



Executive
Perspectives

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.

An aerial photograph of a dark asphalt road with white dashed lines, curving through a dense green forest. A semi-transparent green rectangular box is overlaid on the right side of the image, containing white text. At the bottom of this green box, there is a decorative horizontal bar composed of several vertical green lines of varying heights.

In this BCG Executive Perspectives edition, we address how to become a winner by embracing sustainability now



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

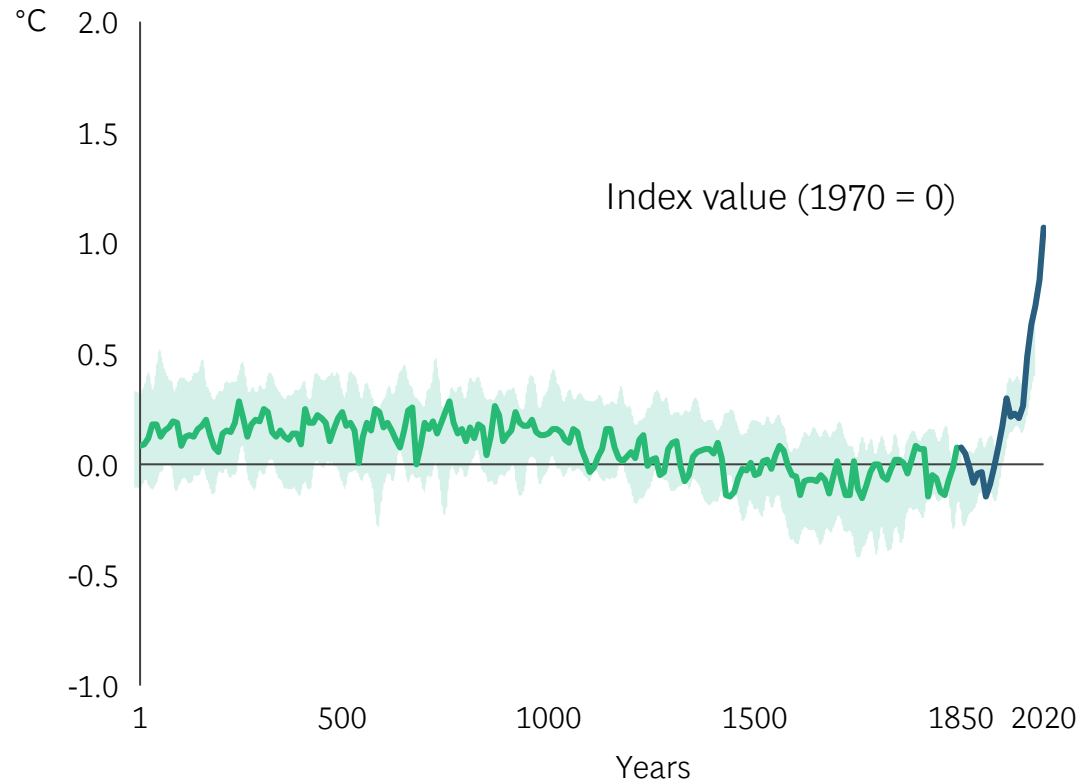
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AGENDA

- ✓ **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

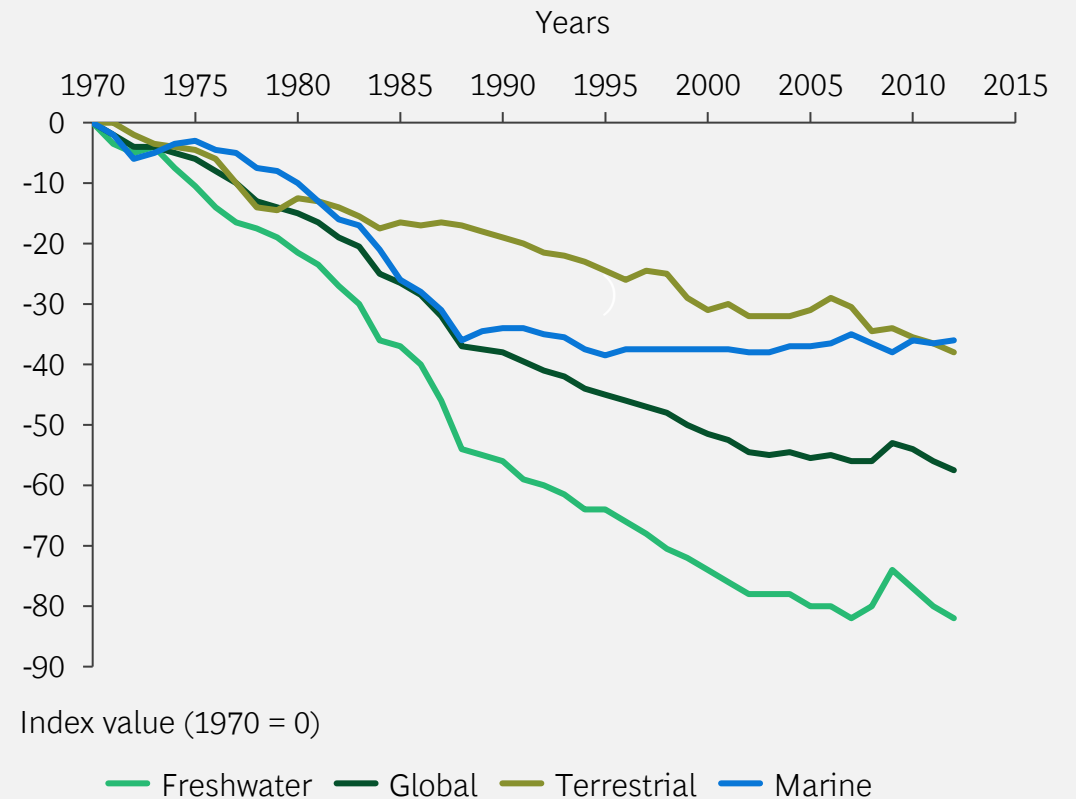
Climate change is accelerating...



Source: IPCC AR6, WWF/ZSL 2022

...while nature continues to decline

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



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

Current downturn is creating a short-term opportunity: lower asset prices and greater availability of talent

Decrease in share price of potential target companies

Share prices drop disproportionately for select companies relative to market

Examples:

- **EV manufacturer share price fell 50%** in the past 6 months
- **Alternative protein food company's share price tumbled by 60%** in past 6 months
- **Battery manufacturer's share price declined by 30%** in the past year

VC funding shrank by \$100B in Q3'22, and has fell for three quarters in a row, leaving companies looking for **additional funding**

Unique opportunity to secure experienced, scarce talent

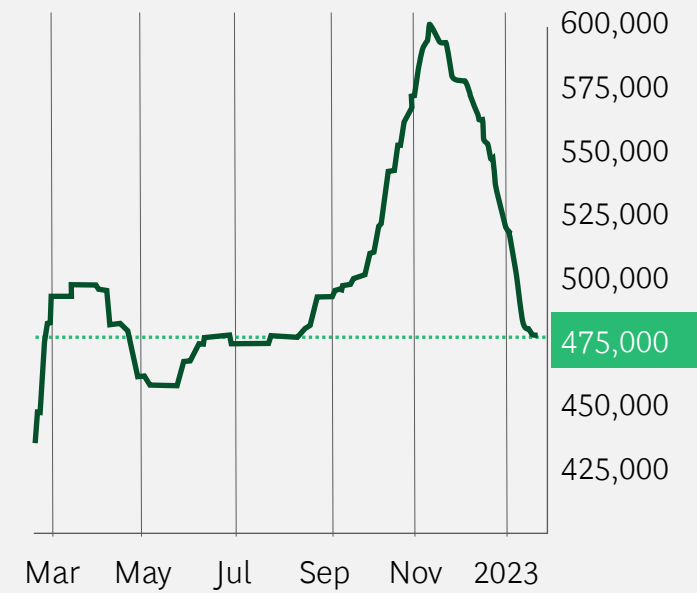
Large sustainability players are significantly reducing workforce

Examples:

- **Wind power business laid off 20%** of US workforce in onshore power group
- **Vertical farming firm cut 50% of workforce**
- **Carbon management software company closed**, laying off 200 employees
- **Refurbished tech startup cut 13%** of workforce
- **UK Lithium batteries manufacturer folds**, releasing **~250 employees** into workforce

Price drop for scarce commodities

Lithium price (CYN/T)



Note: EV = electric vehicle

Sources: S&P1000, IMB, Mondo, Trading Economics, Bloomberg, IFP

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Leading companies leverage sustainability to create shareholder value



**Industrial
machinery
player**

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



**Food service
distributor**

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



**Chemical
player**

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

Industrial machinery player is integrating sustainability outcomes into business success, further driving their advantaged market position

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

What are early signs of impact?

Established new 2030 ambitions – metrics that join business and C&S goals

~20%

Increase in sustainably engaged customers in 2022

~30%

Operational GHG reduction since 2017



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 commitments¹
- **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 universities² to drive next wave of sustainable innovation

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

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 Note: SBTi = Science-Based Targets initiatives, GHG= greenhouse gas, EV = electric vehicles

Source: Company reports; Analysts reports; News reports; NYU Sustainable Market Share Index Report; BCG analysis

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 PPA¹ 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

>700
MW

Additional access to renewable power



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

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BCG's unique approach accelerates your sustainability journey

Holistic transformation lens, integrating sustainability ambition and business agenda

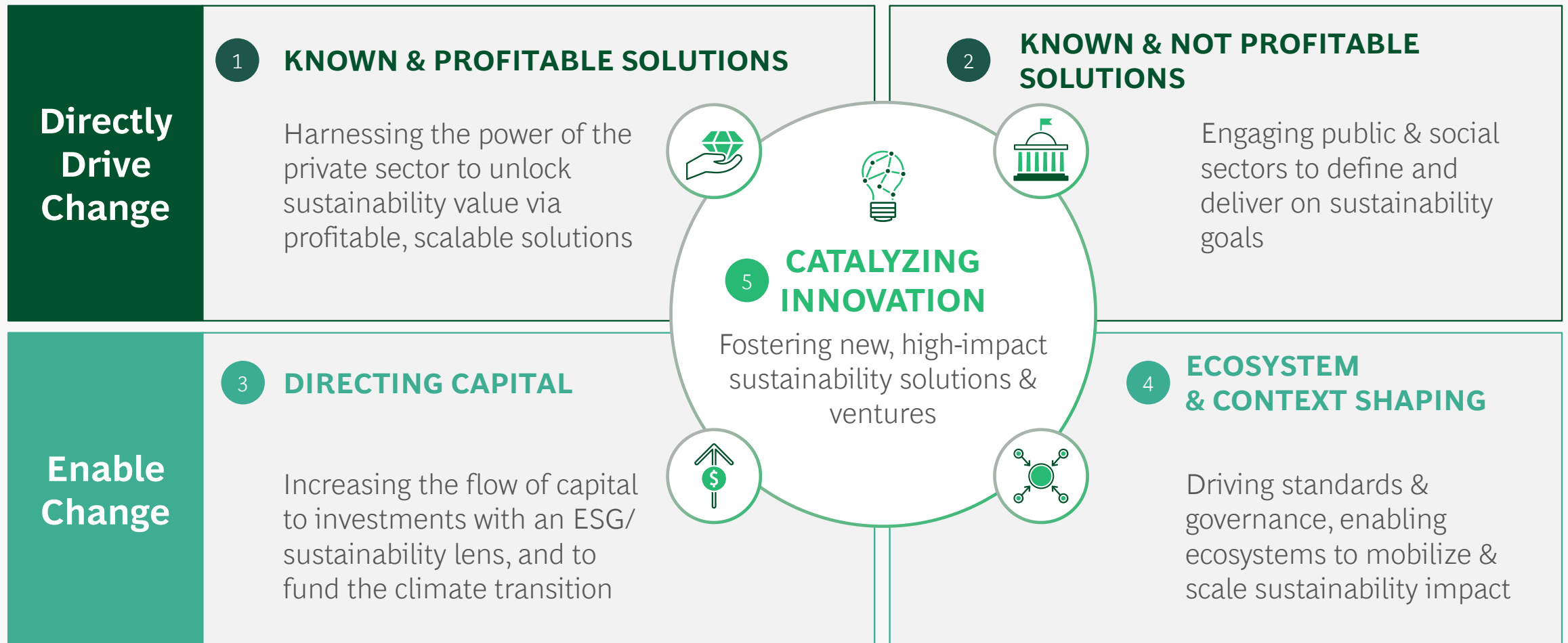
Laser focus on **value capture** and sustainability at scale, making the business case work

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



BCG's capabilities, including Quantis and BCGX's digital tools, accelerate client sustainability journeys & drive impact

The Quantis logo is displayed in a pink, stylized font within a white circle that has a green border.The CO2 AI logo features a teal icon of three interconnected circles to the left of the text "CO2 AI" in a bold, black, sans-serif font, all contained within a white circle with a green border.The Climate Impact AI logo consists of a teal icon of a circular arrow to the left of the text "CLIMATE IMPACT AI" in a bold, black, sans-serif font, all contained within a white circle with a green border.

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



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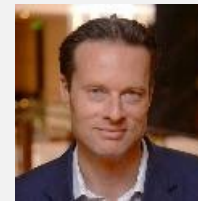
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An aerial photograph of a winding asphalt road that curves through a dense, lush green forest. The road has white dashed lines marking the lanes. A few small cars are visible on the road. To the left of the road, there are open, grassy fields. The overall scene is captured from a high angle, looking down on the landscape. The letters "BCG" are superimposed in the center of the image in a large, white, sans-serif font.

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