Wal-Mart's Aha Moment: How Few Centimeters Saved Trees, Cut CO_2 Emissions, and Made Tons of Money for the Accidental Innovators

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It is, perhaps, the oldest of human traits – the skill we have been developing for thousands of years. Or, possibly, the most modern business obsession – the panacea for all of our troubles. Whichever way you look at it, innovation is all around us: whether it is a short-term need for inventing our way out of the global economic crisis, or a long-term necessity for daily re-discovery of business models and solutions, innovation is fast becoming front and central to the life of a modern manager. It is not surprising that the recent survey by the European Foundation for Management Development shows that among key business challenges leaders are facing today innovation has a leading place – second only to revenue growth, and far ahead of economic factors and management of costs, the standard issues of difficult times. What is surprising, however, is how rarely successful innovation actually happens - despite the high priority on executives' agenda, inventing new business opportunities inside and outside of an organization is no easy matter.

Described by Dr. Jacqueline Byrd as creativity multiplied by risk taking, innovation at its core requires thinking 'outside of the box' – breaking the boundaries, re-setting assumptions, and seeing the world a new. A seemingly simple invitation, in practice, as many of us know, this new way of seeing the world should connect and become personally relevant to every person on the team – 'the creative lens' for seeing the world should excite the minds and hearts of the people involved, rather than serve individual interests and agendas. It is exactly this inspiration that drives scientist towards new discoveries and calls artists to new creations – but finding such inspiration is business environment is, perhaps, among most difficult tasks. With the new generations perceiving money as a mere requirement – rather than true purpose and motivation behind a job - discovering a truly inspiring source of innovation becomes the most important innovator's dilemma. And this is where the story of Wal-Mart Inc., an international retail giant, comes to play – a true tale of finding an innovative lens in the most unexpected of places.

From the humble beginnings of 1962 to the present international superpower, Wal-Mart rightly claims the position of the most renowned businesses worldwide. Serving customers and members more than 200 million times per week at over 8,000 retail outlets in 15 countries, Wal-Mart employs more than 2.1 million people and generates turnover of over $400 billion a year.

One might think that for a corporate super-power of such unlimited resources, innovation should be a natural aspect of daily life – whereby every possible discovery for a better business performance is made and implemented with a speed of light. Indeed, the company is well-known for its outstanding solutions in supply-chain and inventory management, where they have invented like no other. Yet, its most recent wave of innovation came from the place least anticipated for an international giant.

Despite the wildly acclaimed international success, Wal-Mart's past decade is also associated with much of public relations struggle. Portrayed as a company that destroys small-town America and has questionable employee policies, by 2005 it became apparent to Wal-Mart's senior managers that another socially-sensitive area may pose a significant PR risk – that is the area of environmental sustainability. By their own admission, Wal-Mart started its 'ecological sustainability' efforts as a purely defensive strategy, but soon discovered that there is a much higher potential if sustainability considerations are integrated into the company's core operations. Under the leadership of CEO Lee Scott, in 2005 Wal-Mart made its first official sustainability commitment by setting three specific goals:

- To be supplied 100% by renewable energy
- To create zero waste, and
- To sell products that sustains resources and environment.

Corresponding short-term goals were set in each category, such as 'fleet 25% more efficient in 3 years' for energy category, and '25% reduction in solid waste in 3 years' for the waste category – all driving significant innovation, as Rob Eldridge, director of packaging trend and communication at Wal-Mart, suggested: "We realize that 'zero waste' is a very aggressive goal, but also realize that a lot of innovation is being driven as a result of that. The industry is coming to us with things they really never thought possible before. Through this we have identified more opportunities to reduce waste that I think we would have even imagined."

So, how did it work, exactly? With the goals set, it was then time to experiment – searching for new ways of doing business that would allow for achievement of the tight sustainability requirements. One of Wal-Mart's first experiments in the domain of zero-waste was an effort to 'right-size' the packaging for a children toy product line. For years the cost-cutting champion followed the lead of its suppliers when selecting specific packages for the products sold in Wal-Mart stores. The zero-waste goal created a new lens for assessing and making packaging decisions, driving a fundamental quest for reducing the packaging material. And with the new lens, it became apparent that some of Wal-Mart packages have room to spare – fitting the product in a loose fashion, with some space left between the product and the package. Making the first step with just one of thousands product lines, Wal-Mart tested 'right-sizing' for all 350 items in the product line. Shaving just a few centimeters from each box in the line as well as master cartons, Wal-Mart was able to save 3,425 tons of corrugated paper materials, 1,358 barrels of oil, 5,190 of harvested trees, 727 shipping containers, while creating savings of $3 540 000 in transportation costs – an ultimate Aha moment for the accidental innovators.

It seemed to be a rather simple solution – just a few centimeters off a box – but the right-sizing experiment brought about a depth of discoveries. On one hand, right-sizing has proven that sustainability can indeed serve as new lens for Wal-Mart's decision-making processes and produce tangible results. One another hand, the experiment has shown that sustainability is not a cost for business, but a source of new savings and profit – a very significant finding for a company celebrated for outstanding cost-cutting abilities and profit maximization. Let's face it – if anyone, it would be Wal-Mart that should have already made all cuts and discovered all

savings, and if even the most efficient company in the world can still uncover something new, it might just be the innovation magic we are all looking for.

Wal-Mart's right-sizing initiative, along with other experiments with energy efficiency and product sourcing offered a strong foundation for the company to build on. Long forgotten as a mere PR effort, sustainability became a strong driver of business innovation and profitability – taking a place of the essential strategic priorities for the company. Hundreds of similar initiatives have been implemented at Wal-Mart ever since:

- Energy audit for its trucks offered specific insight into the technical issues and behaviors that waste fuel – such as leaving the truck's engine on when having coffee at a rest stop. A number of pilots and changes later, and by 2008 company has achieved 38% increase in fleet efficiency (just imagine saving 38% of the fuel budget!), while avoiding emission of 200,000 metric tons of CO2 into the atmosphere.

- Introduction of new products – such as organic 'bio' cotton clothing attracted new customers to the store. The first experiment in this domain, certified organic yoga outfit, sold 190,000 units in the 10 weeks. Today, Wal-Mart is the largest buyer of organic cotton, buying over 10 million pounds annually, and the largest buyer of conversion cotton, which is produced without chemical treatment but is awaiting certification.

- Sourcing Fair Trade coffee forced the company to invent new ways of processing coffee. Since the Fair Trade framework requires that the growers are guaranteed a certain higher than market average price, there is a need to find new solution to offset increased product costs. A simple solution: the coffee is now roasted in the country of origin rather than in the US, which reduces its shipping weight.

With hundred of projects and thousands of victories – for the environment, society, and Wal-Mart's financial bottom line, it was no surprise that the new CEO of the company, Mike Duke, has only strengthen company's view of sustainability as a corner stone of the company strategy. Even more so, driving deeper the personal motivation for sustainability innovation, in the very first speech after his appointment as CEO in 2009, Duke made it clear that sustainability is the central requirement for being part of the organization: "The leaders that get ahead at Wal-Mart will be the one who demonstrate their commitment to sustainability." It is obvious that the new lens for looking at the business is not coming off.

What the story of Wal-Mart shows us is that an amazing transformation in the world economy started to happen. As the natural resources such as oil, water, and food continue to decline, and the expectations of consumers, employees, and investors continue to rise, companies have suddenly discovered that environmental and social concerns are no longer an issue of moral responsibility, but also of significant business opportunity.

Designing ecologically-smart products and services is no longer just a philanthropic contribution, but a smart business concept, as it provides for greater cost-efficiency,

access to new markets, and better risk management. Investing in social development of local communities is no longer just a morally right thing to do, but a sure way to win a war on talent, as it allows attracting and retaining skilled workforce while igniting passion and innovation among company employees.

Business is quickly becoming the leading force for positive and lasting change, an unexpected role for the sector that is often considered to be at the source of ecological and social problems. Companies do that because they recognize the deep interdependence between business and society. Perhaps, Bertrand Collomb, former chairman and CEO of Lafarge, said it best: “Business cannot succeed in a world that fails” (Center for Business as an Agent of World Benefit, 2006). Like Wal-Mart, many corporations have already shown that saving the failing world might just be the best way to assure long-term and sustainable business success driven by true innovation. The question is – will you?

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