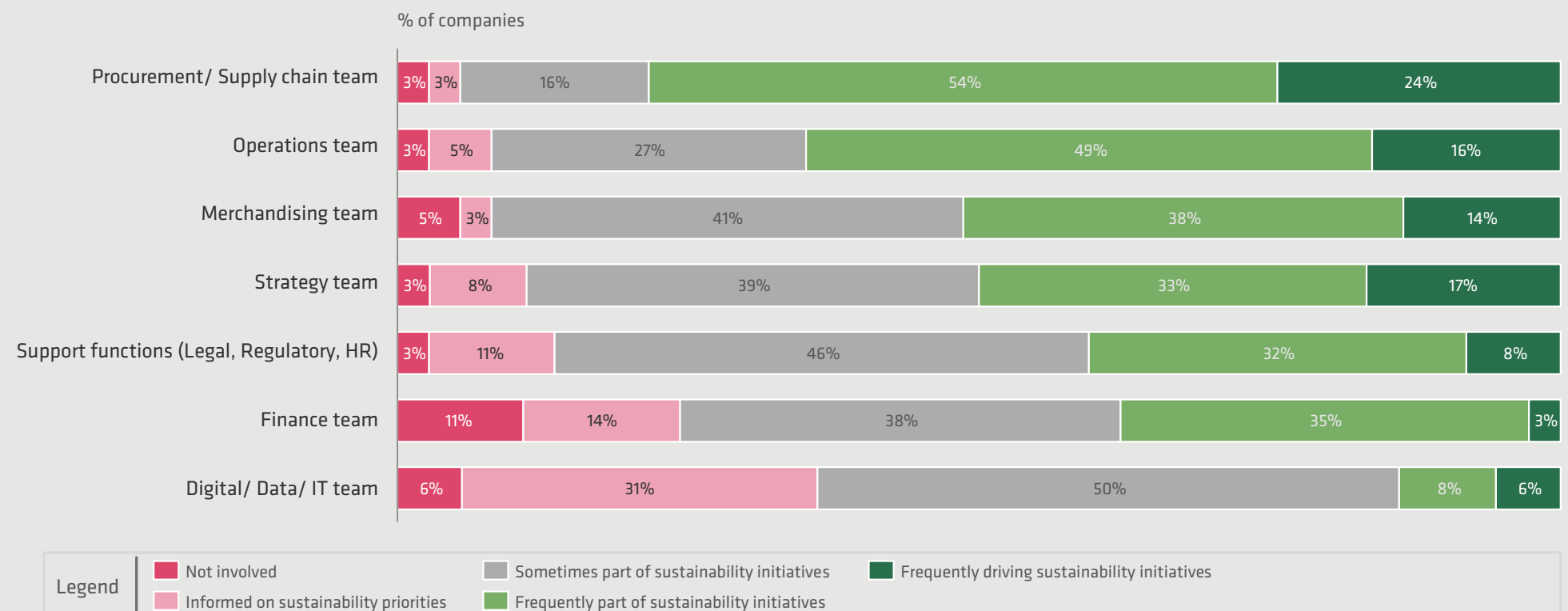
Data: Further exploration of the survey results revealed that one of the most cited challenges is a lack of access to relevant data (67%). Although daunting, the challenge is not as formidable as many retailers seem to think. BCG observes leading players taking an approach that combines digital and analog solutions – leveraging organizational design to make sustainability more diffuse and with the goal of fostering a climate-focused mindset across the organization. They are also pursuing a manual approach to data collection in the absence of the perfect digital tools, so they can get pertinent information to decision-makers. (See Exhibit 3).

So how should retailers confront those challenges? There may be an inclination to wait for perfect data on sustainability drivers and constraints before starting to act. But that would be a mistake. Performing well in sustainability does not require perfection; it requires using what is available and getting the most out of it—even if the output is imperfect information. The transparency that data can create is critical, both for disclosures and for decisions.

EXHIBIT 3A: ORG ENGAGEMENT, INCENTIVES, AND DATA TREATMENT

Cross-functional engagement | Procurement and Operations are frequently engaged, but there are significant opportunities to partner with Digital / Data / and IT

G2. On average, how involved are the following parts of your organization in sustainability performance?

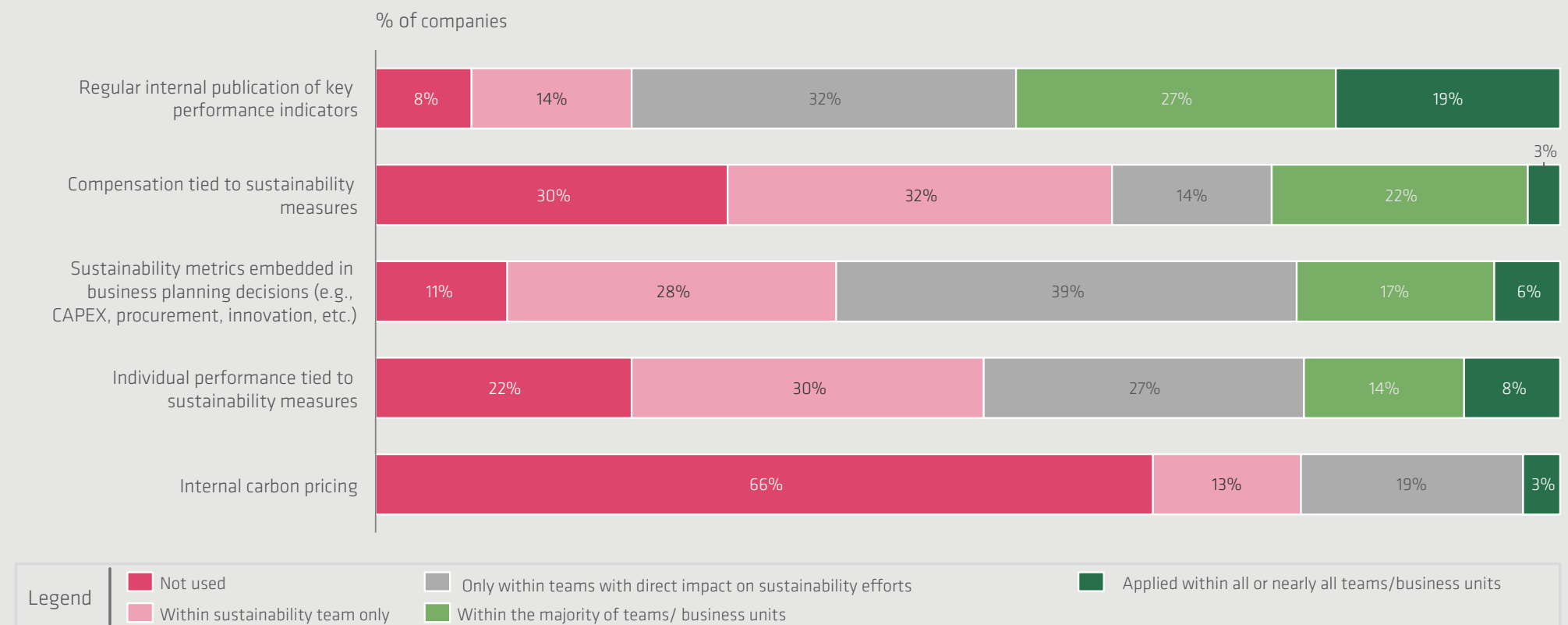


Sources: BCG Global Survey on Retail Sustainability Maturity, N=150 respondents from 37 companies, March 2022; BCG analysis

EXHIBIT 3B: ORG ENGAGEMENT, INCENTIVES, AND DATA TREATMENT

KPIs and incentives | Incentives and reporting are not widely used by retailers to drive sustainability results

E1. To the best of your knowledge, please indicate the extent to which your company is using the following strategies to drive sustainability goals:

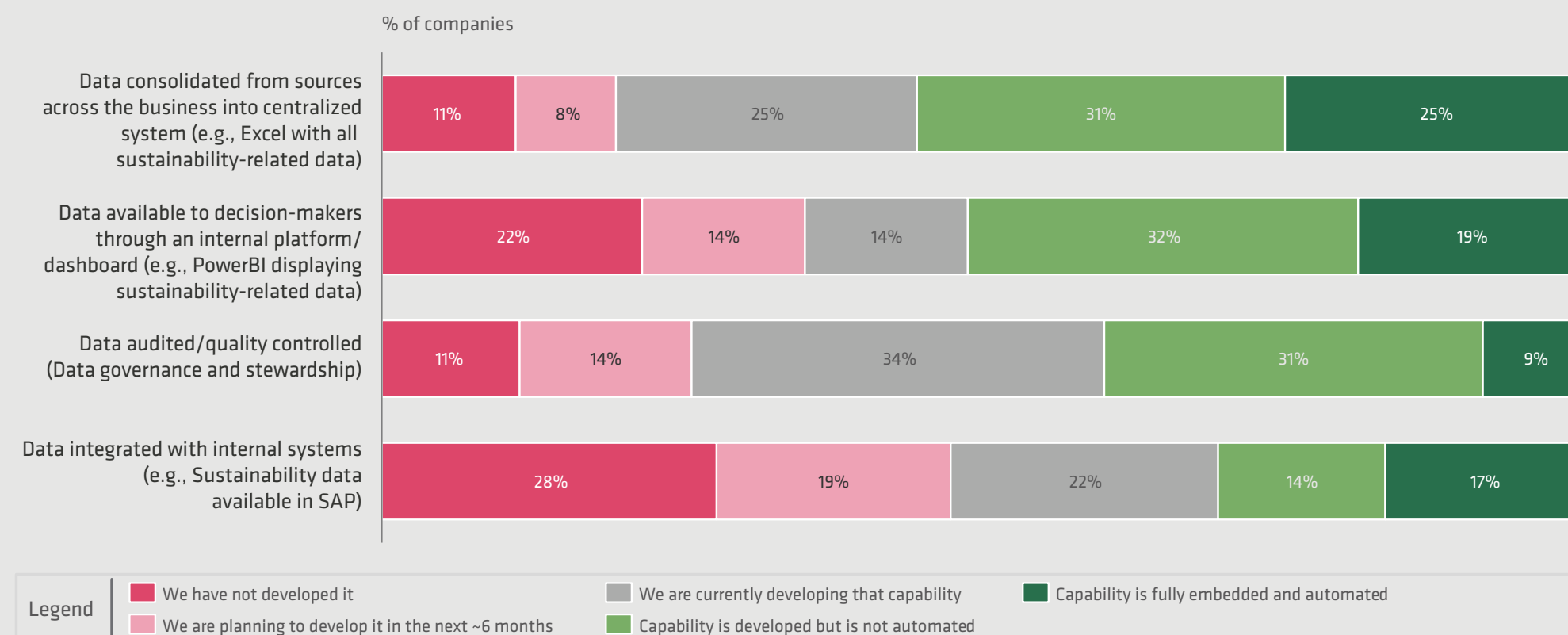


Sources: BCG Global Survey on Retail Sustainability Maturity, N=150 respondents from 37 companies, March 2022; BCG analysis

EXHIBIT 3C: ORG ENGAGEMENT, INCENTIVES, AND DATA TREATMENT

Data Capabilities | Limited data capabilities to support sustainability decision-making

E2. To the best of your knowledge, please indicate to what extent your company has developed the following data capabilities for sustainability information:



Sources: BCG Global Survey on Retail Sustainability Maturity, N=150 respondents from 37 companies, March 2022; BCG analysis

WHERE TO FOCUS: NINE KEY PRINCIPLES FOR SUCCESS

Based on extensive interviews with retailers, BCG has identified nine key principles that define what it will take to be successful.

EXHIBIT 4: VALUE IS AT THE CENTER OF WHAT IT WILL TAKE FOR RETAILERS TO BE SUCCESSFUL IN SUSTAINABILITY



The most critical principle is to put value capture squarely at the center. (See Exhibit 4). Most retailers now understand that a robust sustainability strategy brings business benefits; 97% of survey respondents believe their company will capture value from sustainability over the next 5-10

years. Retailers see clear competitive advantages to winning in sustainability, including gaining an edge over competitors, achieving higher customer and employee retention, plus the potential for tapping into new value pools such as additional revenue streams and circular business models.

To translate this value mindset into value creation, retailers need to work on having the rest of the principles in place. That calls for a three-phase approach: First, they need to prioritize; then embed; and then re-imagine. Each phase merits a closer look:

PRIORITIZE

EXPLICIT CEO PRIORITY

BOLD GOALS AND CLEAR NARRATIVE

FLAGSHIP PROGRAMS

Retailers must make sustainability an explicit priority. That means that leadership must not only sponsor the journey but be involved and accountable – all the time. The new prioritization must not be limited to setting bold goals and communicating them clearly; it has to extend to establishing several flagship programs at scale. Sustainability targets should carry as much weight as other parameters when embarking on new business opportunities as well as when evaluating business performances, and sustainability indicators must be weighted equally with costs and profits.

EMBED

END-TO-END INTEGRATION

CAPTURE VALUE

EMBRACE DIGITAL

With prioritization firmly in place, the next step is to strive for end-to-end integration. Embedding sustainability in the day-to-day business requires a review of the operating model and a shift in accountability. It requires critical changes in the ways that a company sets goals and applies incentives. Sustainability-related KPIs must be inculcated into all levels of the business. BCG's survey finds that among the retailers that are performing well along the governance dimension, all are doing two things consistently: they are regularly publishing KPIs internally, and they are embedding sustainability metrics in their business reviews. For example, a leading home goods retailer has gone as far as tying the bonuses awarded to its executive team to metrics that track sustainability performance.

Embedding sustainability in everyday operations is not only about governance. Companies also need to fully embrace digital technologies, deploying technology to support decision-making through newly created transparency. BCG regularly observes best-in-class retailers recognizing the importance of data and engaging in it, and at the same time, working with suppliers and partners to make the most of what they have.

For example, some leading retailers are partnering with NGOs and tech providers to help develop digital use cases that will allow them to better measure their own emissions as well as have a better understanding of their suppliers' emissions. Others are investing in supplier education and support tools. Retailers could also sign longer-term purchasing agreements, providing the assurance that when suppliers follow through with change, the demand will be there to sustain them.

REIMAGINE

BUSINESS MODEL INNOVATION

NOVEL COLLABORATIONS

NOVEL FINANCING

Beyond effective enablement is business-model innovation. Companies must re-imagine their value chains—perhaps by localizing their production or integrating vertically—as well as their go-to-market offerings, their brands, and their pricing. Novel financing can also play a part - for instance, tapping into new sources of funding such as green bonds.

Most retailers say they are currently participating in industry coalitions, and although only 3% of them say coalitions have had a very high impact on their sustainability efforts, there is still a strong belief that collaboration is necessary. Approximately 90% of the sustainability teams that BCG surveyed believe that engagement and collaboration with peers and other ecosystem members will be significant contributors to progress in sustainability. There are clear opportunities for retailers to work together to share solved problems.

Closer interactions with suppliers will be essential too. More than 75% of retailers say that low commitment from suppliers on sustainability is an obstacle. One global home-goods retailer acknowledged that, while it sees tackling scope 3 emissions as the greatest sustainability opportunity for the future, it is struggling to collect, organize, and parse data from its more than 21,000 global suppliers.

In such instances, collective action could be particularly powerful in developing a standardized approach to supplier metrics, definitions, and data platforms for the entire retail industry. This would allow suppliers to provide data more seamlessly to many retailers, which often work with overlapping sets of suppliers. Retailers could then use this data to establish baselines, measure progress, engage suppliers, and signal climate-friendly products to their consumers. Other industries have already proven the success of this concept.



PROGRESS, NOT PERFECTION

There are some retailers that have made demonstrable progress. Interviews suggest that they are truly generating value for their businesses, which can provide motivation for others in the sector. These companies have reported benefits in terms of reduced costs, being able to reach new customer segments, launching new businesses with innovative models, and attracting and retaining talent. For example, one retailer that achieved the highest level of sustainability maturity recorded an increase in its sales of 6% in the past five years while recording that the average age of its customers decreased by 17 years.

However, although progress is being made, it is crucial to acknowledge that many retailers are at the early stages of

the maturity curve; to them, a large-scale transformation in sustainability may seem like a pipe dream.

So the emphasis for those companies in the early stages should be to focus on small steps and quick wins. Retailers can start by launching a few flagship programs focused on achieving sustainability targets. Additionally, sustainability teams can start to involve their broader organizations in sustainability conversations. It is especially important to begin regular dialog with the teams responsible for data and for IT.

Together, many small steps and successive quick wins will steadily drive real movement along the curve and drive significant value for both individual players and the industry.



ACKNOWLEDGMENTS

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The authors would also like to thank their colleagues Nidhi Singh, Gaurav Bajpai, Preeti Manna, Abhinav Sharma and Kelly Kutas for their contributions.

METHODOLOGY



BCG conducted a survey of employees at 37 global retailers, across five retailer types, with annual revenues ranging from \$1 billion to ~\$500 billion. [\(See Exhibit A\)](#). The survey focused on four key areas in order to assess sustainability maturity:

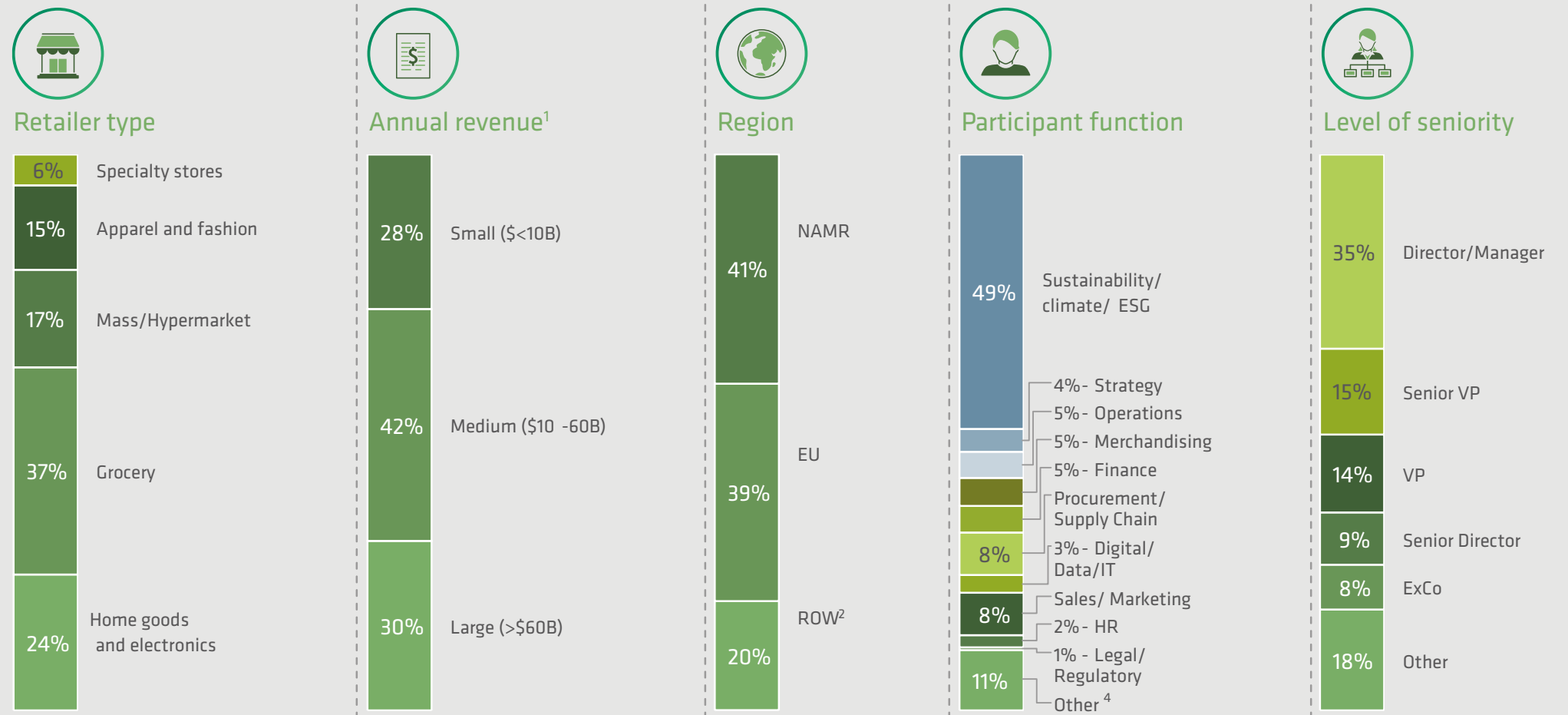
1. Perceptions within each organization
2. Organizational preparedness: state of governance and data capabilities
3. Perspective on starting point (baseline, targets, reporting)
4. Collaboration: engagement with supplier networks and peer ecosystem

MATURITY WAS ASSESSED BASED ON PERFORMANCE ALONG EIGHT DIMENSIONS. [\(SEE EXHIBIT B\)](#):

1. Strategic positioning of sustainability
2. Governance
3. Capabilities
4. Baseline
5. Targets, progress, and value creation
6. Reporting
7. Ecosystem engagement
8. Supplier engagement

EXHIBIT A

Methodology | Survey included a broad sample across retailer type, revenue, region, functions, and seniority



1. Revenue reflects annual global sales; 2. ROW includes Africa, Middle East, Asia & Pacific and South America & Caribbean; Other countries: Canada, France, Finland, Japan, Chile, Sweden, Poland, etc; 3. Other functions: Investor Relations, Strategic Change, Risk Management, etc; 4. Other Seniorities: Specialist/Expert, Area Leader, Department Head, etc.

Sources: BCG Global Survey on Retail Sustainability Maturity, N=150 respondents from 37 retailers, March 2022; BCG analysis

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EXHIBIT B

Methodology | Maturity assessed based on scoring across eight dimensions

Dimension weight				Dimension weight					
1	Strategic positioning	15%	➤	Level of sustainability integration into corporate strategy and degree of investment to drive it	5	Targets, progress, and value creation	15%	➤	Extent to which targets have been set, level of progress to reach them, and value created through these efforts
2	Governance	10%	➤	Measure of organizational engagement in sustainability and mechanisms to guide implementation and drive accountability on sustainability efforts	6	Reporting	10%	➤	Extent to which information on sustainability progress is publicly disclosed and in compliance with independent sustainability frameworks (e.g.,TCFD , GRI, etc.)
3	Capabilities	20%	➤	Capacity to successfully gather, integrate and visualize data to measure performance and the extent to which digital uses cases are leveraged to support decision-making	7	Ecosystem engagement	5%	➤	Level of participation in coalitions within the retail ecosystem (peers, suppliers, NGOs, etc.)
4	Baseline	10%	➤	Level of detail at which a company has measured its baseline for key sustainability topics	8	Supplier engagement	15%	➤	Degree of engagement with suppliers to improve scope 3 impacts, including target setting vs. investment/support to empower suppliers

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