

## ANALYSIS

Genuine corporate social responsibility doesn't just make retailers look good, it makes good business sense, writes **Emily Hardy**

# The business benefits of ethical retail

**M**orality in retail is under scrutiny like never before and one aspect is that shoppers are increasingly concerned by the impact their choices have on the planet.

In order to pay heed to this trend, many retailers are putting corporate social responsibility (CSR) back on the agenda, after it slipped down some businesses' list of priorities amid the recession.

But, aside from the warming glow associated with 'doing the right thing', what benefits can a business realise by upping its investment in this?

Kingfisher joint head of sustainability Caroline Laurie says consumers are becoming more concerned about their impact on the environment. And, according to Mintel senior trends consultant Richard Cope, this is particularly true among shoppers in their late 20s. "We found millennials are much more likely to say that they do consider ethics before making a purchase; as this generation gets older they are becoming more influential on retail," he explains.

In fact, Mintel research found 51% of people would boycott retailers that act unethically.

According to Laurie, recent data also shows that the onus is not on the consumer, but on the retailer, to act ethically. Shoppers expect retailers to understand the complex issues of CSR and be ethical at all times, making it easy for them to make the right choices at no added cost.

But are retailers' CSR efforts all just lip service to placate the modern shopper, or is having a social purpose central to their future?

## CSR and customer loyalty

Kingfisher, the Co-op and Ikea are just some of the retailers that believe that, while it is difficult to measure, there is a correlation between driving and promoting CSR and growing a loyal customer base.

Through customer research Kingfisher found, for example, that its shoppers cared in particular about keeping their homes "warm in the winter, cheap to run and free of nasty, dangerous chemicals". Consequently, it focused on offering

products that enabled customers to be energy-efficient and comfortable in their homes. Laurie says Kingfisher has calculated a saving of £750m for its customers since 2010 in energy bills as a result, which in turn supports customer loyalty to the brand and ultimately bolsters Kingfisher's bottom line. "Everything we do starts with the customer's needs, and if we meet these they will keep coming back," Laurie says.

Likewise, Co-op head of food policy Cathryn Higgs says customers expect its products to be ethically sourced, based on the ethos on which the convenience grocer is built.

She explains that, while there is a lot of competition among the grocers to offer customers keen prices, the highest standards or the best service, knowing that a retailer is focused on CSR can be the thing that "tips the balance".

"We listen carefully to what our customers care about and this helps us decide which issues to champion," she says.

"Co-op customers care about health, British farmers and British products, reducing waste, fair trade and products coming from businesses that treat workers in an ethical way. We therefore put these things at the heart of the business. Loyalty can't be guaranteed any more – retailers need to work hard and build that trust. It's one of the things that keeps customers coming back."

Not only does CSR support loyalty among existing customers, it can also boost sales.

For Kingfisher, Laurie says the commercial benefits of sustainability are significant, because its sustainable products create revenue opportunities "you can put real cash numbers against".

At present, 28% of Kingfisher's revenue is driven by sustainable products, and 36% within B&Q. "So over a third of the products



in a B&Q store have a positive impact on the environment," Laurie says.

She explains that these products, as well as giving another life to materials, are "really driving sales", particularly as they are "the same price or cheaper, the same quality and as effective" as their non-sustainable counterparts. Kingfisher hopes for 50% of revenue to be driven by sustainable products by 2020.

The same goes for Ikea, which generated nearly £70m in sales of its 'sustainable life at home products' in its last financial year – up from £26.4m in 2013.

Ikea UK & Ireland head of sustainability Joanna Yarrow says: "We want to make sustainable living attractive, affordable and

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**Cathryn Higgs, Co-op**



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**Left: Co-op customers expect its products to be ethically sourced. Above: Kingfisher's solar-panelled Trentham distribution centre. Below: B&Q's green pallets**



accessible for as many people as possible by providing products and services that help them use less water and energy, reduce waste and live healthier lives."

The furniture retailer sold 2.3 million LED light bulbs in its last financial year and anticipates that this figure will increase now it has converted its entire range to LED.

## Other gains

Another benefit of investing in CSR is direct cash savings. For example, B&Q has found a new way of working with wooden pallets. By introducing what it calls green pallets, which are reused, the DIY retailer saved £166,000 in the first nine months of last year.

Similarly, Kingfisher's Trentham distribution centre has solar panels on the roof, and Sainsbury's installs them in its petrol station forecourts, reducing overheads.

The Co-op was among the first of the grocers to introduce vacuum-packed packaging for fresh meat. The benefits of doing this, along with reducing landfill waste and increased shelf-life,

include lowering transportation costs for the retailer because the packets take up less space.

Higgs says that, while customers were initially unsure, because the colour of the meat can appear different until taken out of the packet, the change has been accepted and appreciated.

Not only can CSR bump up a business's bottom line today, it can also boost its long-term growth potential.

"The world is changing," Laurie says.

"Urbanisation, climate change, technology, an ageing population, cost of energy – the list goes on and on.

"We can't ignore this, no business can. In order to respond to the changing world, businesses need to be facing these challenges now."

The Co-op acknowledges that by doing everything it can today to address and support the food supply challenges of tomorrow, it will be better placed to provide for the needs of its customers in the future.

Likewise, Kingfisher has an ambition to be net positive – producing more resources than it consumes – by 2020 in order to minimise the risk of resources running out and to future-proof the

business. All of the timber now used within B&Q is sustainably sourced.

Laurie says that, although sustainable timber is more expensive, "there's no argument".

"You have to apply a longer lens to look at the health of your business. It helps the business directly to make the supply chain more resilient. We accept that we're investing in the long-term future of the business."

As Laurie explains, retailers don't always need an expensive, autonomous CSR department. Kingfisher has shown that improvements – not to mention savings – can be made by sprinkling the CSR thinking into every division and each colleague's mindset.

The ethical agenda is gaining traction in retail, as environmentally engaged millennials add CSR to their list of priorities.

At a time when a negative tweet can cause long-term damage to a company's reputation, retailers can't afford not to invest in CSR, because, as Mintel points out, for today's consumers there is a sense that companies are inherently immoral, unless they can demonstrate otherwise.