



ESG in the retail and consumer sector

Integrating environmental, social and governance (ESG) practices into a company's core strategy enables it to enhance business value and build stakeholder trust. In the retail and consumer sector, as end users of products become increasingly health conscious, they are basing their purchase decisions on the quality of raw materials and production processes. In addition, labour policies of organisations are also attracting attention, with consumers even willing to pay a premium for goods that are sustainably produced.

According to PwC's 'The road to responsible growth study',¹ the demand for environmentally and socially sustainable consumer goods and services has surged. This increase in demand is leading businesses to adopt sustainable practices (e.g. avoiding animal testing and using recycled or upcycled materials). Additionally, businesses are also focusing on ethical employment, sustainable packaging and reducing their carbon footprint. However, one of the main challenges for Indian industries is to promote sustainable products while remaining competitive in the market.



Emerging trends in the retail and consumer sector

Let us look at some of the key aspects of the current retail and consumer landscape from an ESG perspective.

Accelerated adoption of ESG norms

During the COVID-19 pandemic, increased awareness about health, the environment and nutrition led consumers to switch to healthier, eco-friendly commodities. Certain sub-sectors of the retail and consumer industry, such as meat and dairy products, are under the spotlight due to their high CO2 footprint. On the other hand, environment-friendly sub-sectors such as plant-based and organic food products, sustainable fabrics and herbal beauty products are seeing a rise in demand. Moreover, corporate boardrooms are also attuned to clarion calls for sustainable business models with a renewed focus on ESG metrics. ESG has now become a crucial factor for raising capital, making strategic investments or going for an initial public offering (IPO) as stakeholders have a clear preference for companies with robust ESG practices which are intertwined with their organisational goals.

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Retailers have re-oriented their businesses and supply chains towards a value creation ecosystem that adds environmental sustainability, employee engagement, workforce diversity and broader societal impact to financial imperatives. As a consequence, societal awareness and business opportunity are collectively transforming the way retail companies craft strategy, drive performance and report results.

Ravi Kapoor, Partner and Leader – Retail and Consumer, PwC India

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The responsible consumer

Several retailers today have set a target of transforming their businesses by shifting to renewable energy sources and committing to net zero emission targets. Such sustainable measures would not only accelerate sales and increase their market value but also augment their brand longevity. Retail companies that are committed to their ESG agenda position themselves as agents of change to attract a responsible consumer base. Many millennials and Gen Z consumers are making sustainable purchasing a priority by ensuring that the products they use are cruelty-free, zero-waste, ethical, organic and have a goodwill in the market. They are also more likely to hold companies accountable for misrepresenting its sustainability practices through branding and marketing. According to PwC's latest Global Consumer Insights Pulse Survey,² more than 88% of consumers in India say that they are willing to pay a higher price for a product that is produced or sourced locally, or made from recycled, sustainable, or eco-friendly materials (87%), or produced by a company with a reputation for ethical practices (87%).

Everything ranging from carbon emissions and sourcing strategies to gender and racial balance within an organisation is attracting greater scrutiny from investors, governments and other stakeholders. Industry players have to ensure transparency across their supply chains and make sustainability a measurable outcome in their complex supplier and distribution network. Although each organisation has its own unique approach for achieving sustainability targets, behavioural change at the organisational level is emerging as a common goal across industries for building a purpose-driven strategy and creating value.

How PwC can help in creating sustainable value

As governments and regulatory bodies introduce stringent regulations and policies to meet the desired climate goals, organisations are increasingly seeking ways to improve their impact on the environment while creating value through their business. PwC's community of solvers can help clients solve broader ESG challenges by executing large-scale transformation, from strategy to execution. Our ESG professionals bring together a dynamic combination of talent and technology to drive ESG strategy and make the necessary operational, cultural and financial changes to deliver sustainable business outcomes and create long-term business value.

To embed ESG into their core business strategy and create sustainable value, retailers and manufacturers should focus their efforts on:

Sustainability strategy: A robust sustainability strategy drives a company's ESG objectives, defines economic goals, creates value and purpose for stakeholders, and drives innovation across the entire value chain of the organisation.

PwC helps organisations to identify the most relevant sustainability themes for their business, set targets and design a strategy around their capabilities.

Circular economy: The circular economy comprises a comprehensive approach aimed at helping clients generate revenue while conserving the planet's resources. The focus of this approach is on developing, producing and consuming products more responsibly and sustainably by using renewable raw materials and energy, and reducing the production of waste and by-products. An example of the government's intervention towards encouraging organisations to adopt principles of the circular economy is the mandatory Extended Producer Responsibility (EPR) registration under the category of imports, producer or brand owner, which makes it compulsory for producers and consumers of plastic to register with the Central Pollution Control Board (CPCB).

PwC can assist companies in devising a strategy based on the circular economy and help them revise internal processes and create circular flows in the value chain which can improve resource efficiency.

² <https://www.pwc.in/GCISIndia>

Sustainable supply chains: Investors are keenly observing how their investments are enabling sustainable supply chains to integrate socially acceptable, fair and ecologically sensible standards at every stage of the product life cycle. Businesses are also looking at ways to reduce waste along the supply chain to an absolute minimum. Further, in order to understand the emerging risks of climate change and identify vulnerabilities in the supply chain, it is imperative that companies conduct a climate risk assessment. The implementation of ESG-related strategies could change the procurement policy of an organisation.

PwC's ESG professionals can identify climate risk vulnerabilities in supply chains and establish a supplier ESG framework in alignment with prominent supplier rating agencies, thus assuring a wide range of global customers of responsible supply chain performance. Our specialists have assisted clients in the retail and consumer sector in areas such as preparation of a supply chain framework, assessing supply chains by conducting a review of suppliers and sub-suppliers, identifying traceability, setting up a green procurement policy, and strategising the Scope 3 abatement plan for supply chains.

Transparency: Companies need to embed ESG-related strategies in their businesses and measure their progress against sustainability targets. For enhanced transparency, a trusted approach using proven methodologies is required to incorporate ESG metrics throughout all areas of business operations. Organisations also need to have a clear understanding of how their sustainability efforts affect revenue, profits and brand equity. Companies are increasingly integrating suppliers' ESG ratings across the procurement lifecycle, right from request for proposal (RfP) evaluation and onboarding of suppliers to including supplier assessments in contracts and monitoring their sustainability performance over time. This process encourages greater transparency in the disclosure of ESG parameters.

PwC's ESG specialists can assist businesses in setting non-financial KPIs by quantifying ESG targets and communicating the economic, ecological and social impact of a business. They can also help businesses in getting suppliers rated by rating agencies, thereby building stakeholder trust and enhancing business value.



Conclusion

Businesses in the retail and consumer sector are adopting ESG as a part of their short- and long-term goals. To effectively implement ESG-related strategies, organisations need to set up internal processes to ensure that they can conduct business sustainably. PwC's ESG team supports clients in integrating environmentally and financially viable practices into the supply chain and asset lifecycle and in adopting a circular economic system. Our deep understanding of ESG issues and our sector-specific experience can help companies understand ESG-related challenges and devise cost-effective methods to address them.

About PwC's ESG practice

PwC's ESG platform enables clients to navigate the evolving ecosystem around ESG strategy, reporting, climate change, circular economy, technology, governance, social elements of ESG, sustainable supply chain, sustainable finance, capacity building and responsible investments. Our community of solvers provides sectoral insights and empowers businesses with holistic, integrated, fit-for-purpose, outcome-based ESG solutions to deliver sustained outcomes, build resilience, create long-term value and enhance the trust of stakeholders.

About PwC's Retail and Consumer practice

Our end-to-end service offerings provide insights to help retail and consumer goods leaders manage change, deliver results and unlock value by developing strategies for market entry, facilitating deals and new business set-up, and providing the necessary support to achieve their ESG goals.



Market entry – Strategy development

- Market assessment
- Consumer behaviour analysis
- Competitor benchmarking
- Catchment area analysis
- Value proposition strategy
- Operating model
- Entry mode evaluation
- Partner evaluation
- Projected financials
- Risk mitigation strategy
- Actionable roadmap



New business set-up/Deals

- Target/partner commercial due diligence
- Partner forensics
- M&A valuation/deal execution
- Business development support
- Business licence application support
- Tax advisory (structuring, transfer pricing, GST, etc.)
- Legal entity structuring
- Regulatory compliance
- In-state licence support



Execution support

- PMO set up and monitoring support
- Facility design and development
- Quality control
- Operations management
- Training, recruitment and HR
- IT system design
- Capability building
- Internal controls optimisation
- Course correction guidance

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