

CRANFIELD MANAGEMENT LECTURE 2008:

BUSINESS AND SUSTAINABILITY

Sir Stuart Rose, Chairman, Marks & Spencer

30 September 2008

Thank you for inviting me to give the Cranfield Management Lecture this evening. It is a great pleasure to be here. Just think, 20 yards away and you could be enjoying Don Giovanni. Instead, you've got me...

Since its foundation, Cranfield has been at the forefront of research and innovation – using its scientific and technological expertise to push boundaries. Pushing boundaries is what I want to do this evening. Pushing boundaries, taking a lead - effecting real change.

At M&S, I like to think we've done this in a number of ways over the past 124 years, applying our core values of Quality, Value, Service, Innovation and Trust across all areas of our business.

But this evening isn't about pushing the boundaries when it comes to the quality and value of our clothes. It's not about the considerable effort we put in on service. It's not even about innovation in foods... though I do highly recommend our new Italian range... our butternut squash risotto with gorgonzola piccante and sage butter goes nicely with a glass of our verdicchio I find...

...Tonight is about perhaps the most important of our core values... trust, which for us today means being a socially and environmentally sustainable business as well as a successful one. I won't be making a case as to why we

need to take action on climate change, tackle waste or the scarcity of the world's natural resources – you don't need me to convince you of the gravity of these problems. Instead I'll be outlining the practical steps we have taken at M&S to respond to these and other issues.

In particular, I will address the following questions:

1. What are we doing to earn trust and take a lead on sustainability?
2. What challenges have we encountered and how are we benefiting?
3. What impact is the consumer downturn having on what we're doing?
4. And what does the future look like for a business that wants to be sustainable?

First, I want to share with you my views on what leadership means when it comes to sustainability. What it does not mean is the pursuit of random organic, fair-trade, free range, fat-free policies bundled together with initiatives to save energy, recycle more and help local communities.

Leadership is what it takes to make a business sustainable – driving everything a business does and the way it operates, addressing all the issues a business faces, the ones it is good at dealing with as well as the ones it is not, the issues that are well understood today, and those that are only just beginning to emerge...

This leadership is about having a clear vision and a clearly defined set of goals. It's about balancing competition, which drives you to innovate and find radical new ways of doing things, with collaboration, which recognises that none of us can change the world alone. It's also about taking risks, tackling difficult things before others do and acknowledging you don't have all the answers at the start of your journey. It's about learning new skills and engaging in an open debate with the outside world....Above all it's about recognising how much your

business will have to adapt.

So, what does the sustainability agenda look like for M&S? Well, since the start of 2007, it has taken the form of Plan A, our “eco-plan”. This has 100 specific action points but, at its simplest, comes down to five overall objectives we aim to meet by 2012.

By then, our goal is to:

- become carbon neutral - minimising offsetting;
- send no waste to landfill from our own operations;
- extend sustainable sourcing of our raw materials;
- set new standards in ethical trading;
- help our customers and M&S colleagues live a healthier lifestyle.

Why did we decide to take a leadership position with the launch of Plan A?

Because, as you know, climate change is a serious issue – together with waste and the rapid depletion of the world’s natural resources - this means that ‘doing nothing’ is not an option.

While Plan A is less than two years old, its constituent parts are in our genes. Our founding fathers were ahead of their time when it came to what they called ‘enlightened self interest.’ They believed, as we still do, that ‘doing the right thing’ is sensible commercial behaviour, and ultimately leads to business success. They also believed in continuous innovation. Plan A is just a natural continuation of these values into the 21st century.

Another key driver behind Plan A was our desire to differentiate our business. We deliberately wanted to, and could because we are an ‘own brand’ business, put clear blue water between ourselves and our rivals on the high street by launching a radical set of commitments which others would find hard to replicate. Or, to put it another way – if you’ve got it, flaunt it!

We also believe that this commitment brings us new opportunities to connect with our customers and employees. We know that the 21 million customers who come into our stores every week care about what we stand for, how we behave and what we are doing to earn their trust. Our employees also feel just as passionately about this. M&S is what we call a “taxi driver business”. No-one is short of an opinion about us, good or bad – whether it’s where you stand on carrier bag charging, corporate governance or our food TV ads – all the subject of intense discussion on various blogs. In fact, even our very own Percy Pig has a special Facebook Appreciation Society with more than 25,000 members...

Customers do care about climate change and pick up messages about ‘eco issues’ on a daily basis, not just from The Guardian but also the red tops and GMTV. At our AGM this summer – which is always a lively affair - the issue which most excited our private shareholders, who are also our customers - was carrier bag charging. This was despite weeks of press speculation that the event would be dominated by shareholder revolts and protest votes.

Before we launched Plan A, our customers told us they wanted government and businesses like M&S to take a lead and provide clear guidance on how they could get involved. This is something they expect us to do.

As a retailer we sit at a junction where we can really effect change. On the one hand we’re linked into 2,000 suppliers, 20,000 farmers, 1,000s of raw material suppliers and a million workers from sectors as diverse as farming, chemicals, timber, food manufacture and plastics. On the other hand, we’re linked to the many millions of customers visit our stores in the 40 countries where we trade every week. This presents us with a huge challenge – but also gives us a real chance to make an impact.

Getting Plan A off the ground hasn’t been plain sailing. Initially, there was some reluctance internally about going public on such a bold set of targets. And by

raising the bar, we knew we would raise expectations among customers and other stakeholders about what we could deliver and, as a result open ourselves up to a greater level of scrutiny.

The issues we debated were many and varied. Would Plan A restrict the flexibility of our buyers? Did it really matter to the man in the street? Could we afford it or would it make us uncompetitive? Wouldn't it just give management another thing to worry about?

20 months on and we are making good progress. 77 of our 100 Plan A actions are underway and we've completed 14 of them. While there's still a long way to go to meet our targets, we are getting there.

What have we learnt so far?

65% of the people who shop at M&S told us they would go green 'only if it's easy' or if we could 'show them the difference they could make.'

This fact shaped Plan A. We are trying to make it as easy as possible for our customers to go green and show them that - even by acting individually - they can make a real difference.

Let me give you three examples:

First, charging 5p for food carrier bags. Since we started this in May, we've reduced customers' usage of carrier bags by 80%, helping to cut plastic waste by saving over 100 million carrier bags from landfill. The 5p charge has also raised half a million pounds for Groundwork, an environmental charity. Carrier bag charging is not a panacea for all the world's ills, but neither is it a token gesture or a PR stunt. Of course, it's set the cat among the retail pigeons, but

it's a good way of raising awareness of waste and landfill issues and how small steps can add up to something big.

Secondly, the Oxfam Clothing Exchange. Take your unwanted M&S clothes to Oxfam and get a £5 M&S voucher in return. We launched the initiative in January and it's already raised over £1m for Oxfam and stopped 1,000 tonnes of clothing going to landfill.

Thirdly, re-labelling around 70% of our clothing to encourage our customers to wash their clothes at 30 degrees rather than 40 – saving 40% energy each wash (and therefore saving them money too) and carbon emissions. Or, as I said at the Women's Institute AGM last year – probably the most intimidating audience I have ever had to address – “ladies, unless it's really dirty, wash at 30!” When we first launched this campaign, 23% of our customers said they washed at the lower temperature. Now 38% say they do.

Translating sustainability into simple actions is the key for ensuring customer support. Our store teams have also played their part and produced some excellent results. In fact, it's been interesting to see that Plan A has proved remarkably successful in engaging M&S people and motivating them to get involved in business-related initiatives.

They've dramatically reduced the number of clothes hangers we use in stores, by reframing a single question. It used to be 'Do you want the hanger?' Now we ask them 'Do you want us to recycle this hanger?'. The result is we've recycled 122 million hangers in our stores this year. They've also made the introduction of the 5p charge for food shopping bags easier by asking customers if they really need to use them and reminding them where the profits are going. The teams in our food hall in Dorchester, for example, are proud of telling customers about the Wildlife Gardens down the road which our charge has part funded. Why have store teams gone the extra mile? Because they believe in what we're doing, like to feel involved and do their bit.

While customers and staff are doing their bit, so too are our suppliers around the world. Collaboration is key to sustainability leadership. Our suppliers are at the forefront of new technologies and helping us develop innovative, industry-leading solutions across our 35,000 product lines.

In exchange, we are giving them expertise in areas like sustainable construction or energy reduction. We are also sharing everything we learn from these initiatives with all suppliers through our Supplier Exchange website.

This confirms what we knew from the start - that we'd never succeed with Plan A on our own. We always knew we didn't have all the answers – and we still don't. So we've formed other partnerships which have been crucial to making things happen. I've mentioned Oxfam and Groundwork already. Others we're working with include WWF, the Climate Group, Carbon Trust, Forum for the Future and the Building Research Establishment. This creates a virtuous circle. Their ideas and commitments spur us on to make further progress and find other solutions. What's more, without Plan A organisations like these may not have considered working with us at all.

Another "must do" was building a strong Plan A brand. The simple language and bold visuals we've used have been another factor in engaging customers and staff. If this powerful list of 100 commitments had just been our 'sustainability' plan it would have had far less impact with our stakeholders. Instead, Plan A stands out. Its branding has helped deliver the differentiation we were after and has given meaning and resonance to what would otherwise have been a long, rather technical list.

The internal Plan A structure we've put in place has also enabled our staff to get involved. At M&S we deliberately talk about 'How we do business' rather than CSR. Our CSR committee has become our "How We Do Business Committee",

with overall responsibility for delivering Plan A policy. I chair this committee, so these actions are taken at the heart of the business.

Second, we've also spread responsibility for the delivery of Plan A as wide as possible by appointing Plan A specialists in every part of our business – such as food, clothing, HR, marketing, communications and logistics. Some of them will be joining me afterwards to answer any questions you may have. And we've appointed 570 Plan A champions in our stores to support the adoption of Plan A among their customers and colleagues. This way Plan A is hooked into all parts of the business – much more so than if it was just the responsibility of our CSR team.

We now know that Plan A is delivering. While we've a long way to go, it's already adding clear value to M&S as a business.

It's engaged and motivated our employees. They feel proud that we're continuing to assert Marks & Spencer's core value of 'doing the right thing'.

It's enhanced our brand reputation and is giving us the differentiation we were after - something that's very important in the intensely competitive retail sector. The research we've conducted with YouGov shows that when it comes to the environment, customers see us as being the UK's most caring major clothing and food retailer. The Covalence survey - which tracks the ethical reputation of multinational companies – shows that we have the highest ranking of any retailer they survey. Our store exit interviews with customers show the positive impact the launch of new initiatives – like Oxfam and carrier bag charging – have on customers' perception of our ethical stance. This is Plan A making a difference.

When we first launched Plan A, we estimated that we would need to invest around £200m over the five year plan. Amazingly, and after only 20 months, Plan A is now cost neutral. The amount we're investing is balanced out by the amount we are saving. Early indications are that this year the amount we're saving may actually outweigh our investment because we have been forced to think of new ways of working – ones we would probably have never considered before.

For example before Plan A, our store development teams and supply chain teams had never worked together. But our store development teams started work on a new generation of eco stores that save energy with more efficient heating, lighting and refrigeration systems. They then shared their expertise with our supply chain teams and we now have a new generation of eco-factories in Wales and Sri Lanka.

These factories are exciting developments. I visited the Sri Lankan factories earlier this year – the first time I've been joined on a site visit by an elephant - and a beautifully garlanded one it was too.... Here, we're trialling a completely new approach to clothing production and setting standards for others to follow. The lingerie factory is not only carbon neutral, uses 40% less electricity and 50% less water than a similar scale clothing factory, it also makes great quality underwear while ensuring its workers are treated well through leading standards in employee welfare.

The other factory owned by Brandix is the first in the world to be issued with a platinum statement by Leadership in Energy & Environmental Design. It makes some of our casualwear ranges and is already delivering operational cost savings of £100,000 a year, while also setting new eco benchmarks. It has reduced its carbon footprint, reduced its energy use and no longer sends waste to landfill.

The efficiencies and savings we're seeing from these new plants are very exciting and we're now looking at how we can apply them elsewhere, like in China. All good retailers facing the consumer downturn and the rising cost of manufacture are looking more than ever at their supply chain to deliver competitive advantage and help protect margins.

There are many other examples of how Plan A has made us look differently at how we operate and has brought us commercial and operational benefits as a result. Here are three:

1. Prosaic as it sounds, we've introduced new low energy 20W lamps in our UK stores. These cost us £70 a unit, compared with £100 for the old-style lamps we were using. This one example of 'eco thinking' has not just saved us money but has also contributed to a reduction of CO2 emissions in our stores, offices, warehouses and delivery vehicles by nearly 50,000 tonnes, despite us opening 103 new stores.
2. We now have a fleet of 140 new Teardrop Trailers. They're aerodynamic, 10% more fuel-efficient and have 10% extra capacity than our standard trailers. Most importantly, they save us £250,000 a year in running costs and 840 tonnes in CO2 emissions.
3. We're looking at recycling the 15% of fabric wasted as off-cuts during clothing manufacture for re-use in regenerated cotton yarn. This could save us millions of pounds a year in operating costs - and cut our landfill waste total yet again.

Plan A is helping us build better relations with other stakeholders too. Incorporating eco elements into new or refurbished stores is helping our relations with local authorities who are interested in encouraging such innovation. Further afield, our new store in Shanghai - which opens later this week - is fitted out with a raft of eco measures from environmentally friendly

wall panelling to water saving toilets. We believe tangible evidence like this of our environmental commitments will help build our reputation in overseas markets, like China, where we are just establishing a foot-hold.

Back, however, to the reality of the world we live in today. Tough times that may last longer than anyone thought. What impact has the consumer downturn had on Plan A? There is no doubt that consumers are feeling the pinch; but this has made us more determined to forge ahead.

Why would we ease back on cost saving green initiatives in a downturn? Doesn't it make more sense to accelerate them further?

Climate change won't slow down just because the economy does. The problems of waste, obesity, the depletion of the world's natural resources and poor working conditions in third world factories won't go away either. So, if we believe that doing our bit to tackle these issues is the right thing to do then we have to stick to our principles. Our customers have long memories – if we fold under the first sign of pressure they won't forget it.

But of course we need to adapt to what's going on around us. Initiatives like our Clothes Exchange with Oxfam are especially relevant to customers who are watching their pennies. And we need to stay sensitive to the fact that 'eco considerations' may not be such a high priority for our customers at the moment. But if we could convince them that 'going green' could actually save them money rather than cost them extra – think of the opportunity.

So what of the future? Looking ahead, what challenges does a business that wants to be sustainable face? Our view is that the future's only going to get more complex. When we started this journey there was lots of low hanging fruit

to grab, things that were obviously wrong and needed putting right.

Going forward, there's every likelihood companies will make a large investment to tackle one sustainability issue only to unwittingly make another thing worse. It's the law of unintended consequences - like reducing carbon emissions from livestock but only by compromising animal welfare or by reducing packaging but increasing food waste.

These and many more pitfalls lie ahead for the unwary. Being able to anticipate and manage these complex changes and trade-offs are central to sustainability leadership and will remain a major challenge.

Plan A has given M&S a secure platform to help our business respond proactively to this changing world where global issues like climate change, population growth and the growing demand for limited world resources like oil mean we now have less control over our own destiny and growth is constrained.

What about my own commitment? Well, Plan A has shown me that you can teach an old dog new tricks, and I don't just mean getting to grips with the complexities of recycling at home...

Sustainability leadership demands traditional skills coupled with new skills that are in tune with how society and the world is changing and what that means for your business, customers, shareholders and suppliers. So, in the workplace, I've had to develop my own understanding of the issues that are affecting us and what they mean for our long-term success. Before Plan A, I had no idea we could make recycled fleeces from plastic bottles instead of virgin oil. I was also blissfully unaware that cow slurry could be used to generate electricity, via anaerobic digestion. So, we've set up our business to succeed in this area with the right talent, management structure and investment.

There isn't a day that goes by when I don't discuss Plan A in some shape or form with our teams or a wide range of stakeholders, some of whom I had never encountered before. I was struck by a comment from Lee Scott, the CEO of Walmart, about how routine and regular his meetings with NGOs are, in a way that was never the case five years ago.

In fact since Plan A I've met people from all walks of life and appeared on all manner of memorable platforms. In May, I spoke at the Hay Festival. The marquee was twice struck by lightning – was this is a message?? Last year, one firm of City head hunters presented me with a beautifully-wrapped present which I opened on stage....it was a wormery...certainly a different but appropriate approach.

So, to summarise...what I've sought to do this evening is set out our vision for leadership in sustainability. In a nutshell, we believe it's about...

1. being able to adapt to a changing world on all fronts
2. being prepared to take risks and decisive action even when the path ahead is unclear
3. opening up new dialogues with new types of stakeholders, and
4. finding different ways to engage with your customers and staff.

I hope you've learnt something about how we're putting Plan A - our own version of sustainability leadership - into practice. For us, so far, it's been about:

1. building emotional and practical connections with our customers and finding ways to get them on side
2. creating an overall branding which is memorable and stands out
3. building partnerships with others who can do things you can't, and
4. bedding down a company-wide Plan A structure to ensure its delivery across our business.

And finally I hope the benefits we're already seeing at M&S, both tangible – like cost savings and efficiency gains – and intangible – like brand enhancement - will inspire you to think about your business differently and take steps to adapt it in a rapidly changing world.

I like to go to the cinema when I get the chance. It's one of the rare occasions I can totally switch off from the day job and leave my mobile phone behind. In fact, it was Al Gore's film "An Inconvenient Truth" which was one of my personal inspirations behind Plan A. It was on general release while Plan A was in the pipeline. I was really persuaded by Gore's assertion that a sustainable business can be a profitable one and I used his film as a powerful means of motivating our teams in those early days and convincing them too of his argument, so they'd get behind Plan A. They got the message and nothing has happened since on our Plan A journey to change our course or change our minds.

Thank you for listening.