Building the Business Case for Sustainability

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TODAY

8:30-8:45	Introductions
8:45-10:15	**Value of the business case** (presentation, discussions, group work)
10:15-10:30	Break
11:30-12:00	**Elements of the business case** (presentation, discussions, group work)
12:00-1:00	Lunch
1:00-2:00	**Developing your business case** (presentation, discussions, group work)
2:00-2:15	Break
2:15-3:15	**Implementing your business case** (presentation, discussions, group work)
3:15-3:30	Break
3:30-4:30	**Group presentations and discussions**

WELCOME

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VALUE OF THE BUSINESS CASE

- History
- Today
- Drivers
- Nike case study
- Group work

HISTORY: MORAL IMPERATIVE

HISTORY: TRIPLE BOTTOM LINE

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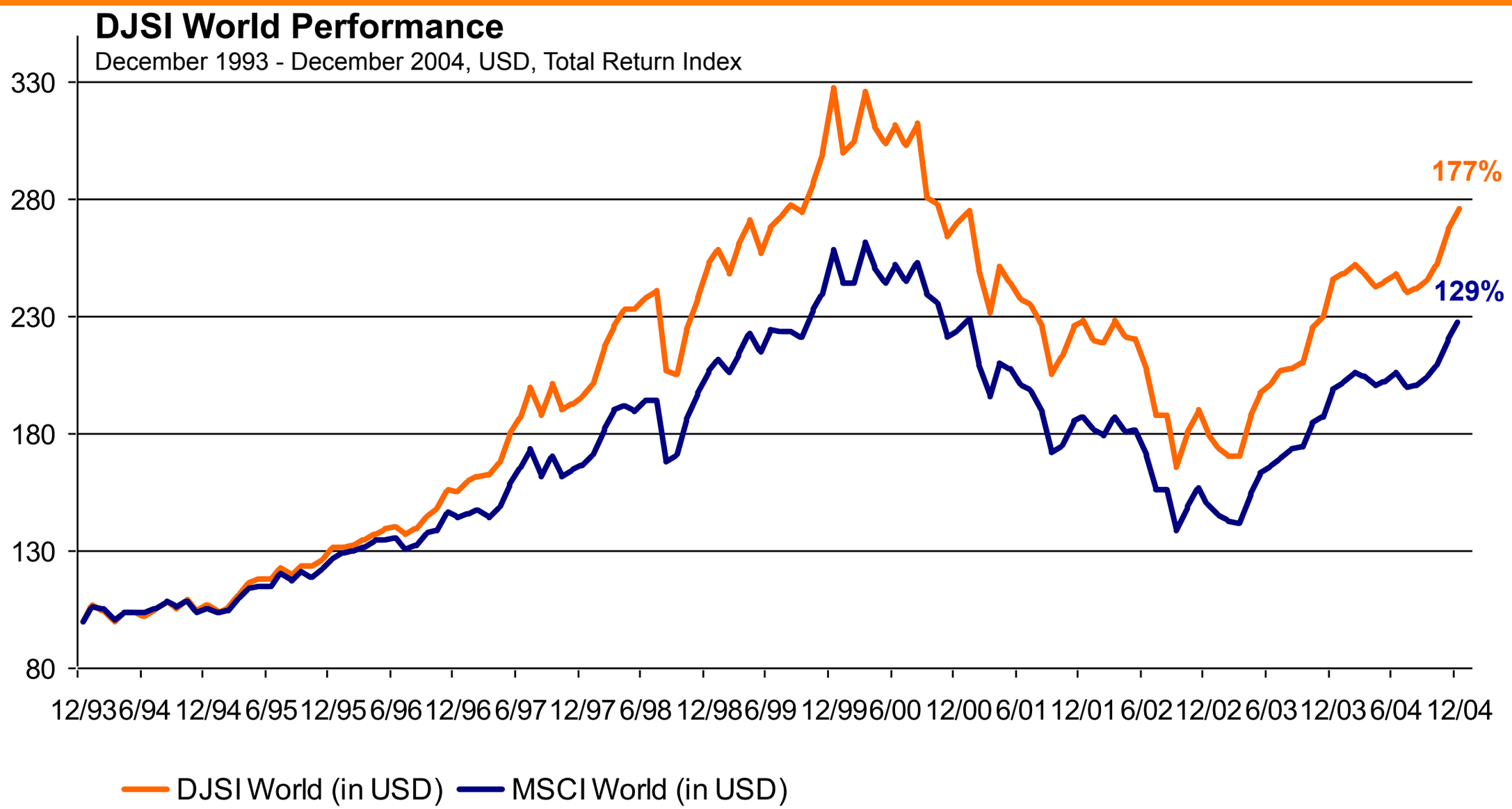
HISTORY: SUSTAINABLE RESULTS



HISTORY: NORM THOMPSON EXAMPLE

- Moves into “green headquarters” in 1996
- Integrates Natural Step training in 1997
- Revises mission statement in 1998
- CR manage hired and action plan rolled out in 1999
- Scorecard: global warming (product transport), toxics (organic cotton, PVC-free), habitat destruction (greener catalogs), waste (packaging), community support
- But...

TODAY: COUNTER ARGUMENT

"Difficulty is partly that there is no single yardstick for measuring progress in those areas.

How is any given success for environmental action to be weighed against any given advance in social justice - or, for that matter, against any given change in profits?

And how are the three to be traded off against each other?" 1/22/2005

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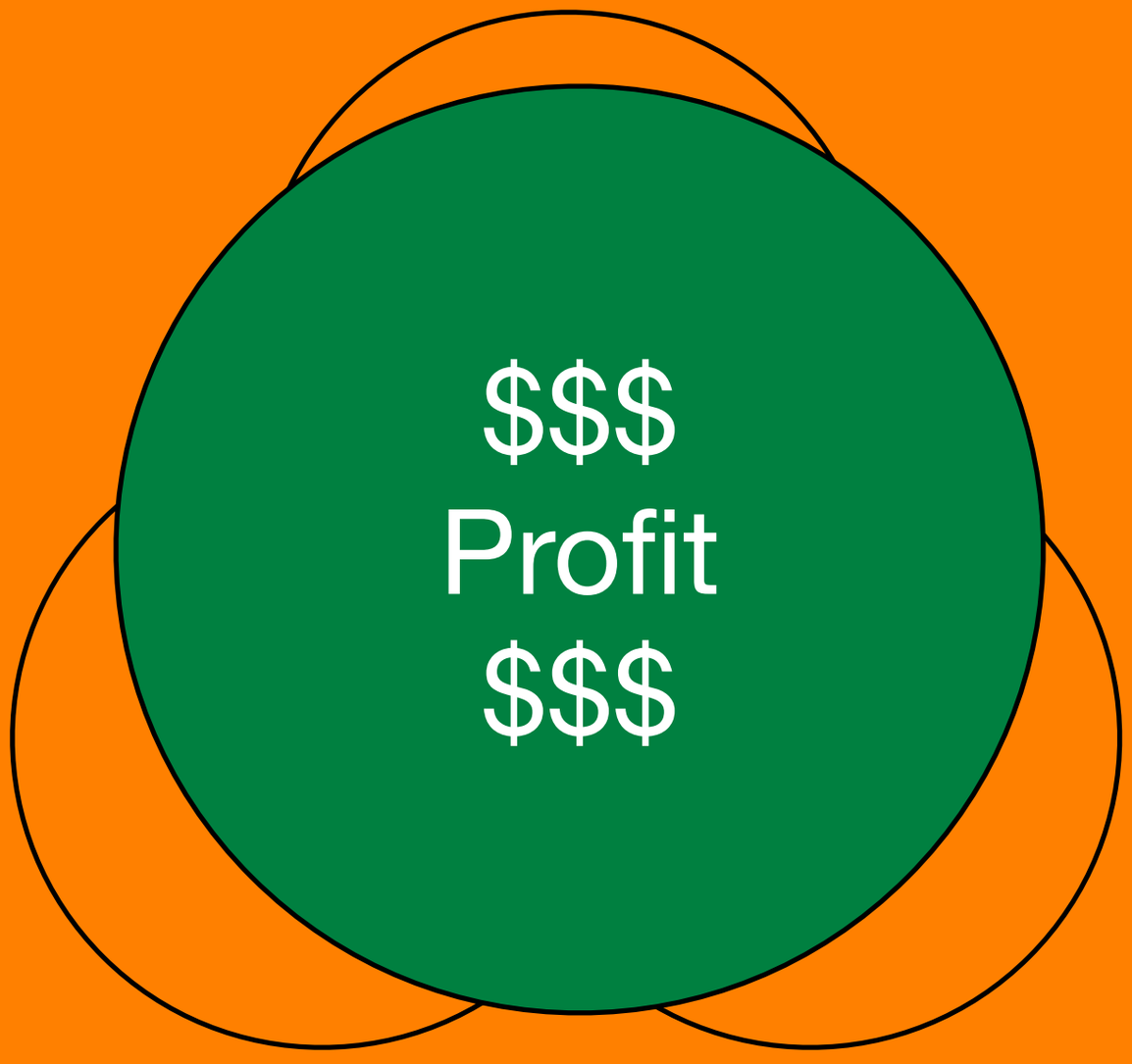
TODAY: SINGLE BOTTOM LINE



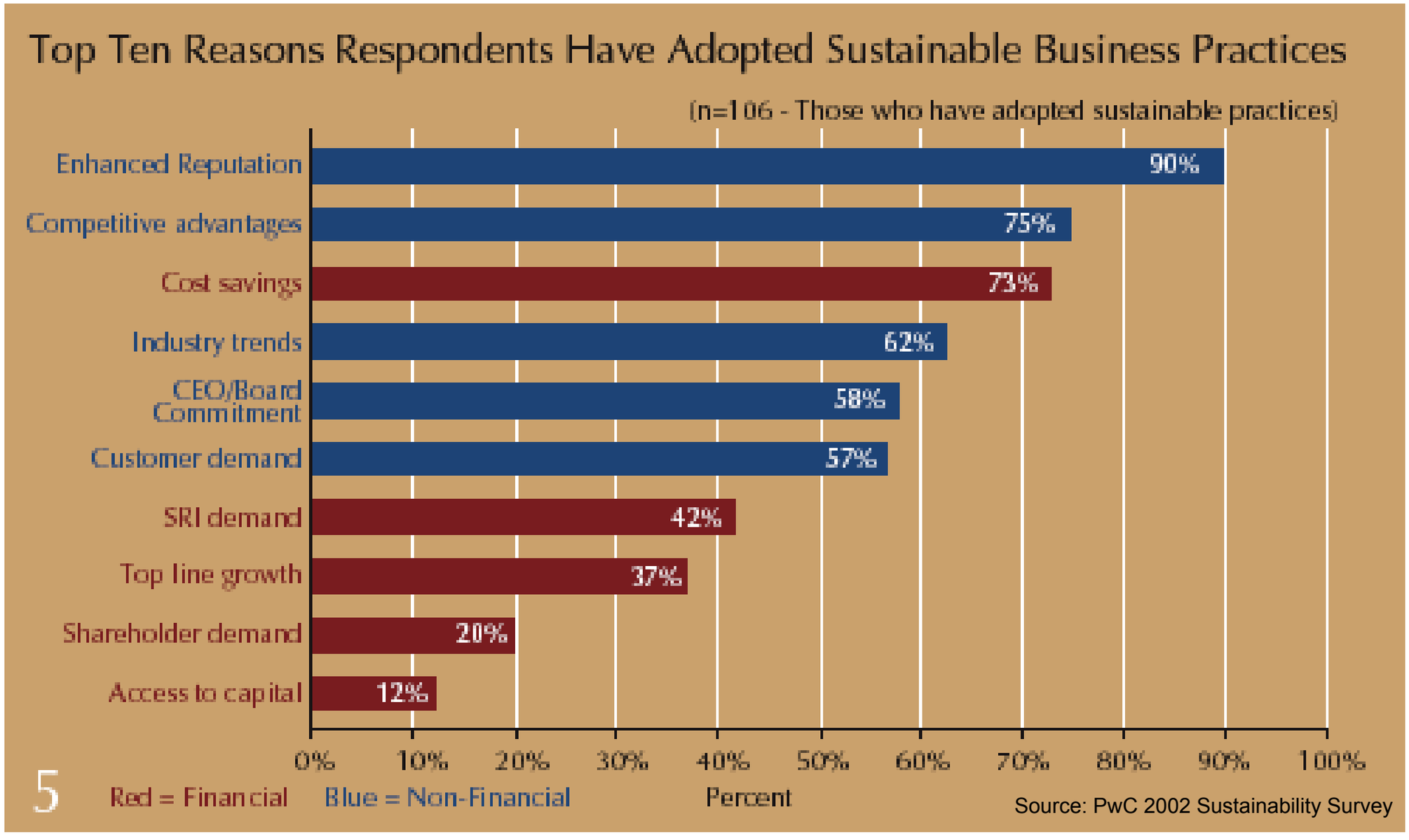
TODAY: STARBUCKS EXAMPLE

- Employee benefits, Starbucks Foundation, Earthwatch Institute, Green Team, recycling
- Shift from a collection of programs to a strategic focus on the biggest issues facing the business
- “First ask, ‘What is your company’s mission statement? What business are you in and who are you as a company?’ Don’t waste your time until you’ve talked to the owner of the company and asked those questions.” - Ben Packard

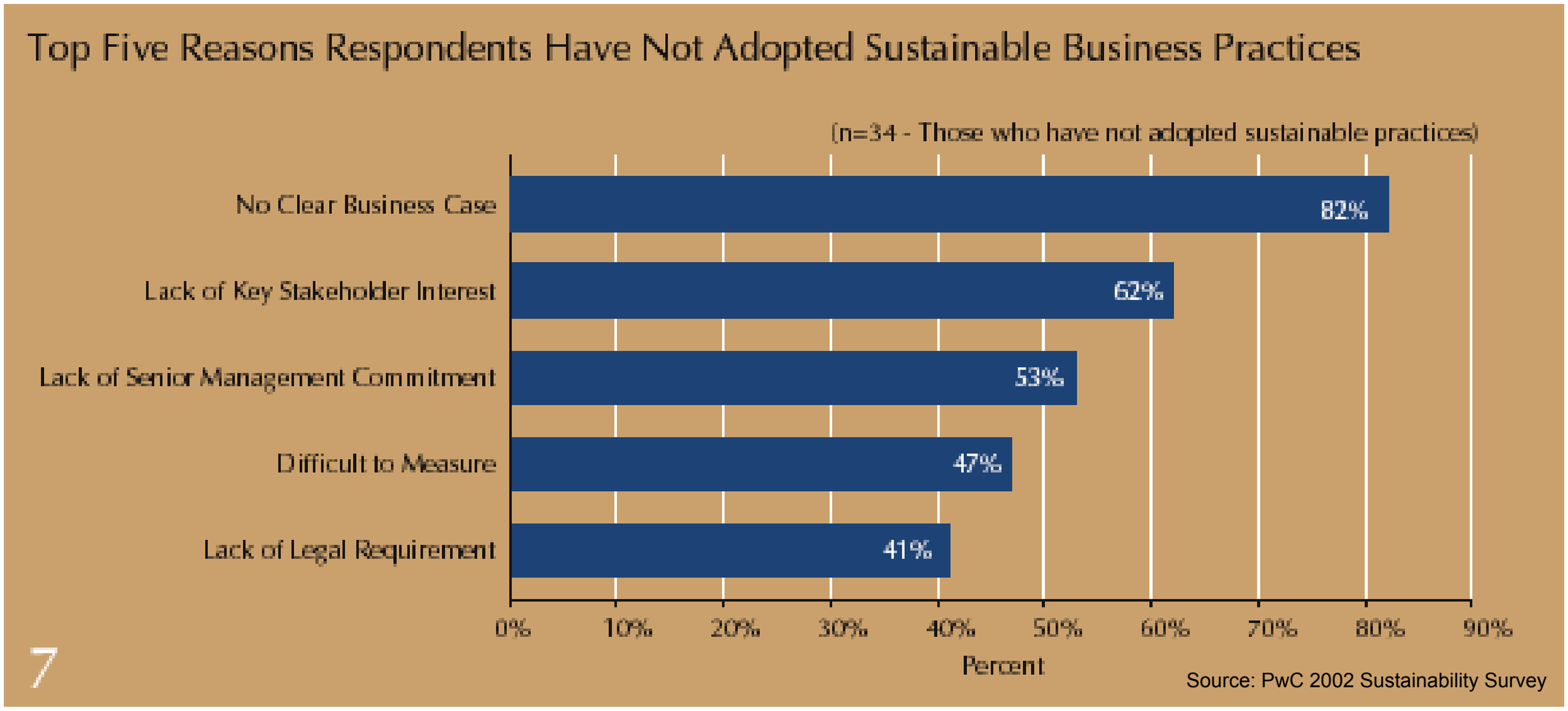
TODAY: YOUR EXPERIENCES

- Have you noticed a shift in how sustainability is viewed?
- Is the urgency of growing your business and the single bottom line affecting sustainability integration?

DRIVERS: WHY ARE THEY DOING IT?



DRIVERS: WHY DON'T THEY DO IT?



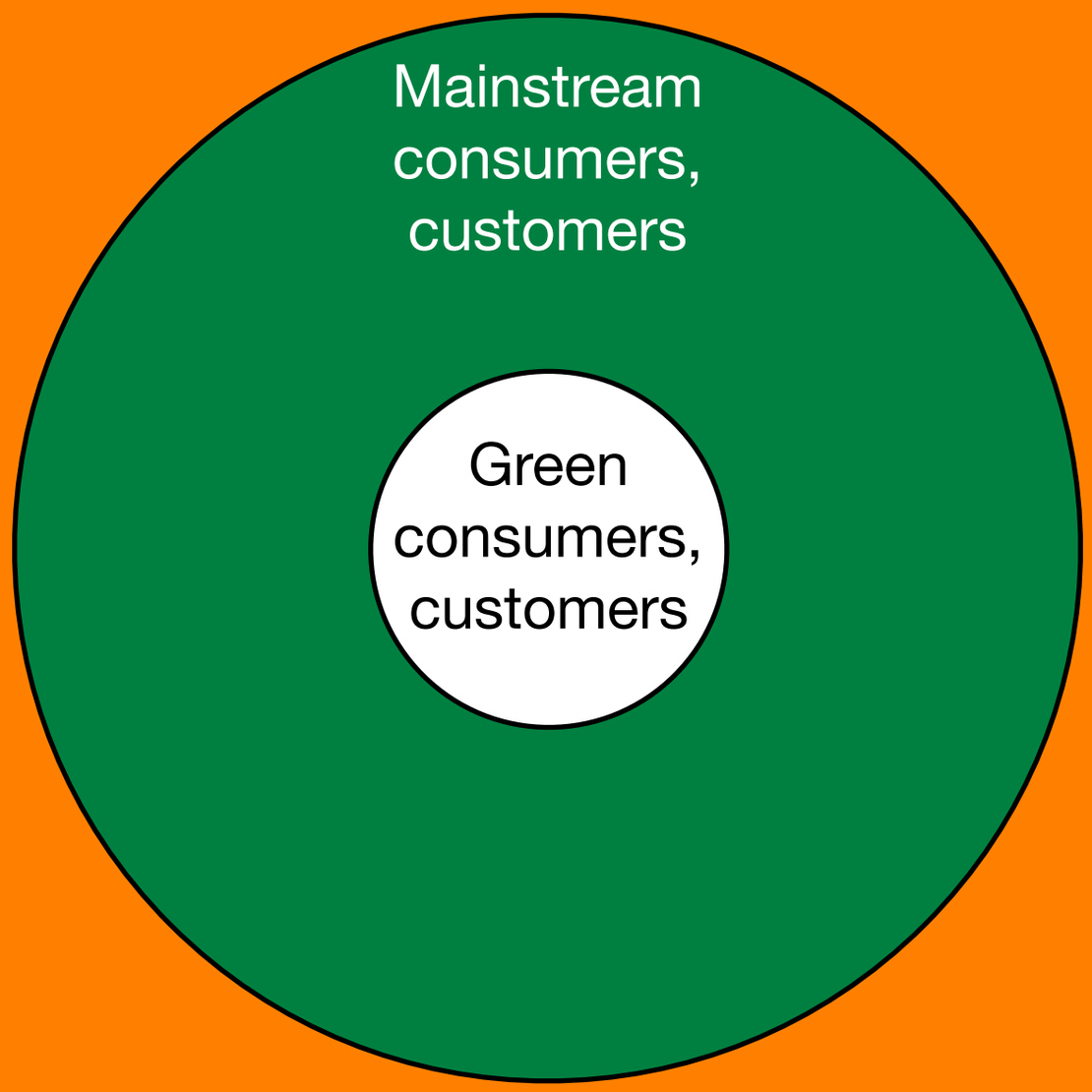
DRIVERS: INTERNAL

Full time CR staff, “believers”

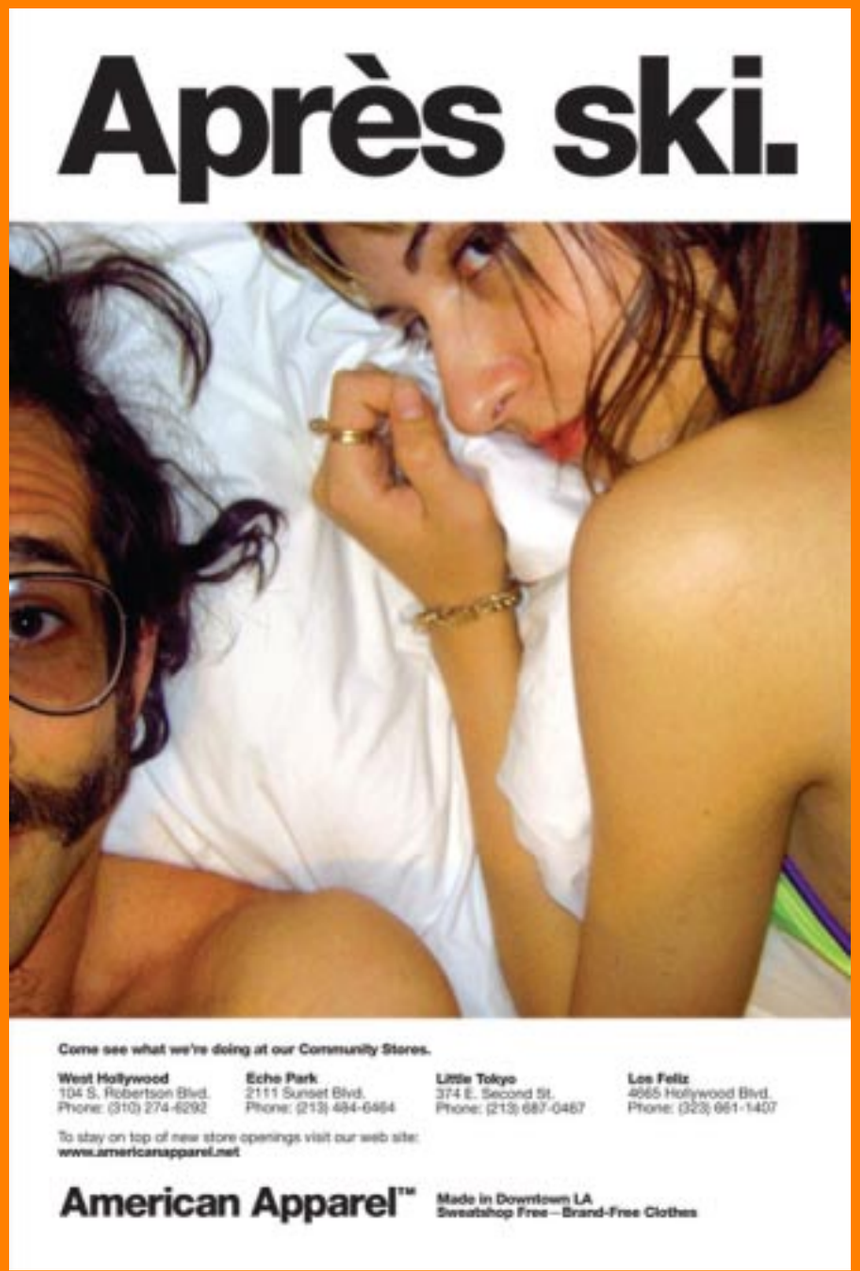
Employees “in the business”

Senior management

DRIVERS: EXTERNAL



DRIVERS: EXAMPLES



DRIVERS: YOUR EXPERIENCES

- What stage are you at internally with sustainability integration? Are people asking for the business case?
- Is your organization using sustainability to reach mainstream consumers and customers?
- What are some other examples of companies successfully reaching the mainstream with sustainability?

NIKE CASE STUDY: HISTORY

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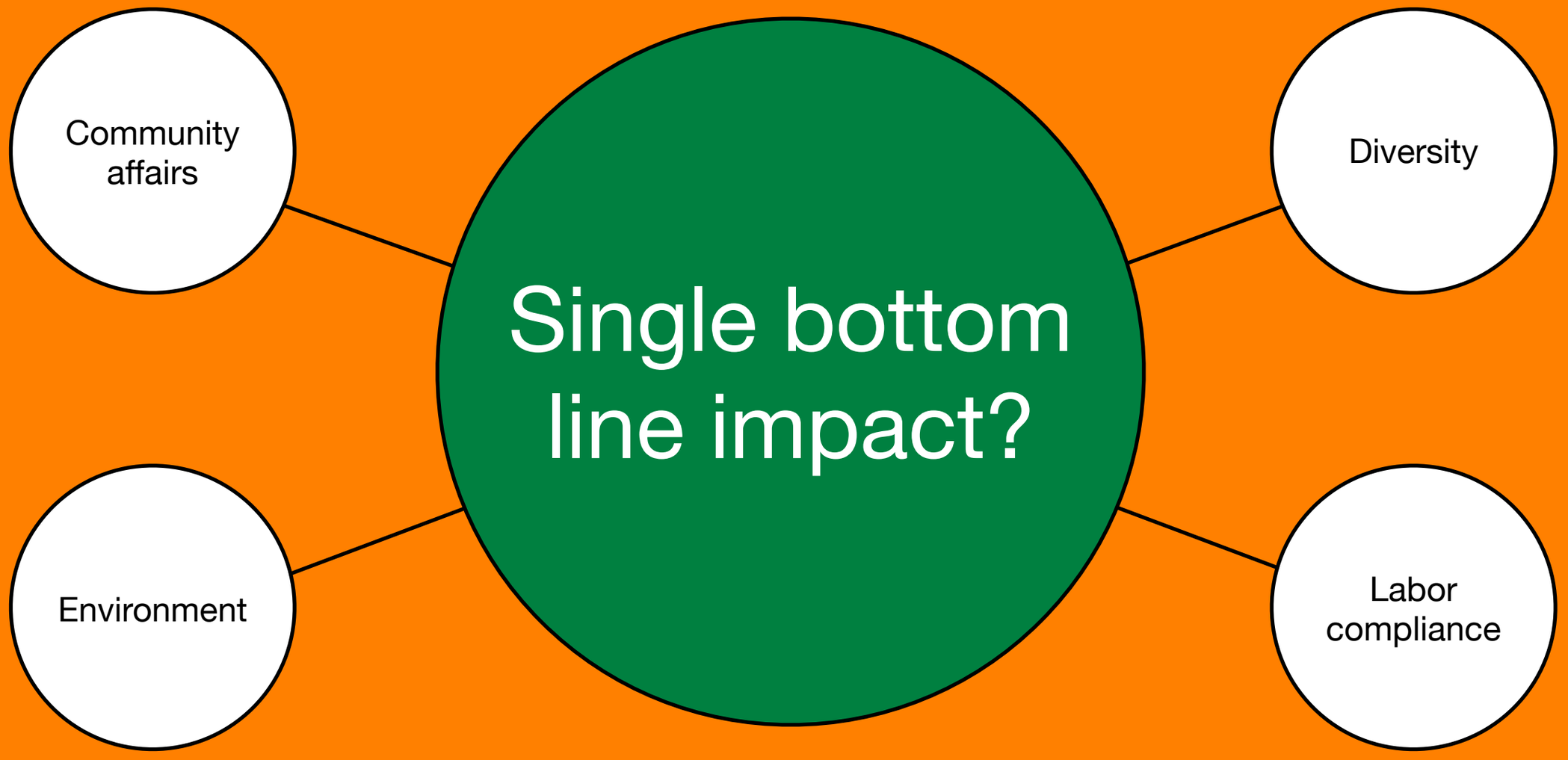
NIKE CASE STUDY: TODAY



NIKE CASE STUDY: INTERNAL DRIVERS

CR staff,
Sustainability Network

Employees in the business without heavy CR support

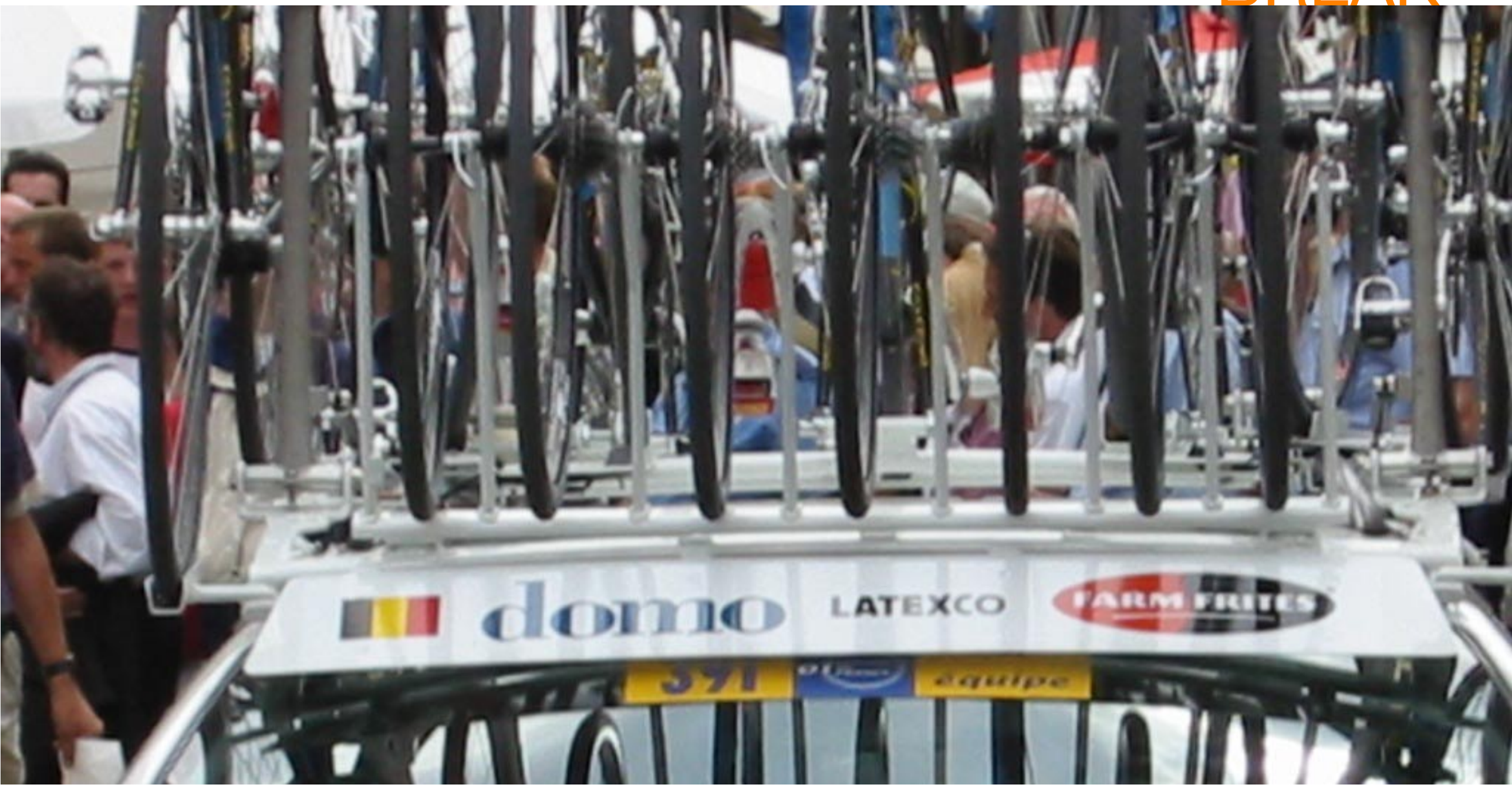
Corporate strategic plans

NIKE CASE STUDY: EXTERNAL DRIVERS

GROUP WORK

Identify your organization's strategic goals which could benefit the most from sustainability	Which internal groups and external consumers/customers do you want to influence?

BREAK



ELEMENTS OF BIZ CASE

- Operational efficiency
- New market opportunities
- Brand reputation
- Nike case study
- Group work

CONSIDERATIONS

- The business case boils down to two things – revenues and costs
- The business case may differ across industries and companies
- For some initiatives, the business case may not exist
- Not all benefits can be easily quantified

CHALLENGES

- Achieving buy-in for making the business case
  - "Why do we need to make the business case? We do it because it's the right thing to do.
- Collecting financial data on sustainability initiatives
  - Need to plan for data/metric tracking from the beginning
- Connecting sustainability staff with "right" tools
  - Connect sustainability and financial staff

FRAMEWORK

Operational Efficiency
Brand reputation
New market opportunities

EFFICIENCY: OVERVIEW

- What is operational efficiency?
  - Reducing operational costs by investing in environmental and social initiatives

- Context
  - **66% of global CEOs** stated that **cost management & reduction** have a considerable or extensive impact on their approaches to sustainability
  - **73% of U.S. companies** named **cost savings** as a primary driver of their sustainability investments

EFFICIENCY: EXAMPLES

- BP
  - Reduced GHG emissions by 18% and saved $650 million in 3 years
- Costco
  - In part due to superior benefits, Costco's employee turnover rate is half that of the industry
- Anheuser-Busch
  - Reducing the weight of cans and bottles and by recycling aluminum cans saves $200 million per year
- Holcim
  - Reducing fuel and raw material costs through the use of byproducts from other industries

EFFICIENCY: EXAMPLES

Baxter

2003 Environmental Financial Statement

Estimated Environmental Costs and Savings Worldwide ($ in millions)[1,2]

Environmental Costs	2003	2002	2001
Costs of Basic Program			
Corporate Environmental — General and Shared Multidivisional Costs[3]	0.8	0.9	0.8
Auditors' and Attorneys' Fees	0.3	0.4	0.3
Corporate Environmental and Energy — Engineering	0.7	0.7	0.5
Corporate Environmental — Information Technology[3]	0.5	0.6	0.3
Division/Regional/Facility Environmental Professionals and Programs	5.2	5.0	5.2
Packaging Professionals and Programs for Packaging Reductions	1.0	1.3	1.1
Pollution Controls — Operations and Maintenance	2.8	3.0	2.6
Pollution Controls — Depreciation	0.8	0.9	1.0
Total Costs of Basic Program	≈12	≈13	≈12
Remediation, Waste and Other Response Costs (Proactive environmental action will minimize these costs.)			
Attorneys' Fees for Cleanup Claims, NOVs	0.7	0.5	0.1
Settlements of Government Claims	0.0	0.0	0.0
Waste Disposal	7.8	7.7	8.3
Environmental Fees for Packaging[3]	1.0	0.6	1.0
Remediation/Cleanup — On-site	0.4	0.4	0.5
Remediation/Cleanup — Off-site	0.1	0.0	0.0
Total Remediation, Waste and Other Response Costs	≈10	≈9	≈10
Total Environmental Costs	**≈22**	**≈22**	**≈22**
Environmental Savings			
Income, Savings and Cost Avoidance from 2003 Initiatives			
Air Toxics Cost Reductions	0	0	0
Hazardous Waste Disposal Cost Reductions	0.3	(0.1)	(0.3)
Hazardous Waste Material Cost Reductions	1.3	(0.7)	(0.7)
Nonhazardous Waste Disposal Cost Reductions	0.7	1.0	(0.5)
Nonhazardous Waste Material Cost Reductions	10.3[7]	3.2	0.8
Recycling Income	2.3	1.1	1.0
Energy Conservation Cost Savings	3.9	3.1	2.2
Packaging Cost Reductions	1.7	2.4	2.5
Water Conservation Cost Savings	0.7	0.2	0.1
Total Report-Year Environmental Savings[4]	**≈21**	**≈10**	**≈5**
— As a Percentage of the Costs of Basic Program	175%	77%	42%
Summary Of Savings			
Total Report-Year Environmental Savings	≈21	≈10	≈5
Cost Avoidance in Report-Year From Efforts Initiated in the Six Years Prior to Report-Year[4,5]	≈48	≈53	≈60
Total Income, Savings And Cost Avoidance In Report-Year	**≈69**	**≈63**	**≈65**

IBM

2001 ENVIRONMENTAL EXPENSES WORLDWIDE

($ in millions)

Personnel	45.3
Consultant Fees	3.5
Laboratory Fees	3.2
Permit Fees	1.1
Waste Treatment and Disposal	18.8
Water and Wastewater Management Operations	23.5
Air Emission Control Operations	1.4
Groundwater Protection Operations	1.4
Other Environmental Systems Operations	1.4
Waste and Materials Recycling	3.9
Superfund and Former IBM Site Remediation	8.3
Miscellaneous/Other	3.4
Total	115.2

2001 ESTIMATED ENVIRONMENTAL SAVINGS AND COST AVOIDANCE WORLDWIDE

($ in millions)

Site Pollution Prevention and Operations	74.6
Corporate Operations	1.6
Packaging and Packaging Waste Reductions	6.5
Energy Conservation and Cost Avoidance	36.6
Superfund and Site Remediation Efficiencies	2.4
Insurance Savings*	8.0
Spill Remediation Cost Avoidance**	32.0
Compliance Cost Avoidance**	81.5
Total	243.2

** Savings achieved through use of RCRA financial assurance in lieu of environmental impairment insurance.*

*** These savings are estimates based upon assumptions. The figure for spill remediation cost avoidance is estimated from IBM's actual experience with remediation costs. Compliance cost avoidance includes consideration of potential penalties, legal fees and business interruption that are avoided. A figure for potential penalties and legal fees was estimated from an analysis of 2001 U.S. EPA data. An estimate for business interruption was based upon the potential impact of a plant shutdown.*

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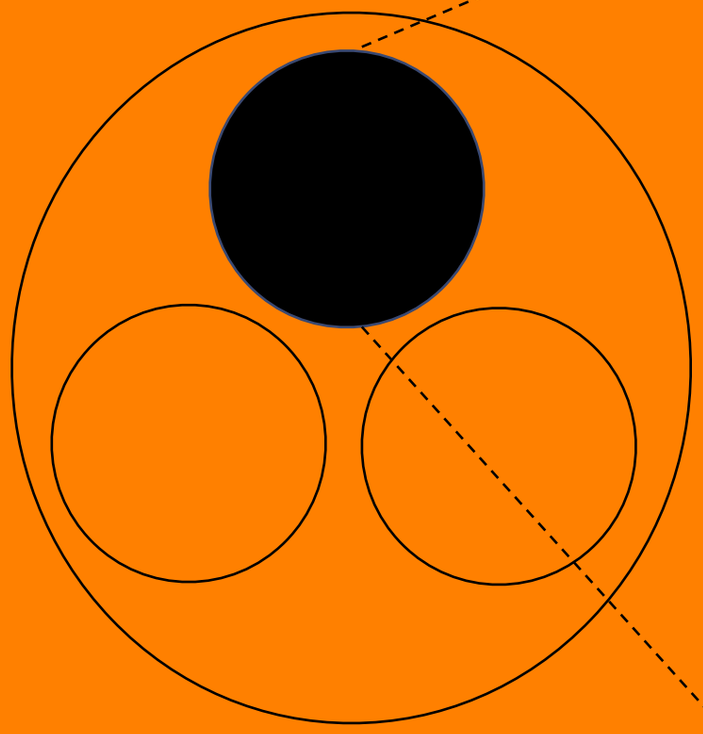
EFFICIENCY: MAKING THE CASE



Discounted Cash Flow

Cost of Capital: 15% Tax rate: 35%

Year	0	1	2
Revenue		$24,000	$30,000
Operating costs		($13,000)	($18,000)
Other costs	($3,000)	($1,500)	
Depreciation		($5,000)	($5,000)
Taxable income	($3,000)	$4,500	$7,000
Tax	$1,050	($1,575)	($2,450)
NOPAT	($1,950)	$2,925	$4,550
Depreciation	$0	$5,000	$5,000
Operating cash flow	($1,950)	$7,925	$9,550
Capital Expenditure	($12,000)		
Free cash flow	($13,950)	$7,925	$9,550

NPV	$162.48
IRR	15.9%

Include both tangible and intangible costs and benefits

EFFICIENCY: YOUR EXPERIENCES

- How have you made the case for operational efficiency in your organization?

- What barriers do you see in making this case in your organization?

FRAMEWORK

Operational Efficiency
Brand reputation
New market opportunities

OPPORTUNITIES: OVERVIEW

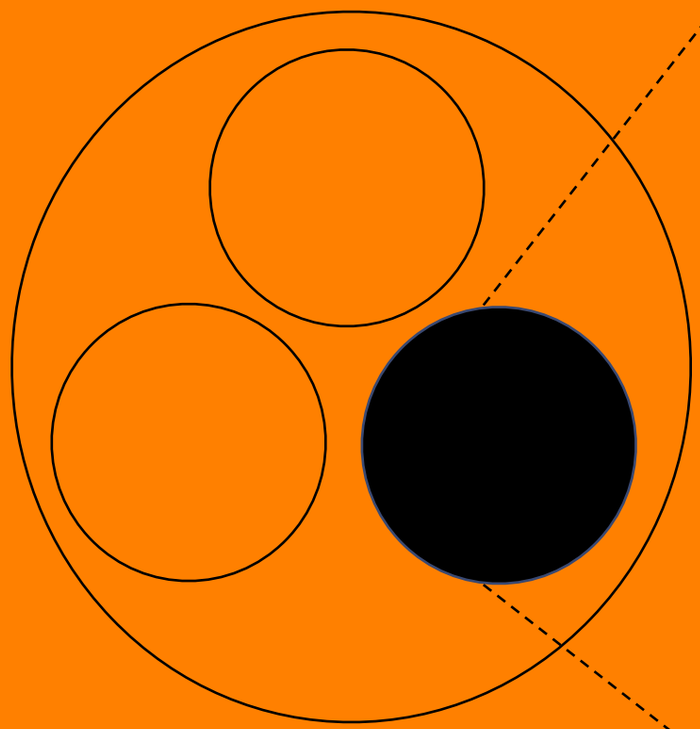
- Definition
  - Increasing revenue from new products, services or customers

- Context
  - According to the LOHAS Journal, roughly **63 million Americans** make purchasing decisions based on “sustainability” considerations – this represents a market of **$227 billion**

OPPORTUNITIES: EXAMPLES

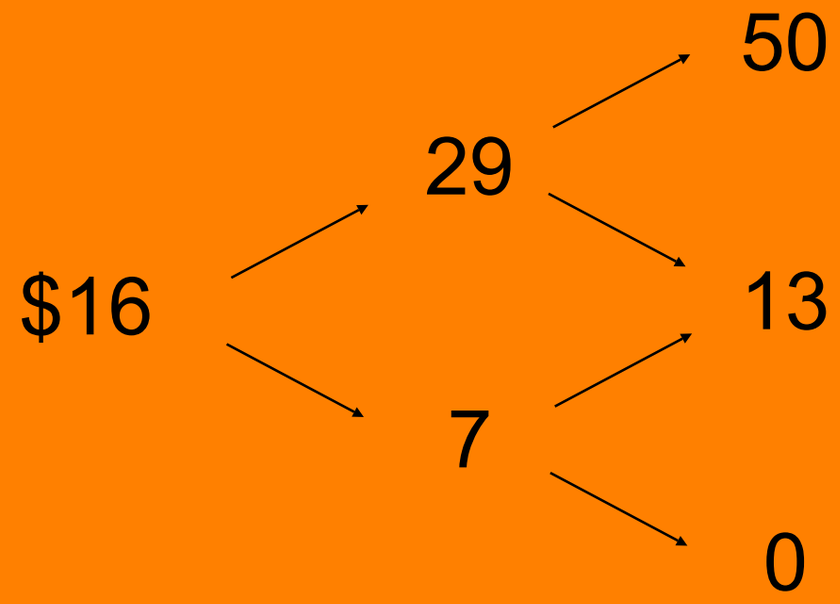
- Toyota
  - Expects biodegradable plastics market to be a $38 billion business in 2020 – it wants to control two-thirds of it
- Electrolux
  - “Green Range” has 3.5 percent higher margin than other Electrolux appliances
- Whole Foods
  - U.S. Organic product sales increased 20% in 2003 to $10.8 billion
- Proctor & Gamble
  - Affordable water purification system

OPPORTUNITIES: MAKING THE CASE



Sustainability Investment As Real Option

- Future opportunities
- Protection against downside risk



Include both tangible and intangible costs and benefits. Importance of creative thinking.

OPPORTUNITIES: YOUR EXPERIENCES

- How have you made the case for new market opportunities?
- What barriers do you see in making this case in your organization?
- Do you know of other companies pursuing sustainability-related new market opportunities?

FRAMEWORK

Operational Efficiency
Brand reputation
New market opportunities

REPUTATION: OVERVIEW

- Definition
  - Becoming the company of choice for customers, employees, suppliers, etc.
  - Managing the risk of lost revenues and increased costs due to poor environmental and social performance

- Context
  - Reputation and brand are the primary drivers of sustainability activity according to several PwC surveys
  - Many of today's leading companies on social and environmental issues are big brands that have been targets in the past

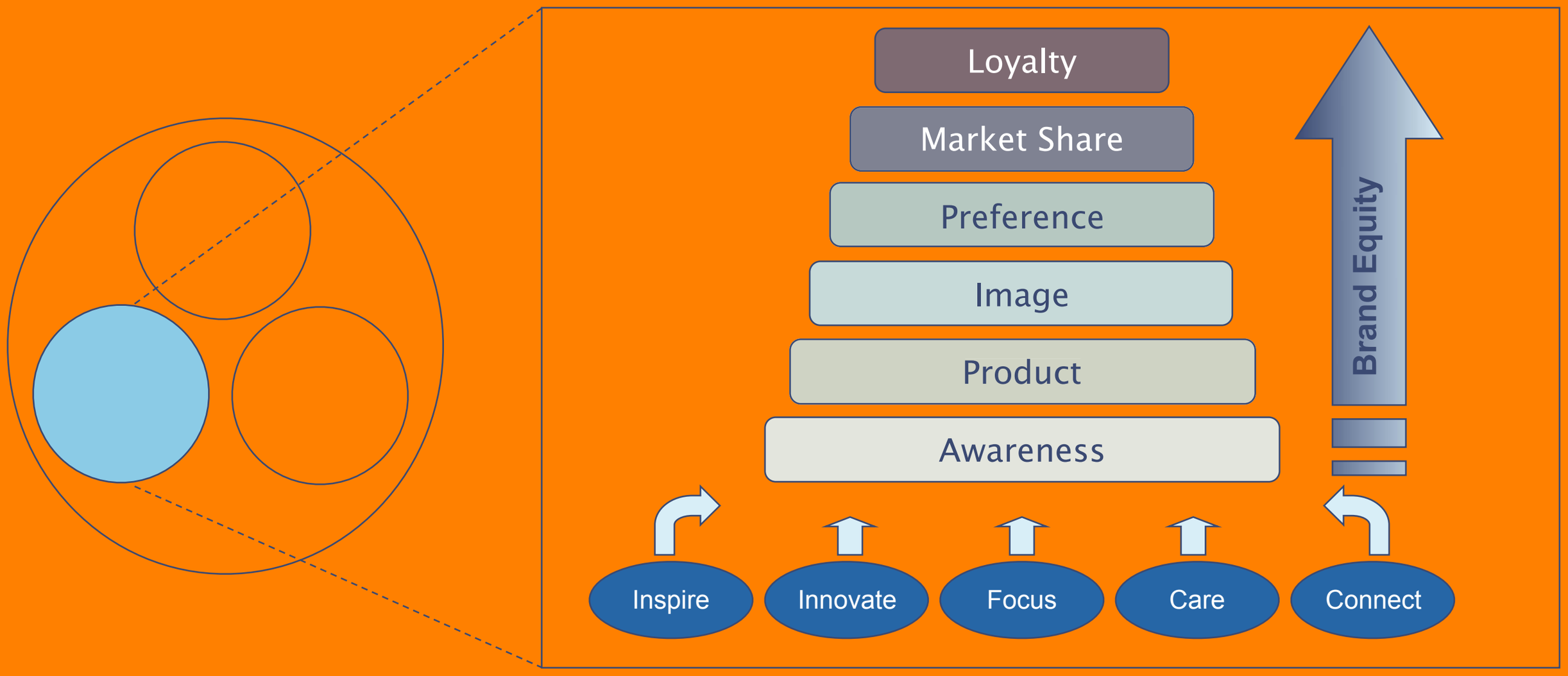
REPUTATION: EXAMPLES

- Stanford MBA study
  - More than 97% of survey respondents were willing to forego financial benefits to work for a company with a better reputation for CSR and ethics
- Cone-Roper study
  - 2/3 have greater trust in companies that are aligned with a social issue, and 2/3 said that they would be likely to switch to a brand aligned with a good cause, all else equal
- Numerous examples of brand/reputational damage
  - Exxon, Shell, Pilgrim's Pride, etc

REPUTATION: MAKING THE CASE

- Tools to make the business case
  - Most difficult to quantify, but there are some options
    - Customer surveys
      - Cost savings of employee retention
      - “Advertising” value of media coverage
  - Qualitative approaches
    - Fit with brand values

REPUTATION: MAKING THE CASE



"Sustainability is an indispensable dimension of the brand"

"Our role as a leader is to assume a level of responsibility greater than others and to make sure the brand operates at the highest level on everything we do….period!"

REPUTATION: MAKING THE CASE

- Survey of 15 to 45 year olds to assess the impact of social and environmental issues on purchase decision
- Asked, “Why did you choose not to buy Nike at least once?”
  - X% said they did not purchase Nike due to labor concerns
  - Y% said they did not purchase Nike due to environmental concerns

Cost to Nike

Assuming 10% don’t buy

Average Nike retail purchase	$X	**$Y**	$Z
Revenue	$XX	**$YY**	$ZZ
Operating profit	$XXX	**$YYY**	$ZZZ

REPUTATION: YOUR EXPERIENCES

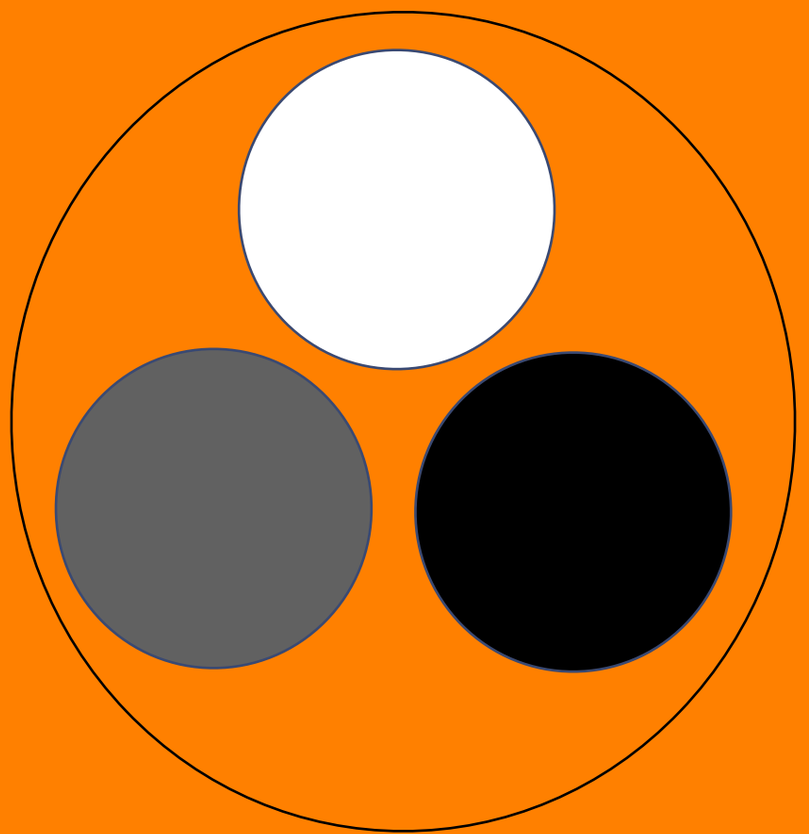
- How have brand and reputation impacted your approach to making the business case?

- What barriers do you see in making this case in your organization?

NIKE CASE STUDY

Three main sources of value for Nike's sustainability efforts

Impact the Bottom Line



Enhance the Brand

Lead the Future

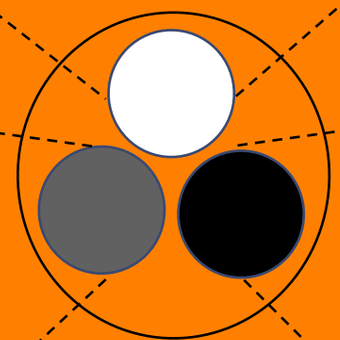
NIKE CASE STUDY

- Since 1993, over 13 million pairs of athletic shoes recycled
  - Shoes separated and granulated into Nike Grind
  - One step in eliminating the concept of waste
- Nike Grind and royalties used to build sports surfaces
  - Nike Grind in playgrounds, running tracks, football fields around the globe
  - Nike earns royalties for use of Nike Grind Trademark
  - Anniversary Project - gift of 90 new courts at 35 Portland area parks

NIKE CASE STUDY

NPV: $X

IRR: Y%



Enhance the Brand

- Innovate
- Care
- Inspire
- Focus

Lead the Future

- **Opportunity to differentiate the brand**
- **Enter sports surfacing business**
- **Hedge against future legislation**

GROUP WORK

Elements most relevant to your business case	Prioritize based on business need

LUNCH

DEVELOPING YOUR BUSINESS CASE

- Building your framework
- Researching data
- Involving the right people
- Nike case study
- Group work

BUILDING YOUR FRAMEWORK

- Align with organization’s mission
- Align with strategic goals of the business

FRAMEWORK: YOUR EXPERIENCES

- Does the “Efficiency,” “Reputation,” and “Opportunities” model work for you?
- Are there other shared mental models commonly used within your organization?

RESEARCHING DATA EXAMPLES

- Different methods of quantification (ROI, NPV, payback, real options analysis)
- Tangible and intangible benefits
- Customer surveys, cost savings of employee retention, value of media coverage
- Fit with company/brand values

RESEARCHING: YOUR EXPERIENCES

- Have prior analysis been done on sustainability projects?
- Are financial metrics/project data easily available?

INVOLVING THE RIGHT PEOPLE

- Team (CR staff, employees in the business)
- External help (consultants, interns)
- Build an internal network of people with access to key data (valuable for future initiatives)
- Flexibility and patience!

  “It is essential to employ, trust, and reward those whose perspective, ability, and judgment are radically different from yours. It is also rare, for it requires uncommon humility, tolerance, and wisdom.” -Dee Hock

PEOPLE: YOUR EXPERIENCES

- Do you have a strong network already in place?
- Consultants and internship programs you would recommend

NIKE CASE STUDY

- Building the team to conduct the research
- Background research (external and internal)
- Conducting interviews at all levels of the organization
- Many challenges encountered along the way

GROUP WORK

Your organizaton's strategic goals that fit best within the framework	Action plan (who to involve, research tools to use, timeline estimates)

BREAK

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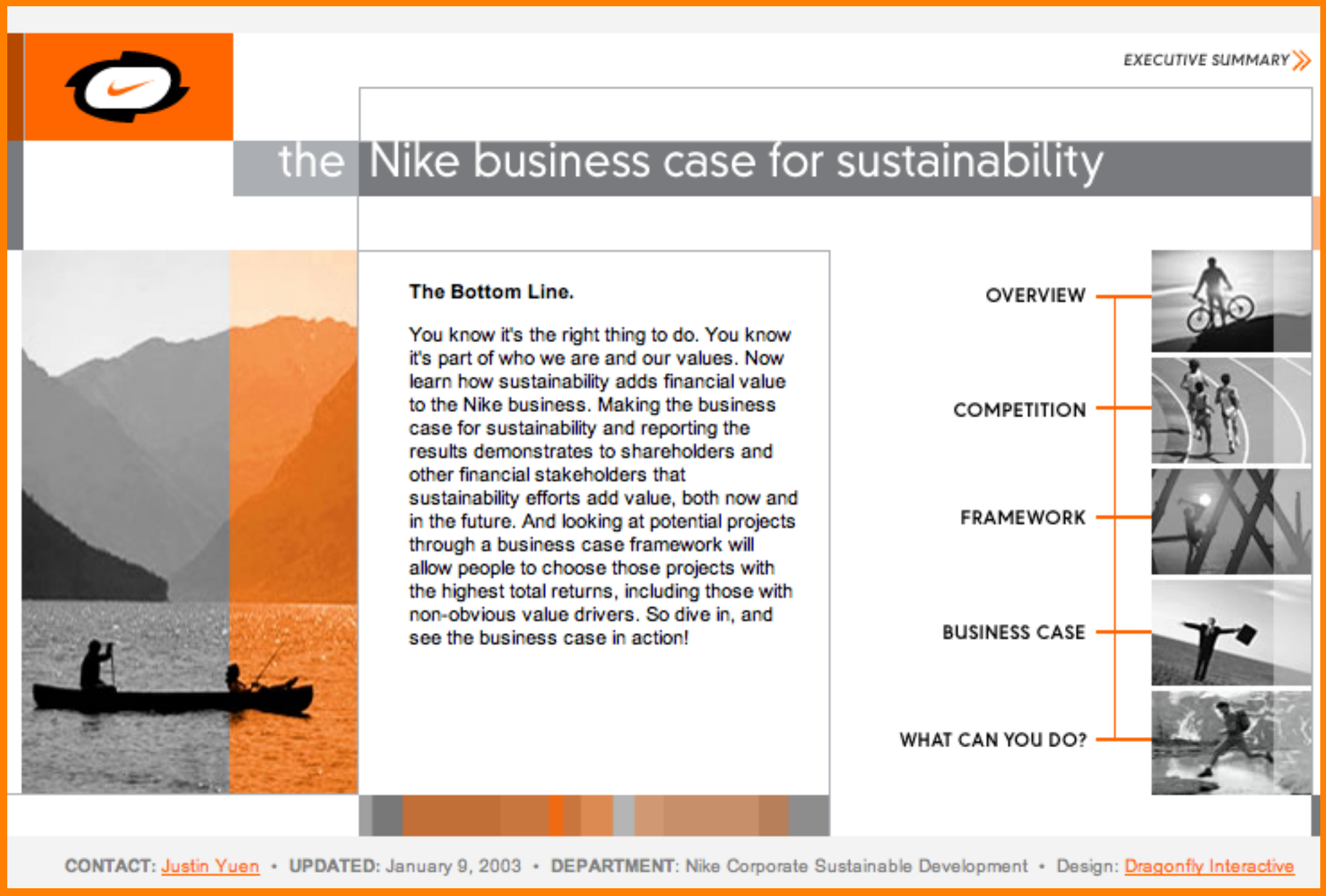
IMPLEMENTING YOUR BUSINESS CASE

- Presenting the findings
- Integrating into the business
- Tracking results
- Nike case study
- Group work

PRESENTING THE FINDINGS

- Educate by raising awareness at all levels
- Clear message (speak language of the business)
- Recommended strategy/targets/measurables

PRESENTING: NIKE CASE STUDY



- Management presentation
- Employee website

PRESENTING: YOUR EXPERIENCES

- What has been the reception for prior presentations? What would you have done differently?
- How is communications handled for sustainability information?

INTEGRATING INTO THE BUSINESS

- Make the biz case a living document by being a part of strategic goals and day to day business
- Select divisions/departments with the best opportunities (strategic plan-wise, and people-wise) for expansion of sustainability activities
- Utilize network to customize biz case for the divisions/ departments and get programs started

INTEGRATING: NIKE CASE STUDY

- US Retail
  - Leadership
  - Consumers
  - Existing projects
- Global Equipment
  - Leadership
  - Footprint
  - Existing projects

READY

Making the link to the business

	FY04	FY05-07

RETAIL GOALS

- Consumer Experience
- Concepts
- Operations
- Numbers
- Talent

GB GOALS

- Waste
- Toxics
- Recoverable
- Live
- Work
- Play

INTEGRATING: YOUR EXPERIENCES

- What areas of your organization represent the low-hanging fruit for expansion of sustainability?

TRACKING RESULTS

- Follow up on goodwill generated by presentation by proving the results
- Serve as a means to promote progress with new divisional/ departmental initiatives
- Increase transparency and help with reporting process for stakeholders

TRACKING: NIKE CASE STUDY

- Online interactive resource for best practices and metrics
- Scorecards
- Corporate Responsibility Report

GROUP WORK

Areas in your organization to integrate the business case results	Action plan (communication, system to track results, timeline estimates)

BREAK

GROUP PRESENTATIONS

- Summary of four group work sessions
- Discussion of results and next steps
- Additional resources

POWER OF ONE

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