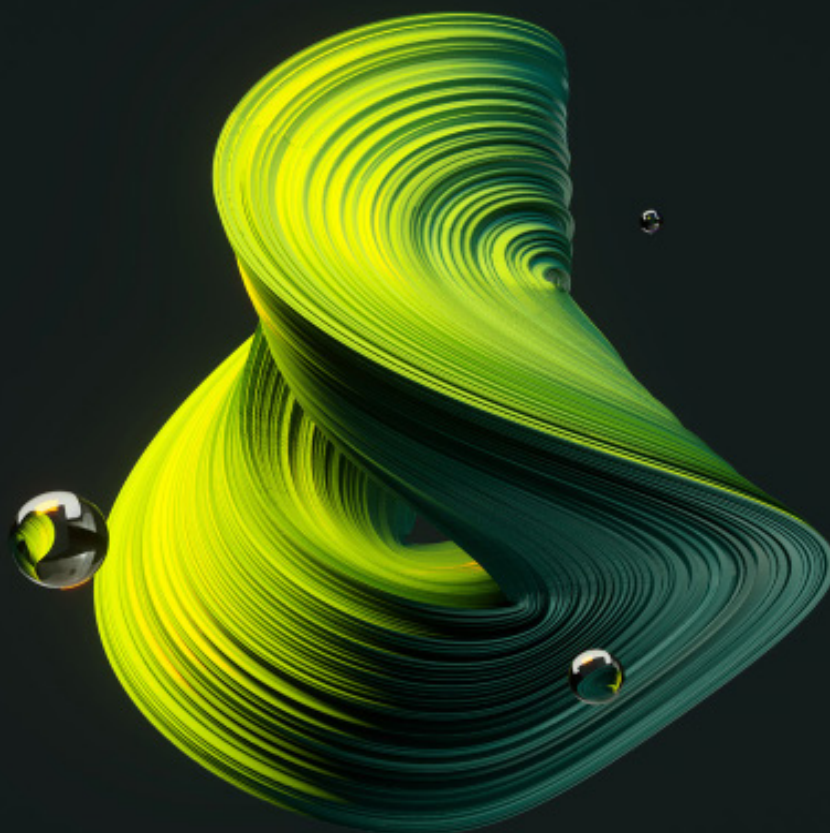


Growth, Marketing & Sales Practice

How green can green growth be?

The transition to net-zero greenhouse-gas emissions will take trillions of dollars and several decades. Here's how B2B leaders can extract maximum value from the journey.

by Sinem Hostetter, Alexander Klei, Georg Winkler, and Eliane Wolf



Key takeaways

- The journey to net zero will create opportunities—and challenges—for B2B companies across many industries.
- Companies need to play offense to not just protect their core business but capture the full value from sustainability.
- Green growth and the creation of business value from sustainability need to be high on the CEO agenda and can be a source of durable competitive advantage.

The moral imperative for business leaders to prioritize sustainability is well established. Companies across the value chain are setting science-based targets, committing significant investments to decarbonize operations, and accelerating these efforts to catch up with increasingly demanding consumer expectations. What's been less clear, however, is the *financial imperative*: How can companies ensure a return is generated on these investments?

It's the one important question leaders can't ignore. Sustainability will fundamentally change B2B industries for decades to come. The transition of the global economy away from fossil fuels to net zero by 2050 could require an average annual investment of approximately \$9 trillion over the next three decades.¹ New value pools will be created; old ones diminished. Business opportunities will arise; non-sustainable businesses may decline. Demand for sustainable materials and ingredients may outstrip supply. The journey to net zero will create opportunities—and challenges—for B2B companies across many industries.

Companies need to play offense on sustainability. They need to go beyond protecting their core business during this transition. Avoiding the risks of stranded assets, higher cost of capital, and revenue slippage is not sufficient. The significant investments in sustainability that are required will need to generate an additional return to make them worthwhile. The success (or failure) of companies' navigation of this transition will largely be driven by their ability to create growth and profitability

from their investments in sustainability.² This won't just impact a product line or business unit. A wide variety of stakeholders will be affected in significant ways, from investors, employees, and suppliers at the company level and, ultimately, to customers and society as a whole. We believe sustainability is not only the right thing to do for the planet, but that actions advancing it can also be a source of durable competitive advantage.

Starting from the C-suite, leaders will need to make bold strategic decisions on a time horizon well beyond what's typical. This article sets out the critical questions leaders must ask as they embark on or continue this journey. The bottom line? Making sustainability a driver of growth requires deep thinking and hands-on involvement, as well as the agility to adjust quickly as the playing field evolves.

Six parts of green growth

For an example of doing what's right for the planet while also advancing the bottom line, consider the case of chemicals companies. Our research shows that those with more biological, recyclable, or low-carbon products perform better than their peers on the capital markets, achieving significantly higher total return to shareholders (TRS) (exhibit).³

While TRS is not a good measure of holistic sustainable impact, it's a sign of good economic performance: healthy margins and growth. They're the measures B2B companies will need to deliver on as more and more make investments to reduce Scope 1, 2, and 3 greenhouse-gas emissions through measures such as changing feedstocks,

¹ "The net-zero transition: What it would cost, what it could bring," McKinsey Global Institute, January 2022.

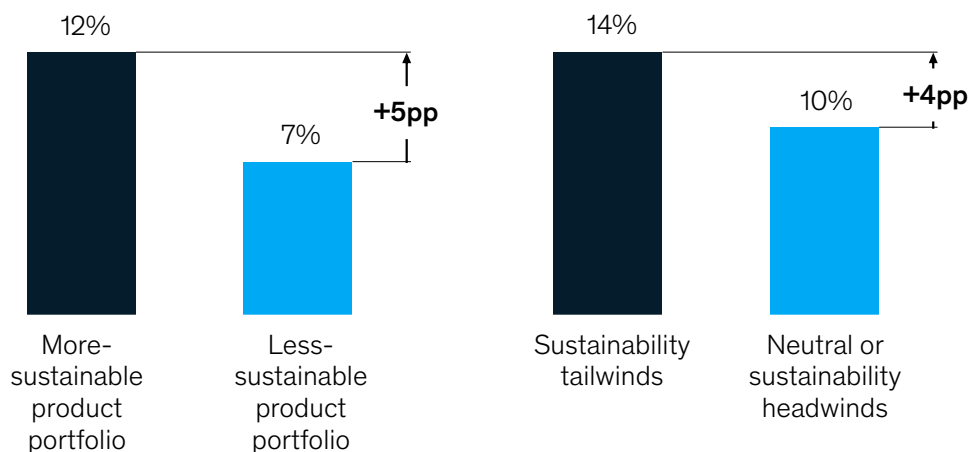
² Michael Birshan, Stefan Helmcke, Sean Kane, Anna Moore, and Tomas Nauclér, "Playing offense to create value in the net-zero transition," *McKinsey Quarterly*, April 13, 2022.

³ Obi Ezekoye, Hugues Lavandier, Chantal Lorbeer, Werner Rehm, and Jeremy Wallach, "Chemicals and capital markets: Growing sustainably," McKinsey, April 22, 2022.

Exhibit

Among chemicals companies, sustainability is directly linked to financial performance.

Total return to shareholders, CAGR 2016–20



Source: CapitalIQ, CPA

sourcing cleaner energy, lowering direct furnace emission, and building recycling capacity.⁴ So how can B2B companies capture the commercial potential of sustainability? Based on our industry understanding and our work with leading B2B companies across the globe, we believe it requires getting six things right.

1. Segment your customers and products

What are the most attractive value pools based on where you can have sustainability impact and there is a willingness to pay? Organizations need to look at their carbon footprint through the eyes of their customers—and their customers' customers—to understand where they could create value through decarbonization and other ESG improvements within different value chains. Is the required cost for decarbonization lower than the additional customers' willingness to pay? How will demand develop? How will product supply ramp up? If attractive premiums and volumes can be captured from a certain value pool, it is probably an area that should be prioritized for development. But if the

sustainability impact is low, costs are high, and customers are not willing to pay, then it's probably not an area to focus on first.

While there is overall demand for green products, there is also a lack of market clarity on what's being demanded, what the value drivers are, and how carbon and sustainability attributes are defined. In addition to speaking with customers to understand exactly what they want, there are other steps first movers might take to define the first scalable market offer.

Key questions leaders should ask themselves:

- What are the key value pools we need to address in which end markets? Where is the highest pressure, from either customers or regulators, to adopt a greener growth model?
- Where can we have a positive impact on Scope 3 emissions and the cost of the end product in those value chains? What will be the product volume requirements in 2030?

⁴ As defined by the GHG Protocol Corporate Standard, Scope 1 greenhouse-gas emissions are direct emissions from company-owned or -controlled sources. Scope 2 covers indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in a company's value chain, both upstream and downstream.

- What customer segments are likely to have the highest willingness to pay? What price premiums will be achievable?
- What's the right balance in the product portfolio to improve sustainability and at which point in time?

A global technology provider sought to help existing information- and communications-technology customers, as well as new customers in energy, manufacturing, transport, and agriculture, to decarbonize. By focusing on answers to the above key questions, the company was able to identify ways they could help clients reduce emissions by more than 150 million tons and create \$50 billion worth of value pools.

2. Define your go-to-market strategy

After determining the right products and markets on which to focus, it's critical to pinpoint the right market segments based on customer needs and characteristics. That makes it possible to formulate the right value proposition and the best channel to approach each customer segment. Across B2B industries, negotiations and sales happen at a senior level, sometimes involving CEOs on both sides. Deals may differ significantly, spanning longer time frames, volumes, and margin-price commitments. It's important to determine which customers should be approached, with what offerings, and in which channels. A green go-to-market (GTM) strategy also entails thinking beyond the short-term, as providing wider services related to your product and ecosystem is important to creating the new market and infrastructure necessary to grow the business.

Key questions leaders should ask themselves:

- What are the pain points and needs of the different customer segments for the targeted product/technology/service category, and which customers should be prioritized based on our ability to address them?
- How should we tailor our offering to address customer needs? Do we need a product, service, or a holistic ecosystem offering?
- What should be our initial go-to-market strategy versus our long-term, sustainable omnichannel structure, to bring the right offerings to the

right customers in the right way, leveraging the right channels or right partnerships in the ecosystem?

One global industrial machinery provider assessed its portfolio for products and solutions that could help customers achieve their decarbonization targets. Through deep understanding of different customer segments' needs, the company was able to create a new product and solution that helped previously unaddressed segments to decarbonize. Quickly learning that these customers were less experienced with the topic and required end-to-end support, the company incorporated value-added services and support to its product offering. Today, it has a sales and market playbook to easily target the right channels and niches to maximize adoption of its novel products, enabling it to enter and create new sustainability markets globally.

3. Price intelligently

From our work across various B2B industries, we see anecdotal evidence that premiums can be achieved. But the willingness of customers to pay a premium varies by segment and is constantly changing. In addition, premiums today are not necessarily a good indicator of what they may be in 2030, for instance, and that's the investment horizon executive teams are evaluating.

Companies need to be able to develop a longer-term perspective on achievable prices and margins. Success in the long term requires a detailed understanding of how different demand-supply scenarios may play out, how regulations may impact that, and what will drive consumers' willingness to pay. At the same time, companies should define the optimal commercial model with a customized approach, such as cocreation partnerships, contracting strategy, and pricing metrics linked to sustainability, before looking at how to set prices by segment as they bring products to market. That may mean at times creating bilateral contracts specific to each transaction.

Key questions leaders should ask themselves:

- What should be our overarching pricing strategy, taking into consideration projected supply-demand balance, the competitive

situation, current business position, and our overall growth ambition?

- What's the right commercial model to align incentives and strengthen relationships, with pricing linked to the right metrics (for example, energy savings or carbon reduction)?
- How can we segment addressable customers according to the value they are likely to place on sustainability and craft commercial offers reflecting the green value we could deliver, given our customers' exposure to regulation, end-consumer preferences, investors' environmental, social, and governance (ESG) considerations, and stated corporate ESG priorities?
- Which infrastructure and capabilities are required to enable the pricing process (for example, green-impact tracking tools or pricing-recommendation engines; strategic pricing and negotiation capabilities)?

One producer of biodegradable plastic resins adopted a successful commercialization strategy based on forming co-development partnerships with large, multinational customers. It approached select consumer-packaged-goods companies (CPGs) that had already demonstrated corporate commitments to sustainability, enlisting them to cofund research and development (R&D) initiatives with multiyear scale-up plans to move away from virgin plastic. Contracts with the CPGs are based on take-or-pay volume commitments in order to de-risk the resin producer's investments in research and production and ensure that all volumes result in sales.

4. Elevate your branding

Each of the steps to this point—from understanding the key value pools to address with your portfolio to developing a GTM and pricing strategy—aims to identify and deliver specific value. Branding, often perceived as a softer topic in B2B, needs to be equally specific and value-creation focused. With demand for greater sustainability only intensifying, the best companies ensure their efforts are clearly communicated by balancing science (a fact-based understanding of all stakeholders needs), art (the articulation of differentiated positioning and

compelling narrative), and craft (the seamless delivery of the promise through communication as well as across all touchpoints).

A state-of-the-art branding strategy should embrace the topic of sustainability and help activate it, anchored in the principle that sustainability is a source of durable competitive advantage and the fact that brands need to focus on issues that matter most to stakeholders. Done right, branding can not only drive a company's overall valuation and support by capturing the value created by its sustainable offerings; it can also drive additional benefits, such as attracting and retaining the right talent.

Key questions leaders should ask themselves:

- How do customers currently perceive our sustainability positioning against our competitors' and against our strategic aspiration?
- How can we articulate a compelling narrative and sustainability story that becomes the basis for our communication?
- How do we make sure the narrative and positioning are translated across all stakeholder touchpoints?
- What are the concrete actions that bring our brand to life? Do we need a separate brand for our sustainable products or do we change our entire company's branding?

One area where leaders can look for inspiration is the utility sector, where companies were confronted several years ago with the need to transform toward a more sustainability-focused business model supported by the brand. One regional utility company found itself under significant pressure. As a large operator of more traditional carbon-emitting power plants, it was perceived as a heavy polluter, even though it was making significant investments in reliable, future-oriented, efficient technologies. Stakeholders, especially customers and consumers, had no sense of the brand's new promise, which was overshadowed by perceptions of the legacy brand. The company

took a radical approach, creating a new brand and new company comprising its sustainable operations. The valuation of this new business was double that of the existing business, exceeding internal expectations by 20 percent.

5. Flex new-business-building capabilities

Achieving the level of impact at the pace required might also mean that today's business models alone won't be enough. Corporations across industries such as oil and gas, chemicals, and other advanced industries may have the scale to operationalize green initiatives, but many need to build the muscle to generate and execute disruptive ideas by building brand-new businesses. Our research shows that 60 percent of companies have business building as a top-three priority, and more than 90 percent of new businesses are focused on sustainability. Building new businesses at scale and at speed requires a different mindset and additional skill sets, from identifying new problems generated by discontinuities between the legacy approach and new businesses, defining new models to address them, creating practical scaling plans that move fast and mitigate risk, and deploying agile governance, funding, and execution approaches that beat the competition's.

Key questions leaders should ask themselves:

- What's the full potential of the new-business idea, and do the underlying assumptions of the business model's success take into account the greater stakeholder ecosystem and complexities of sustainability (for example, funding, carbon taxes, public interest groups)?
- How can the new business be built from scratch or fast-tracked through targeted acquisitions?
- How can the new business be scaled exponentially to accelerate return on investment by branching into adjacent growth areas?

A leading oil and gas company investing in new energy and technology start-ups had limited experience in how to scale and create synergies in its primary operations. Within a year, it developed a new-business and scale-up factory, located in a

separate office with a joint cross-functional team. The company implemented a rigorous governance model inspired by the venture capital sector and hired a team comprising leading start-up, digital, and corporate talent. Since launching in 2020, it set a target of creating five \$1 billion businesses within the first five years.

6. Upskill, and develop the right capabilities

Generating value from green products is a new ball game. It depends on cross-functional expertise far beyond the front line of sales, marketing, and R&D, spanning the entire organization and including commercial excellence, pricing, strategy, procurement, operations, and supply chain. This complexity calls for comprehensive capability building on ESG topics and supporting assets. These might include carbon-footprint calculation, or carbon-accounting and -tracking systems that enable sharing of products' CO₂ footprint with customers to highlight green value, or regulation-scanning capabilities to stay ahead of regulatory developments.

Key questions leaders should ask themselves:

- What capabilities are required throughout the organization to deliver on our sustainability ambition?
- Do we have the right talent within the organization, or do we need to train or hire?
- What infrastructure and tools should we obtain or develop to support the new capabilities?

An additional advantage of sustainability-focused organizations is they are typically better able to attract and retain top talent. Our research shows that purpose-driven organizations drive employee loyalty and reduce turnover by 25 to 50 percent.⁵

The path forward

If B2B companies are to come out ahead in the race for a leading position in new sustainability markets, investments on the manufacturing side need to be complemented by a commercial approach that makes sustainability a driver for green growth. Doing so calls for more than just commercial

⁵ Aaron De Smet, Bonnie Dowling, Marino Mugayar-Baldocchi, and Bill Schaninger, "Gone for now, or gone for good? How to play the new talent game and win back workers," *McKinsey Quarterly*, March 9, 2022.

acumen. It requires deep understanding of the relevant value chains, cross-functional and cross-organizational thinking, rapid execution—and new levels of agility and flexibility in an environment where the rules are being written after the game has started.

That's why we believe green growth and the creation of business value from sustainability need to be high on the CEO agenda and have the direct attention of top management. This doesn't mean bypassing or undervaluing commercial

teams' expertise and work—quite the contrary. Portfolio strategies first need to be defined and operationalized. Then, GTM approaches need to be designed, pricing and margin management for new offerings developed, branding and marketing strategies devised, and even entirely new businesses need to be built—and it all needs to be supported by new tools, systems, capabilities, organizational structures, and processes. It's a daunting list, but worth the effort to ensure organizations successfully navigate the transition to net-zero.

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