Capgemini RESEARCH INSTITUTE

Conversations for tomorrow

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Condensed report: Sustainability at Scale

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SUSTAINABILITY AT SCALE: A CROSS-SECTORAL VIEW OF WHY SUSTAINABILITY GOALS NEED A RESET

The changing climate and environmental degradation are top of the global agenda. Given widespread concern about climate risk, biodiversity loss, resource scarcity and the wider wellbeing of society, hard sustainability questions are being asked of organizations across sectors.

Changing consumer behaviors and societal values in terms of environmental friendliness, social responsibility and economic inclusiveness are translating into a demand for corporate change. And, with regulatory scrutiny and demands also growing, particularly in sectors like energy, failure to act can be a costly and significant risk. During the course of 2020, to understand the current situation – and to gauge where different industries stand – we published a range of sustainability research reports focusing on the consumer products and retail, automotive, and energy and utilities sectors.

This report provides a condensed version of the key themes that emerged from this multi-sector research.[1] The implications and risks of climate change will be significant and sometimes unpredictable. Collaboration and shared learning will therefore be critical, which is why we think it is helpful to draw together the insights and learnings from different sectors. Responding to the world's sustainability needs will require a collaborative and shared approach.

What do we mean by sustainability?

Based on the United Nations' definition of sustainable development, we assess sustainability across three dimensions:

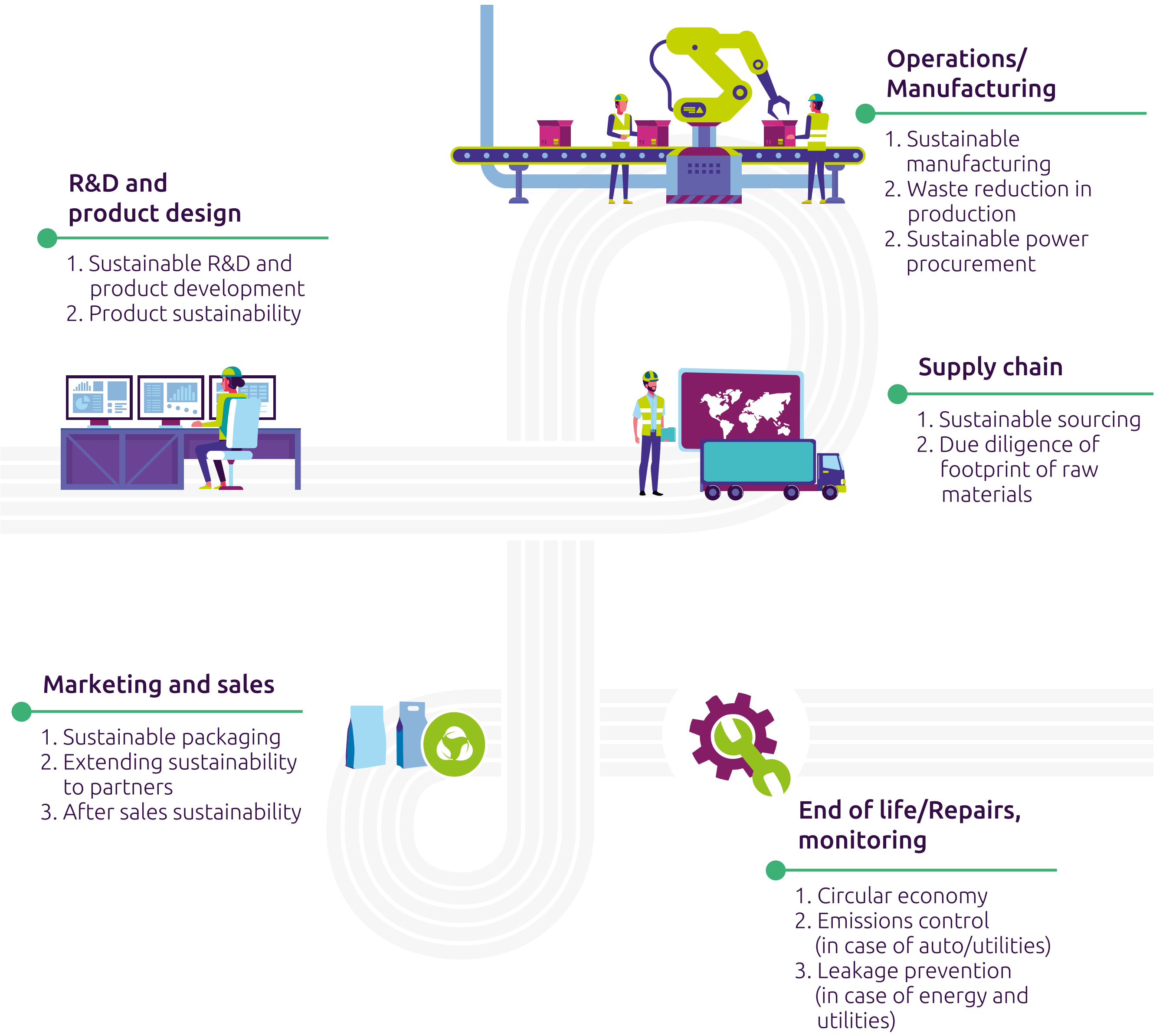
- **Environmental responsibility** (conservation of natural resources, reducing carbon and greenhouse gas emissions, etc.)
- **Social responsibility** (safe working conditions, fair labor policy against child labor, gender discrimination, and forced labor, etc.)
- **Economic inclusiveness** (fair trade, committed to a wider cause – poverty eradication, education, etc.)

[1] Capgemini Research Institute, "The automotive industry in the era of sustainability," March 2020;

[2] Capgemini Research Institute, "How sustainability is fundamentally changing consumer preferences," July 2020;

[3] Capgemini Research Institute, "Powering sustainability," October 2020.

Figure 1: Examples of sustainability initiatives across the value chain as applicable to different industries



Source: Capgemini Research Institute analysis.

1. Sustainable organizations drive significant customer-facing and financial benefits

Our research finds a strong connection between sustainability and tangible business benefits.

→ **Increase in revenue:** Over six in ten organizations in the CPR and energy sectors said that they have already generated a revenue increase from sustainable operations. For instance, Unilever's 'Sustainable Living Brands' are growing about 70% faster than the rest of the business and delivering 75% of the company's growth.[2] Nearly 80% of executives pointed to an increase in customer loyalty as a key benefit from sustainability initiatives. Companies are exploring a range of sustainability growth drivers. For instance, Danish energy company Orsted signed the largest ever green corporate PPA (power purchase agreements, where large businesses purchase clean energy for the long term at set prices) with Taiwan-based TSMC. The PPA is based on 920MW of energy from offshore wind farms over 20 years.[3] In retail, the collaboration between Adidas and "Parley for the Oceans", a collaboration network, led to Adidas selling more than one million sneakers made with recycled ocean plastic in 2017.[4]

> **"Over six in ten organizations in the CPR and energy sectors said that they have already generated a revenue increase from sustainable operations."**

→ **Increase in brand value:** Over two thirds (69%) of CPR organizations and over six in ten from energy and utilities pointed to an increase in brand value (see Figure 2). The impact of sustainability credentials on brand value and sales is supported by our consumer research. If consumers perceive that the brands they are buying from are not environmentally sustainable or socially responsible, 70% tell their friends and family about the experience and urge them not to interact with the organization.

→ **Improvement in ESG ratings:** In both CPR and energy and utilities, over six in ten organizations said they had achieved a more positive environment, social, and governance (ESG) rating as a result of their sustainability initiatives. Today, this is a strategic imperative, given the link between ESG and access to capital markets, with major asset managers focused on sustainability.

[2] Unilever, "Unilever's purpose-led brands outperform," June 2019.

[3] Greentech Media, "Microchip Giant TSMC Signs 'World's Largest' Corporate Renewables Deal – for Offshore Wind," July 2020.

[4] Business Insider, "Adidas sold 1 million pairs of sneakers made from ocean waste in 2017 — now the company is introducing a line of recycled clothing and taking steps to become even more sustainable," May 2018.

“All investors, regulators, insurers, and the public, need a clearer picture of how companies are managing sustainability-related questions. This data should extend beyond climate to questions around how each company serves its full set of stakeholders, such as the diversity of its workforce, the sustainability of its supply chain, or how well it protects its customers’ data.”[5]

Larry Fink, chairman and CEO of BlackRock

Figure 2: More than six in ten organizations have driven an increase in revenue from sustainable operations

Percentage of organizations agreeing to the benefits below

Sources: Capgemini Research Institute, Sustainability in Energy and Utilities survey, July-August 2020, N=300 sustainability executives, 300 business executives; Sustainability in Consumer Products and Retail survey, April–May 2020, N=750 consumer products and retail organizations.

[5] “A Fundamental Reshaping of Finance,” BlackRock Inc website.

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2. However, implementation of sustainability initiatives is uneven and patchy

We have seen that organizations make sustainability a strategic imperative and see it as capable of delivering a significant return. However, if the sustainability strategy is to achieve these ambitious goals, it needs to be pursued across the value chain. Though organizations consider it as a strategic priority, our research shows that implementation is patchy. Below we outline where our three sectors have major challenges in their approach in terms of focusing on the right use cases, achieving scale, or maturity of approach:

> **"62% of automotive organizations claimed to have developed a comprehensive sustainability strategy with well-defined goals and targets."**

Automotive: suppliers lag OEMs and industry as a whole not focused on what's critical

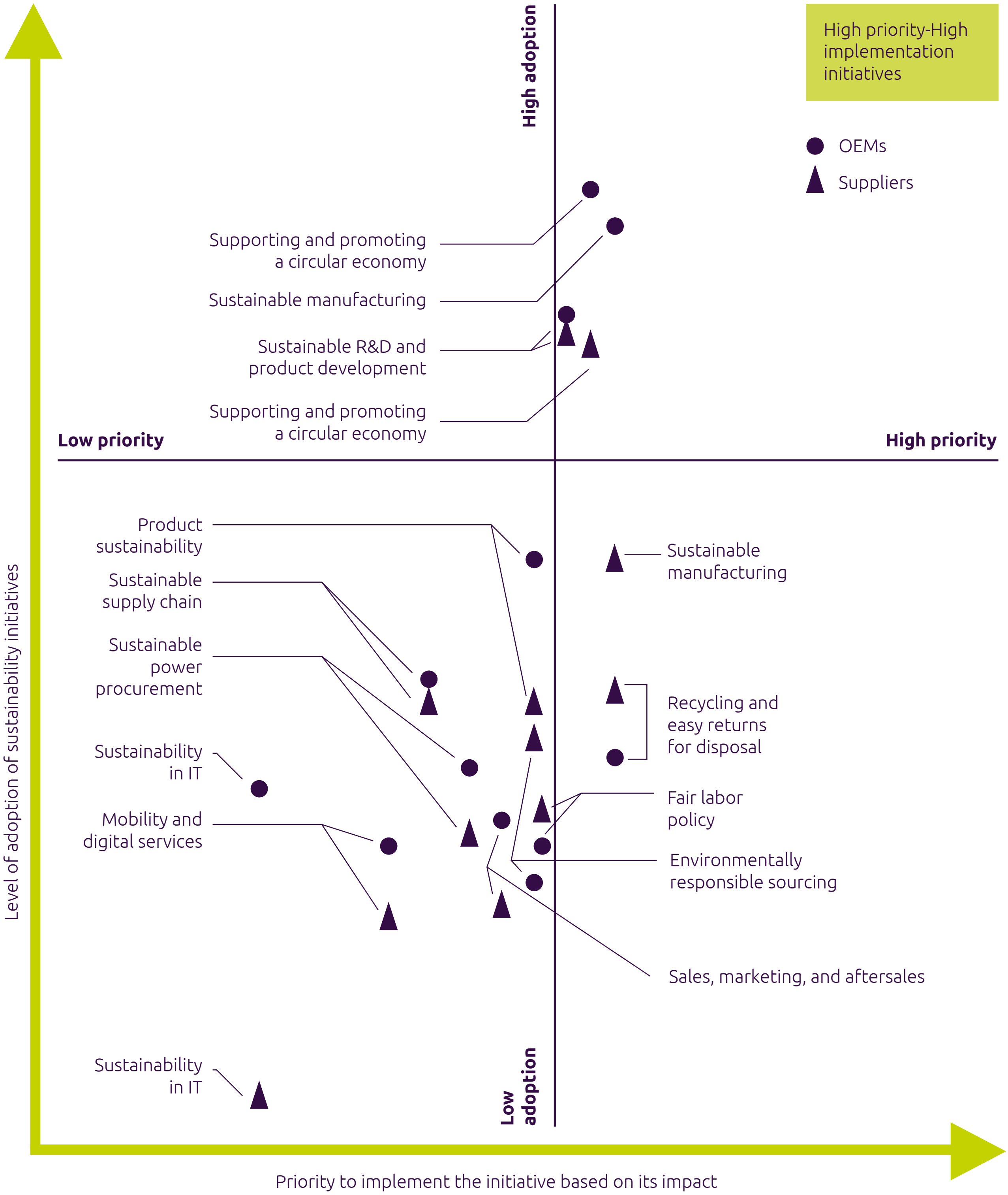
Our research found that 62% of automotive organizations claimed to have developed a comprehensive sustainability strategy with well-defined goals and targets. To assess this, we analyzed the deployment of specific sustainability initiatives, ranging from "Sustainable R&D and product development" to "Sustainability in IT":

→ It is clear that some initiatives receive significant attention, but there is not a consistent focus on the entire value-chain. The most commonly deployed initiative is "supporting and promoting a circular economy". This is being deployed by 52% of the companies we surveyed.

→ In contrast, "sustainability in IT" is only being adopted by 8% of the organizations.

As Figure 3 shows, we compared the level of adoption of sustainability initiatives against their priorities indicated by experts. The top-right quadrant is the sweet spot – where OEMs and suppliers are implementing initiatives that have the most impact. We found that suppliers lag OEMs in adopting and prioritizing sustainability initiatives, across all but three initiatives. However, the average level of adoption of initiatives (vertical axis) is on the lower side, implying significant room for improvement industry-wide, more so for automotive suppliers.

Figure 3: Automotive suppliers lag OEMs in adopting sustainability initiatives

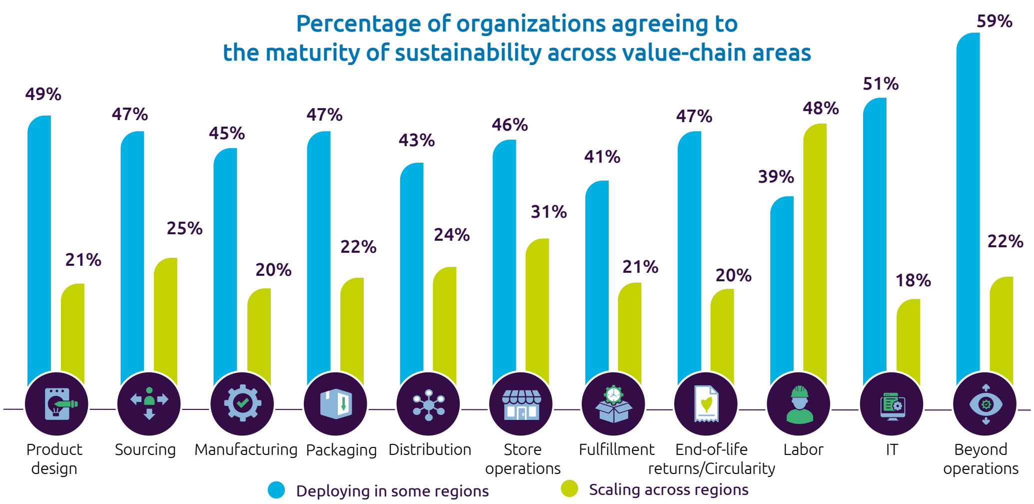


Sources: Capgemini Research Institute survey of automotive executives (N=503) and sustainability experts (N=317), November-December 2019.

Consumer products and retail: achieving global scale is rare

Three-quarters (75%) of the sector's organizations claim to have a strategy, infrastructure, and resources in place to drive sustainability and circular economy efforts. Further, nearly half have started to deploy sustainability initiatives across some of the regions in which they operate. However, when it comes to achieving scale across their global footprint, fewer than a quarter have achieved widespread coverage.

Figure 4: Sustainability maturity across the value chain is low



Source: Capgemini Research Institute, Sustainability in Consumer Products and Retail Survey, April–May 2020, N=750 consumer products and retail organizations.

Energy and utilities: organizations not focused on the social dimension of sustainability and carbon emissions practices remain uneven across global footprint

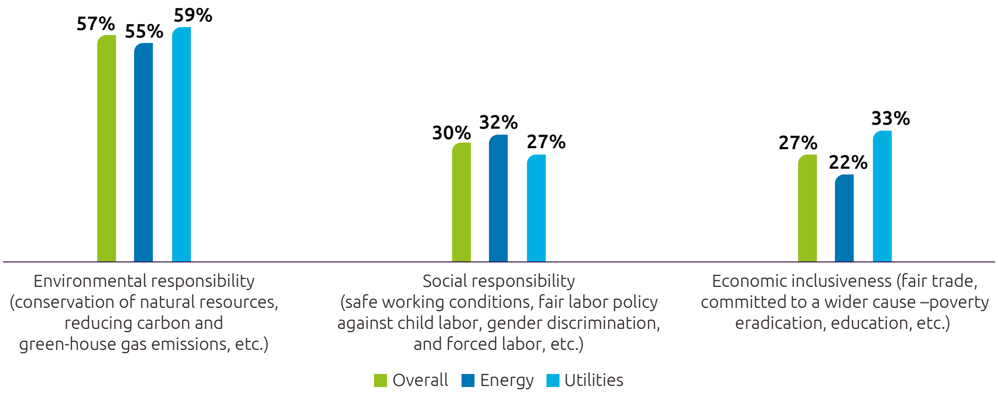
Over half of the sector's firms (57%) said they had a mature approach to sustainability – meaning they had sustainability initiatives deployed widely throughout the organization that focused on environmental responsibility. However, as Figure 5 shows, this relatively strong 'environmental' maturity does not reflect in other areas of the sustainability equation, particularly 'social':

→ Only 22% of energy companies rated their approach to economic inclusiveness practices as mature.

→ Only 27% of utilities say they have mature social responsibility practices, such as safe working conditions or labor policies that guard against child labor, gender discrimination, and forced labor.

Figure 5: Fewer than one in three energy and utilities organizations have mature social and economic practices

Maturity of sustainability initiatives (% of organizations)

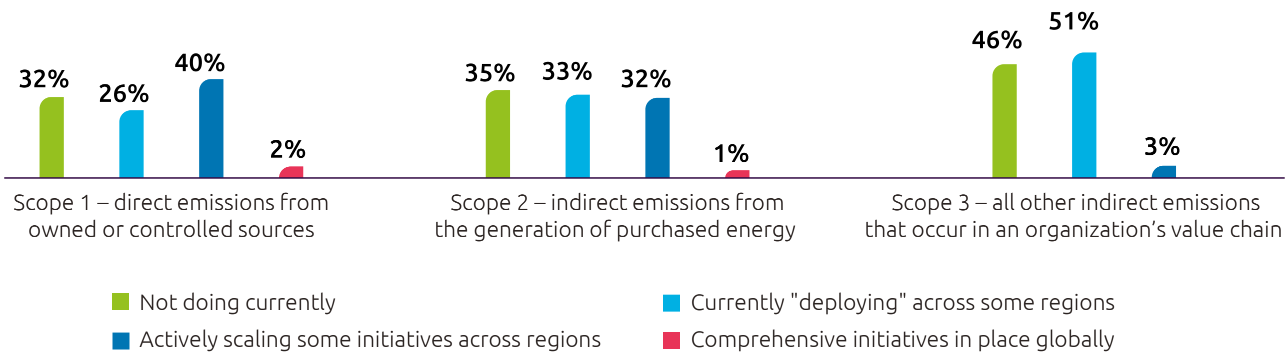


Source: Capgemini Research Institute, Sustainability in Energy and Utilities survey, July-August 2020, N=300 sustainability executives.

Further, when it comes to reducing carbon emissions, our research suggests that there is much work to be done. Fewer than half have mature practices in reducing Scope 1 emissions, and only 3% have mature practices for tackling Scope 3 emissions (see Figure 6). *"Scope 1 is way bigger than Scope 2 for us, which is probably similar to most,"* says Stephanie Dvorak, director of environmental sustainability at Schlumberger.

Figure 6: Only 3% of energy and utility organizations have mature practices for tackling Scope 3 emissions

How mature are your organization's practices/initiatives to reduce the below carbon emissions by "scope"?
(% of organizations)



Source: Capgemini Research Institute, Sustainability in Energy and Utilities survey, July-August 2020, N=300 sustainability executives.

3. Challenges in prioritizing and scaling sustainability initiatives

The challenges facing organizations in scaling sustainability initiatives are many and varied, from margin impact to lack of investment. Below, we outline the main challenges for our three sectors:

Automotive: greater investment commitment needed

Sustainability requires considerable investment, yet under-investment is a significant issue and many experts in our research believe the industry is not making sufficient commitment. Half of outside experts think that the investment is below what is required, but only one in five executives agree. Automotive industry executives are yet to appreciate the scale of investments needed to realize their sustainability goals.

Figure 7: Sustainability investment – percentage denotes the split among respondent answers

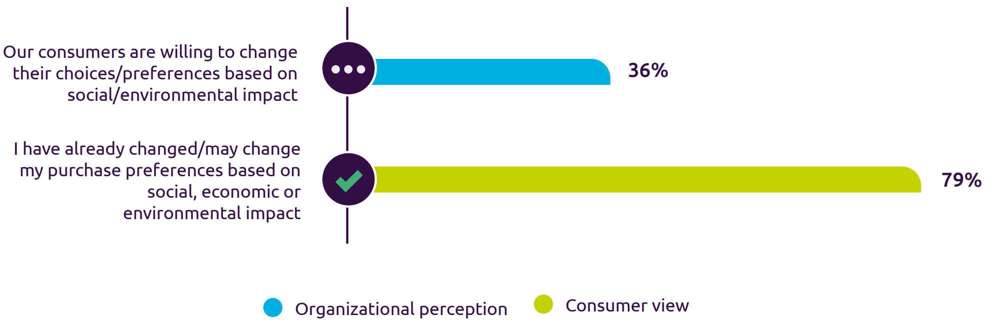
Source: Capgemini Research Institute survey of automotive executives (N=503) and sustainability experts (N=317), November-December 2019.

Consumer products and retail: significant perception gap between organizations and consumers

→ Consumers are putting sustainability at the heart of how they buy, but organizations are under-estimating this determination:

- 79% of consumers say they would change purchase preferences based on social or environmental impact (42% having already changed and 37% may do so)
- But only 36% of organizations say that consumers are willing to change their choices/preferences based on social or environmental impact.

Figure 8: Consumer product and retail organizations are yet to fully understand the changing perception of consumers based on sustainability

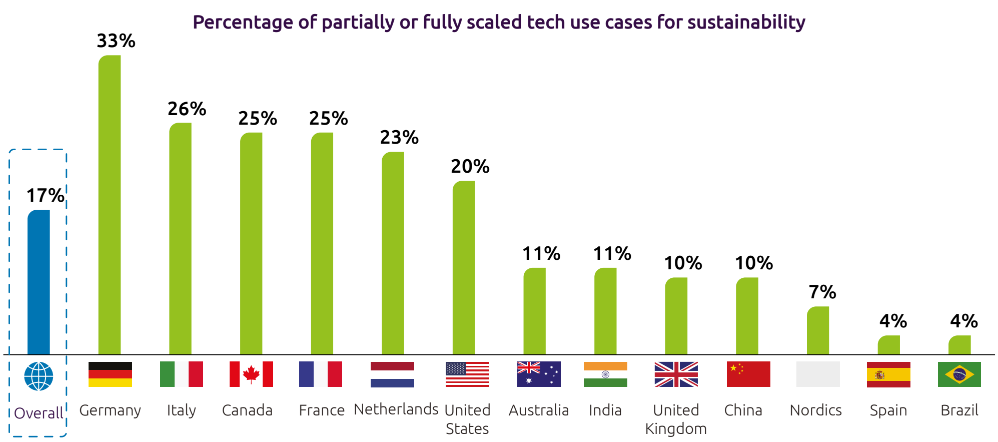


Source: Capgemini Research Institute, Sustainability in Consumer Products and Retail Survey, April-May 2020, N=750 consumer products and retail organizations.

Energy and utilities: firms lag in utilizing technology use cases

Technology is key to achieving the world's sustainability goals, from carbon-capture technologies to energy-efficiency solutions and storage. Yet, only a minority of organizations around the world have achieved scale with tech-related use cases (17%). Even in the best-performing country, Germany, scaled implementation only reaches 33%.

Figure 9: Fewer than one in five energy and utilities organizations have partially or fully scaled tech use cases for sustainability

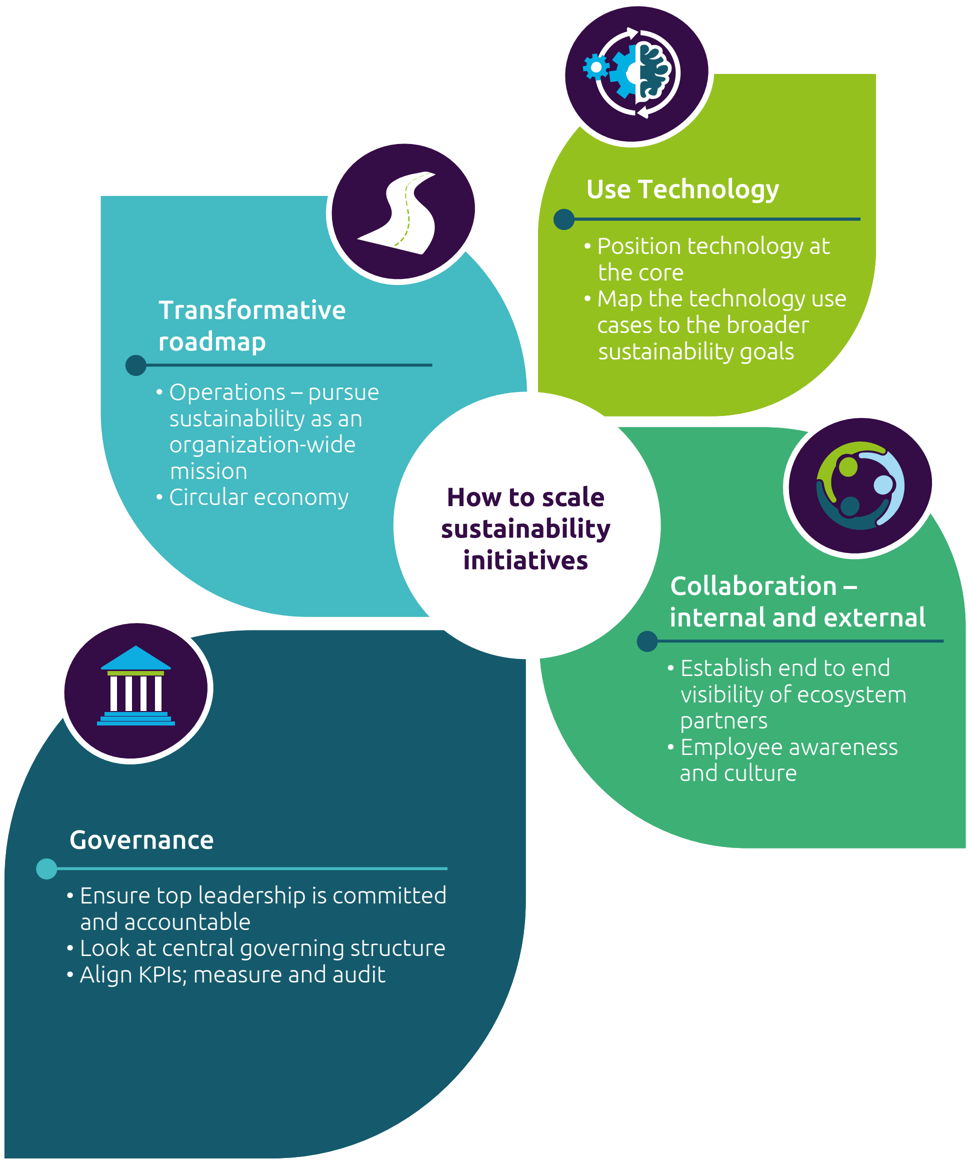


Source: Capgemini Research Institute, Sustainability in Energy and Utilities survey, July–August 2020, N=300 business executives.

4. Recommendations

Based on our research – as well as our experience working with organizations in these sectors – we believe there are four priority areas when it comes to accelerating sustainability initiatives (see Figure 10).

Figure 10: Framework for accelerating sustainability initiatives



Source: Capgemini Research Institute analysis.

Build a transformative roadmap

→ **Pursue sustainability as an organization-wide mission.** Organizations should make sustainability a central part of their corporate purpose or reason for being – and position it as key to attracting talent and meeting the increased expectations of multiple stakeholders: investors, customers, employees, and society.

→ **Pivot to new business models.** Leading companies are already taking steps in this direction. BP, for instance, is pivoting from being an international oil company to an integrated energy company, not just targeting net zero carbon emissions but ceasing all oil exploration in new countries.[6] Likewise, a range of companies – Unilever, Procter & Gamble, Nestlé, Coca-Cola, and PepsiCo – offer subscriptions to common products like shampoo, detergent and ice-cream in reusable packaging.[7]

→ **Companies should not hesitate to take the leap of faith.** DONG Energy (now Orsted), a Danish energy company, exited the oil and gas business in 2017 to fully focus on renewable energy, more than doubling of its market valuation as a result.[8]

Strengthen governance

→ **Ensure top leadership is committed to sustainability.** Having sustainability champions in the C-suite is essential to scale. In PepsiCo, for instance, the senior leadership team – including chairman and CEO – assume direct oversight of the sustainability agenda.[9]

→ **Establish accountability for sustainability.** Our research also showcases that having a dedicated head of sustainability, who works in collaboration with other business units, helps to ensure focus on driving sustainability strategy and advancing the company's program. General Motors appointed its first chief sustainability officer to spearhead the company's efforts to be a global advocate for climate-sensitive manufacturing and mobility operations and direct the design and implementation of infrastructure for EVs.[10]

→ **Align KPIs with established frameworks and conduct audits.** Align KPIs with established frameworks – such as the UN Sustainable Development Goals and the Paris Agreement goals – to set specific organizational goals. Monitoring progress against these goals will be crucial, but more needs to be done to produce

[6] BP Company presentation, August 5, 2020.
[7] Inc., "The containers for your most basic household products are about to look a lot different, thanks to this company," March 2019.
[8] Google Finance, accessed September 29, 2020.
[9] Pepsico, "Sustainability Governance," accessed May 2020.
[10] Automotive News, "GM appoints first chief sustainability officer," January 2020

credible, consistent and comparable performance data. For instance, our research shows that when it comes to KPIs – such as food wastage or supply-chain miles[11] – very few ensure their reporting receives third-party assurance.

Use technology to accelerate the sustainability journey

→ **Invest:** Automation, AR/VR, 3D printing, data analytics and AI/ML are some of the top ranked technologies that organizations are planning to invest in according to our research. For instance, 63% of CPR organizations are planning to invest in AR/VR to promote sustainability. Leading automotive organizations are also introducing technologies to promote sustainability and employee welfare. To promote worker safety, Ford introduced a wearable technology, EksoVest, at its 15 plants.[12]

Collaboration – internal and external

→ **Circular economy:** Work with partners to implement circular economy approaches. For instance, Nestlé collaborated with McDonald's to turn the latter's used cooking oil into renewable diesel across its more than 250 outlets in the Netherlands.

→ **Empower employees:** Encourage employees to be champions of sustainability. P&G, for instance, is working with employees to engage, equip and reward them for building sustainability thinking and practices into their everyday work. This effort is part of the company's environmental sustainability goals for 2030.[13]

For details on the research methodology and to read the full reports, please visit:

https://www.capgemini.com/research/the-sustainability-advantage/

https://www.capgemini.com/research/sustainability-in-automotive/

https://www.capgemini.com/research/how-sustainability-is-fundamentally-changing-consumer-preferences/

Read the full edition of Conversations for Tomorrow –
https://www.capgemini.com/research/conversations-for-tomorrow-edition-1/

[11] Supply chain miles is a measure of the distance traveled by goods or services across the supply chain of a business; Bernard Marr & Co. (n.d.) Supply Chain Miles. Retrieved from https://www.bernardmarr.com/default.asp?contentID=936
[12] Ford sustainability report 2018/19
[13] Businesswire, "P&G announces new environmental sustainability goals focused on enabling and inspiring positive impact in the world," April 2018.