

Business level – sustainability initiatives



01

Commitments and ambitions are high

Despite persistent headlines about companies retreating from their sustainability initiatives, our research tells a different story: **More companies than ever are committed to decarbonization.**



02

Setting the table for shared value

The data tells an interesting story about what companies are learning as they execute against Scope 1, 2 and 3 emissions. While strides are being made, **the greatest remaining opportunities are related to engaging and innovating with value chain partners to address Scope 3 emissions.**



03

The recipe for success is becoming clearer

Successful decarbonization hinges on four differentiators:

- i) how an organization **governs** its approach to climate,
- ii) how it **funds** climate initiatives,
- iii) **the effectiveness of its stakeholder engagement**, and
- iv) **the ability to reduce Scope 3 emissions through product sustainability.**



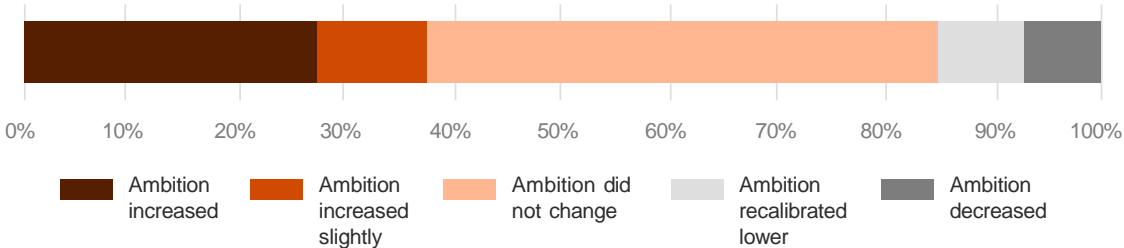
04

The greatest value unlock is yet to come

A key motivator for Scope 3 decarbonization is the revenue and margin growth opportunities that companies are identifying related to **meeting demand for more sustainable products and services**. Many companies are at the beginning of this journey, and the evolution will yield clear winners and losers.

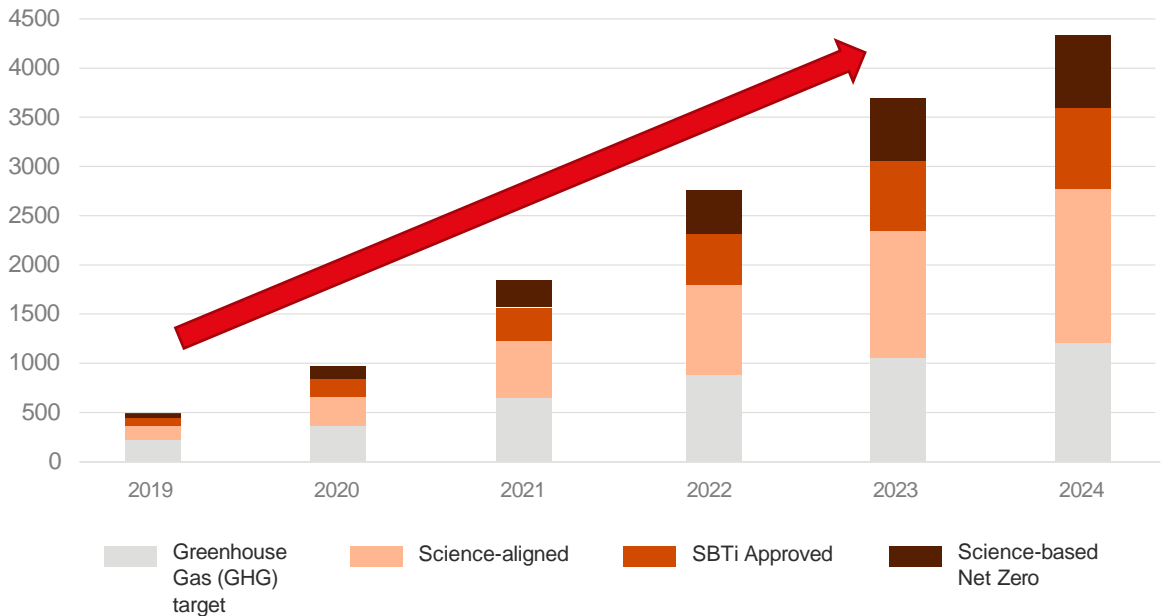
Growth in company decarbonization targets

Year over year growth in ambitions
(% of companies)



Source: PwC analysis, CDP (2024)

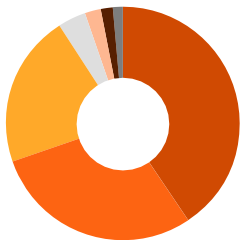
Growth in companies with decarbonization targets
(Cumulative number of companies)



Source: PwC analysis, CDP (2024)

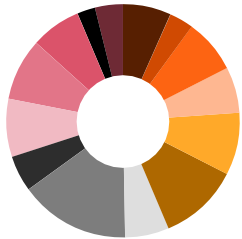
Scope of analysis

The assessment focused on **4,163 public companies** that responded to 2024 questionnaire.



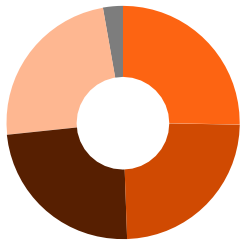
Breakdown of companies by region

- Africa
- Asia
- Europe
- North America
- Middle East
- Oceania
- South America



Breakdown of companies by sector

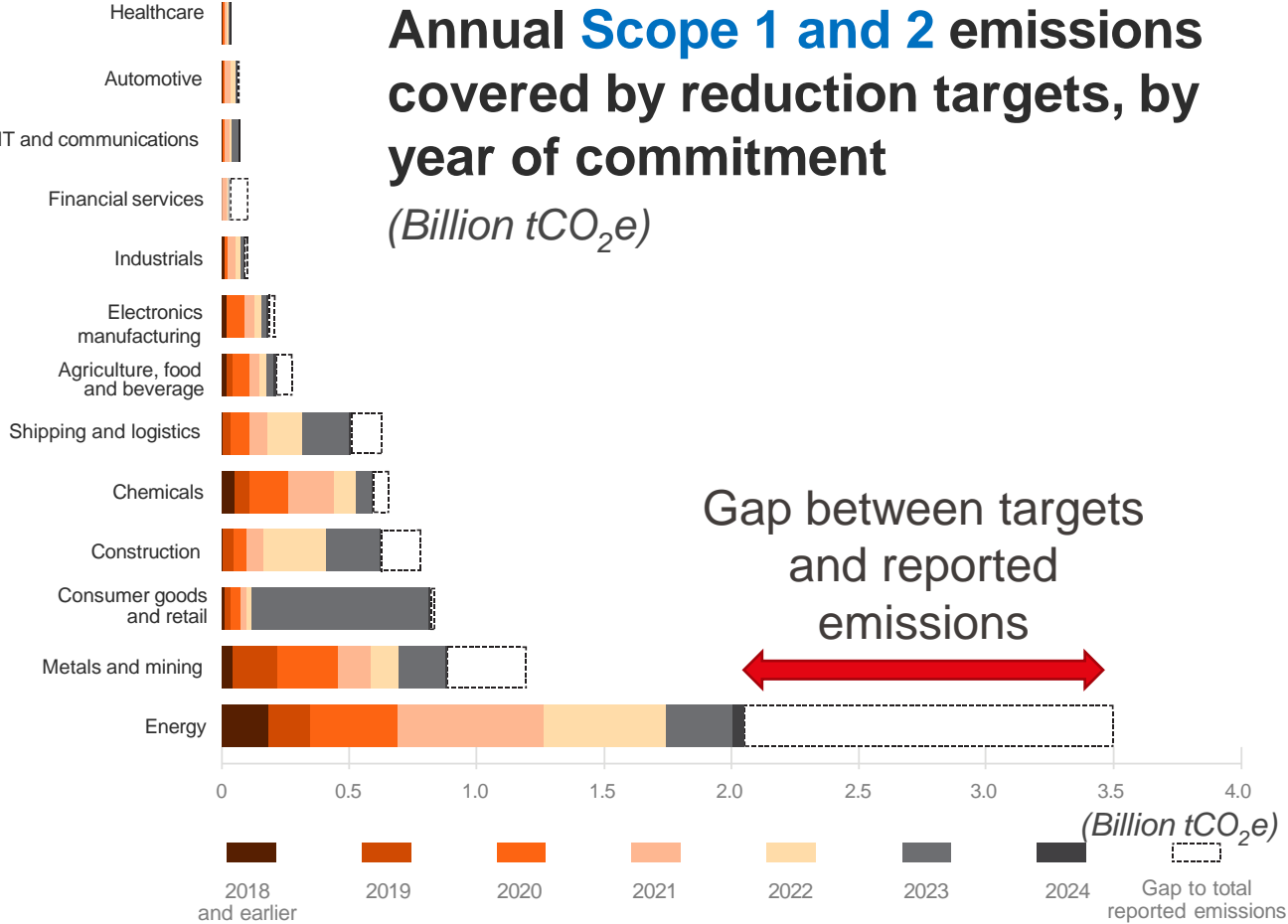
- Agriculture, food and beverage
- Automotive
- Chemicals
- Construction
- Consumer goods and retail
- Electronics manufacturing
- Energy
- Financial services
- Healthcare
- IT and communications
- Metals and mining
- Other
- Shipping and logistics



Breakdown of companies by size

- Very Large (>\$7B)
- Large (\$2B-\$7B)
- Medium (\$500M-\$2B)
- Small (<\$500M)
- No info

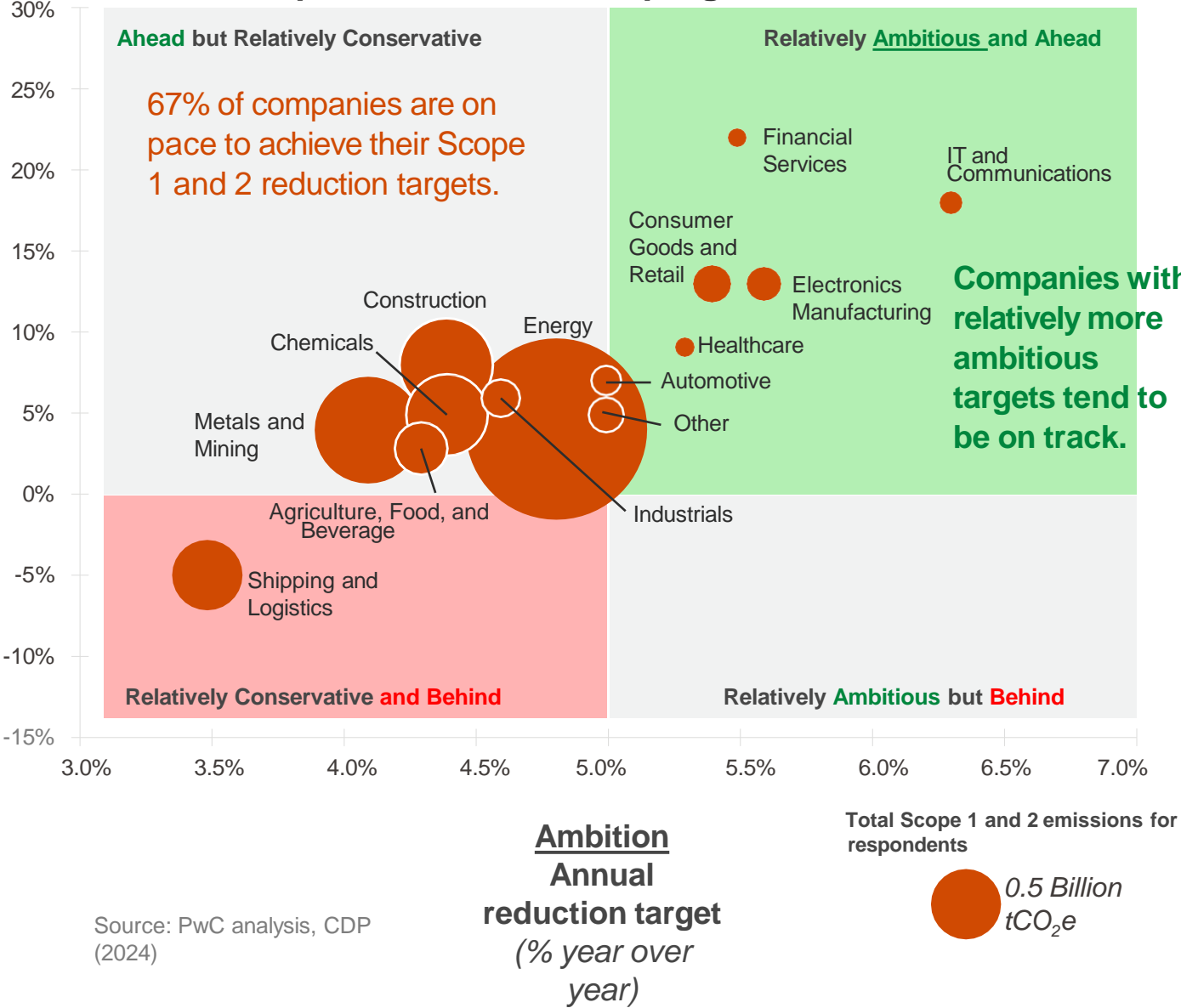
Scope 1&2: Commitments & ambitions



- Targets cover a majority of emissions across all sectors.
- For sectors with lower operational emissions, ranging from healthcare to IT and financial services, **most companies that publicly disclose their emissions have also committed to reducing them.**
- **SC impact:** companies in or supplying these sectors, the pressure is on and having targets is critical.
- However, **target adoption is less common in hard-to abate sectors such as energy, metals and mining and construction.**
 - *But the targets that have been announced still cover over 60% of annual emissions and commitments continue to grow each year.*
- Next steps: **improve target quality**, deeper & more credible abatement commitments **and strategies to deliver on those commitments.**

Scope 1 and 2: Progress vs. Ambition

Scope 1 and 2: Relative progress vs. ambition



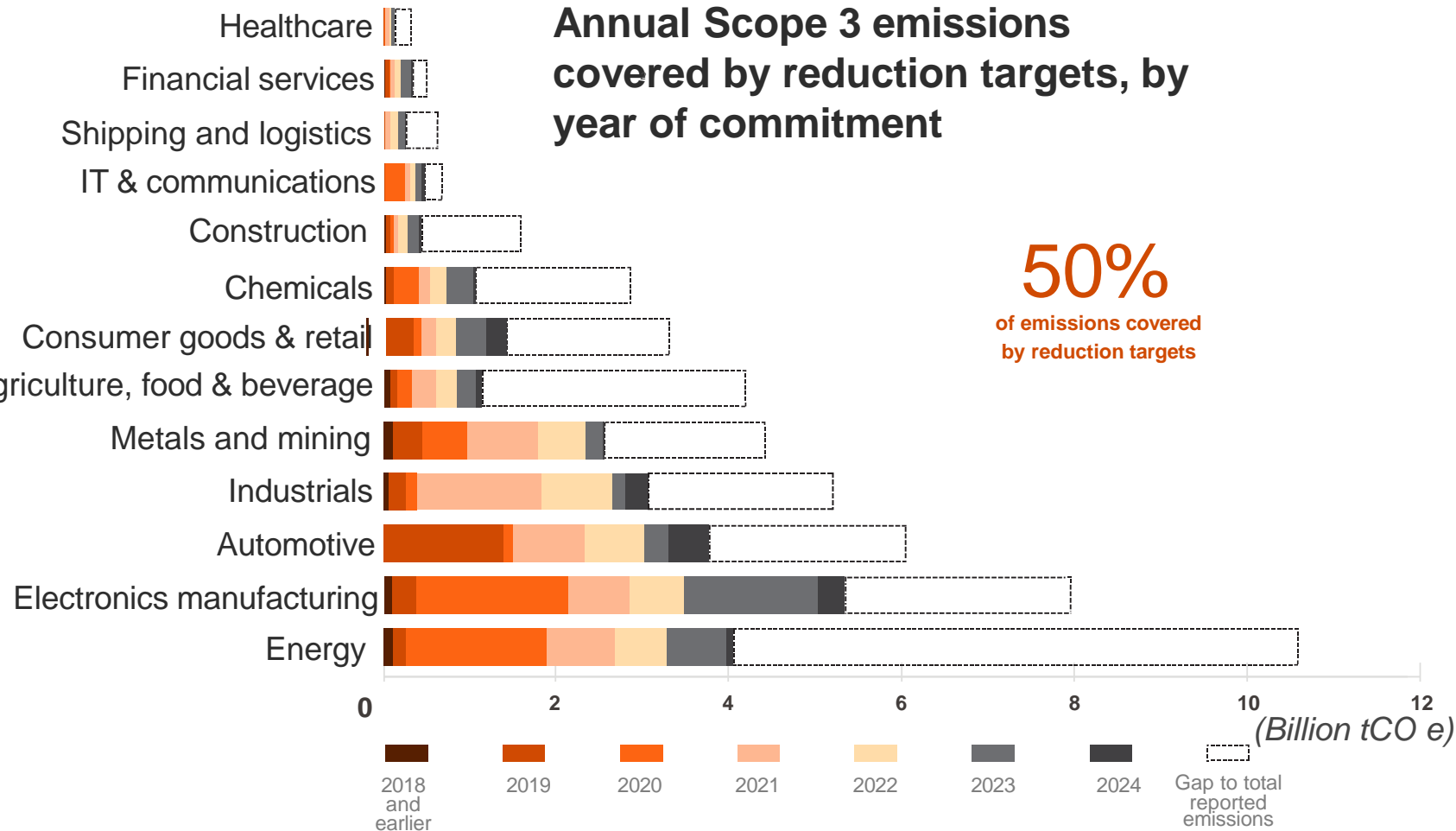
- Companies with relatively more ambitious targets tend to be on track, while those that are taking a more conservative approach are behind their targets.
- The ambition and progression journeys are sector specific.
- Service-based industries like financial services and IT and communications may have an easier path to decarbonizing Scope 1 & 2 emissions since most Scope 2 emissions can be abated by purchasing renewable energy.
- Industries that use a lot of fuels and have high Scope 1 emissions (shipping, logistics or metals and mining) - the path to decarbonization is more challenging.
- Solutions like low carbon fuels can have limited availability and may be cost prohibitive.

Scope 3 *targets* are less common but growing

Annual Scope 3 emissions covered by reduction targets, by year of commitment

50%

of emissions covered by reduction targets



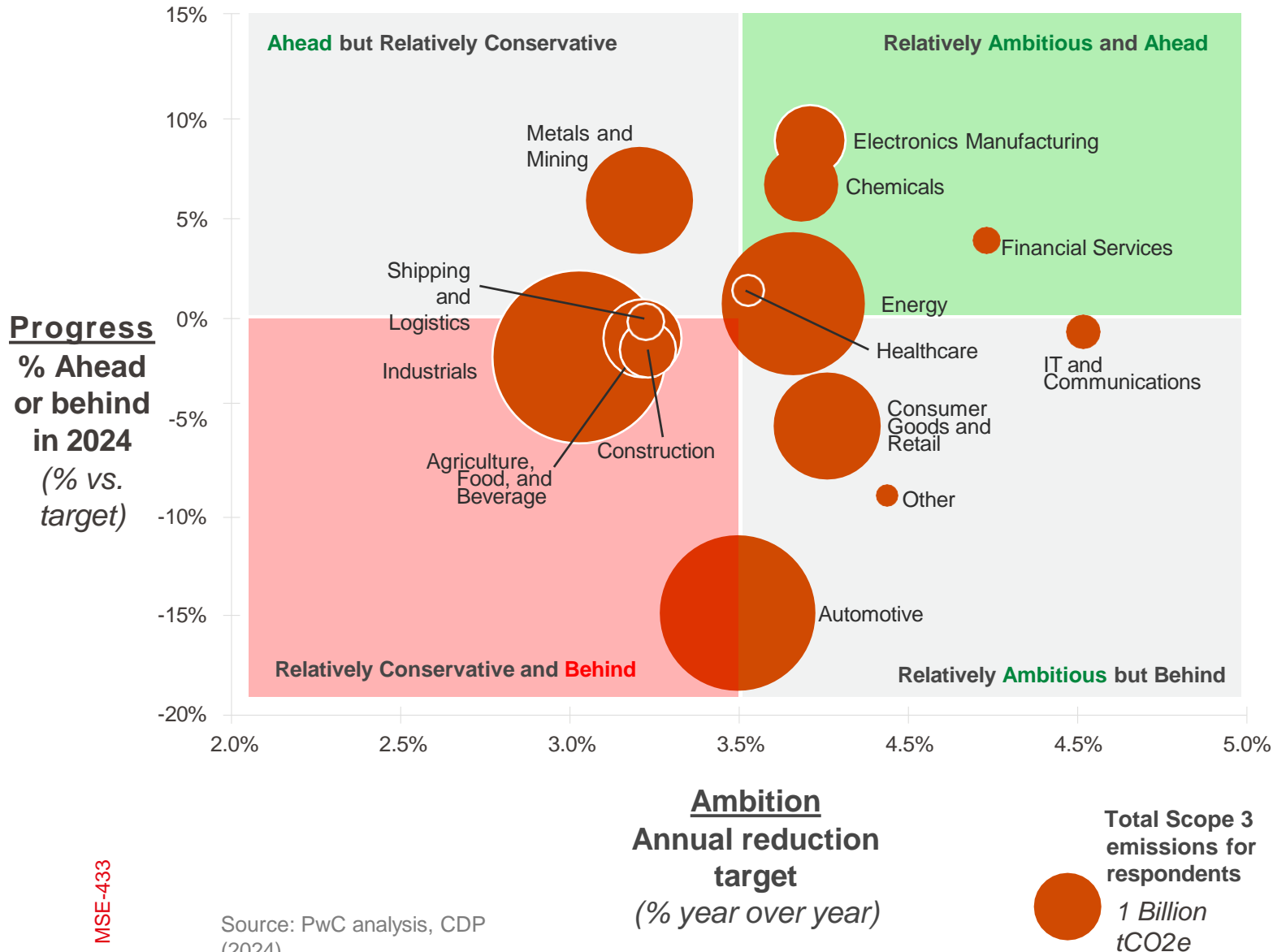
Source: PwC analysis, CDP (2024)

Note: The gap to total reported emissions represents company emissions that are not included under a reduction target. For example, a company that emits 100 tCO₂e with an 80% absolute reduction target has a gap of 20 tCO₂e.

- Emissions in companies' upstream and downstream value chains are much harder to measure, influence and abate.
- Relative proportion of Scope 3 *target coverage* is lower than Scope 1 & 2, Scope 3 targets are much larger and further reaching:
 - Scope 1 & 2 = 6 billion tonnes
 - Scope 3 = 24 billion tonnes**
- When Scope 3 embodied carbon is lowered in a product, often means there is also **less energy and materials needed** for that product **which can translate to lower costs and improved margins.**
- Scope 3 targets and action remain an important focus area** (with the potential to unlock a lot of value for companies and their customers).

Scope 3: Relative progress vs. ambition

Scope 3: Relative progress vs. ambition



- Most companies several years ahead on their Scope 1 & 2 reduction vs. Scope 3.
- **Maturity of supplier and customer engagement programs will grow as companies work to decarbonize their value chains and realize the value of **sustainable innovation**.**
- For sectors like industrials and automotive (92% and 83% of Scope 3 emissions in the use of sold products), progress on Scope 3 will largely depend on their ability to deliver **more sustainable products** to customers.
- *Political headwinds aside*, the automotive sector continues to see double digit annual growth in electric vehicle sales but remains off track as EV adoption has trailed aggressive forecasts.
- The relative lack of overall progress and lower overall ambitions compared to Scope 1 and 2 targets on an annual basis reinforces that **Scope 3 remains an area of great opportunity**.
- **Companies who aggressively pursue Scope 3 reductions stand to build more resilient value chains & capture greater cost savings and revenue upside.**

Percentage of companies engaging with stakeholders



Engagement on the rise

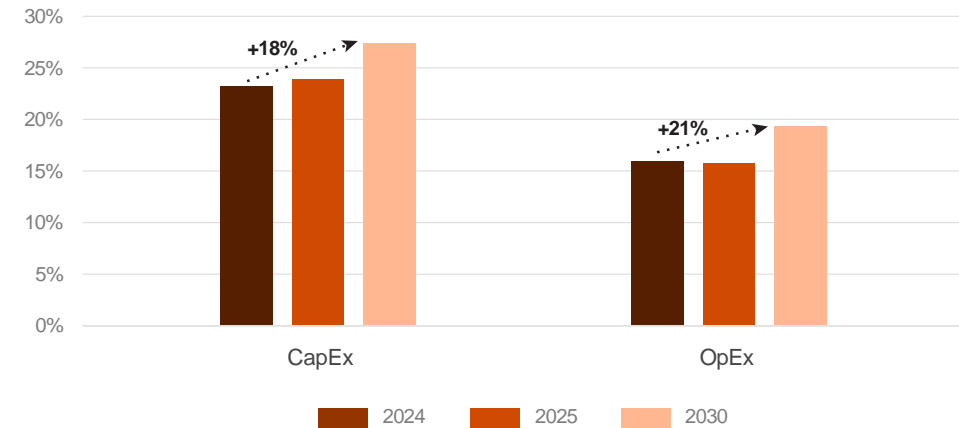
- Businesses recognizing that progress depends on collaboration across the value chain.
- 72% of companies are engaging with their suppliers while 67% are engaging with their customers/clients.
- With suppliers, collaboration can help unlock innovation such as low-carbon materials that enable more sustainable products.
- Engagement with customers helps suppliers better understand their customers' needs which can stimulate ideas that help their customers lower their emissions.
- Companies who engage with both suppliers and customers connecting evolving customer demand with upstream supply chains to drive business growth and decarbonization across the value chain.

Opportunity to improve supplier engagement effectiveness

- While engagement levels are high, analysis shows that companies' engagement practices are still lagging
- Helps explain some struggles companies are experiencing with Scope 3 emissions reductions.
- Leading companies are both incorporating climate commitment requirements into their contractual agreements and actively supporting their suppliers in meeting these targets.
- These companies driving change by facilitating access to renewable energy procurement, offering financing support, or providing certain volume purchase commitments over time.

- Companies expect to allocate a higher portion of capital expenses (18% more) and operating expenses (21% more) to climate mitigation and adaptation by 2030.
- Many organizations find that the typical CapEx planning process and hurdle rates are insufficient for funding decarbonization projects, because they do not account for avoided costs and avoided risks that decarbonization projects can deliver.
- Without considering those benefits, many decarbonization projects have too long of a payback period.
- Leading companies are either implementing an internal cost of carbon to better reflect this value or they are ring-fencing a certain amount of CapEx each year allocated to decarbonization projects.
- The increased investment in climate transition isn't just to achieve operational decarbonization goals – it also funds product innovation.
- **A full 83% of companies report R&D investment in low-carbon products and services.**

Actual and projected OpEx and CapEx % allocated to climate transition



Source: PwC analysis, CDP (2024)

Percentage of companies engaging with stakeholders



Engagement on the rise

- Businesses recognizing that progress depends on collaboration across the value chain.
- 72% of companies are engaging with their suppliers while 67% are engaging with their customers/clients.
- With suppliers, collaboration can help unlock innovation such as low-carbon materials that enable more sustainable products.
- Engagement with customers helps suppliers better understand their customers' needs which can stimulate ideas that help their customers lower their emissions.
- Companies who engage with both suppliers and customers connecting evolving customer demand with upstream supply chains to drive business growth and decarbonization across the value chain.

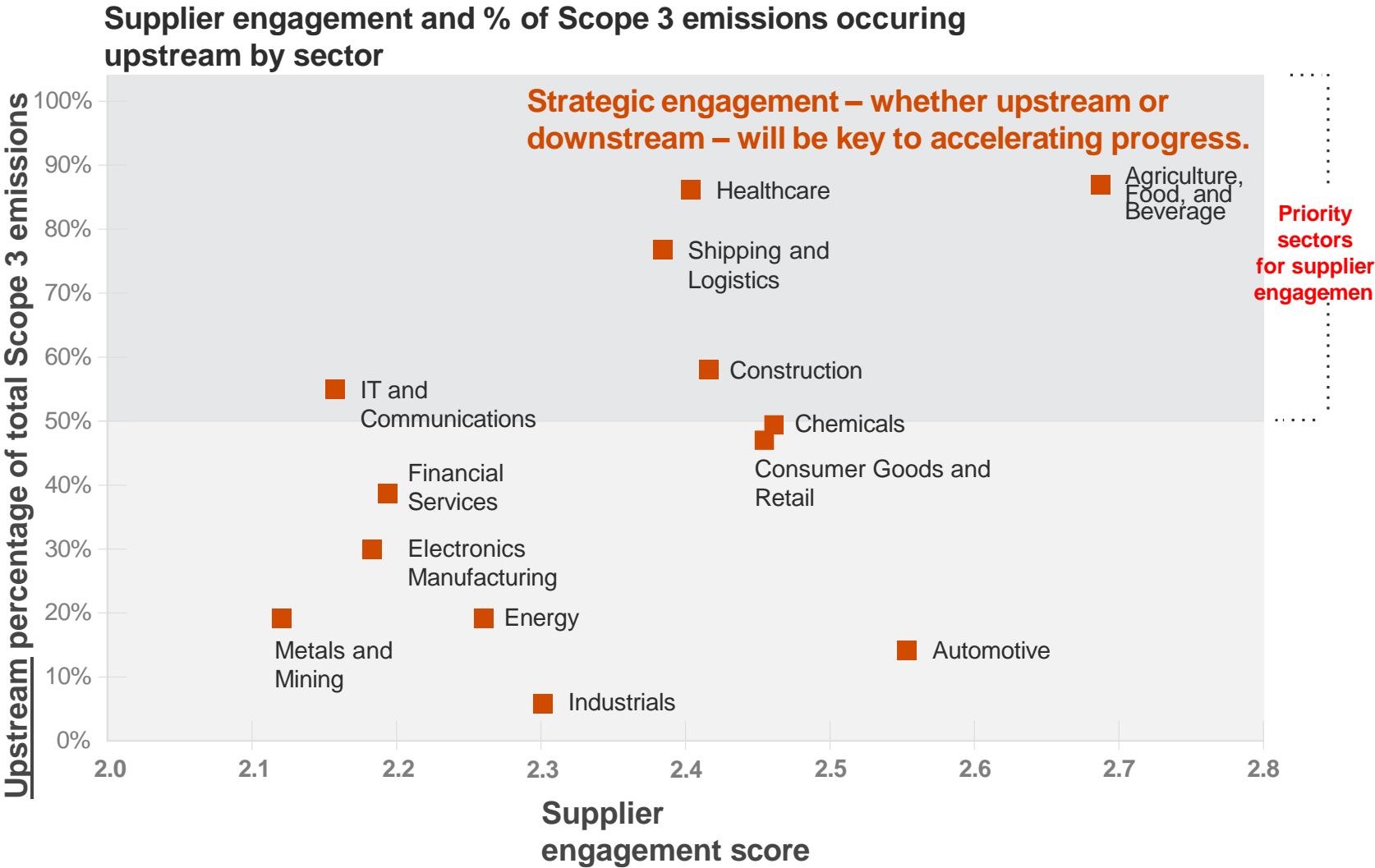
Opportunity to improve supplier engagement effectiveness

- While engagement levels are high, analysis shows that companies' engagement practices are still lagging
- Just 22% of companies scoring a 4 or 5 on the maturity scale.
- This relative lack of maturity helps explain some struggles companies are experiencing with Scope 3 emissions reductions.
- Leading companies are both incorporating climate commitment requirements into their contractual agreements and actively supporting their suppliers in meeting these targets.
- We see these companies driving change by facilitating access to renewable energy procurement, offering financing support, or providing certain volume purchase commitments over time.

Supplier engagement and % of Scope 3 emissions occurring upstream by sector

- Sectors like metals and mining and electronics manufacturing have large downstream emissions, but they have yet to fully tap into stakeholder engagement opportunities.
- Companies monitoring evolving customer expectations can meet the growing demand for more sustainable products (green steel or energy efficient electronics/equip)
- Learn to balance carrots and sticks to drive supplier action upstream
- Also to understanding and helping customers achieve their decarbonization goals downstream
- The winners may engage stakeholders in both directions and drive decarbonization and business growth across the value chain.

MSE-433



Source: PwC analysis, CDP (2024)

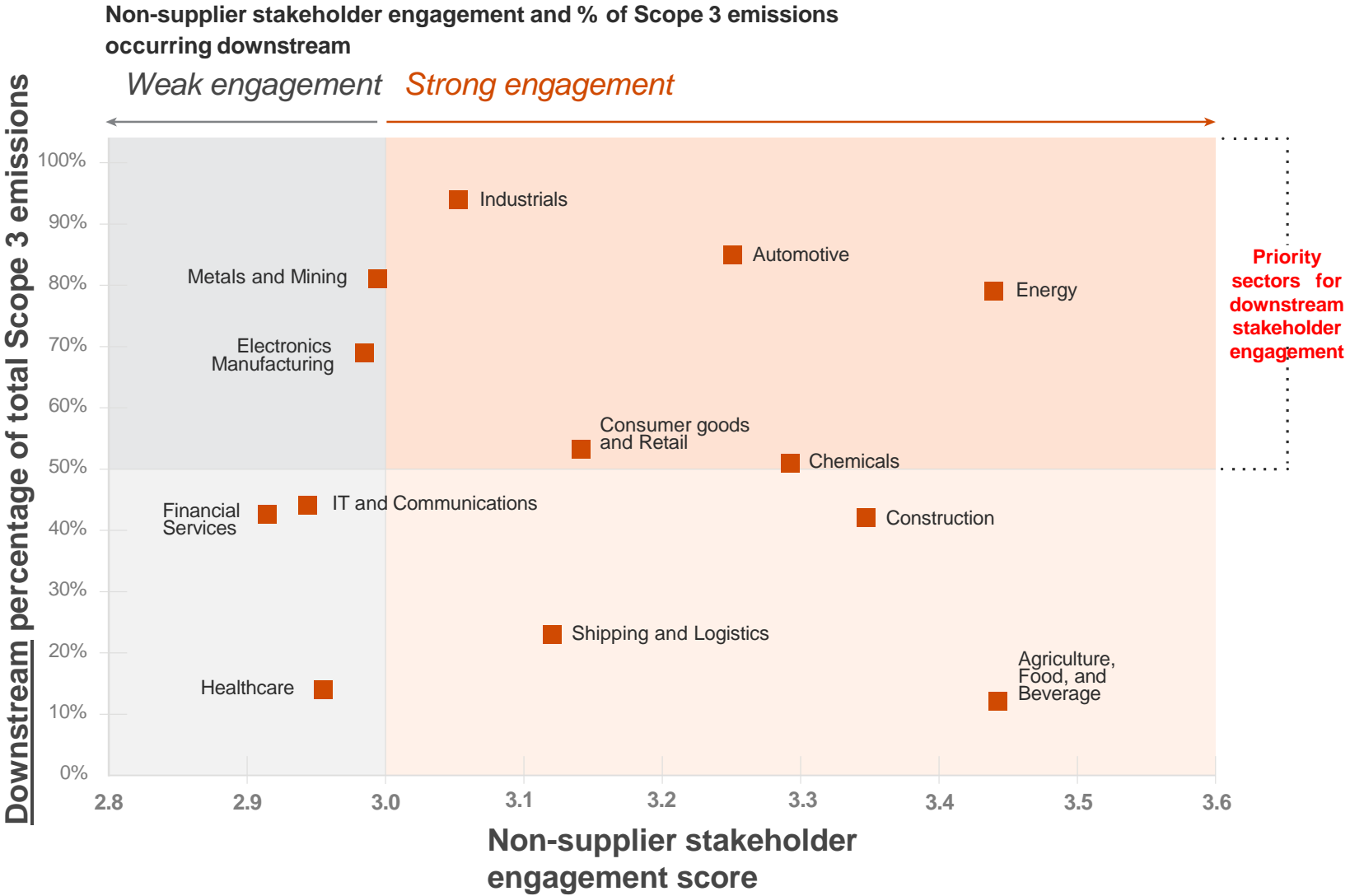
Non-supplier stakeholder engagement & % of Scope 3 emissions occurring downstream

Engagement efforts look different by sector

- For some sectors, more emissions occur downstream than upstream, and therefore, they can realize greater value through downstream stakeholder engagement efforts than upstream supplier engagement.

Stakeholder engagement efforts should be tailored to the company's emissions profile.

- In automotive and energy sectors, >80% of Scope 3 emissions occur downstream (as customers use fuel or electricity to power vehicles, buildings, and equipment).
- To drive decarbonization, companies are engaging non-supplier stakeholders (customers, policymakers, and investors)
- Customer adoption, market demand, and policy can heavily influence decarbonization outcomes and create an opportunity to realize business value.



Source: PwC analysis, CDP (2024)

The quiet momentum turning climate commitments into competitive advantage

- Corporate sustainability initiatives are not slowing down — rather they're **quietly progressing and becoming more rigorous**.
- Despite the noise about corporate backpedaling, more companies than ever, from industry giants to small suppliers, are making climate commitments and holding firm to their goals. And for good reason — there is business value available from climate and decarbonization efforts.
- Progress is being made on reducing Scope 1 and 2 emissions, **the real breakthrough is still ahead with Scope 3**, where **addressing supply chain emissions and prioritizing product and supply chain sustainability can help define a wave of business transformation**.

Examples of business value available from climate and decarbonization efforts

Revenue Growth

- Increased price premium
- Increased market share
- New revenue streams to meet customer demand

Cost Reduction

- Lower energy use
- Less waste generation
- Lower raw material costs via circularity

Risk Reduction

- Higher energy resilience
- Stronger brand resilience
- Lower long-term costs for climate mitigation and adaptation

The quiet momentum turning climate commitments into competitive advantage

- Recipe for success
 - Strong **governance** that integrates sustainability into decision-making and corporate strategy,
 - Consistent **financing** to turn climate commitments into climate action,
 - Extensive **engagement with suppliers** and customers to drive continuous improvements across the value chain, and a
 - Focus on **product innovation** to meet rising customer demand for more sustainable solutions.
- Companies that get this recipe right can reap the rewards
 - Enhancing resilience
 - Strengthening margins
 - Expanding market share
 - Securing long-term competitive advantage.
- Position themselves to not only meet their climate goals
 - Create opportunities to redefine their industries
 - Drive innovation
 - Position themselves as the market leaders of a more sustainable future