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Consumer business

Merging climate and business strategy to benefit the bottom line

Executive summary

The consumer industry* is highly attuned to the risks and opportunities associated with climate change. As a pervasive topic that has an impact on the public, climate change affects almost every aspect of a consumer-focused organization's day-to-day operation as well as its strategic vision. For companies that understand the value of becoming the responsible provider of choice, climate strategy and business strategy are now one and the same. While consumer business organizations largely grasp climate-related risks and opportunities, some may underestimate the urgency with which they need to act. As executives of these companies consider the implications of climate change on their business models, customer relationships, investments, and risk profiles, it would be ineffective of them to set long-range, net-zero targets without identifying interim steps for attaining them. To proceed down this path, they need to align strategic vision with tactical execution, and base it all on reliable data. The aim of this paper is to offer some practical suggestions for getting started.

*In this paper, consumer business refers to a broad range of sub-sectors, including consumer products and services, retail, automotive, transportation, travel, and hospitality.

Unlike those business areas further down the value chain, the consumer industry is under the scrutiny of an increasingly discerning, sustainability-minded public. With a minimal buffer between organizations and the will of the people, some consumer products companies are well on their way to establishing science-based emissions-reduction targets, producing or sourcing eco-friendly products, powering their operations with renewable electricity rather than fossil fuels, and reducing carbon emissions from their supply chains (decarbonizing).

Others, however, have yet to fit the roles that stakeholders increasingly expect them to play, not only as leaders in mitigating the climate crisis but also as innovators in creating a sustainable, circular economy—that is, one that aims to reduce, reuse, recycle, repurpose, and create materials anew in order to minimize waste, pollution, and the constant drain on resources. Companies' proximity to consumers and the expectations resulting from their brand relationships pose both unique challenges and opportunities in the journey to net-zero emissions.

The implications of climate change

The consequences of climate change within the consumer industry are complex since this issue affects stakeholders in many different ways. However, regardless of their sub-sectors, consumer-focused organizations generally share some fundamental interests.

Common challenges

On a practical level, consumer business organizations are concerned about the ability to secure products, equipment, and parts, as well as about supply-chain disruptions. The physical impact of climate-related phenomena such as temperature extremes, floods, droughts, severe storms, wildfires, pests, and diseases affects the availability of agricultural resources and raw materials, as well as influences production capacity and cost. Furthermore, manufacturing facilities and distribution systems are often in regions such as Latin America and Asia Pacific, that are susceptible to climate-change risks due to coastal proximity, infrastructure challenges, and frequent extreme-weather events.[1]

These threats are often compounded by uncertainty about what's involved in decarbonization, including questions about the cost and applicability of wind, solar, battery storage, electric vehicle (EV), and other existing technologies, as well as a lack of clarity about the potential value of emerging technologies such as hydrogen and biofuels. Moreover, much of the infrastructure required to support electrification and the wide-scale integration of renewables depends on public policy, including setting a cost for carbon that's consistent across trading borders. Incentives are also essential, not only for spurring corporations to switch to new fuel sources, but also for encouraging consumers to purchase sustainable products, even though these may come with a higher price tag.

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Further complicating the risk landscape, today's consumers often expect more from their preferred brands and service providers than a pledge to become carbon-neutral. In fact, they expect a commitment to broader environmental, social, and governance (ESG) criteria, such as transparency and traceability, natural-resource conservation, waste reduction, and local sourcing. For instance, 36% of Canadians who responded on April 28, 2021, to an ongoing, real-time Deloitte consumer survey said they intended to buy more locally sourced items, even if they cost a little more, while 39% intended to purchase more from brands that responded well to the pandemic.[2] Political progress in terms of public policy and incentives will be necessary for the consumer industry to move at a faster pace in meeting not only climate-specific goals but also the expanding range of customers' ESG demands.

Going green in more than name only

The race to become the environmentally responsible provider of choice has spawned a plethora of eco-friendly products and net-zero pledges from businesses ranging from new ventures to leading brands. It has also brought greater scrutiny to the consumer industry regarding the legitimacy of such decarbonization claims. Several sectors and non-profit groups are responding to the need for global industry standards and certifications to bolster consumer confidence and help companies distinguish themselves as genuine leaders in the sustainability movement. Among these groups are the Sustainability Consortium, which presents the consumer goods industry with science-based tools to help address and solve sustainability issues that can arise across a product's supply chain and throughout its life cycle.[18] Climate Neutral offers a certification program for companies that offset and reduce all their greenhouse gas emissions.[19] The myclimate foundation helps to counteract global CO2 emissions by way of climate-protection projects that aim to replace the need for fossil fuels, such as through introducing trees to unforested areas and the implementation of energy-efficient technologies.[20] And the Global Ecolabelling Network (GEN) aims to develop, improve, and promote the green labelling of products and services, awarding GEN-member eco-labels only to those shown to have comparatively lower environmental impacts.[21]

The rise of the circular economy

Climate change, along with a growing awareness of ESG issues, affects consumer purchasing power and preferences. According to a 2020 Deloitte global research report that compared attitudes and their influence on personal and consumer behaviours before and after the start of the COVID-19 pandemic, 59% of respondents cared more about reducing single-use plastic products than they did the previous year and 56% cared more than previously about climate change.[3] In addition, 42% of those surveyed changed their consumption habits because of environmental concerns and 35% altered their purchasing patterns specifically because of climate change.[4] About one in five reported having switched to a company or brand that shared their values on these issues.[5] Indeed, environmental stewardship is the issue the public feels most strongly about in terms of the consumer industry needing to step up its game.[6] For instance, 77% of survey participants expected CEOs of consumer companies to be more engaged in recycling and reusing materials for a circular economy, and 75% expected these executives to do more to reduce carbon emissions and decrease the production of single-use plastics.[7]

Overall, the growing public desire for companies to be more ecologically sustainable increasingly pertains to their central role in accelerating circularity. For instance, certain consumer business segments—such as food and beverage, restaurant and hospitality, and fast fashion—have been facing intense pressure to reduce the amount of waste they generate, whether in the form of greenhouse gas (GHG) emissions, discarded packaging, or end products that have been tossed out after use. Driven by their customers' changing needs, some suppliers are already responding to this shift in public opinion. For instance, the sustainable-packaging market is expected to have a compound annual growth rate (CAGR) of 9.25% over the forecast period of 2021–2026, propelled by rising environmental concerns, a growing awareness of eco-friendly products and services, and shifts in public policy.[8]

Some consumer-focused companies see these trends not only as opportunities to respond to customer demands but also as occasions to grow their revenues and gain competitive advantages. By merging their climate and business strategies, they would be capitalizing on opportunities to:

- Expand their markets and leapfrog ahead of the competition by fulfilling consumer demand for circularity
- Reduce costs by investing in energy-efficient practices and renewable power
- Gain resilience to regulatory change by anticipating and planning for climate risks, carbon pricing, and anti-pollution policies like bans on single-use plastics
- Make themselves more attractive to progressive investors who screen for ESG criteria
- Spur innovation internally and build ecosystem relationships further afield

To this end, some consumer-focused organizations based in Canada, such as O'right and Lululemon Athletica, have joined worldwide industry efforts such as RE100. This global initiative—led by the international net-zero-focused, non-profit Climate Group—brings together large businesses that are committed to 100% renewable electricity.[8]

Walmart Canada offers another example of finding profitable opportunities in the transition to a sustainable, low-carbon economy. The company plans to run its entire fleet of trucks on alternative power by 2028.[9] To move toward this goal, it has preordered 130 Tesla electric semi-trucks, with deliveries expected to begin this year.[10] In making the switch, Walmart Canada aims to reduce its operating costs and enhance on-road safety while simultaneously improving the sustainability of its fleet.[11] Furthermore, its parent company, Walmart Inc., seeks to become a regenerative organization, with plans to reduce its global carbon emissions to zero by 2040 and to "protect, manage, or restore at least 50 million acres of land and one million square miles of ocean by 2030."[12] It also sponsors the Walmart Sustainability Hub, an online tool intended to help suppliers understand how to track, measure, and understand the impact of their emissions, such as by offering eco-friendly training and webinars to suppliers and other organizations.[13] Among its most prominent supplier initiatives are the international Sustainable Packaging Innovation summits and Project Gigaton, a venture whose goal is to remove one billion metric tonnes (one gigatonne) of greenhouse gases from the global value chain by 2030.[14] Walmart Inc.'s stated motivations in these areas are clear: its work, it announced, is "not only beneficial for our business bottom line, but also creates shared value for customers and society."[15]

Purposeful transformation

Maple Leaf Foods offers an example of how climate action and sustainability are becoming central to an organization's profitability and competitive advantage. Even after 100 years in business, this iconic Canadian food company chose to reinvent itself by putting sustainability and shared value at the heart of its revamped business strategy.[22] The corporation's mission is to become "the most sustainable protein company on earth."[23] With its stated purpose of "raising the good in food," it focuses on delivering shared value to consumers, customers, communities, and its people and shareholders.[24]

Among other sustainable operating principles, Maple Leaf Foods focuses heavily on reducing its energy consumption, waste, and water usage.[25] In 2019, it became the first major food company in the world to achieve carbon neutrality and the first Canadian food company to set science-based targets for GHG emissions.[26] Over the last few years, Maple Leaf Foods has pursued purposeful transformation by developing and refining its climate-infused business strategy. These efforts have included setting emissions-reduction targets approved by the global Science Based Targets initiative (a body that independently defines, assesses, and validates science-based decarbonization targets), purchasing carbon offsets, and obtaining sustainability-linked loans to lower manufacturing and operating costs.

How to get started

Despite the opportunities associated with climate change and the sustainability movement, some portions of the consumer industry remain constrained by economic uncertainty, a lack of infrastructure, a paucity of responsible options, and questions around timing. Airlines, for instance, may prefer to switch to low-carbon biofuels, but the required production and distribution infrastructure is not yet available. As another example, couriers may want to renew or revamp their fleets but they're unsure about the proper timing or appropriate technology (e.g., EVs or hydrogen fuel cells). Uncertainties such as these have kept some consumer businesses idling on the journey to net-zero. While they may be taking small steps, such as offering additional eco-friendly amenities, they're not making great strides. But waiting for signs before acting comes with the risk of being left behind by more highly specialized companies like Tesla, Canadian Solar, and good natured products, the latter of which produces eco-friendly food packaging and storage options from plant-based materials. Here are a few suggestions for how a company can jump-start its journey to net-zero.

Get a handle on baseline-emissions data and climate-risk exposure

This means analyzing climate risk and assessing all GHG emissions across the value chain, beginning with day-to-day operations (i.e., Scope 1 and 2 emissions) and ultimately delving into supply-chain endeavours (i.e., Scope 3 emissions). As defined by the Greenhouse Gas Protocol, which provides the GHG reporting standards most used by companies around the world, Scope 1 emissions are direct emissions from owned or controlled sources, Scope 2 emissions are indirect emissions from the generation of purchased energy, and Scope 3 emissions are all indirect emissions (excluding those in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.[16]

Considering the far-reaching implications of Scope 3 emissions, engaging supply-chain partners and helping them along is particularly critical to assessing climate risks and meeting sustainability targets: the Climate Disclosure Project (CDP), an international non-profit charity that leads a global environmental reporting system, says that the average company's manufacturing-network emissions are roughly 5.5 times those of roughly 5.5 times those of their direct emissions. In 2019, suppliers incurred a combined US$1 trillion in costs as a result of environmental impact risks.[17]

Specify an action plan with achievable targets

Business leaders must determine how quickly their companies will act to counter climate change, including how these changes may affect their business models. Pondering the following questions might be helpful in informing these decisions:

Measure: How are expectations and requirements changing?

- Establish vision and governance, and determine baseline emissions

Analyze: How might these changes affect the business?

- Set targets and develop a decarbonization roadmap and strategy

Transform: What are the options for protecting and creating value?

- Develop a decarbonization portfolio and pilot projects

Scale: What capabilities are required to navigate this transition?

- Scale net-zero operations and key performance indicators

Sustain: How can the company maintain a competitive advantage?

- Optimize portfolios and monitor signals and signposts

Uncertainty around proper timing or choosing the right technology have kept some consumer businesses idling on their journey to net-zero

Set a strategic direction by assessing climate risks and opportunities

This is important for gaining clarity on a new, possibly fruitful direction for the organization, including the speed and intensity associated with the proposed shift. But how can a consumer-focused company that operates across regional, national, and global markets, for instance, assess what the future might look like in 10, 15, or even 30 years? And how do leaders help their supply-chain partners understand the opportunities and challenges associated with climate risk?

Many consumer business organizations have tackled these types of questions through scenario-modelling that takes both physical and energy-transition risk into account. Deloitte, for example, has helped companies, including Maple Leaf Foods and Loblaws, measure their carbon emissions, and analyze how different carbon-reduction strategies could impact their business operations and supply-chain interactions under various economic conditions and then set science-based targets.

Setting a long-range target such as net-zero emissions by 2050 and modelling various scenarios is helpful but understanding the immediacy of climate risk is critical. Action must be taken now and continued in short-term increments in order to meet the Paris Agreement's goal of limiting the rise in the global average temperature to well below 2°C in relation to pre-industrial levels (with a stricter long-term target of 1.5°C). To make progress, climate action and sustainability must become an engrained competency—one that is continually developed, governed, and managed, just like any other business capability.

Connect climate-consciousness with circularity

The consumer business sector is becoming more climate-conscious, which is underpinned by the concept of moving toward a sustainable, circular economy. In many instances, the principles of reducing, reusing, recycling, repurposing, and innovating to decrease waste and pollution inherently reduce carbon emissions. For instance, extracting less virgin material or helping suppliers to be more efficient often translates into lower energy consumption and fewer carbon emissions for all parties involved.

If everything is viewed through the lens of climate action, then the many components of a circular economy—plastic pollution, food waste, energy management, biofuels, EVs, recycling, etc.—become levers for driving business-model transformation as well as broad progress toward 2050 net-zero goals. However, pulling those levers often isn't enough. As customers increasingly make their purchasing decisions based on ESG criteria, it's critical for consumer companies to communicate their climate commitments and the tangible, measurable actions they're taking to reach them.

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Deloitte climate change solutions

Deloitte offers a broad range of climate change services and solutions that link finance to science. Incorporating the latest climate studies, these initiatives consider multiple strategies and financial factors, such as business growth and capital allocation, to help companies make meaningful investments in decarbonization opportunities.

Furthermore, Deloitte's Decarbonization Solutions package includes modules relating to short, medium, and longer-term emissions-reduction pathways and portfolio management, decarbonization scenarios, and impact analysis, as well as modules intended to help companies consider their physical climate risks. Each of these modules uses scientific information from leading international bodies and current practices, shared socio-economic scenarios from global institutes, and methodologies from the Science Based Targets initiative, among others.

In addition to the decarbonization package, Deloitte offers access to a deep pool of professionals with science, business, and technology backgrounds, all of whom can help companies identify grants and incentives to fund their transitions to responsible business practices; establish sustainability targets and metrics; submit performance disclosures; respond to ESG requests, concerns, and challenges; and implement digital solutions, including data integration and intelligent monitoring systems.

Good for the climate, good for business

Business strategy today is contingent on the risks of global climate change and the local challenges and opportunities they imply; the cost of carbon, for example, affects the cost of a company's capital as well as its return on investment. Some innovators in the consumer business space understand this concept and have developed a singular strategy that guides all their decisions. When aligned with generating stakeholder value, which involves benefiting the environment and society in the process of pursuing and earning profits, such a purpose can become a powerful means of winning customer trust. With this in mind, some consumer businesses are taking the lead in addressing climate change and other significant environmental challenges—not because they're being compelled to do so by outside forces, but because they see it as a new direction toward achieving profitability and competitive advantage.

Notes

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