

Strategy & Corporate Finance Practice

# NEF spotlight: The path forward for retail's sustainable future

Bloomberg New Economy Forum and McKinsey & Company, Fall 2020



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### **Retail is undergoing an unprecedented transition.**

The internet has led to new sales channels and new opportunities to reach out to customers, and globalization has opened markets and introduced new competitors. Then COVID-19 happened, rocking the industry to its core, as stores around the world closed and consumers had no choice but to order online.

Simultaneously, sustainability has moved up the agenda for retail players. Again, COVID-19 accelerated this trend, with two-thirds of UK and German consumers saying it has now become even more important to them to limit the impact of climate change. Alan Jope, CEO of Unilever, emphasized that “any company that wants to stay relevant in the future should think about sustainable behavior.”

Still, questions remain on the path forward. Will the 2020s be the decade when sustainability (finally) breaks through? How should retailers combine operational excellence with social and environmental responsibility? During the Bloomberg New Economy Forum (NEF), leaders from across retail came together to share their views on the future of their industry.

### **Many retail players were already taking action across all three facets of ESG**

Across the world, retail players are pressured to reduce their impact on the environment, with a special focus on climate change, biodiversity, and scarce resources. Fashion alone accounts for 4 percent of greenhouse gas emissions. Indeed, consumers are paying increasing attention; the founder of a fashion label said: “The upcoming generation is extraordinarily focused on making sure that waste does not exist.”

Firms are also taking action to improve their impact on society. An executive of a global consumer-goods company said that “part of being a purposeful brand is supporting the communities where we live.”

Initiatives include social-responsibility audits at factories and suppliers’ factories, and increased attention to social inclusion. “As part of our targets, we have defined racial and gender representation targets for our suppliers,” said the CEO of a US fashion house.

Executives have a responsibility as prudent caretakers of their businesses to translate this governance into investment. This is especially important as the assets under management (AUM) for environmental, social, and corporate governance (ESG) funds has doubled in the past three years. “Stakeholder capitalism is a major component of how business leaders are moving forward, and this could benefit shareholders and translate to performance,” according to Larry Fink, CEO of BlackRock.

### **COVID-19 has increased the urgency of pursuing sustainability in retail**

Many retail players experienced a significant shift in customer preferences and expectations during the COVID-19 pandemic: 65 percent of German and UK consumers now say they will buy more high-quality items that last longer, and 64 percent of Chinese consumers will consider more environmentally friendly products. “For our first ten years, sustainability was not even in the top five reasons why customers chose our company. Now it is one of the top two reasons” said the CEO of one fashion company. “Customers want to see data on the environmental impact. Transparency is crucial.”

As we begin to turn the corner on the pandemic, many retail companies are speaking up to ensure that the global recovery is green. “Many of the technologies to realize a green recovery already exist, and now is a good time to invest in them,” said Mr. Jope. “There is already evidence to indicate that money invested in green stimulus seems to result in a better ROI.” A coalition of 150 companies, containing mostly retailers, encouraged policy makers to invest COVID-19 recovery funds in green initiatives in line with the Paris Agreement.

# Making sure the organization can implement the principles of the circular economy (reduce, reuse, refurbish, repair, and recycle) will be key to realizing change.

## What companies can do

Retail companies can also take specific actions focused on their existing capabilities. Within a changing environment, NEF delegates shared best practices and highlighted a number of considerations for firms to make true progress as they emerge from the crisis.

### Put sustainability at the heart of the organization.

NEF delegates highlighted that sustainability can be aligned quite well with retail players' strategic and operational goals—reducing wasted packaging also reduces costs, for example. “Increasing sustainability requires a rethink of your inventory management, from waste and marked-down products to packaging and fulfillment,” according to a fashion start-up CEO. “You need to think about your operation in its entirety. How does your product get to the customer?”

In addition to being good business, these efforts can increase supply-chain resilience.<sup>1</sup> Many firms are hesitant to transition to sustainable alternatives out of fear of compromising on quality or damaging the company's brand. The first step is therefore often to educate employees and start a trial. “Once we designed a first product (from recycled materials), people started asking what other pieces of clothing we could produce from recycled materials,” said a fashion CEO. Indeed, making sure the organization can implement the principles of the circular economy (reduce, reuse, refurbish, repair, and recycle) will be key to realizing change.

**Offer customers a choice.** Customers are demanding to be part of the sustainability conversation, and they are increasingly using their wallets to make their voices heard. Retail players should offer customers the option to choose sustainability. For example, a US retailer is “offering our customers the option to choose ‘eco-light’ packaging. While not looking quite as beautiful, it is better for the planet,” and many customers are choosing it.

As another example, a fashion player launched a sister brand for slightly damaged clothing, targeting customers who might be willing to sew up their clothes a little, thereby making them more uniquely their own and reducing waste. Another player quantified the environmental impact of its offerings across production and delivery, thereby supporting customers' choices across products and delivery modes. “Making choices should be easy, and customers should be informed,” is the philosophy of the company's founder.

**Set targets and ensure progress is real.** Many leading consumer companies are setting aspirational goals. Alan Jope noted Unilever's commitment that “by 2030, 100 percent of carbon for our entire home-care business will come from renewable sources.” However, it is crucial that these are translated into concrete midterm steps. “While we made the goal of using 100 percent recycled plastics by 2030,” shared a consumer goods CEO, “we started with eliminating plastics or using sugar-

<sup>1</sup> Achim Berg, Lara Haug, Saskia Hedrich, and Karl-Hendrik Magnus, “Time for change: How to use the crisis to make fashion sourcing more agile and sustainable,” May 6, 2020, McKinsey.com.

cane-based plastics in a few of our product lines. This was important to show that we could do this.”

Consumers are also demanding concrete, demonstrable, and quantifiable actions to achieve these goals. So-called “greenwashing” risks causing a public backlash, as demonstrated by the “Pull Up or Shut Up” movement on social media.<sup>2</sup> “Authenticity is important, but customers are increasingly expecting that [fashion brands’] efforts are backed up by data,” according to Clarisse Magnin, a McKinsey senior partner.

**Collaborate with others, especially the broader supply chain.** “We all know that the industry is not moving at the speed and scale needed to have the impact the climate and our societies demand,” said the CEO of a responsible business alliance. “The only way we can scale up our efforts is by reaching out outside our own organization.”

While it’s the responsibility of retail players, first of all, to set an example at their own companies, a fashion CEO noticed that “for us things changed when we realized that we could affect change far beyond our walls.” Retail players should therefore act in concert with one another and also focus on supply chains: some suppliers—who have only limited exposure to customers demanding responsible conduct—might be reluctant to shift their practices without prodding.

**Use industry metrics and standards.** “It is not always clear what net zero means,” said Scott Miner, cofounder of Guggenheim partners. Dr. Leila Fourie, CEO of the Johannesburg Stock Exchange, concurred: “Net zero is still subjective, with eight out of ten ESG funds still investing in oil, gas, and carbon-emission-type industries.” Some retailers pulled out of the fair trade alliance to launch

their own certification, with now more than 460 sustainability logos in existence. This causes unnecessary confusion for consumers. Therefore, firms should use industry-standard objectives (eg, Sustainable Development Goals), measurement techniques (for example, the Higg Index for fashion), and certification (eg, B Corp Certification for responsible businesses).

**Prices still matter.** An executive at a car distribution company noted that the biggest pushback to buying electric cars is still price: “Everyone says ‘sure this looks great,’ but few customers buy electric cars. It has been a real struggle for us.” While the impact of pricing differs by industry and by purchase value, retail players need to ensure that sustainable products are not just “add-ons” to the product line. They need to ensure that pricing of sustainable options is in line with other options, or that these products provide distinct benefits.

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From setting ambitious targets to creating industry coalitions, the leaders in sustainable retail are taking actions that could make retail more environmentally friendly, socially caring, and economically responsible. It is now important that these retail leaders, many of them represented at the Bloomberg New Economy Forum, work to bring the rest of the industry along.

As mentioned by the CEO of a responsible business alliance, “I am not worried about our direction; we are definitely on the right track. What worries me is the speed.” Partners across the industry need to work together with government, customers, and suppliers to define standards, change operations, and create new products. As the world emerges from a pandemic, retail should lead the way.

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<sup>2</sup> The Pull Up or Shut Up movement demanded real actions to improve inclusiveness of fashion players, to back up their PR statements such as the “blacking out” of social media accounts in support of racial equality.

Bloomberg New Economy Forum would like to thank Carolina Aguilar, Andrew Browne, Kweilin Ellingrud, Rik Kirkland, Clarisse Magnin, Connor Mangan, Christophe Verstreken, Jonathan Woetzel and the participating delegates for their contributions to this article.

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