Now Is the Time to Build Advantage and Resilience Through Sustainability

February 2023
Introduction to this document

**Sustainability** aims to unlock long-term value for businesses and people by taking into consideration natural, social, and economic environments. Operating sustainably has become a priority given the growing global challenges in these areas.

As planetary boundaries are exceeded, new regulations, innovations, and behaviors are quickly changing the rules of the game for industry. Sustainability is therefore increasingly a source of competitive advantage and a condition for financial resilience.

There will be winners and losers as profit pools and competitive positions shift. Business models will need to change, and in many sectors first movers will be able to secure critical, but scarce, resources and talent.

Now is the best time to act. The current macroeconomic environment is accelerating rather than slowing regulatory change, while at the same time creating a short-term window where the cost of action is lower.
Executive Summary | Now is the time to build advantage and resilience through sustainability

Now is the time to act

Climate change and nature loss have reached a critical point, sparking unprecedented policy action and technological innovation. Even as the economy faces headwinds, the climate-related regulatory response is accelerating, changing the old risk and opportunity calculations.

Further, the current downturn is creating a short-term opportunity to take advantage of lower asset prices and greater availability of talent.

How companies are becoming sustainability leaders

Many companies are creating significant shareholder value by acting boldly and taking advantage of the shifting profit pools driven by climate and sustainability. Specifically, they are:

- Unlocking new profit pools and an expanding sustainable market through strategic product pivoting
- Taking a holistic approach for top-line and bottom-line enhancement through sustainability transformation
- Define shareholder value for decarbonization, realizing with new offerings, governance structure, etc.

How to get started

Key learnings from sustainability leaders inspire BCGs recommendations for your journey. BCG is the sustainability leader in our own sector, with leading edge capabilities and a proven track record. Our approach helps our clients integrate their business with their sustainability agenda, bringing a laser focus on value capture.

In addition to our market leading sustainability transformation and tech & AI capabilities, we have recently acquired Quantis to offer our clients an even broader range of technical expertise.
AGENDA

Now is the time to act

✓ How companies are becoming sustainability leaders

✓ How to get started
Climate change and biodiversity loss have reached a critical point.

Climate change is accelerating...

...while nature continues to decline

The global living planet index tracks changes in abundance of species populations.

Source: IPCC AR6, WWF/ZSL 2022
Regulatory response is accelerating, even as the economy slows down

Infrastructure Investment & Jobs Act (IIJA) and Inflation Reduction Act (IRA)
Allocates ~$480B federal funding to climate-related infrastructure projects & clean energy production, & promoting environmental justice in communities

US govt procurement & SBTi alignment
Mandates that all major federal contractors must have validated SBTi within 2 years; federal procurement amounts to ~$630B per year

REPowerEU
Grants ~€210B in investments to increase energy efficiency, diversify energy suppliers, and accelerate the rollout of renewables

The Carbon Border Adjustment Mechanism (CBAM)
Imposes a carbon tax on EU imports, incentivizing overseas producers to lower their emissions to remain competitive with EU peers

Asset Management Association of China (AMAC)
Draft regulations that will require mutual funds and ETFs to have +60% of their assets in defined green investment and be eligible to be sold as green product, potentially implemented in 2023

New UN treaty on plastic pollution
Aims to forge a legally binding agreement to reduce plastic pollution by 2024, likely mandating recycling and reusable products

Source: IRA; Tax foundation, EU REPowerEU, Science Based Targets initiative (SBTi), Reuters, BCG Analysis
Current downturn is creating a short-term opportunity: lower asset prices and greater availability of talent

<table>
<thead>
<tr>
<th>Decrease in share price of potential target companies</th>
<th>Unique opportunity to secure experienced, scarce talent</th>
<th>Price drop for scarce commodities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share prices drop disproportionately for select companies relative to market</td>
<td>Large sustainability players are significantly reducing workforce</td>
<td>Lithium price (CYN/T)</td>
</tr>
<tr>
<td>Examples:</td>
<td>Examples:</td>
<td>Mar May Jul Sep Nov 2023</td>
</tr>
<tr>
<td>• EV manufacturer share price fell 50% in the past 6 months</td>
<td>• Wind power business laid off 20% of US workforce in onshore power group</td>
<td>425,000</td>
</tr>
<tr>
<td>• Alternative protein food company's share price tumbled by 60% in past 6 months</td>
<td>• Vertical farming firm cut 50% of workforce</td>
<td>450,000</td>
</tr>
<tr>
<td>• Battery manufacturer's share price declined by 30% in the past year</td>
<td>• Carbon management software company closed, laying off 200 employees</td>
<td>475,000</td>
</tr>
<tr>
<td>VC funding shrank by $100B in Q3’22, and has fell for three quarters in a row, leaving companies looking for additional funding</td>
<td>• Refurbished tech startup cut 13% of workforce</td>
<td>500,000</td>
</tr>
<tr>
<td></td>
<td>• UK Lithium batteries manufacturer folds, releasing ~250 employees into workforce</td>
<td>525,000</td>
</tr>
</tbody>
</table>

Note: EV = electric vehicle
Sources: S&P1000, IMB, Mondo, Trading Economics, Bloomberg, IFP
AGENDA

- Now is the time to act
- How companies are becoming sustainability leaders
- How to get started
Leading companies leverage sustainability to create shareholder value

Link sustainability with business success - Unlock new profit pools and an expanding sustainable market through strategic product pivoting

All in to win – Take a holistic approach for top-line and bottom-line enhancement through a sustainability transformation

Ensure value delivery to shareholders – Define shareholder value for decarbonization, realizing with new offerings, governance structure, etc.

Source: BCG analysis
This major global industrial machinery player has defined how its customers’ climate and sustainability outcomes is linked with its own business goals, breaking the trade-off that many others face as now success in one equals success in the other.

What was the motivation?

Company is uniquely positioned to drive both profitability and sustainability impact with customers through the same technology offerings. Therefore, linked sustainability goals and business goals together: Supporting its customers to be more efficient, profitable while also becoming more sustainable.

What actions did they take?

Embedding climate & sustainability objectives into entirety of the business, including:

- **Product**: Creating products that reduce input usage via precision tech solutions, developing alternative power solutions for its product portfolio, integrating circularity principles into product development, etc.
- **Op Model**: Including sustainability goals & metrics into key op. processes across BUs, evaluating sustainable customer outcome objectives
- **Investment**: Defining the sequence of investments that drives preferred outcomes in most efficient way for the business; leveraged M&A to quickly build up capabilities

Source: Company reports; Analysts reports; News reports; BCG analysis
Major food service distributor, Sysco, is undertaking sustainability transformation to lead the industry and gain competitive advantage.

This global company has undertaken a holistic end-to-end transformation to become the leader in sustainability in food service distribution.

What was the motivation?

Agriculture, forestry & land use accounts for ~18% of global GHG emissions.

Company is uniquely positioned to drive impact with thousands of supplier & customer relationships.

Sustainability-marketed products are growing ~3x faster than conventionally-marketed products.

What actions did they take?

Taking a value creation lens to create sustainable advantage and embedding sustainability at the core of strategy across the business; e.g:

- **Commitment**: Announced SBTi commitments\(^1\)
- **Product**: Exploring next-gen indoor farming solutions to bring local, fresh, and sustainable produce to more customers.
- **Operations**: Electrifying fleet, transitioning to renewables, pioneering load-fill optimisation technologies, reducing waste, etc.
- **Supply chain**: Engaging with suppliers to set emission reduction goals.
- **Innovation**: Launching Recipe for Sustainability program with universities\(^2\) to drive next wave of sustainable innovation.

\(^1\) Reduce its Scope 1 and 2 emissions by 27.5% by 2030 from a CY2019 base year; work with suppliers to set science-based targets by 2026.

\(^2\) Including Arizona State University and Pennsylvania State University.

What are early signs of impact?

- **78m** Pounds of CO2 saved through efficient inbound shipping in 2022.
- **2800+** EV trucks committed to be purchased by 2030.
- **~30%** Of suppliers committed to reducing emissions.

11
Global chemical leader launched climate transformation to reduce emissions risk and unlock new value creation opportunities

Company was a top 100 global emitter, but also an industry leader in climate ambition – linking climate to strategic and operational decision-making.

**What was the motivation?**

Company's high-emitting footprint created significant tail risk in the face of investor pressure and mounting regulation (e.g., ETS, CBAM).

Company highly focused on value for shareholders, but unsure how investing to decarbonize fit their value creation story.

Company cautious to make large investments, while peers actively moving into climate-linked value pools.

**What actions did they take?**

It undertook climate transformation to drive to net zero while delivering value to shareholders:

- **Strategy & IR:** Defined shareholder value for decarbonization and associated approach for strategic decision-making & investor comms.
- **Governance:** Set up governance structure to accelerate operational decision-making.
- **Emission reduction:** Including asset turnover, low-carbon technology deployment, renewable PPA\(^1\)s, and supplier management plans, etc.
- **New offering:** Defined plans to create value from low-carbon products & solutions, and ventures into new climate-linked value pools.

**What are early signs of impact?**

- Broke down 2050 vision into a concrete plan with near-, mid- and long-term elements.
- Enabled successful investor day narrative around value creation + decarbonization.
- Additional access to renewable power: >700 MW.

---

1. Power Purchase Agreement  
   Source: Company official website; Company reports; BCG analysis.
Key learnings from sustainability leaders

1. Develop a clear perspective on how climate change and environmental degradation are impacting your value chain

2. Understand fully how these trends are changing the profit pools in your industry

3. Act boldly to future proof your strategy, grow tech capabilities & seize the opportunities created by the sustainability revolution

4. Scan and utilize M&A opportunities to drive a step-change in your sustainability offering

5. Craft a compelling investor communications strategy on sustainability, linked to your overall investment thesis
AGENDA

- Now is the time to act
- How companies are becoming sustainability leaders
- How to get started
BCG’s unique approach accelerates your sustainability journey

Holistic transformation lens, integrating sustainability ambition and business agenda

Laser focus on value capture and sustainability at scale, making the business case work

Innovation in business model, value chain, portfolio for sustainability and business performance

Widened aperture to reimagine functions and processes and break sustainability compromises

Compelling narrative translated across stakeholders (employees to investors)
BCG drives sustainability impact engaging across 5 key levers

1. **Known & Profitable Solutions**
   - Harnessing the power of the private sector to unlock sustainability value via profitable, scalable solutions

2. **Known & Not Profitable Solutions**
   - Engaging public & social sectors to define and deliver on sustainability goals

3. **Directing Capital**
   - Increasing the flow of capital to investments with an ESG/sustainability lens, and to fund the climate transition

4. **Ecosystem & Context Shaping**
   - Driving standards & governance, enabling ecosystems to mobilize & scale sustainability impact

5. **Catalyzing Innovation**
   - Fostering new, high-impact sustainability solutions & ventures

*Source: BCG Analysis*
BCG's capabilities, including Quantis and BCGX's digital tools, accelerate client sustainability journeys & drive impact.

- **Quantis**, now part of BCG, brings climate diagnostics, science-based target setting, strategy implementation & proprietary tools.
- **CO2 AI** identifies key levers to support end-to-end emissions management.
- **Climate Impact AI** assesses business impact of transition risks on value chains & identify optimal adaptation strategies.
- **Green ventures** builds and scales green tech solutions & businesses.
Connect with our Sustainability and Resilience leadership teams with any questions

**Sustainability**

**Hubertus Meinecke**  
Global Leader – Climate & Sustainability  
Meinecke.Hubertus@bcg.com  
Hamburg

**Dimitri Caudrelier**  
Chief Executive Officer – Quantis  
dimitri.caudrelier@quantis-intl.com  
France

**Jesper Nielsen**  
Managing Director & Senior Partner  
Nielsen.Jesper@bcg.com  
London

**Yvonne Zhou**  
Managing Director & Senior Partner  
Zhou.Yvonne@BCG.com  
Beijing

**Central Resilience Team**

**Ryoji Kimura**  
Global Leader – Corporate Finance & Strategy  
Kimura.Ryoji@bcg.com  
Tokyo

**Alexander Roos**  
Global Co-Leader – Center for CFO Excellence  
Roos.Alexander@bcg.com  
Berlin

**Jessica Apotheker**  
Managing Director & Partner  
Apotheker.Jessica@bcg.com  
Paris

**Daniel Feldkamp**  
Managing Director & Partner  
Feldkamp.Daniel@bcg.com  
Munich

Click here for our latest publications in the CEO’s Dilemma Executive Perspectives series and additional resilience insights
The services and materials provided by Boston Consulting Group (BCG) are subject to BCG’s Standard Terms (a copy of which is available upon request) or such other agreement as may have been previously executed by BCG. BCG does not provide legal, accounting, or tax advice. The Client is responsible for obtaining independent advice concerning these matters. This advice may affect the guidance given by BCG. Further, BCG has made no undertaking to update these materials after the date hereof, notwithstanding that such information may become outdated or inaccurate.

The materials contained in this presentation are designed for the sole use by the board of directors or senior management of the Client and solely for the limited purposes described in the presentation. The materials shall not be copied or given to any person or entity other than the Client (“Third Party”) without the prior written consent of BCG. These materials serve only as the focus for discussion; they are incomplete without the accompanying oral commentary and may not be relied on as a stand-alone document. Further, Third Parties may not, and it is unreasonable for any Third Party to, rely on these materials for any purpose whatsoever. To the fullest extent permitted by law (and except to the extent otherwise agreed in a signed writing by BCG), BCG shall have no liability whatsoever to any Third Party, and any Third Party hereby waives any rights and claims it may have at any time against BCG with regard to the services, this presentation, or other materials, including the accuracy or completeness thereof. Receipt and review of this document shall be deemed agreement with and consideration for the foregoing.

BCG does not provide fairness opinions or valuations of market transactions, and these materials should not be relied on or construed as such. Further, the financial evaluations, projected market and financial information, and conclusions contained in these materials are based upon standard valuation methodologies, are not definitive forecasts, and are not guaranteed by BCG. BCG has used public and/or confidential data and assumptions provided to BCG by the Client. BCG has not independently verified the data and assumptions used in these analyses. Changes in the underlying data or operating assumptions will clearly impact the analyses and conclusions.