

BEAUTY FACES UP TO SUSTAINABILITY

A special report on the key environmental sustainability trends, opportunities, and risks for global cosmetics and personal care companies

2016

Quantis



Be inspired, take action!

QUANTIS

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INTRODUCTION

In this special report, Quantis takes a look at the top environmental sustainability issues impacting global cosmetics and personal care companies. Over the past few years, sustainability has quickly become embedded into the daily operations and strategic decision-making of companies that seek to drive sustainable change.

Resilient Beauty

With sales of beauty products expected to rise 6% to \$675bn by 2020¹, cosmetics and personal care companies must prepare to transition to the new global economy. Creating resilient, sustainable business models — based on relevant metrics — is key to ensuring your business survives in a resource-constrained world.

Transparent Beauty

Beauty companies should also answer and engage stakeholders with transparency. These key supporters of your business — employees, investors, or consumers — want clear and meaningful information about environmental and social performance, practices, challenges, and achievements.

Quantis has the privilege of working with some of the world's leading brands on setting and achieving their sustainability goals. We understand the challenges and opportunities specific to beauty. This report draws on our expertise in this sector to provide examples of trends, actions, and best practices to be used as a guide for the next step in your sustainability strategy.

¹ source: Reuters



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KEY SUSTAINABILITY TRENDS IN THE COSMETICS SECTOR

-  Internal stakeholders
-  Investors
-  Customers
-  Consumers
-  NGOs
-  Government

OUT OF THE COSMETICS COMPANIES SURVEYED

75% are measuring the **ENVIRONMENTAL FOOTPRINT** of their operations and/or products

driven by



100% are already working to understand their **MATERIAL SUSTAINABILITY ISSUES**

driven by



70% already design for the **CIRCULAR ECONOMY** or plan to in the future

driven by



12.5% use **SUSTAINABILITY LABELS**, 50% have it as a future goal

driven by



SUSTAINABLE PACKAGING PROGRAM

driven by



- Already have it
- Medium-to long-term goal

ASSESSING THE TOXICITY OF PRODUCTS

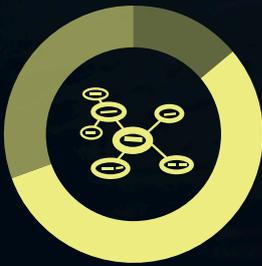
driven by



- Have it as a short-term goal
- Have a management plan

SUSTAINABLE PROCUREMENT STRATEGY

driven by



- Have a strategy in place
- Have it as a future goal
- Other

WATER STRATEGY

driven by



- Have a strategy in place
- Have it as a future goal
- Other

IMPACT ON NATURAL CAPITAL

driven by



- Already measured
- Have it as a future goal
- Other

SCIENCE-BASED TARGETS

driven by



- Have them already set
- Have it as a future goal
- Other



Implementing a sustainability strategy without the right metrics is like trying to run a business without a financial accounting system. Environmental metrics can be measured as a corporate or product-level footprint and can include one environmental indicator, typically greenhouse gas emissions (such as a carbon footprint); or can be multi-indicator, including water, toxicity, biodiversity, and land-use/deforestation.

Tracking environmental metrics ensures that decisions and investments are made **BASED ON FACTS**

For beauty companies, the choice of indicators depends heavily on the organization's environmental sustainability objectives. The key to effectively and efficiently reaching these goals is to ensure that the strategy is developed based on facts. Solid measurement is key to any meaningful sustainability strategy.

ENVIRONMENTAL FOOTPRINTING

Metrics for decision making

Measuring the environmental footprint of a company or product helps to make decisions about the most effective way to reduce emissions or save resources. These metrics can also be used to track and communicate on progress, and eventually, success. Having credible, fact-based numbers to reinforce strategies and actions can help promote positive engagement and relationship development with stakeholders. And having robust environmental performance metrics can help to mitigate brand risk from accusations of greenwashing.

Metrics-based sustainability reports that cover an organization's scope 1, 2 and 3 emissions as detailed by the greenhouse gas protocol, can be an effective means to communicate the progress of activities and to engage stakeholders in your efforts. Reporting to global programs is another way of communicating progress. The Global Reporting Initiative (GRI²) is one framework that is set up to help organizations to understand and communicate on the impacts of business on critical sustainability issues such as climate change, human rights, corruption, and many others. Companies such as Estée Lauder Companies (ELC), L'Oréal, Natura Cosméticos, and Grupo Boticário publish annual sustainability reports in accordance with GRI.

² <https://www.globalreporting.org/Information/about-gri/Pages/default.aspx>

At the product level, Geneva-based flavor and fragrance firm Firmenich uses metrics to better understand the impacts of the key ingredients it produces. In 2015, the company completed the development of The Firmenich Environmental Sustainability Index for 400 key ingredients, looking at climate change, water consumption, and environmental toxicity. The objective for developing the index and publishing the results is multi-faceted:

FIRMENICH TRACKS 400 KEY INGREDIENTS, looking at water use, climate change, and toxicity



RESPOND to client queries on ingredients and their relative compound environmental performance



COMPARE the environmental performance of similar ingredients from different suppliers



ASSIST perfumers and flavorists in the development of more sustainable formulas



HELP clients to better understand their final products



SET targets

Environmental metrics also support L'Oréal's product innovation pillar as part of its "Sharing Beauty With All" sustainability strategy, as well as Biotherm's "Water Lovers" platform, and ELC's "Back to M·A·C".

Sound environmental performance measurement lies at the foundation of all of the topics identified in this report.



MATERIAL ISSUES AND BRAND RISK

Complex value chains

The plethora of suppliers and layers of relationships make accessing and managing environmental impacts within the value chain both complex and risky. Hot button issues emerge and can be harmful for stakeholder relationships as well as damaging to brand value.

The debate on the use of micro-beads and their impact on the environment is a recent example. Over the past few years, micro-beads have been the subject of a highly publicized campaign in the US showing the potential negative effects they can have on ecosystems.

Public campaigning resulted in a bill being passed banning the use of micro-beads³ in cosmetics and personal care products. Many companies such as Johnson & Johnson, Unilever, and Procter & Gamble had already made pledges to phase out micro-beads from their products. Other companies did not anticipate the debate and have instead found themselves on the back foot, scrambling to find suitable alternatives.

Understand your stakeholders' concerns

One way that companies, such as Natura, are working to mitigate risk is by carrying out a materiality assessment. A materiality assessment involves engaging with key internal and external stakeholders and mapping out their main sustainability issues and concerns. For Natura, it helps to identify the most important of these across the value chain, both in terms of the impact on its business and the impact on the world as a whole. This process identifies current or emerging issues that could influence priorities in the coming years, enabling Natura to be proactive rather than reactive in responding to trends and managing sustainability risks.

³ <http://www.businessinsider.com/obama-bans-microbead-soap-2015-12>



Let's consider a compact powder product. To produce this one product, a brand may deal with hundreds of suppliers — from the complex ingredient composition to the multi-layered packaging, down to the transport suppliers — to get this product from point A to point B at any given time in its life cycle.

A MATERIALITY ASSESSMENT PRIORITIZES your stakeholders' concerns

To produce and market entire lines of cosmetics across multi-brand portfolios, the supplier count for a cosmetics company can run into the thousands.

PACKAGING

A good starting point

Cosmetics companies have been working to find innovative ways of reducing the impact of packaging by using materials that have a lesser impact on the environment, offering refillable packaging options, or removing packaging altogether.

M·A·C, an ELC brand, has embraced the circular economy approach of “incentivized return”. By returning six M·A·C primary packaging containers to a store, customers receive a free M·A·C lipstick of their choice. The recovered materials are then crushed, washed, pelletized, and transformed into new packaging. Beauty retailers Sephora (LVMH) and Nocibé in France offer discounts on the next fragrance purchase when an empty bottle is returned to the store. Domestically, the bottles are recycled and then used as reflectors in traffic lanes. Projects like this help to instill customer loyalty while providing environmental benefits.

Another initiative comes from The Body Shop (L'Oréal). The brand is using packaging materials that have negative carbon emissions, removing carbon from the atmosphere. Working with the innovative Newlight Technologies, it uses AirCarbon for its packaging. AirCarbon is a plastic material produced using a carbon-capture technology commercialized by Newlight that combines air with methane captured from emissions streams.

Lush, a promoter of using recycled and recyclable packaging, has in some instances been able to remove packaging altogether. For its toothpaste, the brand has pioneered the use of chewable tabs that remove the need for toothpaste tubes, which, due to the product's mix of materials, are notoriously hard to recycle.

⁴ <https://sealedair.com/sites/default/files/Sealed%20Air%20e-commerce%25>



Packaging can get a bad rap. Empty compacts, lipstick containers, and shampoo bottles litter bathrooms. Guess where most of it will eventually end up? Yes, a landfill. Packaging is a material issue for consumers who are frustrated by what they see as excess waste in their trash. This becomes a risk for the brand whose logo adorns the packaging.

68% of Americans say they are more conscious of packaging materials and design today than they were five years ago

And while there are limited recycling opportunities offered in some regions, the benefit is marginal. A study conducted by Harris Poll on behalf of SealedAir⁴, found that 68% of Americans say they are more conscious of packaging materials and design today than they were five years ago, and their top two packaging pet peeves concern recycling and disposal.

Recycled material is not always best choice

When assessing different packaging materials, it is important that companies understand the life cycle impacts and potential trade-offs of the materials in question. For example, using recycled materials may seem to be the better option, but in some instances it may increase the weight of the packaging, requiring more fuel and space for logistics. Similarly, BioPET can provide carbon benefits, but may result in an increase in water use and land use. Removing packaging altogether may be your end goal, but are you increasing the overall environmental impact of your product due to the increase in waste from damaged goods?

For companies looking to embark on sustainability programs, packaging is often a good place to start. Improvements to packaging often provide cost savings as well as environmental benefits, giving a straightforward business case. It is also a simple message to convey to consumers, helping to win trust and loyalty from customers who value sustainability leadership.



TOXICITY

Inconsistent legislation

Products that fall under the category of cosmetics — make-up, deodorants, and shampoos — are regulated under the US Food and Drug Administration (FDA). The FDA's legal authority over cosmetics is different from its authority over other products it regulates, such as pharmaceuticals. By law, cosmetics products and their ingredients do not need FDA pre-market approval. Instead, it is up to the manufacturer to decide whether a product is safe. This has created unease with consumers and has led to an increased demand for information and greater transparency.

This may all be about to change with the introduction of a new bipartisan bill⁶ sponsored by Senators Dianne Feinstein (D-Calif.) and Susan Collins (R-Maine). The Personal Care Products Safety Act would give the FDA new powers to regulate the cosmetics industry. Cosmetics companies will have to start submitting a cosmetics ingredient statement to the FDA, guaranteeing full and transparent disclosure on products' ingredients. For the first time, the FDA will be able to review the chemicals used in these products, provide clear guidance on their safety, and issue a recall of products found to be harmful.

Currently in the US, regulation is mainly at a state level, which is inconsistent and can run ahead of federal laws. One of the more visible pieces of legislation is the Californian Safe Drinking Water and Toxic Enforcement Act of 1986, better known as Proposition 65⁷. Proposition 65 requires the state to publish a list of chemicals known to cause cancer or birth defects or other reproductive harm. Businesses that use these chemicals are required to provide Californians with a "clear and reasonable" warning before knowingly and intentionally exposing anyone to a listed chemical. Keeping up with state legislation can be complex, costly, and time consuming for companies.

⁵ <http://personalcarecouncil.org/>

⁶ <http://www.feinstein.senate.gov/public/index.cfm/2015/4/feinstein-collins-introduce-bill-to-strengthen-oversight-of-personal-care-products>

⁷ <http://oehha.ca.gov/proposition-65/proposition-65-list>



The toxicity of chemicals in cosmetics is a major concern for manufacturers and consumers. The Personal Care Products Council underscores that "the highest priority for personal care product companies is the safe health of consumers of all ages who use and enjoy our products"⁵. There are three main aspects to toxicity:

1

The toxicity of the ingredients themselves in a product:

since cosmetics products are applied on the body, it is the sector's top priority to provide safe and non-toxic ingredients to the customer.

2

The toxicity of pollutants released along the supply chain:

producing ingredients and producing energy for manufacturing, etc., also generates toxicity impacts.

3

The toxicity of the products as they enter the environment after use:

the use of certain personal care products (e.g. shower gel) result in ingredients being washed down the drain.

Europe takes a **MORE PRECAUTIONARY** approach than the US by placing a higher burden of proof on companies

Any cosmetics ingredient must be proven to have no harmful effects before it can be marketed. This is regulated under the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) act. To comply, “companies must identify and manage the risks linked to the substances they manufacture and market in the EU. They have to demonstrate to the European Chemicals Agency how the substance can be safely used, and they must communicate the risk management measures to the users”⁸.

When preparing policies and proposals relating to consumer safety, public health, and the environment, the European Commission relies on the Scientific Committee on Consumer Safety (SCCS) to provide scientific opinions and statements on the safety of cosmetics and other non-food products.

One problem that the European approach can present is the quick turnover and high cost of change when substances are banned. The Beauty and Personal Care Products Sustainability Project (BPCPSP)⁹ identified that preservatives present a particular problem.

Due to NGO pressure and increased regulations, companies are struggling to find alternative preservative ingredients as quickly as they are being banned. R&D can be expensive and time-consuming, with lengthy lead times involved in the government approval processes. It has also been suggested that knee-jerk reactions to banning substances can, and has, resulted in more harmful alternatives being used as a replacement.

The BPCPSP plans to tackle this issue of preservatives through group R&D, helping to speed up processes and reduce the costs for individual companies. This is particularly valuable for small outfits that are impacted by the same regulatory constraints as larger companies, but which have less funding for the research and development of new ingredients.

Collaboration

One approach that companies are taking to assess eco-toxicity is the Critical Dilution Volume, which measures by how much a chemical must be diluted before it is deemed safe. This approach is supported by The EU Ecolabel.

Another approach is the use of USEtox®. USEtox®¹⁰ is a method for evaluating where chemicals move once released into the environment, how long they live, how people and wildlife are exposed, and what harmful impacts may occur. Quantis has supported the development and dissemination of USEtox®. It is recommended by the United Nations Environment Programme, the European Commission, and the US Environmental Protection Agency. It is increasingly used for application in comparative toxicity assessment in life cycle analysis to identify hot spots, compare alternatives, or develop labeling.

⁸ <http://echa.europa.eu/web/guest/regulations/reach/understanding-reach>

⁹ <https://www.forumforthefuture.org/project/beauty-and-personal-care-products-sustainability-summit-stage-2/overview>

¹⁰ <http://www.usetox.org/>



PRODUCT LABELING

Consumers, although demanding more information, are confused by the number of incomparable environmental labels, making understanding and value-based purchase decisions extremely difficult. How do you prioritize a product that uses sustainably sourced palm oil over one that is paraben-free? While there may be some environmental benefit to these characteristics, they say nothing about the product's actual impact on the environment.

According to a recent survey requested by the EU Commission¹¹, 59% of consumers think that product labels do not provide enough information, and 48% think that labels are not clear. The same report cites that around half of European consumers find it difficult to differentiate between “environmentally friendly” and other products, and only about half of them trust producers’ claims about environmental performance.

Consistent method

The European Commission’s response to this has been the development of the Single Market for Green Products¹², which proposed to establish a consistent method for measuring a Product Environmental Footprint (PEF) and an Organization Environmental Footprint (OEF). Its aim is to provide principles for communicating environmental performance, such as transparency, reliability, completeness, comparability, and clarity, and to support international efforts towards more coordination in methodological development and data availability.

¹¹ http://ec.europa.eu/public_opinion/flash/fl_367_en.pdf

¹² <http://ec.europa.eu/environment/eussd/smgp/>

A growing number of cosmetics companies have chosen to certify their products based on their ideals, not on metrics, of what makes their product “sustainable” in the eyes of the consumer, e.g., bio-based, natural, recycled, paraben-free, or gluten-free, to name a few. Most are claimed with good intentions, some with credible research, while some lack relevance or credibility and therefore risk being seen as greenwashing.

50% OF EUROPEAN
consumers do not trust
brands’ claims on
environmental
performance

The European Commission has selected an initial list of products to run pilots on and develop rules for, but cosmetics and personal care products were not included in this list. Cosmetics Europe, realizing the importance of developing a product category rule for the sector, is moving ahead with a shadow initiative to develop a product category rule for the environmental footprint of shampoos. Henkel, Chanel, Unilever, L'Oréal, and LVMH, with the support of Quantis, are all participating in its development, with an expected launch date at the end of 2016.

Global reach

It is a European initiative; however, its reach is global. The outcome will impact companies which sell their products on the European market. Many companies outside Europe are looking to the PEF initiative as a framework and for guidance on how to assess the sustainability of their products.





Water security is one of the fastest-growing threats facing our world. The World Economic Forum lists the water crisis as one of the top global risks of 2016 (see graphic on page 15).

GROWING WATER scarcity is a huge risk to future growth

Water is a vital ingredient to many cosmetics and personal care products in their supply chain, production, and use. Water is an ingredient in the formulation of nearly every type of cosmetics and personal care product on the market, either as a solvent or an emulsion, and volumes more of water is usually required at various stages of the supply chain.

WATER RISKS

Water scarcity is a top risk for Natura as it is headquartered in São Paulo, Brazil. Despite its extensive freshwater, escalating demand and poor infrastructure are threatening water-sourcing stability in São Paulo. In 2015, São Paulo came within five months of running out of water. Circle of Blue, a non-profit organization focused on water and its relationships to food, energy, and health, highlighted Brazil in its recent study¹³ as a country where water “could compound existing social stressors and contribute to a humanitarian crisis”.

Other leading companies and brands including Aveda, Colgate Palmolive, and Oriflame have all highlighted access to water as a key concern. To manage these risks, these brands are assessing water consumption across their value chains at product and corporate levels, and identifying both global and local water risks with the use of tools such as World Wildlife Fund’s (WWF) Water Risk Filter¹⁴ and the World Resource Institute’s (WRI) Aqueduct Tool¹⁵.

Water pollution a major concern

Water pollution is also a major concern. Many cosmetics and personal care products end up in water systems, particularly rinse-off products such as shower gel and shampoo. Companies are working to understand and phase out toxic ingredients, replacing them with less harmful and more biodegradable alternatives.

¹³ <http://www.circleofblue.org/2016/water-climate/infographic-water-and-security-hot-spots-2016/>

¹⁴ <http://waterriskfilter.panda.org/>

¹⁵ <http://www.wri.org/our-work/project/aqueduct>

Life cycle assessments reveal that much of the water footprint of personal care products comes from consumer use. 95% of the water used in shower gel is at the consumer use phase.¹⁶

This can have significant impacts at a sustainability level, but can also hinder a company's opportunity to grow in water-stressed regions, many of which (such as India) are otherwise poised for rapid growth.

Helping guidance

New standards and methodologies are helping companies assess water impacts. The ISO 14046 water footprint standard¹⁷, which was convened by Quantis, provides a framework for key principles, requirements, and guidelines for assessing the water footprint of products, processes, and organizations based on life cycle assessment.

¹⁶ <http://www.biotherm.com/waterfootprint/>

¹⁷ <http://www.quantis-intl.com/blog/?p=270>

The Global Risks Report 2016¹⁸

Top 10 risks in terms of Likelihood

- 1 Large-scale involuntary migration
- 2 Extreme weather events
- 3 Failure of climate-change mitigation and adaptation
- 4 Interstate conflict
- 5 Natural catastrophes
- 6 Failure of national governance
- 7 Unemployment or underemployment
- 8 Data fraud or theft
- 9 Water crises
- 10 Illicit trade

Top 10 risks in terms of Impact

- 1 Failure of climate-change mitigation and adaptation
- 2 Weapons of mass destruction
- 3 Water crises
- 4 Large-scale involuntary migration
- 5 Energy price shock
- 6 Biodiversity loss and ecosystem collapse
- 7 Fiscal crises
- 8 Spread of infectious diseases
- 9 Asset bubble
- 10 Profound social instability

Categories

- Economic
- Environmental
- Geopolitical
- Societal
- Technological

¹⁸ <http://reports.weforum.org/global-risks-2016/global-risks-landscape-2016/#landscape//>



Engaging consumers

The working group WULCA (Water Use in Life Cycle Assessment) focuses on water use assessment and water footprinting using the life cycle perspective. WULCA recommends the AWARE (Available Water REmaining) methodology for assessing the impact of water consumption.

THE ISO 14046 WATER FOOTPRINT STANDARD PROVIDES NEEDED FRAMEWORK FOR ORGANIZATIONS

The AWARE methodology assesses the relative available water remaining per area in a watershed, after the demand of humans and aquatic ecosystems has been met. It also assesses the potential for water deprivation, either to humans or ecosystems, building on the assumption that the less water remaining available per area, the more likely another user will be deprived.

After measuring and assessing water concerns, brands are looking at how they can engage consumers on more sustainable water use. Biotherm, a L'Oréal brand, has developed the "Water Lovers" platform¹⁹, a water e-calculator and a Facebook app aimed at engaging and educating users about how they can reduce their water consumption.

These efforts are creating greater awareness of the role that people can play in protecting and preserving the Earth's water resources and aquatic life.

¹⁹ <http://www.biotherm.com/about-biotherm/waterlovers/index.aspx>



SUSTAINABLE PROCUREMENT

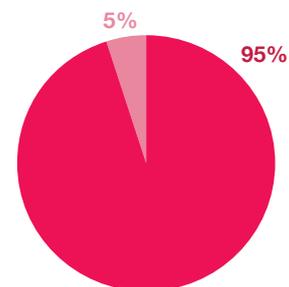
To better understand supply chain environmental risks, companies are assessing the emissions from their purchases by measuring their supply chain footprint, which falls under scope 3 of the Greenhouse Gas Protocol reporting standards²¹.

The Greenhouse Gas Protocol and Quantis offer a free web-based tool, The Scope 3 Evaluator²², to help companies to measure scope 3 emissions.

For cosmetics companies, many of the environmental risks are concentrated in the supply chain.

Data showed that on average, **95%**²⁰ **OF EMISSIONS** are concentrated within the supply chain

Average split of GHG emissions in the cosmetics and personal care sector



■ Supply chain ■ Operational footprint

By working with suppliers to measure, understand, and manage the environmental and social impacts of the goods and services they purchase, companies can turn supply chain sustainability into a driver of competitive advantage.

Identifying hotspots and implementing sustainable sourcing programs can help companies to secure supply. Cosmetics companies are vying for the same ingredient inputs.

²⁰ http://info.greenbiz.com/rs/211-NJY-165/images/State_of_Green_Business_Report_2016.pdf?mkt_tok=3RkMMJWWf9wsRou-vKjNzKXonjHpfSx97e8qW6eylMl%2F0ER3fOvrPUfGjI4ITMtkl%2BSLDwEY-GJlv6SgFSLHEMa5qw7qMXRQ%3D

²¹ <http://www.ghgprotocol.org/feature/scope-3-calculation-guidance>

²² <http://www.ghgprotocol.org/node/453>

Competitive advantage

Luxury brands in particular, find themselves competing for rare and exotic materials. In some instances, the cards are in the hand of the supplier and not the buyer. Suppliers of rare and specialized materials can choose not to work with a particular cosmetics company, giving preference to a competitor.

One trend has been for companies to step away from global commodity markets, instead developing personal relationships with suppliers. Part of this relationship development is finding ways to bring additional value to the partnership beyond price.

L’Oreal has been working with its suppliers in this manner for a number of years, with one of its flagship projects concerning shea butter sourcing. Shea is an essential ingredient to a number of its products, ranked among the top 10 botanic raw materials used by the group. L’Oréal has been working in partnership with local communities in Burkina Faso, West Africa, one of the largest shea tree regions in the world, to “provide a fair, direct income, with no middlemen, to these shea-nut gatherers; to create value locally through training on best practices in collecting and processing; and to protect the environment through the preservation of shea trees”²³. In addition to providing both environmental and social benefits to the region, this work supports L’Oréal economically by helping to secure and retain supply.

²³ <http://www.sharingbeautywithall.com/fr/node/149>





Traditionally, companies have set sustainability goals in a bottom-up fashion, just as they might with financial goals. Sustainability goals are often set based on either what “sounds like” a good target, e.g., a 20% reduction by 2020, and/or by what is feasibly achievable within a given period. These goals provide a motivational milestone, but are not related to global sustainability, resilience, risk management, nor to the company’s product portfolio and business model.

There is a global limit to the resources provided on Earth and businesses today must find their allocation within these planetary boundaries **to operate sustainably into the future**

SCIENCE-BASED TARGETS

Despite the introduction of climate change mitigation measures by governments, companies, civil society, and other actors, total greenhouse gas (GHG) emissions from human activity are continuing to increase. Under the current trajectory, global mean temperatures are projected to increase by 3.7°C to 4.8°C by the end of this century, far beyond the levels of warming that the scientific and international community have identified as safe.

Targets aligned with science

Planetary boundaries and science-based goals have been proposed as new sustainable frameworks to help companies set goals in line with the planet’s limits for a number of environmental indicators, including climate change, water, and land use.

The Science Based Targets Initiative²⁴ is a joint initiative by CDP, the UN Global Compact (UNGC), the WRI, and WWF intended to encourage companies to take action on climate change by setting targets consistent with the level of emissions reductions required by science to limit global warming to less than 2°C compared to pre-industrial temperatures.

²⁴ <http://sciencebasedtargets.org/>

A number of personal care companies have signed up to the initiative. L'Oréal, Natura, KAO Corporation, and Colgate Palmolive have all made commitments to the Science Based Targets Initiative to align their reduction strategies with the framework for science-based goals. Proctor & Gamble has committed to cutting emissions from operations by 30% from 2010 levels by 2020.

L'Oréal is taking the concept of science-based targets a step further by testing the application of the planetary boundaries framework to establish a rating system for product evaluations.

By setting science-based goals these companies will:



Help to lead transformation and innovation, catalyzing the development of new technologies and practices to help meet their goal

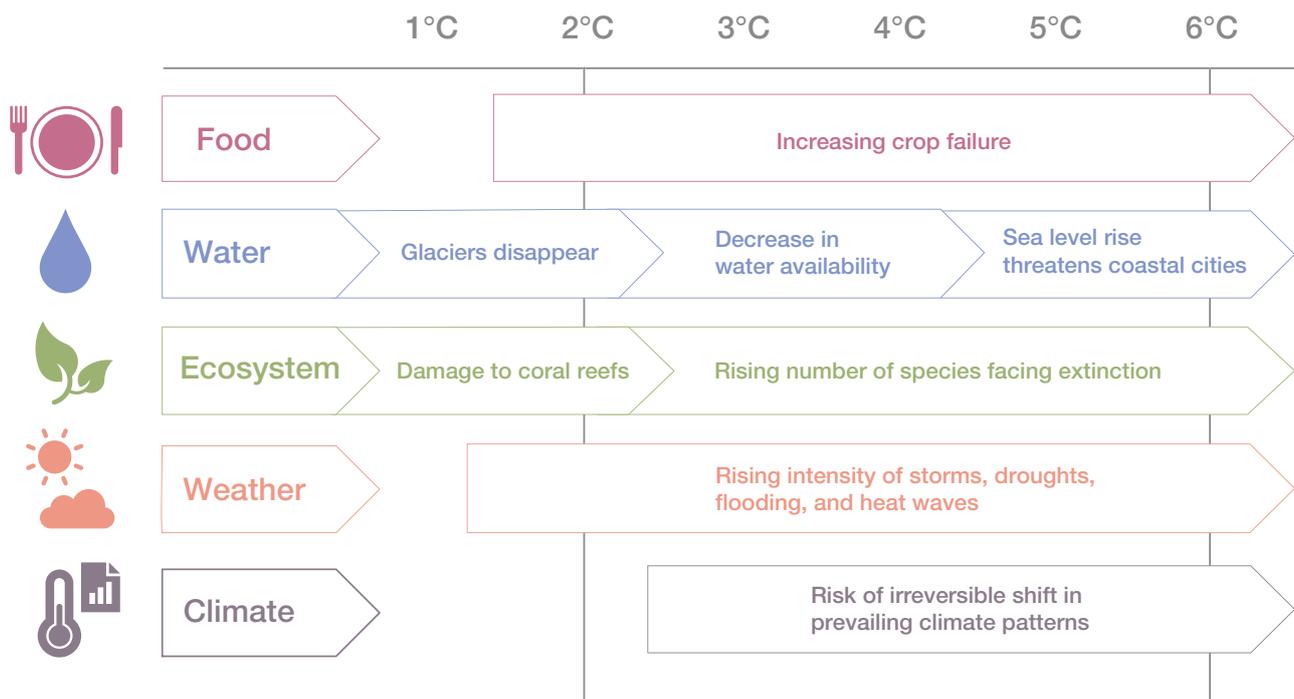


Save money as a result of operating more efficiently, as well as protecting themselves from volatile commodity prices, and bolster credibility and reputation



Stay ahead of future policy and regulation as governments work to tackle greenhouse gas emissions

Status quo will result in an increase in average temperature by 6°C. A limit of a 2°C increase is viewed as necessary to prevent catastrophic consequences.



Source: Adapted from the Stern Review on the Economics of Climate Change



Products can leave an indelible mark on the planet, especially when used in a linear system where items go from raw materials to waste with no re-use or re-entry back into the system. They require natural resources for their use, release emissions into the atmosphere, and leave waste materials behind.

There's a **€1.8 trillion** opportunity from the circular economy in Europe alone

In contrast, a circular economy is one that is restorative and regenerative by design, and which aims to keep products, components, and materials at their highest utility and value at all times.²⁵

DESIGNING FOR THE CIRCULAR ECONOMY

Designing for the circular economy can not only help to reduce environmental impacts, but it can also help to capture cost savings and discover new business models and opportunities. The latest report by The Ellen MacArthur Foundation revealed a €1.8 trillion opportunity from the circular economy in Europe alone.²⁶

Discovering opportunities

Unilever and DSM are both working with The Ellen MacArthur Foundation and have signed to the Circular Economy 100 (CE 100). The CE 100²⁷ is a pre-competitive innovation program established to enable organizations to develop new opportunities and realize their circular economy ambitions faster. Similarly, the “cradle to cradle” concept has helped influence cosmetics and personal care companies in addressing the life cycle impacts of their products, designing them in a way that is circular, efficient, and enriching.

²⁵ <http://www.ellenmacarthurfoundation.org/circular-economy>

²⁶ https://www.ellenmacarthurfoundation.org/assets/downloads/publications/EllenMacArthurFoundation_Growth-Within_July15.pdf

²⁷ <http://www.ellenmacarthurfoundation.org/ce100/the-programme/enabling-collaboration>

Brands such as Aveda (ELC) and Method (Ecover Group) have adopted the principles and worked with the Cradle to Cradle Products Innovation Institute to certify their products. Aveda has successfully avoided cost and environmental risks as a result of purchasing 100% of its energy from wind power and 100% recycled PET²⁸, minimizing its greenhouse gas emissions and avoiding risks from volatile prices and supply disruption.

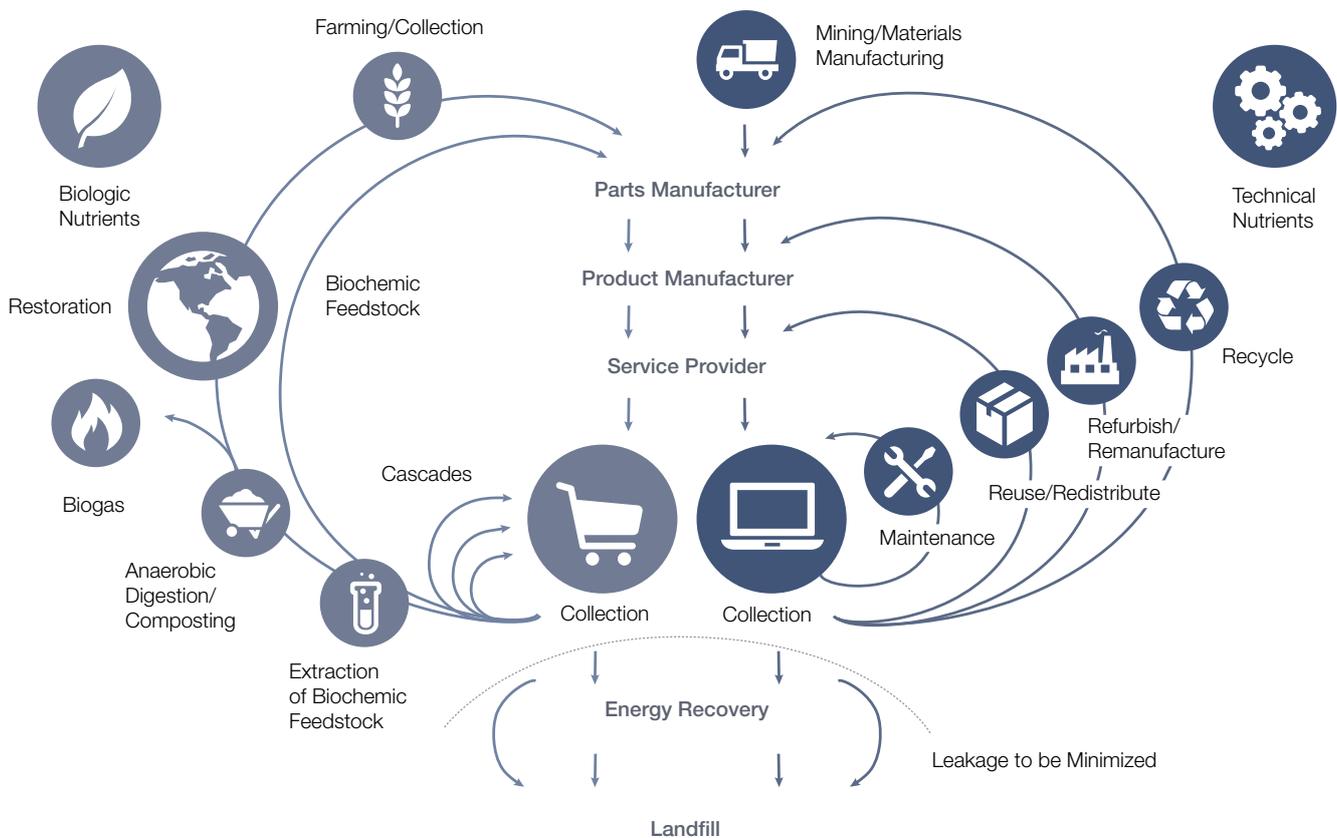
Aveda has seen environmental benefits as a result of redesigning its packaging so that it is safe, eliminating hazardous materials and replacing them with materials that are designed for reutilization of material at the end-of-use.²⁹

The concept of a circular economy can lead cosmetics companies towards new design, manufacturing, and packaging solutions that minimize the burden on the world's resources.

²⁸ http://www.aveda.fr/?q=website_admin/node/282&menu=1032

²⁹ http://s3.amazonaws.com/c2c-website/resources/impact_study_executive_summary.pdf

The Circular Economy



Source: Ellen MacArthur Foundation

VALUING NATURAL CAPITAL



Due to the way that current business models are set up, significant environmental externalities are often not priced and accounted for by the company creating them. Examples of resources where cost can be attributed include the impacts of greenhouse gas emissions and other pollution, and the depletion of natural resources such as land and water.

By valuing natural capital, companies are successfully managing to integrate **ENVIRONMENTAL CONSIDERATIONS INTO BUSINESS** decisions by using a single common metric

The value that nature provides to business is often hidden, and as such neglected or not fully understood. This presents a risk to businesses as these externalized costs may suddenly appear on the balance sheet through tighter regulation and supply-driven cost spikes as these resources become more constrained.

Companies are working to understand the importance of natural capital to their businesses by measuring, often in monetary terms, the value it offers. This provides an overarching metric to understanding opportunity and risks along the value chain.

Natural capital valuation is also helping sustainability departments communicate with the company leadership team, investors, employees, customers, and other stakeholders by speaking the language of business.

The Natural Capital Coalition³⁰, a global, multi-stakeholder open source platform, is working to support the development of methodologies for measuring natural and social capital. Cosmetics companies including LVMH and Natura are members of the coalition, as are retailers such as Walmart.

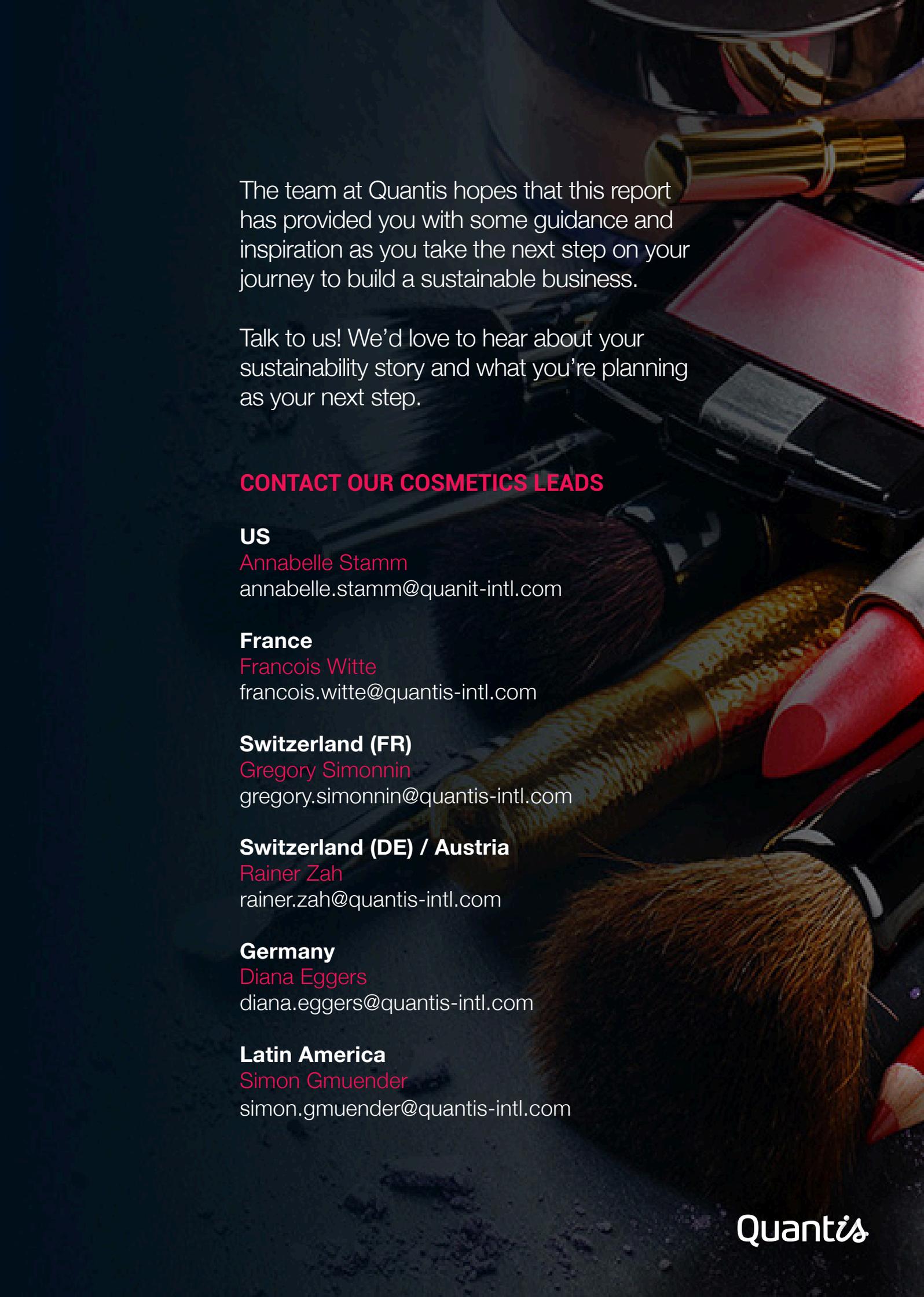
Win-win

The Dow Chemical Company, a cosmetics ingredients supplier, has been pioneering the concept of natural capital for a number of years. By 2020 it plans for all R&D, capital, and real-estate projects to be screened using natural capital valuations. To quote Dow, “Valuing natural capital is a new ‘win-win’ way of business thinking”. It has found that by including values for nature in its business decision process, it is delivering both business value and natural capital value—in other words, the decisions are both good for the company and good for nature. For example, reconstructing wetlands for wastewater treatment in Seadrift, Texas, has yielded more than \$200 million in net present value³¹ to the company.

Cosmetics companies are finding that by lining up the externalized cost of their activities up with their balance sheet, they can see a more strategic view of how wins for the planet can translate into wins for their bottom line.

³⁰ <http://naturalcapitalcoalition.org/who/history-vision-mission/>

³¹ <http://www.dow.com/en-us/science-and-sustainability/sustainability-reporting/valuing-nature>



The team at Quantis hopes that this report has provided you with some guidance and inspiration as you take the next step on your journey to build a sustainable business.

Talk to us! We'd love to hear about your sustainability story and what you're planning as your next step.

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