

Aligning actions and pledges in CPG:

Making your ESG tech investment count



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ESG 2.0

At the COP27 climate summit in Sharm El-Sheikh, we are likely to see a repeat of the COP26 climate summit in Glasgow. Companies jostled to outdo each other in committing to ambitious Environmental, Social and Governance (ESG) goals, with many publicly declaring their intention to achieve net zero emissions by 2050.

But where organizations would like to be in the next decades is far removed from where they are now. Most companies do not have actionable plans to close the gap anytime soon. In the absence of fundamental, systemic change, these companies—including CPGs—face failure when it comes to hitting their bold ESG targets. They must find ways to move the ESG needle quickly if they are to meet their commitments and live up to government, regulator and consumer expectations.

And they must do it at a time when what we think we know about ESG is changing rapidly: the regulatory landscape is in flux with growing expectations for increased transparency. The speed of both tech innovation as well as changing regulations has caused companies to re-evaluate their positions and investments. Soon, companies will face new, heightened disclosure requirements that could have a similar impact to the introduction of Sarbanes-Oxley regulations.

To keep up with the shifting regulatory regime, CPGs—like all companies—must optimize data and cloud to be more traceable, transparent and efficient. They also need to pivot from a pure risk management approach to one of value creation.

But there is a risk that too many CPGs have overpromised. Their leaders haven't internalized the magnitude and meaning of their ESG commitments and are thus unlikely to change course on ESG reporting. Many of these companies also lack the data and tech foundation that will be key to keeping up with fast changing rules.



To future-proof the business—and boost confidence during ESG audits—CPGs must build new data, tech and operational muscle that will drive sustainability and help them deliver on their ESG goals. It should include creating an end-to-end cloud and data architecture, establishing strong governance and controls and applying analytics to uncover actionable insights and closing the loop on operational actions. This isn't simply a matter of staying competitive but of remaining relevant and compliant as regulations tighten.

The stakes are high. Without these interventions, poor quality ESG data could result in increased legal risk, significant fines, and material reputation loss, both for the brand among consumers and with other stakeholders. More so, companies won't have the data required to guide them on actions to keep them on the trajectory to meeting ESG commitments. Ultimately, there could be an erosion of consumer confidence in the product and a resulting drop in sales.

The benefits on the flip side are impressive. Improving technology to better harness data and cloud in support of ESG goals enhances brand reputation, transforms the business faster and improves resilience in an unstable climate. It also provides consumers with enough transparency to make informed purchasing decisions and helps the company achieve growth through relevance.

There are three key challenges to overcome—and opportunities to seize—to extract the full value of tech investments related to sustainability. CPGs can address these opportunities in parallel. They must:



Eliminate silos by recognizing that ESG actions are cross-functional in nature and should therefore be executed and governed as such.



Tackle the data 'iceberg' beneath the waterline, investing in data capture and management, at the lowest level, across the ecosystem.



Urgently set the right tech architectural foundation and roadmap to capture the acceleration benefits of cloud.

Move 1:

Invest but align first

Investing in and harnessing data, cloud and tech to support sustainability goals is a prerequisite for success but delivering these in siloes will duplicate or misalign efforts and impose significant costs, risking what could be extensive returns. Too many CPGs have broken out their ESG agenda by individual function, instead of looking holistically at the end-to-end process. ESG is a comprehensive term that encompasses everything in the value chain from material sourcing to the end disposal of products. If each function is addressed separately, the initiatives will not cohere, and larger goals such as designing scaled-up, sustainable business models will remain elusive.



When treated holistically, the results are much different. Embedding sustainability into business processes and systems—across functions—improves operational efficiency. By implementing circular strategies, for example, the consumer industry can unlock \$65B of additional value¹ from production efficiency, reduced costs and new business models that increase recovery and recycling. Cloud has the potential to speed value realization and boost ROI. Ultimately, the right tech investments—enabled and reinforced by cloud—give companies the required sustainability roadmaps, ensuring they only need to take ONE multi-year journey. In our research, 51% of companies say that tech-led sustainability initiatives led to increased revenues. And tech and sustainability are mutually reinforcing: 50% of companies say these initiatives help create new businesses.²

Our research also indicates that these benefits only materialize when cross-functional teams and processes across the organization are aligned and embedded into the organization's [Sustainability DNA](#), with tech and sustainability strategies fully integrated. Only 7% of companies have fully integrated their sustainability and tech strategies³, with the result that more than half of C-level executives surveyed (53%)⁴ say they have only limited knowledge about deploying tech for sustainability. But according to an extensive Accenture survey, companies linking tech and sustainability transformation are 2.5x more likely to be business leaders⁵. And they are more likely—49% vs. 30%— to engage value chain partners along the sustainability journey.

Recommendations

To break functional siloes and align tech and sustainability strategies, CPGs must:



Engage leaders across business functions, solve and govern ESG initiatives cross-functionally during planning and execution.



In collecting data to support the company's ESG commitments, ensure coherence across the value chain, from procurement to consumption, supplier to consumer, through centralized cloud platforms and solutions.

Move 2:

Acknowledge the data iceberg below the surface

CPGs face an enormous measurement and data capture challenge, with most of the relevant information on sustainability hidden beneath the surface. Value chains are highly fragmented and complex, and it's been very hard for CPGs to gather relevant and granular primary data (e.g., supplier emissions, responsible sourcing practices, product carbon foot printing) from different partners throughout their ecosystems. In fact, only 26% of companies have clear, reliable data to measure against their sustainability goals.⁶ And their larger ecosystems are vast: For example, Scope 3 Emissions account for approximately 90% of total GHG emissions in the CPG industry, meaning most of the relevant data must be captured outside the company itself, from third party players and suppliers, which can number in the thousands⁷. Take food manufacturing requiring milk powder—Calculating Scope 3 Emissions starts with counting individual cows, understanding what they're being fed and multiple other variables. The amount of data required to paint an accurate picture is staggering.



What this means in practice is that many companies are speeding forward thinking the data iceberg ahead is totally visible, when in fact most of its hidden—in the form of unknown data from third parties—is lurking under the surface. In addition to the difficulty of on-boarding both internal and external actors, it's a fundamental challenge for CPGs to successfully collect and integrate data from a highly heterogenous tech landscape. Data is usually hosted in multiple environments (e.g., cloud and on-premises) on multiple servers and operating systems (or in some cases even manually, paper-based); moving this data across devices and systems remains a sticking point. Additionally, new capabilities will be needed, ones that require systems thinking and new ways of collaborating.

But the companies who overcome this challenge with deeply embedded stakeholder management practices generate over 20% more in profit and have an environmental and societal impact.⁸

Wal-Mart, the world's largest retailer, worked with its stakeholders and suppliers to capture ESG data from these third parties. The company launched Project Gigaton in 2017, with more than 4,500 suppliers successfully on-boarding for data reporting and sustainability initiatives so far. But Wal-Mart's efforts in this area actually began back in 2010, when the company announced its initial goal to eliminate 20 million metric tons of greenhouse gas emissions from its global value chain. Wal-Mart makes it easy for partners and suppliers to calculate their emissions with a simple online calculator.

Recommendations

To successfully capture all the data across the value chain, CPGs must:



Ensure they are managing and incentivizing the performance of N-Tier Suppliers to align with the company's sustainability goals.



Plan for significant investments in data capture technology through a newly connected range of sensors and analytics enabled by IoT, satellite surveillance etc.



Create buy-in with both internal and external stakeholders for centralized cloud-based data capture and reporting.



Leverage the common ESG data standards and industry insights offered by solution providers/cloud ecosystem partners.

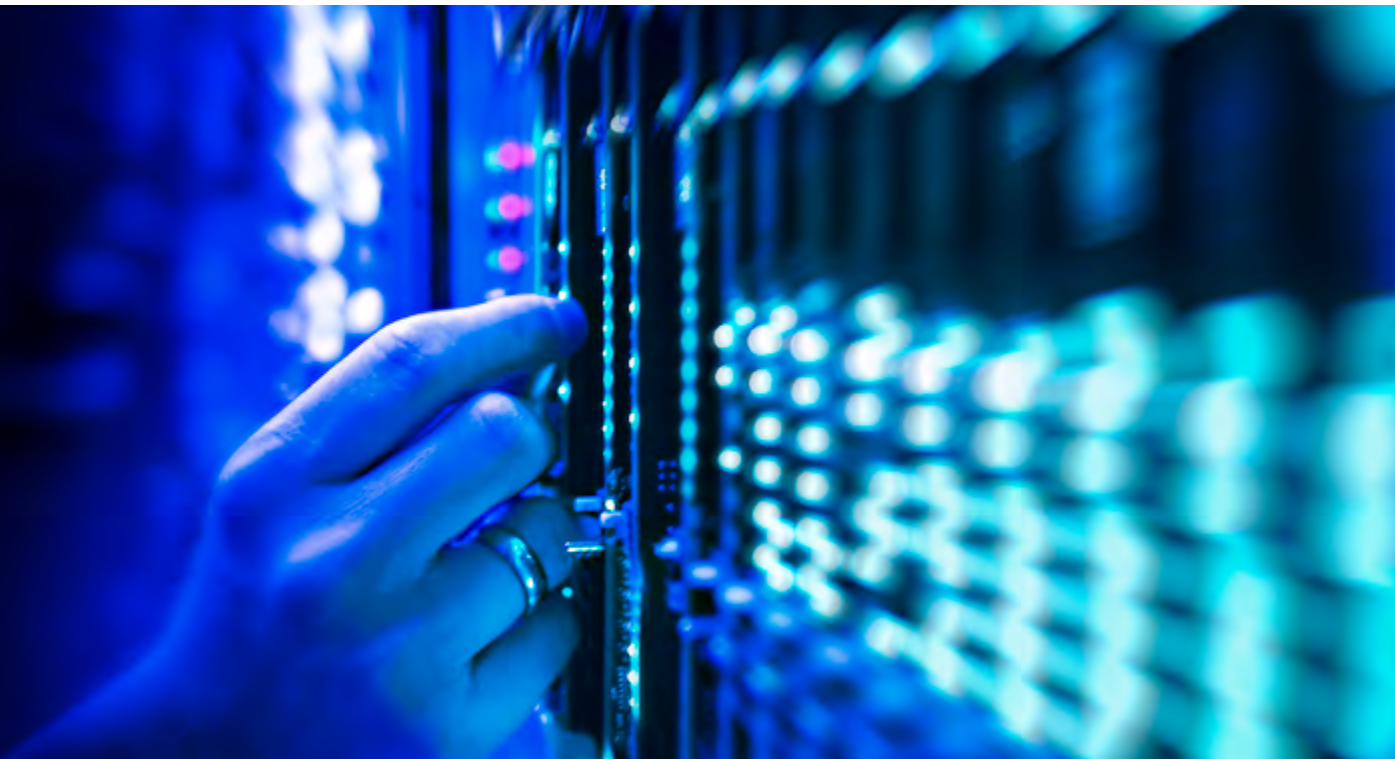
Move 3:

Urgently design the right tech foundation

As company leaders try to solve for the first two challenges by aligning efforts across functions and uncovering the vast amount of data they need to analyze, they face a steady bombardment of offerings from cloud service providers. But technology investment without more is not enough: CPGs must design the right architectural foundation for cloud to extract the full benefits from their ESG platforms. This has proven difficult. According to our research, 63% of companies say that measuring ESG data continues to be a big challenge despite making technology advancements. Globally, an impressive 81% of CEOs are using tech to collect and manage organization-wide ESG data; yet only one-quarter of these say they are managing it at an advanced level because they lack the proper foundation.⁹



To do so, they must carefully consider their options for what's needed and understand what would be net new and what would be augmenting existing technology. For example, many companies would benefit from building new features into their existing ERP (e.g., augmenting the Bill of Materials with additional data sets) instead of setting up an entirely new platform or partner. Other companies will benefit from a combination of upgrading existing tech and adding cloud features.



Recommendations

To build the right cloud architectural foundation, CPGs must:



Evaluate their data architecture in the context of the end-to-end value chain and fast-changing regulatory landscape.



Urgently develop a target architecture that accounts for the potential role of cloud based solutions vs augmenting existing systems.



Ramp up the ESG understanding and capabilities of the enterprise architecture workforce.

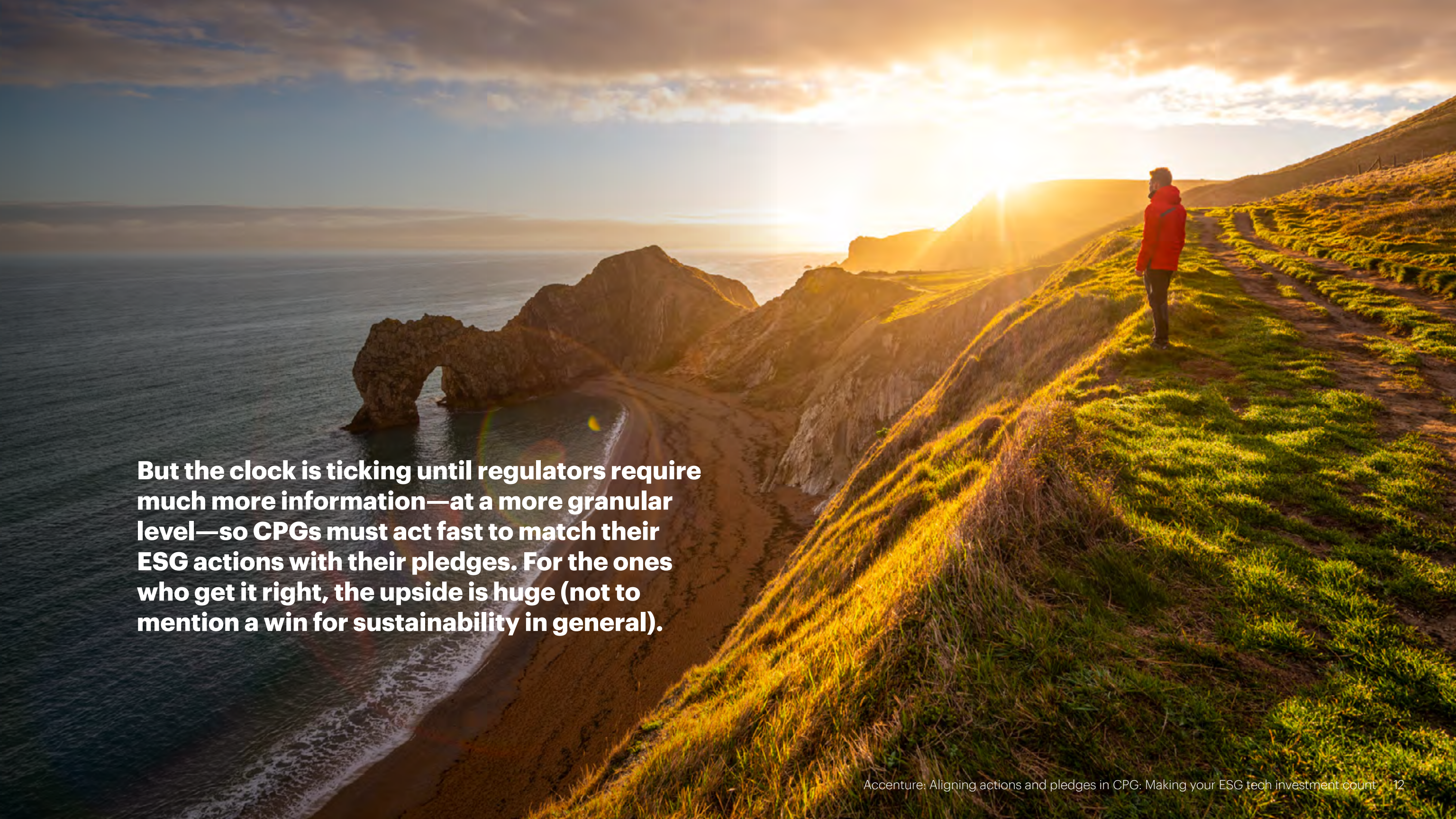


Anticipate and address complexity, e.g., multi-cloud environments.

Leapfrog with the right tech investments

Once a CPG aligns tech and sustainability, ensures it is capturing all the relevant data and builds the right cloud foundation, it's ready to move forward with the right tech investments. For example, cloud-powered architecture makes use of AI, analytics, and automation to develop live dashboards on ESG metrics (such as Scope 1-3 Emissions) and for smart external compliance reporting. This results in less time required for manual analysis and reporting using existing methods. Ultimately CPGs must collaborate with the right partner to architect the whole journey, one with deep expertise in sustainability, the CPG industry and technology.



A person wearing a red jacket stands on a grassy cliffside, looking out over a coastal landscape at sunset. The sun is low on the horizon, casting a warm, golden glow over the scene. The ocean is visible to the left, and a rocky archway is visible in the distance. The sky is filled with soft, golden light and some clouds.

But the clock is ticking until regulators require much more information—at a more granular level—so CPGs must act fast to match their ESG actions with their pledges. For the ones who get it right, the upside is huge (not to mention a win for sustainability in general).

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