



METRO's Natural Capital Story on comparing their distribution models

Inspiring natural capital journeys
from the food & beverage industry

The natural capital story of METRO, a leading international specialist in food wholesale, demonstrates that a natural and social capital assessment can be a useful instrument to assess the environmental and societal impacts and opportunities when changing to a new business model.

Summary

METRO AG compared the hidden costs and benefits of METRO's Food Service Distribution (FSD) business model with those of its traditional wholesale stores by monetizing their impacts on the society and the environment.

In 2015, METRO started rolling out their Food Service Distribution model next to their traditional model of direct buying (Cash & Carry). To understand whether this was a positive development, METRO initiated an assessment to assess how these different business models impact the society and the environment. To ensure that the assessment was sound and useful for METRO's key stakeholders, an internal materiality analysis was conducted. With the support of Denkstatt, METRO conducted sustainability accounting and found that the new FSD model was inherently more sustainable, offering additional benefits for customers, the society and the environment, valued at € 60 per € 1000 of sales. METRO is progressing on their natural capital journey and initiated new assessments since, expanding their scope to their entire value chain.

The campaign is being led by the [Institute of Chartered Accountants in England and Wales](#) alongside the [World Business Council for Sustainable Development](#), [IUCN](#) and [Oppla](#).



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Inspiring natural capital journeys from the food & beverage industry



Veronika Pountcheva, Global Director Corporate Responsibility & Senior Vice President METRO AG / Managing Director NX-Food

“Natural capital is fundamental to our work because we take products from nature, transform them and make sure that these products are valuable to our customers.”

About METRO

METRO is a leading international specialist in food wholesale and is with its sales line METRO / MAKRO Cash & Carry globally represented with over 650 stores in 24 countries. The HoReCa sector is one of their main clients.

Background

In 2015 natural capital was put on the agenda of METRO. Next to our traditional model of direct buying (Cash & Carry), we started rolling out our delivery (Food Service Distribution) service in response to our customers' wishes, where METRO's customers no longer need to make a trip to the store but get the products delivered to their doorstep. This new line of business was accompanied by an increased internal interest in understanding whether this was a positive development, “are we doing the right things?” Concurrently, there was an external trigger to work on natural capital as ESG specialists were increasingly informing about METRO's social and environmental impacts. “As a sustainable company, not being able to assess the impact of the delivery on our total business gave us a lot of stomachache”.

An assessment was initiated to assess in what way these two different business models impact the society and the environment. Natural capital and social capital served as useful concepts to unpack this question as these concepts are closely linked to our business activity. The assessment was meant to inform us about which business model is inherently more sustainable – what are the differences in environmental and social costs and benefits between METRO's Cash & Carry and Food Service Distribution (FSD)? Our aim was to identify economic efficiencies and areas where we could improve our social and environmental impacts.

Time horizon:	2017 - 2018
Time investment:	2 colleagues, 3 hours/week
Collaboration:	<u>Denkstatt</u>
Scope of assessment:	Corporate
Value chain boundary:	Direct operations
Impacts/dependencies:	Impacts
Value perspective:	Society
Types of value:	Quantitative & monetary
Capitals considered:	Natural, social and human capital

Process

We started our natural capital journey under the leadership of our corporate sustainability experts, and quickly reached out to key functions in our organization. For us, it was important to closely engage colleagues and stakeholders to ensure that the assessment was sound and useful.

We conducted an internal materiality analysis workshop with key METRO personnel to identify which impacts should be included, considering their importance from a business and societal perspective. While the focus was on our operations in Germany, we also included the perspective of ten other countries where METRO is active through an internal stakeholder survey with experts in the wholesale and distribution business.

We collaboratively decided on the project scope by pointing out the main topics of interest for METRO. The investment needed was around € 30.000. We reached out to our partner [Denkstatt](#) to develop and conduct the sustainability accounting which was completed in six months. “Without them, we would not have been in the position to access our impacts and see the outcome that we have today”.

The [Natural Capital](#) and [Social & Human Capital Protocol](#) served as the basis for the sustainability accounting. This approach allowed us to use monetary value as a single metric, integrating natural and social capital impacts into METRO’s overall financial results. These environmental and social costs and benefits were subsequently quantified per € 1000 of sales.

Challenging moments

The first challenge was the novelty of the topic. “if you want to compare something you know very well with something which is evolving everyday, you need to secure buy-in that it makes sense”.

Connecting natural capital to our commercial agenda and bringing in the budget question early in the process helped us get our CFO and procurement on board.

Key resources & networks

- [Natural Capital Protocol](#)
- [Social & Human Capital Protocol](#)

During the process, we encountered that some impacts were more difficult to measure than others. For some elements, such as food waste and carbon, we could make use of high-quality, existing protocols. For other aspects, such as measuring the time saved by customers, there were no such resources available. In these cases, we worked with assumptions. Together with Denkstatt, we consulted academic research and held various conversations with our experts who are involved in the everyday operations.

We were especially reliant on developing sound assumptions in the case of data on social capital. We have found that it is essential to work with assumptions as these can be very useful in identifying priority areas for improvement. Sustainability accounting is a continuous process and assumptions can be verified over time, allowing for incremental improvements.

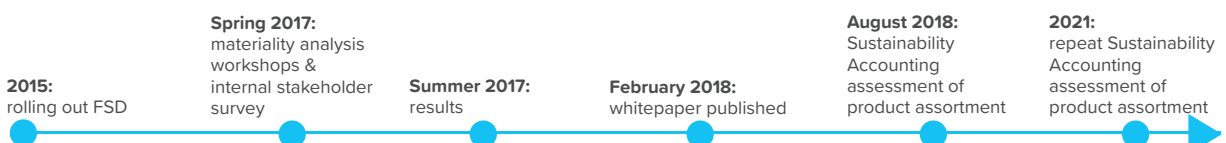
Assessment outcomes

The results were eye-opening. While we expected that the FSD model would create more negative impacts, e.g. due to an increase in trucks, the new FSD model was found to be inherently more sustainable as it offers additional positive impacts on customers, society and the environment compared to the traditional Cash & Carry operations. These added benefits were quantified at € 60 per € 1000 of sales.

The greatest benefit derives from the time saved by business customers who do not need to travel to get their ingredients, making up for 78% of the total benefits. Avoidance of food waste during transport and more donations to food banks offer additional benefits.

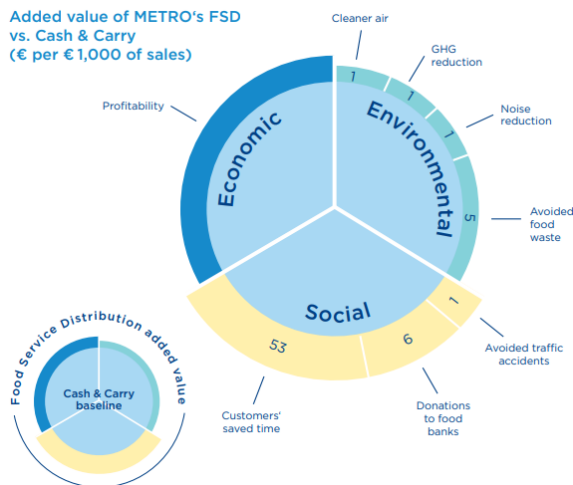
The FSD model also brings environmental and health benefits. It decreases overall environmental

Timeline Natural Capital Journey



impacts caused by greenhouse gas emission, air pollution and noise and lowers health costs due to traffic accidents.

One of the surprising outcomes was that while initially our sales force was reluctant to sell the story that moving into FSD is the right thing to do, they were encouraged by the assessment and have since become ambassadors of further expanding this new business segment.



Lessons learned

While it takes time and energy, creating internal buy-in already early in the process was an important step. It helped us understand material issues and potential barriers and supported effective communication of the outcomes.

We found that it is key to engage colleagues and help them understand why it makes good business sense to work with natural capital. Translating potential benefits and opportunities and connecting these to their agenda helps bring the message across. For instance, it was valuable to bring in the perspective of investors and consumers when talking to the chief financial officer and chief procurement officer respectively. My diverse background, having worked for over 20 years at the company in various roles including Procurement Director, proved to be of great value here.

What we could have done differently was including the element of packaging as this element is increasingly receiving a lot of attention. In addition, we could have better integrated customer insights by conducting interviews, which could have strengthened some of our assumptions. Overall, when we got the results, we had measurable effects in hand to communicate to our colleagues.

"Socializing the outcomes", highlighting what these results mean for the company and the everyday work, makes people use the results. We did this through communicating with our key stakeholders, sharing information during meetings, and using the content for our social media communication.

The results have since been used in reporting and conversations with our investors and unlocked further discussions within the company.

Natural Capital Uptake

Before carrying out the assessment, the concept was not well known to the company. We were just starting with the concept of natural capital. "We had a lot of questions but not so much information, and not much more than some assumptions". Since the assessment, natural capital has become more important in our decision-making processes. We would position ourselves between the developing (2) and maturing phase (3). With scientifically sound numbers in hand, new questions emerge which helps driving the conversation on METRO' impact.

To progress on our journey, we need to make the topic more visible and better integrate natural capital into our business decisions, for example by introducing circular packaging models which reduce pressure on nature. It is a journey that requires time and effort: "You need at least a year to build solid datasets, which is sometimes a difficult message to convey to our commercial people". What we need is transformative leadership, promoting sustainable behavior and "not taking a no for an answer".



“People from procurement who do not take no for an answer would make good sustainability experts.”

Next steps

We at METRO were encouraged by the assessment and continued our work on natural capital. We initiated two assessments moving beyond our own operations and expanding our scope to our entire value chain.

In 2018, we conducted a study to measure and understand the impact of our business activities on the value chain, by comparing our consumption of resources with the value we create along the chain. We found that for every euro of negative impact, we create € 3 value on social, ecological and economic level. Subsequently, we started an assessment in our fruit and vegetables categories to assess our natural capital exposure when sourcing locally and cooperating with local suppliers.

Our next step is to conduct an updated assessment in 2021 to compare our impacts with the study results from 2018. This will inform us on how we have developed since in terms of our global foodprint and if we are moving in the right direction.



A key success factor for the natural capital journey of METRO was the early engagement of key personnel across their operating countries. This made the assessment relevant business wide, supporting people in different departments to use the results in their everyday work. The results triggered new conversations on the topic of METRO’s social and environmental responsibility which resulted in additional projects.





Piece of advice

- 1. Connect natural capital thinking with business outcomes** – reflect on material natural capital elements and key business activities and connect these where possible. This will contribute to a future-proof business.
- 2. Connect to people's agendas** – find the right entry point, identify someone's needs and concerns, and translate natural capital benefits and opportunities to areas of business that matter most to the person you talk to.
- 3. Bring in the budget question early in the process** – take the investor or business perspective and build an understanding of Return on Investment for your company.
- 4. Ask questions and help others understand** – organize workshops or learning sessions, and demonstrate how other companies are working on the topic. No one has all the answers, so be open to others' ideas.
- 5. Show strong personal leadership** – invest time and energy in reaching out to people and find allies. Be tenacious and do not take no for an answer.

Developed by:



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