



CONSUMER AND
RETAIL GROUP



The Grocer's Sustainability Playbook:

How sustainability can boost your
bottom line

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Does sustainability need to come at the expense of profit?

The answer is an emphatic, “No!” In fact, being a more environmentally responsible retailer typically means being a more effective and profitable one.

In this article we will discuss why sustainability is more critical now than ever, break down everything encompassed in the term “sustainable” for the grocery industry, and provide practical tips from our team of former operators that grocery leaders can put into practice in the next three to six months to both improve performance and be more environmentally responsible.

While the supply chain shocks and labor shortages of the pandemic have pulled the focus of many executives away from sustainability, savvy grocers are acting now to meet the demands of today's eco-conscious consumer and investor.



Sustainability: Then and Now

Sustainability is far from a new phenomenon.

Starting in the 1960's with industries ramping up their focus on pollution control, to corporations leveraging sustainability in their communications in earnest in the 1980's, to entirely new categories emerging with the rise of green consumerism in the 1990's, sustainability is a movement with long-established roots¹. The grocery industry specifically has seen these trends evolve over time as consumers continue to learn how their food impacts the planet and demand sustainable products.

Companies have responded in kind with increasing environmental promises, but unfortunately, these promises are often more rhetoric than action. The phenomenon, known as “greenwashing,” is defined in the Oxford Dictionary as “disinformation disseminated by an organization so as to present an environmentally responsible public image.”

For example, the research group New Climate Institute recently analyzed the climate plans of 25 multinational corporations², including large retailers and grocers, and rated them poorly on integrity and transparency. At the product level, misleading branding practices have become common, with ambiguous terms like “good for the planet” or “natural” being used to entice environmentally conscious consumers.

Simply signaling sustainability will no longer suffice. Today, it is more important than ever for grocers to accelerate true sustainability initiatives as consumers and investors increasingly demand transparency and concrete, immediate action.



¹ Harvard Business School, 2018, “Business and Sustainability: New Business History Perspectives”

² NCI, Corporate Climate Responsibility Monitor, 2022



A Case for Action: Millennial and Gen Z demand

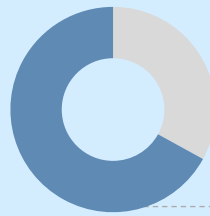
Millennial and Gen Z influence continues to grow.

Millennials, the oldest of which just turned 40 years old, are already the largest cohort of the US population at 72 Million³, with Gen Z expected to take over that mantle in 2034⁴. These shoppers are flexing their influence and driving sustainability across industries. From fashion, where they are powering a wave of demand for re-using clothing, or “re-commerce,” to beauty, where, according to A&M CRG’s recent survey, 7 in 10 consumers are willing to pay more for sustainable products, their influence is undeniable. But with the USDA forecasting that food prices will rise 8.5-9.5% in 2022, are consumers still pushing for sustainability at the grocery store? As the data on the right of this page show, the answer is clearly yes.

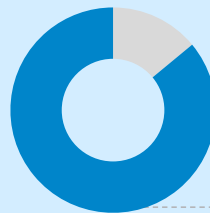
Grocers who accelerate sustainability efforts today will be positioned to win as these shoppers reach their peak working years.

72 Million Millennials

The largest cohort of the U.S. population³

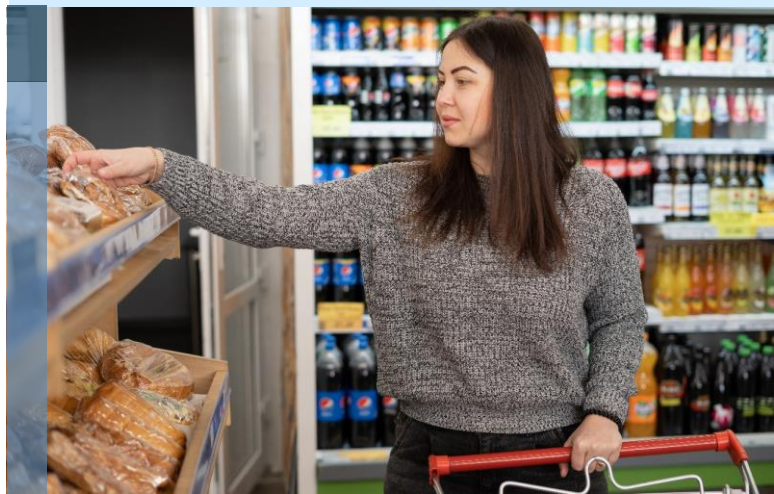


67% of Millennials believe their personal food choices have at least a moderate impact on the environment⁵



86% of Millennials stated they would be willing to spend at least 10% more for sustainable products⁶. This has *increased* during the pandemic from 50% in 2019.

- <https://www.morganstanley.com/ideas/millennial-gen-z-economy>
- <https://www.retaildive.com/news/secondhand-market-reach-82b-2026-thredup/624123/>
- IFIC, 2022 Food and Health Survey
- The University of Pennsylvania’s Wharton School and First Insight, Nov. 2021, “The State of Consumer Spending: Gen Z Influencing All Generations to Make Sustainability-First Purchasing Decision”





A Case for Action: Investors require transparency



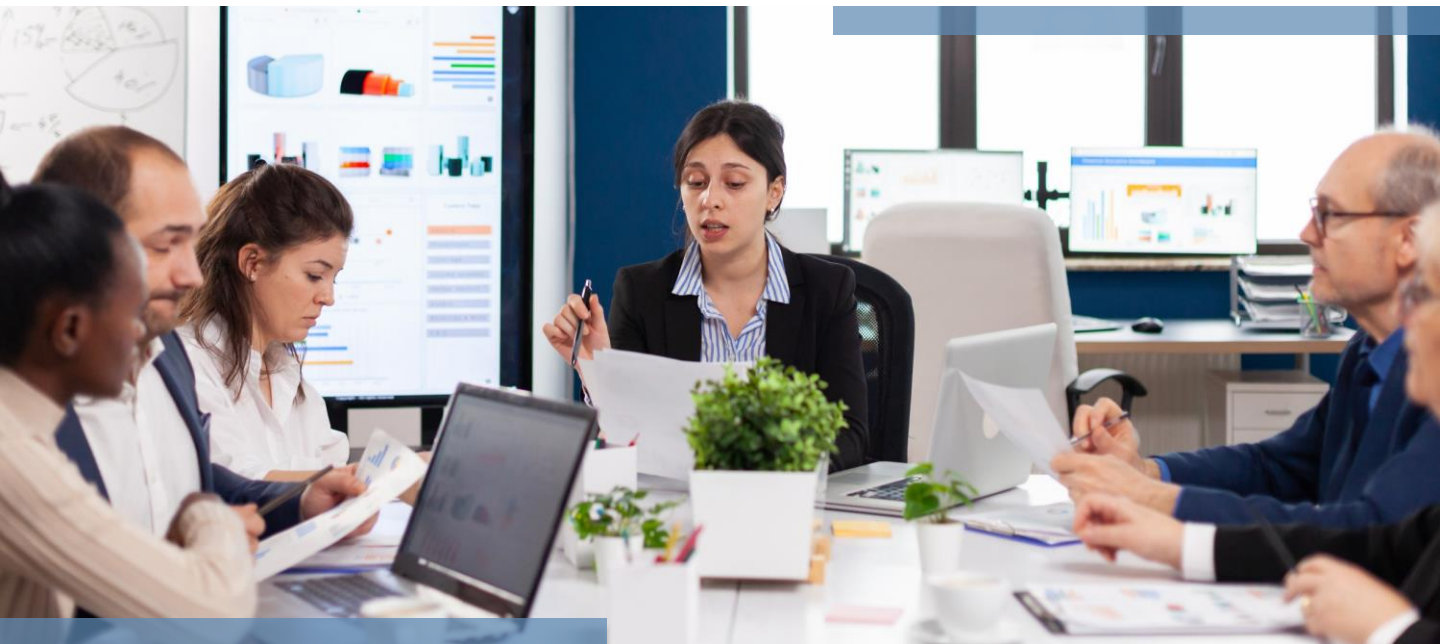
Investing in sustainability

There are currently **\$4 Trillion** in sustainable investments, according to BlackRock.

Importance of sustainability is growing among investors.

It was January 2020 when Larry Fink, Chairman and CEO of BlackRock, one of the largest investment management firms in the world, first wrote in his annual letter to CEOs that “climate risk is investment risk.” In this year’s letter, he reinforces this message, emphasizing that decarbonization will play a major role in investment decisions, and highlights a “tectonic shift” in the investor community, with sustainable investments now reaching over \$4 trillion.

In parallel, rigorous climate reporting could become law. The SEC has proposed enhanced climate-related disclosure standards for both public companies⁷ and investors⁸, including reporting on the environmental impact of assets not owned by the company itself, known as Scope 3 emissions, like those of suppliers. Both propositions are still under consideration as of this article’s release.



7. <https://www.sec.gov/news/press-release/2022-46>

8. <https://www.sec.gov/news/press-release/2022-92>

Defining Sustainable Grocery



Despite the consensus around the importance of sustainability, the term “sustainability” itself can be difficult to define for grocers. From offering sustainably caught fish, to reducing the use of plastic bags in stores, to cutting carbon emissions, there is a seemingly endless set of priorities under the umbrella of sustainability. So before embarking on a journey to help the planet, it is helpful to first define how exactly a grocer can be sustainable.

THERE ARE THREE MAIN AREAS WHERE A GROCER CAN DRIVE MEANINGFUL ENVIRONMENTAL BENEFITS.



Merchandising

Offer sustainable products that either preserve ecosystems, maintain ethical standards, or use environmentally conscious packaging.



Supply Chain

Cut carbon emissions from freight or reduce food waste across the supply chain with more accurate inventory management.













Store Operations

Stores can reduce food waste, use sustainable supplies, or leverage sustainable energy sources to power operations.



A Framework for Sustainability

Sustainability measures can be categorized within these three areas according to the environmental benefit they are designed to impact.

| | | BENEFIT & EXAMPLES | | |
|--------------------------|---------------------------|---|--|---|
| MERCHANDISING | Products | Preserve Ecosystems | Sustainably caught salmon, Rainforest Alliance certified bananas, row crops (e.g. corn, soybeans) with soil health and fertilizer optimization plans |  |
| | | Maintain Ethical Standards | Cage-free eggs/poultry, beef without added hormones or antibiotics, fair-trade Coffee |  |
| Packaging | Less Material | Re-usable containers, removing excess or unnecessary packaging, increasing items sold without packaging (e.g. produce, nuts etc...) |  | |
| | More Sustainable Material | Soda in rPET recycled plastic bottles, energy bars in plant-based biodegradable wrappers |  | |
| SUPPLY CHAIN | Transportation | Reduce Emissions | Source products domestically over imports, use electric vehicles, or improve freight utilization |  |
| | Distribution & Inventory | Reduce Food Waste | Improve forecasting and planning to eliminate waste in warehouses and DCs |  |
| STORE OPERATIONS | 4-Wall Operations | Reduce Food Waste | Improve in-store inventory management, donate excess food |  |
| | | Use sustainable store supplies | Offer alternatives to plastic bags, e.g. reusable produce bags, offer biodegradable utensils |  |
| | Infrastructure | Save Energy | Energy-efficient LED lights, active management of the HVAC system during off hours |  |
| Use green energy sources | | Install solar panels, taking advantage of any local/state/federal incentives |  | |

Practical Tips for the Near-Term: Driving Sustainability while Improving Business Performance



There are two common misconceptions about sustainability amongst grocers. First, that sustainability comes at the expense of profitability. And second, that the only way to strive for sustainability is with large, complex, enterprise-wide programs like those at the world's leading sustainable retailers like Whole Foods and Aldi.

Luckily, neither needs to be true. **In fact, being a more effective retailer often means being a more sustainable one, too.** Sustainable products drive top-line growth, margin expansion, and shopper loyalty. Keeping a watchful eye on wasted materials benefits the environment while minimizing costs and shrink. Having less energy-intensive operations saves costs and reduces emissions.

TIPS FROM OUR TEAM OF FORMER OPERATORS

Here is a set of quick wins across these three areas that grocery leaders can execute in the next 3 to 6 months to benefit the planet, along with practical tips to maximize the financial benefits of those efforts.

1 | Merchandising



Make targeted assortment upgrades by leveraging the sustainable product offerings of current suppliers.

2 | Supply Chain



Identify quick wins like reducing store delivery frequency and shifting to more domestic sourcing

3 | Store Operations



Improve inventory management to reduce waste, focusing on the most problematic categories in fresh

4 | Reap the Benefits



Incorporate messaging and story-telling to get credit for sustainability efforts.



Make targeted assortment upgrades by leveraging the sustainable product offerings of your current suppliers.

- Sustainable products are not only good for the environment; they also drive top-line and gross-margin. A recent survey showed that 86% of millennials stated they would be willing to spend at least 10%⁸ more for sustainable products, a rate that has increased during the pandemic.
 - One theme from the A&M CRG team's past experience is that most retailers do not fully leverage their existing vendors' offerings. Typically, they are simply not aware of sustainability efforts already in place.
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- As the saying goes, "a rising tide raise all ships", meaning the sustainability programs of **national retailers have already led to improved sustainability efforts across vendors, which can be leveraged by other grocery retailers with minimal effort.**
 - Further, there are opportunities to simply update the packaging of current products to highlight eco-friendly attributes that the retailer was not clearly communicating on labels.
 - With so many products to consider, it is critical to focus on the categories where sustainability matters most to customers and highlight the sustainable attributes that best resonate. Incorporate sustainability into existing or future consumer insights efforts and direct category managers to engage vendors to source items which satisfy these demands.

Implement quick wins like reducing store delivery frequency and shifting to more domestic sourcing

- In response to supply vulnerabilities exposed during the pandemic, food retailers across the globe are working to reduce miles and shorten supply chains. And with transportation accounting for 27% of greenhouse gas emissions in the U.S.⁹, they are also fighting climate change. But in order to make an impact, grocers do not need to take dramatic steps like Walmart, which is adding 4,500 electric vehicles to its fleet¹⁰.
- Simply shifting to domestic product sources can reduce this risk. Getting canned corn from Wisconsin rather than Thailand can make a big difference. And with the cost of containers up 4x since July 2020, this also saves on freight. From a sustainability perspective, this directly reduces emissions.
- Additionally, as supply shortages during the pandemic-plagued retailers, grocers responded by increasing the frequency of delivery to stores.



Many grocers have not returned to pre-pandemic delivery schedules now that supply chains have begun to stabilize. A fresh look at delivery frequency and on-shelf-availability can unlock meaningful savings and cut emissions.

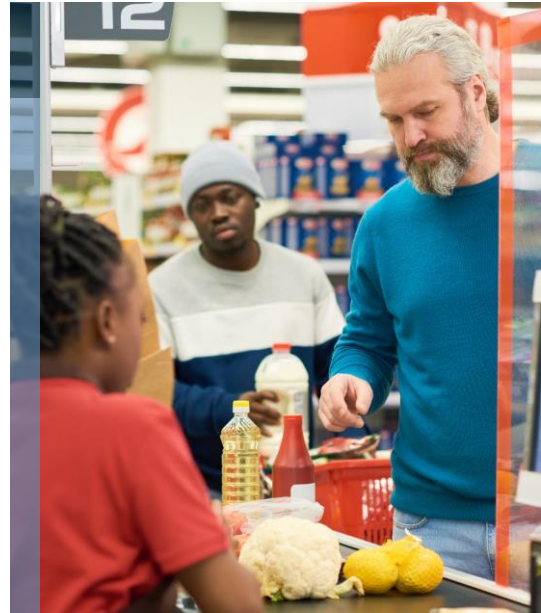
9. EPA.gov, Sources of GHG emissions

10. Reuters: "Walmart to electrify its delivery fleet with Canoo EVs," July 12, 2022

11. Wall Street Journal, "Container Shipping Prices Skyrocket as Rush to Move Goods Picks Up," July 5, 2021

Improve inventory management to reduce waste, focusing on the most problematic categories in fresh

- Over 40 billion pounds of food is wasted in grocery stores in the U.S. every year, according to the USDA. This waste is not only bad for the planet; it can also quickly erode margins, with typical levels of waste ranging between 5-10% across fresh departments.
- Improving inventory management not only reduces this waste, but also improves margins and drives on-shelf availability of these categories which are key drivers of primary shopper traffic.
- There are a range of tools in the marketplace to improve forecasting and ordering, but perhaps one of the most advanced is at Albertson's, where the food giant recently launched AI-powered food waste reduction technology¹² as part of its plan to reduce waste by 50% by 2030. The technology leverages data on perishability, historical sales and customer demand to optimize ordering.
- But while not every retailer has the infrastructure to launch a technology of this scale today, they can target the categories where waste is causing the biggest losses and find opportunities to make immediate improvements. For example, could targeted promotions be used to reduce excess inventory? Are existing forecasting tools being used to their fullest capability? Targeting the root cause and implementing a simple solution can have surprising results.



12. Grocery Dive, Albertsons to deploy AI-powered food waste-reduction tech chainwide." Jan., 27, 2022

04 Reap the Benefits

Incorporate messaging and story-telling to get credit for sustainability efforts

- The final, and often most difficult, step is to reap the rewards of these initiatives. This is often where sustainability efforts ultimately fail to drive profits. **In many cases, there is a gap between consumer perception of retailer's sustainability and reality.** For example, Aldi, which is actually #1 in sustainability practices according to Green Matters, does not get nearly the level of credit from consumers enjoyed by Whole Foods, which is #2.
- Grocery teams should begin capitalizing on their good deeds and hard work by incorporating sustainability messaging across marketing campaigns and digital channels. In stores, it is critical that all eco-friendly product claims are clear to shoppers on labels. For those who have QR-codes in place or who are able to invest, these codes enable customers to discover details about product origins and characteristics that would never fit on packaging or traditional in-store displays.





**Any grocer
can be a
sustainable
one, and there
is no time to
waste.**

In short, being more sustainable, whether it be in stores, the supply chain, or merchandising, goes hand-in-hand with being an effective retailer. And this is good news because sustainability is no longer just a matter of corporate responsibility. It is non-negotiable in the eyes of consumers and investors. As these trends accelerate in the coming years, grocers would be wise to prioritize sustainability coming out of the pandemic, or risk getting left behind.

At A&M, we have the experience and resources to support you during these turbulent times. We are passionate about helping companies achieve their maximum potential and be on the right side of disruption. We look forward to connecting.

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