



fractal

ESG IN RETAIL

2023 & BEYOND

FUTURES BY FRACTAL | GLOBAL RETAIL - MODULE 4 | FEBRUARY 2023

ESG IN RETAIL: OVERVIEW

The aim of ESG (Environmental, Social & Governance) is to understand and implement better interactions between business, society and the environment.

The retail industry, especially beauty & fashion are experiencing a shift in the approach to management triggered by external contexts, new organizational metrics, consumer awareness & outside-in mandates towards the incorporation of ESG in everyday business decisions.

With the rise of cancel culture and social policing, business ethics are integral to retail. Consumers today are aware of and are more likely to call out the negative practices of retailers. When the option exists, they are also more inclined to purchase products from responsible retailers.

The total amount spent on ESG business services is anticipated to increase 32% annually for the following five years starting in 2023, according to ACA Global. The Harvard Business Report states that “if a company does not focus enough on ESG, it risks falling behind in the market, losing the support of employees, customers, and investors, and potentially even losing the license to trade in more stringent regulatory/ESG environments, like the U.S. and Europe.”

In short, social responsibility, ethics, and sustainability cannot be overlooked today. This module explores trends, technologies and threats with regards to ESG in retail.



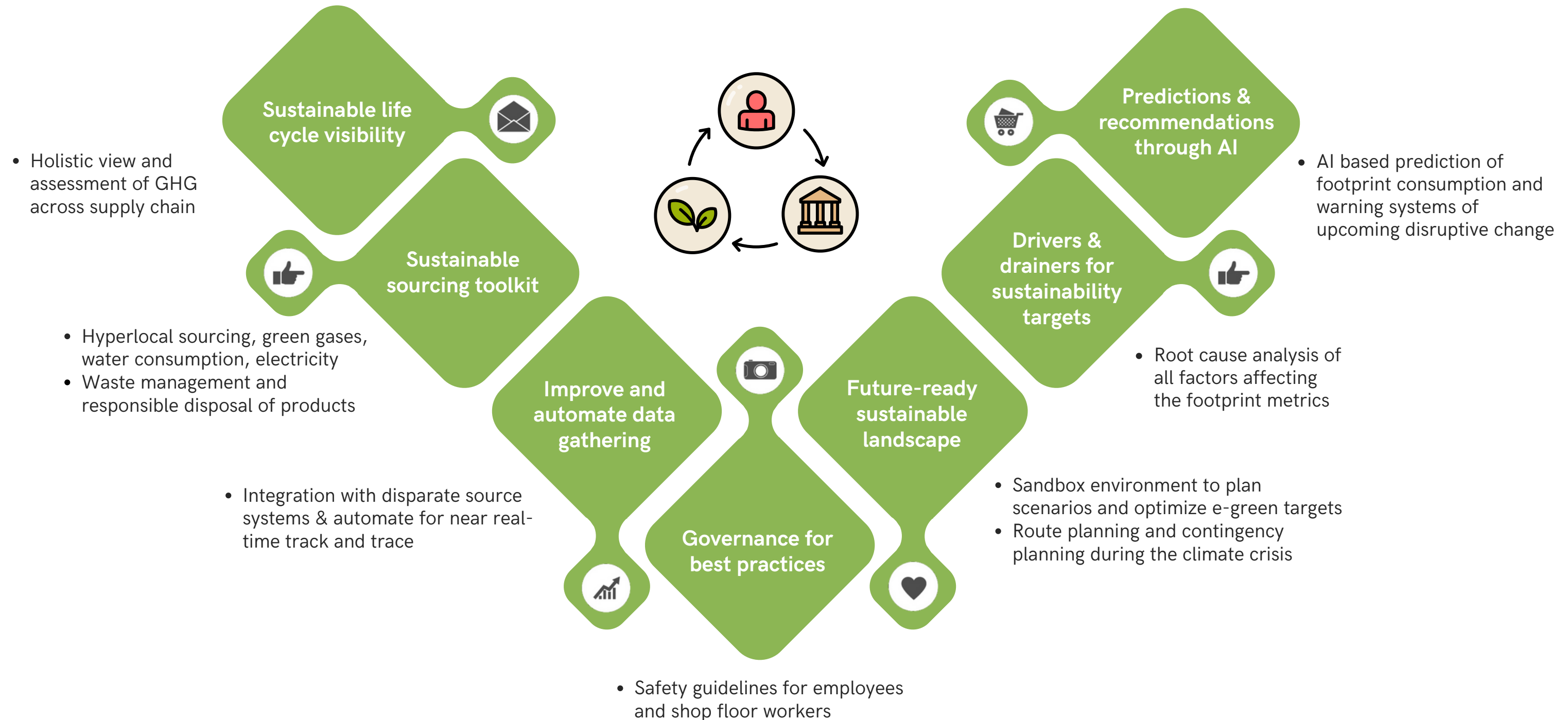
“

Most of the tech needed to effect massive positive change for this industry **already exists**; it is scale that is missing. Companies looking to demonstrate commitment can do so by actually putting pen to paper and promise to use **innovative materials** when they reach scale. That is how we get investment flowing and erode the **competitive advantage of an unsustainable status quo**.

”

- Tricia Carey,
Chief Commercial Officer, Renewcell

TRACK & TRACE ESG FOR A WIN-WIN RETAIL EXPERIENCE



CONTENTS

In this document:

KEY PILLARS

- 1 PLANET FRIENDLY, POCKET FRIENDLY FOR RETAILERS
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- 3 THE CONVENIENCE CEILING; AT WHAT COST?
- 4 SHOULDER-TO-SHOULDER WITH AWARE CONSUMERS
- 5 ACCOUNTABILITY AS A MUST-HAVE FOR ETHICAL RETAIL

RESPONSIBLE RETAIL: PLAYBOOK SNAPSHOT

BEHIND THE SCENES





TRENDS TO WATCH



Key pillars to implement smart and sustainable retail experiences that align plant, profit, and people



How might retailers ensure data centralization so AI predictions represent **one retail strategy** and facilitate responsible AI decisions?



How might retailers **adapt** with changing local **laws, regulations, policies & benchmarks**?



How might retailers leverage technologies for **cross-organization data sharing** to prevent disruption in the supply chain and reduce environmental impact?



How might retailers balance **convenience with consciousness** to ensure that it doesn't cost businesses and planet in the long term?



How might retailers plan for a shift towards **discretionary spending**, that will benefit the planet, while maintaining **positive consumer sentiment**?



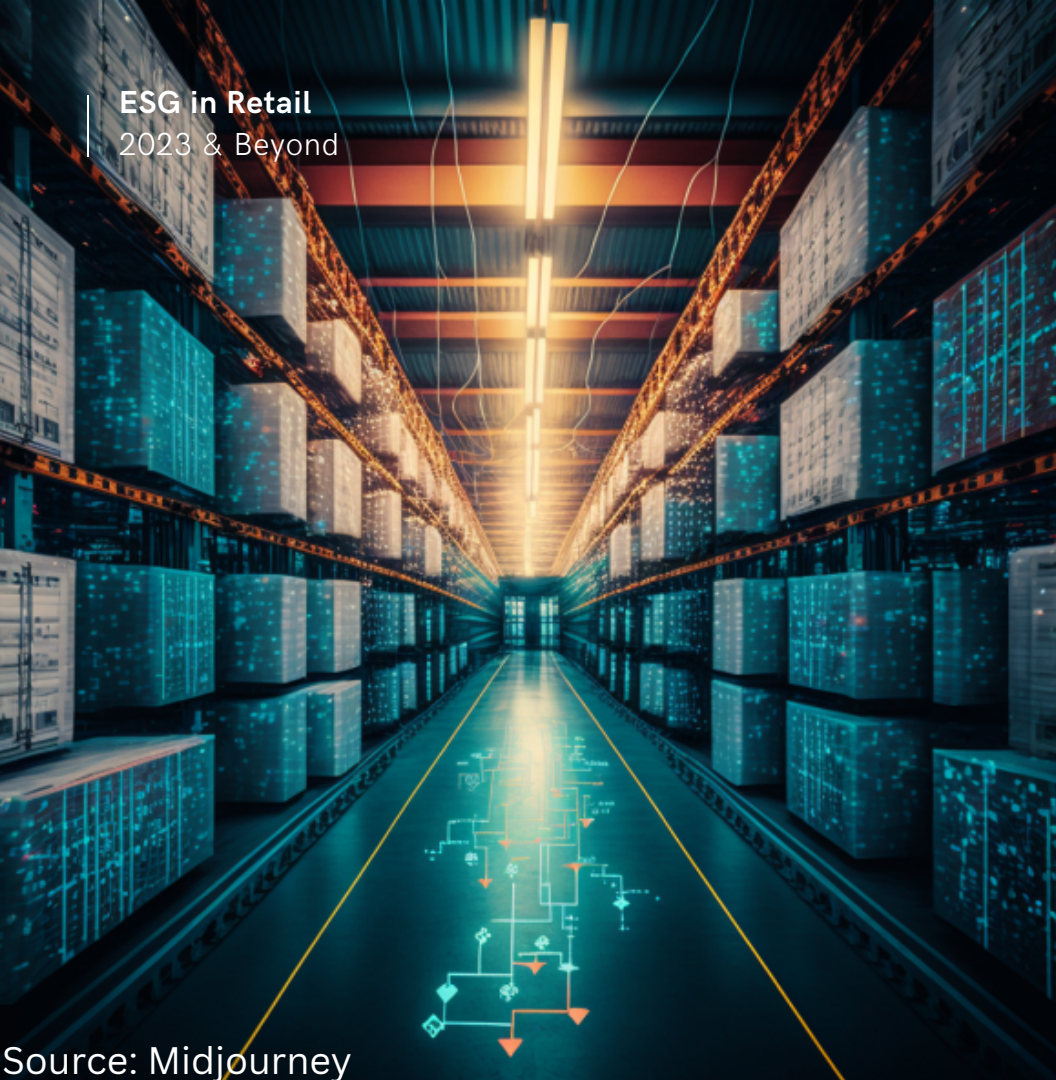
How might retailers automate and streamline **supply chain** processes in a responsible, transparent way to ensure **security and safety across stakeholders**?



How might retailers enable **sustainable sourcing** decisions to gain **credibility** with conscious consumers & governing bodies?

TURNING THREATS INTO OPPORTUNITIES





Source: Midjourney



TREND 1

PLANET FRIENDLY, POCKET FRIENDLY FOR RETAILERS

- Cross-organization data sharing for cost efficiency
- Explore the concept of secondary markets & circular economies

Description

Planet-with-profit brands become consumer & shareholder favorites.

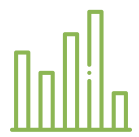
- Stabilize with data orchestration to reduce disruption across the supply chain; learn from circular economies to manage bloated inventories and find secondary markets.

Enterprise-wide data sharing is not a priority for retailers right now and there's a mentality of "every department for itself" when it comes to departments taking ownership of data sharing. With cross-organization data sharing, retailers will be able to meet supply chain demand more efficiently.

SO WHAT?

- Implement resale as a service through integrated platform for used products
- Data orchestration across retail functions to represent one cohesive experience

STORIES IN FOCUS



In 2018 alone, Americans discarded over nine million tons of clothing and shoes in landfills across the country.

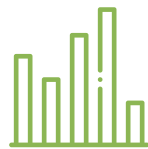
-United States Environmental Protection Agency, 2018.

“

“I love supporting small brands, but I find that their slow customer service and delivery timelines are roadblocks. As a result, I often find myself leaning towards fast fashion more than I would like”

- 35 year old woman

”



Ikea aims to make 100 percent of its delivery vehicles electric by 2025.

Life after Fashion INITIATIVE

Our Life After Fashion initiative aims at reducing the environmental impact of discarded clothes. We strive for a Zero Landfill Lifecycle for our garments through recycling, charity donations, and reuse in the pre-loved clothing industry.

1.A

IKEA

A big brand selling goods second-hand:



1.B

ADIDAS UNLOCKS A CIRCULAR FUTURE FOR SPORTS WITH FUTURECRAFT.LOOP: A PERFORMANCE RUNNING SHOE MADE TO BE REMADE

17-APR-2019 / NEW YORK, USA



1.C

Re-usable fast food packaging



1.D



Source: Midjourney



TREND 2

FUNCTIONAL MINIMALISM: ESCAPE ECONOMIC DISTRESS

- Shift in discretionary spending; mindful consumption
- Less is more for consumers and the environment

Description



Retailers to plan for a shift in discretionary spending while maintaining a positive consumer sentiment. This becomes key as consumers are becoming advocates for brands that are working to make a difference. Products that last & sustain can be levers.

-
-
- Minimalism is growingly a social construct that is publicly rewarded (digitally), as consumers practice responsibility through the consumption and sharing of brands that are of quality, yet understated in approach. Retail brands that focus on high functionality in features, minimalistic aesthetic, evident sustainability, and responsible delivery + disposal will be emerge stronger.

SO WHAT?

- Sustainability as a criteria/filter for AI-powered chatbots to help consumers curate responsible, informed decisions
- Provide authentic information and recommendations for up-cycling/disposal of all parts of the product through labels/QR codes

STORIES IN FOCUS

“
I believe that a good formula for beauty care does it all. We don't need an extra cream for the eyes, neck, etc. Especially with the cost of living going into 2023, people are looking to pare back their skincare, yet still, get exceptional results.

-Dr. Colette Haydon of Lixir Skin
Beauty Features 2025

“
For the ultimate post-pandemic in-store shopper experience, retailers are going for sophistication and elegance over overflowing shelves.

-RFP Design Group

2.A

The Highly Caffeinated Future of Minimalist Fashion in China

Avery Booker / May 11, 2022



ARKET's bridging of store-and-cafe is aimed squarely at urban professionals. Image

2.B

An experience centre in Mumbai aces Japanese minimalism

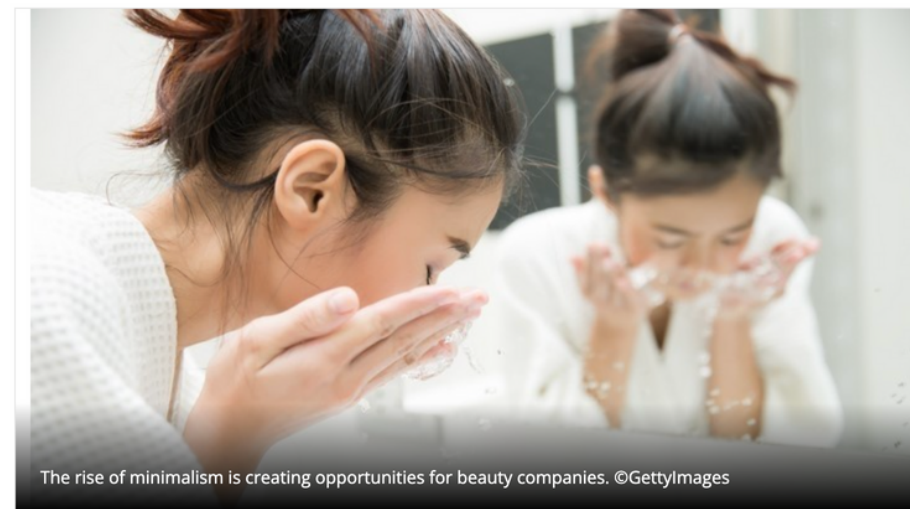
The JB Glass WALTZ Experience Centre in Worli designed by Nishita Kamdar takes inspiration from nature

By Aatish Nath
2 May 2022



Minimalism momentum: South Korean consumers turning their back on complex beauty routines

By Amanda Lim
06-May-2019 - Last updated on 06-May-2019 at 01:28 GMT



The rise of minimalism is creating opportunities for beauty companies. ©GettyImages

2.C



Source: Midjourney



TREND 3

THE CONVENIENCE CEILING: AT WHAT COST?

- Hyper-convenience; high cost for workers and retailers
- Feeding instant gratification won't end well for planet or consumer

Description

Hyper-convenience comes at the cost of workers & the environment. It is not sustainable for businesses in the long term. Hence, there is an opportunity to balance convenience with consciousness.

- Consumers' (potentially unhealthy) disposition for instant gratification can become a the race to the bottom across stakeholders.

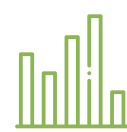
Brands need to understand and also make their consumers aware that there are downsides to this tendency. Ghost kitchens, and ghost stores can create a public nuisance (ex. increased traffic, pollution, worker conditions). Given the pressure for quick and single-item deliveries, packaging waste, overconsumption and emissions are additional concerns.

SO WHAT?

- Opt-in for large boxes or multiple boxes for order delivery using order consolidation
- AI-based route planning to monitor carbon emissions from sourcing and delivery

STORIES IN FOCUS

“A package delivered in just two days had been sitting on the desk in front of me since January. I still haven’t opened it.”
--Adam Chandler, The Atlantic



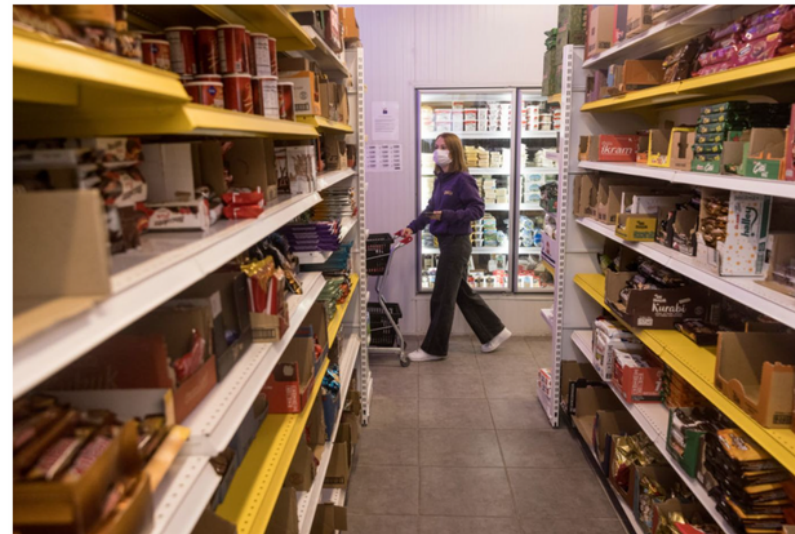
Brands like H&M, Zara, Abercrombie & Fitch, and J. Crew now charge for returns. 2022 marks 10 years of FedEx raising rates by nearly 5% annually, making returns an expensive proposition across the board.

“We dodge death, and accidents to deliver their orders on time. We want respect,” says the worker behind the anonymous Twitter handle @SwiggyDEHyd.
-- The Swaddle

3.A

The Dark Side of 15-Minute Grocery Delivery

Mini-warehouses dubbed “dark stores” are quietly taking over urban retail space. Left unregulated, the insatiable demand for faster delivery will only hasten the erosion of community life.



This may look like an ordinary grocery store. But the only shoppers at this Getir warehouse in Istanbul, Turkey, are delivery workers. Photographer: Chris McGrath/Getty Images Europe

America’s Need for Speed Never Ends Well

If 15-minute-delivery apps sound too good to be true, that’s because they are.

By Adam Chandler



3.B

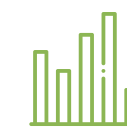
What is 15-minute grocery delivery costing India’s workers?



In deep water.

Image: Reuters/Francois Mascarenhas

3.C



DHL Express shipping recently announced that starting Jan. 1, 2023, rates will increase by an average of 7.9% for US account holders.



Source: Midjourney



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TREND 4

SHOULDER-TO-SHOULDER WITH AWARE CONSUMERS

- Credibility comes with traceable sourcing decisions
- Retailers that evidence their ESG claims to gain trust

Description

Consumers are increasingly aware and conscious of being "sold" sustainability and more importantly, being misled. Brands need to tread carefully when labeling products as "organic", "eco-friendly" and other similar eco-labels as governing bodies aren't the only to 'catch' false claims anymore.

- Greenwashing has become increasingly well-known, and it's important to practice what brands preach; otherwise, the consequence could extend beyond temporary negative reviews into lasting loss of public trust. This impact will be seen in the form of cancel culture, lost trust, and a damaged brand image. Hence, the future lies in authentic, credible marketing and sticking true to environmental claims.

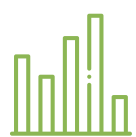
SO WHAT?

- Procurement by identifying fair trade suppliers and tracing suppliers certifications
- Tracking materials that are sourced responsibly

STORIES IN FOCUS

“ We have a new cohort of customer experts who are now challenging the status quo and challenging what cosmetic companies may have told them before, wanting to go deeper.

-Marcia Kilgore, Founder, Beauty Pie

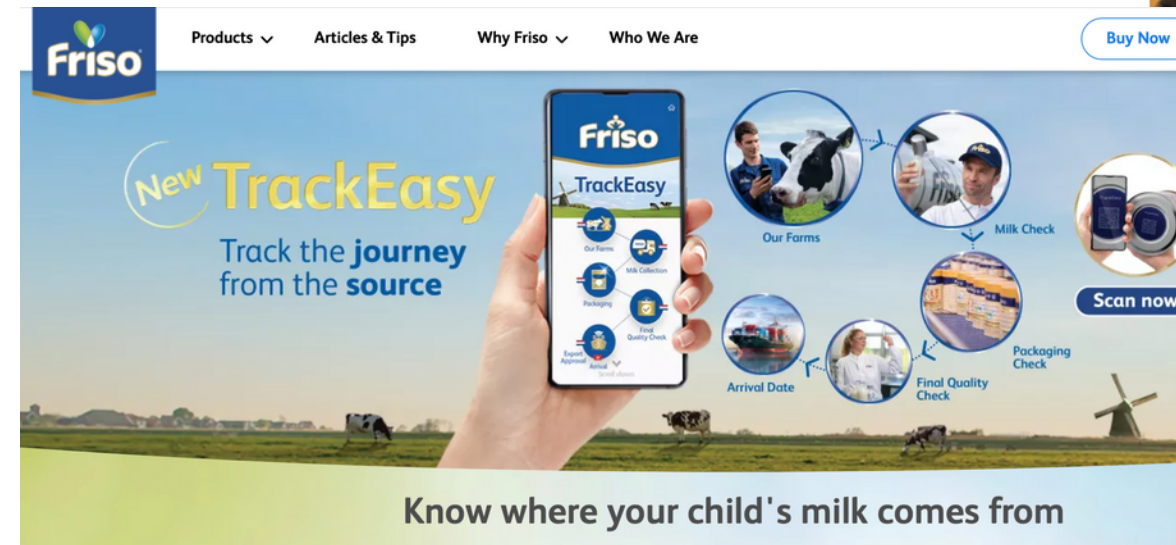


The legal minimum wage for garment workers in Bangladesh is 8,000 taka a month (less than \$4 a day)

-The Guardian (2020)

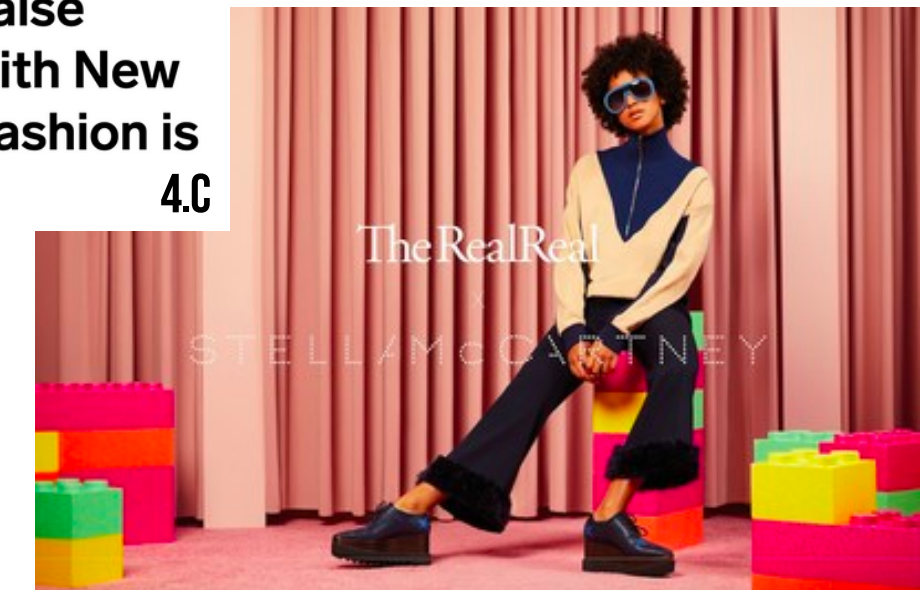
“ You have to be completely honest with people. You can't hold your hands up and say 'we're sustainable, aren't we awesome?' – unless you are.

4.B



The RealReal and Stella McCartney Raise Awareness of the Circular Economy with New Earth Day Campaign: 'The Future of Fashion is Circular'

4.C



4.A

USA: H&M faces 'greenwashing' class-action lawsuit over alleged misleading & false marketing of 'sustainable' clothing line





Source: Midjourney

TREND 5

ACCOUNTABILITY IS A MUST-HAVE FOR ETHICAL RETAIL

- Trust and accountability with end-to-end visibility
- Consumers opt for retailers that reflect and address privacy / targeting concerns

Description

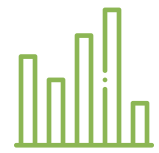
Consumer awareness & new compliance regulations are forcing brands to rethink core functions and understand how they can ensure transparency for all functions and stakeholders. The cost of not having a strategy for managing AI & data risks has growingly become untenable.

The use of Responsible AI as a core layer across models & use cases is becoming the norm - with principles of Transparency, Accountability, Privacy & Safety, and Fairness integrated at every stage. With attacks becoming more inevitable, companies need to refocus their energy from countering attacks to managing reputation & public trust.

SO WHAT?

- Integrate structured and unstructured data using supply chain control towers
- Balance personalization with privacy, explore first party data, synthetic data as alternatives

STORIES IN FOCUS



Sephora gets \$1.2 million fine for California's Consumer Privacy Act data privacy violation

“

While Chick-fil-A was serving you sandwiches, it was also serving up data to Facebook's parent company Meta. According to a new lawsuit in the mid-week of January 2023, the fast food chain did that in a way that violated one of the only federal privacy laws in the United States.

-Yahoo News

”

5.A



Google unveils a new 10-shade skin tone scale to try to remove racial bias from its AI tools



5.B



5.C

STRATEGIC DIRECTIONS **FOR** RESPONSIBLE RETAIL

SUSTAINABILITY FOR SURVIVAL AND GROWTH

01

- Building consumer relationships through green loyalty programs can be a Win-Win-Win (planet-profit-people).
- Gamify the return and disposal cycle for products to create Win-Win-Win experiences.
- Consider hyperlocal initiatives for sourcing decisions.

END-TO-END DATA VISIBILITY ACROSS SUPPLY CHAIN

02

- Data orchestration across retail functions should represent one cohesive experience that aims at building consumer trust via transparency in the age of greenwashing.
- Integrate structured and unstructured data using supply chain control towers.

DEEP ADAPTATION AS SCARCITY IS INEVITABLE

03

- Implement resale as a service. Explore and identify viable secondary markets.
- Incorporate supervised learning to identify trends in high volume as demand patterns change.

RESPONSIBLE AI FOR SMART AND SUSTAINABLE SUPPLY CHAIN

04

- Robust data strategy and governance can help ensure a smart and efficient supply chain with the implementation of Responsible AI.
- AI-based route planning to monitor carbon emissions from sourcing and delivery.

2 RESPONSIBLE RETAIL: PLAYBOOK SNAPSHOT



Fractal Futures Toolkit and value proposition that leverages AI, Engineering and Design

SUSTAINABILITY FOR SURVIVAL

It refers to meeting the needs of the present without compromising the ability of future generations to meet their needs. This aspect is usually associated with a company's Corporate Social Responsibility (CSR).



Responsible use of AI in SCM can help in

- Transparent supply chain
- Logistics route planning
- Labor management
- Smart grids
- Delivery scheduling
- Plan AI lifecycle
- Decentralization of power

Environmental spend analysis

- Environmental effects could be integrated into the company's spending analysis.
- Consideration could be about not just what is being purchased but also how much is being purchased. The purchasing category should be prioritized.
- Utilize spending data to find actionable information about emission policy and emission reduction.

'Green' route planning

- Plan the shortest routes and less congested routes using the AI-based route planning
- Use of Electrical Vehicles for transportation
- Predictive maintenance of vehicles

'Sustainable' procurement

- Identify environment friendly and fair-trade suppliers.
- Consider consumer preference about the lineage of the product.
- Materials that have been sourced responsibly.
- Maintaining healthy work environment.

ASSURANCE AND ACCOUNTABILITY THROUGH SINGLE SOURCE OF TRUTH

Data centralization and AI predictions should represent one business strategy and help ensure Responsible AI decisions

01 Use case-driven capabilities

Visibility and performance management

- KPI dashboards
- Near real-time data
- Search and report

Predictive alerts

- Business rules-based logic
- Alerts with severity levels
- Key performance "predictors"

Rapid response

- Optimization analytics
- Simulations-"What if?" scenarios
- Root cause analysis

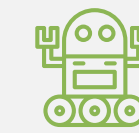
Optimization and E2E orchestration

- Deploying information and action plans
- Execution compliance
- Collaborative execution

02 Integrate predictive modeling with operational execution

Cross-functional ownership and KPIs

- Cost to serve
- Perfect order
- Net promoter score
- Environmental, social, and governance (ESG) performance
- Order cycle times



AI/Robots



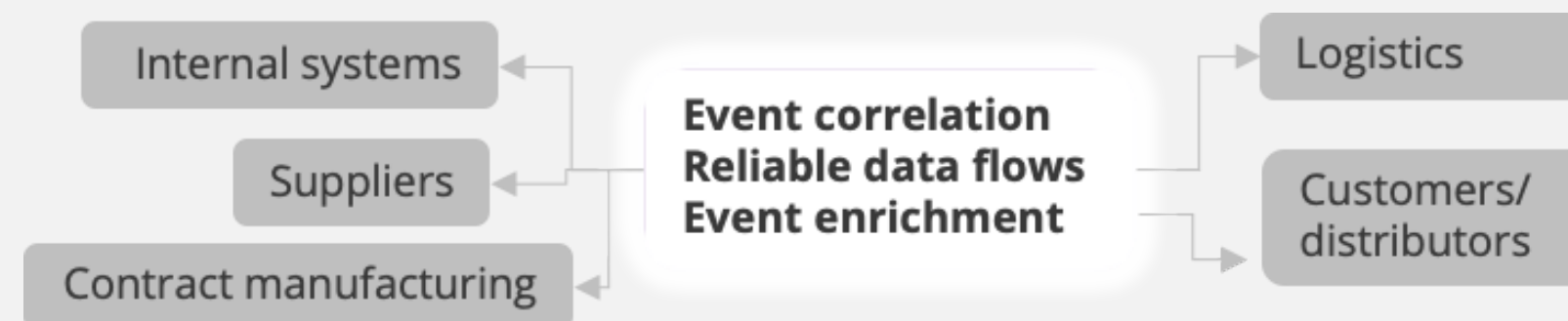
Human



Adaptive

03 Robust data strategy and governance

Ingest a wide range of structured and non-structured data within and outside a company



DATA ORCHESTRATION FOR CIRCULATORY SYSTEMS



Measure the impact with data at the center

- KPIs and metrics to track: Energy and water consumption, and CO2 emissions
- Logistics impact on emissions and long-term roadmap and projections

Strategic shifts can help solve inventory woes

- Redesign and optimize physical spaces from store to warehouse (Ex. Identifying use-cases for underutilized space, parking spaces as pick-up spots, warehouses as discounted sale spots)
- Use shelf space more wisely; seasonality management to move towards a more season-less produce
- Experimentation for at-risk ingredients
- Contingency planning
- Reducing returns & optimizing the returns process

Leverage resale as a service

- Launch clean-out programs so consumers can exchange used products for shopping credits
- Online resale shops can help customers buy their brand's secondhand products

Incremental shifts for better waste management across the supply chain

- Streamline sourcing decisions to align with customer's values
- Keep a check on large boxes or multiple boxes for order delivery using order consolidation

GET IN TOUCH

As you craft your way ahead, we would love to engage more deeply in a conversation with you to discuss:

- Building resilient Retail organizations by powering every human decision in the enterprise
- Leveraging customer analytics spanning across acquisition, engagement, retention, and growth
- Improving the Inventory ROI and profitability by enabling intelligent merchandising decisions across Plan to Sell cycle
- Enabling an insight and demand-driven supply chain by leveraging advanced analytics and intelligent automation
- Helping boost sales, and productivity and reduce costs across every facet of store operations
- Operating in today's 'Data Economy' using a Modern Data Estate

Questions, thoughts, ideas?

Let's talk: Retail@fractal.ai



You just finished **Module 4: ESG in Retail**
Thank you for reading!

Module 1:

Navigating to Win in 2023

Module 2:

Everywhere, Embedded Commerce

Module 3:

Retail Health

UPCOMING MODULES..... *WHAT'S IN STORE*

Module 5:

Emerging Shopping Missions, Mindsets & Moments

Module 6:

Role of Data, AI & Automation in Retail

For more information

Contact  Retail@fractal.ai

BEHIND THE SCENES

PROCESS, TEAM
AND REFERENCES



PROCESS OVERVIEW

AI meets human insight for Applied Foresight

Cross-cultural behavioural study

*800 participants
Literature review
Appraisal framework*



NLP based exploratory analysis

*Signal validation
Measuring direction
Magnitude of trends*



SME interviews & workshops

*Hypothesis capture
Trend prioritization
Horizon mapping*



Shop-along(s), store-visits & walkthroughs

*Study of shelves
Check-out experiences
Packaging trends
Inventory management tools*



Brand audits

*Digital experience audits
Tech investments
Case studies
Dominating, disrupted, disruptors*



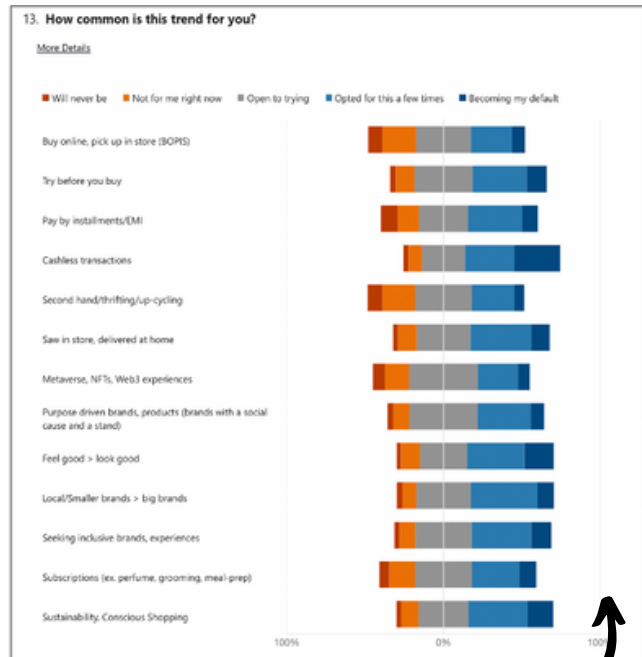
Signal scan with PESTLE framework

*Macro-trends
Strong signals
Weak signals*



← Click to see what we studied

SIGNAL SCAN, TREND WORKSHOPS AND EMOTIONS UNCOVERED IN A CONSUMER DIPSTICK

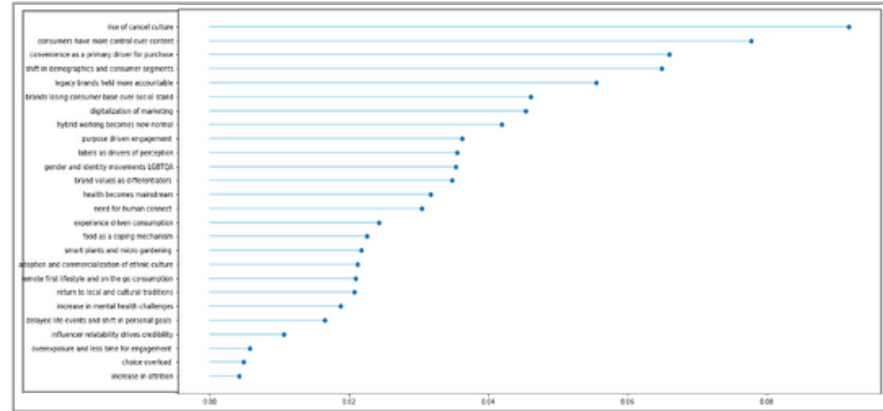


Measurement model

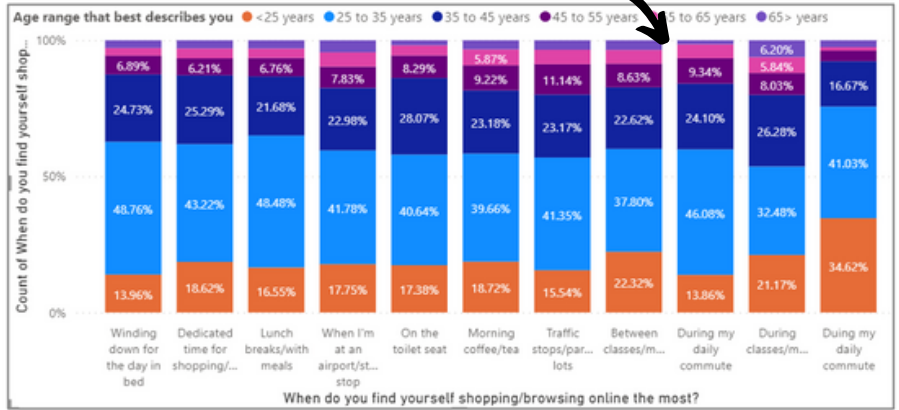
1. With KCPD, can you help 87% of the time in terms of identifying and then next 4% of them, either that study shows the 10% with better?

2. This is not every one thing, not every one but for the majority of our users, they are just more that it gets repetitive over the 10 month time not as it is something that is new.

3. There is a lot of things that are being done, but I don't know how why, but it is a lot of things that are being done, but I don't know how why.



AI models

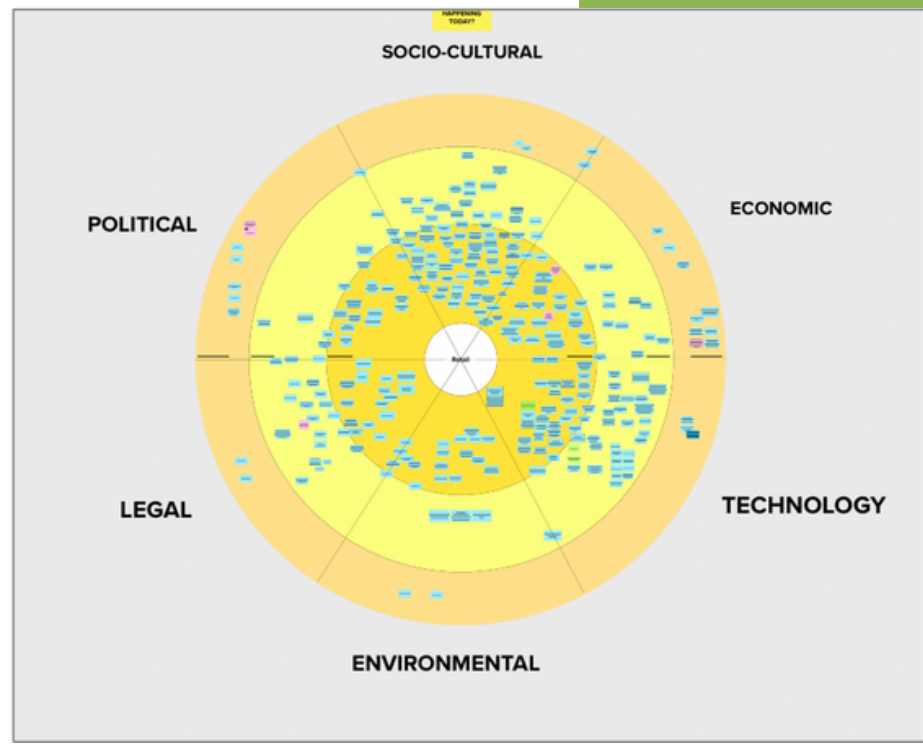


In-person store visits



rujuta.diwekar

- Should I skip sugar?
- Should I skip meat?
- Should I skip carbs?
- Should I skip dairy?
- Should I skip breakfast?
- 5 things you must know about heart health
- must-dos for a good



Hybrid workshops & hackathon



Welcome to IKEA Family!

New IKEA Family benefit: save 5% in-store on eligible purchases*

5% off Every week. Every day.

Discover Dom's Kitchen & Market through our exclusive and unique rewards program. Redeem stars for discounts and access to unique experiences only available to Discover Dom's members.

- FOODIE: Redeem a reward!
- SOUS CHEF: Redeem a reward!
- MASTER CHEF: Redeem a reward!

MEET THE TEAM

Sangeetha Chandru: Chief Practice Officer Retail | Analytics & AI

Ann Hintzman: Chief Design Officer | Fractal Experience

Satish Kumar: Principal Consultant | Retail Advisory

Sharada Karmakar: Engagement Manager | Retail AI Strategy & Enablement

Shivani Gupta: Lead Behavior Architect | Fractal Dimension

Ashna Taneja: Decision Science Consultant | Fractal Dimension

Lavanya Julaniya: Senior Design Consultant | Fractal Experience

Gurjyotkaur Bindra: Design Consultant | Fractal Experience

Shagun Parab: Design Consultant | Fractal Dimension

REFERENCES

- 1.A** [Splash Website: Life after Fashion](#)
- 1.B** [IKEA: World Economic Forum](#)
- 1.C** [Adidas: Adidas News](#)
- 1.D** [Burger King: World Economic Forum](#)

- 2.A** [Caffeinated future of minimalist fashion: Jing Daily](#)
- 2.B** [Experience Center in Mumbai: Architectural Digest](#)
- 2.C** [South Korea on Beauty Treatments: Cosmetics Design](#)

- 3.A** [Dark side of 15-minute grocery: Bloomberg](#)
- 3.B** [America's need for speeds never ends: Atlantic](#)
- 3.C** [15- minute grocery delivery for USA's workers: QZ](#)

- 4.A** [H&M and green washing: Business-humanrights](#)
- 4.B** [Root of child's milk: Friso](#)
- 4.C** [RealReal & Stella McCartney: Business Insider](#)

- 5.A** [Sustainable apples and Barley: HEINEKEN UK](#)
- 5.B** [Harley Davidson's Women's Group: Teahub](#)
- 5.C** [Google unveils a 10-shade skin tone: Euro News](#)
- 5.D** [Roomba records woman on toilet: MIT Tech Review](#)



This icon in the module is a link to the source of the respective statistics