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# Bringing Sustainability to the Table: Perspectives on ESG in the Home Furnishings Industry

MAY 22, 2023

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Defining sustainability  
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perspectives: Defining  
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practices

# L.E.K.'s Global Sustainability Centre of Excellence has identified four distinct key pillars driving the prioritization of sustainability among businesses



## Consumers

- **55% of U.S. consumers** indicate they are **willing to pay more for sustainable products** across categories (e.g., food, cleaning products, clothing, etc.)
- In **home furnishings**, **60%** of U.S. consumers **indicated they would switch furniture brands or products due to sustainability concerns**



## Talent

- **Employees are prioritizing organizations with sustainability values** that align with their own
- Strong sustainability goals and policies serve as a **competitive advantage in the war for talent**



## Investors

- **35% of global AUM (c. \$40 tn)** have a **sustainable stance**
- **~89% of global investors indicate they are including ESG factors** in their investment approach



## Regulation

- **Environmental laws and regulations are continually evolving and becoming stronger**, e.g., TCFD, EU's CSRD, SEC enhanced disclosure proposals
- **Organizations are increasingly utilizing sustainability frameworks/standards**, etc. to report on and disclose their sustainability performance, e.g., Sustainability Reports, commitments to SBTi, ECOVADIS ratings

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# Identification of key sustainable business practices in the home furnishings sector

## EASIEST TO DIRECTLY CONTROL



### Avoidance of toxic substances

The practice of not including substances considered toxic or potentially hazardous in products (e.g., lead)



### Sourcing strategy / origin of raw materials

Procuring raw materials from suppliers with sustainable business practices



### Sustainable design / durability

Designing products to use less raw materials, incorporate more sustainable materials, or sustain a longer product lifecycle (therefore creating less waste)



### Green(er) raw materials

Utilizing raw materials that are considered more environmentally friendly, such as wood instead of plastic, in manufactured products

# Identification of key sustainable business practices in the home furnishings sector

## HARDER TO DIRECTLY CONTROL



### Recycling/take backs/ resale economy

Making products from recyclable materials or allowing for a secondary use of products after an initial purchase



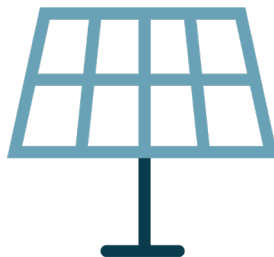
### Packaging waste

Reducing waste in shipment packaging materials, which can include both internal (e.g., foam) and / or external (e.g., cardboard) packaging materials



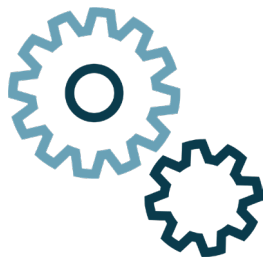
### Distribution/logistics

Crafting more efficient distribution routes, therefore utilizing less fuel to deliver the same amount of product



### Renewable energy transition

Transitioning equipment (e.g., manufacturing lines, retail / office space, delivery vehicles) to function using renewable energy sources



### Manufacturing processes

Building more sustainable business practices at each step of the manufacturing process

# Identification of key sustainable business practices in the home furnishings sector

## OTHER METHODS



### Carbon credits

Marketplace of certificates that can be bought by carbon emitters and sold by carbon emissions reducers in efforts to incentivize greenhouse gas emissions reduction

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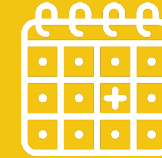
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**L.E.K. & LINCOLN CONDUCTED A SURVEY OF 20 BUSINESS LEADERS TO UNDERSTAND HOW SUSTAINABILITY IS BEING INCORPORATED ACROSS THE HOME FURNISHINGS COMPETITIVE LANDSCAPE**



**FOCUSED ON THE  
HOME FURNISHINGS  
SECTOR**



**COMPLETED  
JANUARY 2023**



**SAMPLE OF 20 TOP  
BUSINESS LEADERS  
AT MAJOR HOME  
FURNISHINGS COMPANIES**



**U.S.  
FOCUSED**

# Key topics

Where does ESG fall within an organization's list of priorities? Why?

Which stakeholders are providing the most pressure to have ESG on the agenda?

Where do most home furnishings organizations fall on the spectrum of sustainable business archetypes?

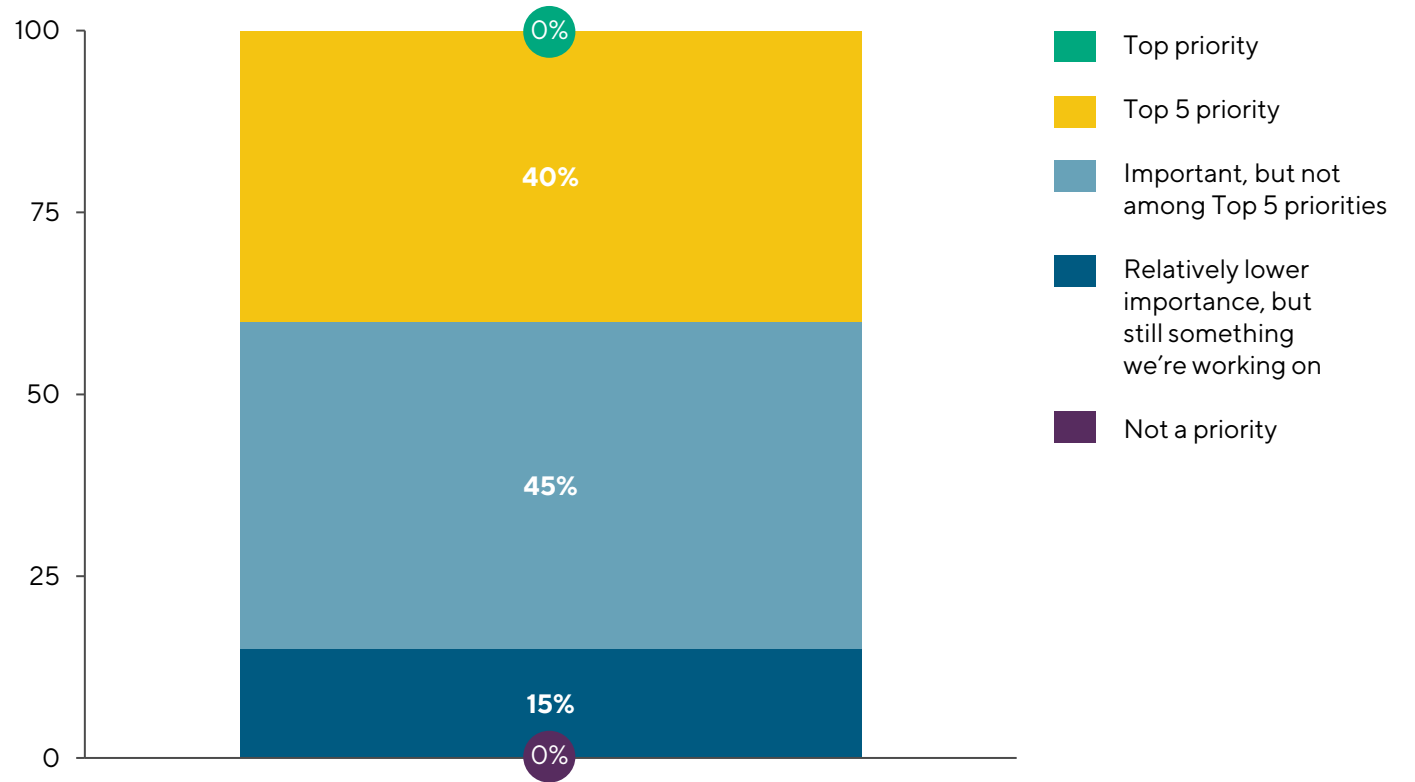
Which business aspects are highest priority for sustainability improvements? How far along are those plans?

What are the greatest challenges to achieving sustainability goals within an organization?

Sustainability is  
considered important by  
**~85%**  
of organizations, though  
relative prioritization of  
ESG initiatives varies  
based on the economic  
climate and differing  
views on its importance  
to consumers

Survey. Q. Where does sustainability / ESG  
fall on your priority list?; Q. Why (or why not) is  
sustainability a priority for your business?  
Source: L.E.K. Home Furnishings  
Sustainability Survey and analysis

**RELATIVE IMPORTANCE OF SUSTAINABILITY / ESG**  
% of responses  
N=20



## Reasons why sustainability is important

Organizations that consider sustainability important **believe providing sustainable solutions is a business' responsibility, as well as a key consumer purchase criteria**

*"... Making a positive impact on people and the planet has been **part of our company's DNA since we were founded**. In addition to being the right thing to do, we see **companies that are a force for good** in the world also being the ones that are **most financially successful**..."*

- Executive,  
Premium multi-channel furniture retailer

*"... We believe **sustainability is highly valued by our clientele**, just below design, quality, and service in their shopping criteria for luxury home furnishings..."*

- Executive,  
Segment-leading DTC home furnishings brand

## Reasons why sustainability is relatively less important

However, **some organizations have decreased the importance of sustainability** due to the **current macroeconomic climate** or a **belief that sustainability is a niche concern**

*"... **It's a product of macroeconomic challenges we are experiencing** - sustainability was a big thing for us last year and prior, when we had time and money to invest, but **it has taken a bit of a backseat to profitability** questions that are more pressing now..."*

- Director,  
Multi-billion e-commerce home goods company

*"... We didn't see as much traction as we wanted on the sustainability side... **We reduced its importance from what we saw from the customer - it was more of a niche concern**..."*

- Former Executive,  
DTC affordable furniture retailer

Home furnishings manufacturers believe that sustainability is important, but balancing short-term business priorities with longer term sustainability goals can prove difficult in practice



## KEY STAKEHOLDERS

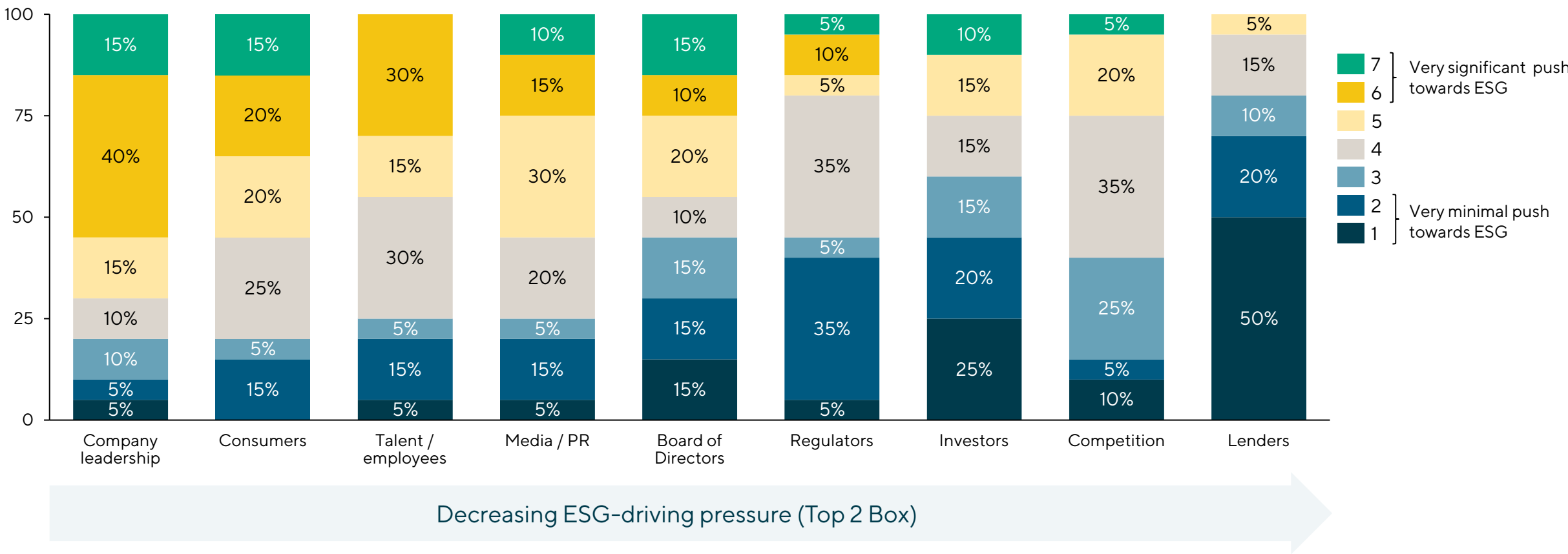
**Company leadership, consumers (incl. talent / employees), and media** provide the **most pressure** to push ESG initiatives forward

**Lenders** were ranked as the stakeholder group providing the **least amount of pressure** to push ESG initiatives forward

# Most pressure to set ESG initiatives is coming from consumers & stakeholders interested in consumer satisfaction (e.g., company leadership, Media/PR); talent also provides a significant push toward ESG

PERCEIVED PUSH / PRESSURE TO HAVE ESG ON THE AGENDA, BY STAKEHOLDER GROUP

% of respondents  
N=20

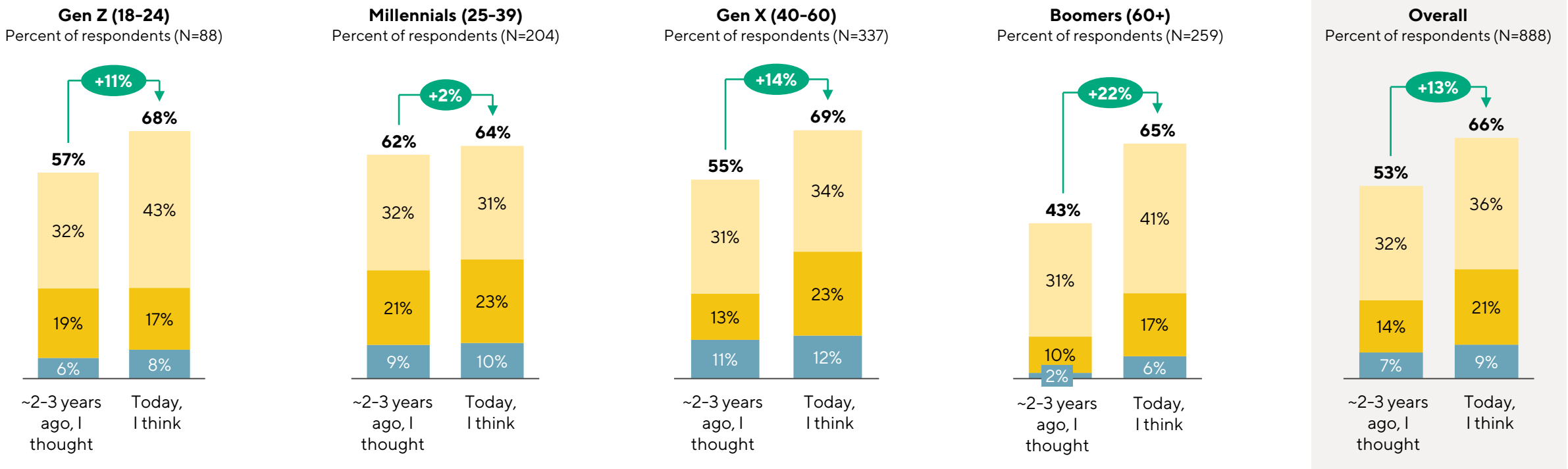


Survey. Q. From which stakeholders is there the most push or pressure to have ESG on the agenda? Please rate each stakeholder group on a scale of 1 to 7, where 1 = no push toward ESG and 7 = strongest push toward ESG  
Source: L.E.K. Home Furnishings Sustainability Survey and analysis

# Across all generational cohorts, consumer attitudes show an increase in the importance of sustainability over the last 3 years and the gap across generations has shrunk significantly

## THINKING ABOUT YOUR ATTITUDE TOWARD SUSTAINABILITY ~2-3 YEARS AGO (I.E., IN 2019 BEFORE THE PANDEMIC) AND TODAY, TO WHAT EXTENT DOES SUSTAINABILITY RESONATE IN YOUR LIFE AND PERSONAL VALUES?

U.S. consumers, by age group (2021)



Increasing level of importance:

Sustainability is important to me, and it is increasingly influencing some aspects of my daily life

Sustainability is a core value for me, and it influences many aspects of my daily life

Sustainability is an integral part of my identity; it defines who I am and my purpose in life

# Home furnishings manufacturers believe that sustainability is important, but balancing short-term business priorities with longer term sustainability goals can prove difficult in practice



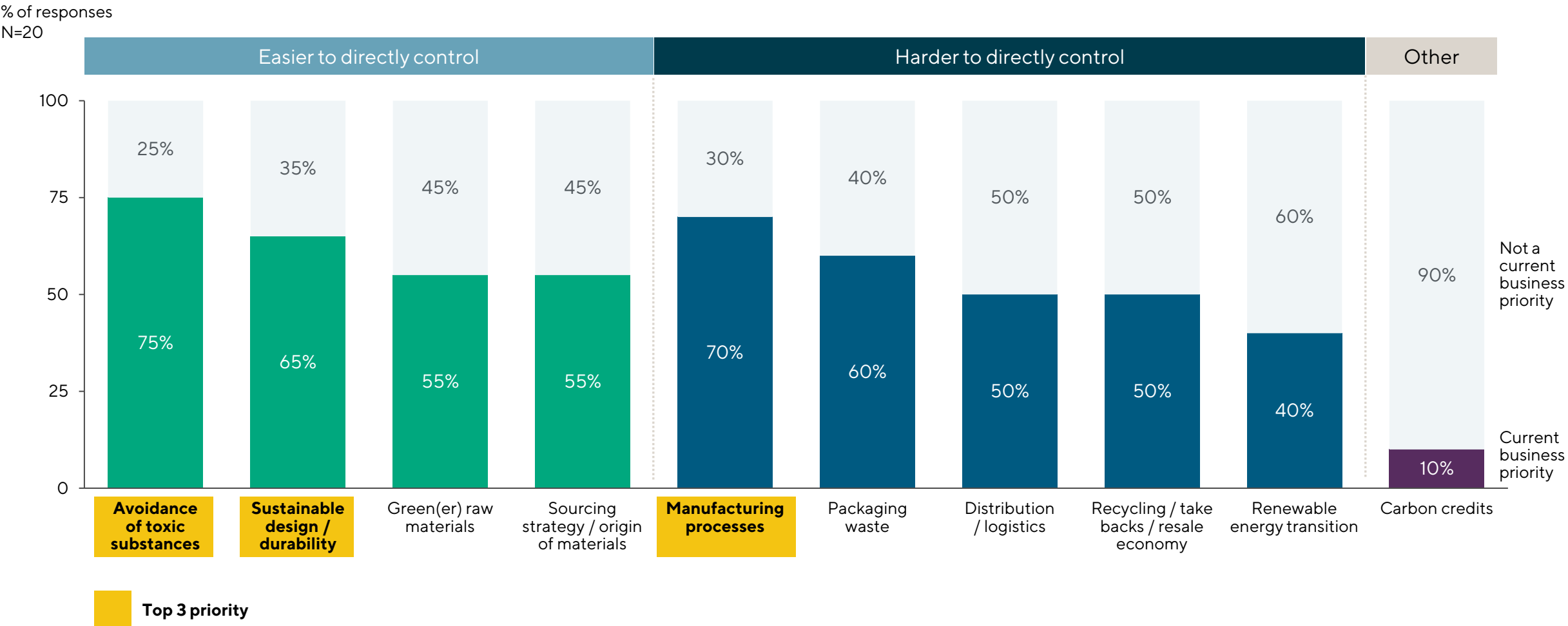
## CURRENT STATE OF BUSINESSES AND PRIORITIES

Aside from manufacturing processes, **businesses typically prioritize consumer-facing sustainable product features** (e.g., avoiding toxic substances, product design) **above internal initiatives** that may be important but are harder to get credit for from **consumers**

**More than half** of home furnishings businesses fall into the **Pragmatist** category, meaning they are driven by risk instead of strategic growth and purpose when pursuing sustainability measures

# Top sustainability priorities are avoidance of toxic substances, manufacturing processes, and sustainable design / durability; carbon credits are a lower priority for most furniture manufacturers

## RELATIVE PRIORITIZATION OF SELECT BUSINESS SUSTAINABILITY IMPROVEMENTS



Survey. Q. What specific aspects of the business are you prioritizing for sustainability improvements? (Select all that apply)  
Source: L.E.K. Home Furnishings Sustainability Survey and analysis



# L.E.K.'s Global Sustainability Centre of Excellence has defined four organizational ESG archetypes

## Innovator

- Primarily **values driven** organizations
- **Sustainability is at the forefront of the strategic agenda** with commitment from the top and clear implications for the business model / operations, as well as measurable targets
- Sustainability is a **major source for business model innovation and long-term value creation**

## Leader

- Primarily **growth driven** organizations
- **Sustainability is embedded into the organizational DNA and business strategy**
- The organization has a **sustainability vision** that considers customer demands, external, and internal considerations, and they **measure and adapt sustainability performance based on company-wide KPIs across ESG dimensions**

## Pragmatist

- Primarily **risk driven** organizations
- Implemented measures to **mitigate reputational and operational risk**
- **Sustainability is rarely considered a source of growth / competitive advantage**

## Minimalist

- Primarily **compliance driven** organizations
- In the '**understanding stage**' of sustainability
- At this stage, **sustainability initiatives tend to have no or minimal strategic impact**

Survey. Q. What specific aspects of the business are you prioritizing for sustainability improvements? (Select all that apply)

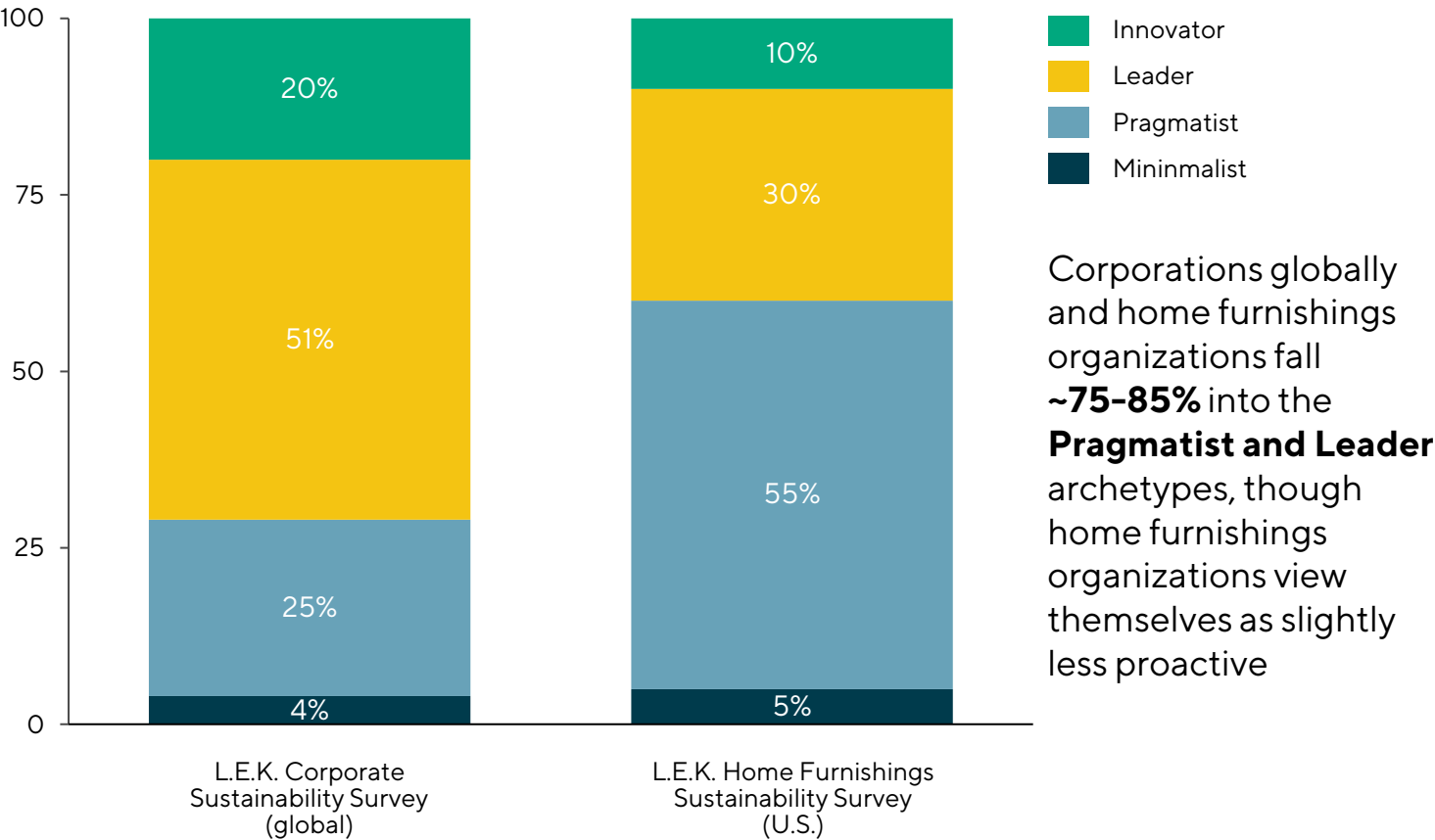
Source: L.E.K. Home Furnishings Sustainability Survey and analysis

Nearly all home furnishings organizations have surpassed a solely compliance-driven approach to ESG, however the home furnishings industry lags broader corporate leadership in this space

Survey. Q. Which of the following best describes your organization with respect to sustainability?  
Source: L.E.K. Home Furnishings Sustainability Survey, L.E.K. Corporate Sustainability Survey, and analysis

CURRENT ORGANIZATIONAL ESG ARCHETYPES

% of responses  
N=20



Home furnishings manufacturers believe that sustainability is important, but balancing short-term business priorities with longer term sustainability goals can prove difficult in practice



## BARRIERS TO ACHIEVING ESG GOALS

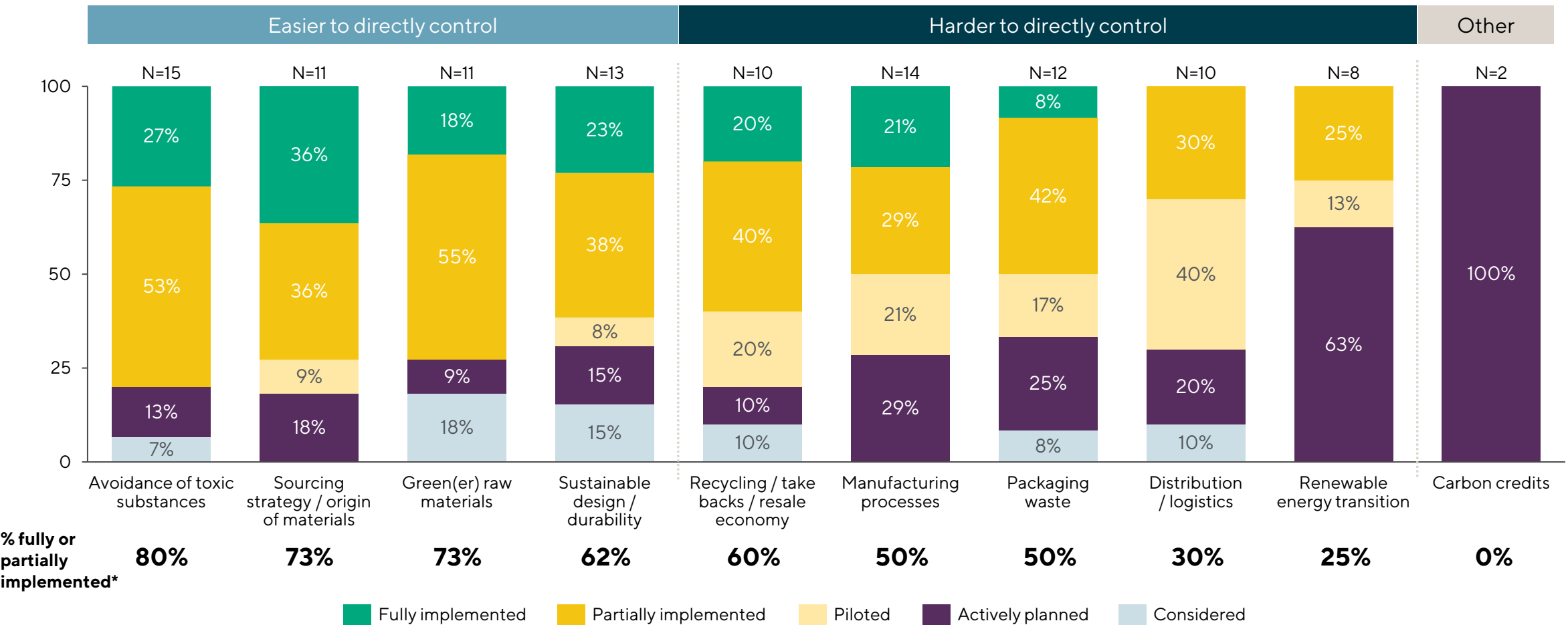
Most of the **initial ESG goals** set by companies surveyed have been **partially or fully implemented**

However, the greatest challenges to sustainability involve **balancing near-term cost factors** with a **desire to invest toward a greener future**

# Within the top priorities, many furniture manufacturers have partially or fully implemented plans to make these initiatives more sustainable, particularly for those priorities that are easier to directly control

## STAGE OF PLANNING / IMPLEMENTATION, BY TYPE OF BUSINESS SUSTAINABILITY IMPROVEMENT

% of responses



Survey. Q. In what stage are these plans / improvements?  
Note: \* Numbers may not sum due to rounding  
Source: L.E.K. Home Furnishings Sustainability Survey and analysis

# The greatest challenges to sustainability faced by furniture manufacturers involve the push and pull of profit-driven, short-term business concerns with a desire to invest toward sustainability

## CHALLENGES FACED BY FURNITURE MANUFACTURERS

% of respondents selecting as a business challenge (N=20)



Survey. Q. Where are you facing the greatest challenges and could use some guidance? (Select all that apply)

Source: L.E.K. Home Furnishings Sustainability Survey and analysis

# Additional ESG Challenges

Manufacturers and retailers highlight several other challenges to implementing sustainability measures, including packaging, sourcing, and indirect marketing efforts

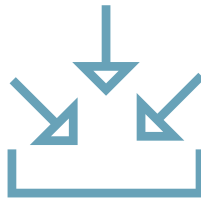


## Packaging

In an increasingly e-commerce dominated landscape, **furniture businesses are caught between prioritizing durable packaging that protects the product throughout shipment or sustainable packaging that reduces waste**

*“... With the rise of e-commerce, there is a need to use **durable packaging**, which is typically less sustainable. **It’s hard to survive in e-comm without adding more of what most companies are trying to get rid of**, such as Styrofoam ...”*

– Former Executive,  
Major national discount furniture manufacturer / retailer



## Sourcing

Business leaders note that **raw material suppliers may be unable to provide sustainable solutions that are comparable to current product performance**, making end-to-end sustainability challenging for finished goods

*“... **Sourcing of materials for durability** in different environments presents a challenge we are actively looking to find solutions to. **From a biodegradability / recycling perspective, the foam industry has not presented a solution that would stand up to the rigors of the outdoor environment**, at least not that we have seen yet ...”*

– Executive,  
High-performance & outdoor furnishings manufacturer



## Intermediaries

The B2B furniture segment faces a unique challenge of **relying on intermediaries** (e.g., interior designers) **to pass along sustainability messaging** to ensure ROI of sustainability investments

*“... **Developing strategies that effectively market sustainable products**, including from a mission standpoint and a durability / quality standpoint, **to designers who act as intermediaries in the premium market is a major hurdle for us**, given there is far less end-consumer facing product marketing for higher-end furniture that primarily relies on interior designers as clients ...”*

– Executive,  
Premium home furnishings & décor manufacturer

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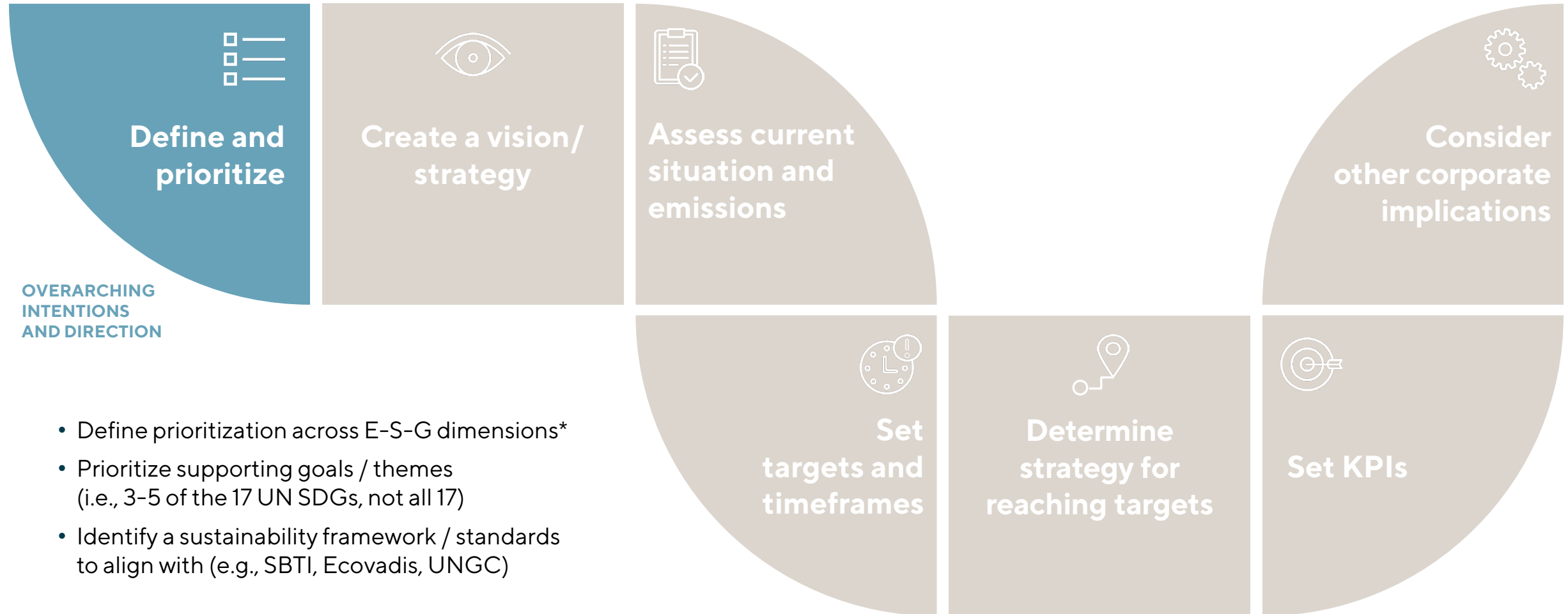
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# L.E.K. has developed a framework for defining and implementing more sustainable business practices



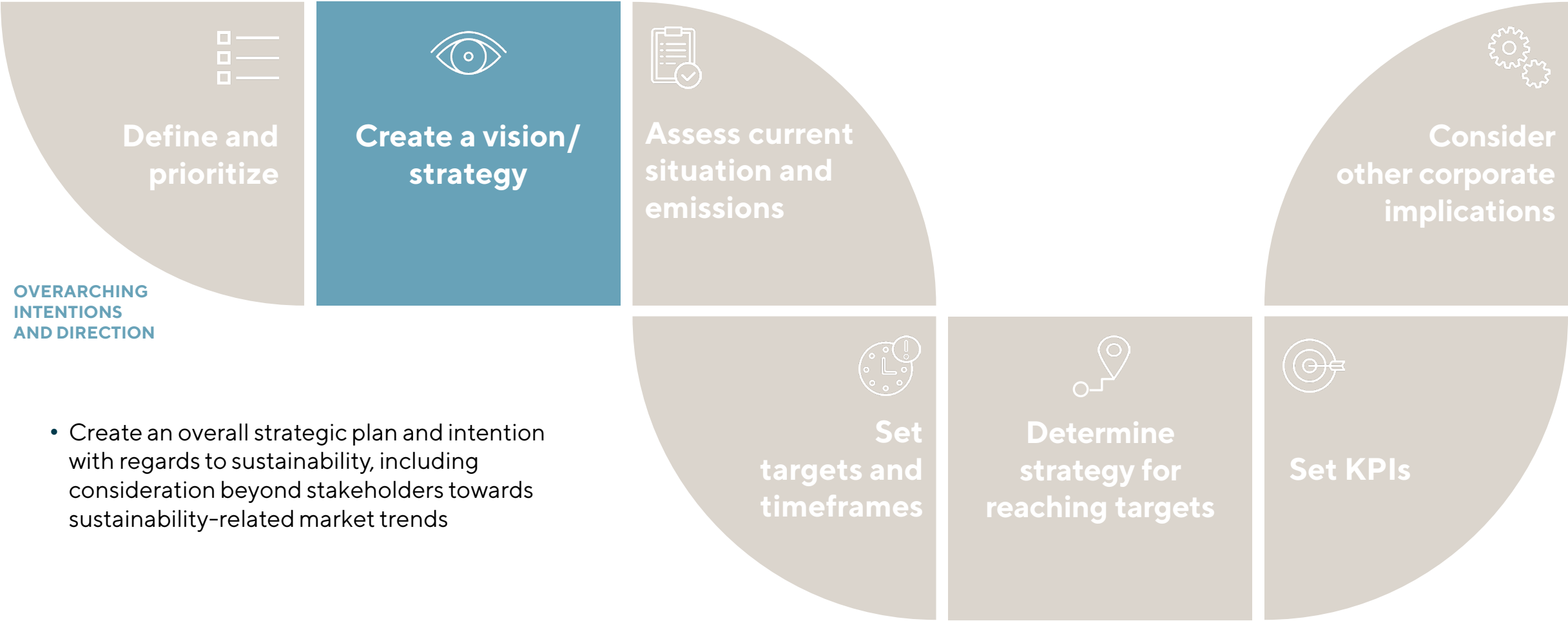
\*L.E.K. typically recommends prioritizing the 'E' (environmental targets, commitments, and initiatives)

Note: Based on a synthesis of frameworks L.E.K. has deployed to help industry clients seeking a more comprehensive approach to sustainability

Source: L.E.K. research and analysis

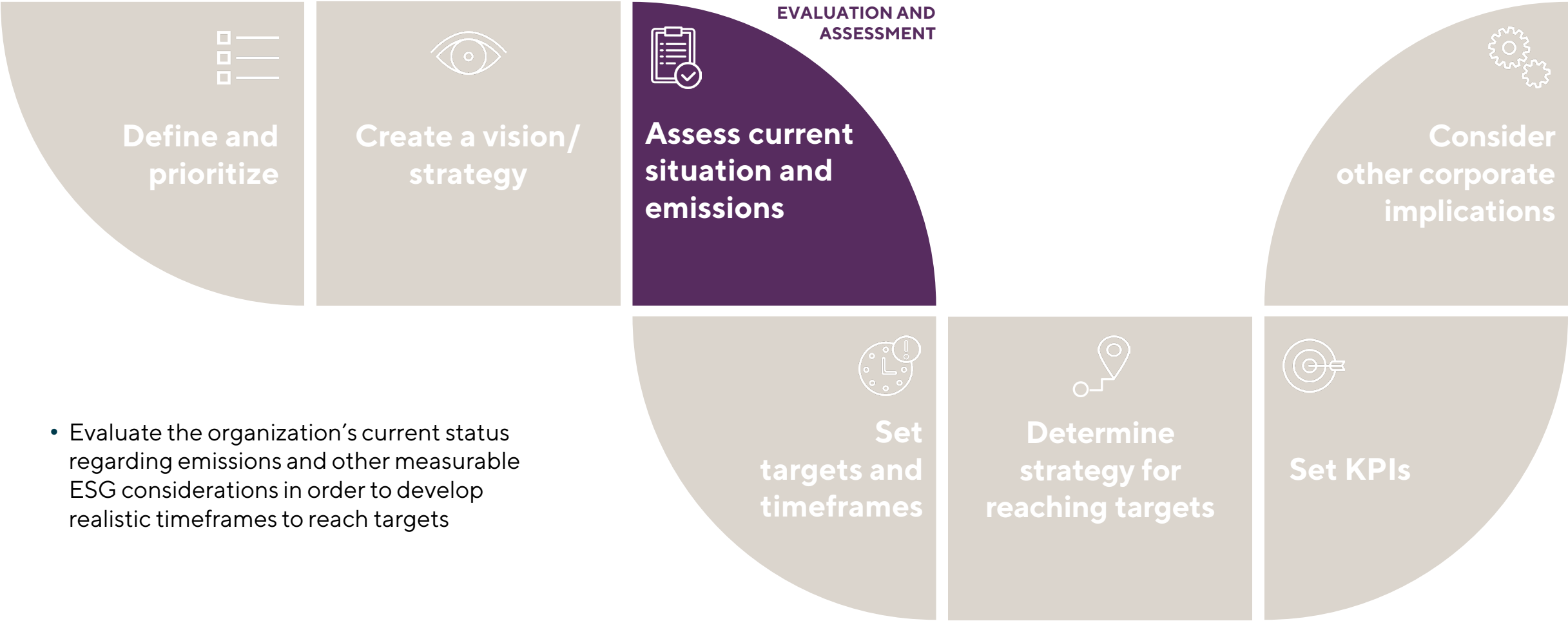


# L.E.K. has developed a framework for defining and implementing more sustainable business practices



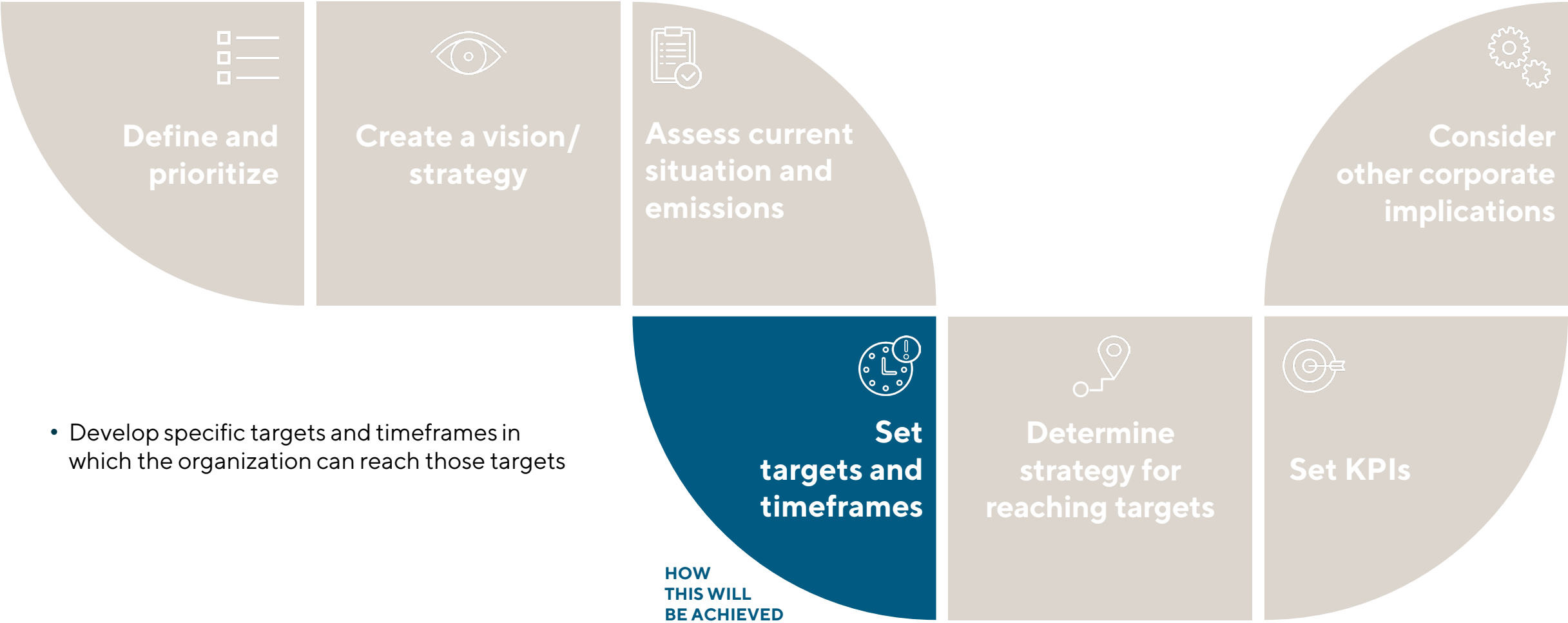
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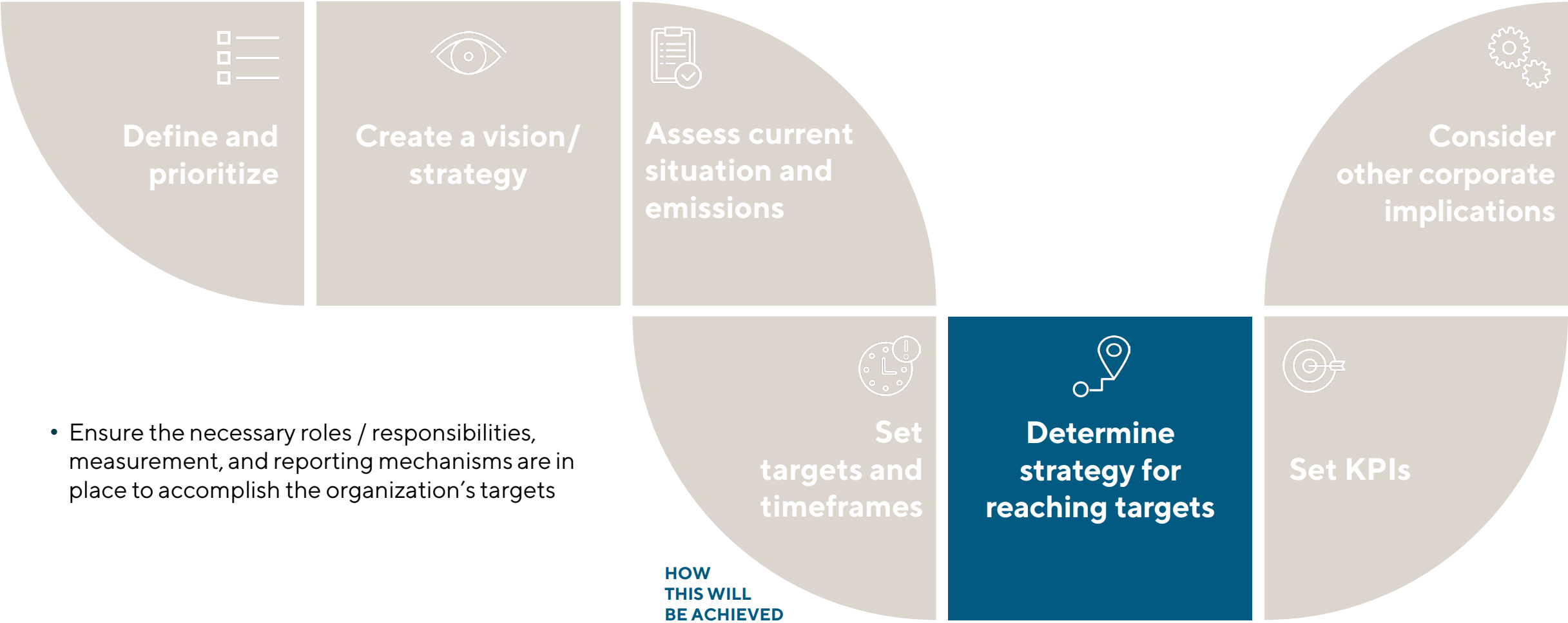
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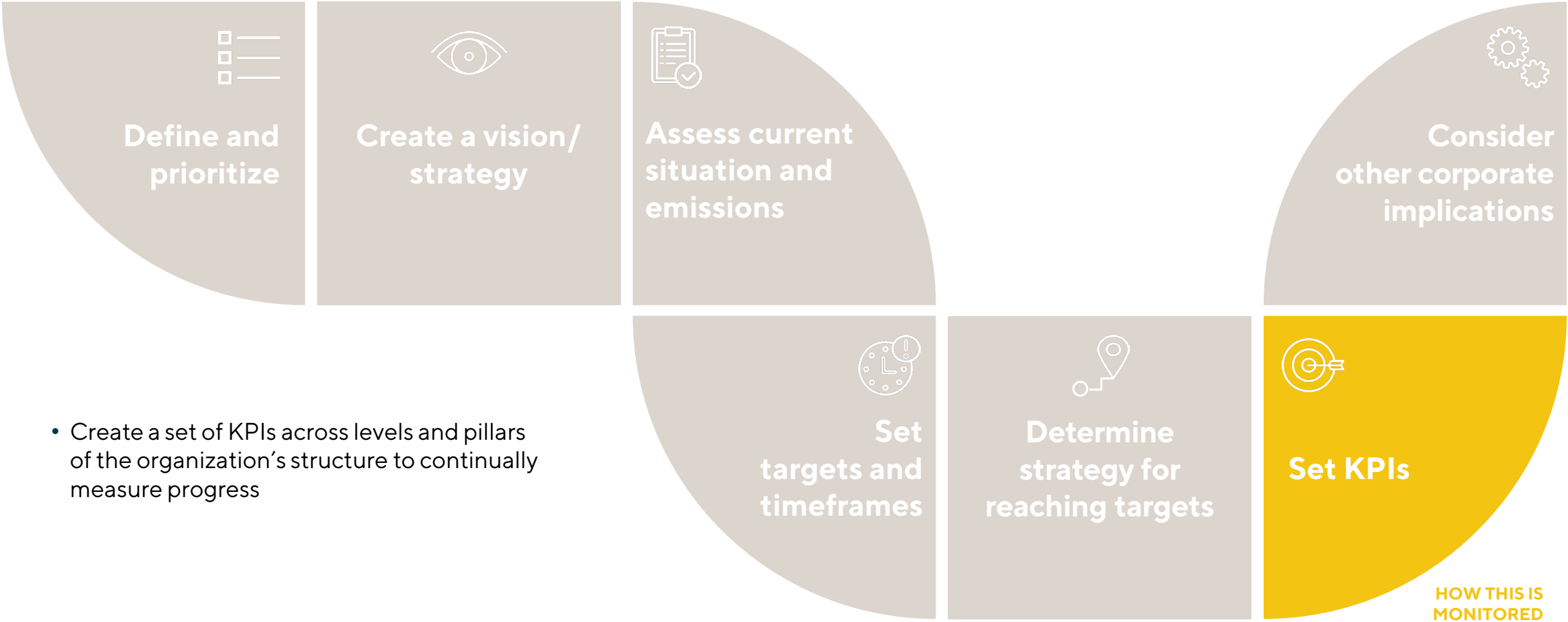
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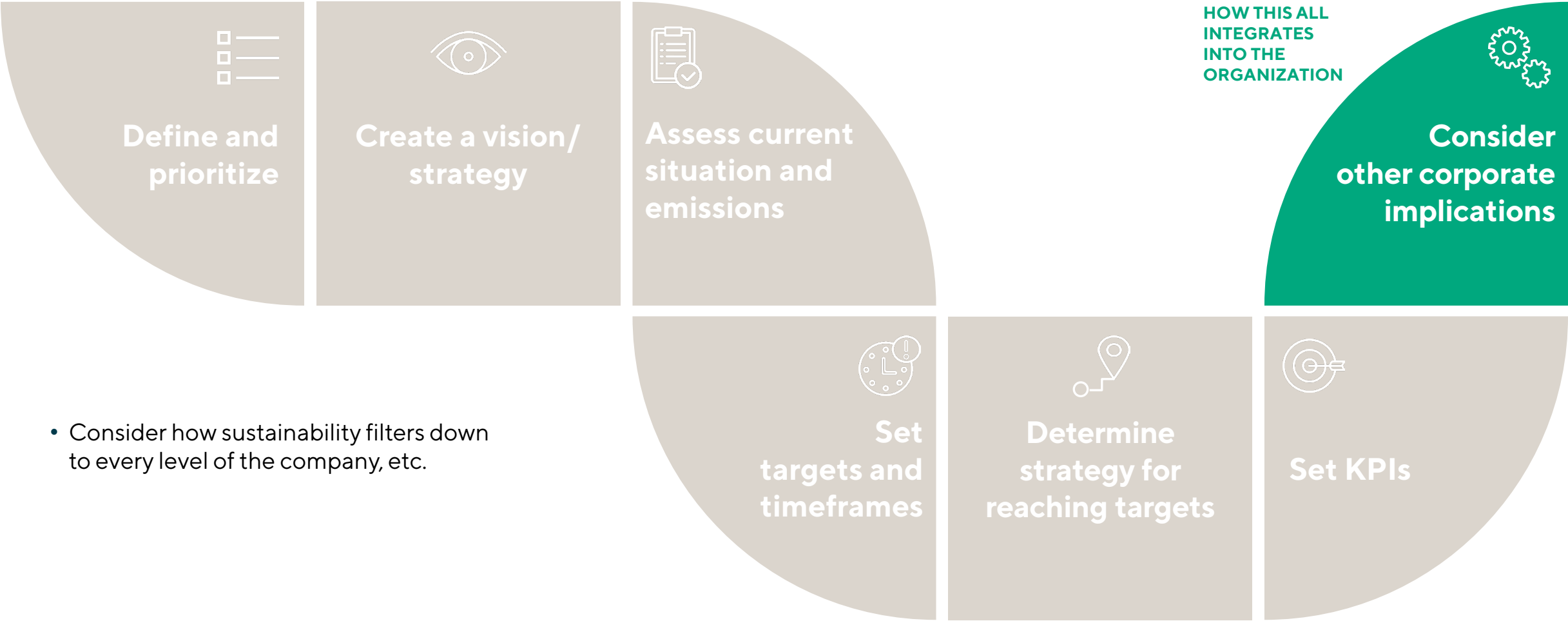
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# For additional information on how to make your business more sustainable, contact the L.E.K. and Lincoln teams

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To view additional insights and content, visit [www.lek.com/capabilities/sustainability](http://www.lek.com/capabilities/sustainability)

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