Prioritize Sustainability for Lower Costs—and Lasting Competitiveness

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The current economic turbulence cannot prevent business leaders from thinking about the future. That’s neither good corporate citizenship nor good business strategy.
Executives should be watching several sustainability-oriented trends that are merging into a much more consequential paradigm shift. These trends offer plenty of room for businesses to improve the sustainability of their operations and make their strategy and competitive offerings stand out.

Take energy costs. Fossil fuel prices are very volatile, but there is much less volatility in renewable energy prices, especially once a company has started using renewable assets. Of course, an upfront investment is required, but there will be no inflation on wind or solar—resulting in more sustainability, more predictability, and lower costs.

We’re seeing sustainability inspire a fundamental change—which many have been expecting—in how the economy is going to work. Indeed, I don’t think there are many people arguing that fossil fuels are not going to decline in the next few decades. But there’s probably more debate around how quickly they will decline: 5 years, 10 years, 30 years, or longer. So executives should understand that the overall shift to renewable energy and sustainability may happen even more rapidly than most people thought only a few years ago.
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We underestimated how rapidly costs for solar, wind, and renewable batteries would drop. In a similar way, we’re underestimating how quickly sales of electric vehicles will reach a threshold of 5% of total car sales, which has proven to be a sort of tipping point for adoption in many countries. I believe this transition to sustainable technology is distinctly nonlinear, rapidly following the shape of an S curve.

Four trends are driving this shift. One, the lower costs of technologies like renewable energy, batteries, and hydrogen are compelling for clients who are already prepared to engage sustainable resources.

Another factor is the demand for transparency and tangible action from investors. They want to hedge their risks, and they want to be sure they’re investing in assets that are reflective of sustainability commitments. As a result, we will see more pointed questions and a stronger push for stringency in reporting and comparability in accounting disclosures.

Third, you have more and more regulation that emphasizes sustainability, like the high-profile US Inflation Reduction Act (IRA) recently signed into law by President Biden, and less visible changes to the rules, such as the emissions protocols and building codes set in various countries and regions. Bold legislation like the IRA includes generous incentives around sustainability—like rebates to EV manufacturers and production tax credits for hydrogen—that significantly reduce uncertainty for a wide range of “green” investments.

Lastly, consumers are becoming much more eager for sustainability as younger generations enter the workforce and begin to vote. Not only do they demand green products; they are also increasingly reluctant to buy “grey” ones.
These four factors are compounding one another, intensifying the pace of the transition.

But while the economic uncertainty and push of climate concerns feel urgent, companies don't have to change their entire business model next week. We are emphasizing several steps to clients who are attentive to the changing conditions and patient enough to look beyond the turmoil.

- **De-risk by taking advantage of incentives.** As more regulation follows the IRA to offer incentives to companies that execute sustainable practices, leaders should take advantage of sizable credits that reduce energy and transportation costs, thereby limiting risk exposure.

- **Prioritize decarbonization.** Continued cost decreases for low-carbon technologies improve the business case for decarbonization. Many levers already come with attractive pay-back times, unlocking true cost-saving potential for companies.

- **Move early for immediate advantage.** Delays will emerge over the next decade as the low-carbon infrastructure develops and demand swells for resources like solar and green hydrogen. Adopting sustainable technology early to beat these delays means being quick and ready to scale when pilots prove successful. Don't worry about being perfect and comprehensive.

- **Look for new value opportunities.** From smart homes and green hydrogen to supplies for electric vehicles, new markets in energy, transportation, and manufacturing offer companies lots of opportunities for value and investment.

It is paramount that executives take advantage of this period to prepare for a future of sustainability. If they sit on the sidelines and wait until competitors have figured it out, they're going to be hopelessly late. The problem of climate change is daunting—but it will get better if we all move forward sensibly, steadily, and without delay.
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