Climate transition planning:

Insights for retailers

Consumers and investors demand more aggressive sustainability efforts. Learn how to meet their expectations, while boosting sales and operating efficiency.

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Introduction

Due to the stark realities of climate change—and consumer concerns—it has become table stakes for retailers to include sustainability in product selection and in branding. Younger consumers, who value environmental and social justice more than any other age group, weigh sustainability more heavily than brand when it comes to their purchasing decisions.[1] And they are having a major influence on buying behaviors across demographics.

Beyond merchandising and branding, retailers have also had to plan for the impact of climate change—developing ways to mitigate potential financial loss and business disruption due to risks such as floods, wildfires, rising sea levels, high winds, extreme heat, and natural disasters.

Now, we believe, retailers should focus more on climate-related growth opportunities, including by making decarbonization a priority. The market is ripe for sustainable products and services, which can add to revenue, help penetrate new markets, and build customer loyalty. And by pursuing a climate agenda to reduce greenhouse gas emissions, retailers can realize cost savings through reduced operating expenditures.

In this paper, we show how companies can use responsible climate strategies to tap into new growth opportunities and save on energy costs. This will require well thought-out climate transition planning (CTP), a process we describe below.

[1] Johnny Wood, Gen Z cares about sustainability more than anyone else – and is starting to make others feel the same, WeForum, March 18, 2022.

Why climate strategy is an urgent priority

The clock is ticking

Urgent action is required across sectors to reduce emissions 30 percent to 45 percent by 2030 and achieve net-zero emissions by 2050, according to the United Nations Framework Convention on Climate Change (UNFCCC).[2] Although retail is not considered as heavy an industry as steel or concrete, there is still quite a bit of remediation required to minimize upstream emissions from raw materials and manufacturing, as well as product end of life. Therefore, regulators and other stakeholders are encouraging retail organizations to work toward ambitious Scope 3 targets. And retail organizations can do so through aggressive decarbonization initiatives, such as instituting sites powered by renewable energy, low-carbon logistics, sustainable raw material sourcing, and efforts to encourage customers to live low-carbon lifestyles.[3]

Discerning consumers

Retailers that ignore the mindset of Gen Z and millennials do so at their own peril. This cohort is large and has money to spend: In the aggregate, Gen Z and millennials account for 43 percent of the U.S. population and 49 percent of the global population.[4] And, as the offspring of soon-to-retire baby boomers, they are poised to be on the receiving end of a wealth transfer that is likely to reach into the tens of trillions of dollars.[5]

Our Consumer Pulse Survey confirms the growing importance of sustainability, particularly among younger shoppers. Half of Gen Z shoppers under 18 years old responding to the March 2023 survey said sustainability is important to purchase decisions.[6] Only 28 percent of baby boomers said they factor sustainability into buying decisions.[7] Gen Z shoppers are willing to spend 10 percent more for sustainable products, according to a recent study.[8]

[2] Climate Action Pathway, Industry, Vision and Summary, UNFCCC.

[3] Climate Action Pathway, Industry, Vision and Summary, UNFCCC.

[4] Chris Versace and Mark Abssy, How Millennials and Gen Z Are Driving Growth Behind ESG, Nasdaq, September 23, 2022.

[5] Jack Kelly, "The Great Wealth Transfer From Baby Boomers To Millennials Will Impact The Job Market And Economy," Forbes.com, August 9, 2023.

[6] Consumer Pulse Back-to-School: Consumer and Retail, KPMG LLP, June 2023.

[7] Consumer Pulse Back-to-School: Consumer and Retail, KPMG LLP, June 2023.

[8] Greg Petro, Gen Z Is Emerging as the Sustainability Generation, Forbes, April 30, 2021.

Investment impacts

The younger demographic could have a make-or-break impact not only on retail companies' bottom lines, but also on their share prices. Their attitudes, values, beliefs, and risk tolerance are likely to shape their investment strategies. One-third of millennials often or exclusively use investment products that take environmental, social, and governance (ESG) factors into account, compared to only two percent of baby boomers, according to Nasdaq research.[9] Further, although Gen Z may not yet have the buying and investing power of millennials, their income is expected to increase 140 percent over the next five years.[10]

Amid the pivot toward sustainable investing, there are, unfortunately, numerous cases of greenwashing, i.e., marketing a brand as environmentally conscious without any notable sustainability efforts. This has led to skepticism among investors, putting a heavier onus on companies to demonstrate how they are reducing their carbon footprint and exercising sustainable processes.

Operating efficiencies

Minimizing energy usage across operations not only demonstrates a commitment to sustainability to customers, but also helps reduce operating costs. Some basic areas to explore include installing LED lighting, as well as more efficient heating, ventilation, and air conditioning systems.[11] For example, Walmart, which has made a commitment to transition to 100 percent renewable energy, saved nearly $1 billion in a single year by cutting almost 650,000 tonnes of CO2 emissions in their operations.[12] Some UK-based retail outfits are either reducing packaging, recycling packaging materials, or switching to more eco-friendly packaging, which not only cut emissions, but help them save on production costs.[13]

[9] Chris Versace and Mark Abssy, How Millennials and Gen Z Are Driving Growth Behind ESG, Nasdaq, September 23, 2022.

[10] Chris Versace and Mark Abssy, How Millennials and Gen Z Are Driving Growth Behind ESG, Nasdaq, September 23, 2022.

[11] Abigail Ingalls, What Can and Should Retailers Do About Climate Change? Retail Touchpoints, December 27, 2021.

[12] Adam Siegel, Retailers leading the way on climate action to enhance competitiveness, We Mean Business Coalition, July 13, 2018.

[13] Peter Archer, Emission critical: the retail industry's race to net zero, Raconteur, November 15, 2021.

Where retail companies stand on their climate journeys

Many companies have kicked off their climate journeys by measuring their emissions, identifying their climate-related risks and opportunities, and setting emission reduction targets. According to the Science Based Targets initiative (SBTi), more than 3,300 companies have now set emission reduction targets in line with the latest climate science.[14] Further, 47 percent of global Fortune 500 companies have set 2030 emission reduction targets.[15]

On the other hand, a recent survey concluded that only 10 percent of companies are taking a comprehensive approach to measuring emissions that encompasses Scopes 1, 2 and 3.[16] And only 25 percent of companies that have made ESG commitments are on track to meet Paris Agreement Goals.[17]

More than 4,100 companies across industries have developed a 1.5°C-aligned climate transition plan, according to disclosures made to the Carbon Disclosure Project, a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states, and regions.[18] However, there is still much progress to be made. Currently, only 0.4 percent of reporting companies say they can gather and report sufficient detail to support a credible transition plan.[19]

Stakeholders—from customers to investors to employees—expect retail companies to be more proactive about meeting emission reduction targets and quantifying the impact of climate risks on their businesses than the above statistics indicate.

[14] SBTi Target Dashboard

[15] Alan Murray and David Meyer, Big companies keep increasing their climate commitments—especially when governments tell them to, Fortune, September 21, 2022

[16] Mark Segal, BCG survey: Only 10% of companies fully measuring emissions, ESG Today, October 24, 2022

[17] Taking stock: A global assessment of net-zero targets, Energy & Climate Intelligence Unit and Oxford Net Zero, March 2021

[18] Are companies developing credible climate transition plans? Carbon Disclosure Project (CDP), February 2023

[19] Are companies developing credible climate transition plans? Carbon Disclosure Project (CDP), February 2023

An overarching climate strategy: Two sides of the same coin

Both an inside-out understanding of decarbonization and an outside-in assessment of climate risk are needed to develop a resilient business model and drive value creation. Looking at internal processes to assess the company’s impact on people and the planet should be the basis of a robust decarbonization strategy that comprises measurement of current emission levels; definition of ambitious, yet achievable, emission reduction targets; and a plan that will ultimately lower your carbon footprint. Taking an outside-in assessment of the impact of climate change on your company should encompass short-, medium-, and long-term climate-related risks and opportunities; the potential financial impact of risks based on scenario analysis; and a climate resiliency strategy that evolves in tandem with external conditions. (Exhibit 1)

Exhibit 1. Companies should think about their climate strategy from two angles

Decarbonization

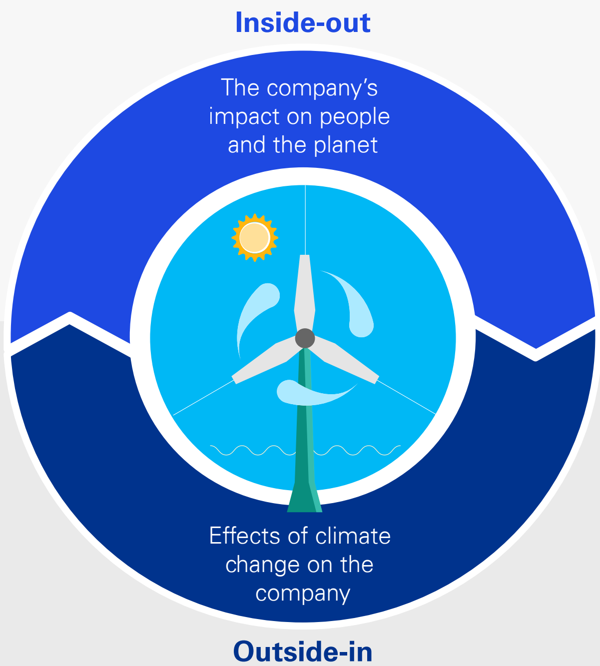
Guiding question:

To what extent do companies‘ business activities impact climate change and create value?

Climate risk

Guiding question:

To what extent do risks from climate change arise for companies’ business activities?



Define a decarbonization strategy

- Measure emissions
- Set ambitious yet achievable emission reduction targets
- Develop and execute a decarbonization plan that lowers your carbon footprint and improves your impact on the planet

Assess climate risks and opportunities

- Determine short-, medium- and long-term climate-related risks and opportunities
- Assess the potential financial impact of risks using scenario analysis
- Develop a climate resiliency strategy to adapt to and mitigate climate-related risks and take advantage of opportunities

It is important to remember internal (decarbonization) and external (climate risk) factors inform each other and should, therefore, be pursued in tandem. For example:

- A robust decarbonization strategy can reduce climate risk
- A renewables strategy can reduce reliance on the external electric grid
- Fleet electrification can offset increased oil prices
- Supplier strategies that assist with decarbonization and sustainable manufacturing can help organizations comply with emerging regulatory guidance, such as that from the Securities and Exchange Commission and Corporate Sustainability and Reporting Directive.

A four-part climate transition action plan

The most efficient and effective way for retail companies to demonstrate and operationalize their climate ambitions to current and potential customers, investors, and other stakeholders is through a climate transition action plan (CTAP). This a time-bound plan that clearly outlines how an organization will undergo transformational change to achieve its emission reduction targets, mitigate climate risks, and realize opportunities during the shift to a 1.5-degree world. Such a plan comprises action-oriented and climate-science-led strategies that help all aspects of a company's value chain progress on the path to reaching emission reduction targets. (Exhibit 2)

Exhibit 2. Climate transition action plan: The details

The CTAP ideally comprises the four phases detailed below. However, the plan can be tailored to meet clients where they are on their climate journeys.

Measure and assess

Current state
Determine maturity of risk and emissions reporting, as well as internal programs versus standards and industry trends

Carbon and risk baseline
Measure GHG inventory, identify value chain hotspots, and assess climate risk exposure

Scenario analysis
Quantify the impacts of priority climate risks across a range of scenarios

Strategize and design

Preliminary climate risk strategy
Using results of climate scenario analysis, prioritize adaptation actions related to physical and transition risks

Decarbonization strategy
- Identify passive decarbonization market trend
- Identify additional decarb levers
- Outline funding strategy
- Create decarbonization pathway
- Marry timing, funding, levers against target

Mobilize and transform

Combine the CTAP with the following elements:

Governance*
- Integrate transition actions with corporate structure
- Design future operating model that implements strategy and targets

Financial planning and tax strategy*
Time-bound CAPEX, OPEX, and internal funding/incentive strategy, e.g., internal carbon price (ICP)

Public policy*
Target-aligned advocacy strategy and stakeholder engagement

Just transition*
Workforce and community engagement strategy

Risks and opportunities
Map priority, cost, value, impact, and task owners of actions to relevant areas above

Scope 1–3 decarb strategy
Value chain engagement, targets, GHG verification

Implement

Operationalize resiliency strategy
- Transition risk and opportunity actions
- Hardening/elocation investment

Common implementation
- People and culture
- Asset management
- Procurement
- Process transformation
- Technology innovation
- Financing strategy, cost takeout

Operationalize decarbonization strategy
- Business unit, Scope 1–3 actions
- ICP
- Residual emission actions

Review and improvement of annual reporting

Risk focus | GHG emission focus | Combined focus | CDP element

* Recommended CDP element for CTAP

Step 1: Assess and measure

The first steps in any effective CTAP are to take stock of where your current climate efforts stand; establish a baseline of your current emissions across not only Scopes 1 and 2, but also Scope 3; and make a business case for moving forward with a CTAP as opposed to sustaining the risk-related costs of inaction.

Current state. Define your business's climate maturity, current reporting practices, and benchmarking against peer organizations.

Carbon and risk baseline. Measure GHG emissions to understand hot spots across the value chain.

- Note that **Scopes 1 and 2** emissions, i.e., company-centric emissions and energy consumption, tend to be more straightforward to measure and comprise a smaller proportion of most organizations' footprints.
- Organizations need to expand their focus to include **Scope 3** emissions (raw materials purchased, transportation and distribution of goods, customers' product use, etc.), which comprise as high as 88 percent of most organizations' footprints.[20]
- Finally, sourcing and logistics, i.e., the "upstream" components, are typically responsible for more than 80 percent of an organization's total GHG emissions, and, depending on the retail model (wholesale, direct to consumer, brick and mortar, e-commerce, etc.), can be even higher.[21] (Exhibit 3)

Climate scenario analysis: Use climate scenario analysis to identify and measure the potential financial impact of your climate-related risks and opportunities.

Exhibit 3. Effective decarbonization depends on an accurate GHG emissions profile across the value chain

Portion of emissions

Sourcing	Logistics	Manufacturing	Distribution	Point of sale	Use or consumption	Waste, recycling, and returns
Sourcing of raw materials	Transportation of raw materials and products	Design, production and packaging	Distribution, warehousing and logistics	Selling of manufactured goods to consumers or wholesale retailers	Use of goods by end customer	
		Scope 1 and 2	Scope 1 and 2	Scope 1 and 2		
Upstream Scope 3	Upstream Scope 3	Upstream Scope 3	Upstream Scope 3	Downstream Scope 3	Downstream Scope 3	Downstream Scope 3
Emissions sources: • Cotton production using chemical fertilizers, pesticides • Production of raw materials with conventional fuel (e.g., coal)	• Shipping to retail outlets and consumers (down stream freight) • Energy consumption via lighting, cooling systems • Polybag packaging, product returns, handling and storage machinery • Retail and warehouse operations emissions	• Fabric production, wet treatment, and confectioning • Energy consumption in textile mills • Chemicals used in dyeing process • Office cooling systems	• Company facilities (e.g., distribution centers, corporate offices) • Purchased electricity, steam, heating and cooling	• Emissions from transportation	• Washing and drying of clothes driven by customer behavior, temperature selection, and dryer usage • Unutilized material due to overproduction, returns, and changing customer demands	• Incineration or landfilling of sold clothing • Energy utilized in waste disposal and treatment of products

Emissions level: Low Medium High

Source: UN_FIC Playbook

[20] Alexandra Thornton, Why Companies Should Be Required to Disclose Their Scope 3 Emissions, American Progress, December 13, 2021.

[21] Climate Action Pathway, Industry, Vision and Summary, UNFCCC.

Step 2: Strategize and design

After the assessment stage and scenario analysis, retail companies should create a resiliency plan and decarbonization strategy to address emission hotspots and climate-related risks. In these efforts, leadership should model future growth prospects that will inform a long-term carbon reduction strategy as likely climate warming scenarios will impact emissions.

The decarbonization strategy should comprise the following steps:

- Identify market trends for sectoral decarbonization approaches, as warranted.
- Analyze decarbonization levers needed to meet emission reduction targets.
- Outline your funding strategy.
- Set targets that align with your organizational goals and are realistic to achieve. (Exhibit 4)
- Create a pathway to decarbonization that reflects timing, funding, and levers with the latter determined using a marginal abatement cost curve approach, i.e., a comparison between the financial impact of emission reduction versus the cost of implementing a CTAP.

Remember that decarbonizing Scopes 1 and 2 is generally within your organization's control; decarbonizing Scope 3 relies on engaging your suppliers.

Exhibit 4. The extent of emission reductions varies across retail organizations

Setting targets

- Determine ambition level
- Submit to Science Based Targets initiative (SBTi)

Organizations should forecast their future emissions, set targets, identify decarbonization levers to mitigate emissions, and develop a decarbonization pathway to reach their targets.

Increasing level of ambition

Carbon neutral

Number of carbon offsets purchased is equivalent to emissions generated

Emissions intensity reduction targets

Reduction is based on an intensity metric (i.e., emissions per $ revenue, per unit)

Absolute emission reduction targets

Total emission reduction by a set amount (e.g., 20%)

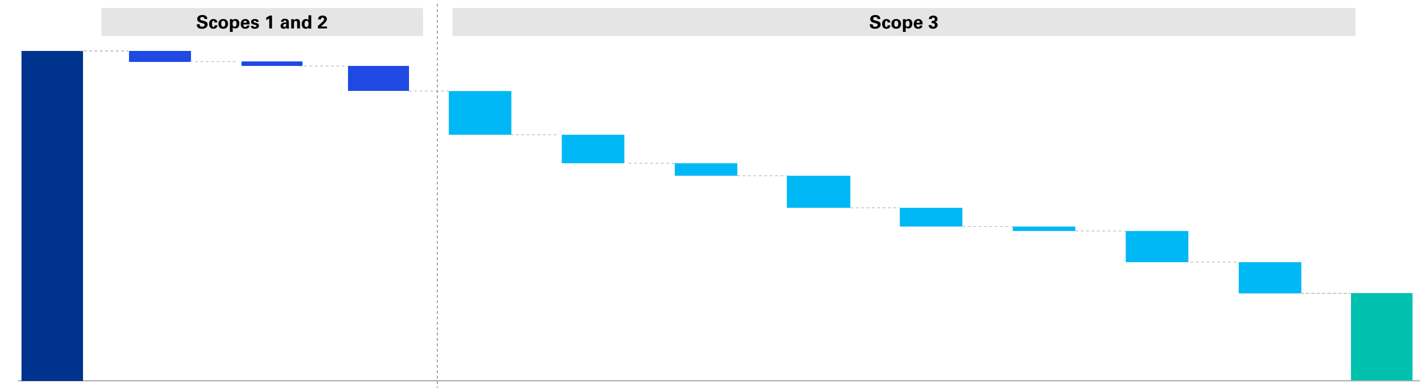
Net zero emissions (NZE)

Absolute emissions reduced to zero or near-zero with any remaining emissions being offset

Science based targets (SBTs)

Third-party-validated near-term and long-term targets

Exhibit 5. There is no silver bullet for decarbonization, rather multiple levers with varying degrees of complexity will have to be pulled enterprise-wide across business functions



	Business as usual (BAU)	Facility energy efficiency	Clean fuels/ heating electrification	Renewable energy procurement	Supplier clean energy targets	Low-carbon product material mix	Low-carbon packaging mix	Electrification SAF of third-party logistics	Distribution optimization	Green building criteria	Optimize inventory forecasting	Circularity	Unabated (to be neutralized)
Complexity of implementation		◔	◑	◔	◑	◕	◑	●	◑	◑	◕	◕	
Marginal abatement **cost** ($/MT CO2e)		$$	$$$	$	$	$	$	$$	$	$$	$	$$	
Common Phase 1 **priorities**		●		●	●	●	●			●			

Step 3: Mobilize and transform

A key step in the CTAP is developing an actionable, time-bound plan that outlines your climate strategy and prioritized steps for executing on an integrated decarbonization and climate risk mitigation and resiliency plan. Core elements of the plan should include:

1. **Risks and opportunities** stemming from climate change that are relevant to the company, as well as related mitigation strategies.
2. **A complete, accurate, and consistent emissions inventory** that is used to inform emission reduction targets based on the latest climate science.
3. **Decarbonization strategy and supplier engagement** focused on prioritization of the most impactful internal and supplier initiatives to decarbonize your value chain across Scopes 1–3.
4. **"Just transition" and public policy** so that your workforce and suppliers are supported in the net-zero transition and public policy engagement aligns with your organization's climate strategy.
5. **Financial planning** to help ensure that your climate strategy is baked into your operating model and your organization can tap into relevant financing and tax opportunities.
6. **Scenario analysis** to identify and assess climate-related risks that could have a material impact on the organization.
7. **Governance** comprising clear roles and responsibilities, feedback mechanisms, and board-level oversight of the CTAP.

Step 4: Implement

Once your CTAP is in place, you can work to operationalize projects to reduce emissions, mitigate and adapt to climate risks, and take advantage of climate-related opportunities. Examples of different projects may include sourcing of renewable energy, implementing an internal carbon price (ICP), hardening your infrastructure, or even exploring potential site relocations. Integrating your climate strategy throughout your organization's operating model is critical to achieving your climate ambitions. The key pillars of this step in the plan are depicted below. (Exhibit 6)

Exhibit 6. Implementation of climate into your operating model

Implement
- Operationalize
- Integration of climate into operating model

Leverage change management and process transformation to integrate your climate strategy throughout your operating model by including climate in your procurement strategy and financial planning, incorporating climate risks into your enterprise risk management process, and using the right technology and software to accomplish your climate ambitions.

Integration of climate into operating model

Governance
The Why

The approach to align the team's governance, risk, and compliance processes to its strategy

Performance insights and data
The How We Track

The KPIs teams use to support the ESG program and how the data is used to inform decision-making

Functional process
The What

Process of interacting with various business functions (procurement, supply chain, internal audit) to carry out climate programs

Technology
The How We Support

The technology required by the team to support the execution of processes and manage information and data

People
The Who

The organizational structure, skillset, and performance of teams leading climate efforts

Conclusion

Although retail companies clearly recognize the importance of addressing both decarbonization and climate risk, not all are addressing these issues through an integrated plan. Those that take a mindful and detailed approach to working through the four steps of a Climate Transition Action Plan will likely find that they have a competitive advantage as we move closer and closer to Net Zero mandates.

Further, focusing not only on risk mitigation, but also on climate-related growth opportunities, will enable companies to bring new products and services to market faster, move into new geographic and demographic markets, and enjoy enduring loyalty from the emerging customer base of Gen Z and millennials.

How KPMG can help

KPMG helps organizations develop their climate strategies, map out a credible climate transition action plan, and integrate this thinking into the operating model with a lens towards improving financial performance. The firm has unparalleled experience assisting major corporations, governments, and utilities in their decarbonization and climate ambitions, working closely with them from strategy to execution and integration. We have assisted with decarbonization strategies, decarbonization project implementation, operational transformation, supply chain management, marketing and brand management, sustainable finance, acquisitions and divestments, and fuel switching. Our client teams comprise data scientists, financial modellers, mathematicians, economists, M&A professionals, and climate strategists.

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Julia is a principal in KPMG's Advisory practice. Based in Atlanta, GA, she has spent significant time advising clients in the consumer & retail industries. She advises corporate and private equity clients in finding performance improvement opportunities both inside and outside of the deal space. To support her clients in their transformation and growth agendas, she finds ways of marrying traditional research assets and cutting-edge analytics capabilities, data sets, and visualization tools to help provide actionable insights. Her areas of expertise include consumer insights and research, commercial and operational diligence, large-scale performance transformation, revenue growth management and pricing, cost takeout and performance optimization, market opportunity analysis, and strategic option analysis. Julia holds a bachelor's degree from the College of William and Mary and an MBA from the Darden School of Business at the University of Virginia.

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David is a climate leader, bringing nearly 15 years of global ESG and climate strategy, as well as infrastructure development, experience. He has worked across industries to help financial institutions, corporations, governments, and non-profits assess and mitigate their climate challenges in a cost effective and value-driven manner. David is KPMG's national leader for decarbonization, overseeing a cross-functional team and partnerships to help clients on their carbon reduction journeys. More broadly, David has considerable experience in developing and analyzing the business case for multi-million and multi-billion-dollar low carbon and energy transition infrastructure investments.

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Jason's expertise in climate risk and resilience assists organizations in navigating their transitions to a low-carbon economy. With more than 15 years in risk avoidance, he concentrates on decarbonization as both a climate risk and opportunity, specializing in risk quantification and the assessment of physical risks to infrastructure across industries such as consumer and retail, industrial manufacturing, and healthcare.

We would like to thank our contributors: Helen Rauschen-Oxenbridge

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