Three ways retailers can grow sales and reduce costs — and do it sustainably

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As deadlines get unnervingly close for commitments to achieve net-zero carbon and to meet the UN's Sustainable Development Goals (SDGs), stresses and strains are starting to appear. We are at the point where retailers must make real decisions about sustainability – and when costs are involved.

There have been signs of hesitation in boardrooms and regulators across the globe. According to one analysis, the rate of new corporate climate commitments almost halved over the last 12 months. And the US Securities and Exchange Commission (SEC) has pushed back the introduction of its legislation on environmental, social and governance (ESG) disclosure.

But businesses are finding there is no choice to ESG reporting. The Corporate Sustainability Reporting Directive (CSRD) entered into force in the EU on January 5 this year. This new directive modernizes and strengthens the rules concerning the social and environmental information companies must report. A broader set of large companies and listed SMEs will now be required to register sustainability. The first companies must apply the new rules for the first time in the 2024 financial year for reports published in 2025.

CSRD's impact is far more expansive than the EU's. It applies to all large companies incorporated in an EU member state, including EU subsidiaries of non-EU companies. Independent analysis has found more than 10,000 non-EU companies that meet the criteria for mandatory CSRD reporting, of which 3,000-plus are American.

Retailers are the most visible point of sustainability

Retailers are especially visible when it comes to ESG. They are the most direct point of contact that most people have with the potentially negative impacts of global supply chains. Consider factors like resource depletion, pollution, unacceptable working conditions, energy wastage, etc.

For most people, it's clear we need to take action to reduce human impact on the environment and the climate. Retailers must make decisive moves towards sustainability and regenerative retail to meet the expectations of employees, customers, and investors – as well as the personal motivations of many directors.

That engagement by top-level management with the ESG agenda is real, although some retailers are finding it tough to drive it throughout their organizations. In a recent conversation with the CEO of a major continental retail group, I heard that the C-suite is entirely behind cutting waste by recycling and reusing packaging, for example, but that people working in stores remain focused on selling more and reducing costs.

Squaring the circle

How can you square this circle? How can you meet financial targets while reducing the impact on the planet?

Fujitsu sees three ways to do this: Growth that replaces less efficient methods of selling, taking out costs that also have the effect of reducing resource and energy usage and a more holistic view of what sustainability means.

1. Sustainable growth

Physical store expansion programs have declined as retailers pivot to e-commerce and omnichannel retailing. This potentially resource-light model is still maturing, with online accounting for between 20 and 30% of sales in most retail sectors. But as retailers drive that growth in e-commerce, can they do it sustainably? Their success is tethered to advanced data analytics and robust supply chain visibility to ensure that the right stock is in the right place to satisfy demand. Optimized transport routes are another critical aspect of sustainable e-commerce. Are you effectively combining national and last-mile deliveries to minimize your carbon footprint?

Improving the customer experience is another, possibly unexpected, way to drive growth while improving sustainability. Price is hugely important to customers, but the buying experience determines whether they return. Reducing packaging is a great starting point – it saves money and shows customers you are getting serious about change. Customers also want to believe you're not wasting stuff unnecessarily. Demand analytics is crucial here – enabling you to meet demand by ordering just the right volume of anything, whether it's mushrooms or jeans – because you're smart enough to predict what's needed any day of the week.

Provenance is essential, too. Customers want to know where products come from, what they contain, and to be assured that they were made without exploitative labor practices, for example. Simply stating this is no longer enough, and blockchain has an increasing role in providing reassurance about provenance to consumers.

Sustainable cost reductions

Retail's most significant costs come from the 3Ps: Product, Property and People.

Reducing product costs can have an immediate and positive impact on sustainability. Inventory analytics have much to offer – as we've already noted, the smarter you are in distribution, the less you need to order in the first place or throw away when it can't be sold.

When it comes to property, utilities are a massive cost. Tesco, for example, is the biggest single electricity consumer in the UK. With high energy costs, everything retailers do to limit energy consumption in refrigerators, heating, lighting, warehouse forklifts etc., pays a double dividend of cost and carbon reduction. For example, the Fujitsu IoT Operations Cockpit uses sensors to monitor and optimize refrigeration temperatures and lighting usage.

Reducing the use of space is another way to reduce property costs, and we see the growing use of AI to analyze in-store shopping behavior and optimize space accordingly.

Regarding the People dimension, employee well-being is often still lower in retailers' priorities. But reallocating staff to do things they feel happy about (rather than feeling like automatons) builds a workforce more likely to engage positively with customers and less potential to churn.

Counter-intuitively, frictionless stores have a role to play here, as employees do not need to get bored working a checkout. Yes, frictionless probably means fewer employees (and costs) per store, but it also allows the reallocation of employees to more meaningful tasks. It potentially enables the profitable development of a greater number of smaller units — creating more new jobs for local economies and satisfying communities' needs for easily accessible retailers.

Eliminating customer dissatisfaction

Most business conversations about sustainability quickly come down to carbon, energy and water reductions. But the UN's SDGs are also about communities, health and well-being, age and gender equality, and many other aspects of sustainability. We need to open our thinking.

Consumers understand this. They want shopping engagements that match their ethical positions. It isn't all about price anymore. An enhanced shopping experience, less packaging, precise demand analytics, and verifiable product provenance (enhanced by blockchain) can drive customer loyalty, repeat sales, and cost reductions.

In retail, we have set out our store to deliver unique consumer experiences that are better for business and the planet. We want to help retailers create a sustainable world and resolve social issues through digital innovation.

Retailers are at a crossroads. The pathway ahead demands strategic vision, technological prowess and a dedication to sustainability. This journey promises growth, cost reductions, and the chance to mold a resilient, eco-conscious retail future landscape. The choices made today will define the legacy of retail leaders and the health of our planet. Choose wisely.

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Richard is responsible for bringing the best of Fujitsu's industry vision, consulting capabilities and solutions and services to its customers in the consumer industries worldwide. Reporting to Fujitsu's global leadership in Japan, Richard and his team develop and execute compelling and relevant strategies to expand key markets and define differentiated propositions to meet the needs of existing and new customers.