gyb

Growing Your Business™

Greener pastures

Sustainability: an opportunity
for value, savings and innovation.

Sustainability has found a seat in the boardroom and the executive suite. It has become a business imperative to lower greenhouse gas (GHG) emissions, reduce energy use, decrease resource consumption and provide customers with environmentally-sensitive products, despite the weakened economy. While some businesses see sustainability as a series of potentially burdensome obligations, others may seize the opportunity to transform their operations, marketing messages and product lines to improve efficiency, cut costs and meet customer demand.

Business thinking about sustainability has evolved and matured. While the impetus to make the world a better place remains, now there is a second incentive: comprehensive sustainability strategies that can give companies a competitive edge. Today, many organizations realize that aligning sustainability initiatives, such as reducing GHG emissions, to their business goals can lead to stronger brand value and a new, positive way to stand out in a crowded marketplace.

Some companies are already taking action. They respond to market demand by delivering products that require less power and use fewer resources than the traditional goods of their competitors. They invest in technologies, training and systems that will allow them to measure GHG emissions and gain other valuable environmental data that can be analyzed and used to help discover renewable power sources and reduce operating costs, supply chain times and manufacturing waste. They pursue a myriad of tax incentives available from the government, including credits, incentives and accelerated deductions. And the increasing focus on conserving resources can unlock new ideas that save money throughout their operations.

Think of the role that sustainability can play in the boardroom and on the balance sheet. Important stakeholders, such as consumers, customers and investors, are demanding comprehensive sustainability reporting from a growing number of businesses.

Regardless of the size of your company, it is time to consider a sustainability strategy aligned to the long-term vision for your business. What sustainability programs can help you reduce costs? How can environmentally-focused design help you reach new customers? These questions are at the heart of growing sustainable business practices, and they lead to an even bigger question.

PRICEWATERHOUSECOOPERS

Why do companies have to pay attention to sustainability issues? Why now?

Climate change is no longer the sole venue of scientists, activists and political pundits. It is a fundamental business issue that plays an escalating role in the global economy. Estimates show it would require the resources of three Earths to satisfy our planet's fast-growing business demands. Assuming that the top 500 global companies grew at 4 to 5 percent each year, the Earth would begin running out of raw materials at some point within the next 25 years.

How will these external factors impact a business? It depends on what a company does. (The diagram above shows the impact and reach of sustainability within an organization.) If it is a heavy emitter of GHGs, many of the anticipated changes will have an immediate, significant impact. Once the US government adopts a carbon emission reduction law, either through legislation or regulation, as now seems likely, major GHG emitters, such as oil and natural gas producers, utilities and transportation, industrial and construction concerns face the highest likelihood of regulation. These organizations would need to upgrade facilities and equipment with new technology to meet long-range emission-reduction targets. In other industries, the impact would depend on a number of factors, such as the amount of GHG emissions, what type of technologies are available to reduce emissions and whether allowances or credits are granted.

Four external forces are pushing sustainability to the forefront for small-and medium-sized enterprises:

Sustainability is a primary issue

Commodity supply constraints

- Growing resource competition
- Limited surplus capacity and declining US production
- Water scarcity

Technology improvements

- Improved energy efficiency in electronics, vehicles, machinery, lighting, climate systems
- Commercially-available, renewable energy technologies
- Smart-grid infrastructure proposed to modernize US power network

Policy environment

- Kyoto Protocol, Copenhagen agreement, EU carbon cap
- Green stimulus package
- Future US climate-change legislation
- Global environment standards and treaties

Stakeholder pressure

- Public resistance to coal and fossil fuels
- Demand for green products and services
- Investor requests for disclosure of sustainability initiatives and climate-change risks
- Protests of environmentally, socially disruptive behaviors

A company can proactively anticipate these changes, and adopt sustainability as a business strategy, by exploring four areas:

Sustainable operations

- Uses clean energy to reduce emissions, cut costs, and create new opportunities
- Provides potential to qualify for government incentives for green power
- Improves reputation by taking positive action on climate change
- Promotes more objective, consistent, and verifiable results from performance assessments

Sustainable product design

- Helps promote higher success rate for new products
- Lowers risk of product launch delays and recalls related to environmental, health, and safety issues
- Promotes greater stakeholder and brand value by demonstrating environmental product leadership
- Advances faster and more adaptive pace of design innovation

Sustainable reporting

- Helps establish a clear link between a company's sustainability efforts and their business value
- Increases investor confidence with environmental and social disclosure
- Highlights competitive advantage of their products for both investors and stakeholders
- Helps drive continuous performance improvement

Government incentives

- Helps lower tax burden for companies involved in sustainable initiatives
- Provides public recognition
- Offers tax deferments or credits for companies that incorporate energy—or emission—reducing technologies into facilities
- Supports businesses of all sizes

Even companies that do not emit large amounts of GHGs will be affected, as the price of carbon emissions may pose risks to global supply chains and affect energy costs.

The first step: Measuring your footprint

To count how many miles you drive on a journey, you need to reset the trip meter. Likewise, to conduct a meaningful sustainability strategy and measure your company's performance, you need to determine your starting point. That is, you need to measure your carbon footprint.

For many small- and medium-sized enterprises, measuring and tracking non-financial information related to sustainability may seem like a daunting proposal. At first glance, GHG figures may appear much harder to calculate than the type of data that companies have been processing for many years, including inventory, hours and revenue. However, GHG metrics are no different than any other kind of operating or financial information. They can be inventoried, tracked and used to a company's advantage. Measuring the footprint will help you understand how much carbon a company emits in employee travel, building operations, supply chains and manufacturing.

Additionally, while this data is currently non-financial information, the trend in sustainability reporting clearly leads to a standard in which carbon footprint and emissions data will need to be reported with the same quality as financial information. In other words, it must be verifiable, auditable and standardized. Leading companies build consistency, credibility and transparency into their measurement processes and methodologies by adopting a recognized environmental standard and sustainability framework. Three common standards of the framework are the Global Reporting Initiative Framework, the International Organization for Standardization ISO 14001 Environmental Management System and the Greenhouse Gas Protocol.

The footprint exercise is not a one-time event. Just as companies need to assess their financial activities regularly, they also need to monitor and account for sustainability.

It is important that companies use consistent assessment methodologies throughout the enterprise. This may be an issue for businesses with multiple locations—especially those in different states or countries where environmental regulations may differ. Using uniform metrics helps facilitate enterprise-wide data collection, which enables companies to analyze and compare environmental performance throughout the organization.

Once a company has adopted an internationally-recognized framework, it will be in a position to consider its own environmental monitoring capabilities, policies and processes encompassing all of its locations. Ideally, the framework will be designed to help the company see how its present reporting lines up against current and pending regulations, voluntary reporting guidelines, the reporting performance of competitors and peer companies and the criteria for green rating systems provided by industry, investor and consumer organizations.

At this point, it is important for companies to establish boundaries and determine which measures are most important to stakeholders and business goals. Setting boundaries and limits will help the company decide whether to include suppliers and customers in its sustainability analysis. A broader scope will help companies more fully understand the environmental impact of it's products.

Leading companies develop and employ technology to improve their reporting capabilities. These organizations use a common database to collect and consolidate information providing better access to additional data and richer opportunities for analysis. These companies also leverage real-time tracking, displaying useful, relevant information in dash-boards to help decision-makers identify and address performance gaps quickly.

Accounting for sustainability

From the smallest mom-and-pop stores to the largest Fortune 500 companies, financial analysis is a critical tool for understanding business performance. Even the most cursory review of basic financial information, such as sales, receivables and inventory, helps management understand the areas where they perform well and the ones needing improvement.

A thorough sustainability strategy for your company should include the tools to help monitor and collect non-financial information related to environmental factors. When this information is available, it can be analyzed and used to improve operations in a way that may benefit both the organization and the environment.

"Once companies collect this information, they can use it to streamline their processes," said Lawrence E. Ballard, senior manager, PricewaterhouseCoopers Private Company Services. "Is there a way to make sure that the ways you are harvesting raw materials, shipping products to plants and employing people are environmentally responsible? How much less money could be spent on transportation if you adopted a more fuel-efficient logistics strategy," Ballard asked. "How are your products boxed—and how much less money could be spent on shipping and packaging materials?"

Many companies have implemented detailed environmental recording and reporting systems in anticipation of new regulations in response to stakeholder expectations (particularly those of customers) or to provide critical information to help improve systems. Some companies—notably larger public companies—already include accurate, detailed information about sustainability initiatives, such as GHG emissions and water use. This additional disclosure comes in response to investors, customers and other stakeholders who display a strong interest in investing in companies that show not just financial growth but sound sustainability strategies. Consumers, investors and other stakeholders are not the only groups driving companies toward the adoption of controls, technologies and procedures designed for monitoring and reporting environmental information. Regulatory agencies are pushing for greater disclosure from a wider spectrum of companies. In a significant development, the Environmental Protection Agency (EPA) is taking steps to regulate GHG emissions.

Starting in 2010, the EPA will require heavy GHG emitters to measure and report this output. The federal government is now debating mandatory targets for reducing GHG emissions and how to achieve and enforce these targets. Although new regulations are expected to increase business costs, they should also drive innovation.

According to Ballard, venture capitalists and other investors are growing increasingly sophisticated about sustainability issues. Many understand the risks associated with climate change, and accordingly, look for businesses that have adopted sound sustainability strategies and demonstrate transparency around these issues in their reporting.

A deeper conversation: government incentives

The US government has devoted $117 billion in economic stimulus money to increasing the energy efficiency of businesses and developing GHG-reducing technology. Many of these incentives come in the form of tax credits or accelerated deductions for companies that take steps to reduce power consumption.

Scott McCandless, director, PricewaterhouseCoopers Washington National Tax Services, said "There is a misconception that these incentives only make sense for large organizations that consume a lot of power. Smaller companies may feel they do not use enough power to reap any useful benefit from applying for the incentives or that they lack the staff and resources necessary to identify the tax credits and deductions. These concerns usually turn out to be unfounded. Smaller companies really are worried that there's money on the table and they missed it. That's not true. The benefits are there for them."

Some of the steps organizations already take to lower utility costs may also make them eligible for government incentives—installing energy-efficient light bulbs or replacing an old air conditioning and heating system with one that requires less power, for example. Challenges arise when people in a company's tax function are not aware of these incentives and do not know what credits and deductions to search for.

McCandless stressed the importance of intra-company communication between the tax function and the people in charge of sustainability initiatives. In many cases, there are two people that the tax function should be building strong relationships with: the person who runs the company's sustainability programs and the person who heads up facility operations.

Why is it important to have someone from the tax department at the table when your company is talking about sustainability? McCandless offered two scenarios. First, a tax professional can help the organization discover additional benefits in the form of credits or deductions related to sustainability activities already in progress. Second, an individual with tax knowledge and experience can help the organization explore and analyze opportunities to ensure that chances for additional incentives are not overlooked. Even if your organization has no major projects on the agenda, a member of the tax function or an independent consultant can provide a pulse check, looking for possible credit and deduction opportunities.

Starting your company's environmental program

Sustainability cannot be an afterthought, grafted onto a corporate mission statement or crammed into an annual report. Your organization should approach sustainability as part of its long-term strategy to build products and services that consumers want so it can operate in the most effective manner.

"You have to start by really understanding what your company's vision is," Ballard said. "Whatever you put in place, you want it to be consistent with your core vision and goals."

Leading companies build strong business cases for sustainability initiatives, linking such programs to overall business performance and the bottom line. Sound environmental efforts are defined as part of the organization's general business plan and integrated into its business strategy. When senior management supports sustainability efforts, it gives these initiatives a high profile within the organization.

Once companies have developed a sustainability strategy, they should assess their existing capabilities and determine what training, technology, systems and other resources are needed to move to the desired state.

What tax credits and government incentives are available for your business?

The Emergency Economic Stabilization Act of 2008 included $18 billion in energy provisions. The American Recovery and Reinvestment Act of 2009 included $60 billion in direct spending for renewable energy and energy efficiency, plus $20 billion more in incentives over the next 10 years. In addition, your company may be eligible for refunds, credits or other tax incentives through one of the following programs:

- Section 45 of Renewable Energy Production Tax Credits
- Section 48 of Energy Property Investment Credit
- Grants in Lieu of Energy Credits
- Election to Claim Section 48 of Energy Property Investment Credit in Lieu of Section 45 of Production Credit
- Advanced Energy Manufacturing Base Investment Credit (pending a second round of investment by Congress)
- Section 179D of Energy Efficient Commercial Building Deduction
- Section 6426 of Alternative Fuel Credit (pending renewal of expired provisions)

Other federal tax incentives may reward companies for sustainable programs. Many state, county and municipal governments also offer tax credits and deductions to companies involved in energy-saving activities. Because tax incentives and other tax benefits are broad and complex, your company's tax function should play a role in any discussion about sustainability. An independent adviser can also help you search for savings by aligning tax strategy to environmental initiatives.

Meeting the demands for green products

What do customers want today? "The big buzzword is green," said Lawrence E. Ballard of PricewaterhouseCoopers. "Consumer companies are responding to customer demand and asking how to make environmentally-sustainable products.""Surveys show that customers are willing to pay higher incremental costs for sustainable and environmentally-responsible products," Ballard added.

Some companies may be tempted to meet demand for green products by re-branding or repackaging existing products. In contrast, leading companies will use this opportunity to transform their product development processes, integrating environmental factors into all facets of R&D, design, marketing and production. These companies will also reach out to employees, stakeholders and external experts for input and guidance on design and cost savings. The reward for these efforts usually comes in the form of new revenue streams, enhanced brand equity and solid rankings from the investment community for demonstrating positive prospects for the long term.

To meet consumer tastes for more sustainable products, companies should aim to reduce toxic chemicals and nonrenewable resources, while using more durable materials and incorporating recycled and recyclable materials. They should also minimize the materials used in packaging.

Questions to ask during this analysis:

- How do we reduce waste and energy consumption in our offices, manufacturing plants and other facilities?
- How can we use more renewable energy sources?
- How do we reduce or eliminate GHG emissions?
- How do we accurately measure nonfinancial environmental metrics, such as GHG emissions?
- How do we accurately measure the financial impact of our sustainability activities?
- What are the products and services that may be affected by environmental pressures, such as rising water prices and constraints on GHG emissions?
- How do we encourage innovation within our organization that will promote development of sustainable products and services?
- How do we communicate our successes to employees and stakeholders?
- How will we train employees to adopt environmentally sensitive habits and technologies? How do we reward and reinforce that behavior?
- How do we make sure that we take full advantage of all government incentive programs?

Some employees—and maybe key managers—may resist sustainability programs at first because they represent change. Ballard suggested that a sustainable business strategy can help senior management win over holdouts by building consensus and help the organization obtain customers and gain efficiencies.

With an unambiguous and well-articulated sustainability strategy, a company can create an environment that streamlines operations, cuts costs, promotes innovation, cultivates favorable public relations and produces products and services that customers want.

Recently, many companies have been forced to face significant volatility in energy prices and other environmental issues such as water shortages. Sustainability initiatives should be designed to help organizations lower costs and promote long-term stability by diversifying sources for power, resources and materials—factors that can make companies more agile and efficient.

Transforming an organization into one that requires less power can help the environment and the bottom line at the same time. A company may be able to reduce shipping costs and GHG emissions by shortening transportation routes. It may appeal to more customers and improve sales by designing products that are more efficient and produce fewer GHG emissions than the competition. It may be able to lower the cost of production by adopting new procedures and technology and by monitoring environmental metrics so that adjustments can be made more efficiently.

Companies should cater to customer demand for environmentally-sustainable products by designing and creating items with durable components to extend their useful life. Items should be designed to be upgraded, not tossed away as they age. Companies should attempt to make parts easy to access for repair and maintenance. Components should be clearly labeled so when they are no longer useful, they can be easily disassembled and sorted for recycling or disposal.

Sustainability has become a business imperative for all companies, one that no business can afford to lose sight of. Even if a company does not have a formal sustainability program, it is likely that its divisions are taking steps—even if it just means changing a few light bulbs here and there—to save money through energy-saving investments. When your organizations designs a well-planned, articulate and thorough green strategy, it can clearly differentiate its products and services, cut costs by conserving resources and energy and begin harnessing non-financial information in a meaningful way to improve operations and financial performance.

Want to learn more about how sustainability can benefit your privately-owned business? Please contact:

Scott McCandless
Director, Washington National Tax Services
202-414-1301
scott.mccandless@us.pwc.com

Lawrence E. Ballard
Senior Manager,
Private Company Services
973-236-4260
lawrence.e.ballard@us.pwc.com

Or visit our website at www.pwc.com/pcs to locate the PricewaterhouseCoopers professional nearest you.