

## WALMART: THE HEAVY HAND OF SUSTAINABILITY INNOVATION<sup>1</sup>

*Daniel Clark wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.*

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Nadia Bin Ahmed, the chief executive officer of Apparel Supplier A (ASA), based in Kuala Lumpur, Malaysia, hung up the phone. She was white as a sheet. The call, from her buyer at Walmart Inc. (Walmart), had brought news that represented an existential threat to her company. Bin Ahmed stared out the window for several minutes before pulling out her mobile phone and sending a direct message to her team. Within minutes her senior executives had filed into the office. When everyone was seated, she turned and addressed the team, saying, “I just got off the phone with Brian at Walmart. He informed me that as part of their Scope 3 sustainability review, they are focusing attention on apparel. They are requesting we conduct a sustainability audit with a plan to reduce our footprint by 30 per cent as quickly as possible.”

A hush fell over the room. The chief financial officer was the first to speak, asking, “And if we refuse?” Bin Ahmed took a deep breath and said, “All pending and future orders will be reviewed, and we should expect to be delisted as a preferred supplier within six months.” The room was silent. They all knew what this meant. Walmart provided 60 per cent of ASA’s sales, and growth of the Walmart business had fuelled ASA’s own expansion. Losing that business meant there was a very good chance the supplier would not survive the year, and the executives and their more than 500 employees would be out of work.

### GREENHOUSE GAS PROTOCOLS

Initially developed in 2001, with the rising concerns of greenhouse gas emissions, the Greenhouse Gas (GHG) Protocol defined a system of tools and reporting standards for corporations to report on their emissions. The GHG Protocol divided corporate greenhouse gas emissions into three categories: Scope 1, Scope 2, and Scope 3.<sup>2</sup>

Scope 1 encompassed the emissions a firm was directly responsible for. If the company had fleet vehicles, for example, the fuel used by those vehicles was Scope 1.<sup>3</sup> If the firm was involved in mining or farming activities that released emissions, called fugitive emissions, these were Scope 1. Or, if the firm was engaged in any manufacturing process, both the emissions from furnaces and boilers, and the emissions from the melting or chemical recombination of materials were all Scope 1.

Scope 2 encompassed the emissions from energy manufacturers that supported the work of the firm.<sup>4</sup> For example, a power plant’s emissions related to the direct energy usage of the firm was a Scope 2 emission.

So, for a company that had a fleet of cars, the emissions from gas combustion cars would be Scope 1, while electric cars (charged from the grid) would be Scope 2.

Scope 3 encompassed the Scope 1 and 2 emissions of all the other components in the firm's supply chain. Activities of the firm's employees, such as commuting to work and business travel, were also considered Scope 3.<sup>5</sup> However, critical to Walmart, when it ordered product from a supplier (such as ASA), the emission generating activities of the supplier would be accounted as Scope 1 and 2 on the supplier's books but as Scope 3 on Walmart's books.

Since the creation of the GHG Protocol, the primary focus had been on Scope 1 and 2 emissions; indeed, Scope 3 reporting had consistently been considered optional.<sup>6</sup> However, certain firms had been accused of outsourcing emission-intensive activities to countries with lax reporting standards, and as a result there was increasing attention on what Scope 3 emissions firms were reporting and how and when they were reporting.<sup>7</sup>

Every country and jurisdiction had unique emissions reporting requirements, meaning there was no standard as to who reported what. In the United States, only 8,000 firms were required to report under the Environmental Protection Agency's GHG Reporting Program. However, the European Union and other jurisdictions were adopting stricter reporting requirements, and certain firms (such as Walmart) saw getting ahead of those restrictions, reporting, and visibly taking action as a strategic advantage.<sup>8</sup>

## WALMART SUSTAINABILITY

Walmart, as the world's largest retailer, was frequently maligned for any number of activities, including labour practices,<sup>9</sup> environmental practices,<sup>10</sup> and its impact on the communities in which it had established operations.<sup>11</sup>

Walmart first addressed sustainability issues in 1989, when in response to customer complaints the company urged its suppliers to provide products that were environmentally safe in sustainable packaging.<sup>12</sup> In 2005, Walmart committed itself to a sustainability campaign, including "to be supplied 100% by renewable energy, to create zero waste, and to sell products that sustain our resources and the environment."<sup>13</sup>

The initiative announced in 2005 prompted Walmart to undertake a prolonged review of its entire business's practices, its Scope 1 and 2 emissions, its waste, and the product it sold, among other things, and seek to bring them in line with its goals. In the following year, the company initiated the practice of issuing public reports on its progress and setbacks as it worked to hold itself accountable to its 2005 promise.<sup>14</sup>

The enormity of the challenge in front of Walmart should not be underestimated. In 2005, the company had 680 million stock keeping units (SKUs), sales of US\$285 billion,<sup>15</sup> over 5,000 stores, over 5 billion square feet of retail space, four million freight deliveries, 1.6 million employees (associates), and 68,000 suppliers, across nine countries.<sup>16</sup> Over the following 20 years, the company had only grown; indeed, by 2024 worldwide sales across all divisions were over \$600 billion.<sup>17</sup> The company was enormous, and consequently, the environmental footprint of the company was also enormous. It was estimated that the retail industry collectively was responsible for 25 per cent of total emissions, and Walmart—as the largest retailer—was responsible for a significant portion of that. However, 98 per cent of those emissions were thought to be Scope 3 emissions originating in the supply chain.<sup>18</sup>

In 2017, Walmart announced Project Gigaton, an ambitious plan aimed to help it reach net zero emissions by 2040. A gigaton was 1 billion metric tons of emissions—more than the entire emissions of Germany. Project Gigaton set the ambitious goal to reduce, avoid, or sequester a gigaton of emissions from its value

chain by 2030. However, with aggressive action the company hit its halfway mark in 2022 and was on pace to achieve its goal by 2024, six years earlier than planned.<sup>19</sup>

To accomplish these goals, Walmart used its industry weight to influence its suppliers. For many suppliers, large and small, Walmart was their largest customer, thus even a small reduction in Walmart procurement could have serious implications for them. Indeed, in 1993 Rubbermaid was America's most admired company (according to *Forbes*), but a pricing dispute with Walmart led to many of its products being delisted; Rubbermaid subsequently had significant financial challenges and was sold to its largest competitor (Newell Brands) just six years later.<sup>20</sup> The potential impact of a dispute with Walmart was well known to its suppliers.

To advance Project Gigaton, Walmart turned its attention in 2023 to General Mills Inc. (General Mills), an S&P 500 firm—manufacturing Cheerios, Betty Crocker and Pillsbury products, and many more—with \$20 billion in annual sales. Walmart was its largest customer. Toward Walmart's sustainability goals, General Mills agreed to pursue regenerative agriculture across 600,000 acres of US farmland by 2030 to provide products to Walmart, and another 400,000 acres for its other customers.<sup>21</sup> Regenerative agriculture involved a host of practices that preserved topsoil, reduced fertilization, and reduced emissions, but it was generally less productive than factory farming methods often associated with consumer-packaged goods (such as General Mills goods). The initiative aimed to substantially reduce emissions and improve product quality.<sup>22</sup>

## PRIVATE LABEL AT WALMART

Private label brands, products produced under contract for the retailer and only available at that retailer, were a critical part of Walmart's merchandising strategy.<sup>23</sup> Private label brands gave a retailer the ability to offer products to its customers without the premium attributed to a third company's proprietary brand. Indeed, the brand premium was a critical source of profits for branded products, above and beyond any direct premium attributed to the material and production costs of the goods.<sup>24</sup>

Private labels were both a boon and a risk for retailers. Because manufacturers sold the product on a cost+ (cost plus a negotiated profit margin) contract basis, retailers frequently committed to minimum volume levels to achieve the contracted price. Consequently, the retailer assumed all the risk of selling the contracted inventory and capturing its own profit. To do this, it priced the product somewhere between the contract price and the price charged by the competing branded product. If the spread between the private label and the branded product was too small, customers might choose the branded product (why not pay 5 per cent more for the branded), leaving the retailer with hard-to-move inventory. If the spread was too large, the retailer might leave significant profits on the table, including the potential profits from selling the branded products.<sup>25</sup>

Walmart had many private labels. Its primary private label brand was "Great Value," which had been on Walmart shelves for more than 30 years<sup>26</sup> and represented more than \$27 billion of Walmart's sales worldwide. In addition, Walmart had 18 other "blockbuster" brands, each with at least \$1 billion in sales.<sup>27</sup>

In the apparel department, Walmart sold both branded and unbranded clothes. However, unlike most private label products, which were designed to mimic the branded product they were merchandised alongside—offering customers a lower-cost substitute for a branded choice—private label clothes were sold on their own merit. While Levi's jeans might sit next to private label brand jeans, and the brand had some value for the customer, the customer was also considering the styling, fit, and comfort of the two products as independent considerations.

Walmart's clothing department, while a highly profitable segment and a tenant of considerable floor space in its stores,<sup>28</sup> made up a relatively small portion of the overall Walmart business (approximately \$30 billion annually).<sup>29</sup> However, the strategic importance of apparel could not be understated. Every Walmart store

was different, and space was allocated based on detailed analysis of local trends, preferences, and competition; however, apparel was generally at the front of the store, in close proximity to the entrance(s) of the store and the cash registers—generally premium real estate.<sup>30</sup> As such, Walmart's private label clothing offerings were highly visible, and played an important role in customers' impressions of the store.

However, the clothing department had been a challenge for the company. Years of stagnant sales<sup>31</sup> had forced Walmart to reinvest in its brands and reconsider category competitive threats. Indeed, in 2021 Amazon.com Inc. became the top clothing retailer in the United States.<sup>32</sup>

Apparel represented an environmental conundrum for Walmart; it was a disproportionate contributor to Walmart's Scope 3 environmental footprint. But because of the visibility of the category, particularly the private label elements, Walmart "owned" this impact—unlike other categories where responsibility could be shared with other large corporations—as many of Walmart's apparel suppliers were relatively small firms like ASA. Further, taking up sustainability leadership in a highly visible category with a poor environmental record could mean critical strategic advantages for the retailer seeking to reinvigorate its competitive position.

## CHALLENGE FOR ASA

In turning its attention to ASA, Walmart was recognizing the critical impact the garment industry had on the environment. The garment industry annually used 93 million cubic metres of water, enough for five million people. Twenty per cent of wastewater worldwide came from fabric dyeing and treatment. Collectively, the garment industry was responsible for 10 per cent of global carbon emissions, an amount that was growing rapidly and expected to increase by 50 per cent by 2030. Globally, 62 million metric tons of clothing were consumed in 2019, an amount expected to increase by 70 per cent by 2029. Eighty-seven per cent of these fibres were incinerated or sent to landfill. Further, the industry dumped 500,000 tons of microplastics into the world's oceans annually, equivalent to 500 billion plastic bottles. It was estimated that a single pair of jeans required 3,781 litres of water to produce and resulted in 33.4 kilograms of carbon emissions from manufacture to distribution.<sup>33</sup>

ASA's value chain varied from product to product, but a typical T-shirt sold in Walmart followed an opaque path (see Exhibit 1). The cotton might be grown anywhere in the world, including West Texas (under United States Department of Agriculture subsidies), a region that produced 42 per cent of US cotton. The United States was the world's third largest cotton producer (behind India and China; the three countries represented 75 per cent of global cotton production).<sup>34</sup> The cotton was pressed into bales and purchased by a trader. The trader might sell to another trader or directly to a cotton gin for processing. The processed cotton was again bought and sold by traders until it ended up at a yarn spinner (often in China). The yarn spinner cleaned, blew, smoothed, carded, and twisted the cotton into yarn. The yarn was then shipped to Malaysia to ASA's manufacturing centre. The yarn was spun into fabric and dyed (ASA did this process as part of vertical integration but could purchase dyed fabric from suppliers). The fabric was cut and sewn into clothing; the process was enormously labour-intensive, as despite enormous research into new automations, the cutting and sewing of clothing remained a manual business.<sup>35</sup> The finished product was then bundled, boxed, and shipped back to Walmart for receiving, distribution, and sale.

ASA provided two essential value adds: it developed designs that Walmart considered and approved, and it manufactured the clothing items to Walmart's sizing specifications. The clothes were sold under Walmart's many private label brands—George, No Boundaries, Terra & Sky, Wonder Nation, and so on—and so marketing was solely Walmart's responsibility.

Malaysia provided ASA some critical competitive advantages over China. Garment worker salaries were 10–20 per cent lower in Malaysia, a critical factor in labour-intensive manufacturing.<sup>36</sup> Over the previous years, starting with President Trump and expanded by President Biden, the United States had began charging substantial tariffs (using a complex rate formula that varied according to the weight and value of the shipment) on clothing imports from China.<sup>37</sup> These tariffs served to make garments from China more expensive than those from Malaysia. Indeed, some Chinese companies were moving operations to Malaysia to avoid US tariffs, which would otherwise be passed on to consumers.<sup>38</sup>

As a first step towards compliance with its new programs, Walmart had insisted that all of its garment suppliers adopt the Higg Index as a reporting tool on emissions.<sup>39</sup> The Higg Index was a suite of tools that provided all participants (suppliers and buyers) in the garment and apparel industry a standardized method for assessing and understanding their contribution to the product's environmental footprint.<sup>40</sup> These tools provided independent assessments of each step in the value chain, including design and development, raw materials, manufacturing, logistics, retail, and consumers.

As the meeting with her leadership team broke up, Bin Ahmed watched her team file out. They were a good group. Loyal, hard-working, and skilled at what they did. But they were experts in garment manufacturing, not sustainability innovation. Design, develop, source, and manufacture a T-shirt, skirt, pants, and so on: this was no problem, but reinvent their own processes? She just wasn't sure. While the garment industry was constantly reinventing its products from a design perspective to reflect changing tastes and the design innovations of the big fashion houses, that was orders of magnitude shy of the innovations needed to satisfy Walmart.

Bin Ahmed considered, "What if we can't do it? Do we really need Walmart? Sure they are the world's largest retailer and 60 per cent of our sales, but there are lots of fish in the sea." She turned to her computer and typed in a Google search. Her heart sank. She was looking at some of the largest fast-fashion companies, such as H&M Group,<sup>41</sup> GAP Inc.,<sup>42</sup> and American Eagle,<sup>43</sup> and all were pushing their awareness of sustainability issues. There were definitely stragglers (e.g., Zara<sup>44</sup>), but it was clear that all their potential buyers would be asking questions now or soon. The same could be said of other department store clients, like the United States' Target Group,<sup>45</sup> France's Carrefour Group,<sup>46</sup> and Spain's El Corte Ingles.<sup>47</sup> ASA might run from Walmart, and refuse to comply with its directive, but it would be next to impossible to run from sustainable production.

## INNOVATION STRATEGIES

Bin Ahmed fell down a Google hole, with link after link after link taking her to new websites with ideas and strategies for innovation. Ultimately, she realized that firms followed three fundamental innovation strategies.<sup>48</sup>

**Customer-focused innovation** referred to a model where the firm developed innovations, they believed the customer needed, wanted, or would accept. Despite the positive name for the model, the real focus was on the firm: the firm's goals, its capabilities, and its priorities. The customer was the "focus" of the firm, and the firm was using the customer to achieve its goals. Namely, a firm might look at the market, see a strategic gap, and develop an innovation to fill that gap and push that innovation onto the customer. The customer had no real say in or contribution to what the innovation was—aside from possibly a few focus groups (or other customer learning exercises), largely seeking to teach the firm about the gap or to reinforce the firm's hypothesis about the gap—and the customer was ultimately a "taker" of whatever the firm created.

**Customer-centric innovation** referred to a model where the customer and the firm both played a role in developing innovations such that the innovation met the needs of both the customer and the firm. This innovation model posed two critical questions: (1) What is the customer's problem (and what needs arise from that problem)? And, (2) How can the firm create solutions to the problem that benefit both the customer (needs alleviation) and the firm (profitable products or services)? The goal was very much co-

benefit creation; the innovation was not successful if it didn't service the needs of the customer, nor was it successful if the firm could not drive sufficient scale, price, or profits to recoup its investments and sustain the firm and ownership. The customer was consulted regularly by the firm—e.g., they were either directly advocated or represented via a proxy (e.g., a persona)—in the innovation process, they were consulted in relation to prototypes and potential solutions, and they ultimately adjudicated on how successful the solution was. As such, the customer was both a “giver” and a “taker” of what the firm created. There were numerous models of this process, including the design thinking, lean start-up, and agile models, but they had more similarities than differences in their motivation and approach.

**Customer-driven innovation** referred to a model where the customer played a critical role in pushing for and driving innovation processes such that the innovation was assured to meet the needs of the customer. In this model, the customer was the innovation initiator: they set the goals, they defined the problem, and they outlined the needs and the constraints for the innovation; they might even provide a desired end-state for the innovation. The firm, in comparison, was required to execute on behalf of the customer, and find a model where they provided the customer what was wanted—but in a way that allowed the firm to reap benefits. In this innovation model, the customer was the “giver” and the firm was the “taker”; as such, the power differential between the customer and the firm followed this model, where the firm was more dependent on the customer than the customer was on the firm.

Each of these three models had their utility and benefits for both the customer and the firm. Also, each model made unique demands on the firm. Those demands required the firm, differentially, to sense the needs of the market, develop the innovation, and implement it in a way that allowed it to be profitable. When firms aligned their knowledge and processes for a given innovation model, continuing innovation in line with those processes was largely seamless—business as usual.

Where things got especially complicated was when the firm, for whatever reason, attempted to innovate through a different innovation model than what its internal processes had historically been aligned for. This eventuality created the risks of disrupting the established process, new costs, and innovation failure (e.g., the innovation did not work, was not accepted by customers, or the firm lost money on it), with consequential effects on employee morale and other projects already in the established innovation pipeline. Firms could change, and could realign their innovation processes, but those realignments were most likely to be successful when they were deliberate and not ad-hoc.

Bin Ahmed slammed her laptop closed. She had never realized that her firm was indeed already in the innovation business. Its innovation processes for new products were so ingrained into firm operations that the chief executive officer had never really given them much thought (see Exhibit 2). The Walmart imperative, put another way, was just an innovation call. The question thus became (1) whether she answered the call and, if so, (2) how she answered it, in terms of not only creating the requested innovations but also how the firm was aligned for innovation.

## ADDRESSING THE CHALLENGES

Bin Ahmed looked around at her team, reassembled after a day of research, consideration, and reflection. As a group, she had enormous faith in their ability to deliver anything she asked of them, but the current challenge was like none they had ever faced.

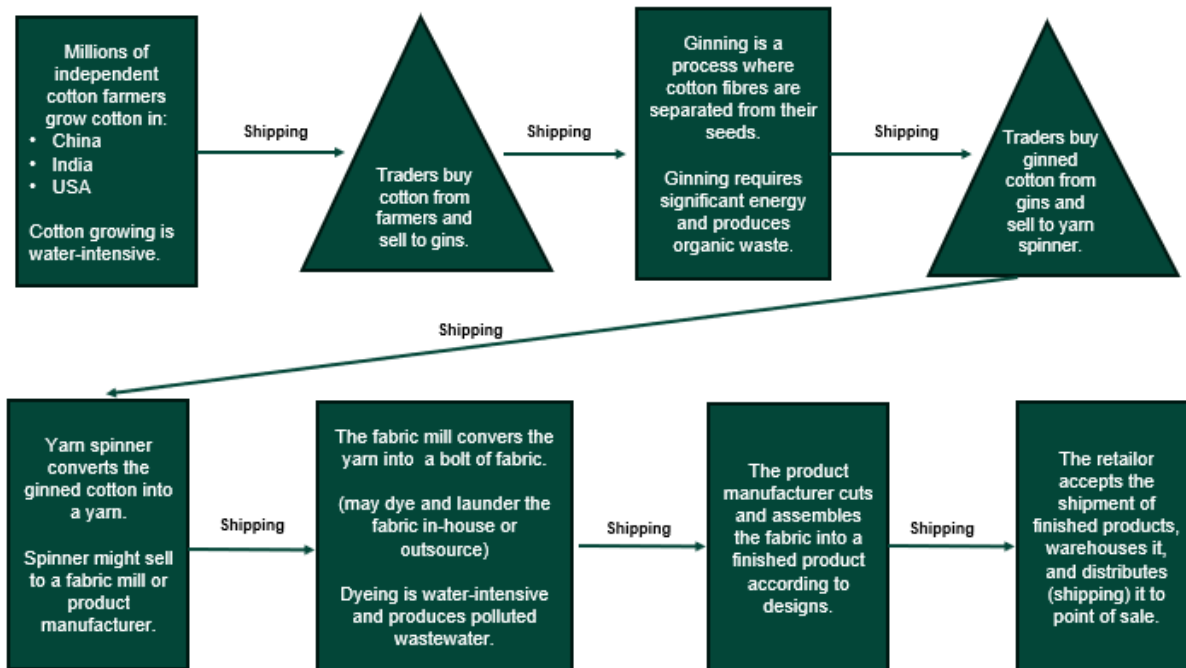
“As I see it,” she announced, “We have a series of decisions to make. I am going to lay them all out, and then we can start discussing them one by one.” She wheeled out a whiteboard and started writing.

Do we agree to Walmart's demands?

- a. If we do not, how do we carve our path forward—in replacing those top line sales, managing our overhead, ensuring our survival, and recognizing that sustainability will continue to haunt us?
- b. If we do, then:
  - 1. Walmart is asking us for a 30 per cent reduction in emissions, and that is just to start. There is no part of our business that will not be affected. How do we embrace the level of innovation of processes and practices this will demand?
  - 2. There are a lot of challenges working against us: time, money, and the fact that we are not set up to radically reinvent our business. What are our priorities towards laying out a strategy to meet these demands?
  - 3. How do we manage Walmart's expectations?
  - 4. Are we even thinking about this challenge in the right way?

Bin Ahmed stepped back from the whiteboard and sighed. Yesterday she had been the owner of a successful Malaysian garment manufacturer; today she was a sustainability innovation consultant to her own company. "At least," she thought, "we aren't the only ones going through this. Bryan at Walmart said he would be calling all their garment suppliers over the coming weeks."

## EXHIBIT 1: APPAREL VALUE CHAIN



Source: Designed by the author based on information in Environmental Justice Foundation, Tesco Clothing & Home, and Graham Burden, *Somebody Knows Where Your Cotton Is From*, Environmental Justice Foundation, December 12, 2009.



**EXHIBIT 2: APPAREL SUPPLIER A—DESIGN TO PRODUCTION PROCESS**

ACA' Designers produce original designs, inspired by three sources:

**Designer Knock-off**

**Fashion weeks:**

- Paris
- Milan
- New York
- London

**Influencers**

**Social Media:**

- Instagram/Facebook
- TikTok/YouTube
- Twitter (X)

**Competitors**

**Scanning:**

- Websites
- Catalogues
- Fashion Shows

Designs are mocked up as a catalogue for buyers to shop from.

Orders determine which fabric designs are  
manufactured and go into production.

Waiting on orders slows ACA's delivery time but  
minimizes inventory and waste.

Source: Designed by the author based on information in Achim Berg, Miriam Lobis, Felix Rölkens, and Patrick Simon, "Faster Fashion: How to Shorten the Apparel Calendar," McKinsey & Co, May 17, 2018, <https://www.mckinsey.com/industries/retail/our-insights/faster-fashion-how-to-shorten-the-apparel-calendar>.

## ENDNOTES

- <sup>1</sup> This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily of those of the Walmart Inc. or any of its employees.
- <sup>2</sup> World Business Council for Sustainable Development and World Resources Institute, *The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard*, 2004, accessed September 21, 2024, <https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf>.
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