



Insights from the CFO Survey

Consumer and Retail
Sector

19 April 2022

Consumer and Retail Sector
KPMG in Japan



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Executive Summary

Initiatives to address sustainability issues in the Consumer and Retail(C&R) sector have been progressing amid strong concerns regarding climate change risk.

- (1) The consumer goods and food & drink industries are concerned about the risk of supply chain disruption caused by climate change.

The risk of climate change, including natural disasters caused by climate change, is the most concerning sustainability issue in the C&R sector. The majority of raw materials in the consumer goods and food & drink industries are agricultural, livestock, and natural resources, many of which are imported. The survey results indicate strong concern among these industries, that maintaining their current supply chain may become impossible, due to the possible effects of climate change or natural disasters on areas where raw materials are produced. Amid such concerns about the future, the level of interest in sustainability issues is high in the consumer goods and food & drink industries, with various measures being implemented. However, while many companies have a proactive approach to disclosures on the impact of climate change, they believe that they have yet to sufficiently address such disclosures.

Another factor contributing to the proactive approach of companies in the consumer goods and food & drink industries in addressing sustainability initiatives has been the constant scrutiny they face from individual consumers. They need to show that they are implementing appropriate measures in order to protect product loyalty and improve their brand image. Consumers have become more demanding of safety and security amid the COVID-19 pandemic. As companies in the consumer goods and food & drink industries deal with products that directly affect the health of individuals, they have been promoting a variety of initiatives for maintaining and improving not only the brand image of individual products but also their corporate image. A major theme in this endeavor has been a proactive approach to addressing the sustainability agenda.

Executive Summary

(2) Retailers place emphasis on their function as a regional lifeline

Retailers are closest to consumers in the C&R sector, making them more sensitive to the risk of damage to their stores and distribution networks caused by natural disasters—they are well aware of the function their stores serve as a lifeline for the community and therefore have strong concerns about the risk of supply chain disruptions. A further consideration behind this is the fact that many retailers with multiple stores have a management philosophy of contributing to the local community, leading to a sense of responsibility that they have to function as a lifeline for the community.

Retailers have been emphasizing DX investment alongside human resources investment as an investment strategy. This may be an indication of a move to utilize DX for promoting SX, as they embrace a rapid digital shift of the past few years that includes the evolution of e-commerce channels in response to changing customer needs.



01 Business Strategy An urgent need to address supply chain disruption risk

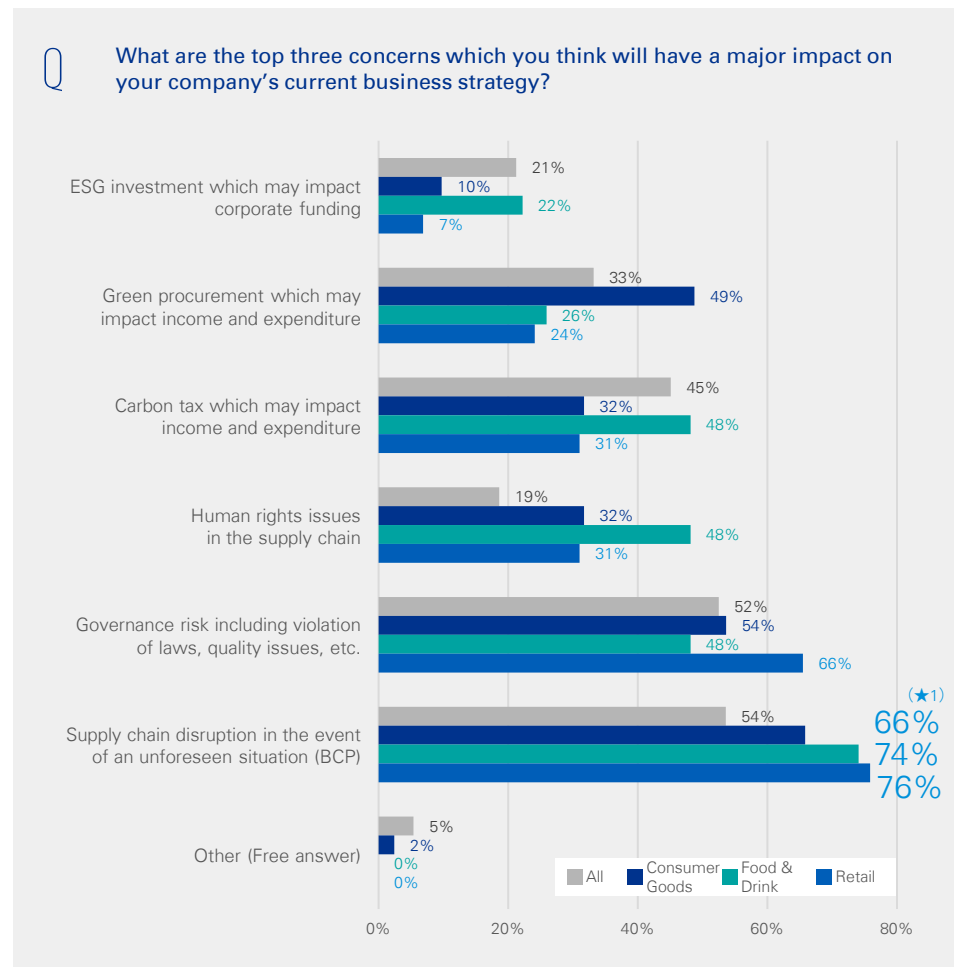
More companies in the C&R sector cited supply chain disruption in the event of an unforeseen situation (BCP) (★1) as a major concern that may have a significant impact on business strategy, compared to overall results.

It appears that the food & drink industry in particular has concerns about the impact of natural disasters and mid- and long-term climate change on production and supply chains relating to food ingredients, agricultural products, livestock products, marine products, and their processed food and beverages.

Meanwhile, retailers with multiple stores are likely to have a particularly high level of awareness of supply chain disruption risk, given the role that their stores serve as a lifeline for local communities in the event of an unforeseen situation. It also appears that there are growing concerns regarding risks relating to the supply chain in general, such as a shortage of containers and commercial materials, among the consumer goods, food & drink, and retail industries.

One example of a specific initiative to address climate change risks that may affect supply chains in the medium to long term, is the development and quality improvement of plant-based alternatives that use little or no livestock in the food & drink industry. Plant-based alternatives are not only less susceptible to climate change but are also expected to reduce greenhouse gas emissions.

Manufacturers, logistics companies and retailers have also begun to collaborate on an approach to cope with natural disasters, whereby weather forecasts and expressway information are incorporated into the analysis of internal data in order to formulate delivery plans based on a prediction of a disaster.





02

Strategy Investment

A need for environmental investments

Consumer goods and food & drink industries



As regards investment strategies for achieving SX, CFOs in the C&R sector view investments in environmental measures, DX, and human resources as top priorities. These are followed by the intention to strengthen M&A and R&D investments.



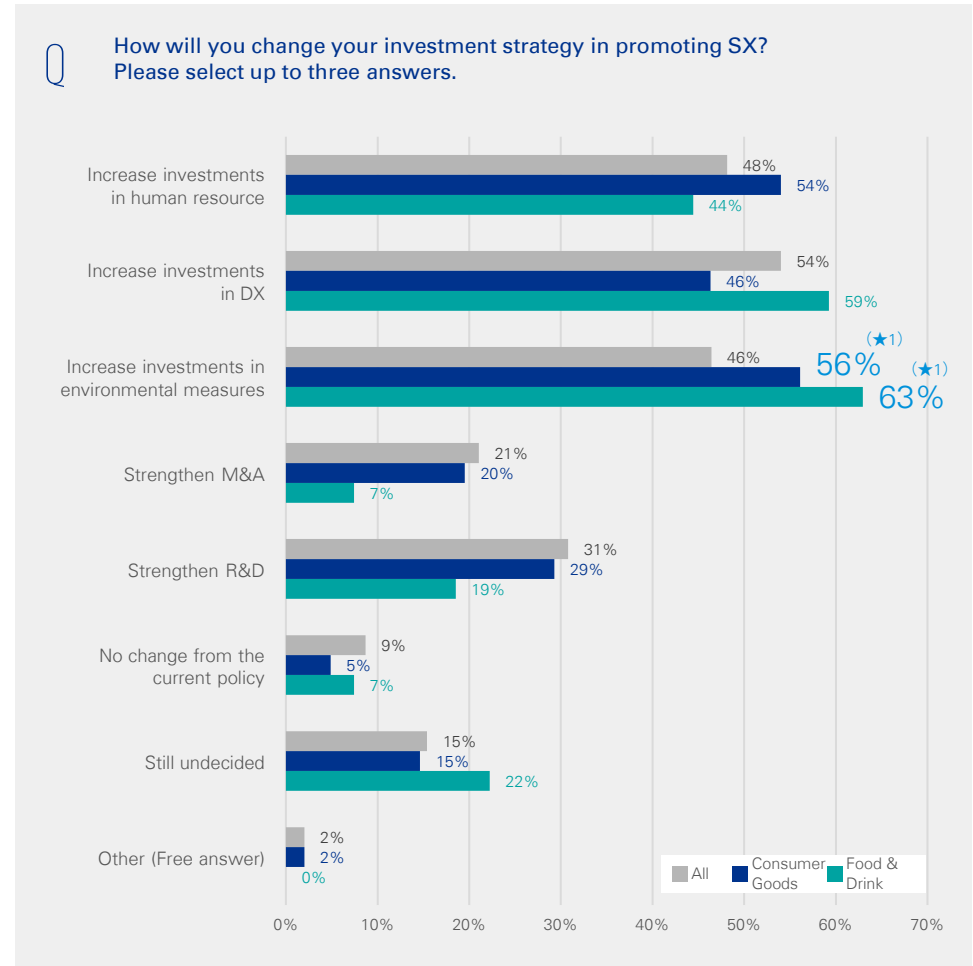
A characteristic of the C&R sector that came to light is the **high level of interest in environmental investment among the food & drink and consumer goods industries (★1).**



The main operation of the consumer goods and food & drink industries is to process natural resources (agriculture, livestock, marine and water resources) as raw materials and manufacture products. An underlying reason for the above characteristic is therefore that any impacts on the procurement of raw materials caused by climate change may have a significant impact on their overall business.



Leading food and beverage companies have been implementing specific environmental initiatives, such as reducing GHG emissions (CO₂ reduction and CFC elimination), creating a recycling-oriented society (plastic reduction), and securing water resources (water use reduction and reuse) throughout entire value chains, including R&D, procurement, production and distribution, and sales. Meanwhile, in terms of environmental initiatives, food and beverage companies still face the challenges of continuous improvement and evaluation of achievement levels through monitoring, and the dissemination of environmental initiatives among small and medium-sized companies.





02 Investment Strategy

DX investment with a view to evolving business models

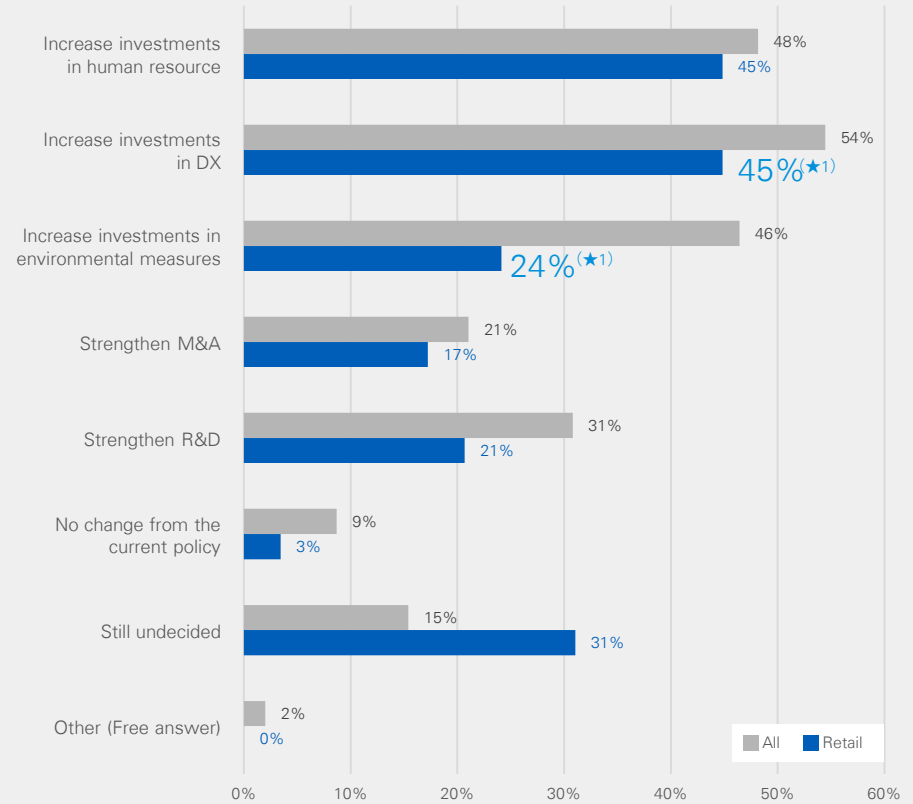


The retail industry has a higher level of interest in DX investment over environmental investment as an investment strategy for achieving SX (★1).



Developing and monetizing EC channels, enhancing digital marketing, and linking brick-and-mortar stores and EC channels are immediate challenges for companies in the retail industry. We believe that this has influenced the results of DX investment being cited as a top interest in the retail industry. There is significant competition between EC-origin and brick-and-mortar shop-origin companies. Based on an assumption that business models will evolve in response to customer needs in the future, we believe that further collaboration and bold M&A that go beyond the differences in corporate cultures of the two parties are necessary.

Q How will you change your investment strategy in promoting SX? Please select up to three answers.





02 Investment Strategy

Understanding the effect of ESG bonds on enhancing corporate brand



The majority of CFOs in the C&R Sector responded that they have no plans to consider the use of ESG bonds, which is a similar trend to that for CFOs in all industries. This result indicates that CFOs are cautious about the use of ESG bonds, including interest rate benefits and other conditions.



On the other hand, while 11% of all CFOs responded that they have already issued or are considering issuing ESG bonds, **this figure doubled for the food & drink industry to 22% (★1)**. We believe that this in part has to do with the intent of companies in the food & drink industry, which deal with food and beverages that directly affect the health of individuals. Their intent is to use ESG bonds not only for the promotion of the quality of individual products to consumers but also for enhancing their corporate image. Customers have come to demand even greater safety and security in the products they use amid the COVID-19 pandemic.

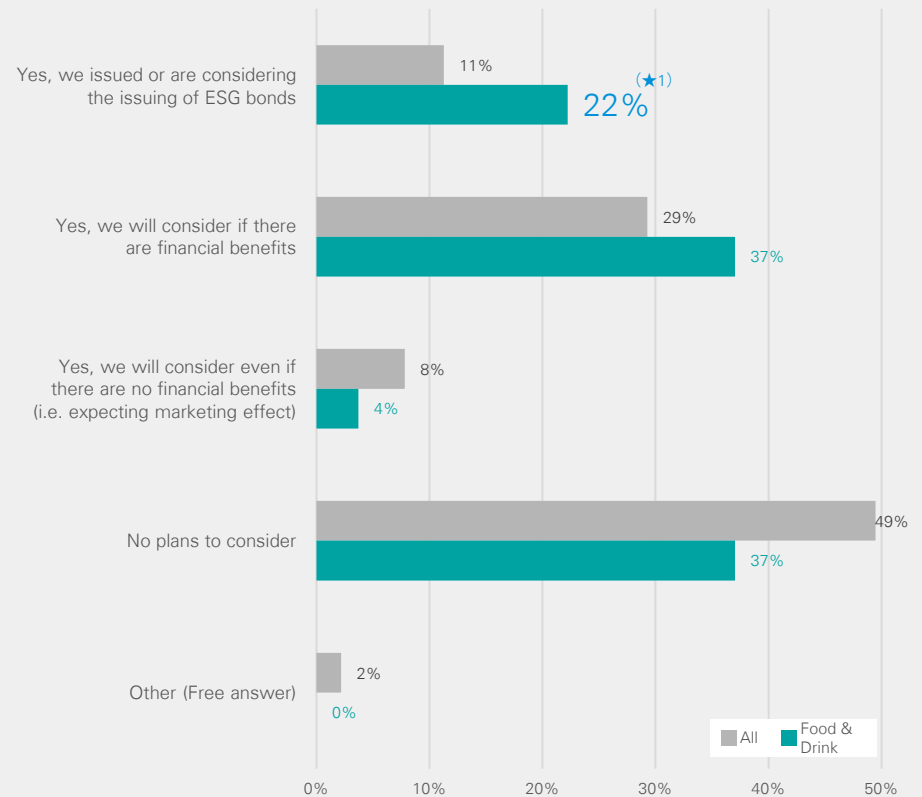


Disadvantages to issuing ESG bonds include the restrictions on the use of funds and the reporting requirements related to the management of fund usage, which can be burdensome for those issuing bonds. This can also lead to a likely advantage of enhancing the corporate brand. Through the issuance of ESG bonds, society and consumers can better understand how food and beverage companies are contributing to the environment through disclosure and reporting of the use of funds and projects financed by such funds.



It appears that the issuance of ESG bonds to increase in the future, particularly in the food & drink industry, in line with climate change measures promoted by the government.

Q Will you utilize ESG bonds in line with SX?





03 Corporate Governance

Addressing the disclosure of climate change impacts



CFOs have concerns that **enhancing the quality and quantity of disclosures regarding the impacts of climate change will be a challenge** as they transition to the Prime Market. **In the food & drink industry in particular, 63% of CFOs cited this as a challenge, which is considerably higher than the 46% for all industries (★1).**



The food & drink industry's focus on climate change disclosure is likely due to the fact that Prime Market listed companies are required to disclose their TCFD compliance status in their corporate governance reports.

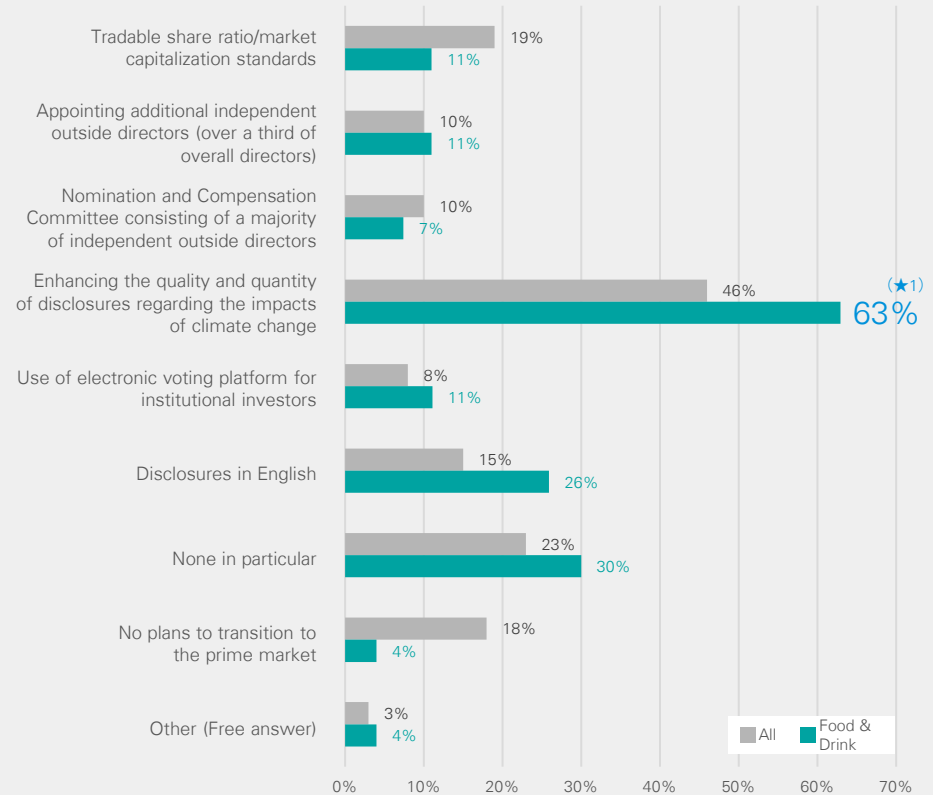


Because raw materials used by companies in the food & drink industry mostly comprise agricultural crops, they face significant business risk, where climate change may lead to a rise in raw material prices and stagnation of business activities due to difficulties in procuring raw materials. Climate change will also bring about changes in consumption behavior. On the other hand, an accurate identification of such new consumer needs can lead to new business opportunities. Companies in the food & drink industry have long been environmentally conscious and proactive toward environmental measures, including the reduction of GHG emissions, because of such significant impacts of climate change on their business.



Companies in the food & drink industry have been proactively addressing climate change initiatives and disclosing corporate initiatives to investors in various forms, including sustainability and integrated reports. However, since individual companies deal with various products and issues, many companies appear to be conscious of inadequacies in the quality and quantity of their disclosures in terms of meeting the TCFD framework of disclosure recommendations which include scenario analyses and their financial impacts spanning the four areas of governance, strategy, risk management, and metrics and targets.

Q What are the top three criteria which you expect to be challenging when transitioning to the prime market?





04 Risk Management A need for climate change risk management

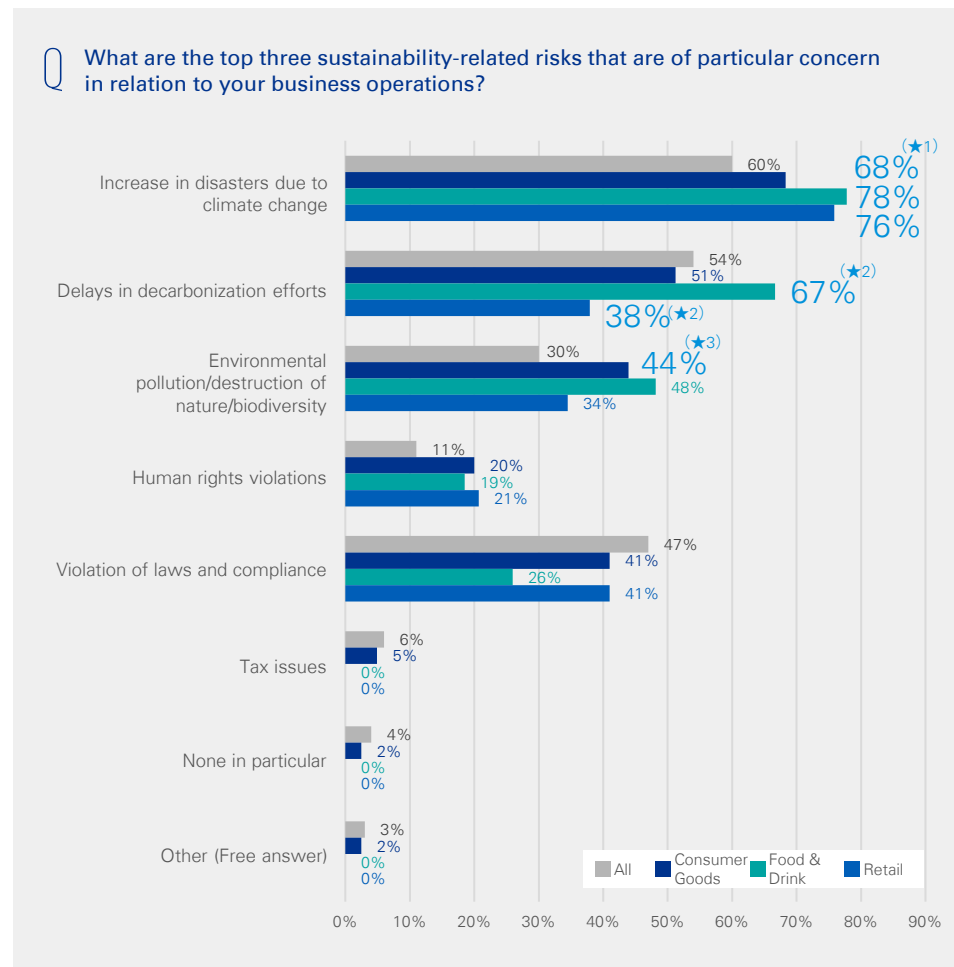
The consumer goods, food & drink, and retail industries all showed trends similar to those of the overall result, with a high level of concern for climate change, decarbonization, and violation of laws and compliance. We believe that there is also an awareness of sustainability-related risks relating to environmental pollution, destruction of nature, and biodiversity due to the fact that they deal with animals and plants in their business. This trend is particularly evident in the food & drink industry.

Concerns about an increase in disasters due to climate change in the consumer goods and food & drink industries (★1) can be attributed to a potential rise in the procurement cost of raw materials resulting from increasing disasters in relevant production areas. For example, the price of chicken meat depends on drought damage in areas where corn is produced, which is used to feed poultry. The reason why retailers are concerned about an increase in disasters due to climate change (★1) is considered to be that large-scale disasters may damage stores and distribution networks and increase commodity procurement costs.

The growing concern for decarbonization efforts in the food & drink and retail industries (★2) is likely attributable to the fact that all factors and activities related to food production, processing, distribution, preparation, and consumption account for 37% of total GHG emissions (see the UN SDGs website link below).

Many companies in the consumer goods industry are also concerned about sustainability risks relating to environmental pollution, destruction of nature, and biodiversity (★3). One reason for this may be that the fashion industry, a consumer goods industry, was ranked by UNCTAD as the world's second largest environmental polluter. This result also indicates a sense of urgency in the food & drink and consumer goods industries to further accelerate such initiatives as sustainable production and the preservation of forests and ecosystems to protect biodiversity.

UN SDGs website: <https://www.unep.org/news-and-stories/press-release/our-global-food-system-primary-driver-biodiversity-loss>





05

Comprehensive Reporting Including Non-financial Information Practical Issues for Sustainability Reporting



On the topic of sustainability reporting, CFOs in the C&R Sector cited “selecting sustainability-related metrics that should be monitored and setting goals,” “connecting sustainability-related measures with corporate value creation,” and “establishing a process and system for collecting necessary non-financial information” as the top three issues for the comprehensive reporting of sustainability information linked to financial information, which reflected the responses of all sectors. **A characteristic of the retail and food & drink industries is that the percentage of CFOs citing “additional administrative workload required” as an issue was higher (★1) than that for all industries.**

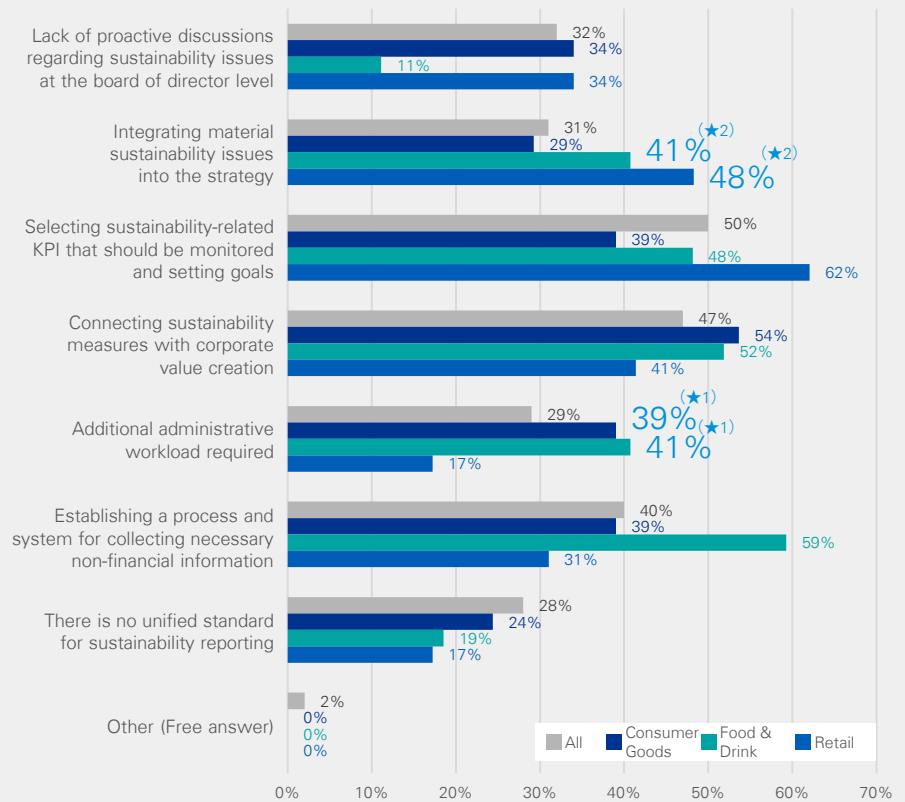


Consumer goods and food companies are constantly exposed to the selective eyes of individual consumers. The above result is a clear indication that CR companies proactively promote and take practical steps to address sustainability initiatives with the aim of securing product loyalty and enhancing corporate brand image. It also appears that they face challenges in tracing products back to their source due to their acceleration of such practical initiatives. In these initiatives, CR companies diversify the types of commercial products and the routes through which they are obtained both domestically and globally.



The percentage of CFOs in the C&R Sector citing “integrating material sustainability issues into the strategy” as an issue was also higher (★2) compared to all industries. This indicates that while many companies are actively addressing sustainability issues, many plan to address them not as individual issues, but in a consistent manner whereby sustainability issues are addressed as a part of the larger corporate management strategy.

Q What are the top three issues in preparing comprehensive reports which interconnect sustainability information with financial information?





06 Accounting and Finance

An urgent need to secure human resources with a management perspective



CFOs cited “management perspective,” “communication and conflict resolution skills” and “data analysis skills” as human resource skills required for the accounting and finance department in the future. There is no significant difference from the response of CFOs in all industries, suggesting that these are universal skills required of accounting and finance departments.



A “management perspective” was the top response (★1). This indicates that the accounting and finance departments are looking for human resources who are not only capable of managing financial figures, but also of supporting CFOs in their roles of proposing financial strategies for decision-making by management and of coordinating with stakeholders, with the same management perspective as the CFO.



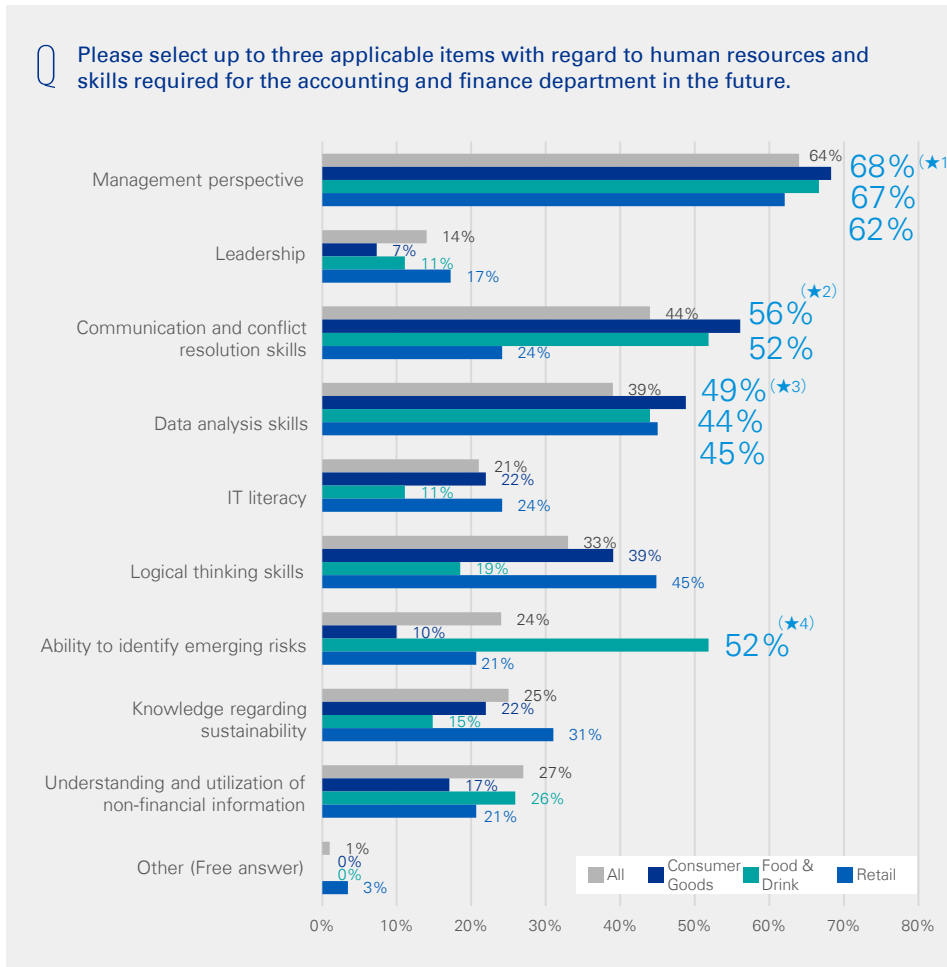
The next highest response was communication and conflict resolution skills (★2). This is because the accounting and finance departments need to liaise with external parties such as financial institutions and work with all internal corporate departments to obtain information in a timely manner. Such responsibilities require human resources with excellent communication and coordination skills.



There is also demand for human resources with data analysis skills (★3). We believe that this reflects the recognition among CFOs that the conventional profit-and-loss analysis and investment efficiency analysis alone are not sufficient for utilizing data at a time when recent system advancements have made it possible to access extensive and detailed financial and non-financial data.



On the other hand, while 24% of CFOs in all industries cited the “ability to identify emerging risks” as an important skill, this percentage more than doubled for the food & drink industry, at 52% (★4). The food & drink industry is closely connected to the lives of consumers and is required to provide a constant supply of safe and reliable products. However, the industry has been facing unforeseeable business continuity risks including large-scale disasters caused by climate change and prolonged impacts of the COVID-19 pandemic. This result may therefore be indicative of the growing need for risk-sensitive human resources even in the accounting and finance departments.

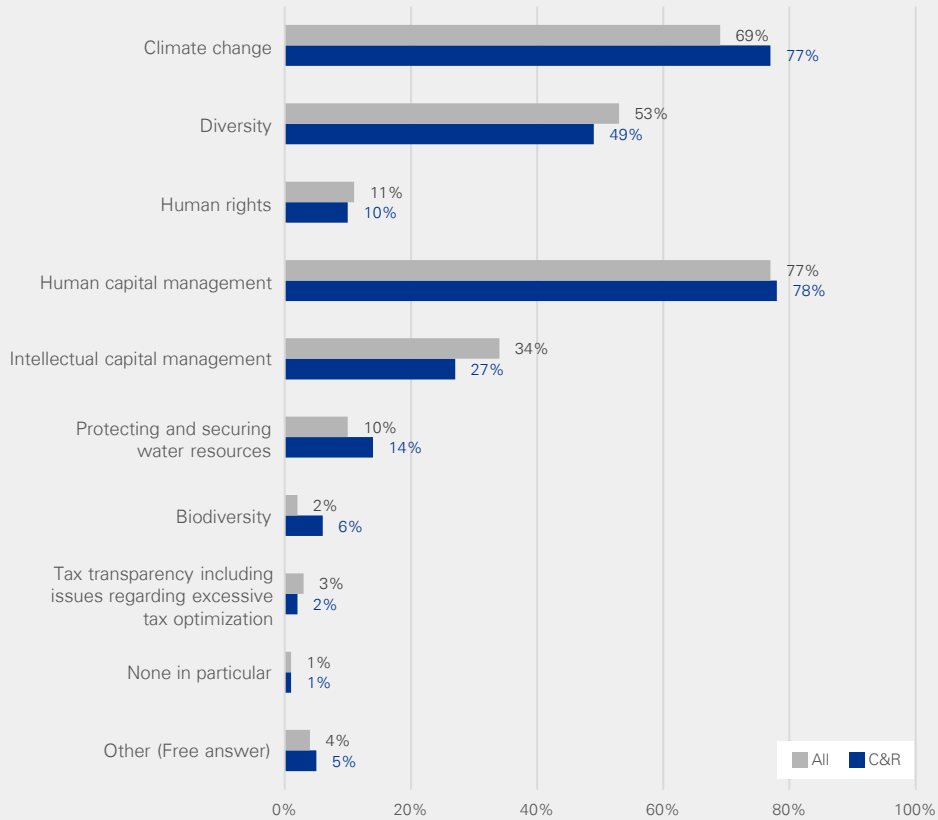




Survey Responses

1.Introduction

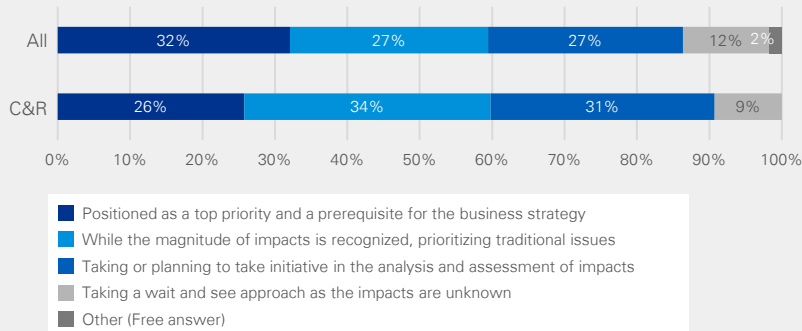
Q What are the top three sustainability-related issues that you think will greatly impact your corporate value at present or in the future?



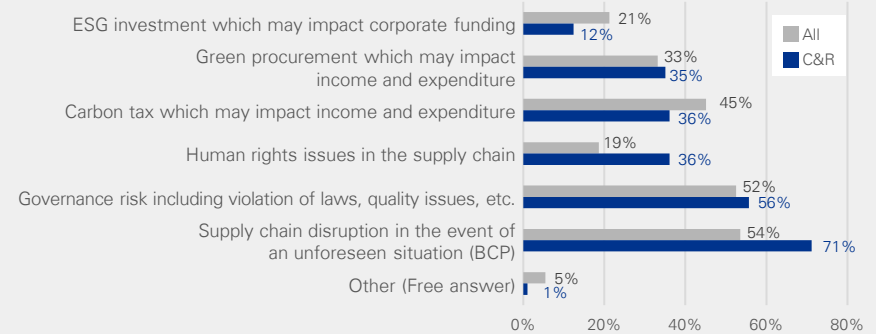
All: All Sectors
C&R: Consumer and Retail Sector

2. Business Strategy

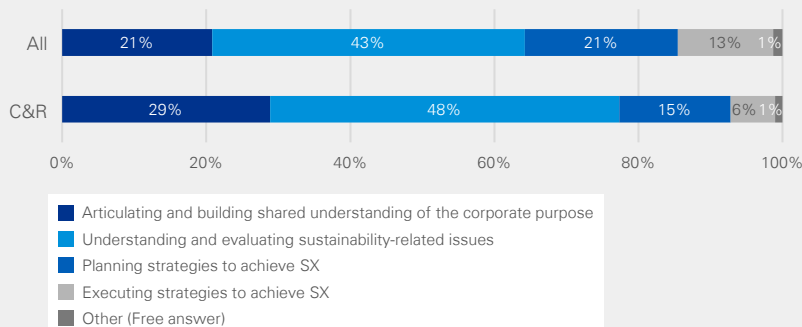
Which statement best reflects the positioning of SX within your company's management issues?



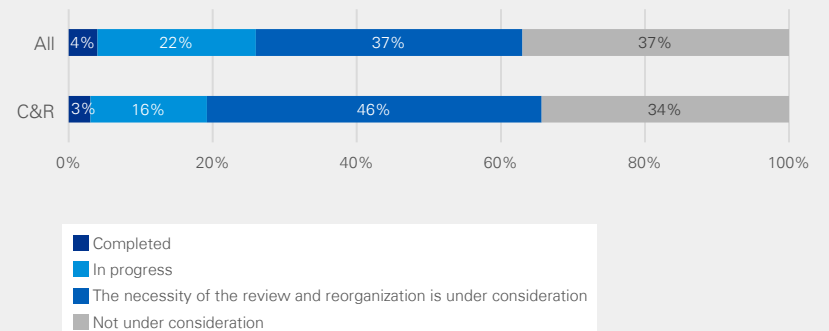
What are the top three concerns which you think will have a major impact on your company's current business strategy?



What is the most critical issue faced by your company in proceeding with SX?

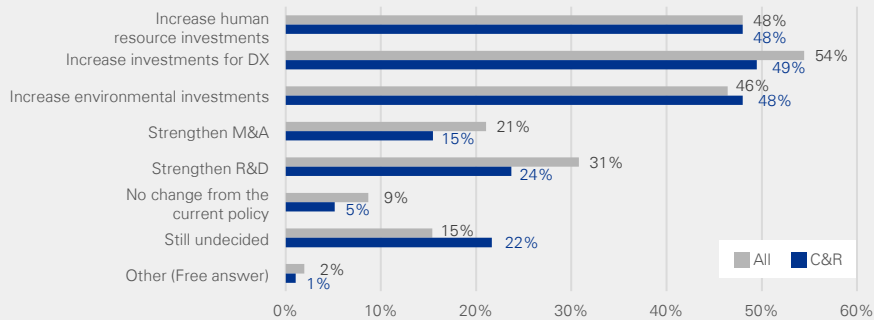


What is the status of reviewing and reorganizing the business portfolio on the premise of SX?

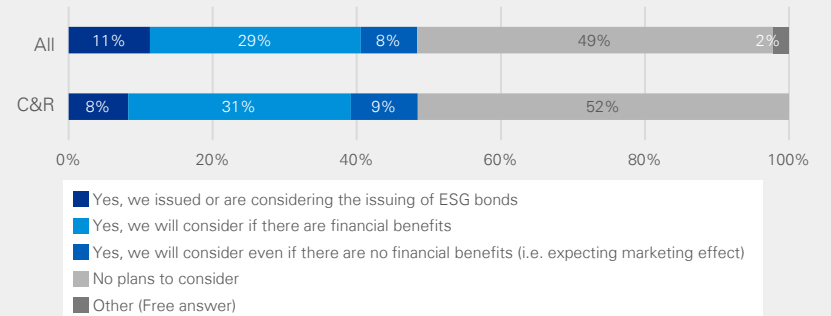


3.Capital Policy and Corporate Funding

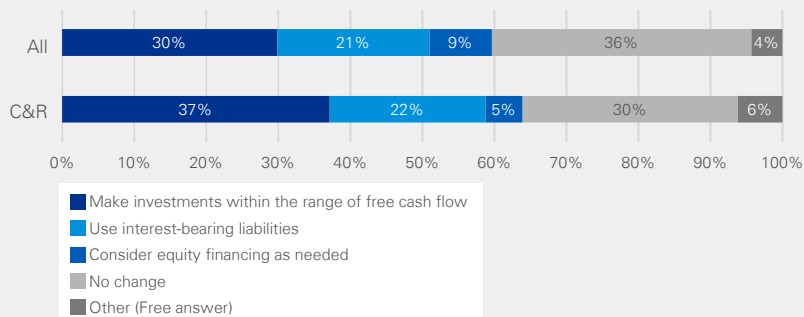
Q How will you change your investment strategy in proceeding with SX?
Please select up to three answers.



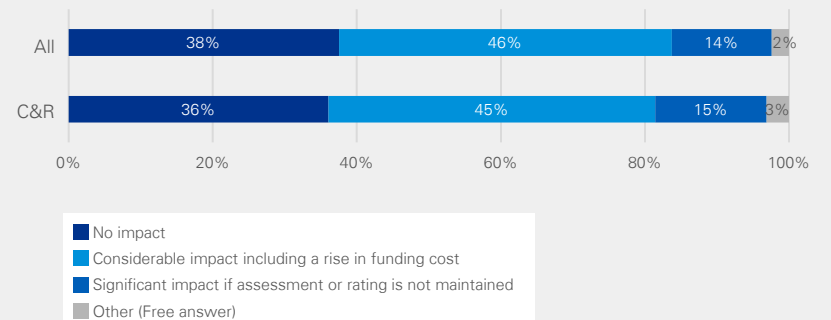
Q Will you utilize ESG bonds in line with SX?



Q How will you change your means of corporate funding in line with SX?

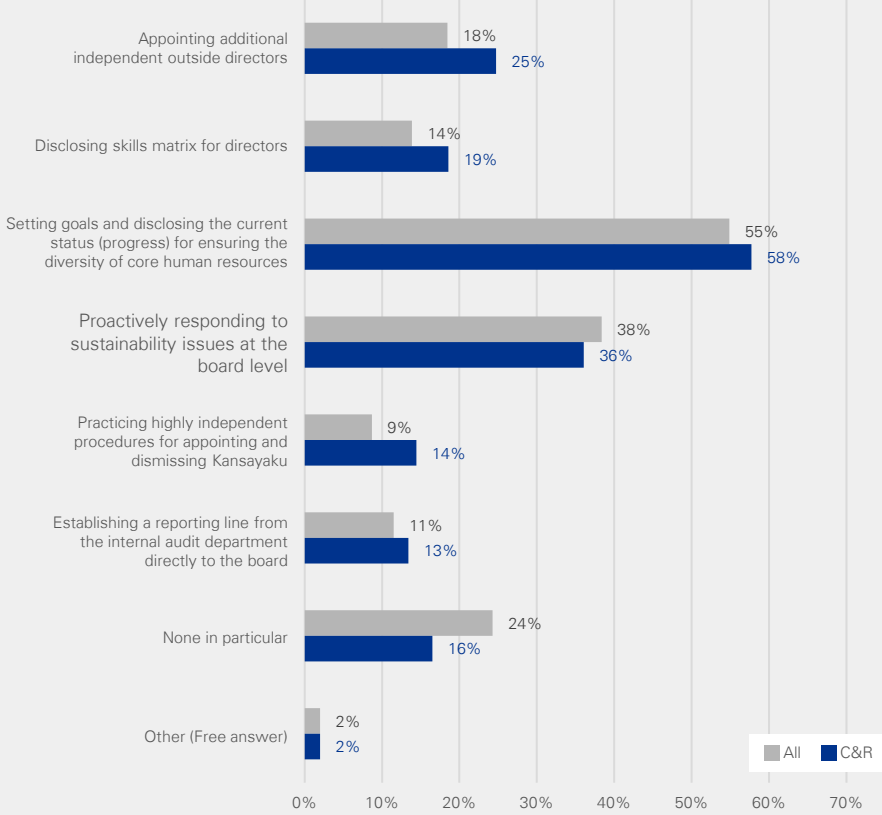


Q To what extent do you think ESG assessments and ratings will affect corporate funding excluding ESG bonds in the future?

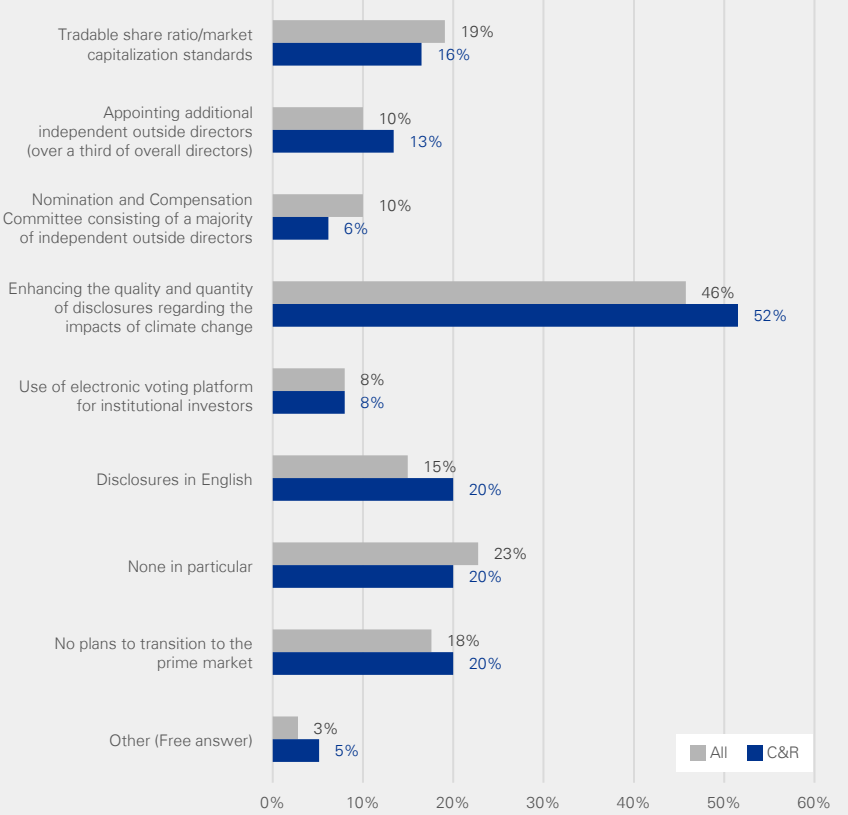


4. Governance

The revised Corporate Governance Code published in June 2021 incorporated some SX related matters in its principles. What are the top three items additionally incorporated in this revision which you feel are challenging to address?

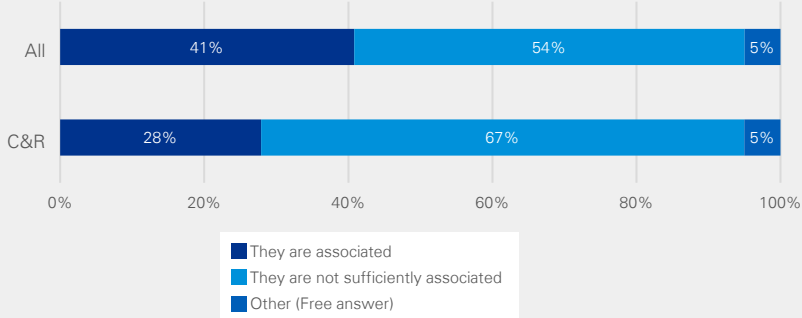


What are the top three criteria which you expect to be challenging when transitioning to the prime market?

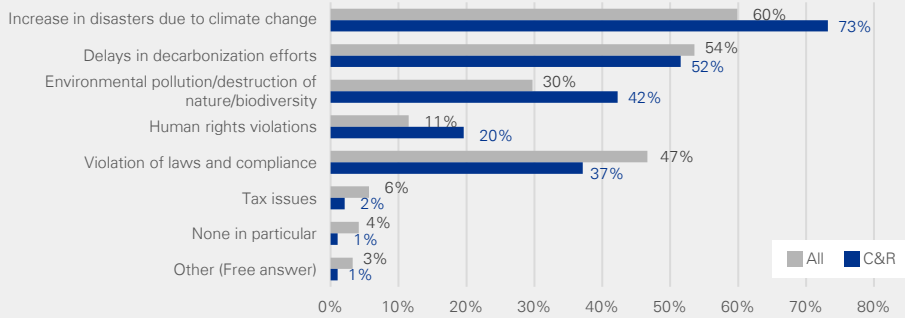


5. Risk Management

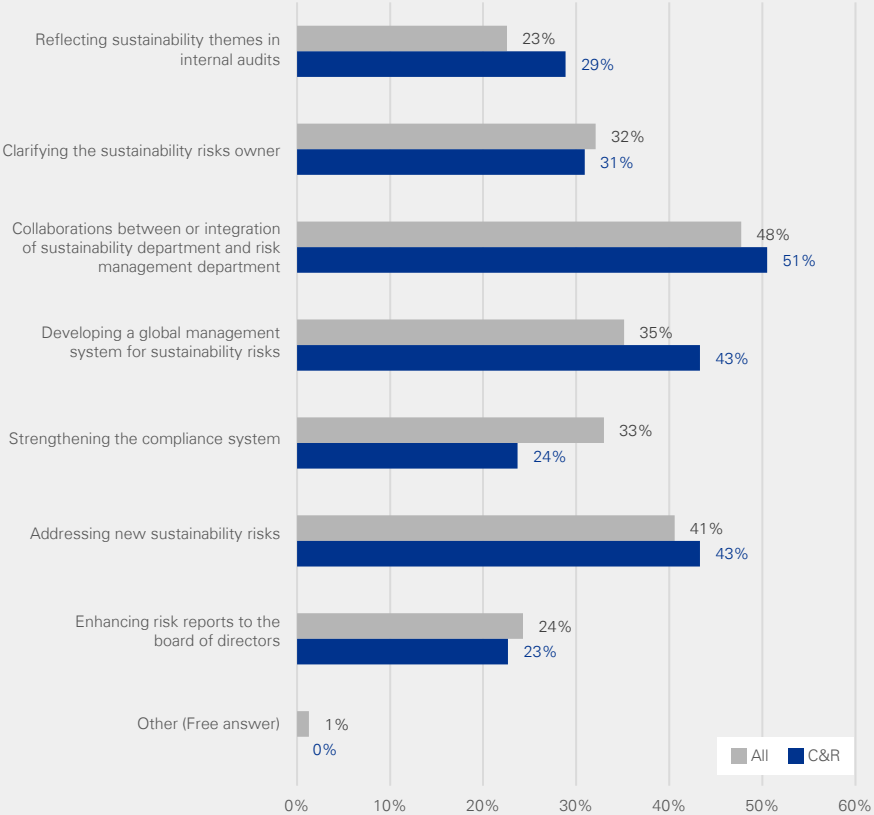
Q Are the risk management activities of your company designed and executed in association with material sustainability issues?



Q What are the top three sustainability-related risks that are of particular concern in relation to your business operations?

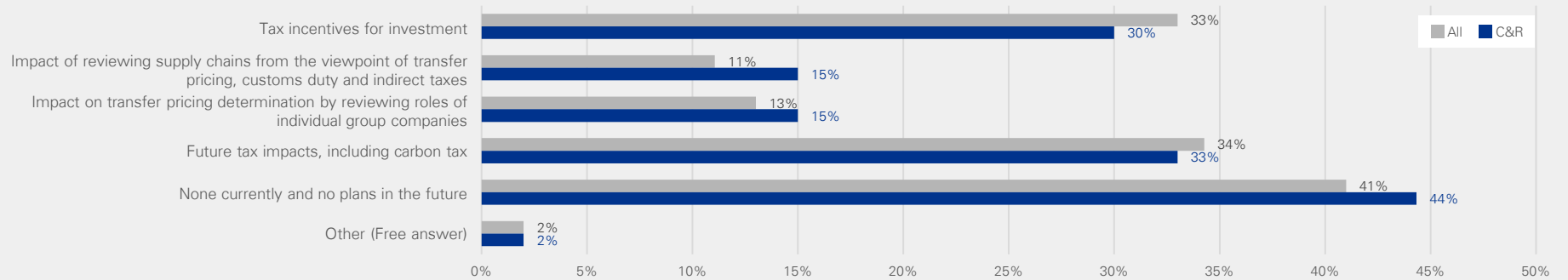


Q What are the top three initiatives in relation to the risk management system which you think are particularly necessary in proceeding with SX?

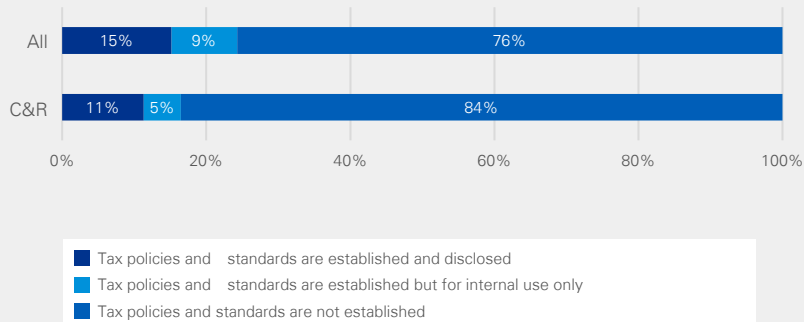


6.Tax

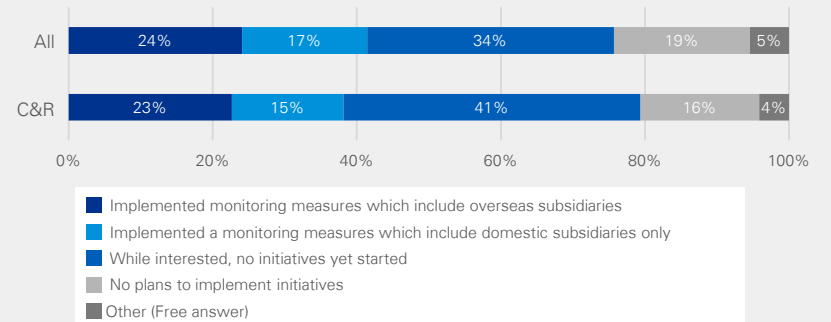
Q What are tax-related measures or considerations which you have implemented or plan to implement in line with SX? Please select up to three answers.



Q Does your company have tax policies and standards applying to risk tolerance and tax judgments that are disclosed?

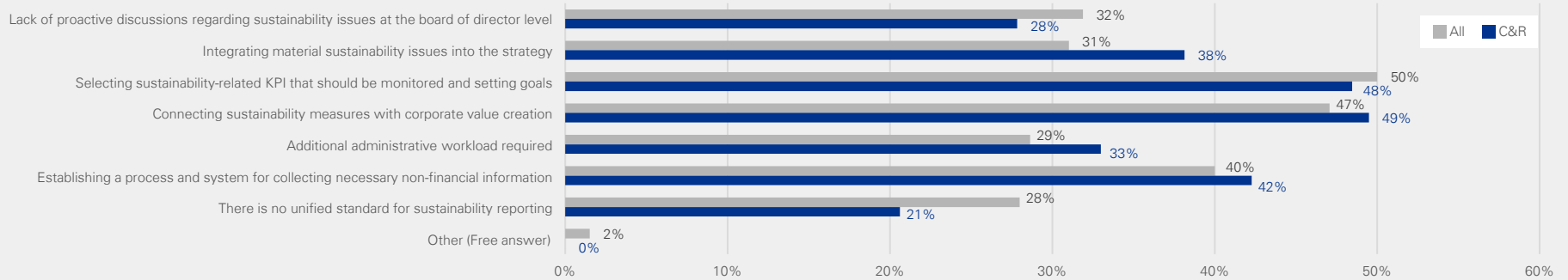


Q Which statement best describes the status of initiatives for visualizing your group companies' tax information?

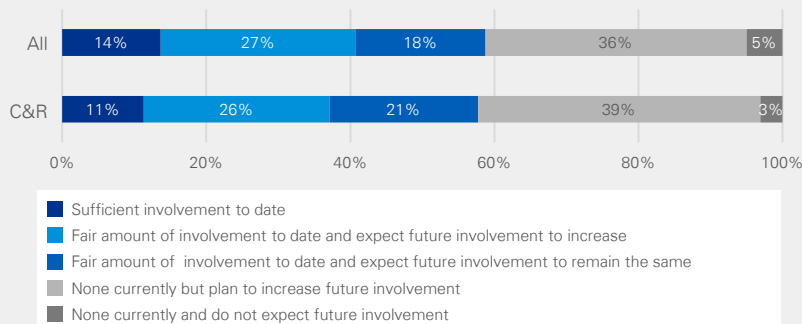


7. Comprehensive Corporate Report including Non-financial Information

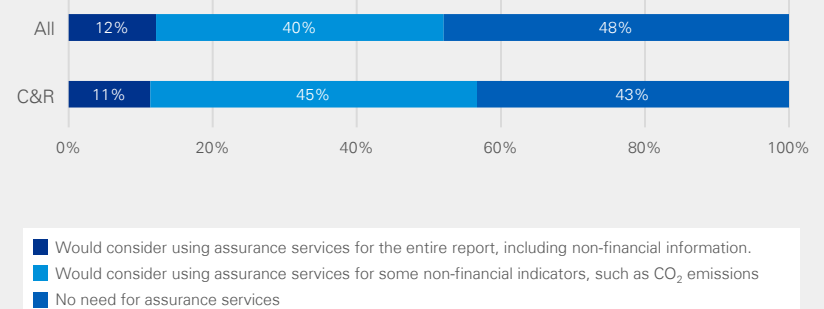
Q What are the top three issues in preparing comprehensive reports which interconnect sustainability information with financial information?



Q What is the current level of involvement of CFO in sustainability reporting?

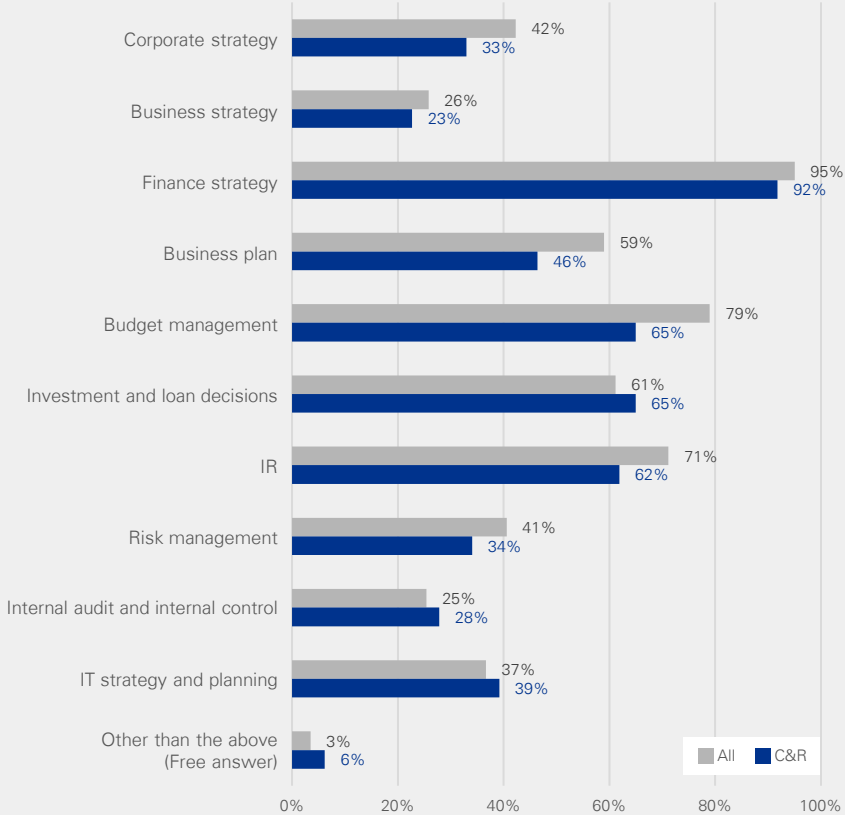


Q In the EU, mandatory requirements for external assurance of corporate sustainability reports have been proposed. What are your views on using assurance services from the viewpoint of improving the reliability of sustainability-related information?

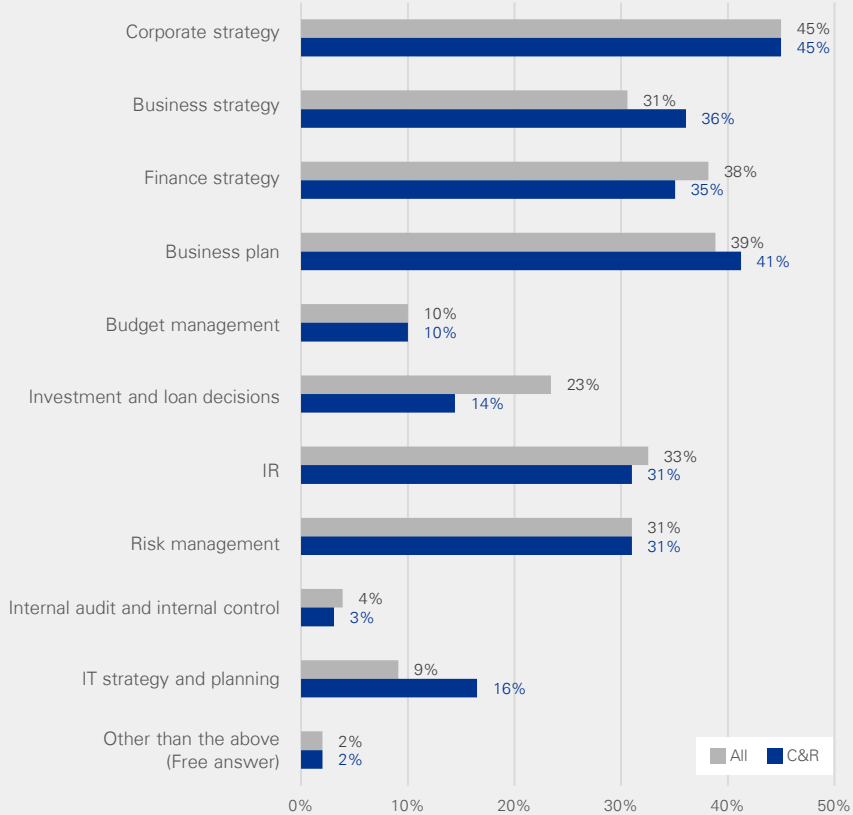


8.Accounting and Finance (1)

Please select all business area for which the CFO is currently responsible. (Multiple choice possible)

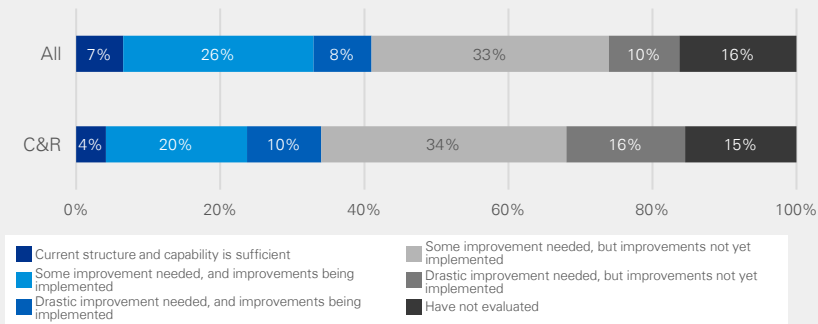


It is expected that management decisions driven by the linkage between financial and non-financial information will increase as the company makes progress towards SX. Of all areas that the CFO is responsible for, please select up to three areas that are considered to be of greater importance.

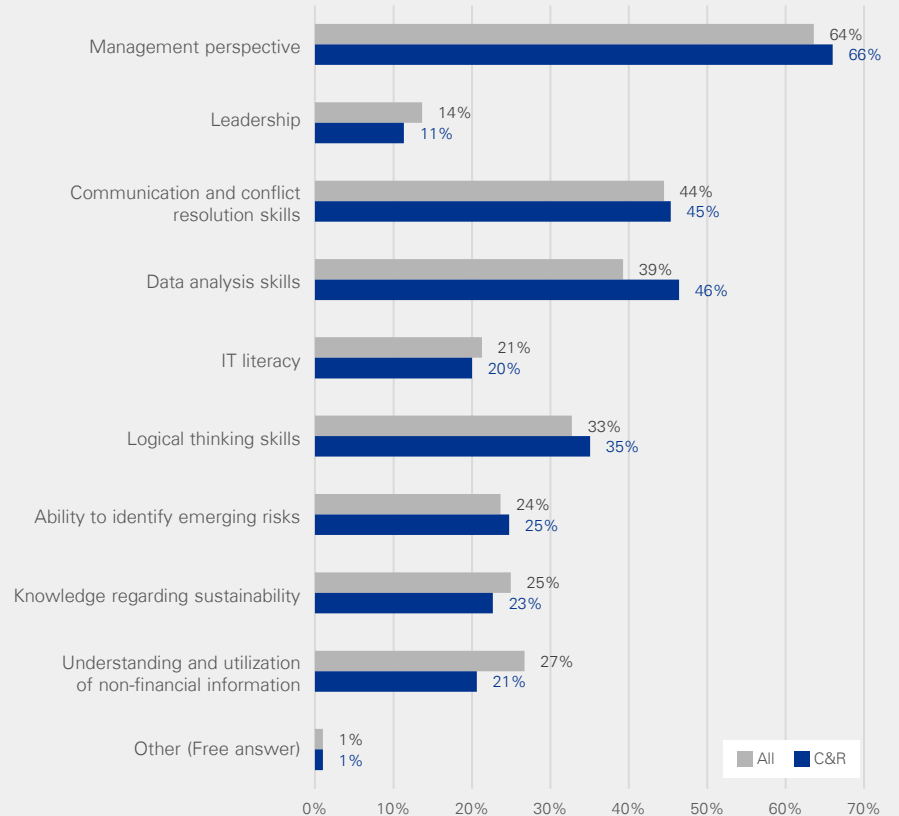


8.Accounting and Finance (2)

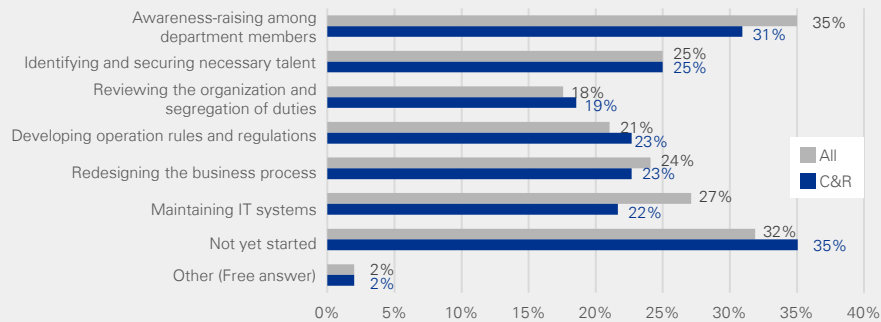
Please select the statement reflecting the current accounting and finance department structure and capability in terms of promoting SX in the future.



Please select up to three applicable items with regard to human resources and skills required for the accounting and finance department in the future.

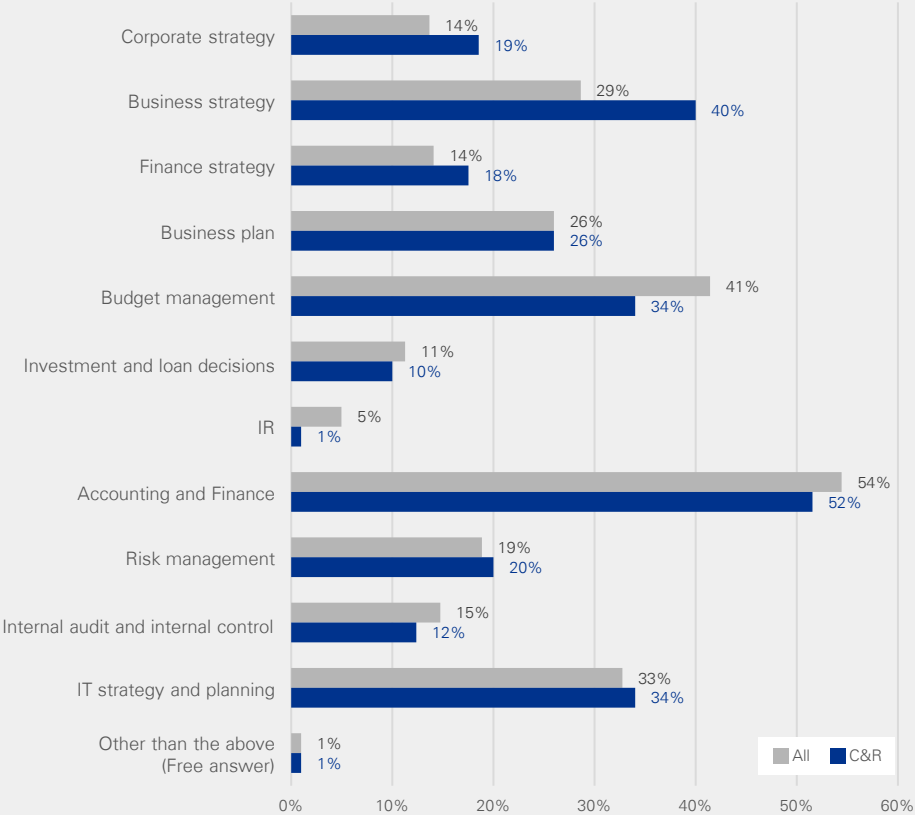


Please select the items that have been or are being addressed for improvement activities in the accounting and finance department for the promotion of SX.



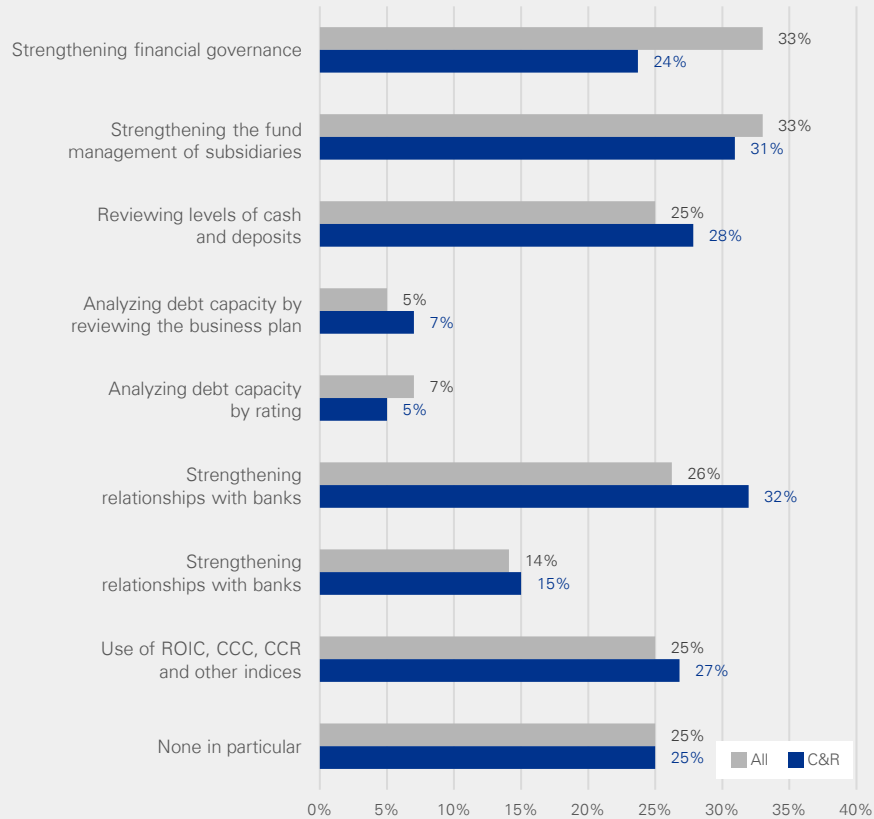
8.Accounting and Finance (3)

In view of SX promotion in the future, please select three areas for which you think digital utilization will be more necessary than ever before.

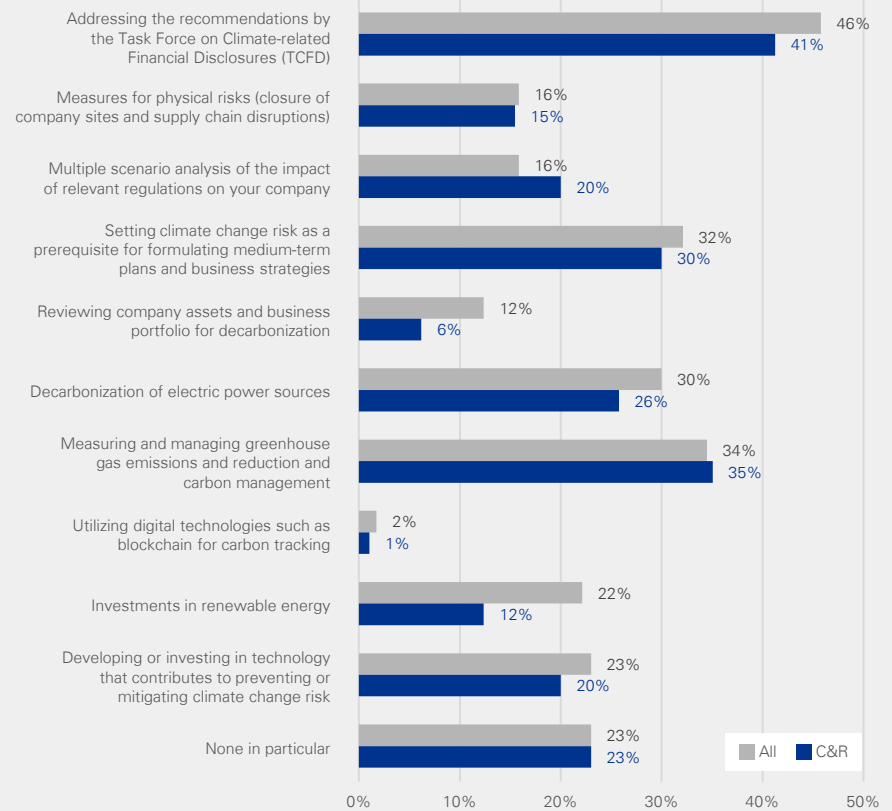


9. Impact of COVID-19

COVID-19 continues to affect businesses. Please select any measures that you have implemented or plan to implement with regard to corporate funding and "cash." (Multiple selections possible)

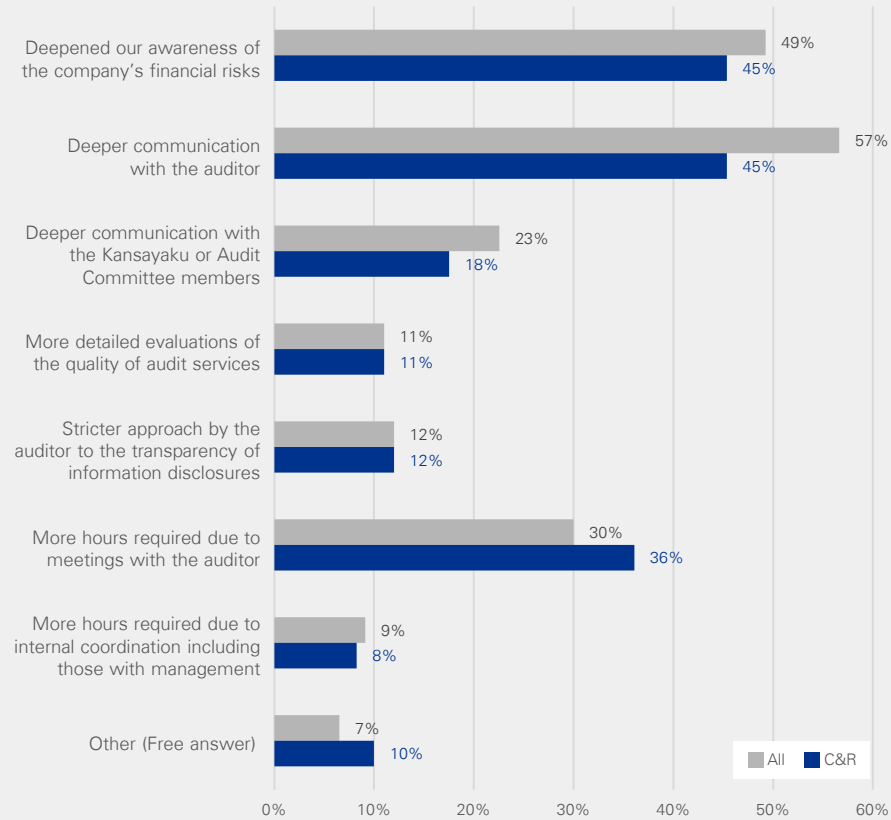


Please select all applicable measures that you have implemented or plan to implement in terms of dealing with climate change risk, which is receiving increasing attention from the market due to COVID-19. (Multiple selections are possible)



10.Implementation of KAM

What are the top three effects of KAM introduction you recognize?



Presentation of survey results as a ratio

Survey results as a ratio are rounded to the nearest first decimal place and may not add up to 100 percent.

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