

Adaptation Case Study #3: MEC

SECTOR: RETAIL

Location: National, headquartered in Vancouver



Natural Resources Canada
Ressources naturelles Canada

Canada



Network for
Business Sustainability

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Introduction

Outdoor retailer MEC equips its customers to cross streams and scale mountains. Now, the retailer faces its own challenge: adapting to climate change. Today and in the future, climate change will result in more variable and severe weather, with implications for everything from the clothes MEC stocks to the way it transports them.

Valerie Presolly, sustainability manager at MEC, described the company's commitment to climate adaptation: "We think it is important to embed climate change adaptation in our business, and all our people in the different departments need to have that knowledge as well. It's about literacy."

For example, said Presolly: "Our logistics team needs to build climate change [impacts] into the decisions they make and our sourcing team needs to be aware of local risks."

Background on MEC

MEC, or Mountain Equipment Co-operative, dates back more than four decades. While the company's product line has evolved over that time (from climbing and mountaineering supplies to a complete range of outdoor gear and equipment), MEC has always been a member-owned co-operative.

In 1971, MEC had six members. In 2014, it had 4.34 million (including more than 4 million from Canada), with sales of \$336.1 million from 17 stores across Canada and mec.ca.¹ MEC's supply chain is Canadian and international.²

As an organization whose business is facilitating outdoor adventure, MEC sees sustainability as part of its ethos. The website states: "Sustainability goals are embedded into our business operations. Rooted alongside quality, service and value, finding efficiencies and innovations to lighten our impact on the planet is part of what we do."³

1 Doug Wong, CPA, CGA, director of Finance and Administration, MEC.

2 MEC, *Where Our Gear Is Made* (www.mec.ca/AST/ContentPrimary/AboutMEC/Sustainability/Ethical-Sourcing/WhereOurGearIsMade.jsp, 2014).

3 MEC, *Planet: Lightening Our Load* (www.mec.ca/AST/ContentPrimary/AboutMEC/Sustainability/GreeningOperations.jsp, 2014).

How the Physical Impacts of Climate Change Influence MEC

A changing climate influences MEC in two main ways: through sales and through supply chain.

Sales: Climate change means seasonal weather will be less **predictable**. For example: Canadian winters are likely to become warmer and shorter, but exact trends aren't known. These changes have implications for what customers want to buy, affecting what MEC needs to stock. Amy Roberts, director of Sustainability, identified the questions for MEC: "Will climate change hinder certain activities, or will it just change what's available?" In other words, should MEC stop selling cross-country ski gear, or just stock it for a shorter period of time?

Supply chain: Climate change will also result in more **extreme** weather: for example, more storms and droughts, both in Canada⁴ and globally.⁵ MEC sees these impacts on its retail stock and source materials:

- **Stock in transit.** As stock moves from MEC's Canadian distribution centre to its stores, it is vulnerable to road closures as a result of flooding, landslides and snowstorms.
- **Stock in place.** Stock at the distribution centre or on store floors is vulnerable to flooding.
- **Source materials.** Extreme weather affects resource availability and even commodity prices. Internationally, said Roberts, "where there are droughts and the cotton crop is bad, the price of cotton goes up."

Predicted Climate Change Impacts in Canada

Changes that will almost certainly or probably happen in Canada include:

- warmer temperatures
- more frequent and more intense hot days and nights and less frequent and less intense cold days and nights
- more frequent warm spells and heat waves
- more frequent downpours
- fewer days with snow cover
- more wildfires and increased forest area burned

Source: F. J. Warren and D. S. Lemmen (Eds.), *Canada in a Changing Climate: Sector Perspectives on Impacts and Adaptation* (Ottawa: Government of Canada, 2014).

4 F. J. Warren and D. S. Lemmen (Eds.), *Canada in a Changing Climate: Sector Perspectives on Impacts and Adaptation* (Ottawa: Government of Canada, 2014).

5 Intergovernmental Panel on Climate Change, *Climate Change 2014 Synthesis Report: Summary for Policymakers* (www.ipcc.ch/report/ar5/syr/, 2014).

How MEC Adapts to Climate Change

MEC embeds climate change adaptation at an organizational level rather than pursuing a separate climate change adaptation initiative. Adaptation is part of the business's risk matrix and its operational and investment decisions. Doug Wong, CPA, CGA, director of Finance and Administration, described these responsibilities as being shared across the organization and maintained by the finance team through planning, reporting and investment activities.

Presolly explained: "So there is discussion about how we are going to mitigate a given risk, where is it going to show up? We are looking at it from a building perspective in terms of where we locate things, from the supply chain perspective in terms of where we source products from and where [products] are at risk of droughts or flooding."

A core effort, related to sales and supply chain, involves an increased ability to understand weather patterns. "Weather events have direct impact on MEC," said Wong. "As such, with recent projects such as the new BI [business intelligence] system we're implementing or a new inventory management system we're sourcing, we want to track and report weather across different regions. We've identified system capability to track weather as a requirement for the new inventory management system."

Weather forecasting will allow MEC to better address the changing climate's impact on **sales**. "We can track the weather and mirror this against our sales to make medium- to long-term decisions about how to manage our inventory and supply chain," said Wong.

The overhaul of the information flow system should increase efficiency by eliminating waste and improving transparency (which will enable a more detailed analysis of the impacts to the system). This information allows MEC to address the changing climate's impact on **stock in transit**. Better supply chain information enables faster movement of goods, reducing exposure to extreme weather. Wong explained: "With a shorter season, when goods are inbound from a supplier, we may need to triage—to figure out a more efficient and quicker way to push inventory to stores to be sure we don't miss the selling period for the inventory."

Additional adaptation efforts related to supply chain address stock in place and source materials:

Stock in place: MEC considers climate change risks, particularly around flooding, when making decisions about its infrastructure, including locating a new store or distribution centre, building resilience into existing stores and choosing third-party storage facilities for excess stock.

Consideration of extreme weather influenced MEC's relocation of its distribution centre, which was in a flood zone, in Richmond, British Columbia. MEC relocated the distribution centre to a higher area in Surrey, British Columbia.

In existing buildings, MEC "addresses adaptation issues as they come up," said Wong. MEC's store in Winnipeg, for instance, sometimes experiences flooding. The store has installed pumps as one measure and is looking at other ways to reinforce the building structure—essentially, to weatherize it.

Source materials: Recognizing that climate change impacts can vary globally, MEC seeks producers in many areas. Roberts said: "It is important to have a diverse sourcing strategy, and to not rely on one region of the world for raw materials. I think you'll start to see a lot of companies looking at supply chains more carefully than they did before and really understanding what are suppliers doing to mitigate those risks—whether that's not being so dependent on one region of the world or encouraging a change in practices that adapt to changing weather patterns."

However, MEC sources organic cotton for its store brand wholly from India. Because MEC is, according to Roberts, a relatively small buyer of organic cotton "in the big commercial scheme of things," it faces the risk of price instability after a weather event.

How Climate Change Adaptation Became Part of MEC's Business

While sustainability thinking has always been a part of MEC's ethos, as the organization became more sophisticated, it became better able to quantify its climate-related vulnerabilities, and to consider them more comprehensively. "First we started with what we had most control over internally, then we went to our supply chain," noted Roberts.

For MEC, building climate change adaptation into the organization's operations and day-to-day activities was an ongoing and collaborative learning process. "It's a lot of educating yourself and thinking about how to incorporate that knowledge into your work and the organization as a whole," said Wong.

The Role of Accountants

MEC accountants play a core role in climate change adaptation, providing the analysis that underpins decisions. They measure variables, trade benchmarks and weigh options, said Sandy Treagus, BComm CA (SA), chief financial officer. “Accountants have a fantastic opportunity, by virtue of the fact that they’re in this analytical role, to add substance to that whole discussion.”

“What I think accountants are doing is helping us quantify an area that I think originally people felt was maybe more mushy or feel-good. And so it’s really helping us quantify . . . these impacts of climate change. ”

Amy Roberts, director of Sustainability, MEC

Wong described the many different variables he integrates. In addition to the financial data, “we are incorporating the sustainability data, the operational data, and looking at it from a systems-wide type of analysis to assist with the decision-making.”

That holistic view ensures that metrics are meaningful, said Treagus: “Because of their access and their interaction with every other department in the organization, [the finance team] has that broader view.”

Wong described MEC’s inclusion of weather forecasting data as a collaborative effort. Finance has worked with sustainability, operations and the buying group. “We look at it as: ‘We’ve got a shorter season and adaptation is required. We have to make decisions about how to bring in and move the products.’” For example, accountants have facilitated discussions on the cost implications of shipping from the distribution centre or using stores as secondary warehouses.

The finance team is also closely involved in decisions around new infrastructure, as MEC seeks to site facilities in areas less threatened by a changing climate. Finance reviews the payback horizon for investment, Wong explained. “Locating in reduced-risk zones comes at a higher cost, but this organization won’t sacrifice sustainability for a quicker payback.”

In supporting adaptation to climate change, accountants are performing many traditional roles: analyzing cost data, collaborating to develop key performance drivers and related reports, performing financial modelling, applying auditing skills to assist with evaluation of process effectiveness, and facilitating the integration of various plans and strategies.

How Accountants Can Become Better Suited to Work with Climate Change Adaptation

MEC staff recommend two types of training to enhance accountants' ability to work on climate change adaptation.

- **Training in climate change and sustainability:** “Organizations are no longer operating in silos,” says Wong. Integrated thinking is vital. Accountants will increasingly work in collaborative, cross-functional organizations. As companies embed sustainability and climate change thinking across functional areas, accountants will “need to broaden our knowledge base about business and the environment,” said Wong.

Accountant training should include real-world case studies and practitioner-led lectures on accountants' role in climate change and sustainability. “Stimulating that kind of thinking is really important as you embark on a career,” said Presolly. Accountants can benefit from understanding sustainability frameworks and their application to business operations.

Such training “positions accountants to provide potential employers with added value beyond the typical financial format,” according to Wong.

- **Training in enabling or “soft” skills and collaboration:** Accountants need to be able to communicate and work with others across a broad range of disciplines and functions.

Many disciplines have faced challenges in conveying their perspective in ways that promote understanding. At MEC, cooperation across functions is part of the culture. But Wong sees ways that different disciplines could understand each other better. Wong explained that accountants “want to speak about the numbers all the time. If you talk to the creative people in marketing, you run into tensions because they may want to bypass some of the controls that you as an accountant are trained for and like to see in place. Or, the [marketers'] blue-sky thinking will have no cost consideration attached.”

How can accountants develop a better understanding of different outlooks? Presolly suggested having accounting students work on cases with others, such as marketing students. “By having those worlds collide in school—because they are going to collide in the real world—students would learn the necessary soft skills.” Wong agreed: “If more opportunities can be provided for students in different business faculties to

collaborate on projects, work on case studies, etc., they will be better prepared to face challenges and work harmoniously with colleagues in our connected world.”

With the right perspective, accountants and colleagues in other functions can be powerful collaborators.

Roberts described how accountants and clothing designers could collaborate: “Designers do not want to look at an Excel spreadsheet: that would be the worst possible thing you could subject them to! They will turn right off, immediately. But in order to do their job or adapt to the organization’s sustainability and climate change requirements, we are starting to ask the designers to collect metrics. To them, if an accountant were to present a ready-made solution, the accountant would be their saviour. Because then the designers have something to work with that they did not have to come up themselves: they just incorporate it into their design process. And, the accountant ultimately gets the metrics they need.”

Closing Comments from MEC

Climate change requires a universal response. While government policy and international agreements can create momentum, MEC believes it must advocate for action and prepare for organizational impacts: e.g. by building robust systems and collecting transparent and rigorous data.

MEC advocates pushing accountants into new collaborations with other departments.

“[Accountants] need to be able to step back,” said Wong, “apply our skills at the organization or 10,000-foot level and get out of the silo thinking.” Accountants must “take that collaborative approach, get a broader view of the business in the world, and apply what we are trained to do—the analytics—but also recognize that there are good methodologies and approaches in other disciplines that could be beneficial to our work as well.”

Case Summary

- *What is the business impact from climate change?*
As a retail organization, MEC sees climate change directly affecting its sales and supply chain.

- *What is the adaptation strategy?*
MEC embeds adaptation at an organizational level, in the risk matrix and in its operational and investment decisions. It tracks weather to understand how shifts—like shorter seasons—might affect inventory demands. It also considers climate risks related to infrastructure and material sourcing.
- *What is the current role of accountants?*
Accountants at MEC contribute to adaptation decisions through participation in planning, resource allocation and rigorous analyses.
- *How can accountants be better positioned in the future?*
MEC staff urge the accounting profession to increase training in climate change adaptation and sustainability, and in enabling or “soft” skills, such as communications, to facilitate better collaboration with non-accountant colleagues.

This case study was written by S.Jeff Birchall, based on interviews with MEC staff.



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