

Fortune Favours the Brave

A £100 billion opportunity
in innovation and sustainable
growth for UK plc

#fortunefavoursthebrave

your **M&S** **accenture** **BUSINESS
IN THE
COMMUNITY**

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Five key innovations,
identified in this report,
provide the opportunity to
catalyse sustainable growth
and deliver productivity gains
worth a potential £100 billion
each year in the UK

Contents

Contents and Acknowledgements

Foreword	04
Executive Summary	06
1.0 Introduction	15
2.0 New Areas for Innovation	18
3.0 Capturing the Prize	52
4.0 A Call to Action	64
Appendices	66

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The authors would like to thank the following business leaders who gave up their time and helped inform the messages in this Report. While the views expressed in this study do not reflect the totality of opinions received from all contributing executives, their participation and guidance has been critical.



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Additional Thanks

The authors wish to thank the Ellen MacArthur Foundation for providing data to support the section on the Circular Economy in this Report.

In addition the authors would like to thank Mike Barry and Adam Elman from Marks & Spencer; James Arnott, Melissa Barrett, Bruno Berthon, Aimie Chapple, Camilla Drejer, Oliver Grange, Rod Kay, Nijma Khan, Peter Lacy, Hannah Mansour, Aimy Ngo from Accenture; Victoria Gilbert, Gail Greengross, Patrick O'Meara from BITC and also Peter Bragg, Niall Dunne, Jonathan Garrett, Matt Gorman, Marcela Navarro and the team at Dragon Rouge.

Further Information & References



The Sustainable Business Toolkit is available on the BITC website at sustainablebusiness.bitc.org.uk

Join the conversation:

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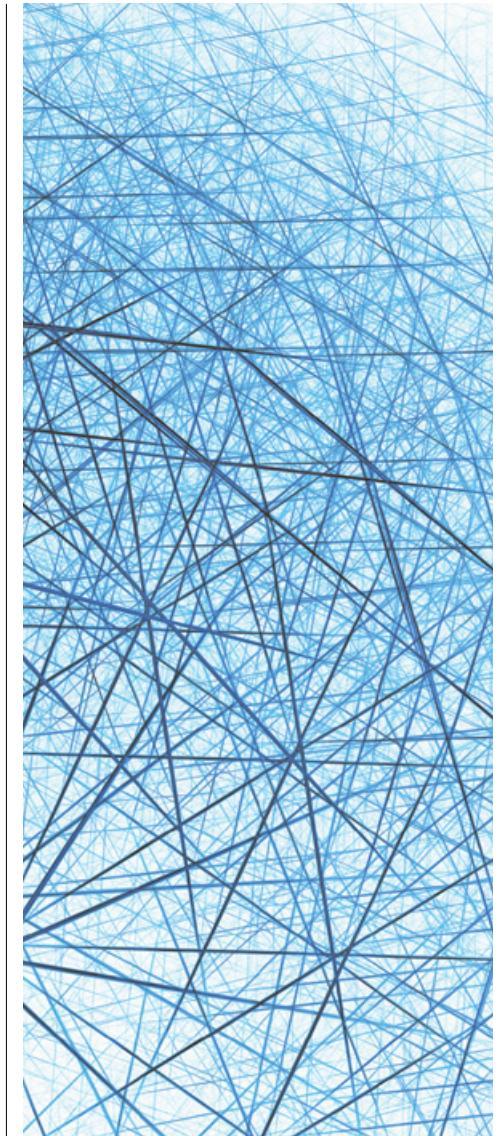
Foreword

UK businesses have the opportunity to unlock £100 billion a year in value from five opportunities for innovation.

Companies in the UK face a complex and fast-changing landscape. Consumer values are shifting and businesses need to work hard to win trust and build community support. At the same time resource constraints and environmental concerns put pressure on supply chains and profitability.

Faced with these challenges, there is a compelling need for innovation. We must accelerate progress in order to meet the changing hopes, needs and aspirations of customers, while operating in a way that wider society deems acceptable, now and in future generations.

The commercial imperative for action is clear. Our research shows that UK businesses have the opportunity to unlock around £100 billion a year in value from new innovation opportunities that address social and environmental challenges¹. By designing higher quality sustainable products, adapting the way of doing business, innovating in supply chains and engaging communities, business can better meet customer needs simultaneously creating value as well as environmental and social benefit. In other words become sustainable businesses.



Foreword

Through consultation with Chief Executive Officers across different industries in the UK, we have identified five opportunity areas for innovation. In order to support businesses to tap into these opportunities and drive sustainable growth, we are launching the Business in the Community *Sustainable Business Toolkit* alongside this report. The toolkit provides essential resources for companies to start the journey of change – to ‘Think, Test and Deliver’ a better approach to business that creates value for shareholders, employees and communities alike.

Marks & Spencer, Accenture and Business in the Community are grateful for the time and insight of all those who have contributed to our research and supported development of this report.

We encourage businesses to take forward the messages in this report, and use the Business in the Community *Sustainable Business Toolkit*. We are confident that the creative power of business can address the challenges of today and unlock a more prosperous and sustainable future for us all.

Marc Bolland

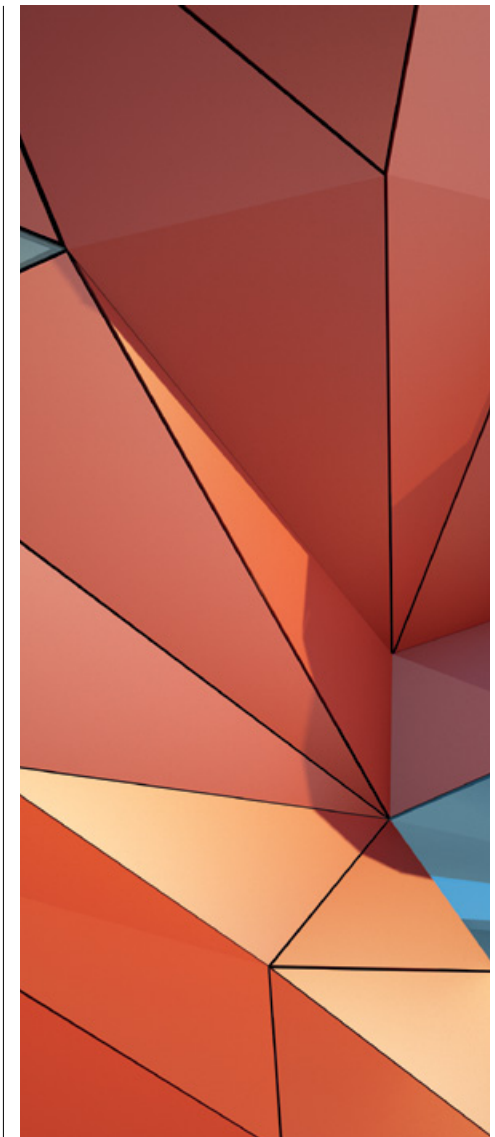
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Executive Summary

In a tough global economic environment, UK companies are seeking to future-proof their businesses and to identify new options for growth.

The economic situation is compounded by pressing social and environmental issues: a lack of trust in business; youth unemployment coupled with skills shortages; and the depletion of natural resources on which business depends. Leading Chief Executive Officers (CEOs) recognise that innovation is essential to addressing these challenges and achieving long-term success.

Five key innovations identified in this report provide the potential to catalyse direct economic and commercial benefits:

- Productivity gains worth an estimated £100 billion each year in the UK².
- Access to rapidly growing markets already worth almost £200 billion annually³ in the UK alone.

By capturing these opportunities businesses can increase competitiveness and deliver sustainable growth whilst simultaneously addressing customer needs, improving environmental performance, creating jobs and supporting social progress.

“We need to make sustainability part of our targets and an intrinsic part of our Brands.”

Marc Bolland, Chief Executive,
Marks & Spencer

“Everybody wants a racing car – But even a racing car can be fuel efficient. We need to make sustainability desirable, appealing and relevant, and by responding to customer wants, UK business will have more impact.”

Marc Bolland, Chief Executive,
Marks & Spencer



Capturing these opportunities will likely require a major shift in business thinking. Companies may need to go beyond Corporate Social Responsibility (CSR), sustainability reporting and philanthropy to ground sustainability performance at the heart of business strategy. Companies that wish to achieve sustainable growth should align their core purpose and vision with the delivery of positive societal and environmental outcomes.

At the same time businesses must work harder to engage their customers by making sustainable lifestyles an accessible, easy and better choice. Sustainability is too complicated for most customers today, and companies have a key role in educating and enabling customers whilst improving quality of life at the same time. This shift together with innovation in how businesses drive supply chain efficiency and resilience can unlock the path to a more dynamic UK economy.

Without building and maintaining adequate social and natural capital, businesses will struggle to grow and function in the way they do today. The new generation of business leaders need to unlock the innovation potential and creative drive of business to deliver growth in a very different economic environment.

“Traditional approaches to sustainability aren’t sufficient – they’re not sufficiently positive to be motivating and don’t provoke the level of change required.”

Ian Cheshire, Group Chief Executive,
Kingfisher plc

“Real material change will only come from innovation that enhances the customer value proposition whilst driving sustainability outcomes.”

Olly Benzecry, Managing Director UK &
Ireland, Accenture

New areas for innovation

Five innovation areas offer the potential to transform business in the UK by delivering more sustainable growth, making sustainable lifestyles accessible and aspirational for customers, creating positive social outcomes and building lasting value.

In the UK alone the market for these opportunities is already worth almost £200 billion annually, with the potential for productivity improvements of around £100 billion a year⁴.

Future growth potential is high. For example, over the past five years, clean technology and circular economy services have grown an estimated 24% and 18%, respectively⁵.

These innovations now need to be scaled effectively to catalyse prosperity and growth for the UK economy and commercial returns for business in both the short and long term.

“There is real power in seeing that people at the top are taking action – it inspires people to follow.”

Chris Sullivan, Chief Executive, Corporate Banking Division, RBS Group

Shared value

#sharedvalue

Companies can build the conditions for their own success by focusing on the convergence of interests with society, promoting community prosperity, improving skills and enhancing health.

Shared value approaches catalyse direct productivity gains through improved employee engagement and reduced churn and indirect returns through enhanced reputation and trust.

More with less

#resourceefficiency

Companies can drive cost savings and mitigate environmental concerns through more rapid adoption of resource efficiency and deployment of emerging clean technologies.

Clean technology companies can directly contribute to economic recovery by building skills and creating a potential 40,000 jobs each year⁶.



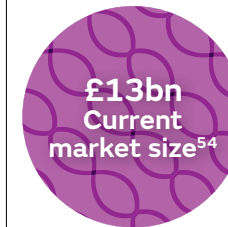
New areas for innovation

Circular economy

#circulareconomy

Companies can cut costs, improve margins and preserve natural capital by closing the loop on supply chains through product design, extending asset life, re-use and recycling.

Improved recycling technologies, growing regulation and volatile commodity prices create a compelling business case for retaining ownership of valuable materials and creating circular business models.



New consumption models

#newbizmodels

Companies can grow recurring revenue streams and help customers to live lower impact lives by enabling 'collaborative consumption', by delivering 'products as a service' and through developing compelling new customer propositions.

Technology and social media have driven resurgence in sharing and service-based business models, creating a market already worth an estimated 1% of private sector turnover in the UK⁷.



Transparency & customer engagement

#transparency

Companies can build loyalty and drive productivity gains through embedding sustainable supply chain standards and transparently sharing information on product origins with customers.

Enhanced traceability enables better resource planning and risk management and the market for 'ethical' goods and services has achieved an average 14% year-on-year growth over the past decade⁸.



Capturing the prize



Unlocking the value from these five areas of innovation demands that business leaders move beyond the current CSR and reporting-focused approaches to sustainability.

These approaches have provided a solid foundation of measurement and transparency and supported a better understanding of the inter-connectedness between business, society and the environment. However, we now need to increase the pace and scale of action.

Businesses can begin by assessing the implications of environmental and social trends on their market and identify their contribution to delivering a more prosperous and sustainable future. Companies that wish to achieve sustainable growth should align their core purpose and vision with the delivery of positive societal and environmental outcomes: doing good becomes good business. Finally investment can be channelled to test and scale the new innovations identified in this report, with a goal of delivering commercial returns and improved outcomes for society.

The UK is well placed to lead the transition to a more sustainable future and has key competitive advantages including a track record of innovation and academic excellence; high-tech engineering and information technology capability; depth of professional services and financial-sector expertise and engaged consumers who are demanding a better way of doing business.

“Business has a key opportunity today to reinvent itself – driving transformative change to help solve tomorrow’s major challenges.”

Estelle Brachlianoff, Chief Executive Officer, Veolia Environmental Services (UK)

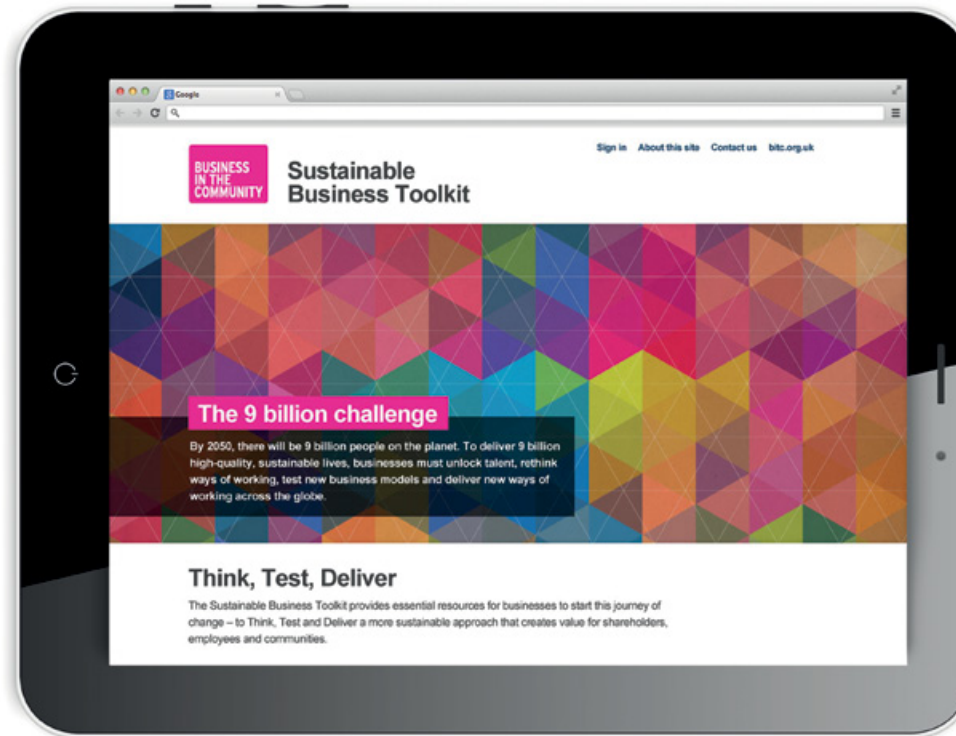
“We need to move away from CSR and transform our businesses to be better aligned with sustainability as a core goal.”

Steven Holliday, Chief Executive, National Grid

Capturing the prize

The Business in the Community *Sustainable Business Toolkit*, launched alongside this report, provides essential resources for companies and business leaders, to start the journey of change – to ‘Think, Test and Deliver’ a better approach to business.

For many companies the journey will start with small steps. However, with a clear vision and through testing new ideas, companies can create options to scale-up and deliver the transformational change required. The challenges may be significant but the commercial opportunity is clear. Bold leadership is required.



“Sustainability has moved from something that’s feel good, to something that’s far more integrated with what is required for our future success.”

Paul Walsh, Chief Executive,
Diageo

“Business can use action on sustainability to restore its reputation and trust.”

Andy Wood, Chief Executive,
Adnams plc

About us and our approaches to sustainability

Marks & Spencer

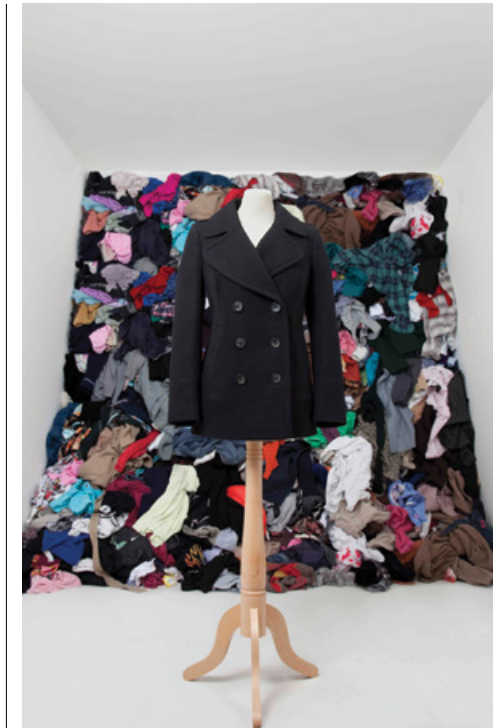
Marks & Spencer is one of the UK's leading retailers selling stylish, high quality, great value clothing and home products, as well as outstanding quality food, responsibly sourced from around 2,000 suppliers globally. Over the last 129 years M&S has grown from a single market stall to become an international multi-channel retailer. We now operate in over 50 territories worldwide and employ almost 82,000 people. Remaining true to our founding values of Quality, Value, Service, Innovation and Trust, we work hard to ensure our offer continues to be relevant to our customers.

We launched Plan A in 2007 because we recognised that the way business worked had to change. One area in particular is how we source raw materials and products. Our business is all about quality and we cannot

deliver quality products for our customers without quality raw materials. We've switched to more sustainable sources for many raw materials. However, we also realised it wasn't just about sourcing raw materials responsibly but also how we could prevent waste and recover materials too, ensuring that precious resources are used again and again. It's a year since M&S launched 'shwopping' – an initiative that encourages customers to bring old items of clothing into the store. The goal is to reduce the one billion items of clothing sent to UK landfill each year by creating a closed loop where all garments are re-used and recycled – currently through a partnership with the global poverty campaign Oxfam. Within six months of launch, the first M&S coat made from recycled wool brought back from Oxfam was on sale in the shops. This illustrates the power

of setting bold targets, driving innovative solutions and sending a signal about the potential for closed-loop textiles.

The launch of Plan A in 2007 and its expansion in 2010 was our response to changing social and environmental issues. Plan A has made our business more efficient, more rewarding and more engaged. Find out more at: **www.corporate.marksandspencer.com/howwedobusiness**



About us and our approaches to sustainability

Accenture Sustainability Services

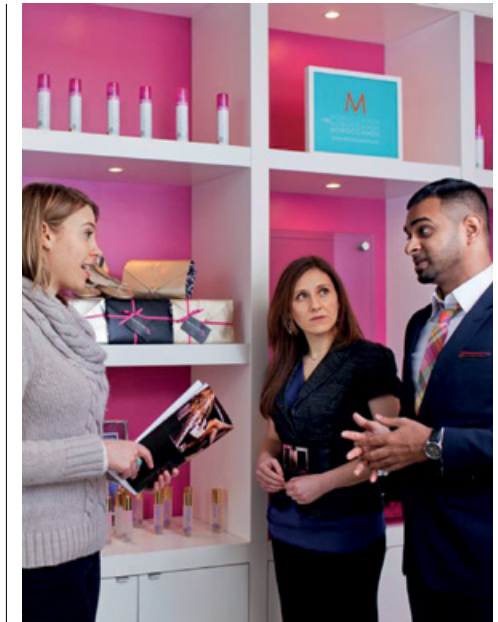
Accenture Sustainability Services helps clients achieve substantial improvement in performance and value for their stakeholders. We help clients leverage their assets and capabilities to drive innovation and profitable growth while striving for a positive economic, environmental and social impact. We work with clients across industries and geographies to integrate sustainability approaches into their business strategies, operating models and critical processes.

Our holistic approach encompasses strategy, design and execution to increase revenue, reduce cost, manage risk and enhance brand, reputation and intangible assets. We also help clients develop deep insights on sustainability issues based on our ongoing

investments in research, including recent studies on consumer expectations and global executive opinion on corporate sustainability and climate change.

At Accenture we know that a successful company strategy is one that is informed by the world around it and which considers the social and natural resources on which business depends. We see significant growth opportunities for organisations that are able to better meet market demand for high quality products and services that are good for society and the planet. We also know that companies can secure future growth through building shared value with communities.

Our Skills to Succeed programme draws on one of Accenture's core competencies – training talent – to help address the need for skills that open doors to employment around the world. It is a key aspect of how we embed sustainability into our business. By 2015, we plan to equip 500,000 people globally with the skills to get a job or build a business. Find out more at: www.accenture.com/sustainability



About us and our approaches to sustainability

Business in the Community

Business in the Community stands for responsible business.

We are a unique business movement – the largest business-led charity of its kind – committed to building resilient communities, diverse workplaces and a more sustainable future. We work locally, nationally and internationally with members to transform businesses and transform communities. We believe that responsible leadership is the ability to balance doing both.

We ask our members to work with us on specific campaigns that impact in the workplace, marketplace and community. We offer a range of services that challenge, support and inspire members and help transform their businesses.

In today's rapidly changing and increasingly resource constrained world – which will need to provide for 9 billion people by 2050 – it has never been more important for companies of all sizes to understand how and why sustainability is central to their long-term success and prosperity. There is an unprecedented need for companies to work together to identify how business services will evolve over the next two decades and beyond.

We are enormously grateful to M&S and to the support Accenture has provided, to help us articulate an imperative for action and for the practical tools that have been developed that demonstrate some of the opportunities for those who help create a sustainable future. Find out more at:

<http://www.bitc.org.uk>

“There's a business case for sustainability and an ethical case, what people don't always realise is that the two are mutually inclusive.”

John Hayes, Chief Executive,
Axis

“Sustainability is no longer an option. It needs to be business as usual. Sustainability has become part of what customers expect from business as standard.”

Nicolas Petrovic, Chief Executive
Officer, Eurostar

1.0

Introduction

Current attempts by business to address sustainability challenges have delivered tangible progress at the national scale.

Greenhouse gas emissions from UK businesses have dropped by 30% since 1990⁹. However despite the success to date, a step change is required, to deliver progress at a larger scale and higher speed than current initiatives, policies or strategies will achieve (See Appendix 1 for a summary of major challenges).

For example, long-term and youth unemployment in the UK are now at their highest level in over 10 years¹⁰ with nearly a quarter of 16-24 year olds inactive and without a job¹¹. Obesity is at a record high¹² and has knock on implications for health in an aging society. Furthermore, increasing and volatile prices of natural resources and raw materials are cutting into profit margins of some companies, and adding to supply chain risk, whilst 90% of products are still disposed of within 6 months of purchase¹³. If we continue on our 'business-as-usual' path, by 2050 we would need 2.5 times the planet's natural resources to support a population of 9 billion people¹⁴.



We are already living off our future capital, and current trends are unlikely to be sustainable in the long-term.

Many companies have responded to sustainability concerns through CSR programmes characterised by: a strong focus on public reporting; incremental improvements in operational efficiency; and a philanthropic approach to social challenges. For many businesses this approach has provided a good starting point and it remains an essential foundation for responsible business. However, CSR-driven programmes can have key limitations, as they may:

- Add costs, as programmes are frequently bolted-on to the core business.
- Ignore whether a company's core purpose, products and services are compatible with long term trends and social and environmental needs.
- Create tension between shareholder value creation and the needs of society.
- Fail to address the needs and changing demands of the mass market.
- Under-utilise the creative and competitive energy of business to innovate, unlock new value, and build a better future.

“Over time sustainability challenges pose a real threat to company profits – especially from energy price increases, and the growing occurrences of 1-in-100 year severe weather events.”

Andy Wood, Chief Executive,
Adnams plc



Seizing the opportunity of more sustainable business asks that companies re-think their business operations and strategy beyond the boundaries of CSR. Leaders will want to consider the balance between short term gains and long term value through understanding global trends, assessing core strengths and identifying their potential contribution to improving societal and environmental outcomes.

Above all companies must dare to innovate and to test and scale new approaches which can drive growth and future prosperity.

“As responsible businesses we need to make sustainability simple for all stakeholders. Most customers today find it difficult to articulate what ‘good’ sustainability looks like. A consistent approach to the adoption of industry standards and a considered approach to education and training can really make the difference here.”

Tony Lenehan, Chief Executive Officer,
Styles&Wood



2.0

New
Areas for
Innovation

In responding to the world's major challenges, innovators are emerging, offering new and alternative models for success and disrupting established industries.

These models have the potential to transform business towards truly sustainable growth and pave the way for a more dynamic UK economy, where profits are maintained whilst minimising the environmental impact, maximising the benefit for society and enabling sustainable lifestyles.

Five high priority areas of innovation have been identified through discussion with UK CEOs, and by examining leading research, reports and case studies. These innovations can change how businesses engage with their customers, and how companies make and deliver products and services through their supply chain, potentially yielding significant commercial and sustainability gains.



Building efficient and resilient supply chains can enable businesses to become more competitive, to remain within environmental constraints and to enhance their license to operate through stronger community links.

Key areas for innovation include:

- **Shared value:** focusing on the convergence of interests between business and society to build community prosperity, improve skills and health and create the conditions for commercial success.
- **More with less:** reducing input resource use, improving the efficiency of industrial processes, using cleaner technologies and minimising waste.
- **Circular economy:** closing the loop on supply chains through product design, extending asset life, re-use and recycling.

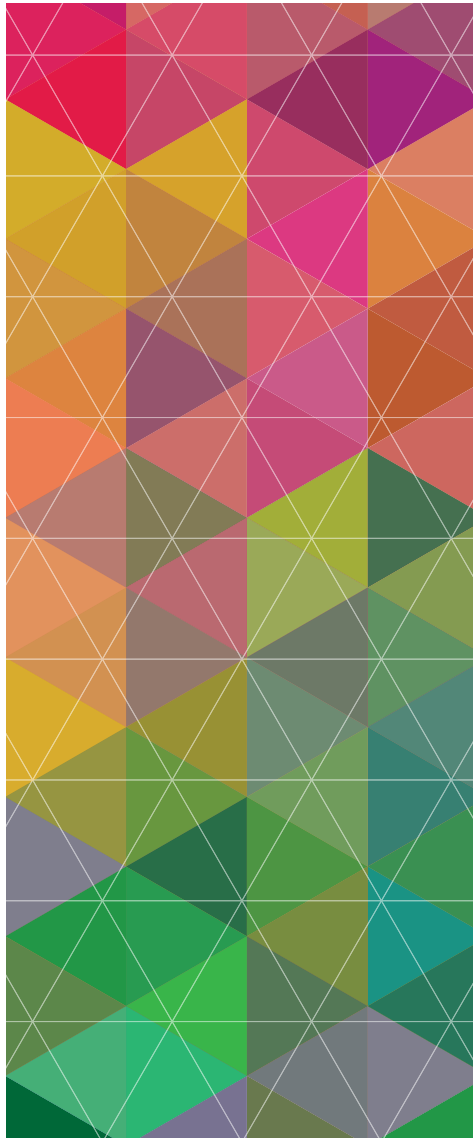
Engaging the customer on sustainability brings a suite of new opportunities to build loyalty, grow new revenue streams and disrupt established business models.

Key areas for innovation include:

- **New consumption models:** delivering enhanced customer propositions including ‘products as a service’ and enabling the sharing of goods via ‘collaborative consumption’.
- **Transparency & customer engagement:** embedding ethical and sustainable practices across the supply chain and sharing information on product origins with customers.

“Infinite resource intensive growth is simply not possible, and we are already living off our future capital. We need to think now about how business services will evolve in the next two decades and beyond.”

Ian Cheshire, Group Chief Executive,
Kingfisher plc



Today, significant opportunity exists to continue to scale up these solutions. UK businesses have the potential to achieve around £100 billion a year from productivity improvements, if these innovations are implemented across the board¹⁵, whilst at the same time generating positive societal and environmental benefits such as employment opportunities and emissions reduction. Over 40,000 jobs could be created annually in the environmental and clean technology sector alone¹⁶.

The estimated current UK market size of these areas is nearing £200 billion (6% of private sector turnover) with high growth rates that have consistently beaten the UK average¹⁷. Clean technology has seen 24% growth and circular economy services such as recycling and recovery have seen 18% growth over the past 5 years alone¹⁸.

This Chapter explains the five innovation areas in more detail, highlighting the various opportunities, the size of the prize for UK businesses and the broader environmental and social benefits.

2.1

Shared value:

Building a
prosperous
workforce
and community

#sharedvalue

Many companies are recognising that their future success depends on supporting vibrant, healthy and economically resilient communities which provide both their workforce and their customer base.

Businesses contribute to their own success by creating jobs and educating people in the communities in which they operate, and by improving standards of health and quality of life.

This 'shared value' concept provides a cornerstone for social innovation, and is helping companies recognise that there is a large degree of convergence between their commercial goals and the wider needs of civil society.

“We aim to use our scale and know-how to support the wider business community and to help unlock the economic potential of women as business owners.”

Chris Sullivan, Chief Executive,
Corporate Banking Division, RBS Group

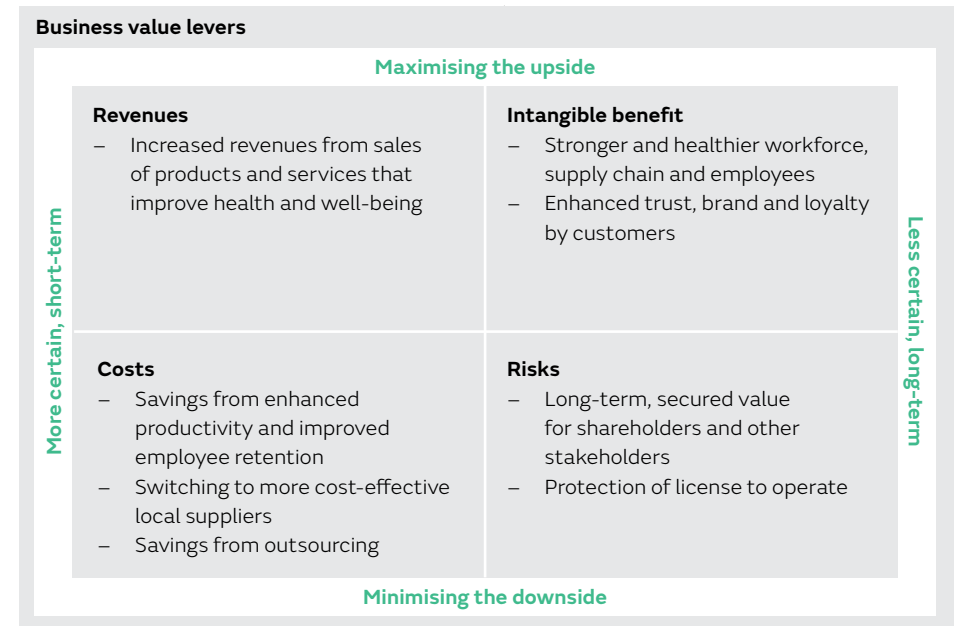
2.1 Shared value: Building a prosperous workforce and community

Size of the prize

Shared value is an untapped source of opportunity for business.

Firstly, securing value for shareholders necessitates that companies reduce risk by demonstrating long-term sustainable growth and returns. One way this can be achieved is through skilling the wider workforce beyond the usual company boundaries, and improving the health and living standards of local communities: employers need a healthy, educated talent pool to ensure the future long-term viability and competitiveness of the company.

In East London, outsourcing company MITIE has advocated this approach by developing the 'Real Apprentice' programme. This is a mentoring scheme in partnership with JobCentrePlus that gives unemployed citizens of all ages the crucial experience and skills they need to get into long-term employment¹⁹. The Real Apprentice programme fulfilled both MITIE's business needs for local, sustainable supplies of talent and needs of the local area for economic regeneration²⁰. The scheme currently has a 75% success rate of getting the graduate apprentices into further employment²¹.



Source: Accenture 2013

2.1 Shared value: Building a prosperous workforce and community

Size of the prize

Businesses are also working with the public sector to improve social outcomes. For example, in Norwich, Chapelfield shopping centre has developed a work experience programme that employs serving prisoners. Prisoners considered to be safe working within the community have the opportunity to spend eight weeks at the shopping centre, gaining skills ranging from building maintenance, customer service, recycling and painting and decorating²². Only 5% of the work experience prisoners who have been released have reoffended, whilst nationally, just under 50% of those released are reconvicted within one year²³.

Secondly, significant cost savings and productivity improvements can be achieved from engaging employees to take an active role in the community and by encouraging social entrepreneurship. Employees currently in a job where they feel they are contributing to positive environmental or social outcomes are more satisfied compared to those who don't feel they're making an impact, by a 2:1 ratio²⁴. An estimated £3-£29 billion in potential cost savings for UK businesses are possible from reducing hiring costs and developing a more active and engaged workforce²⁵, corresponding to a potential increase in productivity by 16% and a reduction in employee turnover by 2%²⁶.

“You can't create jobs that don't exist, but you can level the playing field for those who don't have the best chance in life. There's a business benefit in broadening access as you may discover people with better talent.”

Paul Sheffield, Chief Executive,
Kier Group plc

2.1 Shared value: Building a prosperous workforce and community

Size of the prize

And finally, by better understanding the needs of society, businesses can focus their products and services to help solve environmental and social challenges, which can lead to revenue enhancement and a greater market share. For example, in developing countries where health challenges are widespread there is real opportunity to improve community health and generate commercial returns by growing the healthcare market. Novo Nordisk's Changing Diabetes programme has trained over 220,000 physicians in China, who each treat about 230 patients annually²⁷. Through better diagnosis, more patients are screened for diabetes and those diagnosed put on life-saving medication. As a result, people are getting access to the medical help required while Novo Nordisk's insulin market share has jumped from 40% to 63% in China, largely through greater awareness of patient needs²⁸.



2.1 Shared value: Building a prosperous workforce and community

Sustainability benefits

The benefits from convergent thinking and shared value creation can be long-lasting and can fundamentally improve socio-economic outcomes for civil society:

- The health of the workforce and the community can be improved, through better alignment of the commercial goals of the company and the needs of wider society.
- Jobs can be created in the UK or abroad, contributing to local economic development (for example through smarter use of local suppliers which could help mitigate against potential future supply chain failure).
- Standards of education and skills can be enhanced through programmes such as apprenticeships, academies and training programmes, developing transferrable skills and bringing people out of unemployment (see Case study 1 for an example).

“Industry isn’t doing enough to employ talented young individuals. Only 12 of the top 32 building contractors in the UK employ apprentices, and 80% of apprenticeships are with companies with less than 10 employees.”

John Hayes, Chief Executive,
Axis

2.1 Shared value: Building a prosperous workforce and community

Case study 1

Accenture's Skills to Succeed programme³⁰

Skills to Succeed is Accenture's corporate citizenship initiative which focuses on shared value creation through advancing employment and entrepreneurship opportunities in both mature and emerging markets.

Skills to Succeed draws on one of Accenture's core competencies – training talent – to help address the need for skills that open doors to employment around the world. At the same time, Skills to Succeed harnesses the combination of financial support and the pro bono contributions of time and Accenture employee skills to make a difference in communities. Launched in 2009, the programme aims to equip 500,000 people around the world with the skills to get a job or build a business.

Initiatives under the programme include working with Plan International to provide training and career opportunities to young people in Thailand and Indonesia in industries such as information technology and business process outsourcing, and with Youth Business International to provide young people in Brazil with improved tools and mentoring to assist them in becoming entrepreneurs.

Accenture's goal through the programme is to respond to the major societal challenge of youth unemployment and inequality, creating shared value that improves both Accenture's brand and builds a future source of talent for the industry.



Leaders should
be comfortable
with the idea of
experimentation

2.2

More with less:
Driving productivity
through resource
efficiency

#resourceefficiency

Successful companies are decoupling growth from resource extraction and environmental externalities, securing resilient and competitive supply chains and operations.

Rising and volatile costs of raw materials and resources, combined with an uncertain economic environment, have squeezed UK manufacturers: profitability of UK-based manufacturing companies was under 5% at the end of 2012, compared to 11% in 2007³¹. Companies face increasing pressure to optimize their operations and supply chains and to use fewer inputs per unit of economic output.

Resource efficiency programmes designed to cut energy consumption, minimise raw material inputs and reduce waste drive significant cost savings and environmental benefits. Many companies are now turning to innovative clean technologies to cut their impact further and build resource independence, for example using reverse osmosis to secure long-term potable water supplies or innovative forms of off-grid renewable energy.

Clean technology suppliers are central to driving growth. In the UK a healthy clean technology sector is currently growing at an average 4.5% per annum, with higher rates of growth in wind, solar and alternative fuel technologies³². Almost 1 million people are employed in the UK in this sector, and over 25,000 new jobs were created between 2010 and 2011³³. The sector is estimated to contribute 4% towards UK private sector turnover in 2012 with £119 billion in sales³⁴.

2.2 More with less: Driving productivity through resource efficiency

Size of the prize

From an operational perspective, cost reduction is one of the major business drivers for implementation of resource efficiency programmes and clean technologies such as renewable energy.

Production costs have the potential to be reduced significantly over the long term, increasing margins and competitiveness. For technology manufacturers, development and marketing of innovative renewable and clean technology solutions (see Case study 2a for the example of Siemens) can also provide attractive revenue and market growth opportunities.

Resource efficiency in the supply chain can also generate a substantial prize, as evidenced by the Better Cotton Initiative (Case study 2b). Efficiency in transport can also realise savings: Marks & Spencer was able to reduce their clothing delivery vehicle fleet by 25% and achieve a 30% fuel efficiency improvement through optimizing the loading of goods and improving logistics fleet management³⁵.

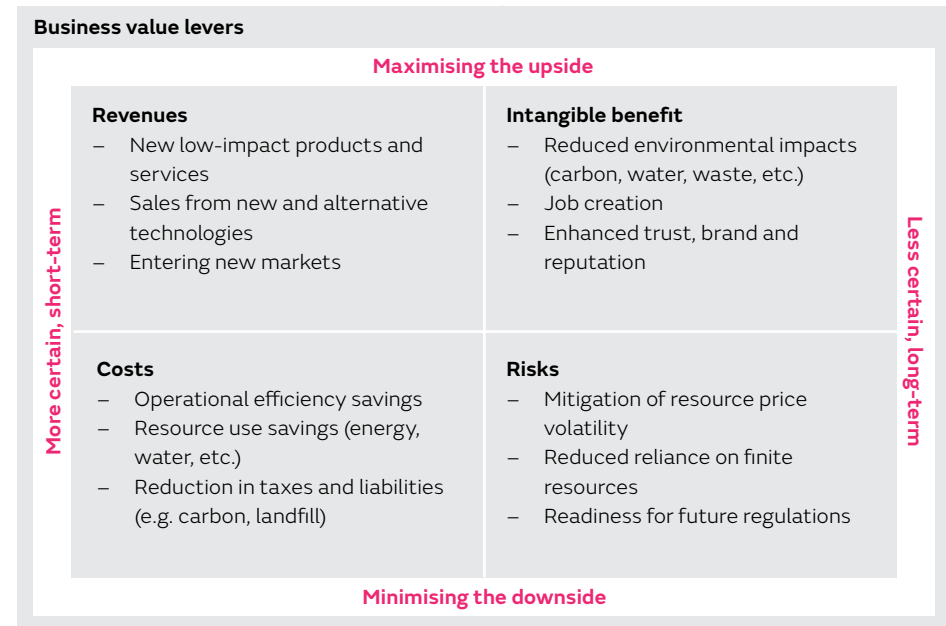


2.2 More with less: Driving productivity through resource efficiency

Size of the prize

Beyond direct energy and resource cost savings, resource efficiency improvements can also create a substantial regulatory saving through reducing disposal costs (such as landfill taxes), and carbon tax liabilities.

UK businesses could save £25 billion each year through no or low cost resource efficiency measures alone, particularly from smarter usage of raw materials and minimising waste (£20 billion a year)³⁶. £4 billion a year in savings is possible from energy efficiency and £1 billion from water efficiency³⁷. Extending payback thresholds to over a year could realise a further £36 billion in savings a year³⁸.



Source: Accenture 2013

Sustainability benefits

If resource efficiency measures are realised in the UK they could amount to a reduction in carbon emissions by 13% for the UK economy as a whole (90 MtCO₂)⁴¹, supporting Government and wider EU targets to reduce emissions in-line with climate change goals. Research suggests that water use could also be reduced by approximately 25% in the commercial sector, 28% in the agricultural sector and 10% in the industrial sector⁴².

Further indirect benefits from clean technology and resource efficiency include reduced airborne pollution (e.g. from fossil-fuel based power and transport), which is partially responsible for over 1 million lost working days in the UK every year from breathing and lung problems⁴³. Reduced environmental pollution in the form of water-borne and land-based toxicity may be another potential indirect benefit.

The UK currently holds 6th place, behind the USA, China, Japan, India and Germany in terms of market share in the clean technology sector. Based on forecasted growth trends in UK sales, over 40,000 jobs could be created in the UK each year to 2015⁴⁴. This could create demand for skills, secure international competitiveness and much-needed, resilient growth in the next few years.

“We have invested in a project with Solena to turn household waste into jet fuel. We will have a plant in East London that relies on large quantities of waste and can currently produce a small amount of fuel – 2% of our needs, but with a possible goal of getting to 10%.”

Keith Williams, Chief Executive Officer,
British Airways

2.2 More with less: Driving productivity through resource efficiency**Case study 2a****Delivering financial performance and sustainable development at Siemens⁴⁵**

Siemens has anchored sustainability into its organisation, and takes a proactive role in contributing to sustainable development through innovation.

Last year, Siemens generated €33.2 billion in revenues from the products and solutions in their Environmental Portfolio – 42% of their Group revenue, enabling their customers to cut their CO₂ emissions by an estimated 332 million tonnes. The demand for green technologies is driving the company's growth. 70% of the revenue from their Environmental portfolio is from energy-efficient products and solutions, including smart building technologies and advanced infrastructure such as combined-cycle power plants.

Renewable energy technologies, smart grid applications and other green technologies contributed the remainder of the environmental revenues. Investment in R&D is core to this strategy – 5.4% of their revenues are spent on R&D, and this percentage has been steadily increasing over the last few years. Through this effort the company has demonstrated an improvement in efficiency of its products by 8% since 2010.



2.2 More with less: Driving productivity through resource efficiency**Case study 2b****The Better Cotton Initiative: reducing supply chain risk through enhanced resource efficiency⁴⁶**

The Better Cotton Initiative (BCI) helps producers adopt better management practices in growing cotton.

Using less water, less pesticides and fewer fertilisers is clearly good for the environment as well as a way to improve the efficiency of the farming system. Marks & Spencer have learnt that farmers who follow the BCI model are more efficient and can reduce their input costs⁴⁷. The latest results from a joint project with WWF that BCI farmers are over 30% more profitable than comparable non-BCI farmers⁴⁸.

For Marks & Spencer, BCI means farmers are more likely to grow cotton rather than other crops; and because they're disconnected from major increases in input costs and shortages, Marks & Spencer can secure cotton sources for the future. This helps ensure that their market for buying cotton is more stable, and greater stability means fewer price fluctuations for supply chains.

What's more, BCI has empowered cotton farmers to trade independently, removing local middlemen who take a cut of the business⁴⁹. Empowerment connects the farmers more intimately to their final customer and reduces costs along the whole supply chain⁵⁰.



With a clear vision,
companies can
create options to
scale-up and deliver
the transformational
change required

2.3

Circular economy: Closing the loop

#circulareconomy

In the period since the industrial revolution, business has been dominated by a linear model of production and consumption, in which goods are manufactured from raw materials, used, and then discarded.

In contrast, a circular economy is one that is both restorative and regenerative by intention and design. Circular forms of production and consumption are an age-old model but are currently often limited to high value categories of goods. Companies are now finding that 'closing the loop' on the supply chain through improved product design, extending asset life, re-use and recycling can deliver tangible commercial and sustainability gains across a wider range of goods and materials. Closed-loop systems reduce the need for extraction and processing of new resources, and lessen the associated impacts on the natural environment.

In the same way that new and alternative consumption models can create societal benefits, in the form of reducing household costs for durable goods, closed-loop thinking and design can improve quality and value by extending the useful life of goods, enabling their re-use and re-sale, thereby saving money for businesses and cutting costs for consumers.

2.3 Circular economy: Closing the loop

Size of the prize

Moving to a circular model of production has significant business benefits in the UK, across different sectors.

Value can be realised from various changes in behaviour, for example:

- Circling goods within the system for longer by enhancing their durability and reusability.
- Cascading the use of materials more effectively through different sectors and products (for example, using fibres in textiles, upholstery, and finally insulation materials).
- Ensuring that material streams remain uncontaminated and of high quality, enabling their longevity.
- Tightening the circle by minimising initial material use.



“Closed loop recycling is ambitious, but achievable. The aluminium used in our vehicles contains up to 50% recycled content, and includes scrap aluminium from our manufacturing operations.”

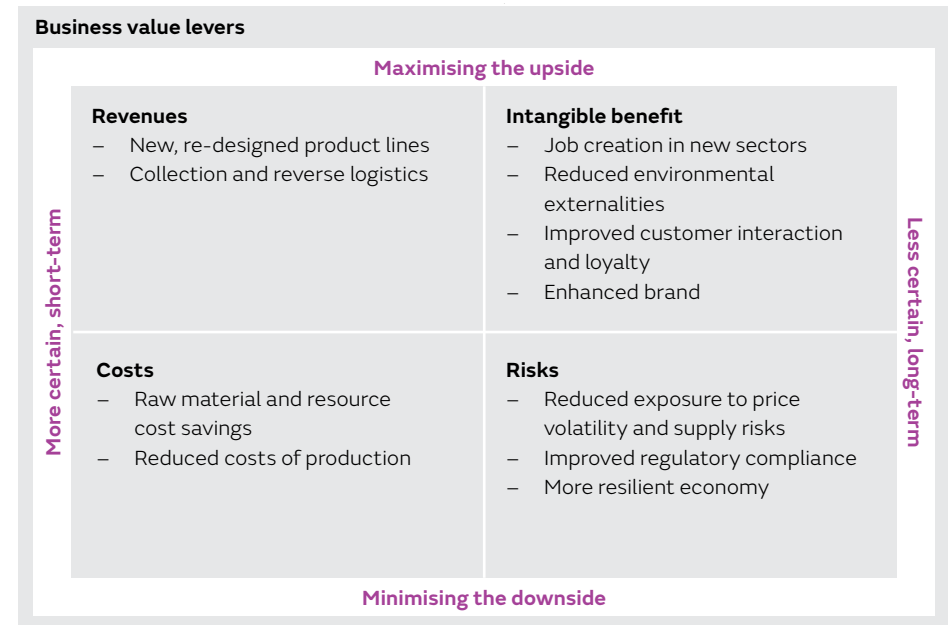
Dr Ralf Speth, Chief Executive Officer,
Jaguar Land Rover

2.3 Circular economy: Closing the loop

Size of the prize

Adoption of a circular model could yield net material cost savings of an estimated £15-£18 billion a year in the UK consumer goods industry, representing approximately 20% of all the material input costs, spanning different sectors including packaged and fresh food, beverages, apparel and personal consumer products⁵¹.

Food waste as an example could create profits of £113 per tonne of waste in the UK (£1 billion a year), based on savings from roll-out of anaerobic digestion, avoided landfill costs and revenues in the form of feed-in-tariffs from electricity generation⁵². In the clothing sector, approximately £850 per tonne of clothing in net profit could be generated in the UK from enabling re-use and recycling – contributing a further £1 billion in savings UK wide⁵³.



Source: Accenture 2013

2.3 Circular economy: Closing the loop

Sustainability benefits

Circular models of consumption require new kinds of skills and services, for example in logistics, processing, recovery and re-sale, and have the potential to bring the UK into a leading position globally whilst promoting social development and education in regions of lower income.

Counties in the East of England, the Midlands, the Northwest, and Yorks and Humber currently act as the 'powerhouse' for waste management, recovery and recycling, but significant opportunity exists to expand this market further. The circular economy has created over 100,000 jobs in the UK (83% of which are outside London), in over 5,000 companies, servicing a market size of £13 billion⁵⁶. Employment in the waste management, recovery and recycling sectors is growing at 3% a year nationally, and is expected to create at least 3,500 jobs annually in the next few years⁵⁷.

The environmental benefits, particularly from retention and regeneration of natural resources, from a circular economy are significant and the market is still under-developed. Circular economic approaches can achieve a possible 50-90% reduction in a product's environmental footprint⁵⁸. By 'cascading' used textiles from one phase to another, re-using them in different applications (e.g. upholstery to insulation), could generate 1 million tonnes CO₂ savings and reduce water use by 16 million cubic metres in the UK alone⁵⁹.

Programmes that have focused on encouraging both recycling and re-use have been successful in achieving environmental savings, for example Marks & Spencer reduced the number of carrier bags customers use by 78% over 5 years since the introduction of carrier bag charging. Using closed-loop thinking, they were also able to ensure every carrier bag is made from 100% recycled material that is sourced from their own waste streams (thereby cutting costs)⁶⁰.

"We are integrating sustainability into our design process and closing the loop on packaging."

Ian Livingston, Chief Executive, BT Group

"We need to encourage UK businesses to use more recycle. The UK does need more reprocessing facilities, but businesses are still not making the most of avoiding landfill by using other available options."

Estelle Brachlianoff, Chief Executive Officer, Veolia Environmental Services (UK)

2.3 Circular economy: Closing the loop

Case study 3

Patagonia's Common Threads Initiative: encouraging re-use, repair and recycling⁶¹

Outdoor clothing retailer Patagonia's business model is designed for a circular economy.

By selling high quality, premium-priced products, customers are incentivised to retain their goods for longer, rather than purchase frequent replacements from rival companies that offer cheaper alternatives. Customers are also offered repair services for the duration that they own the product.

Patagonia also encourages their customers to recycle their clothes at the end of their useful life by sending them back to the company who then strip all useful material from the product and re-use them in the manufacture of new garments. To achieve this, Patagonia has invested in research and technology,

and sends all recyclable product to Tejin, a Japanese manufacturer of synthetic fibres, for remanufacturing. Polyester is one of the main materials used in their products, for which Patagonia believe they have now 'closed the loop' completely – no new polyester-based compounds are procured for the manufacture of Patagonia's products.

Patagonia's R&D department are primarily focused on 'designing-out waste', ensuring that every new product is highly recyclable. As of 2011, all of Patagonia's clothing is now 100% recyclable. Patagonia claims this has created large savings and has enabled them to hedge against rising oil prices and reduce other raw material costs significantly.

Patagonia has backed up this supply chain innovation with direct consumer messaging. Their 2012 'Don't Buy This Jacket' campaign made a bold statement to customers by asking them only to buy the products that they need, thereby encouraging sustainable consumption. Over 56,000 customers have now signed Patagonia's pledge to reduce, repair and recycle products they own.



Source: Lisa Picard Flickr

2.4

New consumption models:

Changing
the customer
proposition

#newbizmodels

Consumers are changing the way they purchase and use products and services and are altering the way they interact with companies.

In the same way that YouTube changed the way we watched TV, and the development of mobile phones fundamentally altered our communication methods, the 'share economy' disrupts the industrial model of companies producing and people consuming. In the future ownership of goods will be less important and everyone can be both consumer and producer, creating efficiencies and new business models.

From large marketplaces such as eBay and Gumtree, to peer-to-peer accommodation like Airbnb, new consumption models, enabled almost entirely through on-line channels and social media, are acting as a new disruptive force. Technology is driving the reinvention of the 'leasing' approach at greater scale across a wider range of markets.

2.4 New consumption models: Changing the customer proposition

Two approaches are central to this revolution: collaborative consumption which maximises the use of assets through the re-use, sharing, swapping, bartering, trading or renting of goods between people (peer-to-peer); and 'products-as-a-service' business models that are designed to create value through leasing goods to customers rather than selling them outright. Consumers can benefit through reduced household expenditure on durable goods (e.g. through peer-to-peer lending) and by gaining access to the latest products. At the same time these consumption models could help foster better social interactions and to build closer communities (e.g. through skills sharing).

Furthermore, delivery of services through technology – 'virtualised services' – have the potential to improve social outcomes, particularly in the form of tailored solutions. For example, O2 rolled out mobile care services in 2012 that provide localised and personalised healthcare. This helped improve outpatient care, enabling patients to live healthier and more active lives by providing them access to health services remotely⁶².

These models enable more sustainable lifestyles and also pose a threat to existing business archetypes, by influencing not just what people consume, but how and when people access services.

2.4 New consumption models: Changing the customer proposition

Size of the prize

The size of the 'pay-as-you-live' market is estimated at £27 billion in the UK⁶³, driven by clear customer demand.

Research suggests⁶⁴ that one in five under-55s in the UK are sharing more now than they were a year ago, and 60% of customers would consider leasing products and services over buying because of the lower cost per use. Of these customers 45% cite negligible maintenance costs as a key driver, while 38% consider avoiding depreciation in value as the main benefit of leasing.

Sharing and service models create multiple business benefits. By retaining ownership of products, companies can hedge against price volatility in key commodities by retaining technical goods, which has the added benefit of improving the balance sheet. Despite taking on maintenance costs and responsibility for asset depreciation, flexible leasing contracts can bring in a steady revenue stream, grow margins and encourage loyalty. Customers can benefit through improved, tailored and cost-effective services with the option of frequent upgrades. Taking washing machines as an example, and assuming an 8% discount rate and a 5-year leasing arrangement, the net present value of a leasing model could be 35% higher than an ownership model for the manufacturer⁶⁵.

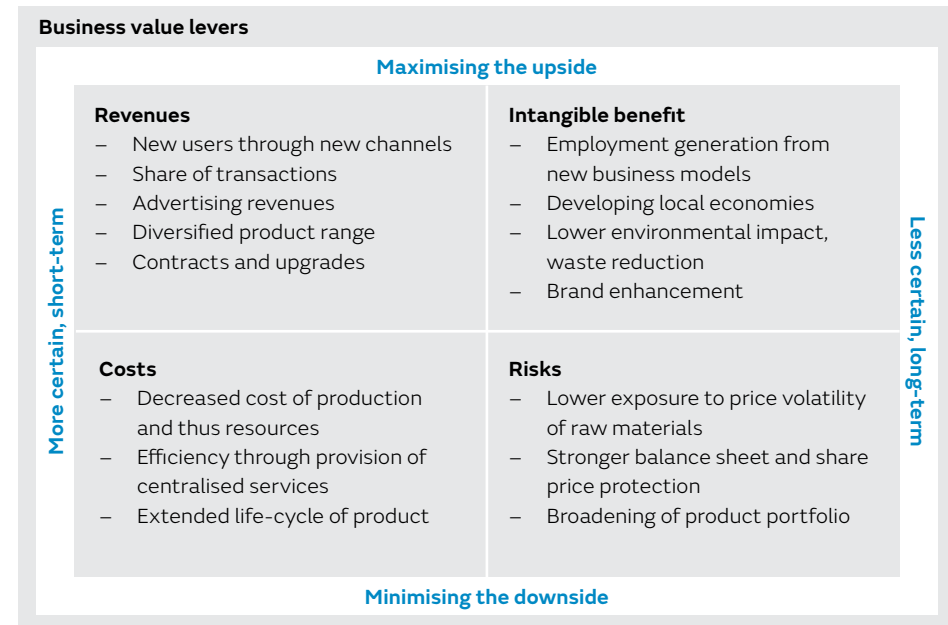


2.4 New consumption models: Changing the customer proposition

Size of the prize

Collaborative, peer-to-peer consumption models such as yerdle (see Case study 4), have strong potential for scale in the UK. Given the current economic climate, the corresponding decline in percentage of household spending on durable products and the high connectivity of UK citizens through social media, the conditions for an informal 'share' economy are strong. Companies have started to achieve success, by expanding markets and widening choice for customers, extracting transaction fees or referral fees for direct purchases.

Other revenue streams such as on-line tailored advertising and payment processing fees have also been successful: eBay is one established player that illustrates success through this model – 88% of its US\$ 14 billion revenue is from transactions (listing fees, share of value, delivery and payment processing) and 12% is from marketing and advertising⁶⁶.



Source: Accenture 2013

2.4 New consumption models: Changing the customer proposition

Sustainability benefits

New consumption models bring direct environmental and social benefits, with both companies and consumers playing an active role.

One principle source of environmental savings is from reducing the production of new products and by extending the useful life and utilisation of existing assets. There is a clear incentive for companies to design out waste, to maintain their assets through their lifecycle and to avoid obsolescence rather than building it in. For example, Zipcar, the neighbourhood car rental service acquired by Avis for US\$ 500 million in January 2013⁶⁸ suggests that one Zipcar takes 20-25 cars off the road⁶⁹.

Similarly, for consumers, the share economy encourages the extension of product life-cycles. Products and services are recognised as having intrinsic value as a market develops for their re-use, which inevitably reduces waste. Beyond reducing household costs, new consumption models can also benefit local communities through creation of new jobs, for example in logistics, processing, maintenance and supporting functions.

“We need a different model of capitalism, one that enables new ways of consumption, and a new approach to value creation that actively maintains and restores natural and social capital.”

Ian Cheshire, Group Chief Executive,
Kingfisher plc

2.4 New consumption models: Changing the customer proposition

Case study 4

Yerdle: building collaborative communities⁷⁰

Launched in late 2012 by co-founders Adam Werbach and Andy Ruben (former executives of Saatchi and Saatchi and Walmart, respectively), yerdle is a platform for giving and receiving goods within an online social community such as Facebook.

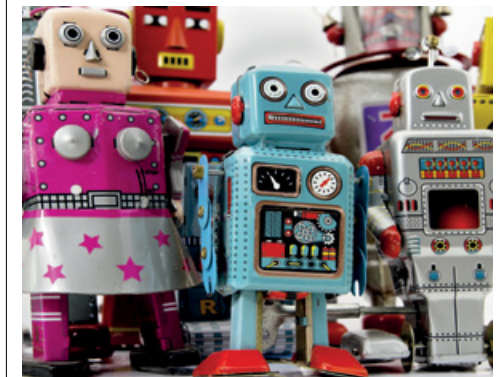
Yerdle joined an already crowded informal marketplace, with established players such as Freecycle, Gumtree and Craigslist accounting for a major share of the on-line informal economy. However, yerdle differentiated their services: they capitalized on the links between the consumer and their existing friends, typically through social media networks like Facebook.

By accessing users' social media networks, yerdle allows consumers to be instantly connected to a range of available products from peers who they already trust, and perhaps share tastes with. This also helped overcome another barrier that had affected the reputation of some existing sharing schemes – according to Werbach, your existing friends are more likely to share your sense of quality, so there are no big 'surprises' when exchanging goods. Furthermore, by capitalising on the success of social media, yerdle avoided the 'critical mass' problem associated with many start-ups in this space.

Yerdle's mission is to reduce 20% of the things people buy through sharing, thereby collectively protecting the Earth's finite resources⁷¹.



Source: www.yerdle.com





2.5

Transparency and engagement:

Building customer
dialogue

#transparency

Company supply chains are scrutinised more today than ever before.

There is recognition that brands must take responsibility for highly complex and globalised supply chains, especially now that customers and stakeholders are empowered by the internet and social media to access and share information on corporate performance with a global audience.

For those with poor supply chain standards, the new era of transparency creates significant risks. Conversely, for those that can demonstrate strong ethical and sustainability performance from cradle to grave, there is a growing opportunity to differentiate, build customer engagement and enhance loyalty.

2.5 Transparency and engagement: Building customer dialogue

New technologies are now emerging that enable better traceability through the supply chain from raw materials to factory gate. In the past this visibility has been complex to achieve, but mobile and internet technologies can cut the costs, allowing companies to more accurately trace material flows, disclose impacts, identify potential risk 'hot-spots', and inform customers about the provenance of their goods.

In addition standards and certification schemes such as those provided by the Fairtrade Foundation, Rainforest Alliance and Forestry Stewardship Council are harnessing consumer interest to encourage businesses to manage environmental and social issues in their supply chain. Independent endorsement can build credibility and provide assurance over sustainability claims.

However, obtaining certification is not a guarantee of commercial success. To truly drive change, companies need to avoid creating price premiums for transparent products and services, and make sustainably sourced products 'business-as-usual' for the mass market.

“Technology will drive ever greater transparency throughout supply chains, will empower customers, and demand greater levels of engagement between business and consumers.”

Marc Bolland, Chief Executive,
Marks & Spencer

Size of the prize

The market for sustainably sourced, ethical and transparent goods and services (including ethical savings and investment) has seen growth at 14% year-on-year since 2000, from £8 billion to £33 billion today⁷².

Fairtrade products and sustainably sourced clothing have been particularly successful, achieving over 30% annual growth over the last decade⁷³. Whilst sustainably sourced products may be a relatively niche market today, there is huge potential for companies to leverage these approaches across the mass-market. Taking the agricultural supply chain as an example, short terms sales uplift of at least 1% is possible⁷⁴ through certification of supply against a recognised environmental or ethical standard. On top of these direct business benefits, the indirect benefits of gaining trust and loyalty from customers are significant. By accurately tracking the provenance of raw materials and manufactured goods companies can communicate more authentically with their customers and build a more trusting relationship.

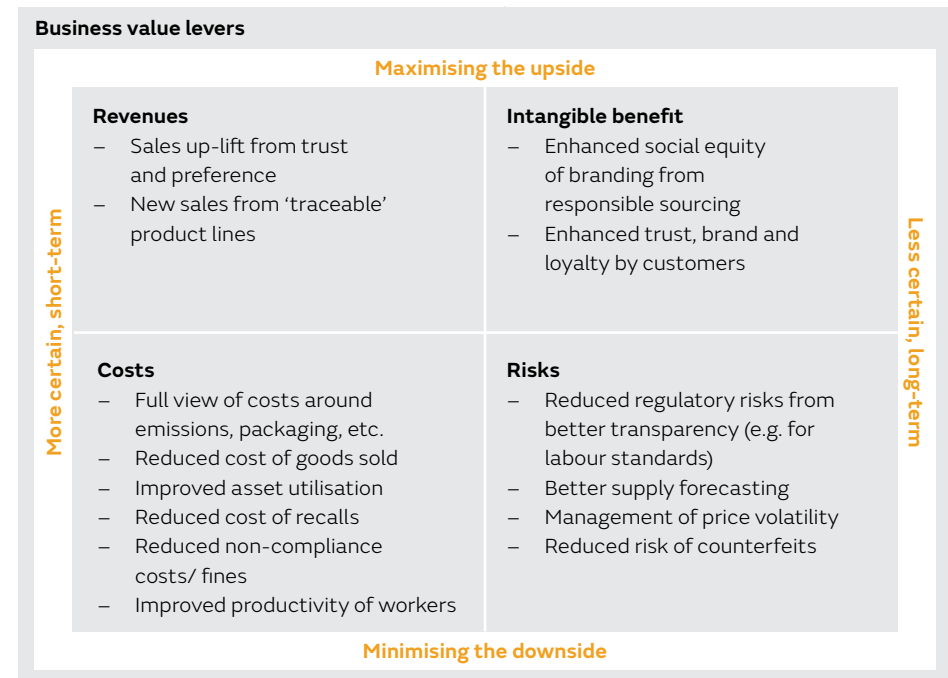


2.5 Transparency and engagement: Building customer dialogue

Size of the prize

Obtaining visibility over the supply chain also offers direct productivity benefits to business. Improved data enables assessment of supply chain risks, and externalities which could potentially lead to failure in the future (such as overfishing in the case of John West – see Case study 5). Visibility through mobile technologies can also enable better workforce management practices, for example by gathering real-time information on labour conditions at suppliers' factories. In addition, track and trace technology can enable inventory reduction and real-time forecasting of supplies, helping to reduce the cost of goods sold by up to 10%⁷⁵.

Improving supply chain management and reducing costs associated with supply chain failure can also lead to avoided recalls. Overall, for the UK manufacturing sector, the potential cost savings to companies from improving visibility and transparency could amount to £3 billion per annum⁷⁶.



Source: Accenture 2013

Sustainability benefits

Supply chain visibility can lead to substantial improvement in social outcomes.

Visibility programmes, combined with setting higher supplier standards, can pre-empt, monitor, and ultimately reduce supply chain failures, potentially enhancing health and wellbeing of the extended workforce and communities. Examples of social outcomes can include improved health and safety (through identification of potential workplace risks), fairer living wages and stamping out child and forced labour (through better auditing against minimum supplier standards), enhanced training, and generally improved working conditions.

Visibility and improved supply chain management can also lead to multiple environmental benefits, such as reducing transport emissions through smarter logistics management and favouring lower-impact production techniques. For example, controlled wood products that meet the Forest Stewardship Council's criteria must be harvested in a way that maintains or restores forest ecosystems⁷⁹.

Supply chain failures can also be better managed. Thailand's floods which persisted into early 2012 affected the automotive and high-tech industries, closing over 1,000 factories with subsequent insurance claims reaching US\$ 20 billion⁸⁰. Better understanding of exposure can help companies develop contingency and longer-term plans to strengthen their supply chains.

“We have signed up to a voluntary code between farmers and ourselves giving them flexibility around being able to move the contract and obtain sufficient notice on price changes.”

Mark Allen, Chief Executive,
Dairy Crest

2.5 Transparency and engagement: Building customer dialogue

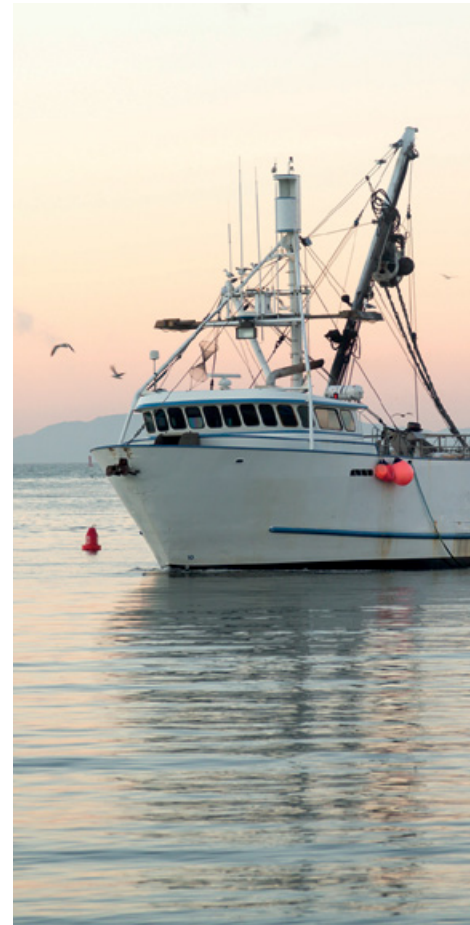
Case study 5

John West's can tracking programme: engaging customers through supply chain visibility⁸¹

John West, a major UK-based producer of canned fish, started implementing a traceability programme for tuna catches in 2010, and has since rolled out their technology to other products as well (salmon, mackerel, and sardines).

The programme, enabled through in-house software and technology development, enables John West and their customers to obtain data on the supply chain behind each can of product, including the fishing practice used, by entering the product's barcode into an on-line database.

By ensuring 100% traceability of their products, John West claim they can better manage and understand where their major challenges are, for example in terms of fish supplies, sustainable practices and which vessels perform the best. John West's advantage is their vertical integration: they are one of the few canned fish producers that actually own their own fishing vessels. John West's research has shown that the scheme has generated both better customer loyalty and also promoted consciousness of sustainable fishing practices.



3.0

Capturing the Prize

Capturing the value from the five innovation opportunities depends on a clear commitment to action, based on an alignment of sustainability goals with corporate strategy.

Companies can build on their existing CSR and sustainability programmes to create more ambitious approaches that better address the changing market and external environmental and social challenges.

Companies can follow three key steps, outlined later in this chapter.

- Assess the external market and mega-trends.
- Develop a vision and define the unique contribution of the business, in light of the external trends.
- Identify opportunities for innovation and value creation, in line with the business vision.

Following these steps can help businesses ‘capture the prize’ and unlock the £100 billion opportunity from the five areas of innovation.

3.1

Redefining
sustainable
business and
strategy

The limitations of the current CSR-driven approach to addressing sustainability challenges creates a need for a shift in business thinking.

True sustainability means alignment of commercial success with environmental and social progress through the company's strategy, creating new benefits:

- Creating shared value with society, helping to meet the needs of the people of today and future generations.
- Securing profitable growth for shareholders in light of current mega-trends.
- Building operational and supply chain resilience in the face of emerging risks.

The new model for sustainable business, illustrated in Figure 1, differs in objective, approach and in underlying assumptions from the current model. A three-step approach (see Figure 2) can support business to identify and begin capturing value from the innovation areas identified. Case study 6 provides some examples of leading business strategies that have incorporated these steps.

3.1 Redefining sustainable business and strategy

Figure 1: Redefining sustainable business

	Current model	New model
Objective	<ul style="list-style-type: none"> – Make existing business ‘greener’ and ‘give back’ to society 	<ul style="list-style-type: none"> – Enable high-quality lives today and for the 9bn people of tomorrow
Approach	<ul style="list-style-type: none"> – Corporate Social Responsibility – Philanthropy – Reporting focus – Incremental change & operational efficiency – Short term focus 	<ul style="list-style-type: none"> – Sustainable business purpose and strategy – Shared value with society – Performance focus – Transformational change & sustainable value creation – Balance short and long-term priorities
Assumptions	<ul style="list-style-type: none"> – Business-as-usual growth will continue – The external environment will stay the same – Resources are infinite – Customers are not interested in sustainability 	<ul style="list-style-type: none"> – Business-as-usual growth is not guaranteed – Mega-trends are reshaping the external environment – Resources are supply-constrained – Customers want better, healthier and more efficient options

“CSR is not about writing cheques. It is about your contribution to communities and society as a whole.”

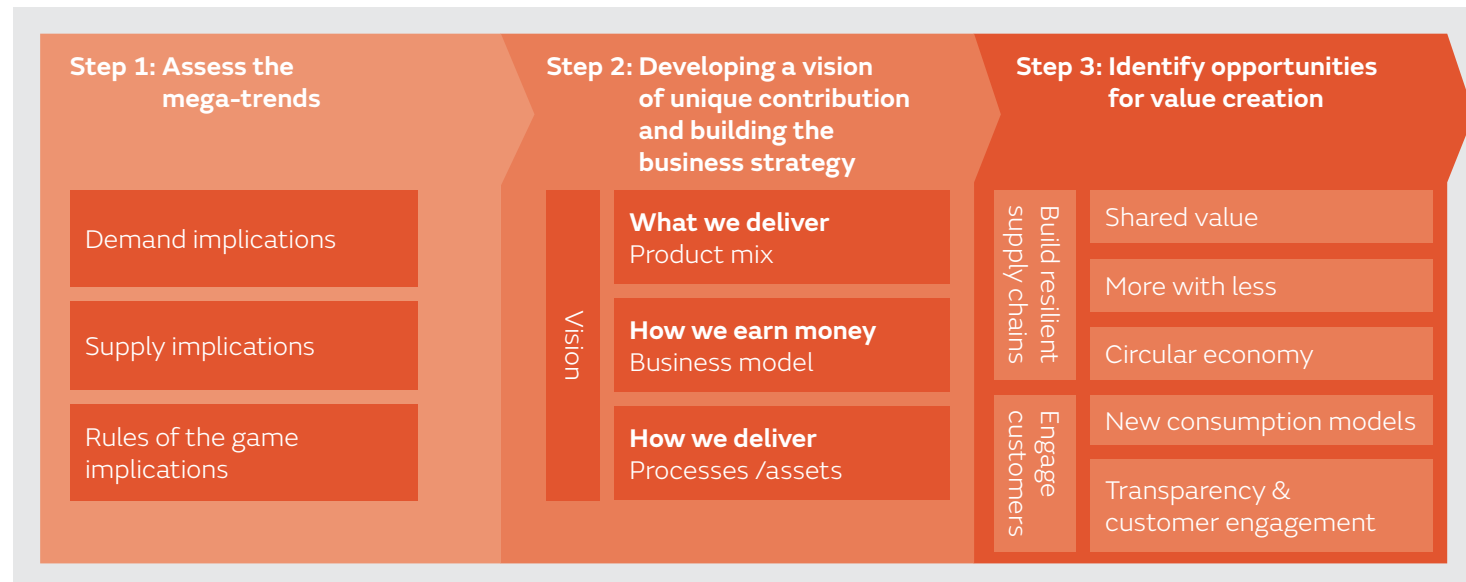
Chris Sullivan, Chief Executive,
Corporate Banking Division, RBS Group

“If you don’t have a clear sense of purpose and vision for sustainability you won’t succeed – you haven’t thought fully about the totality of your commercial strategy.”

Ian Cheshire, Group Chief Executive,
Kingfisher plc

3.1 Redefining sustainable business and strategy

Figure 2: A framework for developing a strategy that incorporates sustainability



“In technology you have to keep looking for problems that may be just around the corner – even when the customer doesn’t recognise the problem yet. Business has to lead the consumer and innovate now.”

Matt Brittin, Vice President,
Northern & Central Europe, Google

“You can’t differentiate between sustainability and the normal issues that business face.”

Mark Allen, Chief Executive,
Dairy Crest

- What opportunities and risks do global mega-trends pose to our business model in the short and long term?
- What are the specific impacts on demand, supply and the operating environment of our business?
- What is the unique contribution of our business to support high quality sustainable lives (in light of the mega-trends)?
- Is our product mix sustainable for the environment and society?
- Is our business model sustainable for the long-term?
- Is our supply chain and operations approach sustainable?
- How do we balance short-term priorities with the longer term need to adjust to the changing context?
- What specific opportunities do we have to create sustainable value?
- Which transformations will disrupt the market?
- Where can we test these opportunities and innovations?

Source: Accenture 2013

The BITC Sustainable Business Toolkit provides essential resources for companies, and business leaders, to start the journey of change

Step 1: Assess the mega-trends

The identification of societal and environmental issues that impact the business (the market context) is an essential first step in defining a sustainable strategy.

By rigorously analysing the root causes of existing business challenges, companies often uncover underlying societal and environmental problems, that when addressed, may lead to new sources of competitive advantage. Using this analysis, businesses can move towards a fuller assessment of the tangible commercial impact of the trends on the market in which they operate, considering:

- **Customer demand:** what is the direct impact on the market, product mix and customer proposition of trends such as a growing and aging population; of customer requirements for products and services that enable them to live healthy and environmentally sustainable lives; or the impact of increasing customer connectedness?
- **Supply conditions:** what is the direct impact on the supply chain of constraints and price volatility in key natural and human resources; what are the future costs and potential disruption risks?
- **Rules of the game:** what is the direct impact of environmental and social regulation or new technologies in changing the market and competitive landscape?

“The people agenda is crucial to the success of UK businesses. Over the last 20 years there has been a marked erosion in engineering skills, which is impacting on sustainable and technological growth in the UK.”

Mark Allen, Chief Executive,
Dairy Crest

Step 2: Developing a vision of unique contribution and building the business strategy

Companies can analyse their opportunity to play a positive role in addressing the mega-trends and define their ‘unique contribution’ to a better future.

This can be achieved by:

- Understanding the most relevant challenges for their industry.
- Considering core competencies and assessing their competitive positioning.
- Determining where they are best able to make a lasting difference.
- Determining what innovation opportunities can help them do this.

This assessment enables creation of a compelling corporate ‘vision’ and ‘objectives’ which can guide future action; help align commercial and sustainability imperatives; focus innovation and provide the storyline to motivate and engage staff on the change required.

Leaders should consider three key factors when expanding their vision to create a sustainable strategy:

“You need to use your company’s unique capabilities. At BT we use our call centre capabilities and web hosting to raise money and support charity telethons.”

Ian Livingston, Chief Executive,
BT Group

“You have to distribute seed capital widely in order to generate a few important successes. That’s a key role of business.”

Keith Williams, Chief Executive Officer,
British Airways

Step 2: Developing a vision of unique contribution and building the business strategy



A. What the company delivers (the product or service mix)

Businesses should seek to articulate how their company's products or services contribute to society and make sustainability simple for their customers. Unless the core purpose of business inherently results in improved lives and shared value with society then any attempts to improve 'sustainability' are liable to fail. Examples of aligning the product and service mix to address societal needs could include:

- Building efficient appliances and products that use fewer resources, saving customers money (for example innovative water-efficient washing machines, or clothes that can be washed at lower temperatures).
- Improving the nutritional value of food and drink sold, encouraging better standards of health (for example tackling obesity and other health conditions).
- Developing preventative medicine products and services, with a goal of improving the state of health in a region.

“In the long term if the right thing to do isn't valued then the market has failed.”

Colin Matthews, Chief Executive Officer, Heathrow Airport Holdings Limited

Step 2: Developing a vision of unique contribution and building the business strategy



B. How the business earns money (the business model)

Business can explore options to generate income through business models that support delivery of a sustainable product and service mix.

Examples of potential business models include:

- Transaction fees (e.g. from on-line collaborative markets).
- Second-life sales (e.g. from ‘up-cycling’).
- Leasing contracts (e.g. for rental services) and new sales channels (e.g. through a mobile workforce).

C. How the company delivers (the processes and means for delivery of the product or service)

Finally, the corporate strategy can consider how the business will operate and the opportunities to maintain competitiveness and grow shareholder returns by being as resource-efficient as possible, building equitable and transparent supply chains, closing the loop and maintaining an active and engaged workforce.

“Building huge capacity requires efficiency. So our strategy naturally must be aligned with sustainability.”

Matt Brittin, Vice President, Northern & Central Europe, Google

Case study 6

Example strategies from sustainability leaders

Leading companies are already creating and implementing sustainability strategies that articulate their positive and unique contribution, and are finding new opportunities to innovate.

The Sustainable Living Plan is Unilever's corporate strategy, which sets out to decouple business growth from their environmental impacts whilst at the same time increasing positive social impacts. The Sustainable Living Plan focuses on three core goals to achieve by 2020 that are central to Unilever's business model: improve health and well-being; halve their environmental impact and source 100% of their agricultural raw materials sustainably; and enhance the livelihoods of people across their value chain. Seven key commitments spanning health and hygiene, greenhouse gas emissions, sustainable sourcing and others underpin these three goals⁸².

The first two years of the plan have already delivered significant progress. For example, the company has reached 224 million people with programmes to reduce diarrhoeal disease through hand-washing with soap, more than a third of their raw materials are now sourced sustainably, and half of their manufacturing sites now send zero non-hazardous waste to landfill⁸³.

“Sustainability is about advancing economic growth, whilst reducing environmental burdens and social impacts. It's not about one or the other, but about striking the right balance between the three.”

Paul Drechsler, Chief Executive,
Wates Group Limited

3.1 Redefining sustainable business and strategy

Case study 6

Example strategies from sustainability leaders



Plan A is Marks & Spencer's approach to address the global challenges of increasing pressure on resource use, rising social inequality and the need for more sustainable lifestyles, within an overall vision to become the world's most sustainable retailer. Launched in 2007, Plan A has generated £185m in net benefits to date, and covers 180 commitments to achieve by 2015, across areas such as climate change, waste, and health and wellbeing⁸⁴.

Net Positive is Kingfisher's approach to doing business. They have set a 2050 vision of going beyond reduction of negative impacts, seeking to make a positive contribution to the world's future, being a 'force for good'. Their core purpose is to make it easier for customers to have better and more sustainable homes, and they aim to achieve this through their unique contribution: harnessing their international scale, sourcing capability, their heritage as a leader in sustainability and their home improvement experience to bring new, more sustainable and more affordable products to market.

To concentrate efforts on the material issues, four priorities have been set: timber (to create more forest than they use), energy (to ensure every store and customer home is zero carbon or generate more energy than it consumes), innovation (to ensure that every product will enable more a sustainable, positive future) and communities (for every store to support projects which build local communities or equip people with skills). Kingfisher aims to address over £60 million of potential value in savings from timber opportunities alone⁸⁵.

"We don't have enough of our business leaders on stage talking about the good [sustainability] stories."

Paul Drechsler, Chief Executive,
Wates Group Limited

Step 3: Identify opportunities for value creation

The final step is to identify, test and deliver sustainable sources of value across the five innovation areas outlined in this report.

Businesses can assess which innovation areas are most promising in light of their industry focus, competitive positioning and vision.

Businesses should balance the short term needs for profitability and returns today, with longer-term business security from investing in new opportunities. Mastering the balance equation is not an easy task, and leaders will want to draw from the analysis of mega-trends to inform their decisions.

Testing new sustainability innovations can offer new pathways for sustainable development in the medium to long term. Leaders should be comfortable with the idea of experimentation and to applying lessons to refine the approach. Companies that experiment with the five innovation areas create the evidence-base to scale up over time.

“In today’s rapidly changing and increasingly resource constrained world – which will need to provide for 9 billion people by 2050 – it has never been more important for companies of all sizes to understand how and why sustainability is central to their long-term success and prosperity.”

Stephen Howard, Chief Executive,
Business in the Community

4.0

A Call to Action

Those companies that innovate, demonstrate bold leadership and move beyond business-as-usual approaches to sustainability are most likely to be the winners.

By redefining the way we do business, and by testing, scaling-up and delivering on innovations, UK businesses can create jobs, build skills, improve resource efficiency and support increased prosperity for people today, without compromising the future of the 9 billion people of 2050.

In order to seize this opportunity the goal of enhancing social and environmental outcomes needs to be built in to companies' objectives, strategies and commercial models, and companies need to re-think what their value and unique contribution to society will be. The *BITC Sustainable Business Toolkit*, launched alongside this report, provides essential resources for companies to start this journey of change – to 'Think, Test and Deliver' a better approach to business that creates shared value for shareholders, employees and communities.

For many companies the journey will start with small steps, but building on success will lead to greater scale and the potential for transformation. By harnessing the dynamic power of business we can secure a £100 billion opportunity and protect our future growth and prosperity.

Companies must dare to
innovate and to test and
scale new approaches
which can drive future
growth and prosperity

Appendices

Appendix 1: Key Market Trends and Statistics

Social and environmental trends are rapidly changing the business landscape and need to be factored in to business planning and strategy.

Rising consumption of natural resources

- Resource consumption: globally, we take 20% more resources than the earth can naturally replenish. If we continue on this 'business-as-usual' path, by 2050 we would need 2.5 times the natural resources of earth to support a population of 9 billion people⁸⁶.
- Energy consumption: electricity consumption per capita in the UK has risen by 19% since 1985⁸⁷.
- Extraction: despite a slight decoupling of global growth from resource extraction, net extraction of resources continues to grow at a rate of 2% a year on average⁸⁸.

Resource scarcity, increased costs and volatility

- Energy: global oil production has risen by 36% over the past 3 decades, with an accompanying 6-fold price increase that has been subject to significant fluctuation⁸⁹.
- Cotton: the cotton price in July 2011 was the highest in 300 years, tripling over a 2 year period⁹⁰.
- Steel: China's demand for steel is now 46% of global production⁹¹.
- Rare earths: China supplies over 95% of the world's rare earth metals vital to a wide range of consumer goods, and prices for these have escalated over the past decade⁹².

- Household costs: fuel and power combined made up 18% of household spending in 2003, but this has increased to 21% in 2011⁹³. An estimated 17% of households in the UK are in fuel poverty, a 280% rise over 10 years⁹⁴.

Environmental constraints

- Water: DEFRA estimate that by the 2050s, between 27 and 59 million people in the UK may be living in areas affected by water supply-demand deficits⁹⁵.
- Pollution: air pollution in urban centres in the UK is of particular concern, with parts of central London exceeding EU air quality regulation limits every day of the year⁹⁶.
- Pollination: intensive agriculture together with certain chemical pesticides is considered to be a leading cause for the decline in the UK honeybee population⁹⁷, which plays a vital role in pollination and thus agricultural production.

Changing health and demographics

- Health: obesity is at a record high, 25% of the population still smoke, alcohol consumption per capita has risen by 50% in 20 years⁹⁸, and the prevalence of cardiovascular disease has risen by 35% over the same period⁹⁹.
- Aging society: the number of people over 65 in the UK is projected to rise from 10 million today to 16 million in 20 years' time¹⁰⁰.
- Affluence: the OECD estimates that by 2030, 3 billion more people will join the middle classes¹⁰¹. In the 1980s, 24% of the UK population described themselves as middle class, but this figure has risen to 71% in 2011¹⁰².

- Inequality: the poorest tenth of the population have seen their incomes decline in real terms by over 10% in the last decade, whilst most other income groups have seen their incomes increase by 20-30% on average¹⁰³. The richest tenth of the UK have seen their incomes rise the most, by 35% in real terms.

Shifting consumer values and demands for transparency

- CEO concerns: in Europe, just 69% of CEOs believe that their company is trusted by the public and stakeholders¹⁰⁴. 72% of CEOs cite 'brand, trust and reputation' as one of the top three factors driving them to take action on sustainability issues¹⁰⁵.
- Trust: only 53% of consumers in the UK are willing to trust their bank or building society, and 63% don't trust any banks at all¹⁰⁶.
- Consumer pull: market research suggests that 12% of consumers choose products based solely on their environmental and ethical credentials¹⁰⁷.

Supply of skills and unemployment

- Illiteracy: currently 22% of 16-19 year olds in England and Wales are categorised as functionally illiterate¹⁰⁸.
- Skills: 42% of employers report they have difficulty in recruiting staff with skills in science, technology, engineering or mathematics (STEM skills)¹⁰⁹.
- Unemployment: the unemployment rate in the UK has been steadily rising since 2004 (a 65% rise in 8 years)¹¹⁰, and the number of people facing long term unemployment (longer than a year) has more than tripled over the same period, now making up a third of all unemployment. Youth unemployment is now at 8%, and 23% of 16-24 year olds are without a job¹¹¹.

Changing technology and connectedness

- Mobile: there are now more UK mobile phone contracts than there are people living in the UK, and 80% of households have a broadband internet connection (compared to 25% in 2000)¹¹².
- Social Media: half the people in the country are on Facebook, and 10 million are on Twitter¹¹³.

Changing regulations and policies

- Pensions: recent legislation on automatic pension enrolment seeks to address the challenges of the aging society and places new obligations on business¹¹⁴.
- Waste: the standard landfill tax rate for 2014 is proposed to be £80 per tonne of waste, a rise of 25% on the current rate, increasing the costs of waste disposal¹¹⁵.
- Alcohol: the Scottish Government is proposing a minimum price of alcohol of 50 pence per unit¹¹⁶, which will raise the average prices of many high-alcohol content products.
- Carbon: in 2012 the UK Government announced it would be the first Government in the world to require all listed companies on the main market of the London Stock Exchange to disclose their greenhouse gas emissions in their annual reports¹¹⁷.
- Equality: the UK Equality Act 2010¹¹⁸ set new standards for the legal protection of people from discrimination in the workplace.
- Gender: the EU has proposed¹¹⁹ to set quotas for the number of women present on company Boards.

Appendices

Investor pressure

- Valuation: 86% of CEOs see accurate valuation by investors of environmental and social challenges in long-term investments as important to reaching a tipping point in sustainability¹²⁰.
- Disclosure: when the Carbon Disclosure Project Launched their FTSE 350 Climate Change Report in 2006, 49% of listed companies responded, detailing their carbon risks, opportunities and emissions. In 2012, 69% responded, including almost all (96%) of the FTSE 100¹²¹.

Appendix 2: Further Sources of Information

Shared value

- Accenture's Skills to Succeed Programme: <http://www.accenture.com/us-en/company/citizenship/Pages/skills-succeed.aspx>
- Creating Shared Value, an Article by M. Porter and M. Kramer in the Harvard Business Review, January 2011: <http://hbr.org/2011/01/the-big-idea-creating-shared-value>
- Creating Shared Value on the Guardian Sustainable Business portal: <http://www.guardian.co.uk/sustainable-business/series/creating-shared-value>
- The FSG Shared Value Initiative – a source of examples and case studies, including how to measure shared value: <http://www.fsg.org/OurApproach/SharedValue.aspx>

More with less

- DEFRA Resource Efficiency portal: <http://webarchive.nationalarchives.gov.uk/20130123162956/http://www.defra.gov.uk/environment/economy/business-efficiency/>
- Examples of Resource Efficiency innovations from the Guardian Sustainable Business portal: <http://www.guardian.co.uk/sustainable-business/resource-efficiency>
- GE Ecomagination annual report: <http://www.ecomagination.com/ar2011/#!section=ProgressIntro>

Circular economy

- Ellen MacArthur Foundation research on the circular economy, benefits and frameworks: <http://www.ellenmacarthurfoundation.org/>
- Videos on The Circular Economy from the Ellen MacArthur Foundation: <http://www.youtube.com/user/made2bemadeagain>
- Chatham House Research on the Circular Economy: <http://www.chathamhouse.org/research/eedp/current-projects/circular-economy>
- Patagonia Common Threads Initiative: <http://www.patagonia.com/us/common-threads>

New consumption models

- The Collaborative Consumption movement – multiple examples of existing models and companies: <http://www.collaborativeconsumption.com>
- The Collaborative Consumption video: http://www.youtube.com/watch?v=f1_cpMpCOOE
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Transparency and engagement

- CDP Supply Chain Reports: <https://www.cdproject.net/en-US/Results/Pages/Supply-Chain-Reports.aspx>
- Sustainable Organizations? Start with Sustainable Procurement. An Accenture Point of View: <http://www.accenture.com/us-en/outlook/Pages/outlook-online-2013-sustainable-organizations-start-with-sustainable-procurement.aspx>
- Mayor of London's Green Procurement Code: <http://www.greenprocurementcode.co.uk/>
- Procurement Leaders Sustainable Sourcing Knowledge Group: <http://www.procurementleaders.com/sustainable-sourcing>
- Sustainable Sourcing Guide for Agricultural Materials, International Trade Centre: <http://www.intracen.org/Sustainable-Sourcing-Guide/>
- John West traceability programme: <http://www.john-west.co.uk/discover-the-story-behind-your-can/>

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