Opportunity for early-movers to commercialise sustainability as green-market demand grows

A new report by the World Economic Forum (WEF) in collaboration with Boston Consulting Group (BCG), titled *Winning in Green Markets: Scaling Products for a Net Zero World*, outlines how companies can commercialise sustainability by finding, creating, and shaping green markets.

Image source: Gallo/Getty

The report highlights that many low-carbon materials and services will likely be in short supply and that downstream and upstream players must navigate scarcity. Scarcity will be different across sectors, as will players' ability to secure a green premium. For example, green logistics alternatives are only beginning to emerge.

Analysis from the UN's Intergovernmental Panel on Climate Change (IPCC) indicates that greenhouse gas emissions must be reduced by 43% by 2030 to limit global warming to the required 1.5 degrees. A recent report from the IPCC shows that emissions are expected to increase by nearly 11%.

Many low-carbon alternative products, particularly in the industrial sector, still come at a cost premium of 50% or more. But as these new technologies scale and government intervention continue, declining cost premiums will create opportunities for companies to pioneer green markets.

“This decade has the opportunity to see a massive scale-up of climate solutions and the creation of large markets for low-carbon materials, products and services,” said Antonia Gawel, head of the climate change at the World Economic Forum. “Business and government have a critical role to play to provide the capital, technology, policy and legislation to meet our climate goals on time. This year’s Annual Meeting in Davos will convene these leaders to accelerate climate ambition and investment.”

According to the report, as green technologies scale, cost premiums will decline or disappear altogether. The pace of cost parity depends on location and government policies. Meanwhile, early movers must find a way to offset higher costs and transform the “green cost premium” into a “green revenue premium” by translating lower emissions into a business value. Ørsted, Tesla, and Beyond Meat are examples of companies that achieved first-mover advantage by creating a compelling green offer before cost parity was achieved.

Increasing demand for green materials and services

A June 2022 BCG sustainability consumer survey showed that while less than 10% of consumers choose sustainable products to “save the planet,” the number increases roughly two to four times (to 20%-43% of consumers) when sustainability is linked to other benefits such as health, safety, and quality. The number increases yet another two to four times (to roughly 80%) when barriers such as convenience, lack of information, and cost are addressed.

Based on these consumer trends, coupled with increasing government action and pressure to act from employees, investors, and other stakeholders, companies can build a compelling business case for the development of green options. For early movers, there is a largely untapped and rapidly growing market willing to pay for green products.

As of November 2022, 1,957 companies had set certified science-based emissions reduction targets, and a further 2,103 had committed to setting them. A recent survey of 81 members of the World Economic Forum’s Alliance of CEO Climate Leaders found that while almost half were already paying a green premium for at least one input, most of them were not increasing base material costs to consumers. Reasons cited for absorbing higher costs included: investment in overall sustainability goals, securing access to inputs critical to capturing or expanding share in a promising new market, and hedging against future climate legislation.

Supply and demand imbalance will generate “green scarcity”

Despite substantial and increasing demand for green materials, many supply-side players are not responding at the pace needed, creating green scarcity. In most major value chains, the market share of downstream players with science-based value chain decarbonisation commitments far surpasses the share of upstream players who would need to supply the green materials to achieve these commitments.

This market share gap can be more than 20 percentage points. According to the report, the highest scarcity risk for 2030 is projected to be in green plastics and chemicals, where production capacity will likely not meet consumer demand. On the other hand, while green steel is scarce right now, producers have announced plans to bring significant production capabilities online this decade.

Turning ambitious decarbonisation commitments into customer value

As upstream companies struggle to shape a de-commoditised market, downstream players still struggle to develop net-zero products that would be compelling to consumers. The report details six actions companies must take to commercialise sustainability:

• Design a target portfolio of green offerings for a net-zero world
• Shape value propositions based on these green offerings
• Engage with customers on green products
• Create a green pricing strategy
• Develop the corresponding market environment
• Transform to thrive with key enablers across the business

“The benefits of climate action are clear, and the costs of inaction pose a threat to all of humanity,” said Patrick Herhold, a BCG managing director and partner and co-author of the report. “Decisive corporate action has become an imperative and an opportunity to not only lead in a growing market but to create and scale the green markets that will transform our economy.”

Download the publication here.