Black Friday and ESG: 'Tis the Season for Risk (and Opportunity)

Key Takeaways

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- Black Friday is a significant economic and cultural date, with a significant portion of the U.S. population taking advantage of in-person and online sales the day after Thanksgiving
- However, the 'holiday' incurs ESG risk for consumer-facing companies, including customer and employee injury, as well as associated scrutiny and human capital costs
- Some companies have successfully innovated new models for holiday sales strategies; retailers and their investors would be wise to consider rethinking their Black Friday approach

Background

The holiday shopping season is around the corner, if not here already. With consumer-facing retailers deriving a disproportionate amount of their revenue from the years' final quarter, retailers and their investors will likely place a keen eye on "Black Friday." Given its colorful moniker due to commercial companies shifting from operation at a loss (the "red") to profit (the "black") during the holiday shopping season, Black Friday has gained nearly as much cultural significance as the Thursday it follows. Indeed, in the U.S., 154.5 million people, or roughly half of the entire U.S. population, made purchases on Black Friday last year.

Black Friday is known for significant markdowns on products, shoppers lining up in the wee hours of the morning, and in its more modern iteration dramatic online sales concentrated to a short period of time. But how do these practices rate from an ESG perspective? Trailblazing companies are showing that there is more than one way to cook a turkey when it comes to holiday sales strategies.

Black Friday ESG Risks

The most obvious ESG risks associated with Black Friday are from in-store shopping mayhem. Since 2005, in the U.S. 16 people have been killed during Black Friday, with more than 100 injured during the same time span. Though concentrated to the U.S., the trend extends internationally with at least one death in Canada and additional injuries occurring in Canada, South Africa, and the U.K.. Large quantities of shoppers, drawn in by large product sales and markdowns, have injured one another as well as ill-prepared employees; particularly tragic events have included employees being trampled by shoppers, and shootings between customers over parking spots. In addition to the tragedy and human toll of customer and worker injuries, such events may lead to poor business outcomes as well; for instance, Walmart was sued and ultimately paid nearly $2M in relation to the aforementioned trampling.

Notably, online sales have surpassed in-person sales on Black Friday, with shoppers allured by deals without the health and safety concerns associated with in-person events. But while online sales may avoid the risks associated with in-person sales, surges in online sales due to Black Friday and Cyber Monday promotions can still incur a human cost and thus ESG risk. For instance, periods of peak demand have allegedly led online retailers, such as Amazon, to implement mandatory overtime for workers, with employees putting in 60 hour weeks. According to workers at such facilities, periods of mandatory overtime result in increased injury rates, with many experiencing chronic pain afterwards. Concentrating demand to a few short days of sale may increase ESG risks related to human capital, with worker health, safety, engagement and retention suffering as a result.

New Strategies

In light of these risks, multiple retailers have pursued alternative paths, ditching Black Friday, with positive public reaction; in some cases, this decision has even led to increased customer sales. Perhaps the most notable example is outdoor apparel retailer, Patagonia, who does not offer in-store sales or online sales for Thanksgiving or Black Friday. Instead, the company focused on positive impact, and noted that revenue from online sales during certain dates of the holiday period would go towards environmental causes; Patagonia enjoyed exceptionally strong sales numbers and positive publicity afterwards. Joining the retailer is fellow outdoor apparel company REI, who for the last seven years physically closed all locations on Black Friday, including retail stores, distribution centers, call centers, and its headquarters, ensuring employees are insulated from the potential harms of Black Friday. Further, REI recently enshrined the closure as a permanent tradition, and notched 36% sales growth last year.

Trendy clothing producer Birdsong is another innovator with regards to Black Friday; as part of its "Transparent Friday and Saturday" sale, the online-only retailer is providing a cost breakdown into all of the prices (e.g., spend on materials, living wage, marketing, etc.) associated with a given garment. For instance, the Company describes what costs go into its £240 jumpsuit: £97 for the company's overhead and marketing, £52 for garment worker wages, £48 for tax, £35 for raw materials, £4 for postage, £2 for warehouse worker wages, and £2 for packaging. By providing this price breakdown, the Company increases customer trust and enhances its own brand reputation while simultaneously encouraging consumers to be aware of their own consumption patterns. Further, the Company is offering sales *only* on existing inventory, so as to avoid overproduction.

Birdsong's Transparent Friday and Saturday Jumpsuit Graphic
Credit: https://birdsong.london/pages/transparent-friday

Conclusion

Black Friday was named for its adjacency to balance sheet good news. However, the name is now more closely associated with the negative outcomes of the retail 'holiday', most notably customer and employee injuries. Retailers and their investors alike would be well-advised to heed the risks associated with large Black Friday sales, and consider a more "spread-out" approach. By encouraging consumers to shop earlier in the season and avoid sales crushes centered around singular days or weeks, retailers can avoid high-scrutiny events, ease pressure on workers, build customer loyalty, and improve brand recognition.

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