



**American Home Furnishings Alliance
Sustainable by Design Overview
Webinar
March 19, 2008**

BROWN AND CALDWELL



Sustainability
The 21st Century
Bottom Line

Agenda

- The “Green” Issue
- Overview of Sustainability
- Why are Businesses Interested in Sustainability?
- AHFA’s Sustainable by Design Program

The “Green” Issue

- “Green” anything has become the buzz word for everything sustainable
- This has created the perception of “green washing”

What's In a Name

- Green Design is synonymous with sustainable design and is defined as a company's process of implementing Sustainable Business Practices (SBP), such as energy conservation, use of renewable materials, and low environmental impact production methods in their manufacturing operations

What's In a Name (continued)

- Sustainable Business Practices are those practices that are designed to meet the needs of the present without compromising the ability of future generations to meet their own needs

What's In a Name (continued)

- Sustainability is a commitment to integrating economic, environmental and social policies/practices into our business models that demonstrate the value our companies place on their people, the environment and shareholders. It will promote a culture dedicated to the stewardship of resources and the creation of a sustainable environment for future generations

Sustainability

A large, powerful blue wave crashing, symbolizing the next big wave in corporate responsibility. The wave is curling over, creating a tunnel-like effect. The water is a vibrant blue, and the sky is a clear, bright blue with some white clouds. The overall scene is dynamic and energetic.

**The next big wave in corporate
responsibility**

is here!

Points on the sustainability wave

- Leading companies provide it
- Competitors offer it
- The public expects it
- Equity markets screen reports for it
- Consumers look for it

Sustainability starts with...

Company Values

environment

society

shareholders



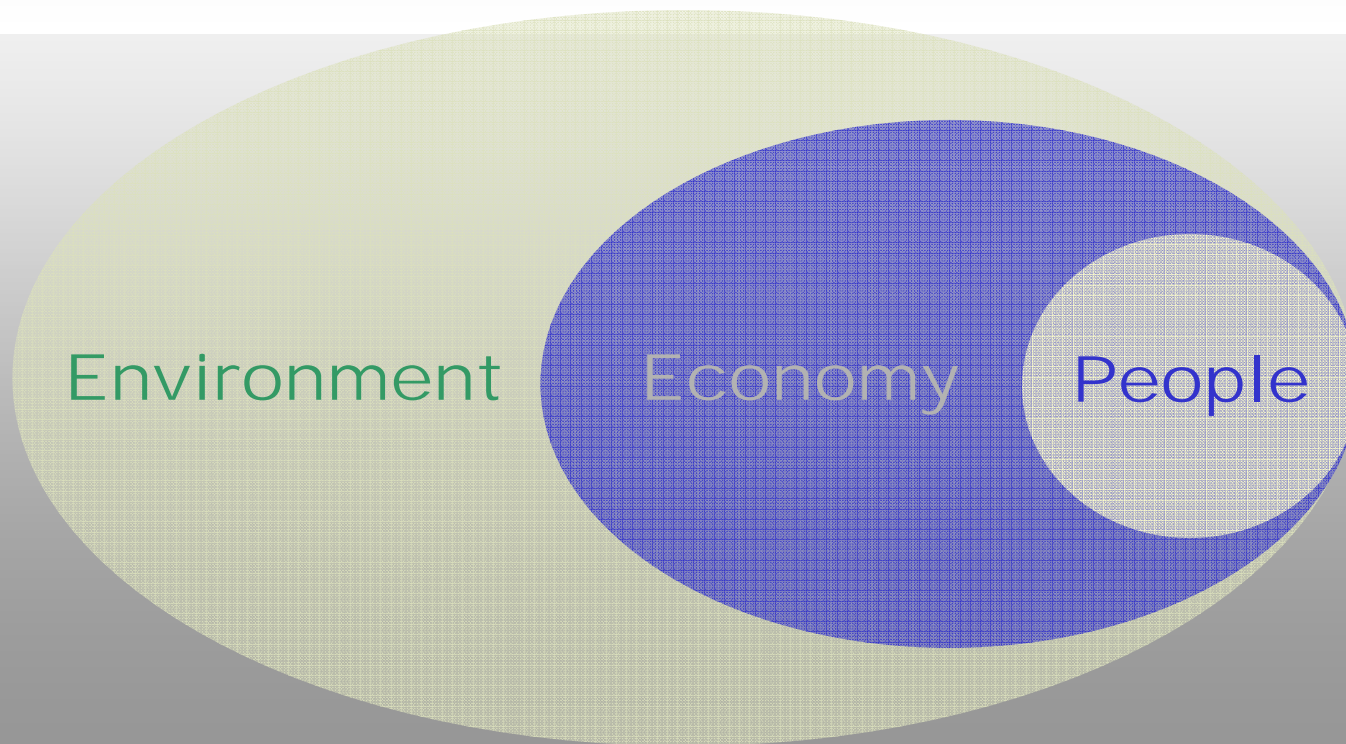
Sustainability emerges



- Customer Value
- Intolerance of waste
- Community Involvement
- Shareholder Stewardship
- Dignity and Security

Sustainability

- Integration of people, economy, environment
- Also called the “Triple Bottom Line”

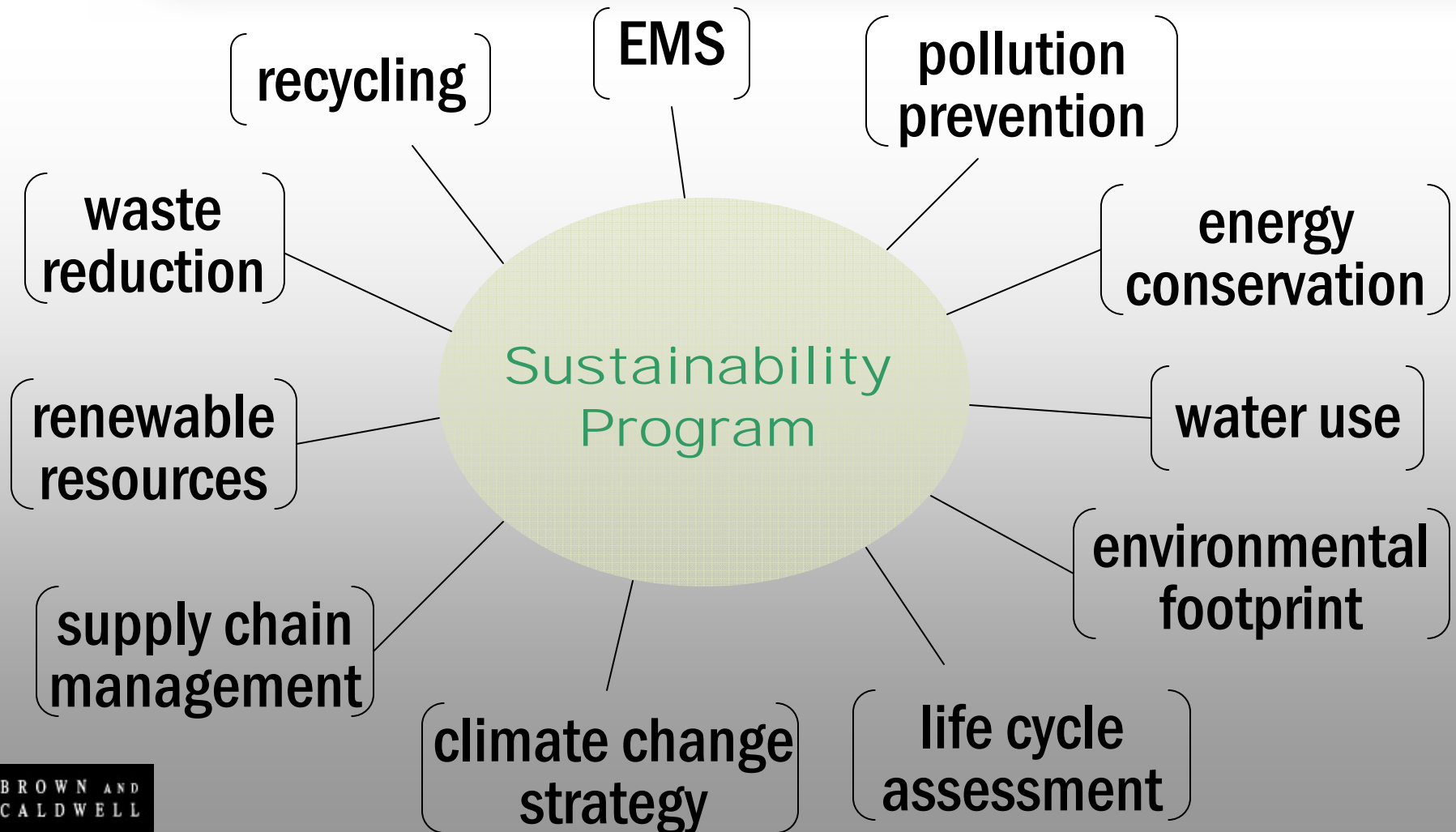


Sustainability

- Sustainability development is the next phase of integrated product development
- Business seeks product development approaches that benefit the local environment and quality of life
- Minimize “environmental footprint”



EFEC is a Component of Sustainability Program



Why are Businesses Interested in Sustainability?

The “Value” of Sustainability

- Businesses recognize two general categories of value for sustainability: Internal and External

The “Value” of Sustainability (continued)

Internal value:

- Mainly in the form of cost reductions and improved risk management
- Cost reductions come from increased efficiencies - Energy reductions coupled with emission reduction credit value, alternative materials with lower life cycle costs, renewable materials that are independent from “scarcity”, and

The “Value” of Sustainability (continued)

Internal value:

- Risk management improvements come from decreased exposures -
Non-hazardous materials require less “compliance assurance”, disposal risk are lowered, less insurance policy costs, reduced exposure to new and emerging regulations, improved product acceptance in global markets

The “Value” of Sustainability (continued)

External value:

- Mainly in reputation and brand value
- Reputation among shareholders rises as risk and cost decline with sustainable practices, sustainability is a new proxy for “sound management”, increases access to capital and may lower cost of capital,

Sustainability reaches full value potential only when it's communicated

■ Internal Communication:

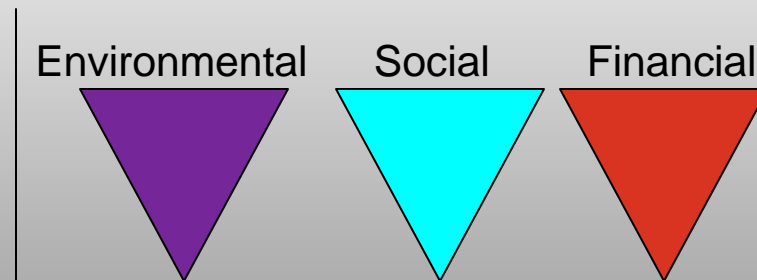
- Where are the best opportunities to extract more “value”?

■ External Communication:

- How we would like to others to see us
- How do they see us? – stakeholder

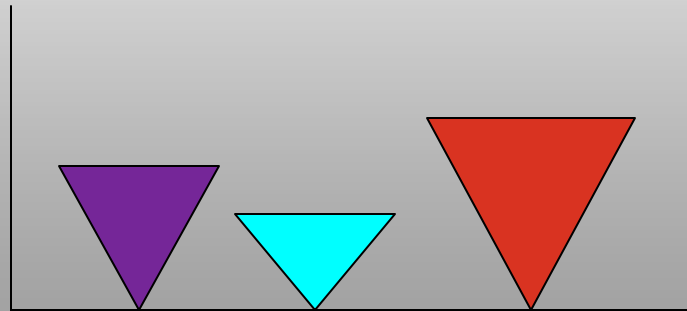
Performance

- A balanced approach: programs are of equal “maturity” and equally emphasized – programs are well integrated



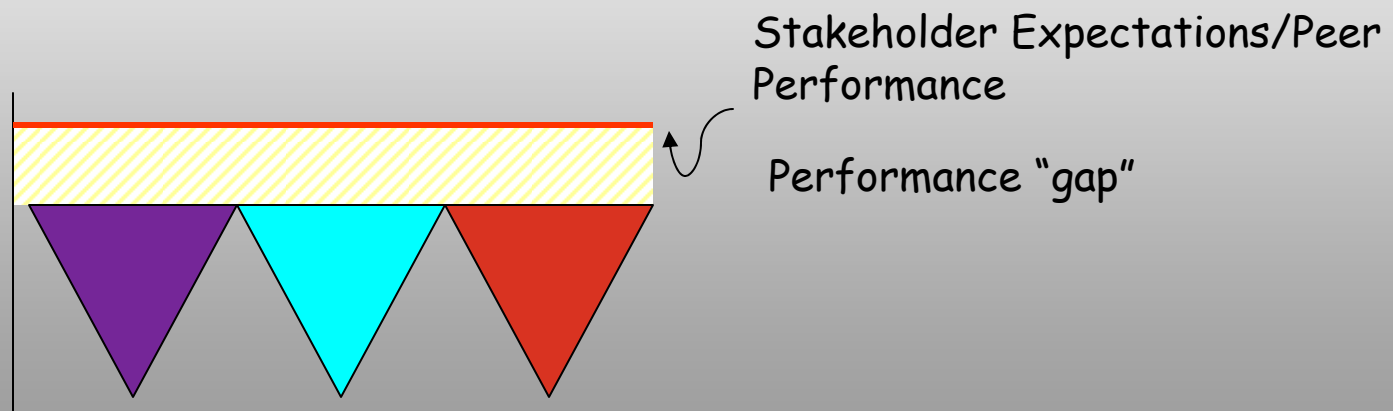
Performance (continued)

- An unbalanced approach: programs are of unequal “maturity” and performance levels suggest that financial stakeholder interests “trump” others. Program elements are “disconnected”



Performance (continued)

- A balanced approach: but under performing stakeholder expectations or lagging peer network in performance



Investment Analysts

- Wall Street evaluates firms with regard to best practices in environmental management
- Firms are evaluated with respect to Environmental Programs
 - Policies
 - Environmental Management Systems (EMS)
 - Environmental Audits and Reporting
 - Voluntary EPA and Government Programs
 - Environmental Indicators tracked
 - Board structure

Investment Analysts (continued)

- Firms are also evaluated with respect to three major challenges
 - Supply chain management
 - Water use
 - Climate change

Financial Benefits

- Superior EHS performance is a proxy indicator for superior management capability
 - Effectively communicates organization's ability to manage risk, reduce volatility, and build shareholder trust

Financial Benefits (continued)

- 50% of firm's market value can be attributed to intangibles like EHS
 - 35% of institutional investors' portfolio allocation decisions are based on intangibles like EHS
 - 81% of Global 500 executives rate EHS issues among top 10 issues driving value

Financial Benefits (continued)

- Companies with high EHS management ratings outperform other
 - Pharmaceutical companies with above average ratings outperform companies with below average ratings by approximately 17 percentage points

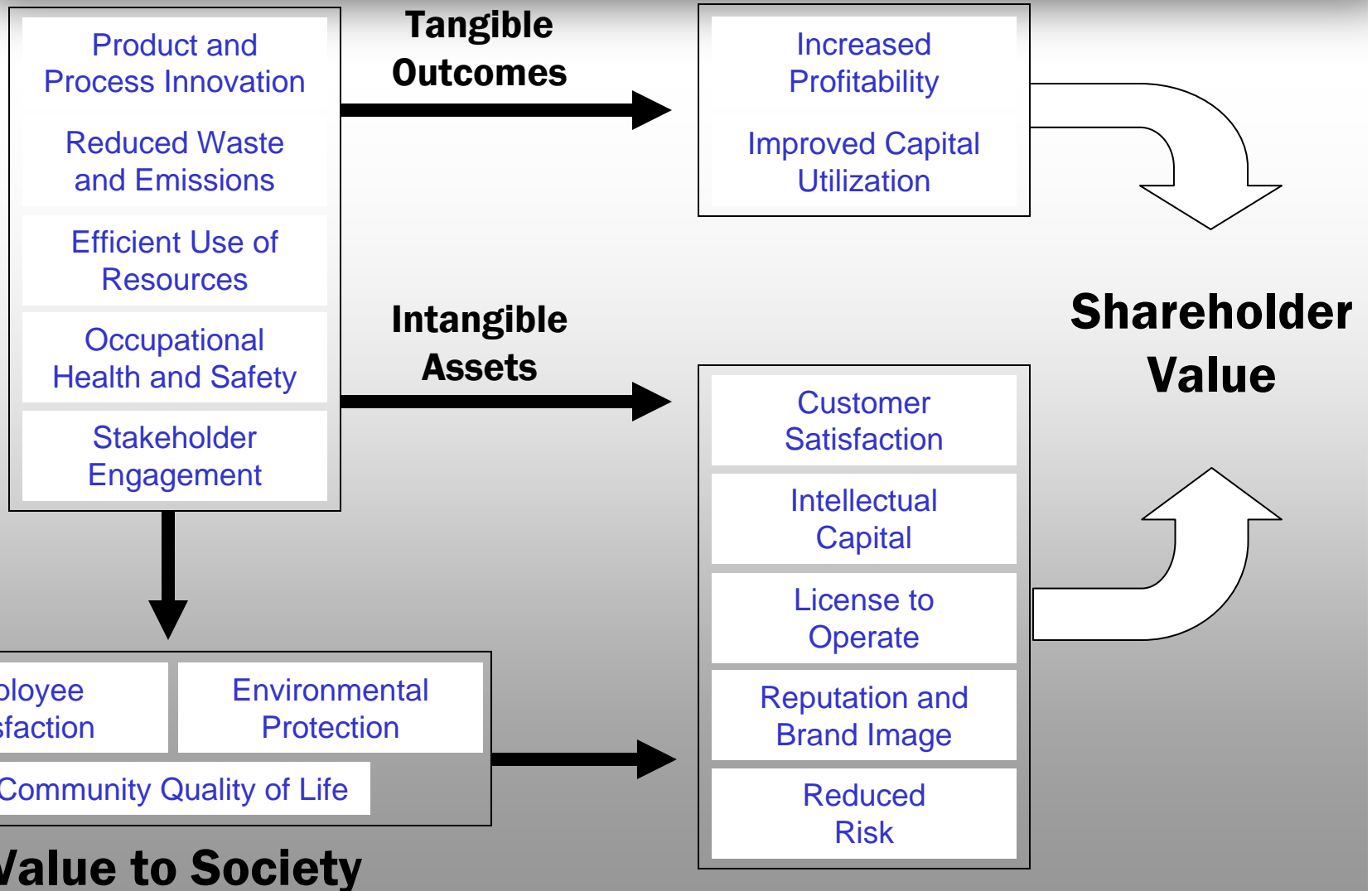
Socially Responsible Investing

- Currently over 200 mutual funds dedicated to socially or environmental responsible investing
- Socially screened portfolios are over \$2 Trillion which is over 10% of the 19.9 Trillion assets currently under management in the United States

Socially Responsible Investing

- Scoring and ranking tools
 - Dow Jones Sustainability Index
 - FTSE4Good Index
 - Have performed in line or outperformed broader market averages

Overview of Pathways Linking EHS to Shareholder Value



Tangible Savings

- Stanley, LA-Z-Boy, Lexington have excellent programs and have realized significant savings
 - Waste reduction/recycling
 - Air emission fees
 - Energy consumption

Tangible Savings - Examples

- Stanley Furniture – Martinsville
- Reduced solid waste
 - 6 tons waste / \$million production
 - TO
 - 3 tons waste / \$million production
- Reduced hazardous waste
 - \$2,212 production / 1 gallon hazardous waste generated
 - TO
 - \$6,546 production / 1 gallon hazardous waste generated

Tangible Savings - Examples

- **Lexington Home Brands**
 - Focused on processes to reduce solid waste and recycle cardboard, leather, and fabric
 - Realized savings of over \$200,000

Tangible Savings - Examples

■ LA-Z-Boy - Utah

- Saved \$47,861 in landfill disposal, contract hauling, and cost avoidance/revenue for plastic, paper, and cardboard tubes
- Reduced VOC emissions and saved on permit fees
- Reduced energy consumption and saved \$63,432

Model Plant Cost Savings

- Assume case goods plant

- Annual production of \$50 million
- After tax profit of 8%

- Savings

- Waste reduction \$50,000
- Air emissions fees \$5,000
- Energy savings \$65,000

Total: \$115,000

- Cost

- Labor \$15,000

- Net annual savings \$100,000

Model Plant Savings Summary

- Net savings of \$100,000 results in increase in after tax profit of 2.5% (8 to 8.2%)
- As an alternative, must increase production by \$1,250,000 at same profit to obtain \$100,000

Wal-Mart

- Implemented Sustainability 360
 - Formed teams focusing on packaging, real estate, energy and raw materials
 - Examined all business practices
 - Partnered with non-profit organization, consultants, and other groups

Wal-Mart Goals

- Top 3 Goals
 - 100% renewable energy
 - Zero waste
 - Sell sustainable products

Wal-Mart Goals (continued)

■ Renewable Energy

- To be supplied 100% renewable energy
- Existing stores 25% more efficient in 7 years
- New stores 30% more efficient in 4 years

■ Greenhouse Gases (GHG)

- Reduce GHG by 20% over next 8 years
- Double new truck efficiency by 2015
resulting in reduction of 26 billion pounds of
Carbon Dioxide in next 13 years (2020)

Wal-Mart Goals (continued)

- Improved truck design improves efficiency/reduces emissions
 - Trailer side skirts
 - Aerodynamic tractor
 - Auxiliary power unit for night

Wal-Mart Goals (continued)

- Sell sustainable products
- Supplier Initiative
 - Work with suppliers to reduce packaging by 5% in 2013
 - Effect equal to
 - Remaining 213,000 trucks form the road
 - Saving 324,000 tons coal and 67 million gallons diesel per year

Wal-Mart Goals (continued)

- Help suppliers run more sustainable businesses
- Design and support Green Company Program in China

European Union Eco-Label Regulation

- In 1992 Council of EU Adopted Regulation Establishing an Eco-Label Award Scheme
 - Published Revised Regulation (EC) No. 1980/2000 in September 2000
- Businesses Satisfying the Published Criteria can use Eco-Label's Flower Logo
- Currently Covers 24 Project Groups and Services

Eco-Label for Furniture

- Considers Life Cycle of Furniture
- Production
 - Input Material Related Environmental Aspects
- Use and Disposal
- Environmental Assessments of Components
 - (Foams, Solvents, Resins, Coatings etc.)

Market Study

- Feedback Collected from Public, NGO's, Industry Associations, Companies, and State Organizations
- Summary of Responses
 - 92% are Aware of Eco-Label
 - 91% Support Labeling Products that have Less Environmental Impacts
 - 91% would Buy Eco-Label Products if Same Price as Other Products
 - 76% would Buy Eco-Label Product if More Expensive

The AHFA ECO Label



Sustainable
by Design
AHFA CERTIFIED

The AHFA ECO Label

- A comprehensive sustainable business practice strategy
 - Reducing your environmental footprint
 - Reducing your CO2 footprint
 - Reducing greenhouse gas emissions
 - Energy
 - Recycling – “grab the low hanging fruit”
 - Corporate Responsibility – start to finish
 - Life Cycle Analysis – “cradle to cradle”

Our Mission

- AHFA members commit to integrating socio-economic policies and environmental practices into our manufacturing operations that are consistent with the responsibility we have to properly manage our natural resources for future generations. These policies and practices will promote a culture committed to the conservation and stewardship of resources and to the creation of a sustainable environment

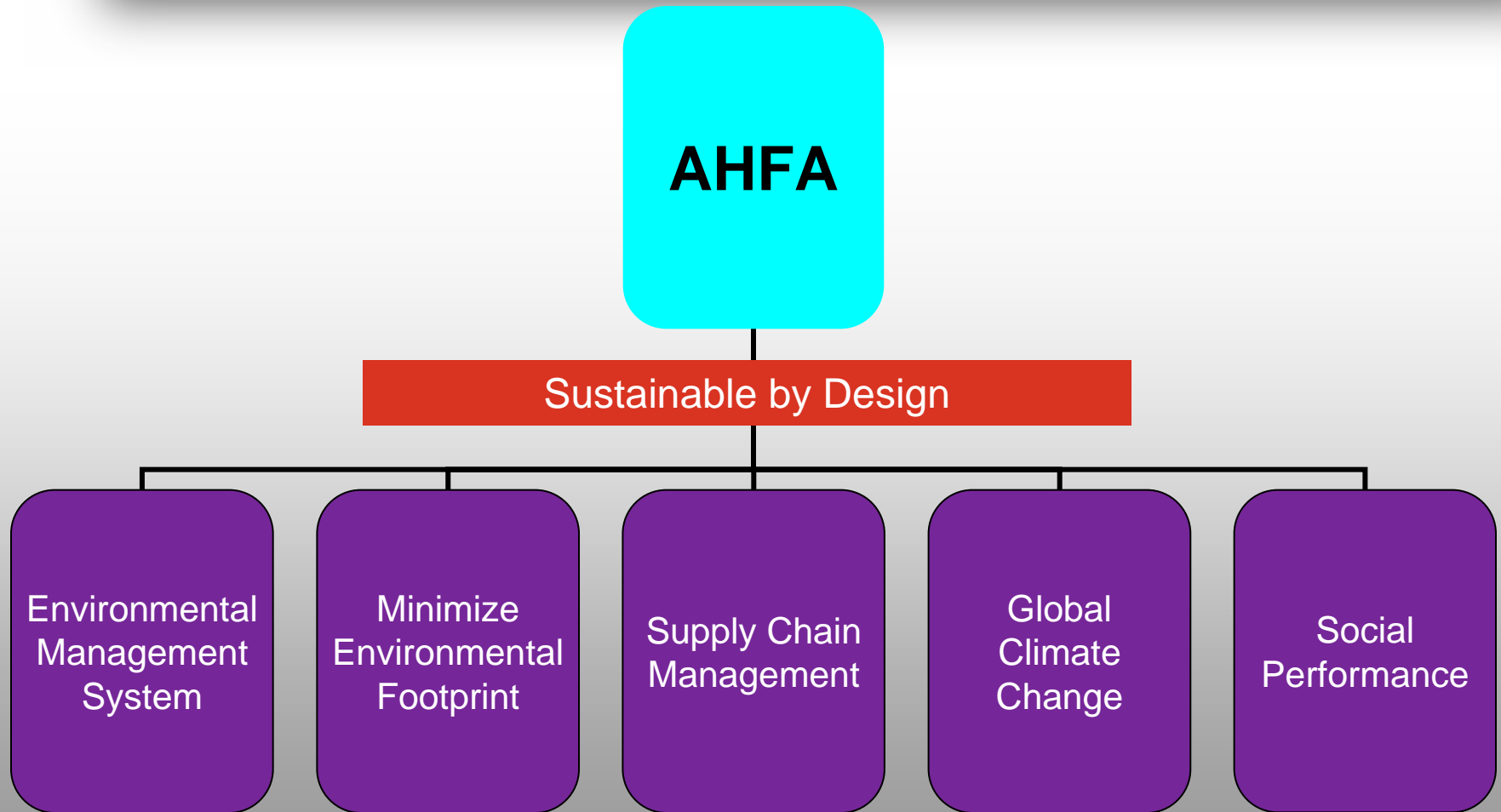
Applicability & Scope

- The Sustainable by Design Certification will be awarded at the company level to AHFA members that satisfy the Credit Areas and the Punch List
- EFEC Certification is a key requirement,

Applicability & Scope (continued)

- EFEC Certification is provided at the plant level only,
- All facilities owned and operated by the company must satisfy the Credit Areas in order to receive the Sustainable by Design Certification

Sustainable by Design Program



Environmental Management System

- EFEC Registration
- Environmental Policy
- Impact Analysis
- Goals
- Employee Awareness
- Incident Preparedness Plan
- Public Education / Communication
- Work with Suppliers
- Inform Regulatory Agencies
- Information and Technology Exchange
- Measurement of Progress
- Corrective Action Plan

Minimize Environmental Footprint

- Low VOC/Low HAP Coatings
- Renewable Fuels
- Certified lumber (5% to 10%)
- Energy Conservation Program
- Water Conservation Program

- Solid/Hazardous Waste Reduction Program
- Life Cycle Analysis
- Low Emitting of Resins
- ATCM compliant MDF, Particle Board, and Plywood
- No PBDE

What is Life Cycle Analysis (LCA)?

- “Cradle-to-Grave” or “Cradle-to-Cradle” Approach for Assessing Industrial Systems
- Estimates Cumulative Environmental Impacts Resulting from all Stages in Product Life Cycle
 - Includes Raw Material Extraction, Material Transportation, Ultimate Product Disposal

What is Life Cycle Analysis (LCA)? (continued)

- Provides Accurate Picture of True Environmental Trade-offs in Product and Process Selection

Life Cycles Stages in LCA

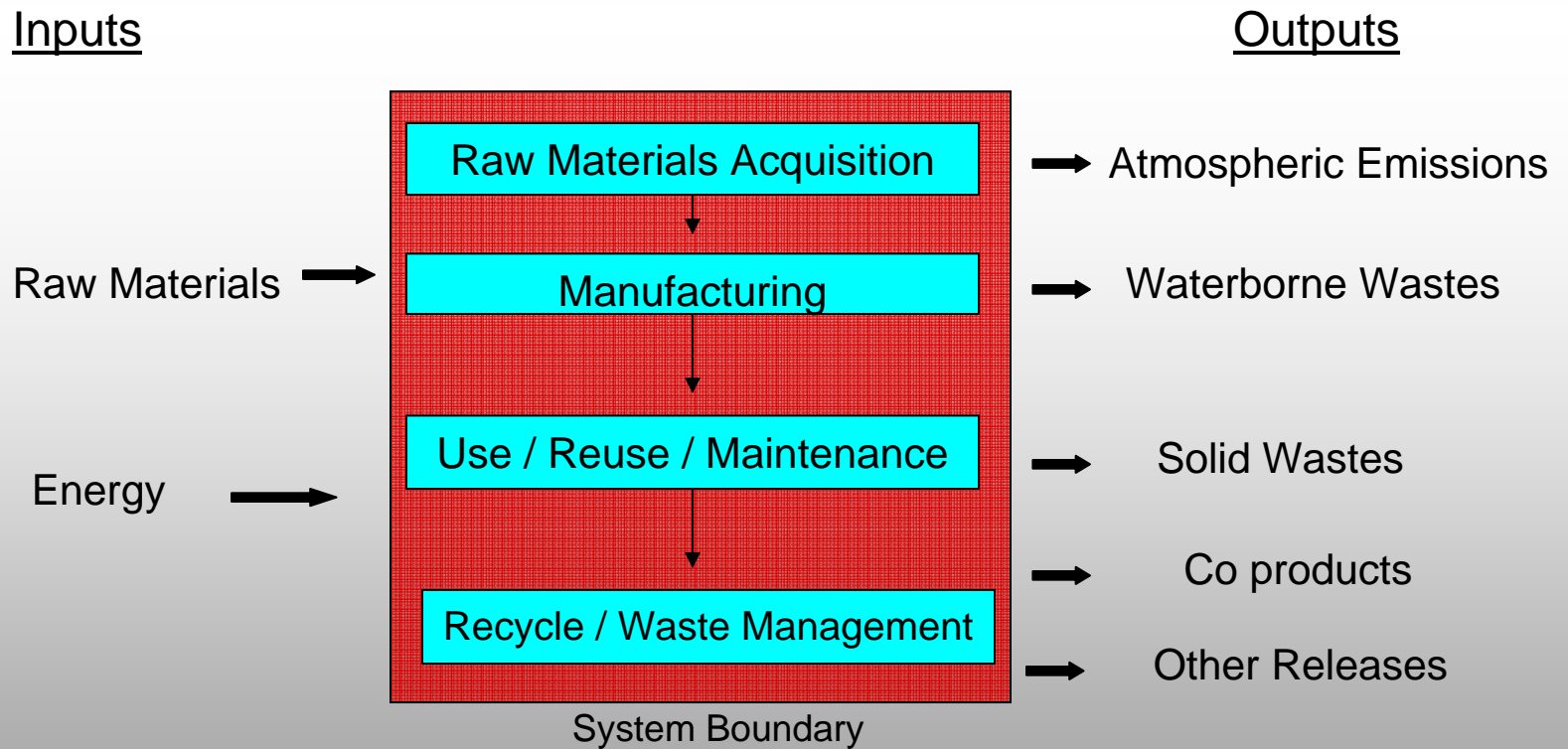


Exhibit 1-1. Life Cycle States (Sources: EPA, 1993)

Supply Chain Management

- Develop program to assist suppliers with development and implementation of sustainability programs
- Chain of Custody Program
- Record Retention and Auditing
- Supplier/Vendor Initial Notification
- Outreach, Training and Information Exchange

Global Climate Change

- Green House Gas baseline inventory
- Minimize Green House Gas Emissions

- Global Climate Change Reporting

Social Performance

- Policy defining organization's commitment to Human Rights
- Program that identifies impact on communities
- Policy defining organization's commitment to labor aspects
- Program that addresses aspects of organization's products and services that directly affect customers – Health and Safety, Information and Labeling, Marketing and Privacy

Sustainable By Design Punch List

- All of the following elements must be implemented and fully documented for a company to receive the AHFA Sustainable by Design Label

Sustainable By Design Punch List

1) EFEC Certified	<input type="checkbox"/>
2) Minimize Environmental Footprint	
• Low VOC/Low HAP Coatings	<input type="checkbox"/>
• Renewable Fuels	<input type="checkbox"/>
• Use Certified Lumber (3% to 5%)	<input type="checkbox"/>
• Energy Conservation	<input type="checkbox"/>
• Water Conservation Program	<input type="checkbox"/>
• Recycling Program	<input type="checkbox"/>
• Solid/Hazardous Waste Minimization Program	<input type="checkbox"/>
• Life Cycle Analysis Program	<input type="checkbox"/>
• Low Emitting UF Resins	<input type="checkbox"/>
• ATCM compliant MDF , Particle Board, and Plywood	<input type="checkbox"/>
• No PBDE	<input type="checkbox"/>
3) Supply Chain Management	
• Program to assist suppliers with development/implementation of sustainability programs	<input type="checkbox"/>
• Chain of Custody Program	<input type="checkbox"/>
4) Global Climate Change	
• Program to minimize Green House Gases	<input type="checkbox"/>
• Global Change Reporting	<input type="checkbox"/>

Sustainable By Design Punch List (continued)

5) Social Performance	
• Policy Defining Organization's Commitment to Human Rights	<input type="checkbox"/>
• Program that Identifies Impacts on Communities	<input type="checkbox"/>
• Policy Defining Organization's Commitment to Labor Aspects	<input type="checkbox"/>
• Program that Addresses Aspects of Organization's Products and Services that Directly Affect Customers – Health and Safety, Information and Labeling, Marketing and Privacy	<input type="checkbox"/>

What Documentation is Required?

- Brief Disclosure of Management Approach
- Policy that Defines Organization's Commitment
- Organization Responsibility
- Goals and Performance
- Training Performed
- Monitoring and Corrective Action Plans

Why Implement SBD?

- Certification Required for Eco-Label
- Assists With Compiling Information for Reporting / Communications
 - Community
 - Stakeholders
 - Investors
 - NGO's
- Several Options for Reporting / Communication

Global Reporting Initiative

- One Option – World’s Most Widely Used Reporting Framework
- GRI is Large Worldwide Multi-Stakeholder Network
- Mission is to Provide a Credible Framework for Sustainability Reporting – Sustainability Reporting Guidelines

Sustainability Reporting Guidelines

- Provides Framework of Concepts, Consistent Language, and Metrics for Sustainability Reporting
- Framework Ensures that Economic, Environmental, and Social Impacts are Transparent, and Effectively Communicated to Target Audiences

Next Steps

- Begin EFEC Certification Process
- At Same Time Begin Developing SBD Program
 1. Visioning Workshop
 2. Develop Questionnaire / Gather Sustainability Information
 3. Aggregate Data for Reporting
 4. Identify Gaps
 5. Benchmarking
 6. Develop Communication Packages

The Future Is Now!



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