

Food for thought

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Corporate social responsibility - Do the right thing

This extract from Chapter 5 “Do the right thing” of the Retail & Consumer Outlook Australia 2006: the path continues () shows how corporate social responsibility (CSR) has become a very important factor in driving business growth and building consumer loyalty. As an internationally relevant trend that is now filtering into the Australian market, retail and consumer companies can be expected to analyse and review the CSR implications of their supply chains and business organisations more deeply. Companies that fail to embrace CSR principles risk losing business to competitors as consumers, partners and investors turn towards companies that have embedded these principles across their operations and supply chains.*



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Introduction

Internationally, leading retail and consumer companies are incorporating corporate social responsibility (CSR) deeply within their processes. They have moved beyond the initial CSR activities of managing reputation risk, publishing reports and making charitable donations to actively seeking competitive advantage through changes that genuinely differentiate their organisations and products.

When it comes to CSR, Australian retail and consumer companies are making progress in managing CSR risks and opportunities but they remain behind their overseas peers for the debate has now moved on from how companies spend their profits to how they make them. This evolution challenges Australian companies that want to compete globally or use CSR principles to their advantage locally.

(*) - The Executive Summary and sample chapter extracts of Retail & Consumer Outlook Australia 2006: the path continues are available in pdf from www.pwc.com/au/rc-outlook.

Complex issues

Concern about CSR issues is not new and there are many existing laws to regulate the relationship between business and its stakeholders (for example, environmental, occupational health and safety and trade practices legislation). What is new is the level of attention being paid to these issues by large organisations. In this age of intense scrutiny with the Internet, 24-hour news channels and organised protest movements, organisations are being held accountable for every aspect of the production and distribution of their products, no matter where that occurs.

CSR is a multi-faceted issue for retail and consumer companies. It spans the workplace, environment, marketplace and community, and issues vary enormously by industry. For example, food producers worry about obesity, genetically modified organisms and animal welfare; jewellery retailers need to understand the environmental impact of mining for precious metals; European electronics companies are being asked to retain responsibility for their products for their entire lifecycle.

Companies across the sector face common challenges caused by supply chain complexity and the need to manage risk across the whole chain. They need to map risks in their own operations and understand risks across their supply chains on social, ethical and environmental issues. Supplier rationalisation and offshore sourcing initiatives can increase the risks of CSR issues.

It is especially important to establish clear sourcing codes as both consumers and investors are increasingly scrutinising retail and consumer goods companies regarding their ethical sourcing practices, responsible product development and marketing, and minimising pollution and waste during production and at the end of a product's useful life.

CSR in Australia

Australian retail and consumer companies need to appreciate that the CSR debate is shifting from concern on how profits are spent to focus on how responsibly they are made.

While the number of retail and consumer companies issuing CSR reports in Australia is increasing, many of these focus on voluntary activities such as making donations to charities or community groups, or compliance issues such as responsible workplace management and select environmental measures. Very few reports touch on the ethical or sustainable sourcing of products. In contrast, **ethical or sustainable sourcing is given a major focus in the CSR reports of many European and North American retail and consumer goods companies.**

Companies are facing increasing pressure to be transparent about how they manage CSR. At the time of writing, the Australian Government had two committees examining CSR and triple bottom-line (TBL) reporting. But potential regulatory changes aside,

companies will need to respond to the growing interest of Australian consumers and investors in CSR.

Heather Ridout, Chief Executive of the Australian Industry Group, told the 2005 Corporate Social Responsibility Summit in Sydney: "Corporate social responsibility is no longer something businesses can safely put on the back burner. It is becoming recognised as an important driver of innovation, a new way to get into fresh markets, a means for companies to differentiate themselves and it can be significant in attracting investment."

Going green

A good example of corporate responsibility and government-industry cooperation was the Energy Efficiency Best Practice Program (EEBPP). This Australian Government initiative was funded from 1998 to 2003 and encouraged a range of food, beverage, processing and supermarket groups to improve the energy efficiency of their buildings and plants.

Bakers Delight found ways to reduce annual energy costs by 32% and reduce greenhouse gas emissions by 48% at a showcase bakery in Mascot, Sydney. This was achieved by redesigning baking and storefront processes, as well as training staff in best practice behaviours ⁽¹⁾.

Coles Myers is active on a range of CSR issues. As a part of its "Greening of Coles" initiative, it is redesigning its supermarkets to reduce power wastage around

(1) - Australian Government Department of Industry Case Study, July 2005: *Bakers Delight Energy Efficient Showcase Bakery* (<http://www.industry.gov.au/assets/documents/itrinternet/BakersDelightCaseStudy20050620141331.pdf>).

refrigeration, lighting and air conditioning. It has also published an environmental code relating to workplace conditions and regulatory compliance, such as its requirements for chemical and waste storage. Coles has also developed an ethical code on social aspects such as child labour, discrimination, wages and working conditions. Suppliers must comply with the code and there is a process for vetting and auditing supplier compliance.

Another highly visible industry program has been the push to reduce plastic bag use by supermarkets and retailers. The result so far has been an estimated 28% cut in the use of plastic bags across all retail outlets from 5.95 billion in 2002 to 4.30 billion in 2005 (2). That said, these programs were launched in response to government pressure rather than being proactive initiatives, and the target 50% reduction has yet to be achieved.

Overseas experience

In Europe and North America, mainstream retail and consumer companies are taking action on CSR from product development to supply chains to marketing the end product to consumers – and have been doing so for some time.

Astute international companies have recognised that marketing themselves or their companies

as socially or environmentally responsible opens them up to increased scrutiny. To ensure their CSR claims are credible, they are looking into all aspects of their operations and asking the same questions of their suppliers.

Product development

As consumer and investor scrutiny grows, companies are increasingly considering CSR principles when they first develop their products. This is visible in the rise of products described as organic, additive-free or created according to fair trade, ethical and environmentally responsible principles.

Organic cotton is rapidly growing in popularity and mainstream clothing retailers are responding to consumer demands previously met only by smaller niche players. Outdoor apparel maker Patagonia has only used organically grown cotton since 1996 and US clothing retailer Sam's Club (owned by Wal-Mart) now promotes a range of 100% organic clothing. Major brands like Nike, The Gap and Levi's are driving up the number of acres of land operated according to more sustainable farming practices by blending small amounts of organic cotton into their clothing lines (3).

Growing consumer awareness of the conditions of farms and manufacturers is also driving

the notion of "fair trade" – manufacturers paying a fair price for products such as clothing and coffee to reduce the exploitation of workers and farmers in developing markets. According to the Fairtrade Foundation, sales of goods that carry its FAIRTRADE mark are growing at around 20% a year across 18 countries (4). This former niche market is being driven into the mainstream by the participation of major manufacturers and retailers.

The food sector is under additional pressure from consumers as they become more concerned about the contents of products and the way they are produced. Organics-based products are actively promoted in supermarkets, while "fast food" sandwich, soup and coffee chains such as the UK's Pret A Manger and EAT focus on fresh or additive-free products.

In addition to developing more "responsible" products for mature markets to meet consumer demands, some multinationals are now seeking to grow in some of the world's poorest – and most populous – markets, which have more growth potential. Development of appropriate products for these markets still requires consideration of environmental factors, as well as cooperation with international support groups.

(2) - *Plastic Retail Carry Bag Use: 2002-2005 Consumption*, Department of the Environment & Heritage, November 2005.

(3) - *Organic Cotton Clothing Industry Booming*, Ecomall (<http://www.ecomall.com>).

(4) - Fairtrade Foundation website (www.fairtrade.org.uk/about_us.htm).

Branding and marketing

As companies improve their CSR practices, they are moving from viewing these initiatives as risk management to using them as associated marketing opportunities. Previously confined to niche companies such as The Body Shop, the majors are now beginning to see it as a means of connecting with their consumers by demonstrating their commitment to principles that consumers are increasingly concerned about.

Marks & Spencer-commissioned research revealed 87% of consumers believe retailers have a responsibility to ensure the products it sells are manufactured in a fair and humane way. These views also directly affected consumers' buying decisions. Nearly 60% said they avoided buying a food product due to concerns about where it had come from or under what conditions it had been produced ⁽⁵⁾. In response, the retailer ran a "look behind the label" advertising campaign

in early 2006 focusing on CSR issues such as product sourcing, consumer health concerns, recycling and waste management.

More companies are expected to use CSR in branding and marketing activities in response to consumer and investor pressure, but also more proactively because it is good business. Producers can only cut costs and price so far; CSR provides a way for many to win back brand-premium.

(5) - Marks & Spencer press release, January 2006.

Areas of Corporate Social Responsibility for the Retail & Consumer Sector			
Workplace	Marketplace	Environment	Community
Employee development <ul style="list-style-type: none"> • Training and skills development • Motivation and retention Corporate values <ul style="list-style-type: none"> • Embedding corporate responsibility values at all levels of organisation Occupational health and safety <ul style="list-style-type: none"> • High OH&S standards across all sites Leadership Employee welfare Remuneration <ul style="list-style-type: none"> • Fair remuneration in line with local economy Workplace diversity <ul style="list-style-type: none"> • Equal opportunities • Diversity Policies	Product safety <ul style="list-style-type: none"> • Accurate labelling • Product / food safety Responsible products and services <ul style="list-style-type: none"> • Responsible advertising • Demand for healthy / non-animal tested / fair trade products Labour rights in the supply chain <ul style="list-style-type: none"> • Labour standards • Child labour Business conduct <ul style="list-style-type: none"> • Fair price for produce • Supplier payment terms • Business integrity (bribery / corruption) Stakeholder engagement <ul style="list-style-type: none"> • NGOs • Local communities • Producer associations Reporting & assurance	Energy & transport <ul style="list-style-type: none"> • Factory / store energy consumption • Product miles (air / sea / road / freight) Global warming / emissions to air <ul style="list-style-type: none"> • Product miles (air / sea / road / freight) Water consumption / pollution <ul style="list-style-type: none"> • Environmental liability / contamination Local impacts Chemical use <ul style="list-style-type: none"> • Pesticides Biodiversity <ul style="list-style-type: none"> • Genetically modified organisms (GMO) Waste management <ul style="list-style-type: none"> • Manufacturing waste • Recycling at end of product life • Packaging Design <ul style="list-style-type: none"> • Product and packaging design • Factory / distribution network / store design Resource use <ul style="list-style-type: none"> • Efficient, sustainable use of natural resources 	Community investment Economic development Human rights <ul style="list-style-type: none"> • Upholding labour standards Business related community programmes <ul style="list-style-type: none"> • Supplier development programmes Corporate giving

Conclusion

The international trend is for retail and consumer companies to more actively embrace corporate social responsibility, from restructuring their sourcing, manufacturing and sales practices to using CSR as an asset in their advertising and brand-building activities.

Many Australian retail and consumer goods companies

are lagging behind overseas players, as many still focus on cosmetic CSR activities such as sponsorships and donations. However, CSR is gaining greater attention and leading organisations are learning from the success of overseas companies and incorporating CSR into their core business operations.

Local companies seeking to export raw materials or finished goods should be particularly aware about growing international concerns over sustainability, fair trade pricing, environmental responsibility and other CSR issues. Global leaders are actively reviewing their entire supply chains and selecting partners with robust and fundamental CSR practices.

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Take action

CSR – where are you now?

- Define what corporate social responsibility means to your organisation through detailed analysis of your operations at multiple levels and across multiple functions.
- Investigate CSR-related risks and opportunities – how are these things being managed and where are the gaps?
- Investigate existing and emerging CSR-related laws, guidelines and self-regulated policies impacting your sector.

Look to the future – your customers and competitors are!

- Understand what consumers expect from your company regarding socially and environmentally responsible sourcing and production, safe or healthy product development, and taking responsibility for products and packaging at the end of their lifecycle.
- Monitor what competitors and partners in your supply chain are doing and assess the implications for your company on a regular basis.
- Decide where you want to position your organisation – should you take a low-key approach, or is there an opportunity to lead your market and differentiate your products?
- Learn from the experience of companies that have taken a stance on CSR and make sure your operational and product claims stand up to detailed scrutiny.
- Look to overseas markets for the likely response to CSR among governments, industries, consumers and pressure groups – incorporate these insights into your CSR strategy.
- Use this input to develop or extend your organisation's CSR strategy and roadmap, taking into account your risks, opportunities and strategic goals.

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PricewaterhouseCoopers' Global Industry Programme demonstrates our industry strengths and drives value for our clients. The programme's foundation is a deep understanding of business and industry issues connected with meaningful solutions. Companies leverage PricewaterhouseCoopers' extensive industry resources and knowledge to compete more effectively in their specific marketplaces.

Expanding frontiers: Gearing up on new opportunities

8th Global Retail & Consumer Business School

October 11-12, 2006 - Milan, Italy

PricewaterhouseCoopers will be holding in Milan on October 11-12 the 8th edition of its Global Retail & Consumer Business School, an annual *connectedthinking event bringing together senior executives and industry experts in a spirit of shared experience and open discussion. Three major business challenges for retail & consumer goods companies have been selected as pivots for discussion at the forthcoming event:

Market Access

The on-going growth of the middle-class across transitional economies and the transformation of the top-end of this class into newly rich consumers is driving the expansion of international luxury and premium brands. Which business models do these brands adopt to capitalise on this trend? In what way do they differ from one region of the world to another?

Innovation

The amount of income spent on mass consumer products is decreasing in mature economies. Competition among suppliers and retailers is harsh. Purchasing patterns are increasingly polarised with less being spent on basic needs and more on new high-tech or fashion-driven products and services. How are Food & Beverage, Consumer Products and Retail companies succeeding in re-inventing their business models through divestment, new product development, marketing strategies and enhancing the shopping experience?

Well-being

The general progression in improved lifestyles has accentuated consumer focus on fitness and health. At the same time, health problems such as obesity and heart attacks have become a general concern for the community at large. How is the Retail & Consumer sector responding to these trends?

For more information on the programme and for obtaining an invitation, please e-mail anne-sophie.lacarelle-gasse@fr.pwc.com