Corporate Outlook

Will Sustainability Programs Need a Bailout?

By Lori Tripoli

At a moment when the financial industry is reeling, when some big-box stores like Circuit City are declaring bankruptcy, when the domestic automotive industry is seemingly self-destructing, and major retailers are closing stores, one can't help but wonder whether corporate sustainability programs will be the next to fail. Are budgets being drastically reduced? Are companies opting for cheaper but less recyclable packing in an effort to trim expenses? Should sustainability professionals be in panic mode?

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Not at all, industry representatives and analysts say. "I see people examining their budgets, but I don't see anyone pulling the plug," says William Sarni, CEO of DOMANI, a sustainability consulting firm headquartered in Denver. "Everyone realizes they need to protect their brand," Sarni says. Indeed, many chief executive officers and their companions in the C-suite are well aware of the importance of sustainability initiatives, some industry observers maintain. "Environmental management is a reflection of a company's overall management," says Katie Pavlovsky, a principal in the enterprise sustainability practice at Deloitte in Houston. "Because sustainability is connected to a company's overall performance, it's remaining on the agenda," Pavlovsky says.

At least one financial services firm is solidly behind its sustainability initiatives despite current turmoil in the markets. "Our commitment to global social engagement, which includes our efforts to reduce our environmental impact, is not going anywhere," says Brian Walsh, director of global social engagement at Liquidnet, a financial services firm in New York City that has 420 employees worldwide. Liquidnet's commitment of one percent of revenue to social engagement measures remains unchanged, he says. The firm has partnered with other organizations to construct a sustainable village for orphans in Rwanda. About 125 students moved into the village last December. "It's one thing to be green and socially engaged when times are good, but in moments of distress, it really speaks to the character of the company when it maintains its commitment to social engagement," Walsh says.

Despite the dire commentary on the economy found among news outlets, not all businesses are faring poorly. "People need to eat," says Matt Croson, vice president for member services and communication at PMMI, an Arlington, VA-based trade association for companies that manufacture packaging and packaging machinery. "People might be spending less money in restaurants; therefore, they'll be eating in more," Croson observes. Of course, when they do, they'll need food—and all of that food requires packaging. "There's a ripple effect," he says. (For a report on Kraft Foods' sustainable packaging efforts, see box on page 25.)

Jeff Harvey, CEO of Burgerville, a Vancouver, WA-based quick-serve restaurant chain with 1,500 employees and 39 restaurants, sounds a similar note. "Yes, there's been a downturn," Harvey admits of the Burgerville business, which serves locally grown food, has a healthcare program for employees, uses wind power, recycles used trans-fat free cooking oil, and has a composting program. But that downturn has just been a slowdown in growth. The business has still grown, though the growth rate went from about 11 percent from 2006 to 2007 to about 3.3 percent from 2007 to 2008, Harvey says.

Sustainability Delayed

Despite a certain measure of optimism, there's no denying that some sustainability initiatives will be cancelled, postponed, or reduced in size. "It's not a good time to be standing up and saying, 'Let's get into this sustainability stuff,'" says Mike Lawrence, executive vice president at Cone Inc. in Boston. "A C-suite in panic mode will not be interested," he says. "There's a group of companies that look at sustainability as discretionary spending, as something they may have increased in the past because it's the right thing to do," says Daniel Mahler, a partner in the sustainability practice of A.T. Kearney's New York City office. Those sorts of outfits are likely to cut back or have done so already. But a second group takes a different view. "They see sustainability not only as a tool to enhance their reputation, but it's really impacting their business," he says. Those are the companies likely to persist in taking sustainable measures even in a recession.

Even so, some programs may be put at risk, says Chris Spain, chair and chief strategy officer at Hydropoint in Petaluma, CA. Projects with a five- or 10-year payback or that require significant investment in infrastructure are most likely to be in jeopardy, he says. "With the downturn of the economy, a lot of early stage renewable energy companies are having trouble getting financing," observes Mary Anne Sullivan, co-chair of climate change practice at the law firm of Hogan & Hartson in Washington, DC, and a former general counsel of the U.S. Department of Energy.

Moving Forward Despite Tough Times

Some businesses are sufficiently well-positioned that they can continue implementing sustainable measures—and realize a savings at the same time. Dallas-based Accor North America, the parent company of hotel chains Motel 6, Studio 6, and Sofitel, has a worldwide mandate to reduce its carbon footprint by 2010, reports Dan Gilligan, vice president of energy and environmental services. "That initiative has not changed," he says. By reducing its

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Kraft's Progress on Packaging

Northfield, IL-based Kraft Foods Inc., one of the world's biggest food and beverage companies, has annual revenues of $37 billion, some 103,000 employees worldwide, and more than 180 manufacturing and processing facilities. The company's brands include Nabisco, Oreo, Oscar Mayer, Maxwell House, and Philadelphia, among others. It uses a lot of packaging.

Roger Zellner, director of sustainability for Kraft Foods Research, Development & Quality, reports on recent initiatives:

First, I can tell you that sustainability isn't new to Kraft, but we're now taking a more focused approach—we're integrating sustainability into our business and focusing on where we can have the biggest impact. One of our key focus areas is packaging, as packaging is the first and last experience consumers have with our product. We have six focus areas—agricultural commodities; packaging; energy; water; waste; and transportation/distribution.

Kraft's goal is to eliminate 150 million pounds of packaging material by 2011 (with a base year of 2005), and to achieve our goal, we're creating more efficient packaging designs, sourcing materials in more sustainable ways, even have programs for end of product life.

For packaging design, we've developed software called Eco Calculator we use for all new package designs that calculates a score based on several criteria, such as the amount of material used, product to package ratio, recyclability, and recycled content.

Recently redesigned Kraft Salad Dressing bottles have reduced plastic usage by 19 percent, which adds up to more than 3 million pounds annually. The new bottle design better fits the contour of a consumer's hand and takes up less space in the refrigerator. Our optimized bottle design has also delivered additional sustainability benefits, including improved inbound transportation efficiency of 18 percent by allowing a greater number of bottles per truckload. We're also implementing reusable totes, eliminating the need for nearly 4,000 corrugated totes annually.

We've also converted our traditional glass packaging for Miracle Whip to a recyclable plastic jar. The new, consumer-preferred 'wide mouth' jar lets consumers easily scrape nearly every last bit of Miracle Whip out of the jar, and the switch to plastic means fewer trucks on the road, since six more pallets of product fit on each truckload. By transporting product on fewer trucks, we've been able to decrease fuel consumption by 87,000 gallons annually.

In Europe, we transitioned our Milka chocolate packaging from a foil and paper over-wrap design to a single-film design, eliminating more than 13 million pounds of packaging.

We also have exciting partnerships with TerraCycle and RecycleBank to increase collection of both recyclable and difficult to recycle packaging materials. Terracycle is an upstart company that has found an innovative way to help prevent packaging waste from ending up in landfills. Their upcycling program rewards consumers for doing good and finds creative outlets for packaging waste.

What's truly innovative about TerraCycle is that consumers will be able to buy tote bags, umbrellas, and a host of other goods made from material that otherwise would've ended up in a landfill. We have plans to help consumers learn more about TerraCycle where some of our participating brands—including Capri-Sun and Chips Ahoy!—will be using the TerraCycle logo on their boxes or packaging.

Around the country, consumers have been setting up "brigades" to collect various types of used packaging. To date, individuals and groups have set up nearly 5,500 drink pouch brigades; close to 2,500 cookie wrapper brigades, and 1,000 energy wrapper brigades.

RecycleBank rewards consumers with coupons based on how much they collect in their home recycling bin. It has dramatically increased recycling where they have piloted their program, which fits with the current home curbside recycling infrastructure. RecycleBank also functions as an innovative consumer promotions tool for our marketing programs to reward recycling.

energy footprint, Accor has lowered its operating costs. "With as many rooms as we have, pennies count," Gilligan notes. One penny saved per day per room is translated into upward of a quarter of a million dollars per year, he says. Indeed, stopping sustainable measures would be counterproductive. Accor looks for the best potential return on energy projects, Gilligan says. It has four years' worth of history on all of the electricity, gas, and water consumption at each of its properties, and then invests in items like high-efficiency air conditioners, boilers, and laundry equipment to realize a savings.

Currently, bottling a single gallon of water requires about two additional gallons of water, as packaging lines require lubrication.

Scott Smith

Products coming to market may also help corporations realize significant savings in these challenging times. For example, Scott Smith, vice president of sales and marketing at Hartness International, a manufacturer of packaging equipment based in Greenville, SC, is enthused about progress his company has made on packaging of bottled water. Currently, bottling a single gallon of water requires about two additional gallons of water, as packaging lines require lubrication, Smith explains. But Hartness has developed a product that's dry-conveyor based—which, in turn, can save a lot of water. Labeling placed on glass bottles, such as those used to hold beer, has also seen recent improvements. Typically, ink is placed on a bottle and fired in an oven for four hours. "Think of the power consumed by the oven," Smith points out. The ink itself contains hard metals to make it adhere to the bottle. Hartness has developed an ink for bottles that cures in a second when exposed to ultraviolet light.

Travel costs can also be reduced thanks to a system developed by Hartness "that functions like TIVO for a packaging line," Smith explains. Cameras focused on a packaging line record any problems. Should something go awry, Hartness technicians can troubleshoot problems remotely rather than immediately heading out as a team to fix the problem onsite, Smith says.

"Hard times can drive innovation."

Ben Miyares

Of course, improvements in packaging can help retailers save money, but other performance indicators important to sustainability efforts for the retail industry are supply chain standards and the environmental footprint of facilities, observes Eric Meliton, Toronto-based research analyst for Frost & Sullivan's environmental technologies group. A major retailer such as Wal-Mart has the financial stability to move forward with a variety of sustainability initiatives, he says. "They don't seem to be slowing down," he notes of the world's No. 1 discount retailer. "There are new sustainable Wal-Marts popping up everywhere," he says. Older stores are being retrofitted. (For a report from Wal-Mart, see box on page 27.) Unfortunately, not all retailers are able to undertake these sorts of sustainable activities right now. "Other retailers are a few years behind in terms of these initiatives," Meliton says. With no return on investment in the short term, such initiatives can be risky. "For them to spend that much money now in lieu of cutting jobs is hard to justify," Meliton says.

Opportunity in a Crisis

"Hard times can drive innovation," observes Ben Miyares, vice president for industry relations at PMMI. Indeed, "we really have an opportunity to build on the destruction of the old economy," adds Sarni. Industry insiders and observes suggested the following measures that corporations can take:

- **Retrofit buildings.** "Now is a good time to enhance your property," says Jeff George, Atlanta-based vice president and general manager of the Atlanta commercial group of Balfour Beatty, a general contractor that uses green building practices. "Upgrade your building to LEED certification so you can reposition yourself," he suggests.

- **Reduce your environmental that by letting employees telecommute.** "Consider alternative workplace solutions, such as making offices more virtual," suggests Mary Ann Lazarus, director of sustainability at architecture and design firm HOK in St. Louis.

- **Look to suppliers for cost savings.** "It would be a good opportunity for a supplier in these times to sell themselves to customers by saying, 'We follow these lean practices that are really good for the environment, and we'll share some of our ideas with you,'" suggests Lisa Ellram, professor of distribution and marketing at Miami University's Farmer School of Business in Ohio. Indeed, more companies are not just looking for shared ideas; they're also hoping to share in the cost savings, she notes.

- **Pay attention to what's happening in Congress and in state legislatures—and try to influence it.** "What I'm seeing is a greater interest than before in the government incentives—state and federal—to help finance renewable energy technology," Sullivan says. An administration geared toward greater regulation may be a boost to green initiatives as well. "To the extent Congress enacts federal renewable energy regulations or imposes limits on carbon dioxide emissions, it will help the market for renewable energy," Sullivan explains. Companies and individuals may have to turn to renewable energy as a compliance measure.

Ultimately, of course, all of these efforts will just need to make good business sense. "The long-term viability of sustainability will always include the environment, but will be powered by economic considerations," Miyares says. "We all operate on some sort of budget," he observes.

What Would Wal-Mart Do?

Rand Waddoups, senior director of sustainability for Wal-Mart Stores Inc. in Bentonville, AR, answered questions posed by **Sustainability: The Journal of Record** *about the impact of the recession on the company's sustainability initiatives, how Wal-Mart and other corporations can continue to encourage efforts to improve the triple bottom line, and how improved packaging really can make a difference.*

Sustainability: **What impact has the economic downturn had on Wal-Mart's sustainability efforts?**

Rand Waddoups: Wal-Mart is committed to its sustainability efforts. What we have found is that, in addition to the environmental benefits, sustainability is a tremendous business opportunity. It allows us to reduce our operating expenses through initiatives like energy efficient stores or waste reduction. Being able to reduce expenses and pass those savings on to customers is always important, but it certainly takes on added importance during times of economic uncertainty. As an example of Wal-Mart's continued commitment, in November 2008, Wal-Mart announced a major purchase of wind power in Texas. Wal-Mart will buy enough wind energy to power up to 15 percent of more than 360 stores and facilities in Texas.

Wal-Mart's efforts to get suppliers to become more sustainable are well-known. How has the downturn affected suppliers' sustainability efforts?

Wal-Mart's partnerships with its suppliers are more important than ever as we collaborate on finding ways to make the entire supply chain, from raw material to product use, more efficient and more sustainable.

Reducing waste, being more efficient, and doing the right things the right way will lower costs along the entire supply chain and, ultimately, for the Wal-Mart customer. That will be good for suppliers and for Wal-Mart, but it will also be good for our suppliers' other customers, our associates, our communities. and the planet.

What, if anything, can Wal-Mart and other corporations do to encourage sustainability initiatives of suppliers during an economic downturn?

Wal-Mart will partner with its suppliers to improve energy efficiency and use fewer natural resources. Over the last few years, Wal-Mart has worked to reduce the footprint of its stores and buildings and is now asking its suppliers' factories in China to do the same. Wal-Mart's goal is for the top 200 factories it sources from to achieve a 20 percent improvement in energy efficiency by 2012.

An environmentally and socially responsible supply chain cannot be achieved without a system that promotes open communication and accountability. By the end of 2009, Wal-Mart will require all direct import suppliers plus all suppliers of private label and non-branded products to provide the name and location of every factory they use to make the products Wal-Mart sells. This process will begin in the area of apparel and will then move forward with a phased-in approach for home, toys, and other product categories. By the end of 2009, Wal-Mart expects that the roll-out will include all merchandise.

Wal-Mart will also require all suppliers it buys from directly to source 95 percent of their production from factories that receive the highest ratings in audits for environmental and social practices by 2012.

Suppliers that are ethical and responsible in how they do business are much more likely to care about quality and, in doing so, care about the customers we all serve.

How does environmentally friendly packaging fit into Wal-Mart's sustainability initiatives?

At Wal-Mart, we know that being an efficient and profitable business and being a good steward of the environment are goals that can work together. Two company-wide goals are to create zero waste and to sell environmentally friendly products. As a step toward achieving these goals, we plan to reduce the amount of packaging in our supply chain by 5 percent by 2013.

Packaging is at the nexus of every global supply chain and customer relationship because for nearly every product sold in stores, there is both primary and secondary packaging. Small changes to packaging can have significant impacts on the use of materials, shipping containers, trucks, storage, refrigeration, waste, and energy used for production. Together with our suppliers, we are making great strides to improve packaging and reduce our footprint on the environment.

On Nov. 1, 2006, Wal-Mart introduced a scorecard that evaluates Wal-Mart and Sam's Club suppliers on their progress toward developing more sustainable packaging, and helps track the company's progress toward reducing packaging in our supply chain. On Feb. 1, 2008, an online scorecard was made available to all of our buyers to use as a tool to make more informed purchasing decisions, and buyers may show preference to those suppliers who have demonstrated a commitment to producing more sustainable packaging.

Suppliers can use the scorecard to measure how their product packaging helps Wal-Mart achieve its goals to be supplied 100 percent by renewable energy, create zero waste, and sell sustainable products. The item packaging receives a grade based on the results, and suppliers learn about ways to improve their packaging. Conservative annual estimates of the changes we can make by 2013, based upon a 5 percent packaging reduction in the Wal-Mart supply chain are:

- 667,000 metric tons of CO_2 not emitted into the atmosphere (Wal-Mart U.S. only)
- 213,000 trucks off the road annually (Wal-Mart U.S. only)
- 7 million gallons of diesel fuel saved (Wal-Mart U.S. only)