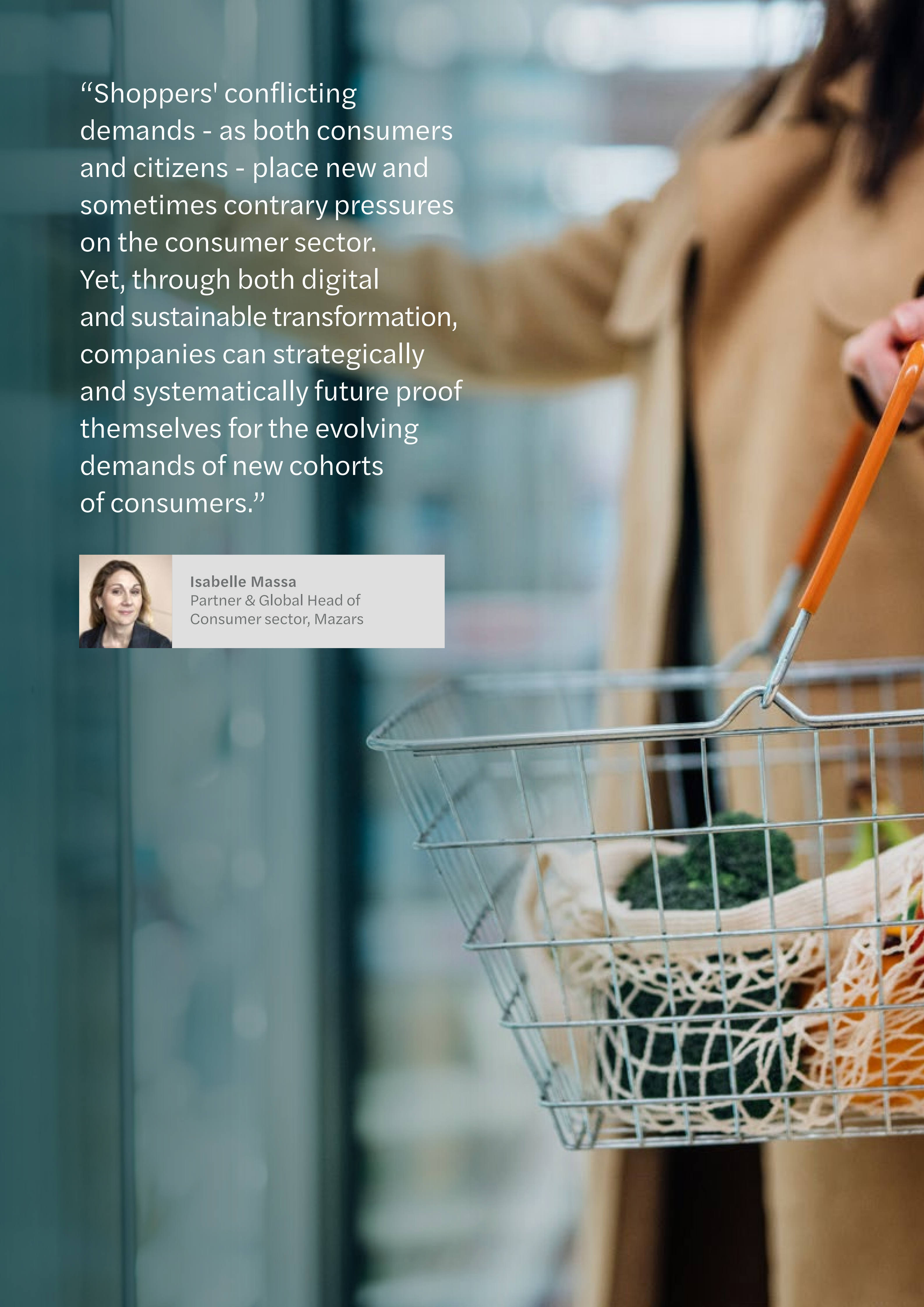
Sustainable, smart, and synchronised:
using technology to accelerate the ESG transition in the consumer sector

mazars

Contents



"Shoppers' conflicting demands - as both consumers and citizens - place new and sometimes contrary pressures on the consumer sector. Yet, through both digital and sustainable transformation, companies can strategically and systematically future proof themselves for the evolving demands of new cohorts of consumers."

Isabelle Massa
Partner & Global Head of
Consumer sector, Mazars

Foreword

Isabelle Massa
Partner & Global Head of Consumer sector, Mazars

The consumer sector has been in the midst of a radical transformation for some years now, and this transformation is accelerating, with technology, innovation, and the requirements of new markets driving the change.

Business models across the sector have shifted, as companies adapt to a new, multi-channel world, rather than simply putting physical products on store shelves.

At the same time, shoppers' conflicting demands – as both consumers and citizens – are placing new and sometimes contrary pressures on the sector. As citizens, they vote for regulation on sustainable products and services, and urge companies to organise their value chains accordingly. But as consumers, they seek greater convenience and speed, necessitating faster delivery and resource-intensive last mile delivery systems. As citizens, they want more sustainable packaging, or less packaging altogether. But as consumers, they want safely packaged perishables and beautiful product presentation. As citizens, they hope for data privacy and look for companies they can trust with their data. But as consumers, they also appreciate personalised, algorithm-driven recommendations and one-click purchasing.

Employees, regulators, and investors are also pushing consumer companies towards improved environmental, social and governance (ESG) performance. Operationally, that includes issues around the environmental footprint of a product: inputs, transportation, logistics, packaging, waste, and energy. On the social front, it includes concerns about exploitation, wages, and modern slavery. The impact of ESG on the consumer sector brings new strategic choices, each with their own opportunities and challenges. This is the point at which the sector finds itself today.

It is worth noting that most consumer companies are already engaging with digital technology, such as using data to rethink value chains or leveraging AI to gain efficiencies. In fact, digital transformation, and the need for ESG transformation complement each other. Some of our clients curb emissions and improve their transport logistics with digital tools, or reduce waste by manufacturing products on-demand.

Elsewhere, technology is at the heart of new platforms and business model innovations. Digital second hand-fashion platforms like The RealReal, Vestiaire Collective, and Vinted not only facilitate reuse, but their search and purchase data can reveal emerging fashion trends, and help companies understand and engage with consumers, sometimes even shifting consumer behaviour in real time via social-media and social-commerce technologies. Distributed ledgers like blockchain can support verification of luxury goods' authenticity and improve the traceability of materials. Fashion designer Hugo Boss uses 3D software to create digital prototypes of products rather than producing physical samples, speeding up the design process and eliminating waste.

In light of these trends, how can consumer companies strategically and systematically future proof themselves for the evolving, often contrary demands of new cohorts of consumers? Our report offers a way forward. It provides actionable guidance on how companies can rethink their core offerings and become more attractive in the emerging demand environment with the help of technology.

At Mazars, it is our sincere belief that companies which adhere to our advice will put themselves in the best position for the wave of change in the years to come. It is, in other words, a guide to acting now for what's next.

Mature markets are experiencing a shift in consumer demand patterns as consumers move towards consumer products consistent with environmental, social, and governance goals.

Alongside this, technology will continue to enable companies to reimagine products and processes, facilitate new business models, and leverage new operational efficiencies.

What does this mean for consumer companies? For the foreseeable, they will face growing pressure to improve their sustainability performance as demand shifts. These shifts may occur along generational lines: across emerging and mature markets, millennials are more likely than older generations to say they will choose sustainable alternatives when available. Yet, demands from consumers and citizens can be complex and contrary – such as the demand for greater sustainability, but also for greater convenience and choice. Large consumer companies are obliged to navigate between them.

The legal landscape is tightening ESG requirements across various territories. Investors are increasingly wary of ESG risk exposure and keen to uncover new opportunities. Pressure to demonstrate ESG performance is also coming from employees, applicants, competitors, and sometimes from business leaders themselves.

Similarly, consumer companies clearly recognise the need for technology transformation. Mazars' recent C-suite barometer [1] found that over 70% of consumer sector executives said that it was 'essential' or 'very important' for their organisation to understand and exploit automation, machine learning/artificial intelligence, and big data. E-commerce demand is a key driver of change. The pressure to digitise is particularly acute in some regions, such as for Chinese firms whose customer base is rapidly adopting social commerce and digital payments. However, the use of such technologies brings conflicts and trade-offs, such as balancing the competing demands from consumers for personalisation and privacy, and between the demand for convenience and human interaction.

To adapt to these complex demands and be future-ready, more consumer companies will shift to business models that are synchronised, integrating technology and sustainability. To succeed in the emerging demand environment, they will also benefit from leveraging digitalisation to completely reimagine products and processes, unlock operational efficiencies, and facilitate models that encourage reuse, rental, and resale, among others.

Companies that change and harness the power of technology as an enabler for ESG purposes will thrive.

The initial steps for consumer companies are strategic: embrace the need for business transformation, for example, by mapping out the risks and opportunities of ESG. Companies can then set up a baseline against which to measure progress, and data collection systems to help identify and prioritise key areas for competitive advantage. That means collecting data on relevant metrics such as impact on biodiversity, labour rights in the supply chain, or employee age or diversity demographics.

Then, leaders can draw on data-driven insights to create a cohesive strategy that encompasses both sustainability and business objectives, and rally boards and other stakeholders around a vision for a sustainable future. It is mission-critical that businesses act fast. To accelerate transformation, companies must measure and optimise ESG performance and leverage technology to do so.

The remaining steps are tactical. Companies must build the right mix of talent and skills in the business, whether through recruitment, training for existing employees, leadership, and board members, or improving diversity. This is especially important at board level. Leadership teams with a variety of experience will find it easier to envision products and services that will meet modern consumer demands.

Many of the changes needed cannot be achieved by a single company alone. Setting up mechanisms to collaborate is a key step, such as working with suppliers to improve efficiency and ESG outcomes or pooling resources with other companies to guide them on collecting and delivering this data, reducing the burden of compliance on each supplier. Once progress is underway towards building the new version of the company, success is a question of retaining motivation, momentum, and accountability.

Responding to the challenges of shifting patterns of demand will require transformative action. The challenges may be radical, but the methods are familiar and the solutions achievable. Together, consumer companies can use technology to transform and thrive in the new era.

70%

of consumer sector executives said that it was ‘essential’ or ‘very important’ for their organisation to understand and exploit automation, machine learning/artificial intelligence, and big data. [1]


New Arrivals

Introduction

The adage 'the customer is always right' is a staple in the consumer sector. But consumer demands are always shifting, and their behaviours, aspirations, and desires can take consumer companies by surprise.

In June 2023, Instant Brands, the maker of electric multi-cookers that were a pandemic standby in kitchens around the world, went bankrupt when demand slumped and its supply chain could not adapt.

Global trends and macroeconomic pressures are also in flux. In recent years, the consumer sector has been buffeted by pressures such as inflation, geopolitical conflict, regulatory change, and a pandemic-fuelled spike in e-commerce, to name but a few. To ride out these disruptions, consumer companies have shifted to new business models, sales channels, and ways of engaging with consumers.

Such as, how can companies shore up their resilience and place themselves in a position to thrive? Responding to the challenges of the coming decades will require truly transformative action. If current trends persist, the largest, most powerful, and most influential consumer groups of the future will demand goods and services closely aligned with environmental, social, and governance (ESG) goals. A majority of the public across all regions believes that climate change is a public emergency,[2] driving growth in purpose-driven consumption that is reshaping many consumer markets. As the salience of these issues increases across regions and demo-graphics,[3] consumers' climate-consciousness is likely to accelerate - and demand can shift remarkably fast.

In light of this, they will consume through digital channels and experiences, which in turn may alter their behaviour.

Many companies may point to the start they have made in setting emissions reduction targets, human rights due diligence, and other ESG measures. Indeed, some have made great strides in harnessing technology for ESG and other goals: reporting on their environmental footprint; understanding and responding to consumers; or better managing their supply chains. But the coming challenges require a more radical reassessment of objectives and business models. "Companies that do not adapt [to the climate crisis] will go bankrupt, without question," notes Mark Carney, the UN Special Envoy on Climate Action and Finance.[4]

A shift to sustainable, smart business models - that is, they integrate sustainability with technology to accelerate progress in both domains - will make companies future-ready. Such companies leverage technology to reimagine the value of their products and processes, including reducing their environmental footprint, enhancing their positive social impact, and building and maintaining consumer relationships.

Technological transformation is already a strategic priority for many consumer companies; a third of CxOs name it as a top priority in the next three to five years. It drives innovation and growth and improves operational efficiency, marketing, and accountability. Increasingly, consumer firms are discovering how much it can enable – and unlock business opportunities from - improved sustainability and social responsibility.

There are many practical ways consumer companies can take to adapt their business models and strategies to the coming demand environment. We condensed them to ten key steps. The familiar work of business transformation – such as setting intentional targets, developing the right talent, chasing appropriate KPIs and allocating the right resources - will be critical in making consumer businesses future-ready. The challenges may be radical, but the methods are familiar, the solutions achievable, and the outcomes necessary for consumer goods companies to thrive in the coming new era.

Today’s consumer context: pressures and contradictions

There is more pressure than ever, from numerous directions, for consumer leaders to be decisive. Consumers, regulators, and even employees are pushing for change. Shoppers want companies to show they are trustworthy and serious about tackling climate, environmental, and social challenges.

75%

of Generation Z (Gen Z) shoppers in the UK make purchases aligned with their values and are unwilling to sacrifice ethical values for a better deal.[5]

27%

of millennials plan to spend more online than in-store across several product categories.[6]

How might taking a synchronised approach to ESG and technology set consumer companies up for the future? How can technology enrich and enable sustainability progress?

The rise of the purpose-driven consumer

One source of pressure for large consumer companies is environmental, social, and governance-related (ESG) consumer expectations, regulations, and performance.

For most of the last few decades, consumer companies have experienced external pressure around their environmental impact - typically from consumers and investors urging firms to reduce their carbon footprint, prevent deforestation, or ensure an ethical supply chain and humane labour practices. Frameworks and standards have since evolved to help investors measure and make sense of companies' ESG progress: The Carbon Disclosure Project was founded in 2000, the United Nations Principles for Responsible Investment were developed in 2005, and the Sustainability Accounting Standards Board emerged in 2011.

Today, a majority of the public across all regions believes that climate change is a public emergency,[7] driving growth in purpose-driven consumption in absolute terms and as a proportion of consumer behaviour and spending. This dynamic is already reshaping the market for commonly used goods, such as energy-efficient light sources; renewable energy; and electric cars, and a similar shift is nascent in sectors such as luxury and food.

As the salience of these issues increases across regions and demographics,[8] consumers' climate-consciousness is likely to accelerate - and demand can shift remarkably fast. Julie Laulusa, Member of the Group Executive Board and Managing Partner, Mazars, China, notes the example of China: "Over the last few decades, China's economic reform and opening up have allowed it to achieve huge social and economic development in a short period of 40 years, unlike any other country." Such rapid changes have led to a "generation gap" in Chinese views on consumption, consumer behaviours and spending habits, she says. For instance, homegrown sustainable-fashion brands have emerged to cater to a high-end market, and in some cases, customer loyalty is as high as 60 to 70 percent. [9]

The rising purchasing power and behaviour of younger generations further drives conscious consumption. Generation Z (Gen Z) - typically defined as those born between the late 1990s and the early 2010s - make up about a quarter of the world's population[10] but a higher proportion in emerging economies.[11] They are intuitively technologically-savvy, name social responsibility as a key attribute of their favourite brands,[12] and are more likely than older generations to have already shifted their purchasing behaviour to be more sustainable.[13] Research suggests they are more willing to pay a premium for sustainability in consumer goods than products and services in other sectors.[14]

Gen Z's spending power and influence is only set to grow. In Asia, which will be the largest global consumer market by 2040 with a 38% market share,[15] Gen Z comprises over a quarter of the population. In Australia, France, Germany, the Netherlands, the UK, and the US, their income will explode from $440 billion in 2021 to more than $3.5 trillion by 2030.[16]

> "As citizens, people are ever more conscious of what they are eating, wearing, or driving. Consumers increasingly seek out products and brands that align with their values"

Isabelle Massa
Partner, Mazars

Today's consumer context: pressures and contradictions

Signals of change:

- In China, younger generations show more interest than their elders in purchasing sustainable goods and products.
- One-third of Millennials in a survey of 17 countries across Europe, China, the USA, and the UAE say they will choose a sustainable alternative when available. Older generations are less likely to actively choose sustainable alternatives (24-29 percent).[17]
- Hybrid shopping is the primary buying method for 36% of Gen Z – more than any other generation.[18]
- In the UK, 75% of Generation Z (Gen Z) shoppers make purchases aligned with their values and are unwilling to sacrifice ethical values for a better deal.[5]
- According to a 2021 survey by the IBM Institute for Business Value and the National Retail Federation, purpose-driven consumers comprised the largest single consumer segment (44%).[19]

Technology as a strategic priority

Beside the rise of conscious consumption, another key shift is taking place in the rate and nature of digital change. Some four decades into consumer companies' digital evolution,[20] the pressure and pace of innovation persist. If anything, the pace of change has sped up in recent years, as the pandemic forced companies to rethink supply chains, reimagine how they connect with clients and customers remotely, and contend with the switch to remote and hybrid work, said respondents in Mazars' C-suite barometer 2023.

E-commerce demand is a key driver of change as consumers expand their online shopping behaviour. In a global survey of 16,000 respondents, direct-to-consumer firm ESW found over a quarter (27%) of millennials planned to spend more online than in-store across several product categories, compared to a fifth of shoppers from other demographic groups.[6] The need for e-commerce and omnichannel models will only intensify as internet and smartphone penetration increase. By 2019, more than half the world's population used the internet,[21] while over half use smartphones today.[22]

Consequently, Mazars' C-Suite survey found that transforming company technology was seen as the top strategic priority for consumer businesses, with 33% of respondents saying they felt it was a priority. "Every single retailer I speak to has a transformation project," says Matt Dalton, Partner, Mazars. "They are mostly point-of-sale systems, websites, or marketing, and many of them are focusing on getting products to the customers."

For instance, furniture stores might enable customers to see how items fit in their home, saving them time, and helping them make better choices. When brick-and-mortar stores shut down during the pandemic, he points out, many retailers moved sales operations online in a matter of weeks, demonstrating how fast significant transformations can be achieved.

The pressure to digitise is particularly acute for firms in China, where multichannel marketing and sales have skyrocketed in popularity.[23] China's digital economy has grown at three times the rate of its overall GDP, says Julie Laulusa. This shift has also been elevated to a national strategy, with the government's 14th Five-Year Plan, including a chapter on building a technological China.[24]

33%

of consumer company CxOs say transforming company technology is one of their top strategic priorities.[1]

74%

of consumer CxOs say it is 'essential' or 'very important' for their organisation to understand and exploit machine learning and artificial intelligence.[1]

"The digital transformation of traditional enterprises in China has changed from an 'option' to 'mandatory' for leading enterprises." Julie Laulusa adds that over half of all enterprises in China view technological transformation as their next development priority and have formulated a clear strategic plan for transformation.

This is borne out in the experience of two consumer enterprises in the Chinese market. Cosmetics company L'Oréal, for instance, adapted to the Chinese market by livestreaming to consumers. "We do hundreds of hours of livestreaming a week," says Fabrice Megarbane, CEO of L'Oréal China. "The speed and scale [of business] in China means we need to be very responsive and agile to adapt fast and succeed in this environment."

"We do hundreds of hours of livestreaming a week. The speed and scale [of business] in China means we need to be very responsive and agile to adapt fast and succeed in this environment."

Fabrice Megarbane
CEO, L'Oréal China

Meanwhile, Chinese home appliances and consumer electronics company, Haier, underwent a digital transformation in 2020, upgrading its business model from offline to online. As part of this process, it moved to a customisable digital marketing platform that pushes appropriate products to each shopper, then recommends the nearest warehouse and service point for delivery and installation on demand. This platform increased Haier Smart Home purchases by more than 30%. It has also used technology to make the product design process faster and shorten the design cycle for Haier Smart Home by nearly a third.[25]

Consumer vs citizen: a dialectical tension on consumption

While consumer channel preferences, demand for sustainability, and expectations are all shifting, the behaviour of shoppers can be complex and contradictory. Marketers are familiar with the 'say-do gap', in which people's reported actions or preferences differ from their behaviour in practice. Even within the same individual, two kinds of narratives can coexist:

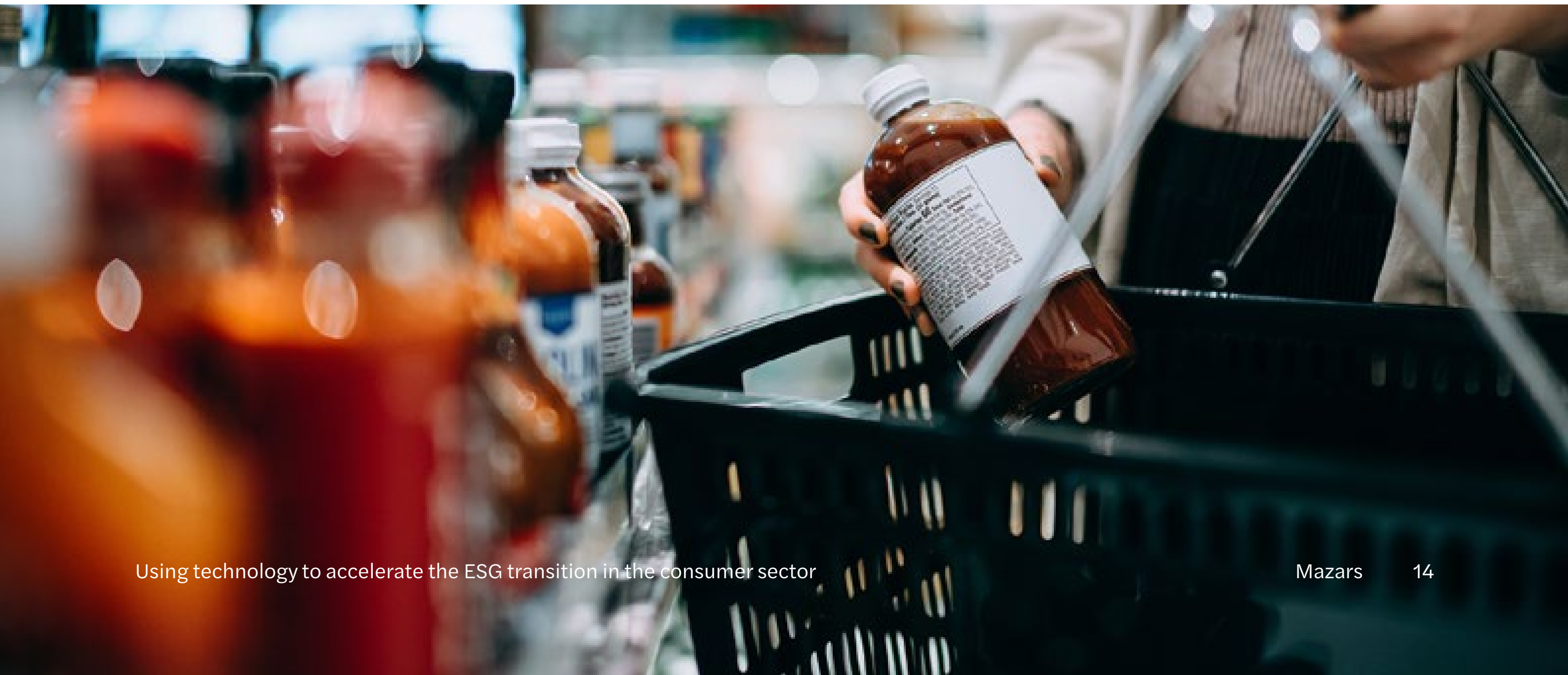
- the **consumer** who is price-sensitive, values convenience and personalised algorithm-driven recommendations, and wants speedy delivery and easy returns.
- the **citizen** who values data privacy and environmental sustainability, and believes business has a role to play in shaping society and community along those lines.

For instance, the use of digital technologies in marketing and sales brings conflicts and trade-offs. Consumers want personalisation - yet citizens want privacy. Consumers and citizens want a seamless payment experience - and will walk away if they need to create a user account in order to pay.[26] While young citizens are aware of sustainability and wish to consume sustainably, they are also vulnerable to the cost pressures in today's economic environment.

Marc Engel, Partner, Mazars, highlights the competing demands for personalisation and privacy. Offering shoppers transparency and control is key: for instance, Apple emphasises data privacy in its advertising and provides users with options to control when and how apps can track them. With data privacy being increasingly enshrined as a legal right in many countries, such initiatives address the social and governance dimensions of ESG.

Another trade-off is the balance between technological convenience – such as from chatbots that can respond at any time - and human interaction, which customers often prefer. "We can program a chatbot [so that] when you go to a store, they can introduce to you what you like, but not everyone wants to have conversations with a chatbot," says Marc Engel. To some extent, artificial intelligence chatbots deliver cost savings for consumer companies, but finding a balance that best serves consumers can be challenging, he adds.

There is an opportunity to reconcile the competing desires of people as consumers and as citizens, and companies that do this successfully will deepen their relationships with customers.



Today's consumer context: pressures and contradictions

For example, price-sensitive Gen Z shoppers demonstrate demand that aligns with frugal circularity models such as thrift-shopping, reselling platforms, or product-as-service models. Such emerging circular models, facilitated by technology, are a growing opportunity for consumer companies, says Francisco Sanchez, Partner, Mazars. In 2022, 50% of e-buyers made at least one transaction of second-hand or refurbished products,[27] Francisco Sanchez notes. Consumers increasingly prefer to rent goods than to buy them, reflected in the strong growth of peer-to-peer rental websites over 2022. "Reusing and repairing products promotes the circular economy, as well as personal finances," he says.

> "Among the five most popular e-commerce sites, two of them are second-hand sites."
>
> **Francisco Sanchez**
> Partner, Mazars

Resolving the tension between consumer and citizen desires can also inspire innovations that meet privacy needs, improve transparency, or create a sense of social interaction.

Yuka, for example, is an app that scans, rates, and classifies products based on their health properties and ingredients and gives consumers independent information on alternative products. As of November 2020, the app has over 20 million unique users. The app has also led to a feedback loop from companies; over 20 food and cosmetic companies have said that Yuka has impacted the formulation of their products, such as Monoprix, Garancia, and Caudalie.[28]

Experimental research by academic marketing experts reveals that technology can even play a role in creating a sense of playfulness and social interaction.[29] Shoppers want to interact with humans and feel part of a community, and researchers found that even touchscreen haptic feedback can have a positive impact on their response and performance.[30]

Finally, understanding when a technology use-case avoids the citizen-consumer tension can be invaluable. As an example, US turkey producer Butterball automated elements of its Turkey Talk-Line customer service calls on Amazon's Alexa service. Its Alexa chatbot fielded 20,000 questions over the 2018 Thanksgiving holiday, when the traditional meal includes a whole turkey.[31] The reason for its resounding success? Customers need not sacrifice privacy for the information.

Raising the bar: the regulatory milieu

Regulation and public policy have bearing on private-sector activity: they function in part to protect citizens' wellbeing and express their values, whether around privacy and other consumer rights, workers' rights, or public goods, such as environmental health.

Today's rapidly evolving legal landscape supports and codifies those values - namely, the idea that the private sector should share responsibility for environmental, social, and governance issues. Regulations increasingly require companies both to improve their ESG performance and to measure their progress via specific financial reporting. They widen accountability for companies: from internal accountability for operational metrics, to external accountability for metrics both upstream and downstream from the company itself. Requirements are tightening across various territories for firms to adopt ESG related measures. The EU, UK, US, and other territories are designing and adopting laws to turn ESG-related activity from an aspiration to a legal requirement.

In January 2023, the EU's Corporate Sustainability Reporting Directive (CSRD) came into force, requiring more companies than ever before to produce public reporting on sustainability. The CSRD is intended to standardise the way that companies report their sustainability metrics and affect how suppliers interact with large companies. By 2025, these rules will apply to publicly traded companies with over 500 employees. In the following years, smaller companies, and those with subsidiaries in Europe, must meet these rules as well.

Recognising that social issues intersect with environmental ones, the CSRD expressly includes reporting requirements on labour standards, human rights, and social responsibility.

"The EU is saying explicitly that this [reporting requirement] is about human rights. The bloc framed it by saying that human rights are central to resilience. In the same way companies think about strategy for the next five to ten years, how they are going to track, and report, needs to be part of that process."

Alice Strevens
Associate Director, Mazars

This applies upstream and downstream too, to how the company influences suppliers and consumers. Rather than viewing compliance as a burden, companies should recognise social and other ESG issues as existential to their long-term viability.

The EU's leadership on sustainability reporting is hastening change beyond its borders. Many consumer firms are international, so there is a trend toward 'regulatory convergence,' or the alignment to foreign requirements in attempts to standardise offerings across borders. For example, CSRD reporting standards will affect at least 10,000 non-EU companies, including companies incorporated in the US, UK, Canada, Japan, China, and Australia.[32] In total, companies from more than 60 countries will have to report by the new standards, including a few from emerging economies like Bahrain and Zimbabwe.[33]

There is also a toughening of regulatory attitudes towards labour standards in supply chains. In 2021, the USA's Uyghur Forced Labor Prevention Act cracked down on forced labour in the supply chain, although enforcement remains an issue. A similar requirement is coming in the EU, says Richard Karmel, Partner, Mazars.

Regulators are also starting to offer harsher scrutiny of firms' ESG claims. The US' Federal Trade Commission recently signalled it would take stronger legal action when companies' deceptive marketing around sustainability and environmental responsibility violates federal law.[34] Additionally, the EU plans to take stronger action against greenwashing and is considering giving firms ten days to justify their claims or it will issue 'effective, proportionate and dissuasive' penalties.[35] Alongside this, the UK recently announced plans to fine global firms 10% of their turnover for misleading environmental claims.[36]

Businesses' accountability for metrics beyond their operational control is set to grow in the coming years due to improved reporting frameworks, increasing standardisation, and the move towards ESG-related regulation. Increasingly, consumer companies must understand what frameworks best guide their disclosures, what standards to adhere to, and with which regulations to comply.

Investors and stakeholders: sources of ESG pressure

In a global shift, emerging regulation is increasingly pushing investors to channel finance towards opportunities compatible with ESG objectives.[37] For example, in January 2023 the Philippine Securities and Exchange Commission issued rules for sustainable and responsible investment funds. Japan's Financial Services Agency revised the comprehensive supervisory guidelines to ensure ESG investment trusts are true-to-label.[38] In Chile, new legislation requires pension and severance funds to include climate change in their policies, investment processes and risk assessments,[39] and Brazil has recently implemented a new regulatory framework defining which investments can be classified as ESG.[40]

In part, stringent rules on classifying investments as ESG help ward off risks and uncover new opportunities. ESG risks pose increasingly high costs. Between 2014 and 2019, for instance, ESG controversies wiped US $500 billion off the market value of large US firms, according to Bank of America.[41] In 2020, the share price of fashion company Boohoo plunged by 43% on the back of concerns about modern slavery in its supply chain.[42]

But beyond mitigating risks, investors view ESG as a key part of strategies that will lead to long-term returns because of a focus on resilient, sustainable, and responsible business models. As a result, they are taking action. In spring 2023, VBDO, the Dutch association of investors for sustainable development with $10tn in assets under management, publicly called for companies such as Amazon, PepsiCo, and McDonald's to radically reduce their reliance on plastics, citing the financial risk of failing to do so.[43]

Employees and applicants are a further source of ESG pressure; after all, they are also citizens, with the attendant values and expectations. When labour markets are tight and talent scarce, employees have power to act in their capacity as citizens. For example, in recent years, tech workers have pressured companies to rein in the development and use of AI that could violate human rights or be used directly for harm.[44]

Asam Malik, Partner, Mazars, says this is one of the biggest changes he has seen in recent years. "Five years ago, no applicants asked about ESG. Now they ask about it. It is as common a question from applicants in job interviews as 'what is the next step?' Meanwhile, a Yale survey of the world's top business students found that students expected sustainability to be woven into corporations' top priorities and that they would forgo some of their salary to work for a sustainability-forward employer. [45]

How ESG and technology can enable resilience and adaptability

Amid the coming demand shifts, consumer companies will need to be resilient and adapt rapidly. Sustainability and digital transformation should be seen as enablers of adaptation and resilience rather than only as sources of pressure. Companies will thrive when their technology investments are carefully considered and designed to deliver a more sustainable, smart, and synchronised customer experience.

More sustainable

How might consumer companies harness the power of technology to meet customers' aspirations for sustainable consumption? There are significant opportunities for technology to explicitly help advance and unlock new opportunities from environmental and other kinds of sustainability.

Today’s consumer context: pressures and contradictions

In China, L’Oréal introduced a range of technological innovations to facilitate greater sustainability. Leveraging tech and consumer incentives, L’Oréal has increased recycling, introduced refillable products, and given consumers information to make it easier to make more sustainable choices.

Tech-driven solutions for sustainable consumption may also feed back into business objectives. Second-hand fashion platforms like Depop or ThredUP not only facilitate reuse, but their search and purchase data can reveal emerging fashion trends and help companies understand and engage with consumers.

While technology has its own carbon footprint, used judiciously it has the potential to be a net environmental benefit.

Smarter

Consumer companies should also pay attention to how technology can unlock smarter practices, such as operational efficiencies and new product innovation.

Companies like Danone, Hugo Boss, and Tesco have been using digital technologies in their factories to drive energy efficiencies and reduce waste. These innovations drive sales and boosts company morale. Giovanni Pacini, Global Digital Operations Transformation Director at Danone, also highlighted the positive impact that technology has on workers:

> “Digital tools are designed together with users to empower them to feel accountable and committed to the overall improvement of factory performance and the reduction of its carbon footprint.”

Giovanni Pacini
Global Digital Operations Transformation Director, Danone

Consumer companies believe that digital technologies are also important to stay competitive. For example, one consumer company in China is using data to allocate products based on a combination of demographics, consumer preferences, and territory-wide sales data, reducing the necessity to make guesses about demand and speeding up product allocation.

Today’s consumer context: pressures and contradictions

Greater synchronisation

Technology and sustainability transformation should be synchronised with one another and with other business needs, to maximise their benefit and impact.

In some consumer sectors, technology can help companies tell a more comprehensive, transparent story about the safety, provenance, and environmental impact of products, which shores up investors’ and citizens’ trust. For example, food companies and retailers like Nestlé and Walmart use blockchain to track and trace products from infant formula to coffee, making it easier to give consumers more transparency and details about their products’ origins and ecological footprint.[46]

In the luxury sector, traceability is improving thanks to the use of blockchain technology and holographic identifiers. Technology also brings opportunities for companies to address counterfeiting via hologram validation with computer vision on smartphones.[47] For example, in the luxury sector, the Arianee Association is an entrepreneur-led coalition working to build global standards for digital ownership of valuable objects, which offers consumers digital proof of ownership and authenticity. This could only be achieved by companies and brands working together.

Technology and big data may be applied to companies’ own ESG reporting, as well as their related ESG action and innovation. According to Mazars’ C-suite barometer, 68% of consumer companies surveyed currently produce a sustainability report. However, 45% of companies say data quality challenges are one of their biggest obstacles to sustainability reporting. Already, companies draw on artificial intelligence and data to assess consumer trends, understand clients better, and gain insight from sales and other data; why not automate data collection and management for sustainability reporting as well?

Consumer companies demonstrate a willingness to invest in these tools. Mazars’ C-suite barometer revealed that nearly six in ten consumer CxOs - 59% - have budgeted costs for implementing sustainability strategies and reporting. Another 29% are expecting to allocate budget in their next budget review.

Other tech applications include reducing fraud and non-compliance; assessing supplier risk and performance; using predictive analytics for smarter audits and anticipating demand; and financial forecasting. The objective of many companies’ digitalisation programmes, from leveraging cloud storage to demand management, is greater efficiency – but a reduced carbon footprint can often be a side benefit.

68%

of consumer companies surveyed currently produce a sustainability report.[1]

45%

of companies say data quality challenges are one of their biggest obstacles to sustainability reporting.[1]

59%

of consumer CxOs have budgeted costs for implementing sustainability strategies and reporting.[1]

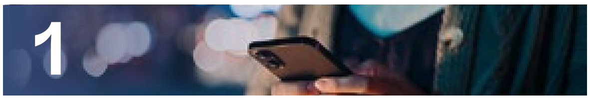
29%

of consumer CxOs are expecting to allocate budget in their next budget review.

How consumer companies can get ahead

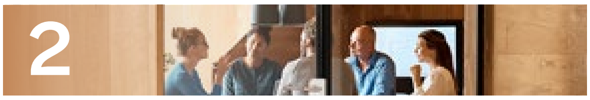
Consumer companies face a triple challenge: meeting often conflicting consumer demands, prioritising sustainability at the forefront of a commercial business, and staying in the top tier of innovation.

How should consumer companies respond? How might solutions work in concert to meet all three challenges head-on? This section offers a sequential framework of strategy followed by tactics.



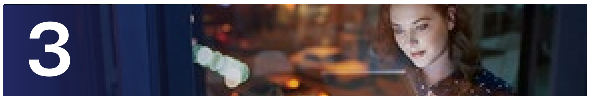
Step one

Embrace the transformation



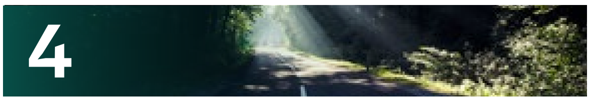
Step two

Map out the risks and opportunities



Step three

Build a strong foundation for systematised data collection



Step four

Assess your business' sustainability priorities for a green advantage

Step five

Develop an integrated strategy powered by data insights

Step six

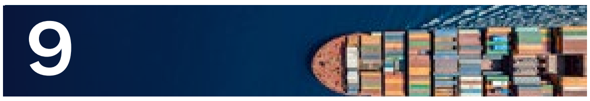
Measure and optimise your sustainability transformation

Step seven

Upskill across the board

Step eight

Improve your diversity – especially at board level



Step nine

Collaborate with competitors, suppliers, NGOs, and unions

Step ten

Ensure adequate accountability

How consumer companies can get ahead

Strategy

Step one: embrace the transformation

The first step is the most subtle: embrace and internalise the nature of the change this challenge requires. Responding to such a profound shift cannot be an event; it can only be a journey. It requires a transformation of the business, with a shift in key performance indicators (KPIs), processes, talent, and culture that it implies. That is why internalising it into the purpose of the organisation is a key first step.

> "Changing consumer businesses takes vision and leadership. You need people in your company with the guts and the vision to really understand where this is going."

Marc Engel
Partner, Mazars

Mike Barry, former Director of Business Sustainability at Marks & Spencer, who coaches business leaders on sustainable transformation,[48] says that the biggest mistake he sees boards making is jumping straight to the question of what to do. He recommends thinking about this with a 'why, what, how' model: first getting clarity on *why* these changes are needed, followed by *what* needs to change, and only after that on *how* to do it.

As with any business transformation, sustainable transformation requires leaders to be able to eloquently advocate for change, in person and in writing, to stakeholders inside and outside the business. That can only be done if leaders have themselves internalised it, accepted that the challenge is existential, and can articulate the case persuasively enough to create internal cultural change. "It's a battle for hearts and minds, not just a technical challenge," Barry says.

- **Why** is a sustainability transformation needed? In what ways are sustainability concerns existential to the business?
- **What** targets, plans and governance controls are necessary to transform the business?
- **How** can you best engage your organisation and wider ecosystem - customers, colleagues, investors, suppliers, business partners, regulators, and the rest of the sector - on the need for change, and advance your sustainability journey? Where in the value chain of inflows and outflows is change needed?

Step two: map out the risks and opportunities

The second step is to map out sustainability risks and opportunities at a high level, based on available information and data. For example, understanding supply-chain risks requires that companies do a supply chain map, notes Mazars' Richard Karmel. "Have [companies] understood what the key risks are in the raw materials that are being used to make the end products?"

Mapping the key risks is similarly useful for social and governance factors, such as human rights, particularly labour rights. Once risks are known, the next step is to carry out materiality mapping to prioritise the salient risks to the organisation. The United Nations' Guiding Principles Reporting Framework provides authoritative guidance for companies on this process.[49]

A cartography of risks and opportunities can be a powerful tool to align companies' leadership, board members, and other stakeholders on the case and vision for change, and the investments needed to support it. For beverage maker Pernod Ricard, an internal risk analysis helped to focus minds on the need for sustainability transformation and a budget to put behind it. "We're an agricultural business," says Vanessa Wright, Chief Sustainability Officer, Pernod Ricard. "We source over 100 ingredients from over 70 countries. So, climate change will impact our ingredients and our activities."

A year-long study on climate scenarios helped the company understand the risks and opportunities the business would face at various levels of global warming up to 2030, 2040, and 2050. The results were a 'wake-up call', Wright says, which helped to mobilise the senior management behind the company's sustainable transformation.

How consumer companies can get ahead

Likewise, food manufacturer Kellogg's found that one of its largest sources of environmental impact was its suppliers' use of water and risk of contributing to water scarcity in the regions where they operate. To address this, Kellogg's developed an initiative to engage suppliers, resulting in the rollout of its 'Origins' Programme, which helps farmers build resilience to climate impacts by adopting sustainable practices such as reducing water use, optimising fertiliser use, and improving soil health.[50]

Step three: build a strong foundation for systematised data collection

Exploring risks and opportunities is important, but data collection is a repeating exercise. Companies must collate baseline data on relevant ESG metrics and put in place systems to gather and analyse auditable data consistently over time. Only then can they make sense of their impact, progress, and the commercial opportunity.

Relevant ESG metrics include energy use, carbon emissions, water use, and also measures, such as impact on biodiversity, labour rights in the supply chain, and diversity demographics. This helps companies identify risks and quantify impacts, provides a baseline against which to measure progress, and helps companies develop high-impact initiatives for environmental and social sustainability.

The metrics selected are based on a company's business model and strategy. For example, life-cycle analysis of products (LCA) is essential to assess the sustainability impact of circular business models. Technologies, such as remote sensing, Internet of Things (IoT), and data analytics technologies are key to gathering and processing large quantities of data.

Mazars' Asam Malik advises companies to start by simply consolidating data and organising the reporting from different parts of the business, such as those responsible for procurement, energy, and transport. "Just put all the data in one place, so you can see it all", he says. The process of consolidating data may sound complicated but getting started does not have to be.

The next milestone is to request that data from suppliers and other third-party contractors. Supply chain emissions are on average 11.4 times higher than operational emissions.[51] For many companies, engaging and supporting suppliers is therefore the most meaningful way to curb emissions and ensure supply chain resilience. In 2020, over 8,000 suppliers disclosed their impacts on climate, forests, and water, and the number is growing every year, according to CDP figures.[52]

In practice, engaging and supporting suppliers in ESG comes with challenges. Small suppliers especially lack the leverage to obtain high-quality data, or any data at all. "If you're a client driving significant revenue, it is easier," Asam Malik acknowledges. Large companies have significant power to accelerate far-reaching change through their supplier requirements.

What can large enterprises do? Kristen Walters, Partner, Mazars, advises larger firms to recognise the

burden on suppliers, have realistic expectations, and make resources available to guide them through the process. Many small and medium enterprises will not have the workforce, skills, or experience to collect this data at first, but they can start by assessing what skills they need to outsource their data collection and analysis.

Supplier engagement is a long-term relationship-building process. It may entail explaining the strategic reasons for the request for ESG data, helping suppliers understand that it is part of a long-term sustainability approach, and setting out a timeline for turning such requests into contractual obligations. Given the tightening regulations on ESG measurement and disclosure in Europe and other contexts, the requests may help suppliers get ready for the new regulatory requirements in the coming years. The end-goal is for this data flow to become business as usual.

Next, or in parallel, companies should put systems in place to collect, collate, and analyse auditable data consistently. Here, remote sensing, the Internet of Things (IoT), and data analytics technologies play a key role. In his former role as Director of Sustainable Business at M&S, Mike Barry says, "I was trying to track and trace the three billion items that the company sold every year - every pair of shoes, ready meal, bottle of wine or bunch of flowers - from 2,000 factories and 20,000 farms, just using a spreadsheet, phone calls and emails. It was bonkers. In a world of artificial intelligence and remote sensing you can get your arms around staggeringly large datasets to track and improve all this."

However, putting the right systems and technology in place is often an area where company transformations go awry. Getting it right is difficult, for two main reasons:

- Firstly, implementing new technologies and gathering meaningful insights from data requires skills that leadership teams do not always possess. Companies need to understand the technology's applications, potentials, limitations, and risks, and think critically about external suggestions - including from technology suppliers. Companies lacking those skills may need to hire them in or upskill boards and leadership teams internally. Once technologies are in place to deliver meaningful data, the effect of digitalisation can be transformative, notes Patrick Zerbib.

"Many of the big box retailers, for example, are dealing with trillions of data points. Once they have the right technology infrastructure in place, they can actually count and calculate the impact on the environment and the carbon footprint of each product. It enables us to slice and dice the data to get to a level of granularity that was unthinkable before. That is not just true for physical products, but for services as well."

Patrick Zerbib
Partner, Mazars

- Secondly, when a large organisation is changing fast, it can be challenging for the finance department and other reporting teams to keep up. This is essential both to ensure that the transformation is adequately financed as it progresses, and that key financial and non-financial metrics remain measured and managed. Data ownership is a key success factor for transformation. It is essential to prioritise technology that helps finance teams collect, understand, and manage data about the operational and commercial aspects of a sustainability transformation and which helps other teams contribute to that data. Data analytics and dashboards help the finance function make more accurate predictions, and automation can help simplify and accelerate invoicing and other transactions.

Step four: assess your business' sustainability priorities for a green advantage

Step four involves assessing the risks and opportunities of moving towards a new strategy or new business model, in light of your sustainability priorities. Vanessa Wright, Chief Sustainability Officer, Pernod Ricard, compares the sustainable business case to technological transformation. "With digital," she says, "once [the senior team] understood it was about transforming the business, they put huge amounts of money behind it. We are going through a similar thing with sustainability at the moment."

Sustainability transformation is not only a parallel to technological transformation – it often hinges on technology, which is a key enabler of sustainability at scale.

For some consumer businesses, transformation will involve embracing circularity – designing waste, carbon emissions and pollution out of our economies as much as possible; circulating products and materials at their highest value and keeping resources in play for as long as possible; and regenerating nature, all underpinned by renewable energy.[53] Here, technology can facilitate resale, repair, and reuse: while small-scale resale fashion and consignment have long existed, platforms like Depop and Poshmark enable consumers to resell clothing and accessories directly to others. Some sectors, such as fashion, may move from a model in which sales are core and rentals are marginal, to a model which reverses those priorities.[54] There will be competition to be the market leader in each of these consumer spaces.

Packaging and materials also provide consumer companies with many opportunities to reduce their footprint. Clémence Gosset, Chief Sustainable Consumption Officer at L'Oréal, says her company has been thinking about how to play their part in this evolution.

"With food and cosmetics the best opportunities for circularity are in the packaging. All companies have no choice but to lean towards this model: lighter packaging, less packaging intensity, and material innovation to enable reuse as much as possible."

Clémence Gosset
Chief Sustainable Consumption Officer, L'Oréal

Elsewhere, clothing brand Hugo Boss uses 3D software to create digital prototypes of products, rather than producing physical samples, which speeds up the design process and eliminates material waste.[55]

In addition, businesses that have achieved a greater degree of circularity find it easier to engage their suppliers on a similar transformation by bringing their own experience into the conversation.

Other consumer product businesses will embrace on-demand production, driven by hardware and data, to improve efficiency, curb waste and reduce their carbon footprint. "Some consumer companies are starting to take your order and only then produce it. That enables them only to produce what is ordered, reducing waste," says Isabelle Massa, Partner, Mazars. Increasingly, she adds, consumers may be content to wait slightly longer to buy from a firm with a less wasteful environmental footprint.

Examples of circular innovations in the consumer sector:

Reverse logistics and recycling: circularity as a retail business model: Retailers like IKEA and John Lewis have started to incentivise circularity by giving buyers vouchers when they bring old furniture or clothes back to stores to be recycled into new materials.[56]

Rental: in March 2021, Ralph Lauren launched a rental subscription service, a first by a luxury brand. This designs out waste and keeps products in use for as long as possible.[57] The company says it will be able to leverage the data and feedback collected from consumers using the Lauren Look platforms to produce items that more accurately reflect consumer trends. This will reduce the amount of unsold inventory and the need for markdowns while satisfying the fashion wishes of its customers.

Product-as-a-service: such models have become more widespread with the rise of citywide bike rentals or short-term car-sharing services like Zipcar.

Packaging: algramo is a system of smart reusable packaging.[58] RFID-chipped packaging can be refilled with household products such as washing-up liquids and laundry detergent, using smart dispensers that recognise the packaging and dispense the right product.

Step five: develop an integrated strategy powered by data insights

What should consumer businesses look like in a future where sustainability is core business, essential to commercial outputs, and where products and services are fully compatible with ESG goals? Companies must envision their role in this future, reimagine products, and develop strategy to suit, says Patrick Zerbib, Partner, Mazars. "The strategy is the start of everything. It gives you the technology roadmap."

No single success factor can determine which companies will thrive in the new, sustainability-conscious demand environment. Being able to put a vision into practice is key; and the most important determinant of that success is whether leadership and the executive board are aligned on the vision. This is what we mean by 'integrated', a technology enabled ESG strategy that is embedded in the organisation's wider commercial strategy and endorsed by senior and executive leadership.

As Mike Barry puts it, companies need visionary boards and leaders that are willing to invest in transforming the business.

> "There is going to be a profound change in what and how we sell in the future. That is often about reframing what you sell."

Mike Barry
Former Director of Business Sustainability, Marks & Spencer

"For a clothing company, for example, it is about accepting that you're likely to find it harder to sell in the future because fewer people will be consuming and more will be reselling. So, in that case it would be about saying 'we need to invest a billion pounds into building a resale platform, otherwise we'll be out of business'."

Digital insights helped fuel sustainable product innovation for retailers Tesco and Morrisons, which use technology to improve inventory management and reduce waste. The companies found that due to consumer preferences, some fruit and vegetables are discarded from the supply chain despite being perfectly edible, just because they are an atypical shape. To keep such produce in the supply chain, retailers resell it at lower prices, under brands such as 'Perfectly Imperfect' from Tesco's or 'Naturally Wonky' from Morrisons which reframe their difference as a positive. At the height of the cost-of-living crisis in the UK, between September and October 2022, sales of these brands were collectively up by 38%.[59]

Such efficiencies can spread from manufacturing through the supply chain to increase the effectiveness of planning algorithms. One Chinese international consumer goods group was allocating products to its 14 different regions based on personal experience, which was inefficient and time-consuming. The company introduced smart selection, a data-centric way to allocate products based on a combination of demographics, consumer preferences and territory-wide sales data, which significantly reduced guesswork and sped up product allocation. It also used big data to predict sales for different promotional mechanisms, helping sales reps plan promotions more rationally and leading to an increase in home-delivery business. These tools helped the company recapture market share from new direct-to-consumer brands.

Step six: measure and optimise your sustainability transformation

When data is consistently and systematically collected, it can meaningfully implement, measure, and optimise strategy. This means making the right data available, in the right format, at the right time to the right **decision-makers**, to fuel sustainability choices and ambitions. "You have to make it understandable for executives," says Patrick Zerbib. That means visualising the outputs of data analysis in useful, impactful ways. Technology is key to turning vast bodies of data into elegant, action-guiding insight. Smart warehouses, planning algorithms, and dashboards are invaluable tools.

While making the case to executives and senior leaders is critical, Kristen Walters believes that shaping the data for employees is also important. That means providing the right amount of the right information, so they have the data they need to do their jobs better. "It means asking: 'do we have too much or too little information? Do we have the right information?'"

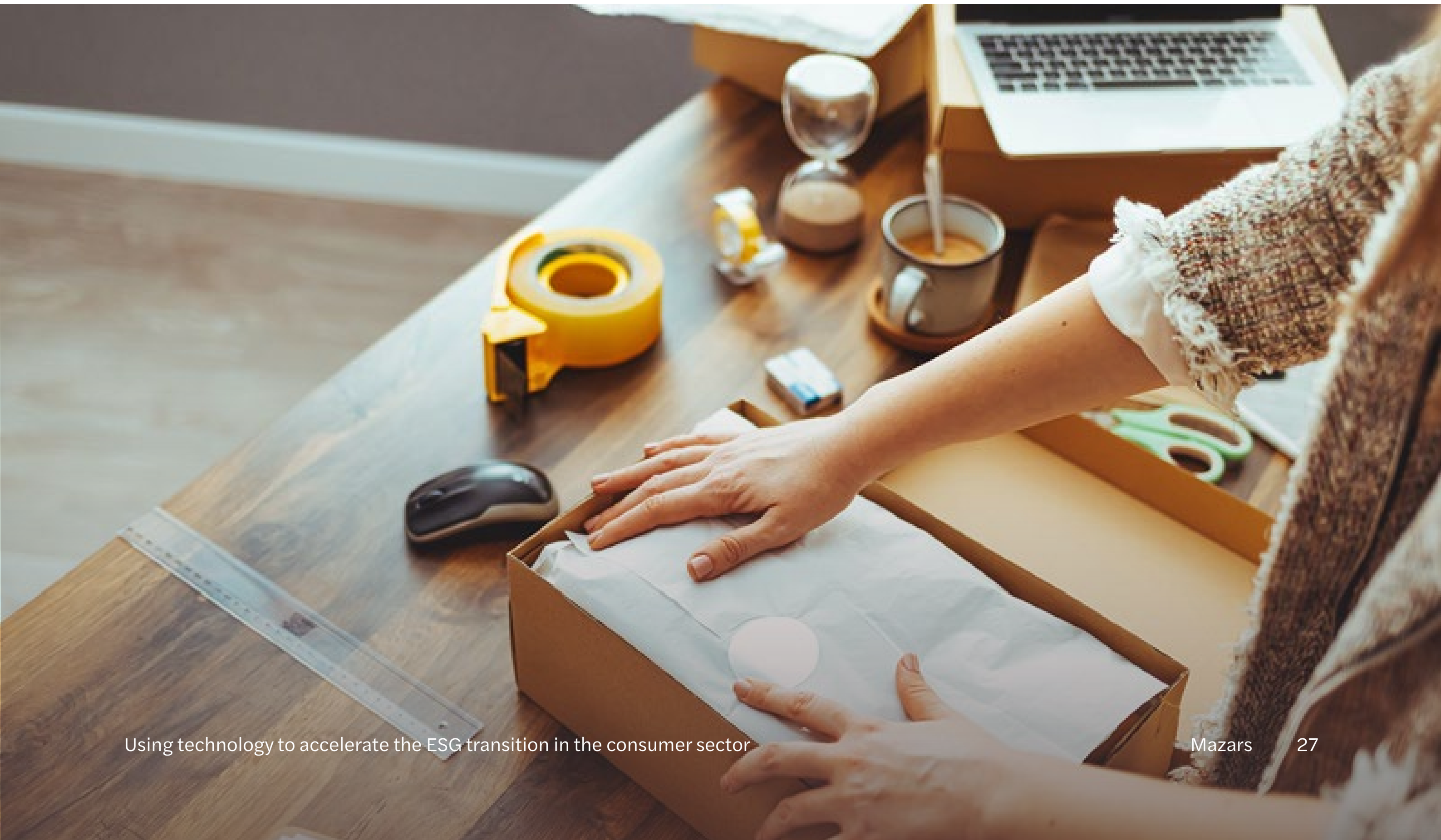
For instance, Danone's infant nutrition factory in Opole, Poland, uses digital technologies to drive efficiencies that reduce energy use. The factory collects information on machine operators in real time and enables workers to interact with each other, scan QR codes attached to production lines, and suggest potential improvement opportunities, which are then brought to the shift leader.[60] This reduces the amount of time to fix issues that arise, leading to efficiencies in energy consumption per unit of product produced.

Data can be applied to digital practices that reduce inefficiencies and curb emissions. "Lots of technological investments are being made to make sure that companies keep their footprint as low as possible," says Mazars' Marc Engel. "Companies are applying smart warehouses or using blending algorithms that make better use of shipping capabilities, whether that's a ship or a plane or a truck." For instance, one large European clothes retailer reduced their carbon footprint and energy use by using complex planning algorithms - made possible with technology - to fully stock their delivery trucks across the continent, so no journey, outbound or inbound, is wasted.

But creating meaningful and actionable insights from big data is a distinct skill. Walters recommends that smaller companies that lack the skills in this area outsource them at first, with a view to embedding those skills in the organisation in time.

Teams like Malik's help companies collect, process, update, and gather insight from data like this. Once systems are in place, they often generate vast pools of data on resource use, costs, sales, consumer preferences, emissions, and many more variables. Creating a dashboard showing key metrics as they change in real time is an elegant solution: when environmental, social, and governance risks are visible in real time, it is "like doing due diligence upfront" Kristen Walters says.

It then becomes easier to build meaningful key performance indicators around the data. For example, social indicators might comprise worker health and safety improvements, diversity and inclusion metrics, and others related to human rights and labour policies. Governance indicators might include board and management diversity, executive compensation, and its links to ESG performance, or participation in disclosure and reporting schemes: target-setting, sustainability reporting, and engagement with frameworks such as the SASB Standards[61] or the European Public Real Estate Association's (EPRA) Sustainability Best Practices Recommendations.[62]



How consumer companies can get ahead

Finally, the data generated can also be shared with consumers to help them make more choices in line with their environmental, social, or governance ideals as citizens. For example, cosmetics company L'Oréal has developed a science-based foot printing and eco-design tool to publish the environmental and social impact of each product. This data is now live for seven brands in twenty countries, making it easier for consumers to understand the impact of their purchases and make informed choices. The company incentivises consumers to recycle Lancôme products in stores using an online CRM which has enabled the recycling of over 14 million units, according to L'Oréal's Megarbane. It is also developing refills for fragrances, hair products, skincare, and other products, incentivising consumers to buy the refills along with the products, to improve sustainability and reduce resource use, which empowers consumers to make more sustainable choices.

In short, sustainability data and sustainability-related technologies have uses well beyond reporting or operational efficiencies. They can help companies reimagine business models altogether, in line with the potential of technology and the sustainability trends of the future. This is patient, strategic work, but there are many organisations that can provide inspiration and advice, including B Corporation, The Ellen MacArthur Foundation, and SDG Compass.

Tactics

Once the key data is available in an actionable way, the next step is to put in the hard yards of transforming the business in line with the vision and strategy.

Step seven: upskill across the board

To achieve their vision, consumer businesses need new skills and knowledge related both to ESG and technology. For change to endure, this is rarely just a matter of bringing in new operational talent. It is also about training and socialising new capabilities for existing employees, leadership, and board members. "Businesses exist to make profit, so the challenge is translating the current model to a future one that is as profitable as the previous one, if not more so," says Richard Karmel. Companies tend to have blind spots around meeting future challenges and seldom employ the right skillsets to become future-ready, he adds.

ESG upskilling is a critical step for future-readiness. At Pernod Ricard, it is often rolled out in stages, says Vanessa Wright. New sustainability initiatives are often 'incubated' within her department until they reach maturity and until the relevant part of the business has been upskilled to the point it can take ownership of them.

> "[My department] has been responsible the circularity strategy until it reaches maturity, and the skills are in place. Then it can be repatriated to the part of the organisation where they should have been in the first place."

Vanessa Wright
Chief Sustainability Officer, Pernod Ricard

Companies must also ensure they have the right technology skills. At some companies, leaders may lack an ESG or technology background and fail to understand risks and opportunities in these areas, says Asam Malik. "This is particularly true for boards and C-suites." To stay relevant, company leadership must understand the data a company produces and gathers, how to derive insight from it, and what actions to take. Marc Engel advises that company culture is critical to technology upskilling and adoption. "Having a culture of change, a culture of technology adoption is key," he says. He advises that it is important to have an organisation in which people are willing to change and can cope with new technology. That takes courage and vision to understand and act on where the company is going.

Step eight: improve your diversity - especially at board level

Achieving business transformation to meet the evolving demands of a new cohort of customers such as more eco-conscious younger generations is easier when the company has an instinctive understanding of the values and attitudes of these new demographics. This is easier to achieve when company leadership reflects the demographics it serves and has the right mix of knowledge, experience, and skills to make informed decisions. A diverse board and leadership team can make it easier to achieve business transformation.

"As the diversity [of the board] changes, different questions get asked," says Asam Malik. This improves the breadth of the oversight it can provide. "Diverse boards are needed to represent the diversity of the clients and consumers companies need to sell to." When a board and leadership team have lived experience of the worldviews and attitudes altering demand patterns, they find it easier to build products and services to meet those consumers' demands.

Mike Barry agrees. "If everybody in the boardroom looks like me - white male, grey-haired, European, grew up in the 80s to early 2000s," he says, "we're probably going to have a similar worldview, so our ability to cope with the radical shifts running through the global economy and society will be limited." He also argues that even if this were not the case, diversity of board members is a moral imperative.

Gender balance is a key aspect of diversity. Globally, women hold only one in five board-level seats.[63] That said, Mazars' CxO barometer found that the consumer sector generally has a higher percentage of women in leadership than in other sectors. Asam Malik says that things are changing, but there is a lag between acting for diversity and achieving an impact at decision-maker levels. "There's a big focus on gender, ethnicity, and socio-economic background," he says, "but diversity takes its time to filter through." To drive results on diversity, organisations might implement a range of actions from integrating it into strategy and business plans, to creating a transparent diversity dashboard.

Step nine: collaborate with competitors, suppliers, NGOs, and unions

Many of the changes needed for sustainability success cannot be achieved by a single company, so leading consumer businesses are shifting their attention to collaboration.

Collectively, buyers can encourage suppliers to improve on ESG outcomes and efficiency, and technology can enable this collaboration more effectively than ever before. By facilitating data sharing, standard-setting, and more accessible activity tracking, including via blockchain, technology can enable models for seamless supply chain collaboration to inform ESG decision making, action and reporting.

Buyers can, for example, make sure they are asking for ESG metrics to be reported in a consistent way. Additionally, consumer companies can pool resources to guide suppliers on collecting and delivering this data. This can reduce the burden of supplier guidance on each buyer. In turn, it also reduces the burden on suppliers of having to meet the varied requirements of many buyers.

Case study of collaborative work at L'Oréal

L'Oréal decided to collaborate with their competitors to make it easier for consumers to compare products' environmental performance. They adopted an internal system to measure the life cycle impacts of their products according to 16 planetary impact factors and assign them a score based on these measurements. They also talked with competitors to co-design a common methodology. They developed a standardised impact label so customers can see at a glance the impact of their chosen product in terms of water usage, recycling, carbon emissions, and social impacts.

"We talked with Unilever, Natura, LVMH, and Henkel," says Clémence Gosset, Chief Sustainable Consumption Officer at L'Oréal. She says the companies aligned on the purpose of the consortium, methodology principles and targeted output, got around the table with legal counsels, came to a consortium agreement, publicly invited other members to join, and started to work together, respecting antitrust laws in full. "In a nutshell," she says, "it is about sharing the same vision, organising the work, and then publishing it externally."

Another prominent example of collaboration between brands is The Fashion Pact, a global coalition of more than 60 fashion and textile companies that have committed to shared environmental objectives. Launched by luxury goods group Kering, The Fashion Pact enables companies such as Burberry, Chanel, and Hermès to collaborate and exchange technical expertise with smaller brands and firms outside of luxury to scale solutions that protect the environment.

Collective collaboration with service providers, too, can advance sustainability goals. For example, fashion brands like Tommy Hilfiger partner with The Renewal Workshop, an apparel repair and resale provider, to enable customers to trade in pre-loved branded clothing for sorting, cleaning, repair, and resale. [64]

When iconic sneaker brand Converse wanted to move into upcycling, they soon concluded that scaling this proposition would mean working with a partner with the right expertise. To do this, they partnered with used clothing retailer Beyond Retro, which has experience in collecting and sorting used garments. Beyond Retro provides Converse with used denim in certain colours, weaves, and weights, which are then steamed, cleaned, and cut appropriately, ready for resale.[65]

Collaboration with government and policymakers can be a way to shape the policy landscape to make it easier to achieve ESG objectives and impacts. "Even if the big supermarkets agree that there are some structural issues with the food system, for example," Barry says, "they still will not be able to do anything about it unless they connect with the government and engage with the policy framework. Unless we create that 'big tent' in which a shared sense of co-creation is possible, [these kinds of transformations are] really hard." Collective lobbying can help shore up ESG standards, regulations, and enforcement, ensuring a level playing field and helping first-mover companies protect their investment in ESG actions.

While there are many practical reasons for companies to look outwards at opportunities to collaborate, the companies that do best in the emerging business environment will be those for whom collaboration goes beyond the transactional and becomes embedded as part of the company culture. From there, decision makers will autonomously find new opportunities to collaborate with other companies. Instead of competition being the default, decision makers will start by looking at what they are trying to achieve, then ask whether competition or collaboration is the most appropriate means to that end.

In particular, Asam Malik emphasises the need for boards to bring their own experiences of the impetus to act to the table. "Where I've seen collaboration work best is when board members bring their own personal experiences and connections to the table. If someone has worked across sectors, if they have personal experience of the risks of inaction, or of having been part of a similar transformation programme, for example, that's when it works the best."

Mike Barry argues that consumer businesses need to move towards collective activity because in a world facing shared environmental threat, competition makes less sense anyway.

"Most of the changes needed in the marketplace are beyond the ability of any one business to deliver. That means we need to move towards a collaborative mindset."

Mike Barry
Former Director of Business Sustainability, Marks & Spencer

How consumer companies can get ahead

Step ten: ensure adequate accountability

Once progress is underway towards building the new version of the company, success is a question of retaining motivation, momentum, and a sense of mission. Accountability can help, but this raises its own questions. "Time and again the material impacts are reported as being the same across varying companies - which seems unlikely to be true - because companies are relying on the familiar players for auditing and accountability," says Strevens. "Many companies rely on the echo chamber."

The solution can be simple in practical terms but challenging to the company culturally: bring in new forms of external accountability. That means seeking accountability partners beyond the traditional stakeholders. Not just getting feedback on decisions from employees, investors, or non-executive directors, but bringing in voices who will be more critical. "You need to establish relationships with trade unions, NGOs, the communities that are affected by your activities, and get reporting and analysis from credible organisations," says Karmel. A partnership might begin by engaging with them in a spirit of constructive dialogue and discussing a format for ongoing involvement.

Consumer companies like Puma are already taking action in accountability, inviting four young environmental activists to provide feedback on how the brand should approach key environmental and social issues. They invited the activists to a series of meetings with the company over a one-year period, labelling them as 'candid consultants.'[66]

Richard Karmel says he often finds companies hesitant to engage with NGOs and campaigners because of the fear that greater transparency may result in enhanced potential for damage to the company's reputation. In fact, he says, that rarely happens.

"Whilst NGOs want to see companies doing better," he says, "they often want the company to engage with them so that they can properly explain the issue and understand the challenges that the company is facing. If the company can demonstrate to the NGOs that they are working to improve, they are unlikely to amplify any negative media, because they understand it may make it harder for the company to take the practical steps necessary to resolve the issue."

Nayla Ajaltouni, a delegate from the anti-forced labour NGO 'Ethique sur l'étiquette', which translates roughly to 'Ethics on the label', pointed out how her NGO helped apparel companies improve their human rights record in the wake of the Rana Plaza garment-factory collapse in 2013, in which 1,135 people died and over 2,000 were hurt or injured. The tragedy came in the wake of over 700 deaths in the preceding five-year period due to inadequate health and safety legislation and enforcement. Ajaltouni's NGO developed a draft agreement with international and local trade unions to improve these conditions, which was then submitted to the companies contracting these workers.[67]

It is also important to celebrate successes along the way. This may not be mission-critical, but it may be motivating and inspiring every now and again to pause, take stock, celebrate milestones, and remind all teams of why their hard work is worthwhile. Ultimately, sustainable transformation paves the way for a company to be part of the solution to planetary and societal challenges – and to future-proof itself in the process.

26%

of companies had achieved their goal of creating better health and wellbeing initiatives for employees.[68]

16%

said they had ‘empowered our people and customers to respond to and resolve social issues’.[68]

12%

had ‘created or used carbon-neutral products.[68]

Final remarks: using technology to reach ESG goals

The application of smart and digital technologies is a critical success factor for consumer business' ESG journey. Technology can enable, accelerate, and optimise consumer companies in reaching and reporting on their sustainability goals.

Forward-thinking consumer companies are already using technology to take action to reduce their carbon and ecological footprint, find innovative operational efficiencies, rethink products and processes, and encourage sustainable behaviours from consumers. From Danone's use of digital tools to drive accountability to IKEA's voucher system to encourage buyers to cycle old furniture and clothes into new materials; from L'Oréal's consortium with competitors to make it easier for consumers to compare products on environmental metrics, to the Arianee Association's work on giving consumers digital proof of ownership and authenticity, companies are using technology to drive sustainability.

Nonetheless, many corporate sustainability initiatives are yet to move from aspiration to action. One survey of 1,000 business leaders found that only 26% of companies had achieved their goal of creating better health and wellbeing initiatives for employees, only 16% said they had 'empowered our people and customers to respond to and resolve social issues', only 12% had 'created or used carbon-neutral products,' and fewer than one in ten had developed sustainable supply chains.[68] Few companies, including those in the retail and consumer sector, even tracked sustainability metrics such as energy consumption, supply chain waste, or product mileage from source to consumer.

At the same time, the planet is warming, biodiversity is rapidly declining, and public opinion on the matter is changing. Consumers, investors, employees, clients, and suppliers increasingly want to see companies deploy new technologies to become part of the solution; part of a sustainable future for all. Regulatory requirements are moving in the same direction. Today, the question is moving from 'should companies act on these imperatives?' to 'how can they use technology and innovation to become sustainability leaders?'

Consumer companies might hesitate to take the first step because they do not know how to complete the journey. Alice Strevens and Richard Karmel counsel against this wait-and-see approach. "A lot of getting this right is about having difficult conversations and accepting you don't know what the outcome will be," they say.

Boards need to further diversify their composition, to better collect smart data on a range of new ESG metrics, better apply the smart technologies available to them, and better understand the key scenarios to plan for, before trying to pick the 'right' strategic solutions.

Through Mazars' years of expertise, this report collates the key steps consumer companies can take in order to leverage technological solutions to transform their business to be resilient, circular and sustainable. In the end, preparing for the new era of shifted demand and greater consumer consciousness boils down to the traditional challenges of business transformation. It entails setting a clear destination; articulating a credible strategy; ensuring that it is adequately resourced; putting the correct leadership incentives, skills, and digital infrastructure in place; and shaping a culture that encourages rather than discourages transformation. It is difficult, but familiar work.

By using technology to reimagine their products and processes, companies can leverage greater circularity, efficiencies, and value, and respond to the wider forms of accountability to which they are subject. Acting now for what's next will put companies in an opportune position to thrive in the consumer demand environment of the future. They will be able to create value and opportunity out of positive impact, whether through carbon positivity, sharing their corporate expertise with laggards, lobbying for societal progress on labour and human rights enforcement, or being at the vanguard of positive corporate citizenship for the twenty-first century.

Acknowledgements

Methodology

This study draws from an extensive review of more than 50 articles, reports and other sources, and in-depth interviews with consumer sector leaders and experts carried out between January and July 2023.

List of interviews

Clémence Gosset, Chief Sustainable Consumption Officer, L'Oréal.

Fabrice Megarbane, CEO, L'Oréal China.

Giovanni Pacini, Global Digital Operations Transformation Director, Danone.

Mike Barry, former Director of Business Sustainability at Marks & Spencer.

Vanessa Wright, Chief Sustainability Officer, Pernod Ricard.

Alice Strevens, Associate Director, Mazars.

Asam Malik, Partner, Mazars.

Francisco Sanchez, Partner, Mazars.

Isabelle Massa, Partner, Mazars.

Julie Laulusa, Member of the Group Executive Board and Managing Partner, Mazars in China.

Kristen Walters, Partner, Mazars.

Marc Engel, Partner, Mazars.

Matt Dalton, Partner, Mazars.

Patrick Zerbib, Partner, Mazars.

Richard Karmel, Partner, Mazars.

Appendix

1 Mazars' C-suite barometer 2023 is a flagship annual CxO survey assessing business trends from more than 800 C-suite executives from 27 countries around the world.
2 UNDP. "World's largest survey of public opinion on climate change: a majority of people call for wide-ranging action" UNDP, January 2021.
3 The young consumer and a path to sustainability - Credit Suisse, 1st February, 2022
4 "Bank of England's Carney sees chance of a 'new Bretton Woods'." Reuters. July 30, 2019.
5 Alchemmy. "Future of Retail: Is Gen Z leading the way?" Alchemmy, November 2022.
6 Millennials Will Lead Global Ecommerce Spending in 2023, New Study Reveals. March 24, 2023.
7 UNDP. "World's largest survey of public opinion on climate change: a majority of people call for wide-ranging action" UNDP, January 2021.
8 The young consumer and a path to sustainability - Credit Suisse, 1st February, 2022.
9 Guangdong CEO Brand Watch. "What is ICICLE's confidence in taking over the rising fashion middle class?" trans. Google Translate. Tencent Publication. March 2022.
10 Kathy Bloomgarden. "Gen Z and the end of work as we know it." World Economic Forum, May 19, 2022.
11 RBC Global Asset Management. The future of emerging markets: Brands
12 The Atlantic. "New Research: Gen Z Harder to Win Over by Brands, Media, and the Companies Recruiting Them." The Atlantic, February 2019.
13 Business Wire. "Recent Study Reveals More Than a Third of Global Consumers Are Willing to Pay More for Sustainability as Demand Grows for Environmentally-Friendly Alternatives" Business Wire, October 2021.
14 Business Wire. "Recent Study Reveals More Than a Third of Global Consumers Are Willing to Pay More for Sustainability as Demand Grows for Environmentally-Friendly Alternatives" Business Wire, October 2021.
15 Jane Rude. "Top Three Global Trends in Income and Expenditure" EuroMonitor International, July 2022.
16 Oxford Economics. "Gen Z's Role in Shaping the Technological Economy." Oxford Economics, March 2021.
17 Recent Study Reveals More Than a Third of Global Consumers Are Willing to Pay More for Sustainability as Demand Grows for Environmentally-Friendly Alternatives.
18 Karl Haller, Mary Wallace, Jane Cheung, and Sachin Gupta. "Consumers Want It All: Hybrid Shopping, Sustainability, and Purpose-Driven Brands." IBM, January 2022.
19 Karl Haller, Mary Wallace, Jane Cheung, and Sachin Gupta. "Consumers Want It All: Hybrid Shopping, Sustainability, and Purpose-Driven Brands." IBM, January 2022.
20 Alina Selyukh. "The Big Internet Brands Of The '90s - Where Are They Now?" NPR, July 2016.
21 Douglas Broom. "More than half of the global population is now online." World Economic Forum, March 19, 2019.
22 Sean Fleming. "Have smartphones become 'the place where we live'?" World Economic Forum, May 26, 2021.
23 China Electronics Standardisation Institute, Qiye shuzihua zhuanxing baipishu, 2021, Enterprise technological transformation white paper, 2021 edition. October 2021.
24 Asian Development Bank. The 14th Five-Year Plan of the People's Republic of China — Fostering High-Quality Development. 2021.
18 Haier Smart Home: A Sample of Endogenous Power for Digital Transformation – 16th November 2022.
19 Paul Marcantonio, "4 Trends in Gen Z and Millennial Payment Preferences for E-Commerce", Forbes, May 23 2023.
27 Fevad. "Les chiffres-clés du e-commerce 2022." Fevad, July 2022.
28 Yuka press kit
29 Ana Valenzuela, "This is how new consumer technology interactions are changing shopping behavior", Forbes, Dec 10 2020.
30 Rhonda Hadi, Ana Valenzuela. Good Vibrations: Consumer Responses to Technology-Mediated Haptic Feedback, Journal of Consumer Research, Volume 47, Issue 2, August 2020, Pages 256–271.
31 P.V Kannan & Josh Bernoff, "Does Your Company Really Need a Chatbot?" Harvard Business Review, May 21, 2019.
32 Dieter Holger. At Least 10,000 Foreign Companies to Be Hit by EU Sustainability Rules - Wall Street Journal, April 5th, 2023.
33 How many companies outside the EU are required to report under its sustainability rules? - Refinitiv.
34 Federal Trade Commission. "Guidelines for the Use of Environmental Marketing Claims" Federal Trade Commissions, June 2023.
35 Arthur Nelsen. "EU to crack down on greenwashing with 'proportionate' penalties" The Guardian, February 2023.
36 Jon Ungoed-Thomas. "UK to introduce penalties of up to 10% of global turnover for companies that make misleading environmental 'greenwashing' claims" The Guardian, February 2023.
37 Philippine SEC Finalises Green Fund Rules - ESG Investor, 11th January 2023.
38 Response to the FSA's Consulation on the Proposed Amendment of the Comprehensive Supervisory Guidelines for Financial Instruments Business Operators, etc. regarding ESG Investment Trusts - March 31st, 2023.
39 Chile's retirement plans told to report on ESG risks - Pensions and Investments, November 27th, 2020.
40 Brazilian Securities Commission enacts new regulatory framework for investment funds - Matthos Filho, December 26, 2022.
41 Chris Flood. "ESG controversies wipe $500bn off value of US companies" Financial Times, December 2019.
42 CMC Markets. "Scandal-hit Boohoo's Share Price to Recover?" CMC Markets, September 2020
43 Attracta Mooney and Chris Flood. "Big investors call on companies to slash use of plastics" Financial Times, May 2023.
44 Alexia Fernandez Campbell, "How tech employees are pushing Silicon Valley to put ethics before profit". Vox, October 18 2018
45 Cort, T., Gilbert, K., DeCew, S., Goldberg, M., Wilkinson, E., Fitzgerald, H. (2022). Rising Leaders on Social and Environmental Sustainability, February 2022. Yale University and Global Network for Advanced Management. New Haven, CT: Yale Center for Business and the Environment, Yale Program on Climate Change Communication.
46 Mark Jones. "Nestlé – why the world's biggest food company uses blockchain" TechHQ, July 2020.

Appendix

47 Mike Dingle. "Holograms in the fight for authentication" Security Middle East.
48 Mikebarryeco. "About" Mikebarryeco, n.d. [https://www.mikebarryeco.earth/about]
49 Shift. "UN Guiding Principles Reporting Framework" Shift, n.d. [https://www.ungpreporting.org]
50 Supply Chain Case Studies - CDP.
51 CDP. "Global Supply Chain Report" CDP, February 2021.
52 CDP. "Supply Chain" CDP.
53 Ellen Macarthur Foundation. "What is a circular economy?" Ellen Macarthur Foundation.
54 In the fashion sector, this has begun with services such Cos Resell, Ami forever, ba&sh second hand, with resale platforms such as The RealReal, Depop, and Rebag surging in popularity.
55 Weixin Zha, Pioneering 3D technology: technological design at Hugo Boss. Fashion United, 3 December 2018.
56 David Stevens. "John Lewis and Ikea's buy-back schemes point the way to the 'conscious' future for brands" campaign, October 2020.
57 Ellen Macarthur Foundation. "Rental subscription service for timeless products: The Lauren Look by Ralph Lauren" Ellen Macarthur Foundation, November 2021.
58 Algramo. "Technology-led innovation to revolutionise the way we consume" Algramo & Ellen Macarthur Foundation. "Pay for the product, not the packaging: Algramo" Ellen Macarthur Foundation.
59 Fraser McKevitt. "UK grocery price inflation up again as shoppers turn to wonky fruit and veg to cut costs" Kantar, October 2022.
60 Flora Southey. "Danone 'technologically transforms' baby food factory in Poland, boosts efficiencies and halves GHG emissions" Food Navigator, October 2022.
61 SASB Standards. "Standards Overview" SASB Standards.
62 European Public Real Estate Association. "sBPR Guidelines" European Public Real Estate Association.
63 SASB Standards. "Standards Overview" SASB Standards.
64 Ellen MacArthur Foundation. "Seeking Solutions to keep clothes in use for as long as possible" (PHV) Tommy Hilfiger- Tommy for Life. Ellen MacArthur Foundation, 2020.
65 Mark Wilson. "Converse is quietly reinventing one of America's most iconic sneakers." Fast Company. June 2019.
66 Sarah George. "Puma invites young environmentalists to critique its sustainability strategy." Edie, April 2023.
67 Catherine Robin. "Dix ans après le drame du Rana Plaza, la fast fashion a-t-elle pris ses responsabilités?" Elle, April 2023.
68 Fujitsu Uvance. "Closing the Sustainability Gap." Fujitsu Uvance, 2022.

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 95 countries and territories around the world, we draw on the expertise of more than 47,000 professionals – 30,000+ in Mazars' integrated partnership and 17,000+ via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*Where permitted under applicable country laws

www.mazars.com

mazars