



# THE SMART ROAD TO SUSTAINABILITY

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*Sustainability in Indian retail is an emerging reality. While the awareness is growing, it is still fairly limited. Retailers who have taken the eco-friendly route, vouch for the immense benefits it brings to their business, both tangible and intangible. A look at some of the ground realities and business opportunities...*

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**W**ith India emerging as one of the most attractive retail destinations in the world, domestic players are facing mounting pressure from increased competition. From being a largely fragmented sector until a few years ago, Indian retail is moving towards large format stores, international brand chains and online convenience, aided by the

easing of FDI norms by the Government of India. The growth of large-scale e-commerce players who have successfully leveraged discounting as a mainstream business model, has made 'price' emerge as the biggest differentiator, driving consumers to shop online or in-store.

This competitive landscape is offering the Indian consumer a plethora of choices, thereby coercing do-

mestic retailers to match their global competitors' way of doing business. This global expansion is not only likely to transform Indian retail economically, but also promote a culture of corporate responsibility. The last few decades have witnessed retailers like Wal-Mart, Marks & Spencer, Tesco and IKEA leading the path on proactive sustainability agendas.

### WHAT'S THE NEED?

Sustainability, when adopted as a business strategy, can substantiate the proposition of differentiation, a major component in retail. According to a 2015 PwC report titled *Perspectives on the Indian Retail Industry*, creating brand differentiation has proven to be essential as factors like e-commerce disruption, access to capital, customer loyalty, and increased competition in the market continue to affect retail businesses.

As a resource intensive business, retail runs the risk of business continuity due to increasing costs, disruption in supply and potential reputational and regulatory risks. Sustainable business practices drive huge benefits in terms of reduced long and short-term risks around operational security, sourcing reliability and increasing energy and raw material costs. Hence, integrating sustainability as part of the operational strategy becomes imperative. An effective retail sustainability strategy needs to holistically address the impacts linked to direct operations like energy, waste and packaging as well as the indirect impacts due to the ecological footprint of the production and transportation of their supply chains.

On speaking to some large Indian retailers, it is understood that the uptake of sustainability in the domestic market is influenced by three key drivers: cost, consumer preference and regulations. Lalit Agarwal, CMD of V-Mart Retail said, "Sustainable operations decrease cost and improve operational efficiency. Strategically, sustainability is very important for business growth because of the rising consumer awareness around it and the imminent regulatory requirements that can be foreseen in the years to come". In this con-

text, it becomes important to analyse these drivers and shed light on how groups around the world and within the country, are responding to them.

### TURNING DRIVERS INTO OPPORTUNITIES

**Cost as the primary concern:** This makes the top of this list. With the emphasis on profitability driving the industry, investments in sustainability can be rationalized within the core areas of the business. Retailers are focusing on using resources more efficiently, as this directly impacts their bottom-line and helps streamline their operations. Initiatives around energy reduction, waste management, packaging improvement and logistics optimization seem to be the common starting point for most retailers.

As energy is a significant component of store operations costs, most retailers have realised the significance of energy conservation and efficient energy use. Innovation around choice of packaging material and design optimisation are helping companies leverage the benefits of cost reduction and consumer communication. For example, Whole Foods Market implemented a responsible packaging program, which involved redesigning its fresh produce casing to reduce the packaging weight and cost, increase transportation efficiency and improve the shelf life of the product thereby avoiding millions of pounds of food wastage. In India, Arvind Ltd., which has around 14 licensed retail brands across the country has adopted an energy management program at its stores. Abhishek Bansal, Chief Sustainability Manager of Arvind Ltd. said, "Our retail outlets in India are working on reducing energy demand and increasing efficiency through initiatives like LED lighting, energy optimization sensors etc."

**Consumers are integral:** Another key driver is the consumer. Using sustainability as a brand positioning statement is helping retailers improve their reputation among their customers, investors and suppliers. The needs and expectations of the average urban Indian consumer are undergoing a major transformation, fuelled by the rising purchasing power, improved educa-

→ The domestic market is influenced by three key drivers - cost, consumer preference and regulation.



tion levels, increasing connectivity and growing global consciousness. They are evolving into consumers mindful of not only price but also factors like quality, ethics, experience and social values. Companies can build brand loyalty by tapping into the eco-consciousness of their consumers — by creating awareness, sensitizing the audience and providing access to the product information to help consumers make informed purchasing decisions.

Mahesh Shah, CEO of Home-town, a lifestyle products retailer said, “Retailers stand to benefit by effectively communicating the additional value created; to attract and retain customers. If sustainability is communicated right, brands can use its influence”. On the other hand, Bansal added, “We have not seen much of a push from the Indian consumer on sustainability. We have undertaken some experiments to gauge consumer interest through the launch of certain sustainable apparel collections with a focus on recycle and reuse. However, due to the direct consumer connect, a shift in the sustainability expectations of the consumer similar to the organic food market is expected”.

Customer expectations and media pressure is also encouraging retailers to extend their sustainability standards to their suppliers’ operations in order to build transparency and improve accountability. For example, Wal-Mart has created a sustainable supplier mechanism through a simple questionnaire assessing the environmental and



► Growing preference of consumers for all things organic is one of the drivers of sustainable retail

social practices of their global suppliers.

#### Preparing for emerging policies:

Lastly, it is important to note that the current heightened global interest around environmental issues such as climate change, deforestation commodities, and water scarcity are influencing environmental legislation in the developed markets. Most retailers begin their sustainability journey by responding to these regulatory requirements to ensure compliance and avoid legislative risks.

For example, in 2013, Wal-Mart was charged a sum of \$110 million by the US Department of Justice for violating the Clean Water Act and mishandling hazardous waste at its stores. This could have been avoided had Wal-Mart designed a responsible waste management system and provided proper training to its employees on the handling and disposal of hazardous waste.


In addition to legal standards, voluntary codes developed by in-

dustry groups and non-governmental organisations are gaining prominence and are defining corporate principles. In the emerging markets like India, imminent regulations are expected to place additional operational constraints on businesses. Hence, anticipating such requirements can position domestic retailers to be in compliance when regulations go into effect. In Bangalore, for example, bulk generators of waste like supermarkets are required to compost wet waste at site, or hand over to authorised private wet waste collectors on payment. Stores like V-Mart in India are tying up with recycling agencies to handle the dry waste from all its stores.

#### THE WAY FORWARD

For Indian retailers, the battle to secure profitability and market share is a constant challenge. Companies in India willing to learn from global practices will have a competitive edge, by positioning their businesses for long-term sustainable

growth. Using creative customer engagement mechanisms linked to emerging consumer preferences is one way to establish a point of difference and drive deeper business change. Holistic sustainability strategies are most effective when they contribute to core business outcomes by boosting revenues, reducing costs, managing scarce natural resources and anticipating shifting regulatory pressures.

Such a strategy can also provide them with a larger opportunity to contribute to safeguarding the environment and improved social outcomes. By working with their suppliers and leading the conversation with their customers, retail can be a positive catalyst in the environmental sustainability equation. 



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## SUSTAINABLE SUGGESTIONS

### IN STORE

- Assess alternative energy measures and more efficient technologies. For instance, renewable sources of energy like solar and wind for electricity.
- Reduce the size and weight of packages; it reduces costs and minimises wastage. Options like recyclable resources and recycled materials to produce packaging can be considered.
- Harness and use rainwater, use sensor-activated taps.
- Consider natural refrigeration systems and natural lighting for illumination, which are certified by leading rating systems like LEED or BREEAM.
- Sell repaired or damaged products returned by customers at a discount.
- Give away food not suitable for retail to farmers to be used as feed or for anaerobic digestion, where the waste is used for generating electricity.

### IN THE SUPPLY CHAIN

- Adopt a clean supply chain policy and sell more products that are made responsibly.
- Influence suppliers to use modern, fuel-efficient vehicles with more sustainable fuels.
- Implement plans and strategies for protecting marine resources and wetlands, protecting the biodiversity of the supplying regions.
- Optimise the use of equipment to increase number of products shipped per load to minimise road transportation.

### AT THE CONSUMER END

- Encourage customers to return old clothes/electronic waste and earn some rewards. The same can be recycled to produce new clothes or something innovative.
- Introduce point-based system for reusing carrier bags.
- Add a list of sustainable products on your website to help customers become more aware about them.
- Promote the adoption of leading international certifications to position products with consumers.
- Increase transparency, through reporting on sustainability that also meets increasing investor requirements for disclosure of Environmental, Social and Governance parameters.