Corporate Reporting Case Study

Puma's reporting highlights global business challenges

Puma's ground-breaking approach to costing its use of all kinds of capital could be a catalyst for radically different reporting by companies. ***Alan McGill*** shares his insights

PUMA Corporation's trailblazing 2010 environmental profit and loss (EP&L) account, published in November 2011, has been hailed as a major step forward for corporate reporting. But PUMA promises that this is just the first stage in a process that will see the business take account of all its environmental, social and economic impacts – including fair wages, working conditions, job creation and tax contributions.

This article takes a closer look at the practical and strategic implications of PUMA's holistic approach, just as the parent company, PPR, announces that its luxury and sport & lifestyle brands – including Gucci, Yves Saint Laurent, Bottega Venetta and Stella McCartney – will follow in PUMA's footsteps to implement a PPR Group EP&L by 2015.

Clothing and sports goods manufacturers are among the most prominent exponents of the outsourced production model. And PUMA is no exception. The company outsources most of its production, and acknowledges that this means "it is more difficult to control the impact on issues such as sustainability". All the more remarkable, then, that PUMA's EP&L project sets out to give a true picture of the cost of producing its goods in terms of the natural resources used and the environmental impacts of its operations – from raw materials through to the retail transaction.

The 'hidden' costs that Puma's reporting highlights are enough to make any business pay attention. The PUMA E P&L offers a real insight into the environmental consequences of commercial decisions and at the same time highlights the potential commercial consequences of natural resource shortages. Puma's first step will help other companies consider how they can apply similar analysis in their own organisations.

Companies – big and small – are now reliant on global supply chains, making their environmental footprint much larger than many realise. Assigning economic values to the environmental impact of a company's operations enables a business to tackle vital questions, not just about environmental impacts, but about business risk, cost savings and finding new ways to become more effective. Without measuring them, the impacts cannot be managed, or reduced.

The results

After publishing an economic valuation of €94m of greenhouse gas (GHG) emissions and water consumption in May this year, PUMA has now finalised its 2010 EP&L by adding costs of €51m caused by land use change for the production of raw materials, air pollution and waste along its value chain. PUMA worked with PwC and Trucost to develop the methodologies to first quantify its most significant environmental impacts, and then apply values to account for the associated economic impacts.

The biggest contributors to the total impact of €145m were GHG emissions and water consumption. GHG emissions estimates were based on the 'social cost of carbon', which aims to value the costs to society as a result of current and future climate change. PUMA applied a value of €66/tonne of CO_2, which results in a total GHG emissions value on the EP&L of €47m for 2010.

The economic impact of water consumption required different values to allow for relative scarcity in different locations. The EP&L used a Total Economic Value framework, taking into account factors such as how water is replenished relative to withdrawal, to arrive at an average water value of €0.81 per cubic meter. By this measure, water consumption was also valued at €47 million in 2010.

Impact on business models

PUMA has positioned its EP&L exercise in the context of a longer-term imperative for global businesses to introduce more sustainable business models. For example, PUMA's direct operations in 2010 accounted for just €8m of the €145m environmental

PUMA's three-stage process for full environmental, social and economic reporting

1. **Environmental P&L** – covering GHG emissions, water use, the impacts of changes in land use on ecosystems and biodiversity, local air pollution and waste.
2. **Social P&L** – to include social impacts such as fair wages; freedom of association, health; security and stability; empowerment; community cohesion; human capital; and gender equality. PUMA will collaborate with other corporate and civil society stakeholders to address social issues.
3. **Economic P&L** – to focus on some of the beneficiaries of the economic impacts from PUMA's operations. This could include: job creation; wages; total tax contributions; indirect and induced employment; indirect and induced output; productivity and efficiency gains; business creation and growth.

impact costs. The remaining €137m was incurred by its entire supply chain, ranging from raw material production through to processing and manufacturing.

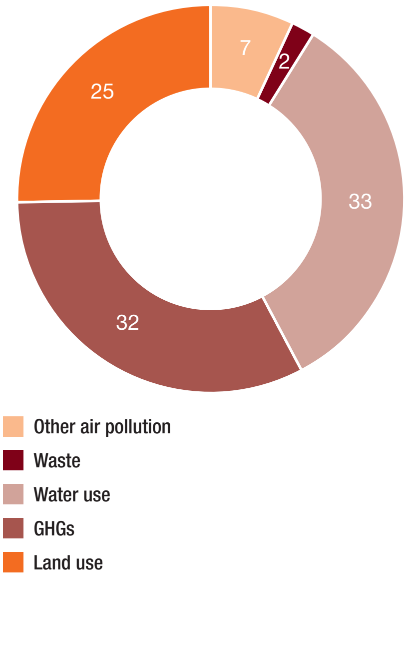
Jochen Zeitz, executive chairman of PUMA and chief sustainability officer of PPR, told us: "Our P&L has been indispensible for us to realise the immense value of nature's services that are currently being taken for granted but without which companies could not sustain themselves. At PPR HOME, we view the PUMA EP&L as an essential tool to help drive PPR's sustainability development across the group of brands because analysing a company's environmental impact through an EP&L, and understanding where environmental measures are necessary, will not only help conserve the benefits of ecosystem services but also ensure the longevity of our businesses." The company has shared its findings with governments, industry players and corporations in order to raise awareness of environmental impacts and risks in the global supply chain.

Fundamentally, Puma's analysis is about risk management for the environment, and for business, because you cannot separate the two. This gives PUMA a unique and challenging insight into its supply chain. It's a game-changing development for businesses to integrate environmental issues into their current business model like this, because it provides a basis for embedding their reliance on ecosystem services into business strategy. Tackling the impacts will need concerted efforts by the businesses in their supply chain as PUMA shares a common, but differentiated, responsibility with other brands at the production facilities.

PUMA's EP&L underlines the corporation's commitment to its stated aim to "make sustainability an integral part of the PUMA DNA that is deeply embedded in our entire value chain". As it works towards completing its environmental, social and economic reporting model, it will be calling on a wide range of corporate and social stakeholders to collaborate with them and communicate their use of different kinds of capital.

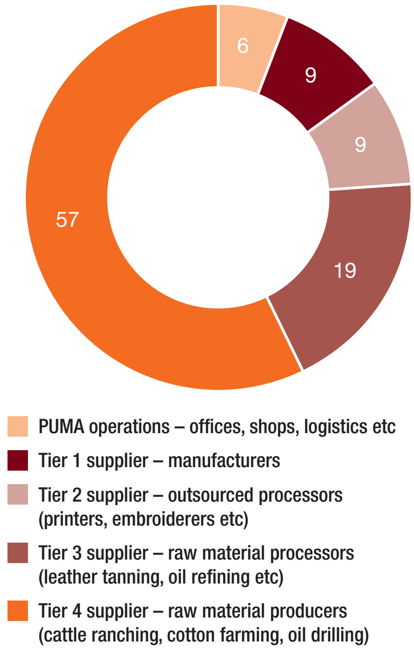
Alan McGill is a partner in the Sustainability and Climate Change team at PwC.

EP&L impact by category (%)



Source: Puma

EP&L impact by supplier (%)



Source: Puma

PUMA's EP&L Account

	Water use	GHGs	Land use	Air pollution	Waste	TOTAL	
	€ million	€ million	€ million	€ million	€ million	€ million	% of total
	33%	32%	26%	7%	2%	100%	
TOTAL	47	47	37	11	3	145	100%
PUMA operations	<1	7	<1	1	<1	8	6%
Tier 1 – manufacturers	1	9	<1	1	2	13	9%
Tier 2 – processors	4	7	<1	2	1	14	9%
Tier 3 – raw material processors	17	7	<1	3	<1	27	19%
Tier 4 – raw material producers	25	17	37	4	<1	83	57%
Geographic analysis							
EMEA	4	8	1	1	<1	14	10%
Americas	2	10	20	3	<1	35	24%
Asia/Pacific	41	29	16	7	3	96	66%
Segmental analysis							
Footwear	25	28	34	7	2	96	66%
Apparel	18	14	3	3	1	39	27%
Accessories	4	5	<1	1	<1	10	7%

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