

Best Environmental Practices of AEON

A Case Study



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Greening Retail

Best Environmental Practices of Leading Retailers from Around the World

2009

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Greening Retail

Best Environmental Practices of Leading Retailers Around the World

Through the Greening Retail program, 15 leading retailers were interviewed about their best environmental practices, including AEON. Other retailers participating in the interviews were:

- Alliance Boots
- LUSH
- Musgrave Group
- Carrefour
- Marks and Spencer
- Tesco
- H-E-B
- Monoprix
- Wal-Mart
- Home Depot
- Monsoon Accessorize
- Woolworths Australia
- IKEA
- Mountain Equipment Co-op

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Executive Summary

AEON Co., Ltd. is the second largest retailer in Japan and the Asia Pacific region, and the 21st in the world. In 2008, Aeon launched a new strategy aimed at becoming the number one retailer in the region and one of the top ten in the world by the year 2012. This new strategy is based on three key elements:

- Restructuring the organization into a “pure holding company,” responsible for the strategy of its 169 subsidiaries and participating firms.
- Centring the business growth model on a “glocal strategy,” developing global policies while adapting to local demands.
- Making this growth sustainable.

The sustainability and corporate social responsibility (CSR) strategy presented in March of 2008, revolves around the issue of global warming, and sets all its policies and targets on the objective of reducing Aeon’s CO₂ emissions by 30 per cent by the year 2012, using the year 2006 as the base year for calculation. To achieve this goal, Aeon proposes a wide variety of policies focusing on four areas: products, stores, customers and carbon offset mechanisms.

Methodology and Acknowledgements

The case study on AEON Co., Ltd. was developed based on public information, documents gathered from the company, and three in-depth interviews with key executives involved in Aeon’s sustainability and CSR policies. The in-depth interviews were transcribed (and translated, for those conducted in Japanese) before proceeding to the data analysis. We would like to thank Aeon for their willingness to participate in this project and for their openness in answering all our questions and providing access to their internal documents. We would like to particularly thank Mr. Seiichi Ueyama for supplying all the information we requested and especially for his patience in answering all our follow-up phone calls and emails after the interview. The following people were interviewed:

- Seiichi Ueyama, Corporate Adviser at Aeon Co., Ltd. (Mr. Ueyama was the executive responsible for developing the environmental and social strategy and policies for the group and presenting them to the board. He was General Manager of the Corporate Citizenship Department. The current title of corporate advisor is temporary until the group restructuring is finalized.)
- Chiyuki Uehara, Director General, Green Eye Merchandising, Aeon Top Valu Co., Ltd.
- Kikuko Tatsumi, Chair of the Environmental Committee, Nippon Association of Consumer Specialists, Independent Evaluator for the 2007 *Aeon Sustainability Report*.



1.0 Introduction: The Context of Sustainability and CSR in Japan

The evolution of sustainability and corporate social responsibility (CSR) strategies among Japanese firms has followed a somewhat different path than in Europe or North America. This can be explained, at least in part, by cultural and social distinctions in Japan. On one hand, Japanese society has often been defined as an insider/outsider society, where Japanese people and organizations feel a sense of duty and responsibility only to those with whom they have a specific relationship¹. This effectively reduces the number of stakeholders for the company and excludes some fringe or indirect stakeholders². Furthermore, the market in Japan has traditionally been controlled by big corporations in a more pervasive manner than in western societies. This control is based on social and cultural differences rather than on power or control mechanisms. For instance, employment in Japan is traditionally viewed as a life-long commitment, where the employee considers the company "a family," and the same is true for the relationship between large companies and suppliers or investors. Thus, key and powerful stakeholders such as consumers, SMEs (supply chain), workers, investors and even communities in Japan have tended to align their values, systems and behaviours with those of big corporations³, rather than acting as controlling or change agents. This has impacted the sustainability and CSR field in two ways: it has reduced pressure on firms from key stakeholders, and it has resulted in fewer social movements and nongovernmental organizations (NGOs) to champion CSR and sustainability issues.

1.1 Evolution of Sustainability and CSR

In western countries, the CSR and sustainability agenda has been largely defined by the appearance of social and environmental issues, usually through corporate scandals, and often championed by civil organizations such as labour unions, think tanks or NGOs. One clear example is the *European*

1 Wokutch, R. E. & Shepard, J. M. 1999. The Maturing of the Japanese Economy: Corporate Social Responsibility Implications. *Business Ethics Quarterly*, 9(3): 527-540.

2 Tanimoto, K. and Suzuki, k., 2005. Corporate Social Responsibility in Japan: Analyzing the Participating Companies in the Global Reporting Initiative. Working Paper 208. Stokholm School of Economics.

3 Tanimoto, K., 2007. "Evaluation of Corporate Social Responsibility (CSR) and the Market", *Business and Society*, Ch.9, edited by Japan Association for the Comparative Studies of Management, Bunrikaku.

Union Framework for the Promotion of CSR (European Commission, 2000), which was the result of a long multi-stakeholder dialogue among organizations of all shapes and sizes. This has given rise in western societies to the civil sector as a legitimate and active player in defining or participating in CSR and sustainability policies. Particularly, the third sector has played a major role in two directions: content and enforcement. The third sector has been very active in defining the issues corporations should examine regarding CSR and sustainability, namely (1) governance, (2) community relations, (3) human rights, (4) work-life balance, (5) products and services, (6) accountability, (7) fair trade and (8) the environment (Vilanova et. al., forthcoming). But perhaps even more important than their role in defining the hot issues, the third sector has been particularly active in pushing for frameworks and initiatives that force corporations to be more transparent and accountable about CSR and sustainability. Today, many large companies in the west adhere to an external CSR or sustainability initiative, which usually includes an external evaluation such as audits, and almost all large companies in Europe or North America collaborate with global NGOs such as Greenpeace, Oxfam or the World Wildlife Fund (WWF).



1.2 Sustainability in Japan

The Japanese non-profit sector is smaller compared to other developed nations, in terms of relative size to the total economy⁴. Currently the non-profit sector in Japan employs about 4.2 per cent of the active population, compared to 7.4 per cent for the average developed nation. More importantly, the weight of the third sector in Japan does not correspond to the relative size of the economy in its impact on both firms and public policy⁵. In this context, CSR and sustainability issues in Japan have been driven and defined by the private sector, predominantly by large corporations in coordination or guided by the Japanese government. As a clear example of that trend, the predominantly hot topic among Japanese corporations today in CSR and sustainability is climate change, which became mainstream after the Japanese Ministry of the Environment enacted a law in 1998. The law specifically called for business "to adopt measures to limit greenhouse gas emissions and enhance sinks in their business activities (including measures to help other parties limit greenhouse gas emissions and enhance sinks), and to cooperate with policies for limiting greenhouse gas emissions and enhancing sinks implemented by the central and local governments." Since 1998, the Ministry of the Environment has taken a leading role in devising the sustainability and CSR agenda in Japan, together with corporations and industry associations. This helps to explain why most CSR and sustainability policies in Japan revolve around environmental and community relations (philanthropy) issues, and why

⁴ Johns Hopkins University Institute for Policy Studies, 2008. Comparative Non-Profit Sector/ United Nations Non-Profit Handbook Project. (<http://ips.jhu.edu/pub/Comparative-Nonprofit-Sector--United-Nations-Non-Profit-Handbook-Project>)

⁵ Yamamoto, T., Editor. 1998. The Non-Profit Sector in Japan. Johns Hopkins Non-Profit Sector Series. Manchester University Press

Japanese companies tend to avoid formal administrative processes on these issues⁶. For other social issues, such as human rights, work-life balance or transparency, Japanese corporations centre their policies on traditional practices such as stable employment, community involvement, or product safety and quality⁷.

In lieu of formal frameworks, Japanese companies have developed their own policies and mechanisms, while using codes or guiding principles to implement CSR and sustainability from an environmental perspective. For example, the Japan Association of Corporate Executives (Keizai Doyukai) declared the development of “social and human value” as one of the top responsibilities for Japanese companies in the coming years.⁸ and published a position paper on CSR, including pertinent guidelines and issues ⁹. Similarly, the Japan Business Federation (Japan Keidanren), the largest business association in Japan, launched a special group in 2003 to discuss CSR issues for Japanese companies. As a result, they amended their “charter for good corporate behaviour” to include social and environmental issues.

A good example of the approach taken by Japanese companies is evident in the use of the Global Reporting Initiative *Sustainability Reporting Guidelines*¹⁰, the predominant international reference used to prepare CSR and sustainability reports. While Japan is reportedly near the top in the number of companies that use the GRI Guidelines for their sustainability and CSR reporting ¹¹, not a single corporate sustainability or CSR report in Japan is certified or audited by a third party or by the Global Reporting Initiative¹². In that regard, Japanese corporations seem to develop self-declared sustainability or CSR reports, including what most reports call “third-party evaluation”, consisting of a short evaluation by an independent professional about the self-declared report. It is important to note that most third-party evaluations are based solely on the information provided to them, and they do not have independent access to the actual policies or data on which the report is based. Current CSR and sustainability policies in Japan centre on climate change, and are based on self-designed frameworks that are not controlled or supervised by third parties.

1.3 The Retail Sector in Japan

According to a report on the global retail sector¹³ for 2006, the retail sales of the top 250 retailers in the world grew by an average eight per cent, while Japan presented the weakest growth in sales of any

6 Lewin, A.Y., Sakano, T., Stephens, C.U., and Victor, B.: 1995, ‘Corporate Citizenship In Japan: Survey Results From Japanese Firms’, *Journal of Business Ethics* 14(2), 83-101.

7 Tanimoto, K., 2007. “Evaluation of Corporate Social Responsibility (CSR) and the Market”, *Business and Society*, Ch.9, edited by Japan Association for the Comparative Studies of Management, Bunrikaku.

8 Keizai Doyukai, 2008. Creating a New Style of Japanese Management. The Committee on Corporate Management. Japan Association of Corporate Executives. www.doyukai.or.jp/en/

9 Keizai Doyukai, 2003. Market Evolution and CSR Management. The 15th Corporate White Paper. Japan Association of Corporate Executives. www.doyukai.or.jp/en/

10 The Global Reporting Initiative. 2007. Sustainability Reporting Guidelines. www.globalreporting.com

11 Tanimoto, K. and Suzuki, k., 2005. Corporate Social Responsibility in Japan: Analyzing the Participating Companies in the Global Reporting Initiative. Working Paper 208. Stockholm School of Economics.

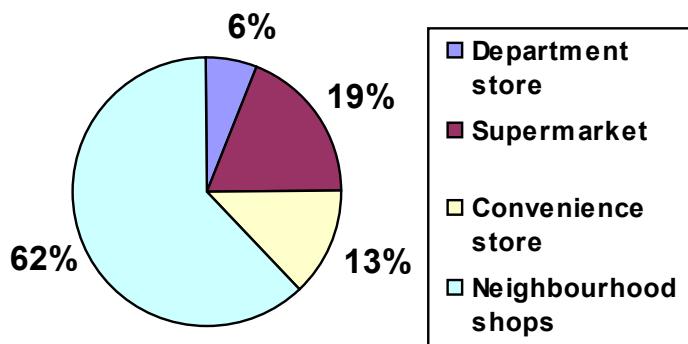
12 The Global Reporting Initiative, 2008. 2008 List of Reporters. www.globalreporting.com

13 Deloitte Touche and Tohomatsu, 2008. 2008 Global Powers of Retailing. www.deloitte.com/consumerbusiness

region, with an average growth of 5.2 per cent. In that regard, Japan is losing its dominance in the Asia Pacific region, as seen by the decline of Japanese companies among the top ten retailers in the region, from seven in 2005 to five in 2006. Furthermore, the number of Japanese companies ranked among the top 250 retailers dropped from 34 in 2005 to 29 in 2006, the biggest decline of any region. This dramatic change in the Japanese retail sector is explained partly by the appreciation of the US dollar in relation to the Japanese yen, and also by the growth of new players in the region, such as South Korea's Lotte, which became the seventh largest retailer in the region in 2007.

The retail sector in Japan has been traditionally dominated by small neighbourhood shops. In 2006, more than half of the total retail sales were dominated by smaller shops with fewer than 50 employees¹⁴, as shown in Figure 1.

FIGURE 1: RETAIL SECTOR IN JAPAN IN 2006



Source: GAIN report on the Japan retail sector, 2006

However, the Japanese retail market is inclined toward larger supermarkets with a bigger variety of products and lower prices, and convenience stores with nearby locations and around-the-clock availability. Between 2002 and 2006, the number of specialty and semi-specialty stores ("mom and pop stores"), small shops characterized by face-to-face counter sales, fell by 6.2 per cent. During the same period, the number of smaller supermarkets fell 13.5 per cent, and the number of department stores fell even more, by almost 15 per cent. Meanwhile, the number of convenience stores grew by 2.3 per cent, the number of supermarkets grew by 0.4 per cent, and the number of food specialty supermarkets grew by 4.5 per cent.

The Japanese retail sector is viewed as one of the most complex markets in the global retail industry, mainly because the Japanese consumer is considered extremely value-conscious and quality-obsessed. This is why the largest international retailers (for example, Wal-Mart, Costco, Carrefour, Metro and Tesco) have had difficulty entering the Japanese market. In 2005, Carrefour sold all its stores to Aeon and withdrew from the Japanese market. Wal-Mart entered the Japanese market with the acquisition of Seiyu, one of the top Japanese supermarket operators, first as a minority shareholder in 2002, and then with a controlling stake in 2005. However, since 2003, Seiyu has been steadily losing money, and even aggressive restructuring efforts have not been very effective so far. Currently the top retail company in Japan (and in the Asia Pacific region) is Seven & I Holdings,

¹⁴ Data Resource International Inc., 2006, Japanese Retail Food Sector Report. Report number: JA6527. Global Agriculture Information Network.

followed by Aeon, Yamada Denki, Uni and Daiei. Aeon claims in its annual report and website to be the number one retailer in both Japan and the Asia Pacific region, but independent sources, such as Deloitte, Planet Retail or Fortune, consistently place Aeon at number two. To make the claim as number one in the region, Aeon includes sales of associated companies through the equity method, rather than direct sales, which is the indicator used by most rankings. Because Seven & I Holdings is mainly a convenience store company (including Seven Eleven), Aeon is the Japanese leader in terms of supermarkets, followed by Ito-Yokado and Seiyu (Wal-Mart). In Japan retail food comprises more than 50 per cent of total sales for supermarkets, making the foods division the most crucial profit centre for most retailers. In fact, the Japanese retail sector is showing strong growth in the sale of health-conscious products and ingredients, and especially ready-to-eat meals.

In sustainability, Aeon is currently seen by the industry and consumers in Japan as leader of the retail sector, especially due to its widely-publicized campaign on tree planting. In 2000, the industry leader was Seiyu, with well-known and comprehensive sustainability policies and a strong commitment from their senior management. However, when Wal-Mart bought a controlling stake in Seiyu, the senior management left the company, and the organization lost its sustainability and CSR strategy. Currently Seiyu's sustainability activities are very limited. Other top retailers, such as Ito-Yokado, have followed some sustainability practices since about 1995, but they are usually restricted to policies such as selective recycling or energy savings. Currently in Japan, the most visible and advanced retail company in sustainability and CSR policies is Aeon, both in existing policies and in proposing innovative measures for the organization.

2.0 Corporate Background of AEON Co., Ltd.

The origin of AEON can be traced to the year 1758, when a company called Shinohoraya (now Jusco) was established in Yokkaichi. However, it was not until after 1970 that the company began to expand, and not until 1989 that the company changed its name to Aeon. Today Aeon is a retail corporation consisting of 169 companies, 140 of which are owned subsidiaries, while the remaining 29 companies are partnerships and joint ventures. Aeon's main business is "shopping mall development and operation," but they also offer a variety of stores, goods and services including GMS (general merchandise stores), supermarkets, drugstores, home centres, convenience stores, specialty stores, financial services, entertainment or food services, and others. Since August of 2008, Aeon Group has been repositioned as a "pure holding company" called Aeon Co., Ltd., whose role is to formulate the group strategy, business restructuring and investment, and to implement the group philosophy. Since August of 2008, Aeon Co., Ltd. has owned the shares of subsidiaries and other companies, effectively controlling the entire group, but it does not have direct involvement in operations. The holding company is responsible for strategy, while the individual companies are responsible for operations. This is what Aeon Co., Ltd. terms the "concentration and decentralization" philosophy, meaning that the holding company aims to maximize group synergies and take advantage of scale, while allowing individual companies to specialize and allow room for innovation and flexibility. Aeon Co., Ltd. is responsible for functions such as accounting, IT, human resources and general affairs, while areas such as marketing, sales and R&D are the responsibility of each company.

This "concentration and decentralization" philosophy is part of what Motoya Okada, Aeon's President, terms a "new growth model for the group". This new strategy focuses on the following:

- Building large shopping malls around urban areas
- Aggressively internationalizing Aeon's operations around the world, particularly in Asia
- Diversifying its operations to include other types of shops, products and services, such as specialty stores and convenience stores.

The essence of this model is the "glocal strategy" (a play on the terms global and local) that provides common standards of service, products and price, and is flexible enough to accommodate cultural and geographical differences. The final objective for Aeon Co., Ltd.—*The Global 10 Strategy*—is to become one of the top ten retail companies in the world by 2012.

It is not by chance that this change of organizational structure and strategy has taken place after 2007, when Aeon lost its leadership position as top retailer in the Asia Pacific region. This loss of position, as previously explained, has also coincided with a shift in the Japanese retail sector toward more supermarkets and convenience stores, and fewer department stores and local shops. In 2007, Aeon Co., Ltd. was the 21st largest retailer in the world, with sales of over US\$ 41 billion, and second in Japan and the Asia Pacific region, which was lead by Seven & I Co., Ltd. with sales of almost US\$ 44 billion. This was a major change for Aeon, because in 2005, it was ranked as the number one retailer in Asia. In 2008, Aeon forecasts revenues in excess of US\$ 52 billion, and for 2009, revenues in excess of US\$ 55 billion. This remains behind the forecasted sales for Seven & I, estimated at US\$ 58 billion. However, despite this apparent loss of leadership position, Aeon has shown a consistent average annual growth superior to the sector (nine per cent annually between 2001 and 2006) and hopes this new "growth model" will have a positive impact on its long-term rate of growth. Currently Aeon has more than 13,000 stores around the world, although about 90 per cent of their revenues come from Japan. Outside Japan, Aeon has stores in two regions: North America (U.S.A. and Canada), and the Asia Pacific region (mainly China, Thailand, Korea, Malaysia, Singapore and Australia), each region accounting for about five per cent of the group's revenues. As part of the new growth strategy presented in 2007, Aeon aims to invest and grow, especially in Asia, and particularly in China.



Regarding the type of business, about 80 per cent of Aeon's revenues come from general merchandising stores, defined as "mass retail outlets with an extensive line-up of clothing and shelter products."

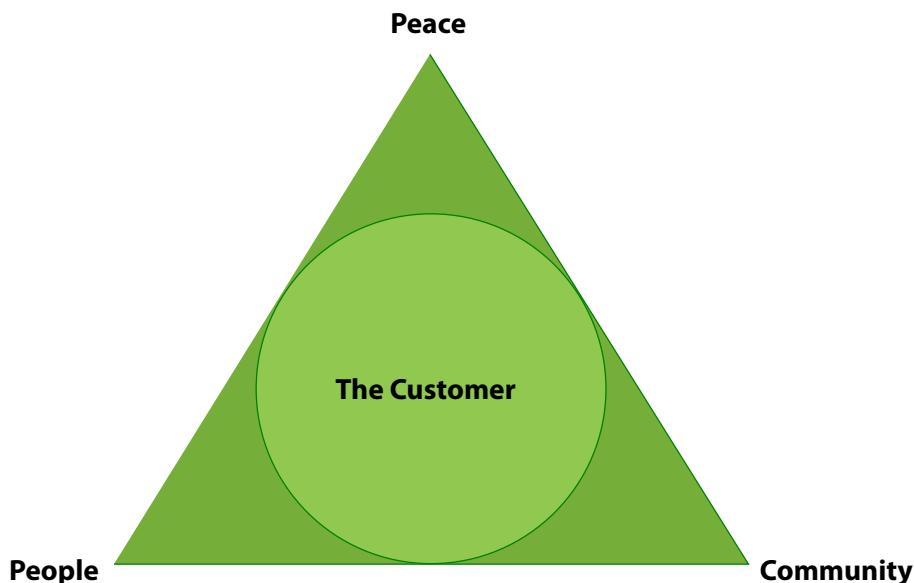
3.0 Best Environmental Practices of Aeon

3.1.0 Corporate Policies, Structure and Governance

3.1.1 Corporate Values

The word *aeon* has its origins in a Latin root meaning “eternity.” Aeon defines its corporate commitment as “creating a future of limitless promise—an aeon—by transforming daily life through our open, dynamic approach”. This commitment revolves around the customer, who is the centre of Aeon’s philosophy. “At Aeon, our eternal mission as a corporate group is to benefit our customers, and our operations are thus customer-focused to the highest degree.” To pursue this philosophy, Aeon established a set of basic principles, seen in Figure 2, of “respect for humanity, contribution to local communities and the pursuit of peace centred on our customers.”

FIGURE 2: AEON’S BASIC PRINCIPLES



Aeon defines its basic principles as follows:

- Aeon is a corporate group whose operations are dedicated to the pursuit of peace through prosperity.
- Aeon is a corporate group that respects human dignity and values personal relationships.
- Aeon is a corporate group rooted in local community life and dedicated to making a continuing contribution to the community.

These basic principles are reflected in Aeon’s “glocal strategy,” aimed at pursuing global standards while focusing on local concerns. This is the centre of the new business strategy for Aeon, launched in 2007. The goal is to take Aeon to “a new era of sustainable growth,” where,

in the words of Motoya Okada, President of Aeon, “the two most important aims of our company are corporate growth and the reduction of our environmental impact.”

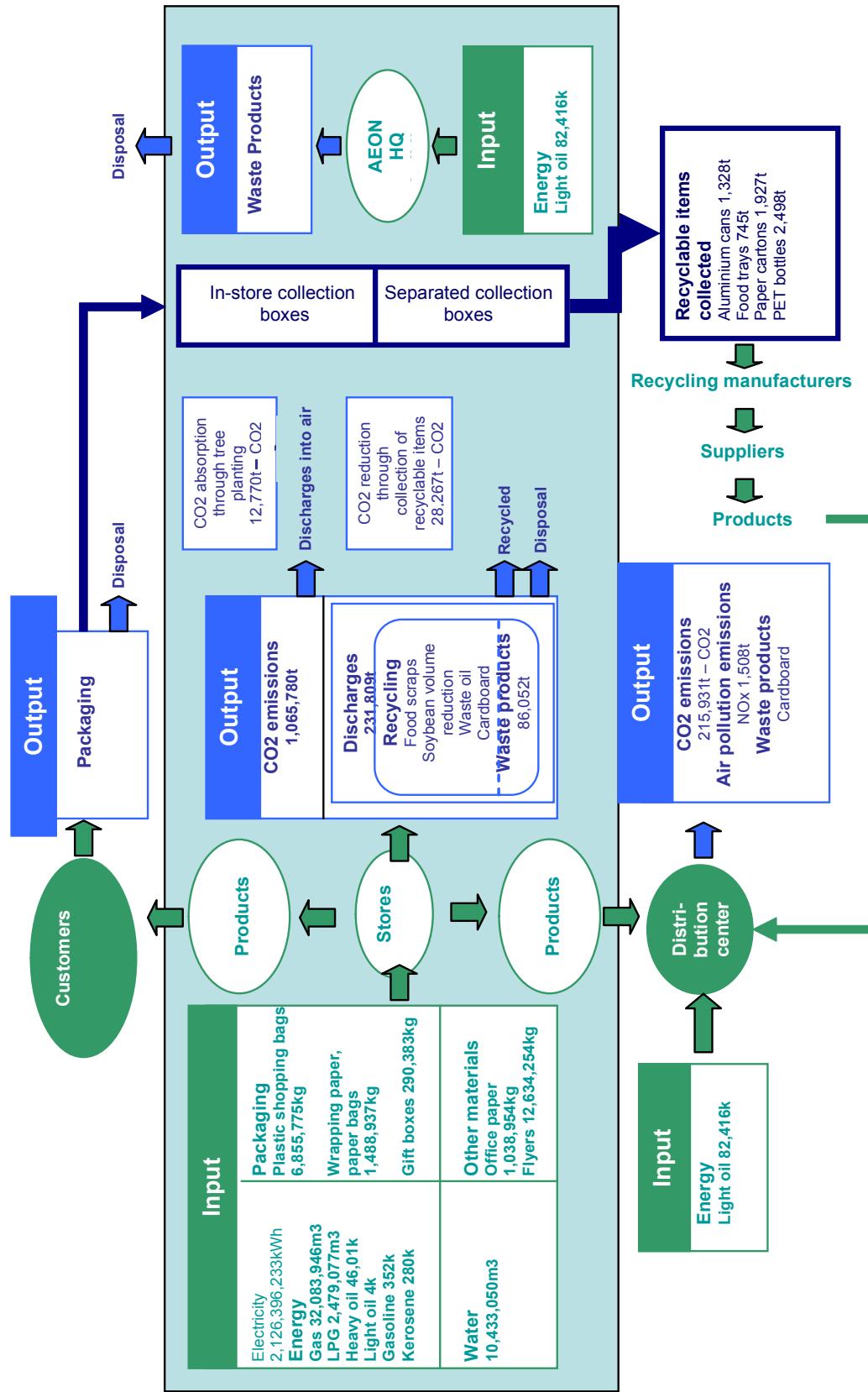
3.1.2 Aeon CSR and Sustainability Policies

It is important to note that this case study was developed during October and November of 2008, based on interviews and documents collected in August and September of 2008. Aeon was undergoing significant changes during these months, including a restructuring of the company into a pure holding company (August 2008), the initiation of a new business strategy (designed in 2007, to be launched in 2008), and particularly, the development of a new ambitious sustainability and CSR strategy (March 2008, still being implemented).

This case study focuses mainly on the strategy and measures designed by Aeon for the 2008 to 2012 period, and evaluates some of the CSR and sustainability policies Aeon had been executing prior to 2008. These often served as the base for the 2008 plan. In other words, Aeon’s sustainability and CSR strategy is built on more than 25 years of environmental programs, and many actions in the new plan are extensions of previous initiatives. These include a tree planting program (1991), establishment of an environmental foundation (1991), reduction in plastic bag use (1991), returnable containers (1995), food recycling (1998), biodiesel (2003), development of a cleaning product made from baking soda (2005), MSA certification (2006) and development of a new compact fluorescent bulb (2007), among many others. As seen Figure 3, Aeon is well aware of the impacts it has on the environment. For example, the company estimates its emissions to be equivalent to about four million tonnes of CO₂ for 2008.

FIGURE 3: AEON ENVIRONMENTAL IMPACT

Environmental impact of business activities AEON Co., Ltd.



Source: Adapted from AEON Environmental and Social Report, 2008

In 2004, Aeon launched its *Basic Policy on the Prevention of Global Warming*, establishing the foundation for the 2008 sustainability and CSR strategy. This basic policy, which was revised in 2007, established eight targets or objectives:

1. We respect the spirit of the Kyoto Protocol and will contribute to the pursuit of its goals.
2. To achieve our emission reduction targets, we aim to reduce our CO₂ emissions in our business activities. The shortfall will be covered by utilizing the Kyoto Mechanism.
3. To minimize our environmental impact, we continually revise and improve the production and transport of the products that we offer in our stores.
4. We test various biodegradable and biomass packaging materials and endeavour to choose new materials that have minimal environmental impact.
5. We use electricity from renewable energy sources and innovative, energy-saving technologies in 100 of our stores each year. We also will pursue socially-responsible procurement of building materials for our "Aeon Eco-Stores" to contribute to the reduction of global warming.
6. We adopt CFC substitutes in the heating, ventilation and refrigeration systems in our stores.
7. We will take the initiative in encouraging our customers and associates to bring their own shopping basket and shopping bags. By cooperating with the Ministry of the Environment, the local authorities and members of the community, we hope we can spread the Bring Your Own Shopping Bag Campaign.
8. We will actively pursue our tree-planting activities such as Aeon Hometown Forest Program and Aeon One Town, One Forest Program and choose materials that have minimal environmental impact with Forest Stewardship Council (FSC) certification.

Commitment to being a "good citizen," seems to be deeply engraved in the corporate culture, and particularly in the environmental focus of its sustainability policies and practices. Akihiko Harada, CEO of Aeon, stated that "Aeon takes its corporate social responsibility very seriously," in terms of "highly proactive environmental protection and social contribution activities." Motoya Okada, President of Aeon, affirmed that "Aeon has identified environmental initiatives as the company's most important social responsibility." This is understood throughout the organization as a fundamental shift of Aeon's vision. In the words of Seiichi Ueyama, top executive in charge of CSR and sustainability practices at Aeon, this means "changing the way we work." CSR and sustainability have always been guided by corporate values and objectives, such as the above-mentioned basic policy, but what has changed is that the 2008 CSR and sustainability strategy has provided coherence and global design for the entire group and each individual company. This coincided with the restructuring of Aeon into a pure holding company and embracing of a new business strategy. For these reasons, Aeon launched the *Aeon Manifesto on the Prevention of Global Warming* in March of 2008. It aims to reduce total CO₂ emissions by 30 per cent by the fiscal year 2012, using as the base level total CO₂ emissions for the fiscal year 2006.

With the introduction of this Manifesto

- Aeon becomes the first Japanese retailer to present a specific numerical target in terms of climate change.
- Aeon proposes to engage in a comprehensive sustainability and CSR strategy affecting customers, stores and products.
- Aeon sets a clear goal that makes the company accountable.

The goal of becoming one of the top ten retailers of the world by the year 2012 was set to coincide with the overall growth strategy for the group. It also gave a five-year timeline to develop and measure the sustainability and CSR policy. The 30 per cent target is the result of a year-long discussion in which the sustainability and CSR strategy was defined. After a complete study of the organization, Aeon decided that 30 per cent was reasonable enough to be attainable and challenging enough to force some major transformations in the organization and reinforce Aeon's leadership as the top Japanese retailer in sustainability and CSR. The target was set to drive change in the organization using a more sustainable model.

The Aeon sustainability strategy is straightforward, as shown in Figure 4. The estimate of Aeon's total emissions for 2006 is 3.7 million tonnes. Including forecasted business growth (estimated at 20 per cent), the CO₂ emissions in 2012 should be about 4.45 million tonnes. Their objective is to bring CO₂ emissions down to 2.6 million tonnes (30 per cent less than the 3.7 estimate for 2006), therefore reducing emissions by 1.85 million tonnes by 2012. Taking growth forecasts into account, the reduction in real terms surpasses 40 per cent. To accomplish this reduction, the Aeon sustainability strategy focuses on four broad policy areas:

1. Reduction of 500,000 tonnes of CO₂ emissions by stores, with improvement of store equipment and systems
2. Reduction of 570,000 tonnes of CO₂ by products, with improvement of products, services and distribution
3. Reduction of 310,000 tonnes of CO₂ in collaboration with Aeon's customers, using tree planting activities and programs to reduce plastic bag use
4. The remaining 470,000 tonnes of CO₂ will be saved by applying the Kyoto Mechanism that allows the offsetting of CO₂ emissions with credits from other countries.

However, the Manifesto specifies that the fourth policy initiative using Kyoto Mechanisms will only be used to offset the difference between the goal of 1.85 million tonnes and the reduction achieved through business-related actions (policies one to three). Aeon would like the number of tonnes reduced using CO₂ offsetting initiatives to be as small as possible, ideally zero.

FIGURE 4: AEON'S SUSTAINABILITY TARGETS

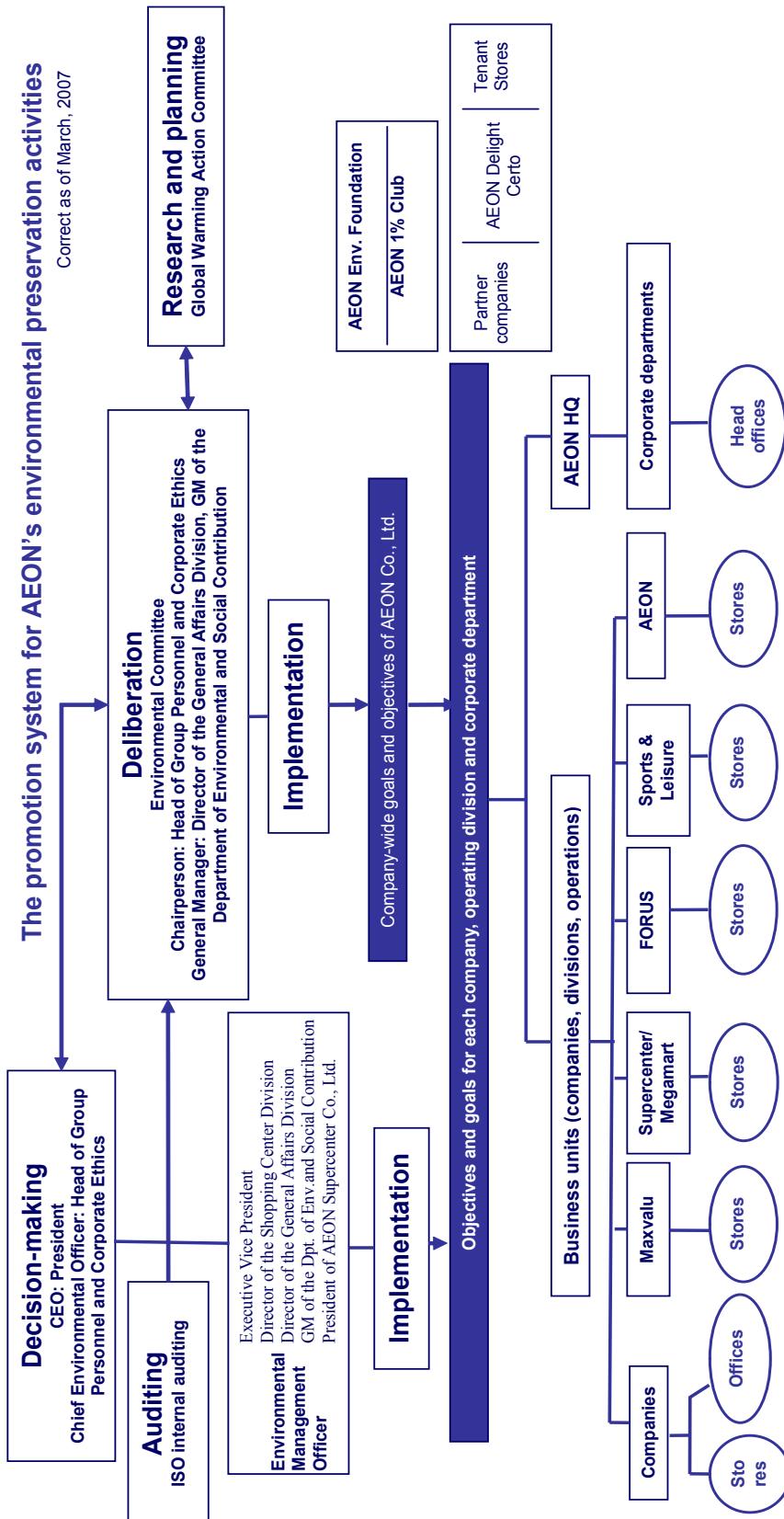


Source: Aeon Environmental and Social Report, 2008

3.1.3. Structure and Governance of Sustainability and CSR

At the time of this report, Aeon is undergoing a major reorganization. As a result, the people interviewed and the documents attained could not provide a picture of the new governing structure for Aeon's sustainability and CSR strategy. For example, Mr. Seiichi Ueyama, General Manager of the Corporate Citizenship Department at Aeon, who led the formulation of the current sustainability strategy, could not predict what title or social and environmental departments would result from the transformation to a "pure holding company." Until this is clear, he is considered an advisor in corporate citizenship and environmental issues for the entire group. Nevertheless, there is a firm commitment toward CSR and sustainability from the top of the organization, affirmed by the CEO and the president. After the implementation of the 2008 Manifesto, the governing structure will be based on the current one, shown in Figure 5.

FIGURE 5: AEON SUSTAINABILITY STRUCTURE IN 2007



Source: Adapted from Aeon Environmental and Social Report, 2007

As of August 2008, Mr. Ueyama is responsible for the Environment and Social Contribution Department at Aeon Co., Ltd. This department designed the *Aeon Manifesto on the Prevention of Global Warming* and presented it to the board. This department is also responsible for managing external CSR and sustainability certifications, such as ISO14001, SA8000, Global Compact and GRI. Additionally, each of the major group companies has its own Environmental and Social Contribution Department (for example, Aeon Retail, Mycal Corp., Daiei Inc., and Maruetsu Inc.). Each of these departments coordinates the global policies with Mr. Ueyama's department at headquarters and they design policies specific to the needs of the business unit. Furthermore, the biggest Aeon companies are divided and managed in five regions in Japan (Tohoku, Kanto, Central, West and Headquarters). In each office, there are two full-time members working on environmental and social issues who report to the head office of their respective company, which in turn coordinates with corporate headquarters (the holding company).

However, since the 2008 Manifesto is a global strategy that touches upon most core business areas, such as products, services, stores and customers, a specific task force has been created for each of the four CO₂ reduction target areas. These include stores, products, customers, and the use of Kyoto Mechanisms. Each task force is formed by members of all main departments and is advised by a representative of the Environmental and Social Contribution Department. Additionally, policies related to labour practices and work-life balance are managed by the Human Resources Department. The Environment and Social Contribution Department gathers information in that area, and the Human Resources Department turns it into appropriate strategies and policies.

3.1.4 Staff Training and Incentives

Aeon has four career paths available: national staff, regional staff, community-based staff, and part-time community-based staff. About 77 per cent of all Aeon employees are community-based workers, mostly female and working part-time. Each Aeon store or office has an Occupational Health and Safety Committee that supervises and ensures the safety and well-being of Aeon employees. Regarding training and development, all Aeon employees are eligible for education courses. The Aeon Business School aims to develop skills suitable for various career paths. The Aeon Business School is the core in-house education system designed to help employees gain the knowledge necessary to develop their careers. However, Aeon employee training is centred around on-the-job training, based on the idea that workers learn most of their skills and competencies from more senior staff members who systematically teach them the knowledge, techniques and attitudes. Core policies are built into job descriptions as standard operating procedure. These are communicated with manuals, videos, posters, brochures, intranets, briefing sessions, training sessions and courses.

Sustainability and CSR policies are built into job descriptions and procedures. All employees are instructed in the role these policies play in their specific responsibilities and daily activities. Many of the key policies are explained in employee handbooks and initial trainings. In addition, employees who work on tasks with high potential environmental or social impacts are given special training. For example, workers who deal with suppliers are informed about the *Aeon Supplier Code of Conduct*, and are taught to communicate any potential non-compliance by suppliers. In 2007 alone, more than 1,000 employees received direct training in the *Aeon Supplier Code of Conduct*. Also, procedural manuals and training for emergency situations are developed and used in all stores.

3.1.5 Benchmarks and Measurement Indicators

Aeon uses standard tools to establish and evaluate environmental (ISO14001) and social (SA8000) targets. Both the ISO14001 and the SA8000 are international standards, independently certified. In 2004, Aeon became the first Japanese retailer to sign the United Nations Global Compact, a voluntary initiative to encourage businesses worldwide to support and implement ten principles covering areas of human rights, labour standards, environment and anti-corruption.

The ISO14001 is the standard on environmental management established by the International Standardization Organization that defines how companies can manage their environmental impacts.



This system is verified and certified by an independent organization. As of February 2008, 22 Aeon companies have received ISO14001 certification, including the holding company (Aeon Co., Ltd.) and Maxvalu, Jusco, Ministop and Mycal. The targets established by Aeon under the ISO14001 are aligned with the 2008 *Aeon Manifesto on the Prevention of Global Warming*, and include specific measures and indicators for customer programs, sustainable products and minimizing the environmental impact in stores.

In 2004, Aeon became the first retail operator in Japan to be certified under SA8000, an international standard designed and applied by Social Accountability International, covering areas such as human rights and work environments. SA8000 is also certified by independent organizations. As of February 2008, the holding company (Aeon Co., Ltd.) and the TOPVALU supplier operations are SA8000 certified. The SA8000 establishes requirements in a total of eight areas: (1) child labour; (2) forced labour; (3) health and safety; (4) freedom of association; (5) discrimination; (6) discipline; (7) working hours; and (8) compensation. The SA8000 is audited externally every three years.

3.1.6 Financial Impacts

Aeon estimates that its sustainability policies have an overall positive effect on the company, as shown by the differences among expenses, investment and effect. However, if we remove the effect from environmentally friendly products (TOPVALU), the impact is actually negative. However, these estimations do not account for other positive impacts of the policies. For example, Aeon aims to educate consumers to change their habits at home and in their communities, but a possible impact for that area is not estimated. Another perceived but unmeasured impact is the building of social capital for the organization, that is, their image and reputation with customers and with other organizations. Overall, Aeon feels that the estimation is not accurate because it does not reflect the significant positive impact that all these policies have on the company. However, as they cannot calculate these other impacts in tangible terms, currently Aeon evaluates the direct costs, investments and benefits from its social and environmental policies, as demonstrated in Table 1.

TABLE 1: COSTS AND RETURNS FROM SUSTAINABILITY POLICIES

ITEMS	EXPENSES	INVESTMENT	EFFECT
Cost for measuring and preventing soot and smoke	\$261,542		
Cost for maintaining water-purifying tanks and grease traps	\$8,391,689	\$1,012,228	
Cost for building facilities and conducting assessments to prevent oil spills	\$76,220	\$558,902	
Cost for installing soundproof walls and shutters	\$671	\$290,857	
Cost for the elimination of vibration			
Cost for installing air conditioning in raw garbage storage		\$536,070	
Cost for installing underground water systems		\$1,090,104	
Cost for installing closure plates		\$269,600	
Cost for introducing facilities for saving energy, and their effect	\$154,096	\$3,781,955	\$691,100
Cost for replacing refrigerants	\$96,532	\$894,194	
Cost for delivering returnable containers and reusable hangers	\$984,386		\$3,455,431
Cost for saving clean water and using natural water		\$702,207	\$529,099
Cost for Styrofoam volume reduction, reduction and recycling of raw garbage, fluorescent light tubes, etc.	\$1,481,944	\$25,911	\$2,221,829
Cost for treating industrial waste from offices and stores	\$10,315,284	\$196,560	
Cost for treating municipal waste from offices and stores	\$29,647,168		

Cost for extracting Freon gas from collected home appliances			
Consignment of business activities related to recycling of containers and packages	\$16,931,530		\$957,997
Cost related to the Bring Your Own Shopping Bag Campaign	\$6,371,724		\$185,728
Cost for holding seminars outside the offices	\$35,819*		
Cost for obtaining and retaining ISO14001 certifications	\$194,223		
Personnel costs for full-time company employees in charge of environmental activities	\$1,079,384		
Sales of TOPVALU, Green Eye, Self+Service, etc.	\$243,871		\$324,129,791**
Costs for introducing new environmental technologies including use of natural energy, biomass, etc.	\$108,614	\$1,219,356	\$36,581
Cost for Aeon Hometown Forest Program	\$2,705,995		
Cost for activities of Aeon Cheer Club	\$100,465		
Donations to NGOs and <u>non-profit organizations</u> (NPOs)	\$364,669		
Costs for environmental reports	\$5,158,679		
Costs for rehabilitating damaged environments	\$681		
TOTAL	\$84,705,186	\$10,577,944	\$332,207,557

*This refers only to training conducted at a corporate level, not at individual companies.

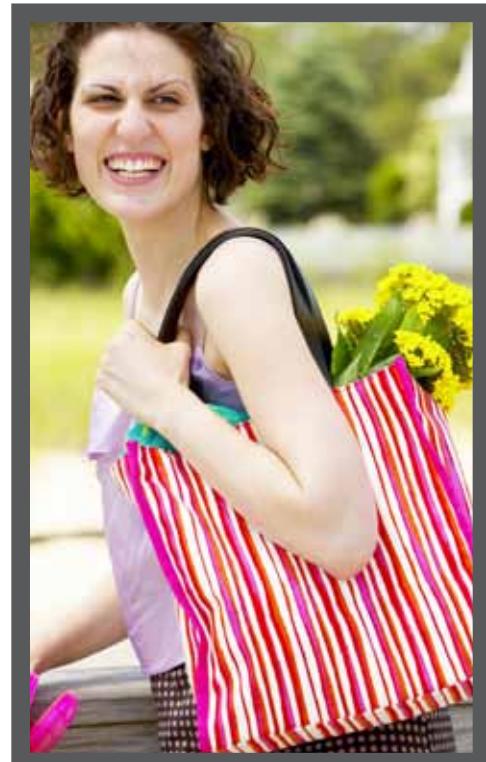
**This category reflects the benefits from TOPVALU products, not sales.

3.1.7 Corporate Social Responsibility Reporting

Every year Aeon publishes its *Environmental and Social Report* based on the standards and indicators established by the Global Reporting Initiative. These standards for sustainability reporting include a list of about 50 indicators in environmental, social and economic areas on which the company must report. Although the Global Reporting Initiative presents the option of auditing or externally verifying these reports, Aeon chooses not to do so. Instead, as in many other Japanese companies, the *Aeon Sustainability Report* includes what they call third-party evaluators, independent professionals, such as executives working at the United Nations or prestigious non-profit organizations, who give their interpretation of the report. However, these evaluators do not analyze the data behind the report, but only the report itself. That is, the independent evaluator is given a first draft of the report and he or she is asked to write an opinion about it. Interviews were conducted with people who have participated as third-party evaluators and they affirmed that they only agree to write an evaluation if they have first-hand knowledge about the accuracy and credibility of the data contained in the report.

3.1.8 Customer Education and Marketing

One of the pillars of Aeon's sustainability and CSR policies is the aim to undertake many activities in collaboration with customers. The philosophy is that any sustainability or CSR policy implemented at Aeon will have a small impact from a global perspective, but if Aeon manages to educate and change customers, the impact in sustainable development will be much more significant. That is why Aeon develops what they call the "hard and soft sides" in their policies. The hard side includes specific projects, while the soft side represents the educational and awareness-raising aspects that accompany the programs. (For a more detailed description, see the section on energy efficiency and sustainable buildings.) With that in mind, Aeon aims to reduce its CO₂ emissions by 310,000 tonnes by 2012 using programs in direct collaboration with customers. This target accounts only for the reduction attributable to the program itself, and does not account for any potential impact of changing behaviours in customers and communities in other areas. Although there are many customer programs, such as the previously noted recycling programs, two initiatives stand out due to their size and significant impact: the plastic bag reduction program and the tree planting program.



The main objective of the Bring Your Own Shopping Bag or Shopping Basket Campaign is to encourage customers to bring their own bags or baskets rather than using plastic bags supplied by the store. Aeon has been trying to reduce the usage of plastic bags in its stores since 1991 through information and awareness campaigns. Aside from providing information, the Bring Your Own Shopping Bag or Basket Campaign, launched in 2006, is notable because it establishes a payment of five Japanese yen per plastic bag to encourage customers not to use them. Furthermore, half of this five yen is donated to local organizations for environmental activities, and the remaining half is used

for Aeon's purchase of emissions rights. As of 2007, the program helped to reduce an estimated 22,000 tonnes of CO₂ emissions. It is interesting to note that in its conception, Aeon tried to establish a joint program with its retail competitors and an agreement on a common price for plastic bags. However, when they presented the idea to the Fair Trade Commission, they advised against it. The Commission stated that an agreement on the five-yen price per bag, although a social and environmental program, could be seen as a case of collusion, and thus could present problems with Antimonopoly Law. Therefore the program was established by Aeon, local governmental authorities (such as the Kyoto City Council), and some civic groups. Afterwards, other organizations were free to use similar programs.

In 2007, the program was established in three stores as a pilot, to find out the impact in reduction of the number of plastic bags and the impact in the number of customers. Regarding bag use, the percentage of people bringing their own bags increased from 17 to 85 per cent. After the program was initiated, only 15 per cent of customers were using plastic bags supplied by the stores. Regarding customers, during the first two months following implementation of the program, the number of customers decreased, but after that time period, the number of customers went back up. In fact, the program became quite popular with the media and customers, and it quickly expanded to over 117 stores nationwide. The impact was an average reduction of 80 per cent in plastic bag use. The 2008 sustainability and CSR strategy has established a specific goal of reducing plastic bag use across all Aeon stores by an average of 50 per cent by the year 2010. With business as usual, Aeon would consume about 1.68 billion plastic bags in 2010, but by using this program, that number will be reduced by 840 million bags, which translates to a reduction of more than 75,000 tonnes of CO₂ emissions.

Tree planting activities in collaboration with customers revolve around two programs: the Aeon Hometown Forest Program and the Aeon Environmental Foundation. The Aeon Hometown Forest Program has been active since 1991, and its benefits are estimated at 60,000 tonnes of CO₂ absorbed. The program is based on tree-planting activity with customers (see Figure 6) and with local organizations near the stores. The types of trees are selected according to local wildlife. The program begun in 1991 in Aeon Malaysia, and since then, more than eight million trees have been planted with the collaboration of over 800,000 customers. In 2007 alone, for instance, more than 520,000 trees were planted in 45 locations with the assistance of 52,000 customers.

The Aeon Environmental Foundation was also launched in 1991, and its objective is to implement initiatives for the conservation of the global environment. One of the main projects of the foundation is planting trees around the Great Wall of China. As of 2007, with the assistance of more than 10,000 volunteers from Japan and China, the Aeon Environmental Foundation planted more than 660,000 trees in that area, and the goal is to raise that number to one million trees by 2010.

FIGURE 6: PLANTING TREES INITIATIVE



Source: Aeon Environmental and Social Report, 2008

To promote the adoption of environmental policies by stores, Aeon launched the Environmental Five Stars Campaign in 2007. The goal is to attain greater achievements in the collaboration between customers and stores. The campaign establishes numerical targets for five customer-store collaboration areas, and the store is assigned one star for each target acquired. To gain this recognition, a 5-star store must achieve an optimum level of customer-store participation in sustainability and CSR activities. The five targets are as follows:

- At least 20 per cent of Aeon employees participate in Clean & Green activities (see section on charity giving and community activities).
- At least 30 per cent of customers bring their own shopping bags.
- At least 30 per cent of customers participate in the Aeon Happy Yellow Receipt Campaign (see section on charity giving and community activities).
- There has been an increase of at least 20 per cent of in-store collection of recyclable items compared to the previous year.
- There is at least a one per cent reduction in waste price.

Currently there is one store that has achieved five stars.

Aside from the larger customer collaboration programs on recycling and reducing the use of plastic bags, Aeon has many other projects partnered with customers and local communities. One of the major programs is the Aeon Day, launched in 2001 to celebrate the renaming of the company. Aeon Day is the 11th day of each month. On those days Aeon, in concert with its employees, customers and local communities, organizes activities. Aeon employees volunteer to help clean local sites such as public areas, where in 2007, more than 370,000 Aeon employees participated. On Aeon Day, customers are given special yellow receipts for their purchases and are allowed to choose from selected projects and NGOs. Aeon will donate one per cent of the receipt amount to that organization in products. Aeon also carries out disaster and emergency relief fundraising initiatives through its stores.

3.1.9 Kyoto Mechanisms

Aeon aims to offset whatever reduction in CO₂ emissions it is unable to attain directly with stores, products and customers by purchasing CO₂ credits as offered in the Kyoto Protocol. Currently Aeon estimates that about 470,000 tonnes of CO₂ will be reduced by 2012 using this Kyoto Mechanism. In 2007, Aeon invested in the Adelaide Blue Gum Pty Ltd Tree Farming Project, planting about 10,000 hectares of eucalyptus that will absorb about 70,000 tonnes of CO₂ a year. As well, Aeon establishes collaborations with other companies such as Mitsubishi Corporation or Nippon Yusen to invest in CO₂ mechanisms.

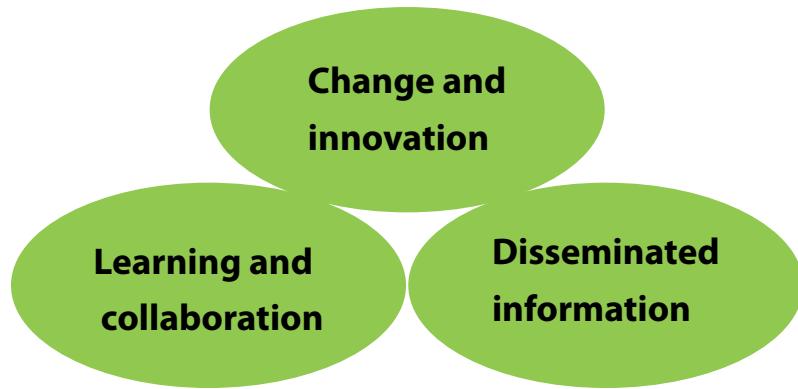
3.2.0 Products, Facilities and Operations

As outlined in the section on Aeon's environmental policies, Aeon's sustainability and CSR strategy is largely based on improving store equipment and systems, selling more sustainable products, and improving transportation and distribution.

3.2.1 Energy Efficiency and Sustainable Buildings

Because Aeon has more than 13,000 stores in 10 countries, one of its key impacts is its sustainable and CSR policies regarding stores and equipment. That is why the 2008 Manifesto aims to achieve a 500,000-tonne reduction of CO₂ emissions by 2012 in this area alone. Measures to reduce CO₂ emissions from stores are implemented in two ways: improvements in the design of new stores and existing stores. The biggest share of the reduction in CO₂ emissions is expected to come from new stores, based on the Aeon Eco Store concept. The concept is not new, as it was developed in 2003, authorized by senior management in 2004, and the first Eco Store was built in Nagoya in 2005 as a pilot project. This concept, as seen in Figure 7, revolves around innovation, collaboration and information.

FIGURE 7: AEON ECO STORE CONCEPT



Source: Own design based on 2008 sustainability report

The ideas behind this concept are as follows:

- Adopt new energy-saving and environmentally friendly technologies in stores through change and innovation.
- Cooperate with local communities to increase awareness of environmental problems.
- Provide clear, easy-to-understand information about the initiatives.

According to Aeon, what makes the Aeon Eco Stores different from those of other retailers, such as Wal-Mart or Tesco, is the goal of not only making technological improvements, but also educating and raising the awareness of customers and employees in the process. That is why the Aeon Eco Store concept contains the “soft and hard sides” or “intangible and tangible aspects”, a group of eight objectives an Aeon Eco Store must achieve, as shown in Table 2.

TABLE 2: AEON ECO STORE CONCEPT

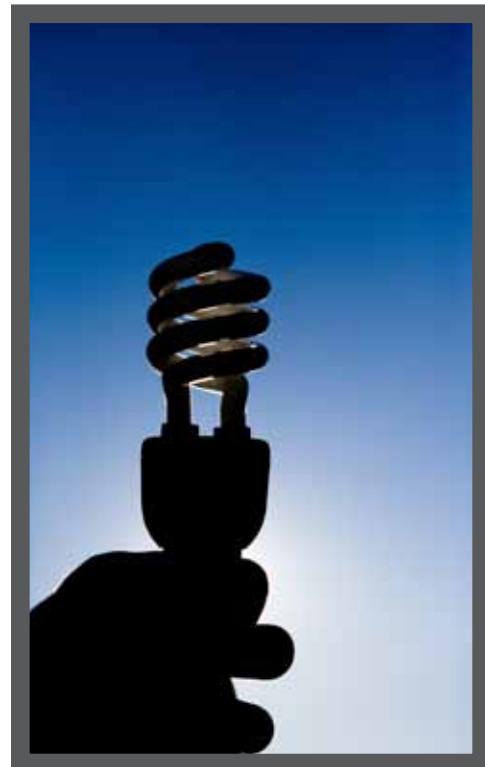
Tangible		Intangible	
Aspect	Example Action	Aspect	Example Action
Energy saving/generation: use environmentally friendly energy sources.	Install solar panels.	Safety, security and environmental consideration: offer safe, eco-friendly products.	Use biomass packaging materials.
Environmental efficiency: build stores with materials that have minimal environmental impact.	Use blocks made from volcanic ash that regulate temperature better.	Disclosure: provide easy-to-understand information about sustainability activities.	Provide information on CO2 reduction from alternative energy.
Natural environment: use natural light, sound and water.	Plant trees around the stores.	Promotion of recycling activities: promote activities with local communities.	Recycle food refuse into compost.
Landscape and biodiversity: provide a space that can be home to not only humans, but all living things.	Implement the greening of balconies.	21st century community: strive to create stores that waste no resources.	Bring Your Own Shopping Bag Campaign.

Source: Aeon Presentation on Sustainability Policies, 2008

Often “hard and soft” elements are linked, as in the example of solar panels, which in Eco Stores are not located on the roof, but rather in the façade. According to the Aeon philosophy, although not placing the solar panels on the roof entails a sacrifice in energy efficiency, it is important so that customers become aware of saving energy. This idea works both ways, as customers living near

the store are encouraged to send information about their own environmental activity, which often leads to developing local projects. If the actions are taken only by Aeon stores, the impact is almost non-existent. Much greater benefits will come from transforming the habits of individuals and local communities. Currently Aeon Eco Stores incorporate about 35 different technological elements, generating an estimated reduction of 20 per cent in CO₂ emissions. This does not include the effects of the information and collaborative programs on local communities. Aeon aims to increase the efficiency of Eco Stores to save 30 per cent in emissions, and all new stores will be designed using the Aeon Eco Store concept beginning in 2009.

For existing stores not designed using the Eco Store concept, Aeon's sustainability and CSR strategy calls for the adaptation of refrigerating, lighting and air conditioning systems, as well as developing "soft" programs with local communities. Aeon estimates that in a store of 60,000 square metres, the air conditioning accounts for the largest share of energy consumption (38.8 per cent), followed by lighting (27.8 per cent), and refrigerators and freezers (10.4 per cent), indicating that more than 75 per cent of all energy consumption is from these sources. To reduce that consumption, Aeon promotes the use of innovative systems such as ice thermal storage systems (using power overnight to produce ice that is used for cooling during the daytime), outdoor cooling systems (taking air from the outside to cool the inside) or remote-controlled lighting systems.



However, for existing stores, Aeon's main method is the Total Energy-Saving System that optimizes the use of air-conditioning, lighting, refrigerators, freezers and other facilities at each store by adding features to reduce energy consumption and CO₂ emissions. The goal is to make the best use of local conditions. Examples include controlling the total number of air conditioning units being used at any given moment, monitoring the temperature and concentration of CO₂ in the store, letting in outside air for cooling when necessary, and using inverter controls for hot and cold water pumps. In terms of lighting, heating, refrigeration and ventilation, Aeon currently uses CFCs, but is looking for alternatives because of its high global warming coefficient. Non-CFC technologies are available and are starting to be implemented for store lighting, but they are not yet feasible for refrigerating and air conditioning in large stores, which account for most energy consumption at Aeon. Therefore, Aeon is currently working with companies to produce non-CFC solutions for its Eco Store concept. Aeon estimates that for 188 existing stores measured in 2007, energy-saving policies were effective in reducing CO₂ emissions by 23,641 tonnes, or approximately 15 per cent.

3.2.2 Green Energy

One goal of the 2008 Manifesto is to increase the use of renewable energy sources in 100 Aeon stores annually until the target year 2012. To accomplish that, all new shopping malls or large stores constructed will include renewable energy in the design, and also systems such as solar and wind will be introduced to existing stores. As of February 2008, about 34 stores had solar panels. Aside from

these corporate policies, Aeon is also implementing some pilot projects to minimize environmental impacts with the use of other alternative energies. For example, Aeon initiated a project using edible oil waste from cooking as biodiesel (currently only at Maxvalu, an Aeon company). The subsidiary currently has six trucks that run on biodiesel, and there is a plan to increase that number in 2009 and to consider expanding it to other subsidiaries.

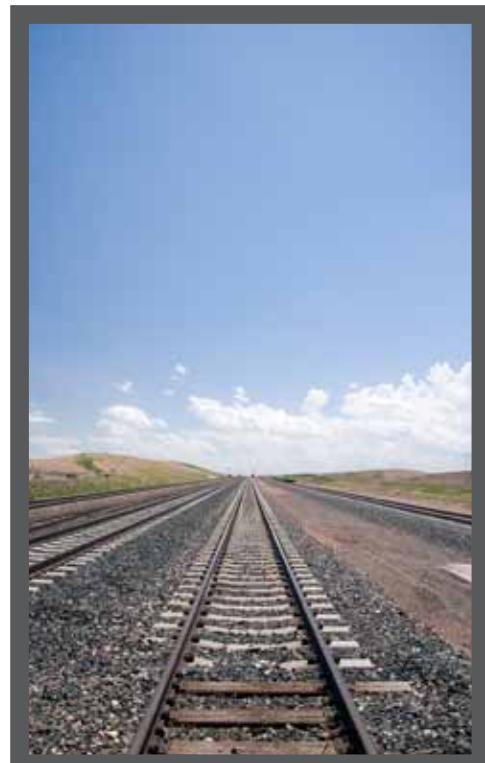
3.2.3 Water

Sustainability and CSR policies regarding water centre on reducing consumption and minimizing pollution. Reducing consumption, like all Aeon sustainability and CSR policies, is achieved by a combination of “soft and hard measures.” Soft measures include informing and training employees and customers, while “hard” measures include adopting technical improvements, such as water recycling for certain activities (watering plants), or installing mechanisms to reduce consumption, such as timers. Regarding pollution, Aeon also develops both “soft and hard” policies. On the soft side, they try to produce a change in the supply chain: for example, reducing the use of pesticides that can pollute rivers and streams. Also, Aeon develops policies to improve liquid waste management, especially the management of hazardous or high-impact materials such as oils, and they invest money in water-purifying tanks and grease traps.

3.2.4 Transportation and Distribution

Since 2006, Aeon as a group has been trying to implement policies to reduce CO₂ emissions in the transportation and distribution process. Transportation and the operation of distribution centres were identified as the main environmental issues. With that in mind, Aeon established Aeon Global SCM Co., Ltd., in 2007. One company is responsible for the distribution of the entire group, aimed at optimizing efficiency in each sector and business unit. Aeon Global SCM Co., Ltd. has introduced five programs to minimize the environmental impact of distribution operations:

- Modal shift, reducing truck transportation by using freight transportation whenever possible
- Reducing the number of truck trips, by coordinating transportation to make use of return trips
- Using larger vehicles, from current 10-tonne trucks to 18 to 21-tonne trucks
- Introducing environmentally friendly vehicles, such as the purchase of eight hybrid vehicles to the fleet
- Improving the composition ratio and efficiency from ships for overseas procurement and distribution.



From 2008 on, Aeon Global SCM Co., Ltd. plans to expand these programs by establishing closer cooperation with group companies and partners, and also by turning the distribution centres into environmentally friendly facilities. The latter will be based on store improvement programs: solar panels, ice thermal storage systems, harvesting rainwater and so forth. The objective is to accomplish a 70,000-tonne reduction in CO₂ emissions from improvements in distribution.

3.2.5 Solid Waste

One of the main solid waste reducing programs at Aeon is the Bring Your Own Shopping Bag or Shopping Basket Campaign described in Customer Education and Marketing. The program encourages customers to bring their own shopping bags or baskets instead of using plastic bags supplied by the store. Through awareness, information and reduced consumption plans, the program has been effective in reducing consumption of plastic bags by 80 per cent in stores where it has been implemented (about 150 to date), and it aims to reduce plastic bags in all Aeon stores by an average of 50 per cent by the year 2012.

Aeon proposes to have a positive impact in solid waste management by using biomass packaging materials for the Aeon private brand. Currently, biomass materials are used for packaging certain TOPVALU products such as eggs, bananas, green peppers and cherry tomatoes. Biomass plastic is made from plant-based resources such as corn. Aeon is now preparing to introduce a large amount of biomass packaging using the cellulose system, partly because of the controversy of fuel and materials produced from food products. That is why Aeon has modified its strategy and plans to develop biomass packaging materials made only from non-food products. Aeon had already invested significant funds and expected to be able to produce 100,000-tonne scale biomass material by 2010 to 2011, but they are now unsure whether they will be able to maintain the plan under these new conditions. Nevertheless, the objective remains to significantly increase the percentage of packaging using biomass by 2012.

Aeon was the first retailer in Japan to sign the agreement with the Ministry of the Environment for helping to establish a recycling-based society. According to this agreement, Aeon commits to expanding recycling activities and programs to reduce the use of plastic bags in all their stores. Since 2004, all Aeon Group companies have used a program for in-store collection of recyclable items. Collection boxes for cartons, polystyrene food trays, aluminum cans and plastic bottles are placed in Aeon stores. Aeon reuses the collected aluminum cans and cartons to make some of its products, and since 2007, some of these collected materials are also used to make biomass packaging materials, such as egg containers. In 2007, Aeon collected 1,927 tonnes of cartons, 745 tonnes of food trays, 1,328

tonnes of aluminum cans and 2,498 tonnes of PET bottles, equivalent to a reduction of over 28,000 tonnes in CO₂ emissions.

Another recycling initiative is the Self+Service program, established in 2002. Aeon sells clothing bearing the Japan Apparel Industry Council approved logo ECOMATE for recycling-friendly products. Under this program, customers bring to the store the clothing they no longer need and it is turned into new products. More than 20,000 items were collected in 2007. These products are transformed using material recycling (creating fibres from reclaimed wool) and chemical recycling (turning the recycled product into polyester).

Aeon as a group has also arranged the reuse of containers and hangers since 2002. In 2007, they reduced the consumption of cartons by more than 20,000 tonnes, and the consumption of hangers by more than 1,000 tonnes. This policy is also reinforced in the 2008 Manifesto. Apart from the group policies, there are other established recycling initiatives in individual companies. Aeon is studying the feasibility of turning some of these into group policies. One possibility is the food recycling program implemented at Ministop Co., Ltd., the convenience store subsidiary, that established a program in 1998 using food waste to make compost and animal feed. In 2007, this process was carried out at 260 stores. In 2008, Ministop launched boxed lunches using meat from pigs fed on the recycled animal feed from the stores.

3.2.6 Supply Chain

The *Aeon Supplier Code of Conduct* was launched in 2003 to ensure that proper social and environmental conditions are observed in the production of products controlled by Aeon. That is, the *Aeon Supplier Code of Conduct* is applicable only to Aeon private brands, which account for about 925 suppliers and 10 per cent of total sales. The code of conduct incorporates requirements from international CSR and sustainability tools used at Aeon, such as ISO14001, the Global Compact and SA8000. Currently, the code of conduct includes 13 points, shown in Table 3:

TABLE 3: AEON SUPPLIER CODE OF CONDUCT

- | | |
|-----------------------------------|---|
| 1. No child labour | 8. Compliance with laws on wages |
| 2. No forced labour | 9. Management responsibilities |
| 3. Safety, hygiene and health | 10. Environmental impact minimization |
| 4. Freedom of association | 11. Compliance with business laws |
| 5. No discrimination | 12. Certification, audit and monitoring |
| 6. No harsh disciplinary measures | 13. Prohibition on gifts |
| 7. Compliance with working hours | |

All suppliers of Aeon's private brands at TOPVALU are asked to sign a declaration of agreement and compliance with the code of conduct. In addition, Aeon carries out audits to confirm compliance. Audits take two forms: audits carried out by Aeon covering 90 items, and audits carried out by an external organization covering about 370 items. As of February 2008, 675 factories out of a total 925 factories that produce and supply TOPVALU products were audited. Most of these audits were executed by Aeon, although they are now establishing partnerships with some providers to perform external audits. When a supplier does not comply with the code of conduct, Aeon assesses the severity of the problem and usually the supplier is given a deadline to take corrective action, when they must present evidence to Aeon indicating the problem has been solved. If the problem identified is critical, Aeon may choose to discontinue the business partnership with that supplier, however, that situation has not yet occurred.

Aside from the sustainability and CSR measures on the TOPVALU supply chain, Aeon is also

implementing initiatives to certify the sustainability of products throughout the supply chain. These initiatives are based on certification programs and are done in collaboration with external organizations that provide such labels. Collaborations include a certification from the Marine Stewardship Council (MSC) on fish products that guarantee the fish sold is from “fisheries that are sustainable and controlled”; a certification from the Forest Stewardship Council (FSC) that guarantees the paper and wood products are made from recycled materials; a certification from the Fairtrade Labelling Organizations International that guarantees the coffees are produced using fair trade; and an ECOMATE certificate from the Japanese Government that guarantees the clothing products are made from recycled textiles. Aeon’s objective is to expand the products and collaborations to provide more certification programs in the future.

3.2.7 Green Products

The product area is expected to have the largest impact in CO₂ emissions reduction for Aeon’s program. By using environmentally responsible products, a reduction of 500,000 tonnes is predicted. Most improvements in products and supply chain come from Aeon’s own private brand, TOPVALU, although the company plans to promote similar developments with other product suppliers. TOPVALU is Aeon’s private brand of clothing, food, electronics and home products, established in 1990. Unlike some private brands from other retailers, the objective of TOPVALU has always been to offer very high-quality, sustainable products at affordable prices. As of February 2008, TOPVALU includes more than 5,000 products and six sub-brands, with sales of about US\$ 2.4 billion. As of October 2008, TOPVALU brands represent about 10 per cent of sales for Aeon, and is the fastest growing brand (38 per cent to October 2008). That is why Aeon expects TOPVALU sales to grow to US\$ 7.5 billion by 2010, representing about 20 per cent of total sales.

FIGURE 7: THE TOPVALU BRAND



Source: Aeon web site

The TOPVALU brand is built on the *Five TOPVALU Commitments*:

- 1. Reflecting the opinion of customers in products:** incorporate customer opinions about product quality and function into its design and development.
- 2. Offering reassuring products with consideration for safety and the environment:** reduce the use of food additives, and use raw materials and packaging with less environmental impact.
- 3. Presenting necessary information in an easy-to-understand format:** clearly indicate information on nutrition and genetically modified ingredients.
- 4. Providing products at affordable prices:** products more affordable than those of national brands.
- 5. Guaranteeing customer satisfaction:** refund or exchange products if the customer is not satisfied.

Aeon has established processes to guarantee that the *Five TOPVALU Commitments* are fulfilled in all its products. Throughout the planning and design of TOPVALU products, including the selection of suppliers, raw materials and packaging, more than 300 different criteria are examined. Additionally, all TOPVALU suppliers are required to sign the *Aeon Supplier Code of Conduct*, to ensure that proper social and environmental conditions are observed in the production of goods (see section on Supply Chain). Although all TOPVALU products take into account some environmental and social issues, there is one sub-brand actively targeting the development of environmentally friendly products: TOPVALU Green Eye.

The Green Eye concept did not begin with TOPVALU, but with farm products, when Aeon examined the reduction of chemical fertilizers and additives in 1993, after the Ministry of Agriculture created the standard for organic farming. The name Green Eye plays with aspects of that concept: green refers to sustainable, eye refers to the eye, oneself, and also love (in Japanese). However, the concept was expanded from farming to food products in general, and Green Eye was established as the Aeon product that denotes sustainability and food safety. At that time the TOPVALU Green Eye brand was born. The vision of this brand is "to help customers achieve a more sustainable lifestyle," with the objective of "promoting biodiversity, prevention of global warming and conservation of natural resources," and to accomplish that vision and objective "through choosing sustainable materials and practices to develop and sell the products." The brand is based on the commitments in the *TOPVALU Green Eye Five Criteria*:

1. No artificial colouring, preservatives or sweeteners are used in Green Eye products.
2. Use of chemical fertilizers, agrichemicals, antibiotics, and other chemical items is minimized in the production process.
3. Green Eye products are made using the power of nature in the location, timing, crop varieties and feeding in order to make food as delicious as possible.
4. Green Eye products support environmentally friendly farming practices.
5. Green Eye products are controlled from production to sale in accordance with our own self-imposed strict standards.

To fulfil these five commitments, TOPVALU Green Eye products are assessed at the development stage

for environmental impact using life-cycle analysis. The objective is to offer innovative products such as non-polluting cleaners made from baking soda, plastic food wrap that does not require separation for garbage collection, or highly energy-efficient compact fluorescent bulbs. Furthermore, TOPVALU Green Eye products offer clear information to customers, including traceability of the product history, which can be read with a cell phone. Often the products are certified by third-party organizations, such as fish certified by the Marine Stewardship Council, paper products certified by the Forest Stewardship Council, or specialty coffees certified by the Rainforest Alliance. TOPVALU Green Eye also promotes sustainable farms through a direct relationship with about 3,500 farmers, as well as with 925 factories, and demands all its business partners undertake sustainable practices. In the future, TOPVALU Green Eye proposes to have a greater impact on the reduction of CO₂ emissions using biomass packaging materials (see the section on Solid Waste).

3.2.8 Other Customer Collaboration Programs

In addition to the larger programs on recycling and plastic bag reduction, Aeon conducts many other projects in collaboration with customers and local communities. Aeon Day was launched in 2001 to celebrate the renaming of the company. It is held on the 11th day of each month, when Aeon organizes activities with employees, customers and local communities. Aeon employees and volunteers help to clean local sites such as public areas. (In 2007, more than 370,000 Aeon employees participated.) On Aeon Day, customers are given special yellow receipts for their purchases that they can donate to various projects and NGOs. Aeon will donate one per cent of the receipt amount to that organization in products. Aeon also carries out disaster and emergency relief fundraising initiatives through its stores.

3.2.9 Sustainability, Charity Giving and Community Activities

The Aeon CSR and sustainability strategy for 2008 to 2012 is built on the reduction of CO₂ emissions. However, Aeon carries out many other sustainability and CSR projects such as the following:

- **Aeon one per cent club:** funded with one per cent of pre-tax profit from Aeon blue chip companies, it funds initiatives for educating children, such as eco clubs near stores, building schools in developing nations, promoting exchange between teenagers from different countries or organizing cultural events.
- **Human rights:** activities promoting human rights, such as a TV campaign to stop domestic violence or raising funds to develop human rights projects.
- **Education on correct eating habits:** holding regional and local activities to inform people about good diets, or giving diet information at stores one day a month.
- **Fair trade:** offering fair trade products in the stores and including fair trade products in the TOPVALU brand.
- **Community trade:** based on The Body Shop campaign, it is a fair trade initiative based on the concept of helping sustainable development by establishing stable trade initiatives with local communities.
- **Fundraising activities:** regularly raising funds in all stores to tackle emergency situations (for example, earthquakes), aid for sustainable development (for example, constructing schools

in Laos), or providing assistance for biodiversity and environmental issues (for example, preventing the extinction of certain species).

- **Disaster prevention:** working together with local communities to assist in the prevention of crime and other community-based issues, usually in collaboration with local authorities.

4.0 Summary and Conclusions

Aeon is generally seen by Japanese consumers as the leading retailer in terms of sustainability and CSR policies. This image actually coincides with reality, in terms of the number of policies and resources assigned to these practices. Nevertheless, the ambitious goal established by Aeon to reduce CO₂ emissions by close to two billion tonnes in five years, is at the moment just that: an objective. However, as we have seen, the targets set forth in the 2008 Manifesto are built on existing sustainability and CSR policies, which in most instances have been carried out for several years with significant impact.

4.1.0 Key Success Factors

- Corporate culture built on understanding Aeon as a part of society, and building all of its policies (sustainability or otherwise) on the interconnection among customers, communities and cultures. This is evident in their “soft and hard” side design of sustainability and CSR policies.
- Strong and sincere commitment from senior management to sustainability and CSR.
- Aligning sustainability and CSR strategies with business strategy and corporate culture.
- Applying the same sound management processes to sustainability and CSR policies that are applied to any other business policy.
- Involving employees in project participation with customers at a community level.
- Establishing awareness and advertising campaigns at a national level.
- Understanding the intangible positive impact of sustainability and CSR policies in the organization rather than basing the evaluation of policies on economic results and measures.
- Collaborating with external organizations at all levels, including local authorities, national government, non-profit organizations, think tanks, other companies, industry associations, and so forth.
- Establishing an easy-to-understand sustainability and CSR objective (that is, branding sustainability) to guide policies and actions at different levels.

4.1.1 Most Successful Policies

Without a doubt, the most successful Aeon policy for both economic and sustainability impact is the TOPVALU brand, currently the fastest-growing brand in sales for the group. According to their analysis, this is largely due to their sustainability and CSR policies. In visibility and awareness, the most famous Aeon program is the tree planting initiative, although programs to reduce the use of plastic bags in Aeon stores are gaining in visibility.

4.1.2 Future Trends

Aeon believes that in the future, sustainability and CSR policies will follow two trends: an increase in the proportion and significance of social aspects, and the establishment of a common framework of sustainability, making it more understandable to everyone. Aeon believes that the footprint concept will gain significance in the future. Currently Aeon is considering the introduction of the footprint concept in some of its products and companies. The Ministry of Economy, Trade and Industry of Japan has established a committee to study the issue, and Mr. Ueyama, Aeon's top sustainability executive, is a member. The goal is to establish a pilot project with about 30 consumer products and observe the customer response. Aeon is convinced that soon all products and services will include a calculation of the footprint, and that footprint will be modified to include social issues such as fair trade or human rights.



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