Building the Business Case for Sustainability
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**
VALUE OF THE BUSINESS CASE

- History
- Today
- Drivers
- Nike case study
- Group work
HISTORY: TRIPLE BOTTOM LINE

- People (Society, Equity)
- Planet (Environment, Ecology)
- Profit (Economy)
HISTORY: SUSTAINABLE RESULTS

DJSI World Performance
December 1993 - December 2004, USD, Total Return Index

- DJSI World (in USD)
- MSCI World (in USD)

177% increase
129% increase
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...
“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
TODAY: SINGLE BOTTOM LINE

Profit

$$$

/$$$/

People
Society
Equity
Planet
Environment
Ecology

Pro
fit

Economy
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?
Top Ten Reasons Respondents Have Adopted Sustainable Business Practices

(n=106 - Those who have adopted sustainable practices)

1. Enhanced Reputation - 90% (90%)
2. Competitive advantages - 75% (75%)
3. Cost savings - 73% (73%)
4. Industry trends - 62% (62%)
5. CEO/Board Commitment - 58% (58%)
6. Customer demand - 57% (57%)
7. SRI demand - 42% (42%)
8. Top line growth - 37% (37%)
9. Shareholder demand - 20% (20%)
10. Access to capital - 12% (12%)

Red = Financial  Blue = Non-Financial

Source: PwC 2002 Sustainability Survey
Drivers: Why Don’t They Do It?

Top Five Reasons Respondents Have Not Adopted Sustainable Business Practices

- No Clear Business Case: 82%
- Lack of Key Stakeholder Interest: 62%
- Lack of Senior Management Commitment: 53%
- Difficult to Measure: 47%
- Lack of Legal Requirement: 41%

Source: PwC 2002 Sustainability Survey
Drivers: Internal

- Full time CR staff, “believers”
- Employees “in the business”
- Senior management
Drivers: External

Mainstream consumers, customers

Green consumers, customers
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
NIKE CASE STUDY: TODAY

Single bottom line impact?

- Community affairs
- Environment
- Diversity
- Labor compliance
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

Sustainable innovations for all sports and fitness enthusiasts

“Cultural creatives”
| 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? |
ELEMEATS 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
<table>
<thead>
<tr>
<th>Year</th>
<th>Urban Stormwater and Other Effluent Costs</th>
<th>Non-Urban Stormwater and Effluent Costs</th>
<th>Industrial Waste and Corresponding Water Treatment Costs</th>
<th>Total Environmental Costs</th>
<th>Total Other Costs</th>
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<tbody>
<tr>
<td>2023</td>
<td>18.7</td>
<td>19.3</td>
<td>0.5</td>
<td>38.5</td>
<td>10.0</td>
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<tr>
<td>2022</td>
<td>17.3</td>
<td>17.9</td>
<td>0.4</td>
<td>35.6</td>
<td>9.5</td>
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<td>16.8</td>
<td>16.6</td>
<td>0.3</td>
<td>33.7</td>
<td>9.0</td>
</tr>
</tbody>
</table>

**Notes:**
- Urban stormwater and other effluent costs include costs related to urban sewage treatment facilities.
- Non-urban stormwater and effluent costs include costs related to non-urban sewage treatment facilities.
- Industrial waste and corresponding water treatment costs include costs related to industrial waste treatment and corresponding water treatment.
- Total environmental costs are the sum of urban stormwater and other effluent costs, non-urban stormwater and effluent costs, and industrial waste and corresponding water treatment costs.
- Total other costs include all other non-environmental costs.

**Actual vs. Budgeted**:
- Actual costs for 2023 are 18.7%, 19.3%, and 0.5% for urban, non-urban, and industrial costs, respectively.
- Budgeted costs for 2023 are 17.3%, 17.9%, and 0.4% for urban, non-urban, and industrial costs, respectively.
- Actual costs for 2022 are 16.8%, 16.6%, and 0.3% for urban, non-urban, and industrial costs, respectively.
- Budgeted costs for 2022 are 17.3%, 17.9%, and 0.4% for urban, non-urban, and industrial costs, respectively.
- Actual costs for 2021 are 16.8%, 16.6%, and 0.3% for urban, non-urban, and industrial costs, respectively.
- Budgeted costs for 2021 are 17.3%, 17.9%, and 0.4% for urban, non-urban, and industrial costs, respectively.

**Variation Analysis:**
- Actual costs are slightly lower than budgeted costs for each year, indicating cost savings.
- Further analysis may be required to understand the reasons for lower costs and to ensure sustainability in future years.
### EFFICIENCY: MAKING THE CASE

#### Discounted Cash Flow

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<th>Year</th>
<th>15%</th>
<th>Tax rate: 35%</th>
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<tr>
<td></td>
<td>0</td>
<td>1</td>
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<tr>
<td>Revenue</td>
<td>$24,000</td>
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</tr>
<tr>
<td>Operating costs</td>
<td>($13,000)</td>
<td>($18,000)</td>
</tr>
<tr>
<td>Other costs</td>
<td>($3,000)</td>
<td>($1,500)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>($5,000)</td>
<td>($5,000)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>($3,000)</td>
<td>$4,500</td>
</tr>
<tr>
<td>Tax</td>
<td>$1,050</td>
<td>($1,575)</td>
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<tr>
<td>NOPAT</td>
<td>($1,950)</td>
<td>$2,925</td>
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<tr>
<td>Depreciation</td>
<td>$0</td>
<td>$5,000</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>($1,950)</td>
<td>$7,925</td>
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<tr>
<td>Capital Expenditure</td>
<td>($12,000)</td>
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<tr>
<td>Free cash flow</td>
<td>($13,950)</td>
<td>$7,925</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
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<tbody>
<tr>
<td>NPV</td>
<td>$162.48</td>
</tr>
<tr>
<td>IRR</td>
<td>15.9%</td>
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</table>

*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
• 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
“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
• 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
| Elements most relevant to your business case | Prioritize based on business need |
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?
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
| Your organization’s strategic goals that fit best within the framework | Action plan (who to involve, research tools to use, timeline estimates) |
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

The Nike business case for sustainability

The Bottom Line.

You know it’s the right thing to do. You know it’s part of who we are and our values. Now learn how sustainability adds financial value to the Nike business. Making the business case for sustainability and reporting the results demonstrates to shareholders and other financial stakeholders that sustainability efforts add value, both now and in the future. And looking at potential projects through a business case framework will allow people to choose those projects with the highest total returns, including those with non-obvious value drivers. So dive in, and see the business case in action!
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
Making the link to the business
INTEGRATING: YOUR EXPERIENCES

• What areas of your organization represent the low-hanging fruit for expansion of sustainability?
• 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
<table>
<thead>
<tr>
<th>Areas in your organization to integrate the business case results</th>
<th>Action plan (communication, system to track results, timeline estimates)</th>
</tr>
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<tbody>
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</table>
GROUP PRESENTATIONS

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