



Unlocking impactful change

Building a sustainable operating model to increase
your resilience and capture opportunities



Achieving top and bottom-line IMPACT for your business while changing the world.

As we reach climate tipping points and global temperatures rise, consumers are looking to the businesses they interact with for help to do the right thing.

The changing regulatory environment is also forcing hands. Investments are being made in decarbonisation and offsetting emissions, in circular business models and sustainable and ethical supply chains.

While battling to keep your business running through a pandemic, these investments can seem low priority, but sustainability does not need to be mutually exclusive from business growth or profit. It is not.

Businesses who are focussed on finding environmentally favourable solutions are seeing greater business efficiency, profit, and growth. Understanding your operating model and how the various layers interact is key to unlocking long lasting, impactful change for your business, your people and the planet.

Confronting climate change

Alongside Governments, businesses worldwide are pledging to achieve significant headway in transitioning to a net zero, climate resilient future – but let's be honest, it's overwhelming. As you battle to keep your business running through a pandemic, investments in environmentally responsible ways of working don't always feel like the right priority.

We know to stay in business we need to meet customer demands. These demands now extend beyond what the product and service is on offer to how it is offered. Customers want to interact with environmentally responsible businesses that are working in alignment with their values and helping them to play their part. They want to see reduced emissions, sustainable business practices and proof of ethical supply chains. They want to be able to benchmark you against your competitors and to feel like they can make informed purchasing decisions.

We also know that to stay in business we need to turn a profit. Economics are a core part of sustainability. Ineffective partnerships, complex supply chains and waste in our business processes can all

erode profit while also having a negative impact on our environment. Working on becoming more environmentally responsible is good for business.

Buying in to change

Whether you have been an early adopter, a market leader or have been forced to react it's likely by now that you will have some form of sustainability activity underway – a business continuity plan and some level of investment to improve your environmental standing perhaps. This activity has taken time and money, and regardless of your position, you should be asking 'how do I ensure this investment is valuable and impactful?'

Beyond your strategy and business model (what you are in business for) sits your operating model – how you do business and herein lies the key to ensuring your efforts are rewarded. KPMG's Operating Model framework consists of six layers, Process, People, Service Delivery Model, Technology, Performance Insights and Governance. Understanding how all six components of your Operating Model layers relate to each other is key to leading the way on sustainability and ensuring real impact and returns on your investments are realised.

CASE STUDY



OfficeMax has taken an innovative approach to reducing waste increasing efficiency and proactively responding to the expectations of their customers through a \$1million investment into two automated box making machines for their North Island Distribution Centre.

The machines use technology to register the size of a customer's order, folding the box more accurately around the contents - reducing the amount of cardboard and removing the need for plastic void fill. This change increases efficiency within their distribution centre and freight network, and reduces parcel related carbon emissions and waste.

OfficeMax has also invested in shredding machines, allowing waste cardboard to be made into 'void fill' which is used to protect fragile goods. This initiative eliminates approximately 1,700kgs of plastic from landfill annually.

1,700kgs plastic
eliminated from landfill annually

CASE STUDY

Re-worn

In New Zealand, a number of clothing manufacturers are driving 'take-back' programmes to extend the lifecycle of our clothing and support a circular economy. Customers are invited to return old clothing and receive a contribution for doing so. Clothing is repaired or recycled depending on its condition.

Offshore, Patagonia launched a similar initiative called Common Threads, stemming from the recognition that recycling is not enough to address the problems of fast fashion and reducing consumption and unnecessary wastage is key to solving the deep-rooted problem. A significant but risky marketing campaign to encourage repair and emphasise their commitments to sustainability in 2011 was called 'Don't Buy This Jacket'. While this ad seemingly discouraged the purchase of their clothing, their demonstration of shared values and commitment to the planet saw sale increase by 30%.

30% Sales increase

Service delivery layer – partnerships are key

The location and means by which your products and services get to market is arguably the biggest area for opportunity. As consumers themselves, businesses rely on other players to be environmentally responsible and ethical as their brands are interlinked. Done well, a review of your partnerships and your supply chain will drive down costs and improve your bottom line but not in isolation. The other layers of your operating model need to be considered to ensure gains made aren't offset elsewhere, for example by complex procurement processes, workarounds required due to incompatible technology or clashes of values that make doing business difficult.

People and culture – it takes a village

The best way to determine how sustainability is embedded within a business is to ask someone without sustainability in their title. Your people are your greatest asset when it comes to generating opportunities for growth and bottom-line change. Many businesses have invested in a sustainability leader but change will happen faster if your whole business gets behind the required cultural shift.

The more heads you have thinking about the same problems every day, the more likely you will be to find the right solutions.

Sustainability and social good becomes a collective responsibility. The second leap to a regenerative business model is 'how can I do more good'. The emphasis shifts to long term value rather than short term gain.

Transparent and demonstrable values, strategies, and goals related to increased sustainability and climate considerations are also evolving as a key factor in talent attraction and retention. The increase of millennials rising to positions of influence and the addition of Gen-Z within the workforce has increased the pressure on businesses to meet the sustainability and climate priorities these demographics are renowned for. The relationship between sustainability and climate considerations and the recruitment and retention of top talent is increasingly being regarded as more than a challenge - it's a key business risk.

Governance – the rise of the sustainability manager

If you have invested in that one key person, the decision to invest in them needs to be linked to your strategy and that person needs to hold the mana, influence and power to be able to intervene and drive change across all levels of your business.

Without their role being clearly connected to your strategy and goals and without the right culture and enabling processes – they can get to work but will struggle to get results.

From 2023, around 200 of New Zealand's large publicly listed companies and financial institutions will be required to create and provide climate-related disclosures.

This intensifying regulatory landscape and increased level of scrutiny will trickle down from the 'big end of town' and in the short term, there is potential for pressure from banks, insurers and other shareholders as they increase their demand for disclosure within their supply chains and partnerships.

The time is now to think beyond disclosure and ensure you have a 'licence to operate.' For those with limited resources, business networks can plug gaps and first movers will be at an advantage. If you can support your sustainability leaders and staff to drive change in line with your strategy and goals, you are more likely to be able to remain future focussed, protecting and strengthening the resilience of your business and aligning your offerings to support a position of growth.



Performance insights – what gets measured gets done

It is a no brainer that the right incentives are needed to drive the right behaviours from within your organisation and your partners across the supply chain. Be clear about the outcomes you want to drive and what takes priority to help raise and resolve conflicts effectively. Make sure goals don't become their own individual 'tick boxes' and processes and technology are in place to enable you to celebrate, communicate and build on your success.

CASE STUDY



Walmart

In 2014, Walmart improved fuel efficiency across their transportation and distribution logistics by 87% compared to a 2005 baseline. This saw 15,000 metric tons of CO2 emissions reduced and saved the company approximately \$11 million through the implementation of new technology, updated routes, driver training and more effective loading of trucks.

87%

Fuel efficiency
Improvement

\$11m

Saved through
Implementation

While the nature of Walmart as a large retailer is often scrutinised, in terms of enabling overconsumption and wastage, they have been seen to announce a string of sustainability and climate-related promises and targets over the past couple of decades. This example of their efforts to increase fuel efficiency, before being under any direct regulation to enforce action, demonstrates that taking on a sustainable initiative does not have to equal a loss in productivity or profits.

Process and technology – sustainability pays if you do it right

The core principles of Lean manufacturing and process improvement have been around for years. By identifying and removing waste, you can focus only on what adds value. By focussing on what is seen as value, to your customers and your business, you can run a business that is more efficient and less costly.

The principles of sustainability are well aligned. Meet the needs of the present without compromising the ability of the future generation to meet theirs. In other words, use only what you need, reduce your waste and focus on adding value to people and planet.

Focussing on sustainability can make your business more efficient to run and help you achieve a better bottom-line so you can invest sustainably and ethically for future generations.

In addition to Lean processes, creativity is key to solving business challenges. Your investment in people and culture needs to be complimented by processes and technology that enable opportunities to be identified and acted on in the most efficient way. For first mover advantage, ideas need to be well executed. Over time, the more people demanding sustainable ways of working will bring down costs for all.

Contact us

To drive top and bottom-line growth from your investment in sustainability, there must be a clear link between what you are going to do and how you are going to do it.

Understanding your operating model and how the various layers interact is key to unlocking value for your business, customers, people and planet.

KPMG IMPACT partners with organisations to help them drive sustainability, prosperity and growth. We are working with Māori, public, and private sector organisations to drive business benefits alongside positive social and environmental outcomes for Aotearoa and all New Zealanders.

We are a multi-disciplinary team drawn from across KPMG, united by our mission, and offering a unique range of complementary skills.



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