Accenture Management Consulting
Podcast Series

Climate Change: Turning Carbon into Competitive Advantage

An interview with Peter Lacy, Head of Sustainability - Europe, Africa and Latin America.

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Hello, I’m Dick Syatt. I’m your host for the Accenture Management Consulting podcast series, and I’m here today with Peter Lacy.

Peter is head of Sustainability practice for Europe, Africa and Latin America. The title of this broadcast is Climate Change, turning carbon into competitive advantage, obviously very timely. And our planet is facing an unprecedented growth in greenhouse gases as a result of human activity, and I thought that would give you a great starting off point.

**Peter Lacy:**

Well, I think that’s absolutely right, Dick. You know, I think what we’ve seen is an incredible growth in carbon emissions and an incredible growth in terms of the carbon content of the atmosphere over the last couple hundred years. We’ve seen the carbon dioxide concentration rise from pre-industrial levels of 280 parts per million to more than 380 parts per million today, and, you know, that’s already beginning to have a significant impact on global temperatures. But I guess that backdrop is almost less important from our perspective than the impact that it’s having on our clients, both in terms of governments, in terms of the way they think through policy and regulation and their own performance, and most dramatically perhaps in the private sector right across industry as we see the shifting regulatory technology and consumer demand issues all playing out to change our clients business context, and also putting increasing pressures on their business models.

**Well, that’s a marvelous segue into the next question, which is, what is the impact on this based on the economic downturn?**

It's very interesting, Dick, because over the last month, month and a half, I've been talking to a lot of chief executives and top executives in global Fortune 500 companies about this issue, and whether or not the downturn is going to change the landscape and
change the real activities that our clients are trying to pursue and to try and drive through their businesses. And what's come back is really interesting because on the one hand we need to be realistic, and our clients are telling us that it is going to change in some way, so we're going to see the disappearance of discretionary spend. And so issues and activities that are not aligned to core business objectives are going to find it very, very difficult in, and are going to find a very rough ride during turbulent economic times. But on the other side of the coin, what our clients are telling us is that the real drivers don't disappear, and that there the imperative for action around climate change and to reduce carbon emissions and to think through the new opportunities in terms of products and services, new markets, ways of differentiating with consumers and with customers is actually even more significant for them. Give you a couple of examples. I think the three things that we're hearing from clients and that we're seeing is a focus on growth. So one of the challenges of the downturn is that growth is very difficult to come by, and many of the areas associated with climate change looking at the supply side in terms of renewable energy, looking at the demand side in terms of energy efficiency, or looking at the growth of areas like carbon capture and sequestration and carbon markets present real growth opportunities for companies. For example, the alternative energy globally, last year we saw about 150 billion dollars of investment, and we saw a hundred billion in terms of global carbon markets, so we really are seeing phenomenal growth in those areas, and that's a growth agenda that our clients want to tap into. Secondly, what the downturn has meant is increased focus on cost reduction. And many smart carbon plays are also smart energy and resource efficient plays, and are driving cost out of the business, so that makes even more sense in a downturn than perhaps at any other time. And then finally, I think what we're seeing is our largest clients trying to get closer to their customer, to really ensure that they are customer centric. And I was talking to a retailer the other day who said that rather than seeing customer demand go down as a result of
the downturn, actually it’s gone up. Now the customer can’t pay for that, they can’t pay differentiated pricing because they’re struggling economically and they’ve got reduced purchasing power, but don’t confuse that for the fact that they’re still prepared to differentiate. So, the real competitive advantage lies for companies that can blend a proposition on cost, on quality, on availability with sustainability as an important tie break issue.

And still take care of the consumer needs.

Absolutely, yeah. So the consumer has a number of different needs and wants all of those needs met, and actually you’ve got to be careful that you don’t look at purchasing power and reduce purchasing power and its impacts on ability to pay differentiated prices. You need to be very careful that you don’t mistake that for a lack of interest and a lack of concern. Companies that really understand that trend and are able to shape propositions that meet those needs and those expectations and desires are going to create a winning combination, not just now as we go through the downturn, but in terms of accelerated growth trajectories when we do see an upturn in a couple of years time.

Peter, we talk about climate change creating competitive advantage. What specific impact does carbon have on Accenture’s client business model?

Well, that’s a great question, Dick. I mean, from what we see from our research and also from our client experiences, that climate change is playing out for our clients in four ways. Firstly, it is an opportunity to drive revenue growth. Carbon is beginning to factor into a number of different industries and playing out in terms of the economics in those industries. That’s presenting opportunities to create new products, new services, to enter new markets, and to differentiate with the customer or with the end consumer. Secondly, climate change and carbon reduction are also aligned with cost reduction through energy efficiency and through resource efficiency. Thirdly, we see carbon
impacting the way our clients think about risk management. That can be both in a regulatory sense as we see a changing policy landscape, or it can be in terms of thinking through physical risk as they think about supply chain planning over time and thinking about issues like changing weather patterns, changing migration patterns, the impact of storm damage. And then finally, then the fourth impact that we’re seeing is an impact on intangible assets, on brand and reputation, that can be both with consumers, but it can also be with regulators and with a broad range of stakeholders, not to mention employee. Let me give you a couple of examples. So, the backdrop to this is that in order to stabilize global greenhouse gas emissions, the U.N. believes that by 2030 we’re going to have to invest globally somewhere in the region of six hundred billion dollars a year, every year. Now, against that backdrop, companies like GE are thinking through what kind of products, what kind of services are really going to be in the ascendancy as we see that shift? And GE, under the banner of its eco imagination suites of product, has created 70 solutions that really gets to the heart of this and help customers industrial scales and manage emissions, as well as water and waste and other sustainability challenges. And last year, GE generated more than seventeen billion dollars in revenue, and actually reportedly had seventy billion dollars in the pipeline in terms of demand. So, we’re seeing major opportunities for our clients. Another example around cost reduction would be Walmart. When Walmart launched its 360 degree sustainability initiative, at the same time it launched a suite of initiatives, including trying to drive packaging down, packaging waste materials down, driving 5% of materials out of packaging, and its prediction was that it would save eleven billion dollars across its supply chain through that initiative. So, we’re seeing again an ability to combine business objectives with sustainability objectives. And so through those four areas, revenue growth through cost reduction through risk management and through driving
intangible assets, we’re seeing significant impact, both on the downside and on the upside for our client’s business models.

In your work, Peter, you also talk about the – very important, the international policy measures being put into place, particularly the European Union, so I’d like to have you comment on that.

Absolutely. So I think that what we still see is some inconsistency in terms of global regulation and policy, that’s clear. We’re seeing the successor treaty to Kyoto currently being negotiated, and we’re seeing posturing as we move towards Copenhagen in 2009, which will be a critical juncture for global regulation in this space. Nevertheless, at the same time, there’s reason to be hopeful for a global deal of some sort post-2012. I think that’s been accelerated, for example, by the developments in the U.S. and the commitment of President Obama or President-Elect Obama to instate a cap and trade system in North America and to invest heavily in this area, committing more than 150 billion dollars over the next 10 years for strategic project. And I guess we’re seeing a shift in attitude in the U.S. that could easily pave the way to a level playing field of some sort in the coming years. And even if we do see it, the global level’s still some uncertainty, we’re seeing increasing clarity at national and regional levels, so in Europe we are seeing the European Union’s target to reduce emissions by 20% by 2020 and 30%, depending on the activities and the progress made by other OECD in advanced economies, really kicking in. So, it’s really both through the European emissions trading scheme, but also through the commitments that are now beginning to filter down to the national level. So in the U.K. over the last few weeks, we’ve seen the Climate Change Bill come into law which will set five year carbon budgets that will run in parallel to the financial budget, and we’ll actually have a mandatory statute for recommitment to carbon reduction of 60% by 2050, which may even rise to 80%, huge reductions in the shift to a
low carbon economy. And for some businesses, that poses enormous risks as literally you see their entire value chain come under pressure, carbon intensive industries, in particular, but for others, that poses the promise of new markets and new demands and new incentives, and actually a real chance to create value as we shift into this new low carbon economy.

And as we wind up this podcast, Peter, Accenture’s climate change offerings, what are those, please?
At the heart of what we’re trying to do at Accenture is both to help our clients to set appropriate strategies, but then also to shift from strategy into execution. So, at the strategy level, we help clients to understand the market trends and the market opportunities that are available to them. We help them to understand the value at stake as a result of regulatory shifts and how to navigate the regulatory space, and a range of other functional strategies that help them turn a climate change in a carbon constrained world into a competitive advantage. Now that might be, for example, thinking through, for example, resources, industries and companies thinking through renewable energy strategies, thinking through carbon capture and sequestration, thinking through demand side plays in terms of shifting to energy, services and energy efficiency plays, smart metering, and smart buildings and smart grids, and these sort of ICT enabled technology. And on the other side, we also see a shift to action that needs to be underpinned by new capabilities. So, once you understand and can measure and manage your carbon footprint, for example, at an organizational level and an operational level, you need to think through what are the different functional capabilities that are required? So, optimizing supply chain, thinking through how to shape network logistics in a way that drives cost and carbon reduction, thinking through sustainable procurement, thinking through research and development for new products that really
help the consumer to drive down their emission, and all underpinned by a far more sophisticated performance measurement and management system that not only tracks key performance indicators around carbon, but actually then measures the relationship and the impact of carbon on value drivers within the business, making this very much a CEO and CFO agenda. And then be able to then translate that into performance objectives right across the organization at business unit level, but also at individual level. So, in a nutshell, it is about helping companies shift from strategy to execution as a part of core business to really create competitive advantage from climate change as we make dramatic shift to a low carbon economy around the world.

Thank you, Peter Lacy, head of sustainability practice for Europe, Africa and Latin America. This wraps up this podcast, and we thank you for listening. We hope you find these insights worthwhile and stimulating. For more information related to the topic in this podcast or to learn how Accenture can help you achieve high performance, visit us on the web at www.accenture.com/global/consulting or email us at consultingpodcasts@accenture.com. I’m Dick Syatt.