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Management Review

Interview with Nick Folland (Kingfisher)

The Net Positive Strategy: Where Environmental Stewardship Meets Business Innovation

The Net Positive Strategy: Where Environmental Stewardship Meets Business Innovation Practices

Kingfisher, one of Europe's largest home improvement retailers, was the first business of its size to receive full certification from the Forest Stewardship Council (FSC). But, explains Nick Folland, formerly the company's legal and corporate responsibility director, Kingfisher aspires to create a net positive impact on the environment by "putting more back in than we take out." Now the group corporate affairs director for the Net Positive plan, Folland is leading the company's groundbreaking collaborative effort.

NICK FOLLAND (KINGFISHER), INTERVIEWED BY HANNAH CLARK STEIMAN

What if companies were to put more resources into the environment than they take out? That's the question underlying Kingfisher's Net Positive strategy. The Net Positive plan seeks to change Kingfisher's business model to practices that produce a net positive environmental impact — and implementing it is no small challenge.

Take forests, for example. Kingfisher already sources 86% of its timber from responsibly managed forests, and aims to increase that to 100% by 2020. This strategy has a positive impact on natural forests by ensuring that destructive techniques such as clear-cutting are avoided. To truly be "net positive," however, Kingfisher also needs to consider how it sources non-timber products like leather and palm oil, which can be produced in ways that contribute to

tropical deforestation, so that gains in one area aren't offset by problems in another.

As if this weren't challenging enough, Kingfisher is simultaneously attempting to drive a massive change in consumer behavior. It seeks to introduce new "closed loop" products, which will be completely reused and recycled so they never enter the waste stream. The company also aims to rent or lease some products, instead of selling them, which would reduce consumption of resources while providing the same level of service to customers.

MIT Sloan Management Review guest contributing editor Hannah Clark Steiman spoke to Nick Foland, the company's legal and corporate responsibility director, about the challenges of developing and implementing the Net Positive plan.

What is "Net Positive"?

Our expectation is that we will put more resources back into the earth than we take out, not just do "less bad." The reason it's core to what we do at Kingfisher is because our corporate purpose and aspiration is to give people better homes and better lives. We're convinced that, going forward, a better home and a better life must be one that is sustainable in the long term. So it's about tying sustainability to our core business purpose. That's what makes us think it's a new way of doing business and not just a typical corporate social responsibility strategy.

How did it come about?

We've been looking at the whole area of sustainability for 20 years or so. It all began in the 1990s when the CEO of our largest subsidiary was asked, "Where does your wood come from?" He declared that he didn't know, and then he set out to do something about it. We were, for example, one of the founding partners of the Forest Stewardship Council, which promotes responsible management of forests.

For the most part, however, each business unit pursued its sustainability goals separately. About 18

months ago, we realized that if we aggregate everyone's efforts, we could accomplish much more. We said to everyone in the business: "Tell us where are the three or four big issues where you think we can have the most impact." At the same time, we also got together with experts to look at what are the really big issues in the sustainability world. We're convinced that when you find that area where the two combine — where the needs of the world meet the capabilities of the business — that's where you can make the biggest impact.

You have four focus areas: timber, energy, community, and innovation. Why did you choose those four areas?

Each is an area where the corporation can have the biggest impact. In timber, we've estimated that the raw material coming into our business is the equivalent of an area the size of Switzerland. Energy is a significant issue for us because we are convinced that everyone needs to focus on energy usage reduction, and we can help them do that around their homes. So it's a very relevant issue for our customers.

For innovation, the idea is that we need to help people continue to use products, but using business models that allow customers to consume in a more enduring, sustainable way. For example, our customers may be able rent or lease products from us instead of buying them, so many people can in essence share the same product. For community, we have 1,000 stores in eight countries, so we have a lot of mini-communities that we're very conscious of and we're very sensitive to playing our part within.

You've been experimenting with some "closed loop" products and business models. A "closed loop" product is one that is completely reused or repurposed, so it never ends up in a landfill. Can you give us an example of a product or service you're trying?

We're very enthused by the possibilities associated with the closed loop concept. It's an example of how you start to get into the process of thinking, "What

can I do with this product when it's in its second, third, or fourth usage, rather than throwing it away?"

One example of a trial underway is a power tool take-back scheme in one of our businesses. This is just the first stage, not a total closed loop, but we're setting up a bring-back scheme with our tradesman so we'll take their tools back from them. We then disassemble the tools and ground down the outer casing so it can be repurposed. We'll either use it to create gutters or water tanks for rainwater collection in homes.

There is a lot of power in this concept, but companies have to work together in order to achieve systemic change. Imagine if every retailer and supplier in the country were to launch one week a year where we all encouraged customers to bring their products back. You're sending an aggregate message to consumers, which is so much more powerful than sending a message from one company alone, and you would move the whole agenda forward.

How do you develop and nurture new ideas? It can be difficult to foster radically new business models in a large company. If a tool rental scheme takes off, for example, it could threaten the business line that profits from tool sales. Do you have separate teams that develop new innovations?

We would never do anything without involving the mainstream business because they understand the market. When we have a new idea, we'll develop it in tandem with the mainstream business. Then we'll start with a small-scale experiment. We test, retest, change direction, reshape.

For example, a couple years ago we tested a strategy for selling energy-efficient products. In two stores in the U.K., we built a store-within-a-store that sold products like draft excluders and sleeves for insulating boilers. We tried that for six months, then realized we should shift to a service offering. Now, we assess customers' homes and install energy-efficient upgrades, rather than just selling the products and letting them do the work themselves.

The new offering is in five stores. It's a booth manned by two specially trained staff who can walk customers through a computer program that helps them assess the products they could use to upgrade their homes and the amount of money they could save. Customers can book a full assessment, and they can contract with us or another third party to have the work done. We'll roll it out to 50 stores by the end of the year, and take the learnings from those stores to roll it out to the whole U.K.

Ultimately, can we address the environmental challenges we face without cutting consumption?

We won't ever say to our customers "consume less," because that's the message that has switched them off for so many years. It gets them into feelings of guilt about what they're doing and it's not a great sales strategy. What we're engaged in is a message about "consuming differently." Do you need to consume all on your own? Can you share that with someone else? Let's get into some shared usage models so we can start selling services rather than just products.

Our commitment to closed-loop products, and the whole idea of repairing/disassembling things, is also a part of this. Our customers are people with DIY skills, so they are more likely to be committed to second use/make-and-mend type activity. So this is highly relevant to us as a company.

Let's say every company wanted to make the same commitment to sustainable timber as Kingfisher. Can the earth produce enough sustainable timber to supply the demands of the global economy? Or do we have to consume less in order to truly be sustainable?

I don't have a precise number for how much sustainable timber the world can produce. I don't think it's a stretch of the imagination to say that forest, like every other form of natural capital, is going to come under pressure because there is a limit to how much can be grown or created. It will take a lot of

time to restore natural resources — but we are convinced that if we start now, we can get there.

We cannot simply hope that we're going to be able to continue to consume as we currently do, and population growth is not going to pose a challenge to that. As a company, we are going to become restorative, and we hope others are going to come along this journey as well.

To truly be restorative in the energy category, you would need to either buy offsets or actually produce your own renewable energy, as IKEA is starting to do. Is that something you're considering?

That's certainly something we're considering, because you're absolutely right, we'll have to get to that stage. There's no question.

When you're setting long-term environmental goals, the business case is often ambiguous — there's no clear ROI. How was Kingfisher able to deal with that?

The answer lies in the way we operate. We operate very much with our separate companies retaining their independence. We give them a framework and they decide how to contribute to that framework. It means that everyone is able to contribute rather than seeming forced to do something they've been told to. So each business can come to its own investment case decisions, knowing that it has to contribute to the Net Positive plan.

If we look at the business rationale behind each of the four pillars, there's no question that timber is a resource that will be challenged going forward. So it makes a lot of sense for us to "future-proof" the business, to recognize that we need to be considered about where we obtain our natural capital.

If you look at energy, the main argument for a business case here lies around the fact that we need to sell the concept of energy efficiency to our customer base. That's a massive new market for product sales and service provision across Europe,

so I can get businesses really enthused about pursuing a new line of business.

If you look at innovation, the sphere of home improvement hasn't seen a lot of innovation, so anything that's going to drive sales is something that's going to get them enthused.

The community program is fundamental to our future growth. It's designed to enable our colleagues to teach people in their communities the skills of make and mend, of sharing and saving. The program will be built around educating the future DIY-ers. That's how we make the generic arguments, and then we look to each of our operating companies to contribute in their own way.

What are the biggest challenges you face?

Most of the biggest challenges are all challenges of communication. We have a diverse portfolio of companies operating in highly individual countries, and you need to have a conversation that's relevant in each country. When you're talking to people in America or England about sustainability, it's a different conversation compared to China, where you need to talk about health and well-being. In Russia you can't talk about using less hydrocarbon because the entire economy is built around hydrocarbon.

The other challenge is communicating with customers. We need customers to embrace the agenda and feel positive about it. We then need to change the conversation with the financial community. I don't think investors reward this behavior, and if they started to do that, lots more companies would be getting engaged.

I think the other thing we need to do is drive connection to financials — how much money has this program saved us? — to get into a more enticing conversation for our business colleagues.

Puma recently got a lot of press for its environmental profit and loss statement. Is that something you're considering?

We all need to wake up to the cost of natural capital and put some measuring systems around it. We need to work on ways of measuring Net Positive activity and bringing some measurement rigor to the whole world of sustainability. What Puma did was market-leading and innovative, but I don't think we all need to go as far as them.

Hannah Clark Steiman blogs about innovation and sustainability at *Metamorphos/Us*.

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