



ENERGY RATING PROJECT

SECTOR SUPPLEMENT

RETAIL, CONSUMER GOODS AND HEALTHCARE SERVICES

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DRIVING
TRANSPARENCY,
ACCOUNTABILITY AND
ENERGY EFFICIENCY
IN CORPORATE
SOUTH AFRICA



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INTRODUCTION

49M ENERGY EFFICIENCY GUIDELINES

These Sector Supplements have been developed to support the implementation of the Energy Efficiency Guidelines by the companies included in the 49M Energy Efficiency Ratings Index. They are specifically intended to assist companies in reducing their electricity consumption as a function of usable space, number of employees or other appropriate metrics, thereby improving their performance in terms of the Index, both in overall terms and in comparison with their peers in various sectors.

SECTOR SELECTION AND GROUPINGS

The sector groupings for which these supplements have been developed have been selected based on a number of factors, including their level of representation within the Energy Efficiency Ratings Index, their relative degree of importance within the South African economy and the potential that they exhibit for substantive improvements in energy efficiency. In order to cover as wide a range of economic sectors as possible, it was decided in each case to group a number of sectors together on the basis of considerations such as; similarities in energy use profile, supply chain structures and most importantly, the material issues faced by these sectors.





RETAIL, CONSUMER GOODS AND HEALTHCARE SERVICES

This particular sector supplement deals with the energy efficiency challenges of the retail, consumer goods and healthcare sectors. With regards healthcare, this sector covers a number of service-based industries for which product-related energy efficiency issues are not necessarily relevant. However, the sector includes a significant number of product-based industries, which has resulted in its inclusion in this sector grouping.

These Sector Supplements will as far as possible retain the structure of the Energy Efficiency Guidelines in terms of the engagement levels and filters identified for each participant in the Index. Each one will be based on a unique set of issues identified as being most material for each particular sector in which substantive opportunities exist for energy efficiency improvements.



MATERIAL ISSUES

Within the retail, consumer goods and healthcare sectors, it would appear that in the context of energy efficiency and the Energy Efficiency Ratings Index, the most material issues are as follows:

STAKEHOLDER ENGAGEMENT

externally, in terms of customers and supply chains and internally to employees;

EXTERNAL STANDARDS


adherence to external governance standards such as King III or the UN Global Compact;

TRANSPORTATION AND LOGISTICS

management of the transportation and storage of inputs or manufactured products from suppliers to the company and to customers or end consumers;

PRODUCT LIFECYCLE ANALYSIS

the tracking of all inputs used in the manufacturing of products as well as of the use of products during their lifespan and their disposal or recycling at the end of this lifespan.



Each of these sector-specific material issues can in some way be directly linked to one or more of the general material issues identified in the Energy Efficiency Guidelines, namely:

- Rising operational costs from municipal electricity consumption
- Dependence on external infrastructure and decision-makers
- Reputational impacts from perceived inefficient energy use

According to these associations, companies in these sectors can then make use of the guidelines to develop specific interventions at various levels within their organisations, which can reduce their electricity consumption and provide a positive impact to their energy efficiency rating. Examples of such interventions are discussed below.

MATERIAL ISSUE: STAKEHOLDER ENGAGEMENT

With regard to stakeholder engagement, it would appear that appropriate and constructive action in this area holds the potential to significantly impact all three of the energy-efficiency related material issues.

In the first instance, namely **rising electricity costs**, this is clearly an issue of concern for all companies and must be addressed from a strategic level, downwards. The most critical areas for engagement on the part of company management include management, particularly in terms of operational practices, and employees at the level of individual behaviour.

Strong internal engagement across all levels is a critical element of electricity cost reduction for all companies. This includes engagement on cost reduction strategies, management practices and individual employee behaviour.

With regard to **dependence on external actors**, engagement with landlords, property managers and property developers is vital to any successful efforts on the part of companies to reduce their electricity consumption, particularly as it relates to their buildings and operations. Engagement with suppliers can provide significant improvements in the energy efficiency of products that are procured by a company and in the embedded energy consumption of the products or services that it sells to its customers.

Engagement with external stakeholders, particularly around buildings and supply chains, although more complex than internally focused measures, can equally lead to quantifiable improvements in energy efficiency.

In the area of **reputational impacts**, a key element of mitigating these impacts is engagement with customers and employees regarding the energy efficiency initiatives being implemented by a company.

Companies can significantly enhance their reputation as responsible corporate citizens through constructive stakeholder engagement and targeted communication regarding energy efficiency achievements. Particularly important in this regard, is customer communications.

Levels: Strategic, Management, Behavioural
Filters: Buildings, Supply chains, Customers, Communications

MATERIAL ISSUE: EXTERNAL STANDARDS

The issue of external standards is a key one for all retail, consumer goods and healthcare companies. Companies in the healthcare sector, in particular, are subject to a variety of regulatory standards. In the area of **rising electricity costs**, adherence to external energy efficiency standards - whether these apply in the context of buildings, operations or procurement - can lead directly to a reduction in electricity consumption and electricity cost.

Adherence to external standards can play a key role in driving electricity cost reductions. Companies should therefore investigate all standards relevant to their sectors, and implement these as appropriate.

In terms of their **dependence on external actors** and the risks of **reputational impacts** faced by companies in these sectors, these two issues are often interlinked; particularly in the area of supply chains. Companies in these sectors often rely heavily on external suppliers that manufacture the products that they sell. Therefore, the reputation of these companies can be significantly compromised by unscrupulous or unacceptable practices on the part of their suppliers.

In the area of energy efficiency it would appear that to some extent a greater degree of reputational risk is attached to the manufacturer of products than to the company that sells these products. Conversely, operations that adhere to energy efficiency standards and promote these to the external actors with which they engage can

potentially gain significant reputational benefits from this process. This process is of course highly dependent on effective communication regarding the company's implementation of these standards and the benefits achieved from this process.

External standards can serve to protect companies from 'guilt by association' arising from energy inefficient behaviour on the part of suppliers, particularly where these standards contain a substantial focus on supplier engagement.

Levels: Strategic, Management

Filters: Buildings, Operations, Supply Chains, Communications

MATERIAL ISSUE: TRANSPORTATION AND LOGISTICS

This issue comprises a critical element of retail, consumer goods and healthcare operations. Consistency of product supply is vital to maintaining the profitability and financial sustainability of any company operating in these sectors. Given the fact that in many instances transportation and logistics management functions are outsourced to external service providers, this issue can be considered closely linked with that of stakeholder engagement.

In an energy efficiency context, the **rising costs of electricity** can be considered as having a more significant impact in the area of warehousing than that of transportation. This is particularly the case for retailers of perishable products who are highly dependent on the unbroken integrity of the cold chain for the products that they sell. Close engagement on the part of these retailers with providers of logistical and warehousing services is a key element of managing costs.

Companies can no longer afford to remain unaware of the energy efficiency practices of their suppliers and service providers in the warehousing and transportation sectors. This applies in both a cost containment and a reputational context; unnecessarily high electricity costs will inevitably be passed on from suppliers, while energy inefficient behaviour on the part of these suppliers represents a growing reputational risk.

Similarly, in this area, the issue of **dependence on external actors** is a key one for all companies operating in these sectors. From a strategic perspective, strong relationships must be developed with transportation and logistics service providers and be maintained and enhanced at management and employee level.

Strong relationships with suppliers in the transportation and logistics industries will place companies in a position to actively promote energy efficient behaviour within these suppliers.

Finally, apart from a focus on relationships with external transportation and logistics service providers, it is critical that when these functions are internal, they maximise energy efficiency and minimise electricity consumption. In order to achieve this objective the principal focus should be on ensuring the effective adoption of appropriate management process and behavioural interventions.

Levels: Strategic, Management, Behavioural
Filters: Buildings, Operations, Supply chains

MATERIAL ISSUE: PRODUCT LIFECYCLE

In an energy efficiency context, it would appear that the effective analysis of a product's entire lifecycle as well as the effective management of all aspects of this lifecycle, from manufacturing, to use, to disposal, holds significant opportunities for energy efficiency improvements.

In terms of the issue of **rising electricity costs**, it would appear that the direct costs incurred by retail, consumer goods and healthcare companies during the course of their activities can effectively be divorced from the manufacturing process of any particular product that they sell. Technically, a very small fraction of the seller's electricity consumption can be included in the full lifecycle of a particular product. This is however, negligible in comparison with the energy required by manufacturing or disposal.

As a result, the principal areas of concern for companies in these sectors are **dependence on external actors** and reputational impacts. The requirement for a company to interact with its suppliers and the potential for reputational damage that arises when such engagement is not carried out effectively are significant. This issue is once again closely linked with those of stakeholder engagement and transportation and logistics. These

issues should be considered at a strategic level and implemented by all levels of management within a company.

Further opportunities exist at the other end of the product lifecycle for energy efficiency gains, for example, product recycling, or processes such as waste-to-energy conversion. A number of possibilities exist for companies to realise these efficiency gains and to enhance their reputations as responsible corporate citizens. This process might take place through product-take-back programmes, recycling initiatives or various other measures. In order to implement these measures, companies will be highly dependent upon effective communications with their customers.

Companies should actively seek opportunities to be involved in improving the energy efficiency of the products that they sell throughout the entire lifecycle of these products. This will involve direct engagement with manufacturers and suppliers on one hand, and customers and recyclers, on the other.

Levels: Strategic, Management
Filters: Operations, Supply chains, Customers, Communications





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