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ANNOUNCEMENT

Climate change and department stores: now that the more elementary steps have been taken, the growing accountability to more parties, the increasing complexity of the topic and the remaining questions to solve force retailers to learn how to navigate the sea of changes the hard way.

Climate change became very tangible this summer. Actively taking the right measures to reduce their footprint is no longer a question of choice for retailers, but speed of execution. This is not simple: now that Corporate Social Responsibility (CSR) became intertwined with the financial requirements embedded in the Environmental, Social and Governance metrics (ESG), strategies are becoming increasingly complex to design and execute. In addition, reducing emissions turns into a headache now that the easier steps were already taken in the past years. The upside is that this situation creates a perfect context for a more open dialogue with and between every retailers' stakeholders, both for transparency reasons and financial attractiveness. IADS recently took stock of its members' initiatives when it came to addressing these topics.

Initially, Corporate Social Responsibility (CSR) was the framework for retailers' first actions. When investors began to require trackable metrics, Environmental, Social and Governance (ESG) emerged with a financial standpoint to make business efforts measurable and provide quantitative results. These measurements are now also demanded by other stakeholders (employees and customers). However, ESG does not replace CSR: the latter, less measurable, continues to coexist as it can be used to build ESG measurable strategies, and adds value in the eyes of consumers.

As a result, for now, CSR and ESG represent the two sides of a necessity companies must deal with: CSR guides ESG strategy, and ESG measures the efficiency of CSR goals. Depending on how advanced they are, retailers are pursuing intertwined actions in both areas, but the challenge is to define a relevant long-term strategy in order to cope with many issues, for example, Scope 3 emissions and the associated regulations, social concerns, and governance.

In defining the adequate CSR strategy, retailers have to learn how to run fast, but one step at a time.

Knowing where to start is hard, and all IADS members agreed that top-down decision-making and execution cannot work for CSR: the most crucial (and delicate!) pre-requisite is to involve all stakeholders into defining and prioritizing CSR actions. The success of a strategy depends on the adherence of the whole company, from sales floor, distribution centres, to top management and investors, not an easy feat in complex organisations such as department stores. Endurance and persuasive power are therefore necessary: CSR requires all departments to be aligned and teams to be upskilled.

Listening also means involving people from outside of the company:

- Conducting a materiality assessment is key and has proven to be more efficient with external consultants. Collaborating with NGOs (**Oxfam, UNICEF, WWF, Red Cross, Sustainable Apparel Coalition...**), trade unions, and industry and consumer organisations, helps learning what is relevant and which objective to prioritize, while also building trust and dialogue with such organisations in the long-term.
- When it comes to suppliers, exchanging with fashion companies and other retailers helps as progress can't be made alone. Audits run by external organisations, such as **Amfori**, can be also shared.
- Retailers also use the **UN Sustainable Development Goals** 17-point framework to build their actions, with a focus on recommendations referring to health and well-being, gender equality, reduced inequalities, sustainable cities, responsible consumption and production, climate action, peace and justice.

Occasionally, retailers will enter the CSR topic in an intuitive manner, and then build a strategy out of it. For instance, **Galeries Lafayette** created a dedicated department in 2012, which issued their first sustainable strategy in 2013, leading to the **Go for Good** label creation in 2018 in partnership with more than 500 brands. **Breuninger** started by internally publishing a CSR mission statement in 2019. **Magasin du Nord** used private labels as a starting point, then appointed an internal task force before entering the materiality assessment and strategy-building phases.

Communicating on CSR efforts is essential, but raises many questions. Expected to influence their customers' behaviour to purchase more responsibly while at the same time avoiding being accused of greenwashing, IADS members strive for a humble and honest communication, knowing they have to fight their stakeholders' wariness:

- Towards customers: with **Go for Good**, **Galeries Lafayette** has been cautious to find the right balance between providing precise information and being simple, catchy and inspirational for both local and international customers, through a dedicated website.
- Towards employees and partners: **Breuninger** created a dedicated video only available on their corporate website, to show the direction the company is taking.

Finally, omnichannel adds another layer of difficulties: CSR messages have to be both conveyed in stores and online, with consistent umbrella concepts adapted to all sales channels, which is an urgent challenge with e-commerce growing fast.

Lowering emissions: progress is increasingly difficult as supply chain is now under scrutiny

Covering direct and a part of indirect emissions, Scope 1 (company facilities and vehicles) and Scope 2 (purchases of electricity, steam, heating and cooling) are easier to control, and were the first steps taken by department stores, in regard to energy consumption and transport. 87% of **El Palacio de Hierro**'s energy consumption comes from renewable sources, and the logistics fleet is now 100% clean. Compared to 2017, **El Corte Inglés** has reduced its Scope 2 emissions by 78% and plans to achieve zero emissions by 2050.

The story gets more complex when it comes to Scope 3 emissions (all other indirect emissions from the value chain, both downstream and upstream, a tricky issue for retailers selling a wide variety of products including their own), which represents 90-95% of department stores' total emissions:

- Scope 3 upstream emissions are their suppliers' Scope 1 emissions, requiring retailers to be able to retrieve information from a wide variety of suppliers with different standards, thanks to tools such as the **Higg Index**,
- Scope 3 downstream emissions include for instance reducing the amount of packaging, both internal and customer-facing. **El Corte Inglés** and **Magasin du Nord** are testing new packaging methods to remove internal plastics while ensuring perfect delivery and unpacking by sales associates. At the customer level, **Galeries Lafayette** has launched a circular packaging initiative with **Hipli**.

Collaborations and exchanges between retailers helps, but they are limited by the variety and complexity of national regulations, meaning there is not a single fit-for-all strategy, and also that by nature, all strategies will evolve over time.

It's not only about emissions: don't forget Social and Governance!

Social responsibility should not be overlooked, as shown by **El Corte Inglés**, which set actions in gender equality, harassment, LGBT diversity, health campaigns, and social and labour inclusion, or **Galeries Lafayette**, which promotes diversity, with the gender equality index at 94/100 and the share of disabled persons at 7.75%. In addition, there are regional and cultural differences: for instance, **El Palacio de Hierro** started the process by working on its social aspects more than on sustainability.

When it comes to governance, the question is not if ESG factors will affect credit ratings, but how. In order to be ready for the upcoming non-financial ratings (knowing that investors demand targets that are measurable, ambitious and aligned with the company's strategy) retailers work with non-financial rating agencies (**Fitch Ratings**, **Dow Jones Sustainability Indexes**...) in order to provide the financial community the maximum transparency possible. This is even more crucial now that loans can be linked to the achievement of sustainability targets. Retailers are forced to succeed as they will be fined if their commitments fall through. In such circumstances, reporting and KPIs are critical, they impact the whole organisation: it is a common practice to incentivize top executives on sustainable parameters.

Retailers have been struggling to design the right strategy and priorities. As their geographical and socio-political situations are different, IADS members' progress in implementing CSR and ESG strategies vastly differ from one another, from heavily-regulated European ones to countries with less obligations.

Involving all stakeholders in the strategy process is absolutely key as it encourages unprecedented exchanges with others (retailers, coalitions and NGOs) to get help on guidance and decision-making, especially regarding Scope 3 emissions. They have no choice: the scrutiny by the financial community shows that the topic is not a trend, but a major factor in the department store business strategy. Even though there is no international standard way to achieve sustainability objectives, actions related to climate change, diversity, inclusion, and socially responsible corporate governance are driving value-oriented investment. As a result, the usage of ESG criteria to determine which companies they invest in is growing, especially among Millennials.

About IADS - International Association of Department Stores

The IADS is the most exclusive and oldest professional department store think tank in the world. Its uniqueness lies in the close relationship between its member CEOs, making it a very powerful asset for decision-making at the highest level.

Today, the Association gathers a group of 12 members across the world, all leaders or key players in their respective markets, and represents more than €31bn cumulated annual turnover, achieved through more than 490 stores with 233,000 associates in 19 countries. Members are: Centro Beco (Venezuela), Beijing Hualian Group (PRC), Breuninger (Germany), El Corte Inglés (Spain), El Palacio de Hierro (Mexico), Falabella (Chile), Galeries Lafayette (France), Lifestyle International Holding (Hong Kong), Magasin du Nord (Denmark), Manor (Switzerland), The Mall (Thailand), SM (Philippines).

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