

CFO

Surprising Business Value from New Metrics of Sustainability

Co-Produced by



Edited by



CFO LEADERSHIP SUMMIT

EMERGING TRENDS FOR SUSTAINING A RESILIENT COMPANY

MARCH 11-14, 2012—ORLANDO

(FORMERLY CALLED CFO RISING)



Expense Reduction Opportunities

INCOME STATEMENT

Revenue Growth Potential

FOSSIL FUEL INTENSITY & CO₂ CARBON EMISSIONS RATIO

Quantifying all sources of energy



- Energy is embedded in every product and process, from deep in the tiers of your supply chain to usage by customers, affecting costs.
- NEW METRIC:** Carbon Emissions Ratio, revealing hidden fossil fuel risks from gasoline, fuel oil, natural gas and fossil sources; reductions also mitigate potential future liabilities related to possible carbon emission taxes.
- RESULTS:** Firms tracking carbon metrics - like SAP's data centers - and disclosing them publicly show **greater financial performance**, according to Carbon Disclosure Project and Bloomberg.

Financial Performance	Global 500	CDLI*	CPLI**
Total return % (US\$) from Jan. '05 to May '11	+42.7%	+82.4%	+85.7%

Source: Bloomberg; Carbon Disclosure Project.

* CDLI = Carbon Disclosure Leadership Index

** CPLI = Carbon Performance Leadership Index

REAL-ESTATE EFFICIENCY RATIO

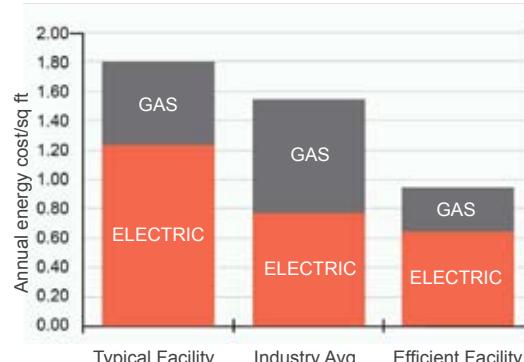
Energy, water & resources per square foot



- Most industrial plants, commercial buildings and real estate operations are operated inefficiently - unnecessarily wasting electricity, natural gas and other energy inputs (see graph).

- NEW METRIC:** Real Estate Efficiency Ratio - integrating savings from energy, water, and resource efficiency solutions; calculated per square foot, and comparable within building types.

- RESULTS:** Implementation of expertise from Trane, a unit of Ingersoll-Rand, has realized **average energy savings of 25% (and up to 40%)** in reduced operational costs overall benefiting the bottom line.

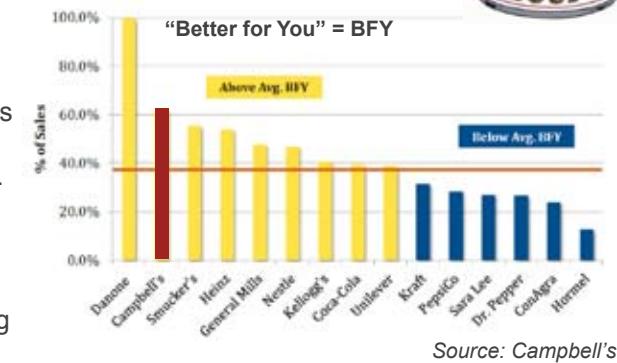


Source: Trane, a unit of Ingersoll-Rand

REVENUE SHARE FROM SUSTAINABLE PRODUCTS

“Better For You” on Health & Wellness

- More than 100 million people, or one-third, in the U.S. are clinically obese, spurring a market for healthier foods.
- NEW METRIC:** “Better for You” products can serve this need by helping reduce customer body mass index (BMI), serving higher nutrients and lower sodium.
- RESULTS:** Firms selling “Better for You” products - like Campbell’s - report **revenue growth** and strong **operating profits**.



Source: Campbell's

NEW BALANCED SCORECARD

Dashboard of Leading Indicators & New Metrics

- Energy and commodity prices are increasingly volatile and tend to be rising.

- NEW METRIC:** Percent LEED-qualified or certified buildings. A typical building operates with about double the energy cost, 1.7x the water cost and 3.3x the waste cost of the average “green” or LEED-certified building.

- RESULTS:** Integrated financial and operating dashboard solutions across the enterprise track **operating efficiency** and **profit improvement**.



Source: Sustainability Dashboard Tools LLC

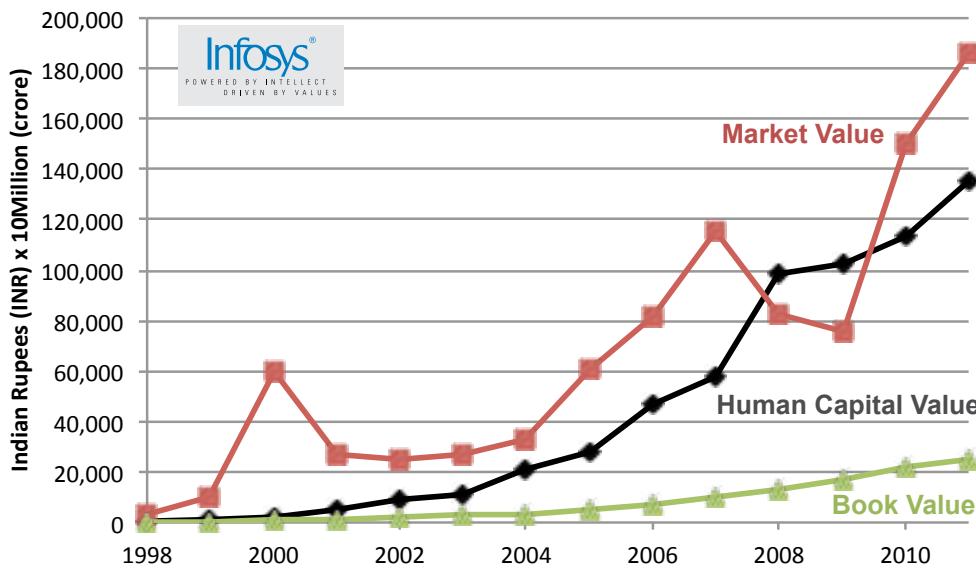
HUMAN CAPITAL VALUE

People as a Valued Asset



- What are your firm's most valuable assets? For most firms, it's People. Yet people are classified as expenses on the income statement - not yet as assets on the balance sheet.
- **NEW METRIC:** "Human Capital Value" as an asset. **80% of the market value** of the S&P 500 is attributable to intangible assets – including brands, patents, and people - but not included in book value.
- **RESULTS:** Proper valuation of productive assets and better performance and managerial decision-making systems. Infosys, a global tech company based in India, calculates **Human Capital Value** – which typically **contributes more to market value** than traditional book value.

Human Capital Value, relative to Market & Book Value



Source: Infosys; HIP Investor analysis

ENVIRONMENTAL P & L

Invisible Liabilities, Undiscovered Risks



- Increasing probability and tremendous impact of **invisible liabilities** related to scarce natural resources and risks of climate change.
- **NEW METRIC:** Hard monetary value of carbon, water, land use, pollution and waste. Quantified across the entire supply chain, by tier, including the firm, on a life-cycle basis.
- **RESULTS:** Sports shoe and apparel firm PUMA, in partnership with PwC, **values environmental risks** across the entire value chain – which could jeopardize the **equivalent of 75% of annual profit**.

Estimated Lifecycle Cost of End-to-End Value Chain

	Water use €million	GHGs €million	Land use €million	Other Air Pollution €million	Waste €million	TOTAL €million	% of total
	33%	32%	26%	7%	2%	100%	
TOTAL	47	47	37	11	3	145	100%
PUMA operations	•	●	•	•	•	8	6%
Tier 1	•	●	•	•	•	13	9%
Tier 2	•	●	•	•	•	14	10%
Tier 3	●	●	•	•	•	27	19%
Tier 4	●	●	●	•	•	83	57%

Source: Puma and its suppliers; PwC analysis (May round to more than 100%).

SCORECARD OF COMMITMENT+ACTION

Client Sustainability Assessment

- Customers build loyalty with businesses that generate trust, and are a fit with their mission, values and goals. Firms that inspire their partners can gain more customers and investors.
- NEW METRIC:** Customer Sustainability Rating based on commitment and action towards a more sustainable business. Higher scores attained for proactively managing risks and avoidable surprises.
- RESULTS:** To attract more capital from its customers and investors - a strategic source of enhanced cash - New Resource Bank rates its borrowers to help advance sustainability which can **strengthen profit potential**.



New Resource Bank Client Sustainability Assessment

› PART 1b: General sustainability
Complete this section if your company manufactures a product.

	Not at all	Somewhat	Thoroughly
10. Lifecycle assessment We track the overall footprint of our product/service throughout its production, use, and disposal.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
11. Production impact When creating our product, we source sustainable ingredients and use low-impact production methods.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
12. Use phase We have reduced the impact of our product on society and the environment during its use phase (i.e., our product is more efficient and generates less waste/pollution during use).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
13. Manufacturing process We divert product waste through creative reuse of materials and/or have adopted cradle-to-cradle practices (i.e., 100% reuse of by-products).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
14. Product end of life We've reduced the impact of the disposal of our product after it is no longer used by the customer (i.e., product is reusable or biodegradable).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Customer Sustainability Ratings:

Share of Surveyed New Resource Bank Customers

Ratings:	Learner	Achiever	Leader	Champion
Silver	2%	30%	12%	0%
Gold	40%	16%	0%	0%
TOTAL	42%	46%	12%	0%

Source: New Resource Bank

LOWER CAPEX: CAPITAL EXPENDITURES

Prices for Ecosystem Services

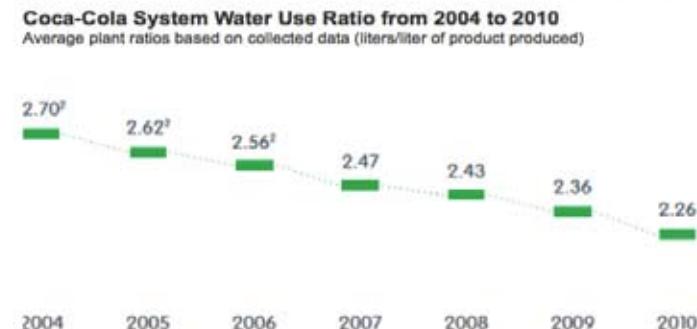
- Nature doesn't charge for its services: clean water, fresh air, nitrogen restoration, bee pollination, and more. If Nature did, it could amount to \$2 of Ecosystem Services for every \$1 of GDP.
- NEW METRIC:** Percent of Nature mimicked; or "same result for less capital expenditure" - by using ecosystem services and restoration.
- RESULTS:** Dow, in partnership with The Nature Conservancy, designed a wetlands treatment area that **saved \$38+Million in CapEx (saving 96.5%)**. The planned \$40 Million water-treatment plant was canceled; instead, \$1.4 Million designed a wetlands and natural treatment ponds approach, naturally cleaning 5 Million gallons of water daily, and preserving Nature.



LOWER WATER (H_2O) INTENSITY

Redesign, Reduce, Reuse, Reclaim

- Droughts in the Southern USA and globally have threatened reliable water supplies for farming, drinking and production - and nearly 1 billion citizens lack access to clean water.
- NEW METRIC:** H_2O water intensity per product unit, through redesigned products, re-use or reclaimed supply.
- RESULTS:** Since 2004, Coca-Cola has **reduced H_2O water intensity** down to 2.26 liters of water for each 1 liter of soda, reducing risks to sourcing adequate raw material supply.



Notes: Water use and water use ratio (efficiency) figures have been recalculated for the Europe Group for 2004, 2005 and 2006, based on changes to the organization. These changes affected Coca-Cola's system water use ratio for those three years.

Source: Coca-Cola

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