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How retail can prepare for decarbonization: McKinsey

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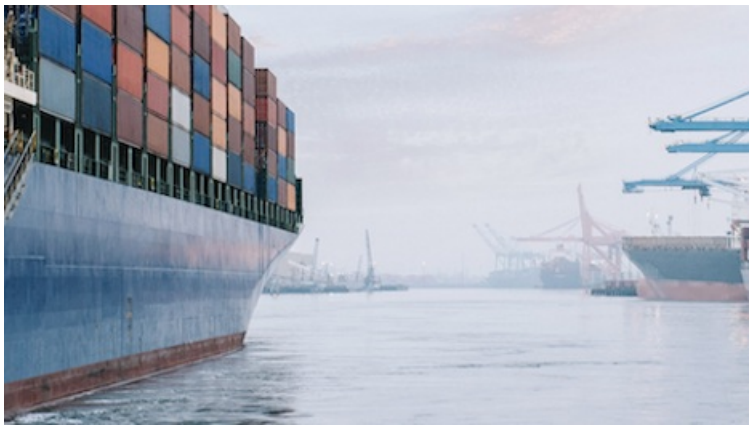

As carbon emissions efforts become top priorities within businesses, executives are analyzing ways to finance and propel these new strategies forward. Image credit: McKinsey & Company

By NORA HOWE

Until relatively recently, climate change strategies were predominantly developed by governing bodies, but that is swiftly changing as business leaders enter the conversation on reducing carbon emissions.

The number of retailers with science-based targets to reduce carbon emissions has grown exponentially recently, more than doubling each year, according to consulting firm McKinsey & Company. Since the COP26 climate conference last year, it has become even clearer that businesses should be assuming a larger role in these long-term solutions, which means preparing now to develop strategies that support decarbonization down the line.

Business footprint

In understanding how to strategically invest in decarbonization, McKinsey suggests retailers first examine how greenhouse gas emissions are categorized, where they originate and what it would take to alleviate their impact.

Scope 1 emissions are produced directly by companies in their own operations and Scope 2 emissions are produced indirectly through companies' purchase of energy. To lower these emissions, retailers could improve the energy efficiency of stores using LED lighting, solar power generation, battery energy storage and more efficient heating and cooling systems.

For instance, New York department store Bergdorf Goodman recently installed two 500-ton water-cooled Trane chillers, replacing its outdated, inefficient HVAC equipment. The new system uses energy-efficient, decarbonizing technology and next-generation refrigerant, which allows the store to eliminate its use of natural gas (see story).

Each water-cooled Trane chiller weighs 500 tons. Image courtesy of Neiman Marcus Group

Some companies that rely heavily on transportation could upgrade their fleet to zero-emission vehicles.

Italian menswear company Ermenegildo Zegna Group is strengthening its corporate responsibility with a program designed to switch its entire fleet to hybrid and fully electric cars by 2025 (see story).

Scope 3 emissions include those generated across the supply chain and not directly in control of the retailer or company. Accounting for 80 percent of the carbon footprint of many companies, this includes all emissions from suppliers, transportation and consumers.

The direct costs of abating these emissions such as installing heat pumps, solar power generation and energy storage in manufacturing facilities, would fall primarily on suppliers. Since these types of emissions are beyond a company's immediate control, it is imperative that organizations choose their partners consciously and invest in suppliers' sustainable transformation.

Considering the various costs of this decarbonization transformation, McKinsey predicts retailers could see increases of 10 to 15 percent in their annual capital budgets and up to 8 percent in cost of goods sold in select categories over the next 10 years.

Fendi's Venice boutique was built to be energy efficient. Image courtesy of Fendi

While organizing stakeholders and financing the carbon-neutral movement is a more complex and lengthy process, retailers can begin laying the foundation for these strategies with little cost to them.

McKinsey suggests incorporating sustainability into consumer research, testing sustainable products, creating emissions transparency at the product level, including decarbonization in all discussions, engaging key investors on decarbonization strategy and planning, joining public-sector efforts and developing and leading relevant industry partnerships.

Where do consumers fit in all of this?
Suppliers, investors and governments are imperative to financing decarbonization, but retailers must not forget a key stakeholder in their carbon-emissions strategies: the consumer.

The biggest question around sustainability within the corporate sphere is: Who pays for it?

According to McKinsey's research, nearly 60 percent of consumers are willing to pay a premium for environmentally friendly products. This trend is most prevalent among Gen Z consumers and higher-income

shoppers, who are quickly becoming the dominant consumer cohorts globally.

Secondhand shopping has drawn a particularly large community of ecoconscious shoppers with 76 percent of U.S. consumers planning to buy a used or resale item in the next year to protect the planet and save money, according to FloorFound (see story).

The transition to a low-carbon economy is expected to create new value pools and the demand for low-emissions products and services will continue to grow.

In October 2021, McKinsey conducted a survey of German consumers which evidently discovered an increase in stated willingness to pay more across different categories, largely due to improved assortment. However, the intent to pay more for sustainable products often carries higher numbers than the proven purchasing behavior of said products.

While it is important for retailers to develop expansive decarbonization plans that include financial strategies and risk mitigation, this is only the first step of a long journey.