

**SUSTAINABILITY
RESHAPES
THE BUSINESS
LANDSCAPE
FOR GOOD.**

CONTENTS

The sustainability effect

1. ESG rewrites the innovation rules
2. Sustainability challenges reporting
3. Social engagement redefines corporate culture
4. Conscious consumerism reframes the brand/customer dynamic

Last word: Sustainability is here to stay

THE SUSTAINABILITY EFFECT

There's now no doubt about it: sustainability is an existential challenge of our time. As businesses come to grips with the ongoing implications of the COVID-19 pandemic, consumers are recognising the far-reaching impacts their choices can have. If anything, growing social and environmental awareness has hardened into an urgent call to act, with rising pressure to reduce the impact of climate change and consumption.

In the face of this uncertainty, leading businesses—whether industry incumbent, challenger brand or disrupter—are moving from global conversation to corporate action. And in their push to remain relevant, it's never been more important for them to strike the balance between sustainability and profitability.

Our new research supports this:

83%

of businesses describe sustainability as a business opportunity to be exploited.

72%

say that sustainability is a lasting trend.

74%

say they won't wait for their competitors to up the ante before they define their own benchmarks for success.



So what can today's businesses do? And how can they connect their corporate reporting to sustainability goals in order to demonstrate action and prove effectiveness? On the other side of the equation, what do consumers expect from the businesses they buy products and services from?

OUR NEW RESEARCH SOUGHT TO ANSWER THESE QUESTIONS, AND IT FINDS THAT BUSINESSES OPERATING IN THIS NEW AGE OF SUSTAINABILITY WILL HAVE TO:

- Recognise that sustainability is a catalyst for change and creates opportunities for growth.
- Balance sustainability practices with profitability if they want to gain long-term stakeholder buy-in.
- Understand that with the ascendancy of Millennials and Generation Z, corporate culture must align with social calls for action.
- Align themselves with consumer expectations of sustainability in order to strengthen brand-customer relationships.

In this report, we will explore these new business must-haves and delve into the data to find out how the sustainability effect is reshaping businesses for the better.

ABOUT THE RESEARCH

Data cited in this report is based on two surveys commissioned by Smurfit Kappa and conducted by Longitude, a division of The Financial Times, in January 2020. The first, a survey of 200 UK business leaders and senior executives, investigated attitudes and approaches to corporate sustainability across FMCG, retail and e-commerce and consumer products.

The second, a survey of 1,500 UK consumers, investigated consumer attitudes and beliefs towards sustainability, their impact on consumer behaviour, and consumer expectations of corporate sustainability practices.

While this research was conducted in the weeks before the COVID-19 pandemic spread throughout the world, we believe that the need for businesses and consumers to act on sustainability are no less urgent. As companies come to grips with the fall-out of the pandemic, we believe this will foster corporate sustainability as business imperative, rather than competitive advantage.

In addition to the quantitative research, Longitude also undertook a series of in-depth qualitative interviews between January and March 2020, to gather insights into corporate sustainability in practice. They include:

- **Véronique Cremades-Mathis, Global Head of Sustainable Packaging, Nestlé**
- **Gian De Belder, Principal Scientist, Procter & Gamble**
- **Simon Boas Hoffmeyer, Senior Director, Group Sustainability & Communications, Carlsberg Group**
- **Ioannis Ioannou, Associate Professor of Strategy and Entrepreneurship, London Business School**
- **Loukia Tzekaki, Corporate Communications & Sustainability Associate Director, Procter & Gamble**
- **Steven Stoffer, Vice President of Sustainability and Development, Smurfit Kappa**
- **Arco Berkenbosch, Vice President of Innovation and Development, Smurfit Kappa**

1. ESG REWRITES THE INNOVATION RULES

From raging fires in the Amazon and Australia, record heatwaves and widespread flooding to empty cities, clean streets and clear skylines, we are reminded that climate change is one of the defining challenges of our time. Businesses and consumers alike can't ignore it any longer.

The question of sustainable consumption, meanwhile, has burst into the public consciousness as global lockdowns have forced people everywhere to rethink what they consume, when, where and how. Images of the Taj Mahal no longer shrouded in dense smog, or London's centre clear of traffic have prompted consumer reflections and soul-searching among the global business community. In a post-COVID-19 world, how can both groups help to make this the norm?

Business is responding by turning to environmental, social and governance (ESG) measures, which are reshaping organisations from the inside out. They are rethinking their products and packaging solutions in an effort to tackle environmental waste, and this is transforming the innovation agenda.



In about one-third of companies we surveyed, sustainability is driving all R&D (37%) and new product development (33%). Businesses are homing in on packaging specifically as a key innovation opportunity: 68% cite materials in packaging as a core sustainability challenge, followed by collection and recycling (59%) and the materials used to manufacture products (56%).

Overcoming those packaging challenges is going to propel innovation, according to Arco Berkenbosch, Smurfit Kappa's Vice President of Innovation and Development. "One of our biggest challenges in the medium term will be the debate on packaging litter and how we can close the loop on plastic pollution in the ocean," he says. "That challenge will drive our innovation agenda, material research agenda and basic development agenda. And we will invent things that will help us tackle this problem."

He cites "three gains" that the company insists on when embarking on its innovation and business development agenda: "First are the short-term, implementable solutions and innovations. Second are the automation and supply-chain improvements. And third are the functionality improvements of paper that take longer to implement but also have a lasting impact."

FIGURE 1. In which of the following areas of your organisation has implementing sustainability practices proved most challenging?

Note: respondents were asked to select up to three responses.

Materials used in packaging



Collection and recycling



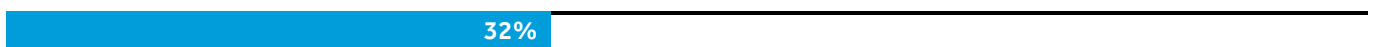
Materials used to manufacture products



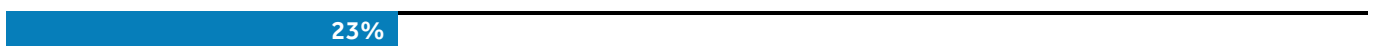
Supply chain



Technology



Machinery and tools



LOW-HANGING FRUIT

Berkenbosch sees plenty of “low-hanging fruit” for suppliers to tackle in the global packaging industry without driving up significant costs, starting with empty packaging in e-commerce and plastic use when transporting goods in the supply chain.

“The requirements in terms of the speed of development and implementation have never been as high as they are today.”

Arco Berkenbosch,
Vice President of Innovation and Development, Smurfit Kappa

Work is already under way. IKEA is the world’s biggest furniture retailer, and it has set ambitious targets on recyclable and renewable materials to improve its existing supply chain.

So the direction of travel is encouraging, and consumer demand for sustainable packaging is putting more pressure on businesses than ever before. “The requirements in terms of the speed of development and implementation have never been as high as they are today,” says Berkenbosch.

During IKEA’s 2018 financial year, 60% of its range was based on renewable materials and 10% contained recycled materials. By 2030, the company intends for its range to be 100% renewable and recycled.¹

Waste reduction, meanwhile, has become a priority for businesses: it has the biggest influence on their sustainability strategies, according to about half (49%) of our respondents, with climate change concerns (41%) just behind and cost savings (35%) in third place. It’s not about altruism: cost savings resulting from waste-reduction efforts are the most anticipated benefit of their sustainability practices (46%), followed by cost savings from increased efficiency (41%).

Our survey shows that IKEA is in good company: 86% of businesses are also investing in using recycled materials in their products and packaging.

FIGURE 2. Which of the following factors have had the greatest influence on your sustainability strategy?

Note: respondents were asked to select up to three responses.



1 <https://newsroom.inter.ikea.com/publications/all/ikea-sustainability-report-fy18/s/409b1d78-7d7b-4f48-a63d-368d5fb69c2d>

VALUE FROM ESG

Beyond those cost reductions, businesses are increasingly aware that a strong ESG proposition can also minimise their corporate risk and unlock greater value. As Ioannis Ioannou, Associate Professor of Strategy and Entrepreneurship at London Business School puts it: "You are in that sweet spot where you build an advantage and, at the same time, meet demands and expectations to be socially responsible."

A case in point is Carlsberg's Zero Irresponsible Drinking² vision, which has seen the global brewer offer consumers an alcohol-free choice in circumstances where they would normally drink beer. Offering alcohol-free beer doesn't just mitigate alcohol-related harm to Carlsberg's customers; it also represents a commercial opportunity for the company to tap into lunchtime drink sales.

"That's one of the things that can come out of having a global corporate sustainability target," explains Simon Boas Hoffmeyer, Senior Director, Group Sustainability & Communications at Carlsberg Group. "You unleash inventiveness and give your innovators, brand marketers, and supply-chain colleagues licence to step out of the status quo."



2. SUSTAINABILITY CHALLENGES REPORTING

"If the discussion about sustainability were somehow a fork in the path that could derail your business, there would no doubt be pressures," says Véronique Cremades-Mathis, Global Head of Sustainable Packaging at Nestlé. "But we don't see the contradiction between doing the right thing on sustainability and delivering to our shareholders."

"Investors are increasingly knowledgeable and focused on sustainability as part of the conversation about the bottom line. We're able to say, "We've been doing this for years," and it feels good to talk about it. Hopefully that will translate into returns for our shareholders."

THE CASE FOR PROFITABLE SUSTAINABILITY

The Business & Sustainable Development Commission's Better Business, Better World report says that by 2030 the United Nations' Sustainable Development Goals will represent a US\$12 trillion annual opportunity for the private sector³.

And although a commitment to a specific sustainability goal might mean higher upfront costs, businesses can often find efficiencies and economic payoffs elsewhere.

Loukia Tzekaki, Corporate Communications & Sustainability Associate Director at consumer goods giant Procter & Gamble (P&G), says there can be areas of considerable cost savings when taking the most sustainable route. "We can see positive financial benefits when we design our products with sustainability in mind from the start and sustainability is embedded into the business processes," she explains. "By operating sustainably, we can also reduce costs. It can be a win-win."

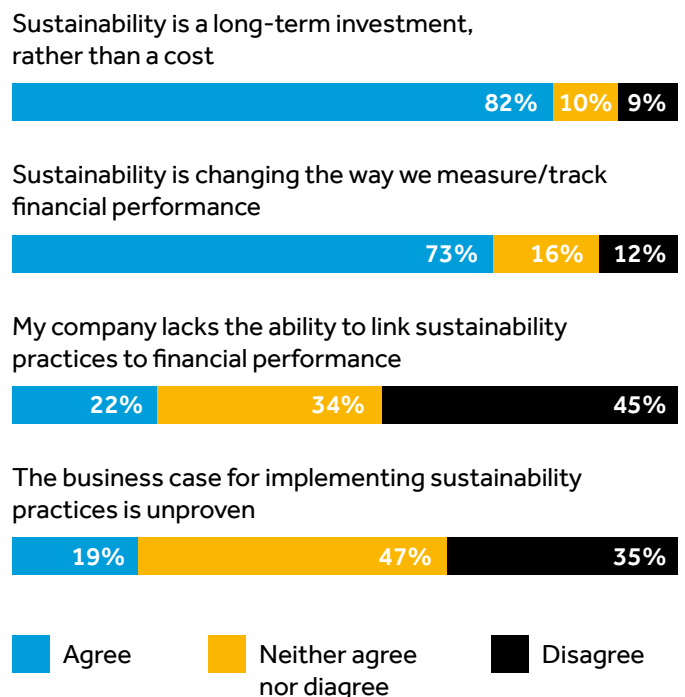
This sentiment is echoed in our research, which finds that 82% of business executives treat sustainability as a long-term investment, rather than a cost. Crucially, this is changing the rules of financial reporting in nearly three-quarters of businesses (73%).

The case for sustainability might seem clear cut, but quantified evidence is not always easy to come by. Commitments to ESG are growing across the board, but the top challenge hampering companies is how to measure their progress. Less than half the organisations we surveyed have the ability to link sustainability to financial performance, and just 18% currently measure sustainability performance against their strategy. Furthermore, 42% of businesses say that the struggle to quantify sustainability performance is the biggest barrier to implementing sustainability practices.

Sometimes, measurement can throw up difficult trade-offs. An innovative material may aid waste reduction and litter, but it might contribute more to climate change. "Measurement is only half the story," says London Business School's Ioannou. "It's not that companies have fully figured out what they're going to do and, therefore, all that remains is to measure it. Sometimes, they're trying to measure a moving target."

Figure 3. To what extent do you agree with the following statements about your organisation's approach to measuring and evaluating sustainability, and its financial impacts?

Note: due to rounding, figures may not add up to 100%.

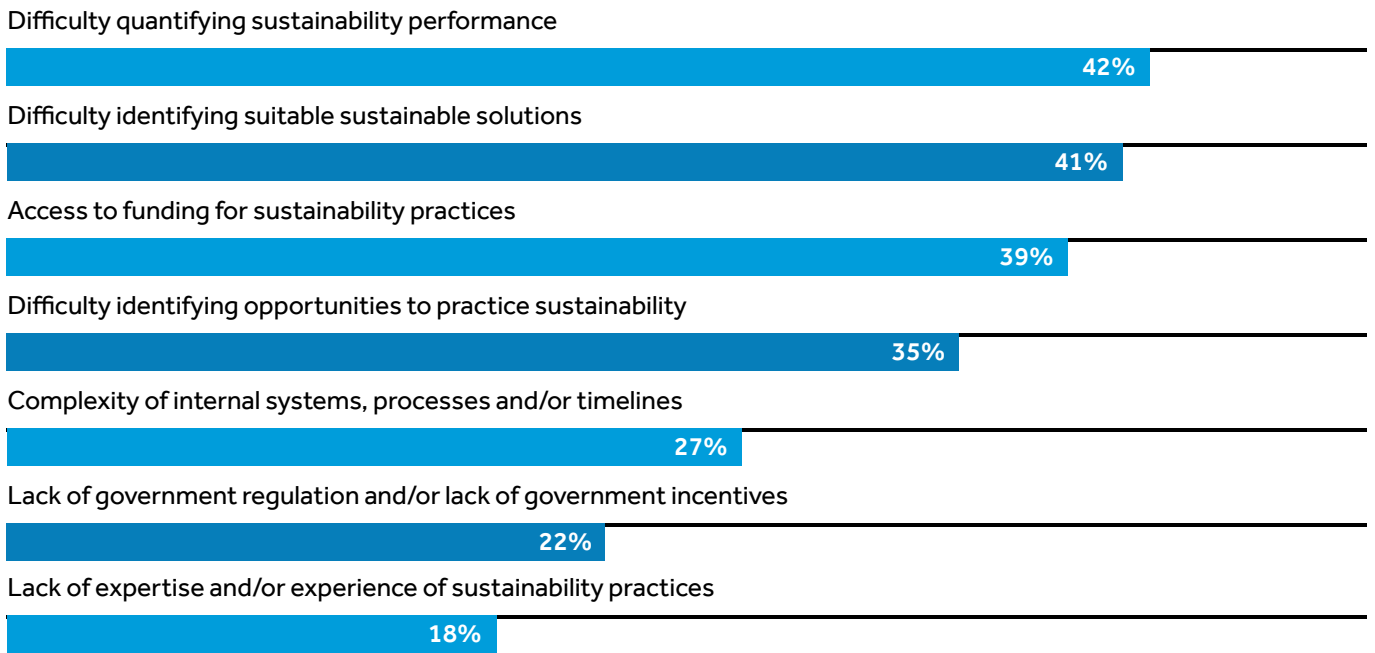


“We don’t see the contradiction between doing the right thing on sustainability and delivering to our shareholders.”

Véronique Cremades-Mathis,
Global Head of Sustainable Packaging, Nestlé

Figure 4. Which of the following have been the biggest barriers to the implementation of sustainability practices in your organisation?

Note: respondents were asked to select up to three responses.



PROFITABILITY DOWN: THE CUSTOMER IS THE NEW BENCHMARK

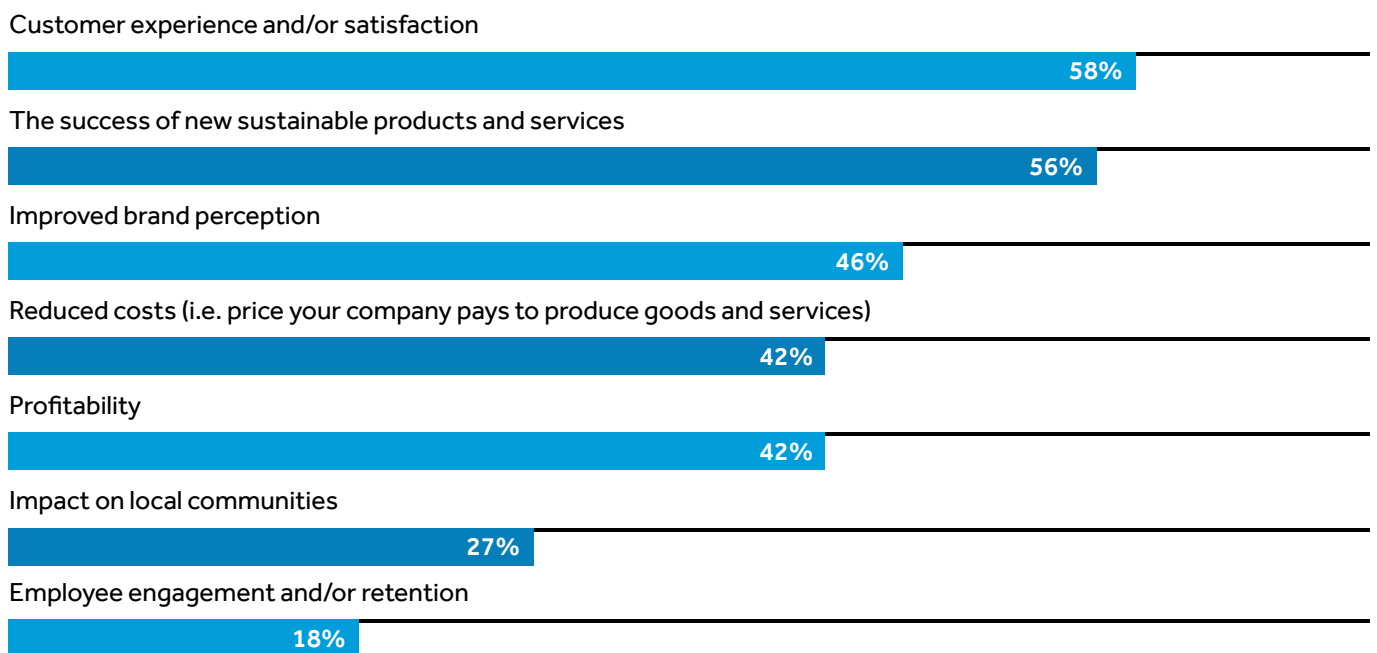
Nearly three-quarters of businesses (73%) say that the sustainability agenda is changing the way they track and measure financial performance, and about six in 10 (58%) say that customer experience is their top way to measure corporate sustainability.

“By operating sustainably, we can also reduce costs. It can be a win-win.”

Loukia Tzekaki,
Corporate Communications & Sustainability Associate Director,
Procter & Gamble

FIGURE 5. Which of the following are the most important metrics for your organisation to measure return on investment from sustainability practices?

Note: respondents were asked to select up to three responses.



Some organisations have already found innovative ways of measuring sustainability's impact and communicating their performance to shareholders, stakeholders, employees and customers.

Take luxury group Kering's annual environmental profit and loss report (EP&L)⁴. It's an environmental accounting method used by the company to better understand, measure and manage its impact. Through the EP&L, Kering measures how its supply chain performs against a number of climate factors, including carbon emissions, water consumption and land use. It then translates that into a monetary value that quantifies the environmental cost of its business.

At Carlsberg, the step change in sustainability measurement followed an internal and external materiality assessment in 2015 that identified which business areas had the biggest negative impact and where the brewer might be able to

contribute most to society. On the back of that work it launched its Together Towards Zero initiative, which includes a commitment to reach zero carbon emissions and a 30% reduction in its "full value chain carbon footprint" by 2030⁵.

Carlsberg's approach is based on the premise that "what you measure, you can manage," explains the brewer's Boas Hoffmeyer. "This is something we're developing all the time, and it will have game-changing capabilities for the future if we can stay relevant to our customers and also really drive the change towards a low-carbon economy."

Smurfit Kappa's Berkenbosch links measurement to taking the long-term view. "It's vital that industry, government and NGOs [non-governmental organisations] do not chase sustainability as a short-term marketing exercise. It requires collaboration, measurement and hard facts."

3. SOCIAL ENGAGEMENT REDEFINES CORPORATE CULTURE

As governments around the world strive to meet the demands of the Paris Agreement⁶ and more and more consumers, driven by younger generations, engage with social and environmental issues, businesses are facing intense pressure to adapt their corporate culture to keep up.

"There were a couple of things in the early 2000s that made it clear that sustainability was not going to go away," says Smurfit Kappa's Stoffer. "The first was pressure from FMCG [fast-moving consumer goods] customers to not ruin the planet. The second was the emergence of the EU's emissions-trading scheme.

"From an environmental perspective, climate change is a critical issue right now," he says. "The global community is realising that time is running out, and people are getting ready to take action."

Some of the world's largest firms are already demonstrating their commitment to tackling the climate crisis by linking the likes of compensation and annual budgets to sustainability targets. Microsoft, for instance, has introduced an internal 'carbon fee' that holds each of its business units financially accountable for their carbon emissions⁷.

And a report⁸ from global non-profit CDP looking at firms worth three-quarters of European market capitalisation found that almost half (47%) reward their senior management for managing climate topics, and one in four ties incentives to climate targets.

6 <https://unfccc.int/process-and-meetings/the-paris-agreement/what-is-the-paris-agreement>

7 <https://unfccc.int/climate-action/momentum-for-change/financing-for-climate-friendly/microsoft-global-carbon-fee>

8 <https://www.cdp.net/en/articles/companies/half-of-europes-largest-firms-now-link-executive-pay-to-climate-change>

A BUSINESS IMPERATIVE

These kinds of sustainable credentials are now essential for businesses that want to recruit and retain the best talent

More than three-quarters of organisations surveyed (77%) say their sustainability strategy is having a positive impact on employee engagement and retention, and 86% report that sustainability practices are having a positive impact on their organisational culture and internal attitudes to sustainability. That's significant.

According to Stoffer, a generational shift is at play here. "Younger generations are much more focused on [sustainability] than the older generations," he says. "A lot

of people only want to work for companies that behave in a responsible way, so we articulate it much more now than in the past.

"Is that a change of culture?" he asks. "I'm not 100% sure, but it's pretty clear that the younger generation expects that from the company they work for."



SUSTAINABILITY AND A NEW GENERATION OF CONSUMERS

Spurred on by the 'Greta Thunberg effect' and yearning to make a difference, younger generations are demanding urgent action from government leaders and global businesses.

Anxiety levels among this cohort have hit new heights as headlines about environmental devastation cut through on a daily basis. A recent survey⁹ by Ipsos MORI/Amnesty International of 10,000 18–25-year-olds across 22 countries found that climate change was their most pressing concern.

To play their part and to stay relevant to these consumers, businesses will have to step up. "Millennials and Gen Z are entering the product and services market and the labour market," says Ioannis Ioannou, Associate Professor of Strategy and Entrepreneurship at London Business School. "And that is having a big impact in terms of [the public] demanding accountability from companies and higher ethical, environmental and social standards for the products and services they choose to consume.

"When we talk about a brand, we are increasingly having a discussion about the values behind it and what it stands for," he says. "We talk about corporate cultures that need to have a purpose. Ideally, that purpose will have something to do with a positive social impact."

9 <https://www.amnesty.org.uk/press-releases/climate-change-ranks-highest-most-important-issue-facing-world-amongst-18-25-year>

4. CONSCIOUS CONSUMERISM REFRAMES THE BRAND/CUSTOMER DYNAMIC

Consumers young and old are adopting a sustainability mindset – and they're looking to brands to help them.

Our survey of consumers finds that 61% expect the brands they buy from to have clear sustainability practices, yet 69% struggle to identify whether brands have them or not. This puts the onus squarely on brands to do a better job of telling potential customers what they're doing.

There is often a disparity between having good intentions and seeing those intentions through, but an impressive six in 10 consumers say they regularly recycle or repair products instead of replacing them, and many are voting with their feet and prioritising sustainable packaging and localism.

And although cost dampens appetite for sustainable everyday goods such as food or clothing, in the past six months more than half of consumers say they've purchased a product specifically because it had reusable or biodegradable packaging, and the majority (56%) have paid more for a product or service that was sustainably sourced.

When it comes to the collective sustainability effort, consumers expect retailers to lead: 34% of respondents say they should ensure shoppers are informed of sustainability factors at the point of purchase, with brands (31%) and the state (18%) also playing a part.

FIGURE 6.
Have you done any of the following things within the past six months?

Note: due to rounding, figures may not add up to 100%.

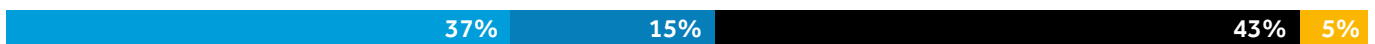
Recycled or repaired a product, rather than replacing it, even if it took more time, effort or money to do so



Purchased a product specifically because it had reusable or biodegradable packaging



Swapped to a more locally produced product or service, even if it cost more to do so



Rejected a brand based on unsustainable packaging



Made a formal complaint to a company regarding their sustainable business practices or packaging



■ Yes, always or often
 ■ Yes, as a one-off
 ■ No
 ■ Not applicable

FIGURE 7. In your opinion, who is most responsible for ensuring the following when it comes to sustainable products and practices?

Note: due to rounding, figures may not add up to 100%.

Setting and enforcing industry standards for sustainability



Educating consumers of the long-term impacts of sustainable consumption



Covering additional costs associated with producing sustainable products and services



Ensuring shoppers are informed of sustainability factors at the point of purchase



■ Government and/or regulatory bodies
 ■ Brands
 ■ Shoppers
■ Retailers
 ■ Public figures and influencers
 ■ Lobbies and/or activist groups

INNOVATION AND SUSTAINABILITY: TWO SIDES OF THE SAME COIN

Good intentions aside, there's consensus in the research findings that convenience and performance shouldn't be sacrificed for sustainability. "The vast majority of consumers don't want to compromise their habits," says P&G's Tzekaki. "They do not want to compromise on the performance of products."

London Business School's Ioannou agrees, and he gives one well-known example. "People don't buy Teslas just because they are electric cars," he says. "They buy them because they're fundamentally better cars." This shows that innovation and sustainability are "two sides of the same strategic coin."

Conscious consumerism is also reframing the brand-customer dynamic. Eighty-eight per cent of organisations say that consumers expect them to have clear sustainability practices, and more than three-quarters (78%) say that their customers look to them for guidance in adopting more sustainable practices.

"In the past, sustainability was more of a corporate topic," says Smurfit Kappa's Berkenbosch. "Now, more than ever, the sustainability agenda is driven by consumers." In light of the global pandemic, this shift has become even more pronounced.

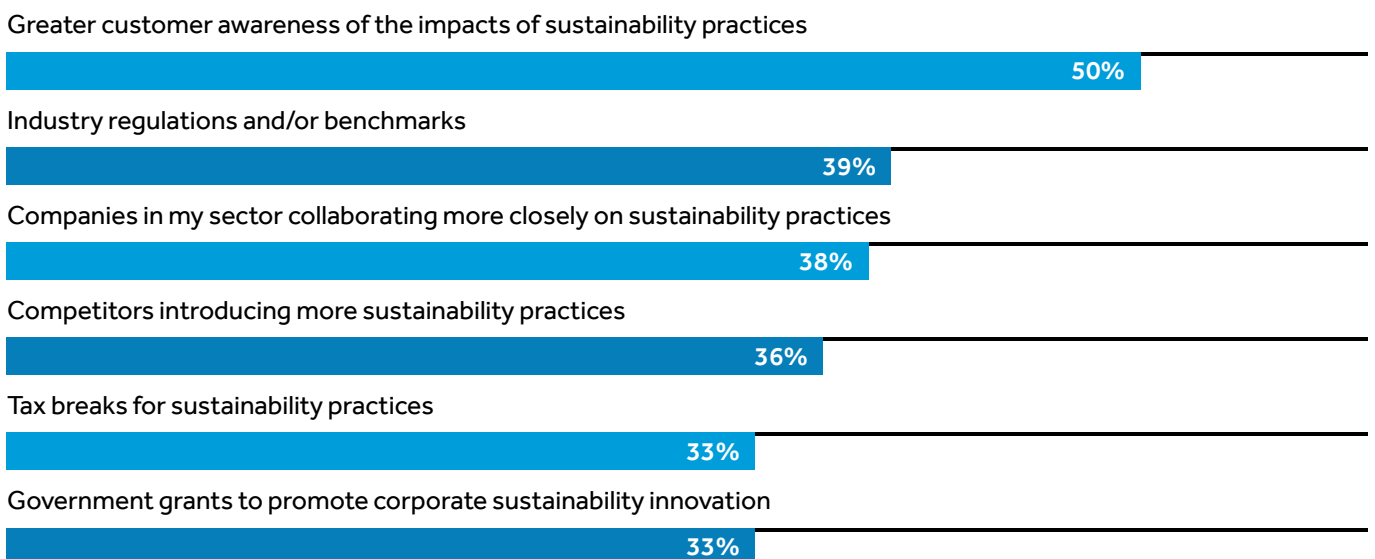
This shift in focus is echoed by our survey: 63% of businesses say that their organisational attitude towards sustainability is customer-driven. However, half of organisations say that greater customer awareness of the effects of their sustainability practices would be most beneficial to their long-term impact, which suggests that more education is necessary.

"Now, more than ever, the sustainability agenda is driven by consumers."

Arco Berkenbosch,
Vice President of Innovation and Development, Smurfit Kappa

FIGURE 8. Which of the following changes would be most beneficial to the long-term success of your organisation's sustainability practices?

Note: respondents were asked to select up to three responses.



LAST WORD

Sustainability is here to stay

"People are realising that the term 'climate crisis' is not an exaggeration," says London Business School's Ioannis Ioannou, summing up the challenge for businesses. Happily, as we have seen, sustainability is opening up new opportunities for growth; exploiting these opportunities could prove make or break for businesses.

While the post-pandemic world presents many business challenges – not least economic – sustainability will remain an important lens through which to deliver sustained growth companies need. As the business landscape shifts, the narrative around sustainability will continue to move beyond damage limitation to regeneration and replenishment of the planet.

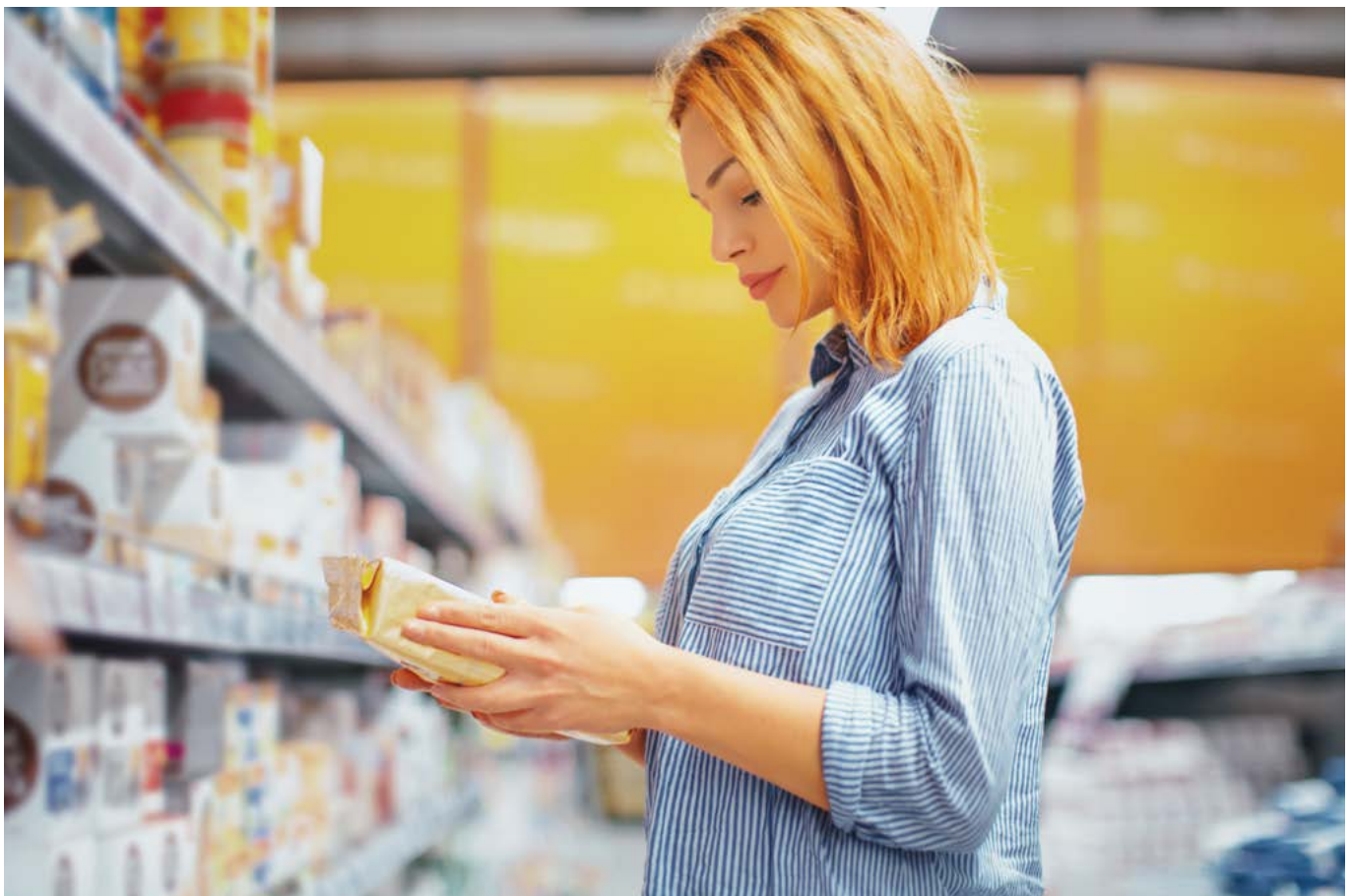
Witness Microsoft's latest bold pledge¹⁰ to be carbon negative by 2030 and by 2050 to remove from the environment all the carbon it has emitted since it was founded in 1975.

Other forward-thinking brands will have to strike a balance between sustainability practices and profitability if they are

going to ensure long-term stakeholder buy-in. And it has to be long term: climate change is a systemic issue, and will demand that businesses take the long view and form strategic collaborations on a global scale. Sustainability strategies themselves should be sustainable.

Mandatory measures on ESG reporting could soon be on the way, so businesses need to lead before they are pushed into action. That way, says Ioannou, "Purpose, sustainability and responsibility [will be] fully aligned with the company's value-creating mechanism."

For those businesses, a future in the age of sustainability looks bright, he says: "The companies that realise there is a tectonic shift happening in the landscape and start making those investments – or perhaps have already started making those investments – are the ones that are going to be better positioned in the long run to win."





Future success depends on what you're made of.

At Smurfit Kappa, our greatest strength is our people. It is their experience and expertise, that allows us to help businesses focus on what matters most, enabling sustainable future growth.

> Find out more at
smurfitkappa.com/sustainability-survey

