

Sustainability trends for

2023



BY TARA BERNOVILLE & EDGAR LUGO-VASQUEZ

planA

Introduction

The effects of climate change on our lives and economies have become unavoidably apparent. In 2021, the third assessment report from the Intergovernmental Panel on Climate Change (IPCC) observed increased warming of the Earth's surface caused primarily by human activity, with projected increases to rising sea levels and the frequency of heat waves. In addition to the alarming supporting data, scientists stated that our planet had crossed the fifth planetary boundary on chemical pollution. The promises of global leaders made at COP26 also failed to be met, with the current net-zero pledges now insufficient to keep rising temperatures beneath the global target of 1.5 °C with business continuing as usual.

Luckily, sustainability is climbing the global agenda and with it, the business case for sustainable practices requires less air time. There is a growing, collective understanding amongst scientists, governments, policy-makers, and individuals around the systemic decarbon-

isation-led shift needed to mitigate climate change and prepare for its effects. In tandem, there is growing awareness around the critical role that finance and business must play in furthering this economic transition through greater sustainable investments. According to the Organisation for Economic Co-operation and Development (OECD), €6.35 trillion is needed each year to meet the Paris Agreement targets by 2030, meaning the mobilisation of institutional and private capital must be unprecedented in speed and redirection.¹

If 2022 saw sustainability's ascension into the mainstream discussion, 2023 is the year of translating commitments into swift and concrete action. The sustainable transition is not only inevitable, it is well underway. Here, we'll outline six 2023 sustainability trends for businesses to get ahead of to maximise impact and commercial success.

01 The race to net-zero: Ready, set targets, go!

Context

The net-zero transition will continue to accelerate this year, and for decades thereafter. Over 130 countries have already set targets to reach net-zero emissions by 2050, but after failing to meet the targets set at COP26, technological innovations need to drastically advance efforts to see this goal achieved. To keep the existing targets within reach, the level of global greenhouse gas (GHG) emissions in 2010 must see a 45% reduction by 2030.²

To respond to this global challenge, the United Nations has created the Race to Zero campaign together with a coalition of global companies. Collectively, these 3,000 parties account for nearly 25% of global CO₂ emissions and over 50% of the GDP worldwide (see Footnote 2). Net-zero pledges from Fortune 500 companies are a clear indicator that the race is on. Will your business be taking part?

Science-based targets gain momentum

A recent McKinsey report estimated that the annual cost of getting to net-zero – when CO₂ emissions are balanced, eliminated, or captured – will be €8.2 trillion.³ The number of companies using science-based targets (SBTs) designed to accelerate this investment transition has significantly increased. Over 1,000 companies representing €20.5 trillion in market capitalisation (more than the total GDP of the United States) have committed to SBTs for their emissions reductions.⁴ And companies translating these climate commitments into concrete action are increasingly reaping the financial rewards that go hand-in-hand with sustainability-leader status.

The SBT model does present certain limitations. Critics argue that most companies setting SBTs to reach net-zero emissions look good on paper but less so in practice, with decisions based on outdated data and incorrect frameworks. It's also essential that companies include all carbon emission scopes within their disclosures. Walmart, the world's largest retailer, has a public strategy to reach net-zero emissions by

2040. Yet its reduction plan excludes Scope 3 emissions – despite these comprising 95% of their total emissions output.⁵

Early movers reap the rewards

The net-zero transition is in the process of unleashing a global disruption to our economy, industries, and business models – with business operations and consumer perceptions changing drastically as a result. Early movers and climate leaders will gain a substantial advantage over those who lag behind, with transition-related benefits including improved talent retention, better financial performance and cost saving, lower regulatory risks, access to cheaper capital, and increased value generation for shareholders and stakeholders.

With only 20% of companies disclosing their full value-chain emissions and with emissions reduction targets in place, there is still much room for leadership and improvement. In 2022, only 12% of companies achieved an actual emissions reduction of more than 4% (the annual linear reduction required to limit the temperature rise to 1.5 °C).⁶ There's still time to become an early adopter, and the companies who begin reducing their emissions now – while correctly disclosing the relevant data – will be well-placed to earn that title.

WHAT ARE SBT'S?

Science-based targets to reduce GHG emissions in line with limiting global warming to 1.5 °C.





The business benefits

EASIER HIRING & RETENTION

40%

talent seeking sustainable companies

HIGHER REVENUES

+4–25pp

CAGR of sales growth for 'green' products

CASH & CARBON SAVINGS

~50%

emissions reduction at net-zero cost in key sectors

CHEAPER FINANCING

–100bp

WACC for top-quartile environmental performers in Europe

LOWER REGULATORY RISKS

+2–12pp

EBIT margin after EU Carbon Border Tax for companies abating 55% of emissions

HIGHER VALUE

+3pp

TSR for top-quartile environmental performers globally

NET-ZERO EMISSIONS

Akin to 'climate neutrality', net-zero emissions will be achieved when any man-made greenhouse gas (GHG) emissions that remain post-reduction are removed or captured from the atmosphere. Following a drastic global reduction of emissions caused primarily by the combustion of fossil fuels, the remaining emissions that cannot yet be avoided must be neutralised through activities like forestry restoration or through removal procedures like direct air capture and storage (DACs).



02 A new economic framework: ESG as a primary market-driver

Context

The growing prominence of ESG (Environmental, Sustainable, Governance), coupled with policies such as the EU's SFDR (Sustainable Finance Disclosure Regulation), is helping cement ESG's status as a mainstream reporting framework. While many adaptation challenges face investors and reporting entities, they'll have little choice but to be overcome as ESG becomes an increasingly powerful driver in the market.

ESG assets to exceed €47 trillion by 2025

With an assumed 15% growth, global ESG assets are on track to exceed €47.4 trillion by 2025, representing over a third of the €125.6 trillion in projected total assets under management.⁷ The ESG market also doubled last year, with 80% of the world's largest companies reporting exposure to physical or market transition risks associated with climate change. Similarly, companies incorporating ESG into the core DNA of their strategies have seen their operating profits increase by up to 60%. And given that ESG-reporting mandates have grown by over 80% in the last five years, it's safe to say that ESG is here to stay.⁸

Reporting requirements on the rise

International regulations requiring compliance with new ESG-related disclosures are accelerating this integration even further. At the time of writing, 35 countries have either imposed, or are imposing, mandatory reporting on corporate climate strategy, emissions, targets, and roadmaps for their largest companies. January 2023 alone saw the implementation of three substantial regulation updates for European companies – the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy Regulation, and the Corporate Sustainability Reporting Directive (CSRD) – with similar policies in development around the world.

Further ESG mandates mean acting now

It is increasingly predicted that ESG factors will soon become business-compulsory or mandatory. There are already proven benefits for early adopters, and organisations that fail to adopt ESG factors may well end up struggling with regulatory, legal, or reputational issues at a later stage. While it's easier to incorporate ESG

into your business model from the beginning, it's not too late to start. Businesses should adopt a sustainability and ESG-centric methodology as soon as possible to begin contributing to greater business diversity and equality, greater consideration of employee health and welfare, and to maximise their positive impact on communities and the environment.

ESG DEFINED

ESG is the umbrella term for sustainable and responsible finance components. It is a framework considering Environmental, Social and Governance factors alongside financial factors in the investment decision-making process.

DID YOU KNOW?

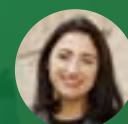
53% of revenue from the 500 largest US companies and 49% of revenue from the 1,200 largest global companies comes from business activities that support the United Nations' Sustainable Development Goals (SDGs).⁹

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“The way we define the success of our economy today is flawed, as it ignores the financial, economic, and societal risks associated with climate change. The task of the decade is to create transparency around these risks and align on how to mitigate them.”

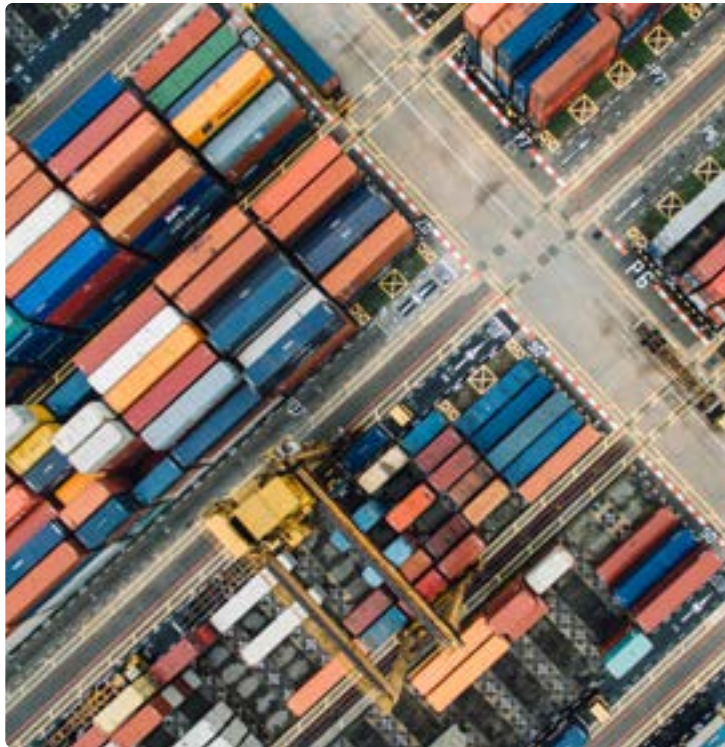


Lubomila Jordanova,
CEO and Co-founder of Plan A

03 Sustainable and resilient supply chains

Context

Recent years have seen heavy disruptions to supply chains (e.g. labour shortages, fluctuating supply and demand, and geopolitical conflicts), highlighting the need for greater supply chain sustainability and resilience. While also representing vast cost-reduction opportunities, supply chains are at the centre of a business' growth and success. With uncertainty and further disruptions guaranteed for 2023, supply chains are another player moving into the sustainability spotlight.



Supply chain-based problem solving

Supply chains are responsible for 90% of a company's environmental impact (see Footnote 9), and experts predict that they will continue to experience disruptions in 2023. Inventory optimisation tactics will continue to be necessary to assist decision-makers in identifying vital materials, intermediates, and products, and in helping them determine how much – and where – products should be stored. Suppliers, logistics service providers, contract manufacturers, and other essential trading partners will also require improved coordination and visibility moving forward.

As climate change, ESG, and circular economy involvement become increasingly business-imperative, global supply chains have the potential to act as either a problem-contributor or a solution-provider. There's a supply chain-related disconnect between sustainable mission statements and the capacity for their execution: A global Oxford Economics survey of supply chain decision-makers across sectors found that while 88% reported having created, or being in the process of creating, a clear sustainability mission statement, only 52% had taken

relevant action like decreasing their shipping distances.¹⁰ Furthermore, only 21% of respondents had comprehensive visibility into sustainable product procurement from their suppliers – demonstrating the need for better supply chain monitoring to reduce the associated environmental impact.

The rise of real-time data and AI

As Peter Drucker, whose writings contributed to the practical foundations of the modern business corporation, once said, "you can't manage what you can't measure". Building resilient and sustainable supply chains without the correct data will always prevent us making informed decisions with the potential for genuine impact. Luckily, 2023 will see a significant focus on the visibility, collection, and processing of real-time data across supply chains. Collecting this data at unprecedented levels will be essential in allowing us to develop, manufacture, and distribute both more sustainable goods, and existing goods more sustainably. This information may then be used to analyse technological and mechanical performance, calculate carbon emissions, identify a need for maintenance, and much more. We can also expect to see more capabilities derived from the real-time, 360-degree perspective we now have of the

supply chain, thanks to increased consumer demand as well as environmental data like traffic and weather trends.

2023 will additionally see the continued rise of machine learning and AI within the supply chain, as large amounts of social media and IoT-based data from people, devices, assets, goods, and vehicles allow us to automate more decisions and procedures. Predictive analytics will also enable employees to make better-educated, real-time decisions while driving new business models – together contributing to the rise of Industry 4.0.

04 Decarbonisation: will you lead or be led?

Context

Decarbonisation has become a key part of the mainstream sustainability discussion over the last few years, and 2023 will be a cornerstone year for its widespread adoption. As a requirement in achieving net-zero emissions and reaching global climate targets, companies must implement decarbonisation pathways and strategies to obtain a substantial competitive advantage and generate corporate value. If all continues as expected, 2023 will be the year that decarbonisation efforts become a commercial norm.

DECARBONISATION DEFINED

Decarbonisation is the process of removing or reducing all human-made carbon emissions to achieve net-zero emissions. According to the Oxford Dictionary, “decarbonisation is the process of replacing fossil fuels with fuels that are less harmful to the environment.” In this sense, decarbonisation is achieved by implementing low or zero-carbon technologies and energy sources (e.g. renewables, regenerative agriculture, grid power, and hydrogen).

Decarbonisation success stories

Unilever

Reported €800 million in savings attributed to low-cost renewable electricity sourcing, which more than offset the premiums required to sustainably source plastic and palm oil.



IKEA

Reported €130 million in savings across five years, also realised through the roll-out of increased renewable energy usage.



The impacts of global decarbonisation

01 Technological innovation

Technological innovations, and low and zero-carbon technologies in particular, have the capacity to reduce today's European emissions by 85%.¹¹ These carbon-centric technologies are closer than we think, with 28% 'mature' and 32% in the 'early adoption' phase. Companies are increasingly assessing their current technologies and making the shifts to low-carbon alternatives where possible, contributing to enhanced cost-effectiveness and the likelihood of greater implementation on a global scale.

02 Supply chain scaling

Scaling-up production and distribution capacity while expanding global supply networks will be essential to enabling and deploying this critical technology. To reach the 1.5 °C target, the number of solar panels

“Corporate decarbonisation journeys can be strenuous. However, it’s scientifically proven that these commitments add long-term corporate value while safeguarding our planet.”



Santeri Lehtonen,
Carbon Accounting Expert at Plan A

deployed weekly across the world would need to increase to eight times what it is now. We can expect to see this catch on in 2023, with more collaboration across supply chains and ecosystems necessary to scaling production.

03 Increased capital allocation

Expect to see much more allocation of capital towards sustainable assets, with an estimated €245.5 trillion of cumulative spending on physical assets required over the next three decades in order to realise the global target for 2050.¹²

04 Shifts in consumer demand

This year, decarbonisation will play an even more pivotal role in the demand for goods and services. In order to meet net-zero emissions, it's estimated that gas and oil production will need to drop by 70% compared to today's numbers.¹³ Decarbonisation will also greatly reduce coal production for energy use, making it essential for companies to assess how these shifts will impact their production and pivot accordingly.

05 Decarbonised products and services

As the transition continues, companies minimising their product and process-related emissions are gaining an edge in the market. While decarbonisation typically increases operational costs (for now), businesses can – and will – capitalise on this shift as consumers become more willing to voluntarily pay more for low-carbon products, and businesses find themselves subject to carbon-pricing requirements.

06 Decarbonisation in business

Decarbonisation efforts are essential to obtaining a substantial competitive advantage and generating corporate value in 2023. For companies, decarbonisation means reducing carbon emissions across all three carbon emission scopes. Each business must establish a decarbonisation strategy in line with its industry, measure the number of emissions it's directly or indirectly responsible for, and then take action towards their reduction.

05 Data and technology at the service of sustainability

Context

Only a couple years ago, sustainability data was mainly used for reporting, compliance, and disclosure requirements. Today, companies and business leaders are seeking reliable and transparent quantitative data in line with specific goals for sustainability-centric improvement. The noticeable shift from compliance to performance requires utilising sustainability, ESG, and carbon data at scale, which can be achieved through the automation of carbon and ESG accounting tools. With the advancement and increased availability of technological innovation and data, 2023 will see more companies taking ownership of their data to improve sustainable decision-making and performance.

Elevated emissions measurement

Now that the business case for sustainable practices has been largely made, the pressing task for companies in 2023 is becoming more sustainable with the help of data-based evidence. Companies should prioritise obtaining accurate data about their scope 1, 2, and 3 emissions to understand where emission reductions are possible and most impactful.

Technology and automation tools like the Plan A Platform empower companies to easily gather supply chain information and calculate how their business operations contribute to carbon levels. As many companies continue to collect carbon data at an organisational level, there's an opportunity for future leaders to set an example through leveraging impact-data at a product and service-level as well.

Technology as a future-proof accelerant

There's a direct correlation between implementing new technology and achieving sustainability targets. In a recent Bain survey, 40% of respondents reported using digital technologies to positively impact their sustainability goals.¹⁴ And the advantages don't end there, with technology also an accelerant for a company's journey to net-zero. One study found that within an organisation of approximately 80,000 people, the combination of process automation, sustainable business models, and carbon data transparency could reduce emissions by 45–70%, with carbon data transparency accounting for up to 40% of

that reduction alone.¹⁵ 2023 will see more companies improving their sustainability performance through the use of technologies that improve data transparency. The same technologies also enable cost savings, allowing companies to reduce their energy consumption while allocating more funds towards sustainable growth.



“Without data, you’re just another person with an opinion.”



W. Edwards Deming,
American Engineer

IN PRACTICE

In partnering with Plan A, leading fashion brand GANNI achieved a 44% reduction in materials-related emissions and has set an additional 45% reduction target for 2025. In improving their sustainability performance through collaboration and technology, GANNI is further cementing its status as an industry leader.

Using the technological eco-advantage approach to create a roadmap for the adoption of new technologies (and sustainability as a core value) will vastly accelerate companies' commercial success. Traditional methods can and must be rethought, particularly in the areas of digitised operations, digital product and service design, cloud computing, IoT, blockchain, AI and advanced analytics, data sharing, and ecosystem creation and management.

AVERAGE CO2 REDUCTION

Process optimisation

5–10%

Carbon data transparency

30–40%

Circular products and services

5–10%

Data ecosystems and ventures

5–10%

Source: BCG (2021) “How tech offers a faster path to sustainability”.

06 Regulations shaping sustainability reporting

January 2023 has already seen the implementation of three substantial regulations that will change the way that European companies conduct and report on business. Designed to contribute to the targets set out in the European Green Deal, each regulation expands existing sustainability reporting requirements in an aim to contribute to the goal of becoming carbon neutral by 2050.

European regulations on the rise

The SFDR

Mandatory as of 1 January 2023, the EU's Sustainable Finance Disclosure Regulation (SFDR) is aimed at increasing transparency across the sustainable investment market. At both the entity and product level, it requires comprehensive disclosure across a range of ESG metrics from asset managers and other financial market participants.

The SFAP

A major policy initiative established by the European Commission in 2018, the Sustainable Finance Action Plan (SFAP) aims to promote sustainable investment and growth across the EU. The Commission has since announced renewed strategies that support actions outlined in the European Green Deal, which

focus on redirecting capital from sectors contributing to climate change towards sustainable economic activities and projects.

The EU Taxonomy Regulation

In efforts to further implement the European Green Deal, this taxonomy aims to give a non-financial score on all facets of sustainability while providing a framework to assess whether economic activities qualify as environmentally sustainable. As of 1 January 2023, large European companies are required to publicly report on the degree to which their turnover is aligned with the taxonomy's six environmental objectives.

The CSRD

Entering into force on 5 January 2023 (with reporting standards to be finalised on 30 June 2023), the EU's Corporate Sustainability Reporting Directive (CSRD) now affects close to 50,000 listed companies within EU-regulated markets. Broadening the scope of the existing Non-Financial Reporting Directive (NFRD), the CSRD looks to strengthen ESG reporting regulations and will require more detail on companies' environmental impacts.

For businesses in 2023, these regulations also mean less tolerance and frequency of greenwashing, increased investment in

SMEs demonstrating credible ESG-related performance, and a rise in sustainability-reporting technology and service providers. While adapting to these new regulations will be challenging, the required action is necessary for the sustainable world we all desire. And Plan A's vast reporting capabilities are here to make the shift as seamless as possible.

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DID YOU KNOW?

27% of revenue from the 500 largest US companies and 31% of revenue from the 1,200 largest global companies are generated from activities aligned with the EU Taxonomy for Sustainable Activities.¹⁶

"An economist without knowledge of nature is like a physicist without knowledge of mathematics."



Carl Linnaeus,
Scientist and "Father of Taxonomy"

Conclusion

2023 will witness a great leap for sustainability, and early adopters stand to witness a whole host of long-term commercial benefits. But immediate action is required. In the global effort to create a healthier and more regenerative planet, bottom-up and top-down pressures are mounting, leaving companies with no choice but to become vastly more environmentally conscious and transparent. Businesses, and our planet, cannot afford to wait for others to act first.

In particular, sustainable action in 2023 will be driven by a focus on decarbonisation, the ‘race to net-zero’, ESG as a prominent finance component, shifts towards more resilient

supply chains, new sustainable regulations, and data-based technological innovations that make the rest possible.

The journey towards more sustainable business practices is not without its challenges. Many challenges, in fact. But these are the most essential challenges, and the greatest opportunities, we are likely to see in our lifetime. At Plan A, we often return to the Walter Elliot quote that goes “perseverance is not a long race; it is many short races, one after the other”. The best place to start that series of races? By setting up a decarbonisation strategy that aligns with your business objectives. For that, and much more, Plan A is here to help.

Endnotes

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