

# Finding Competitive Advantage in Tomorrow's Markets

WRI/WBCSD MEETING, NOVEMBER 14–15, 2011

## Meeting summary and highlights

WRI's **Next Practice Collaborative** is working to harness innovation and opportunity to develop the business case, tools and metrics that advance corporate climate leadership for a zero-carbon, climate-resilient economy. WRI and partners are pioneering new, innovative approaches to move beyond today's 'best practices' towards tomorrow's 'next practices'. We expect to transform business models to enable innovative sustainability strategies that help build climate resilient economies.

WBCSD's **Vision 2050 project** addressed three questions: What does a sustainable world look like? How could we realize it? What are the roles of business to ensure rapid progress towards that 2050 world? Vision 2050 is an optimistic, strong business commitment to a world where every human can live well without harming the ecosystems that support us all now and in the future. Moving towards this vision presents the biggest economic opportunity ever, but only if society can change business as usual.

On November 14–15, 2011, 23 companies came together for a meeting jointly convened by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). Partners discussed practical steps to create transformative strategies to respond to long-term sustainability challenges, like climate change. Discussions were grouped into three categories:

- *Making the case for 'next practices'*: How can companies use megatrends to identify major unmet sustainability needs and opportunities to create new long-term value?
- *Innovations for net zero energy buildings*: What new approaches can accelerate the push to turn buildings into a sustainability asset?
- *Creating easier access to financing for 'next practices'*: Strengthen the business case and explore options for re-thinking capital allocation approaches to ensure that facilities, products and services are well-positioned in a sustainable future?

Throughout the discussions, companies heard from peer experts, shared their own experiences and discussed opportunities to collaborate – how can we achieve more together than we can alone?

**Participating companies:** AECOM; Akzo Nobel; Areva; BT Americas; CEMEX; Citi; Deloitte Consulting LLP; Diversy; DuPont; Goodyear Tire and Rubber Company; Greif; Infosys; Johnson & Johnson; Johnson Controls; KPMG; Mason Strategies LLP; Novelis; Siemens; Skanska; Staples; Target; TD Bank Group; Wells Fargo

**Participating organizations:** American Chemistry Council; Carbon War Room; Downtown DC BID; New Buildings Institute; Natural Resources Defense Council; Urban Land Institute

# MAKING THE CASE FOR NEXT PRACTICES

## *a toolkit for using megatrends to demonstrate the value of sustainability innovation*

WRI and partners are developing a toolkit to help identify risks, opportunities, and potential collaboration on sustainability innovations. In roundtable groups, companies shared perspectives on big trends they see creating risks and opportunities in tomorrow's markets. They also provided input on how a toolkit can be most useful at their companies.

### BIG TRENDS, NEEDS

*Large-scale, long-term changes you understand well and actively monitor*

- What is driving the change?
- How do changes impact business?
- What needs are they creating?

### BLIND SPOTS

*Other major needs, challenges to understand better in a changing climate*

- Internal, external insights from
1. Executives, employees
  2. Depts (sustainability, R&D)
  3. Customers, suppliers
  4. Other industries
  5. NGOs, experts, communities

### VALUE OF Next Practices

$$\frac{\text{core competencies} + \text{future needs}}{\text{value created or protected}}$$

*This draft version of the toolkit tested at the meeting will be refined based on company input.*

### COLLABORATIVE EDGE

*Who/where to partner to meet sustainability needs*

### INNOVATIONS

*Pilot projects to test, prove next practices*

THEME	Big trends, needs & blind spots: changes to be tracking and/or understand better
Communications	Telecommuting, virtual vs. physical communication needs, work style / lifestyle changes and the impact on data networks, buildings, transportation
Demographics, economics	Increasing diversity, availability of talent and skills gap, economic growth in Brazil, Russia, India, China (BRIC), real implications of rising middle class
Geopolitics	Social unrest, wealth inequities, regulatory action and uncertainties
Information, transparency (for reputation)	Increasing need to get out ahead and understand impacts of social media, social responsibility (trust, distrust of banks or large companies), sustainability indices
Information, transparency (for strategy)	Rise of big data and need for analysis, need and opportunity to track global and local developments, valuable insights from life-cycle assessments
Natural resources	Increasing risks due to scarcity or competition for water, energy, and minerals, uncertainties about who controls resources in the future, cost of externalities
Supply chain / value chain	Supply disruptions, manufacturer responsibility, opportunity for material reuse, connections among trends (e.g., energy/water/food nexus), non-traditional competitors, changing customer needs

### Summary of big ideas from the discussion

- Toolkit can inform internal teams and processes, including: R&D, strategy, marketing, supply chain management; various cross-functional working groups; and executive conversations.
- Toolkit can highlight actionable information, such as: multiple trends that create a “nexus” of important needs; customer testimonials; concrete social and regulatory risks; near-term implications of long-term changes; and potential change agents.
- Toolkit can drive collaboration by: creating connections among companies or departments with shared interests; spreading “first mover” risks across multiple partners; speaking to individuals’ specific responsibilities; and allowing internal colleagues to create and own the insights.
- Toolkit can create a compelling business case with: external voices, unexpected links across sectors; and insights on customers’ need for solutions and services as opposed to materials and products.

# INNOVATIONS FOR NET ZERO ENERGY BUILDINGS

Partners discussed the value potential and pathways to net zero energy buildings. The main topics that were explored included:

- **Technology trends and opportunity drivers:** what technology trends are setting the stage for net zero energy buildings, and what opportunities will arise? How will technologies change over building lifetimes and what can we do to anticipate such shifts? What is the changing role of buildings with respect to the power grid and how can buildings provide solutions for a clean energy future?
- **Existing and new solutions to enable net zero energy buildings:**
  - Taking a collaborative, community-wide approach, or a portfolio approach, to building management in order to capture greater gains.
  - Approaches to financing net zero energy buildings—looking at incentives like energy-aligned leases to break through the financing barrier. Innovations beyond existing third-party financing and performance contracting to enable net zero energy retrofits and investments.

## Summary of big ideas from the discussion

Participants engaged in discussions with expert panelists, and in more intimate breakout groups, to discuss the topics above. Some of the most important themes and shared points of interest include:

### Anticipating Future Trends

- What is the ‘future of work’ and how do buildings fit in? How will behaviors change towards less materiality and how can this be harnessed to “design for the future”?
- What are the trends shaping office space of the future? Higher density in offices; telecommuting; telepresence; undesignated office space; approaches to shape peoples’ behaviors to maximize efficiency?
- How can buildings be constructed to preserve opportunities for using new technologies as they become available?

### Managing Building Portfolios towards a Net Zero Goal

- Collecting robust data is important to gain transparency into the usage patterns and efficiency opportunities within a portfolio;
- Planning deep retrofits around critical events can reduce costs and downtime associated with these measures;

- Identifying programs of large scale retrofits and/or portfolios of efficiency opportunities to finance in aggregate could help manage building portfolios towards an aggressive goal such as net zero energy.

### Collaborative Solutions

- Aggregating building energy data can help owners to identify opportunities to provide energy resources and services to the grid at a measurable scale, and be remunerated for doing so;
- Mapping renewable energy resources in a business district or community can identify opportunities for groups of buildings to invest in distributed renewable energy generation.

### Financing Solutions

- Financing portfolios of internal sustainability projects has been successful in optimizing the financial and environmental payback of capital expenditures on retrofits;
- How can the internal structures of companies be conducive to encouraging energy efficiency and energy performance? How can merging cap ex and op ex budgets yield opportunities?
- What financing structures qualify as “off-balance sheet”?

## CREATING EASIER ACCESS TO FINANCING FOR NEXT PRACTICES

The group heard from a former CFO of a Fortune 100 company about the need to strengthen the business case of sustainability investments when talking to finance departments. Participants also heard expert speakers and engaged in an interactive conversation to explore new approaches to allocating capital to projects that are aligned with long term sustainability trends. The main themes discussed were:

- **Transformative approaches for ensuring that long-term sustainability trends are factored in to acquisition and investment strategies:** What approaches have been successful for companies in the past? How can these successes be built on to better align capital allocation with longer-term sustainability?
- **Approaches to overcoming barriers to including sustainability considerations in the cost of capital:** How can you make the business case for sustainability investments to the CFO and other decision-makers? What kind of data gaps exist, and what kind of metrics could be developed to better reflect the risk adjusted return of sustainability?

### Summary of big ideas from the discussion

Through discussions with panelists, and in breakout groups, participants were particularly interested in the following topics:

- There is a need to improve how the value created by sustainability investments is quantified and communicated; this will help build the business case to explore and test new financing solutions.
- Mixing of capex and opex budgets could help advance beyond a focus on up-front cost that can lock companies into long-term performance risk;
- Reflecting sustainability risk in cost of capital calculations can help prioritize projects that are in the long-term interest of the company. Need to understand how to make the case to the CFO to do this;
- New approaches are needed to help integrate sustainability priorities into project management-level decision making, not just high-level corporate strategy;
- Companies need metrics that can demonstrate the value of a proposed project's alignment with sustainability trends. This will allow them to better compare different projects and understand long-term sustainability risks.
- Being able to present corporate sustainability issues to key audiences within companies (CFO, R&D teams, engineering teams, etc) in a language they'll understand, within the timeframe relevant to their role/perspective, can help facilitate getting buy-in for sustainability projects.
- Understanding how to better communicate the business case for sustainability, within in a time frame that fits the turnover rate/accountability of corporate decision makers, can create more proactive engagement with CFOs on sustainability topics.
- There is significant value in getting corporate leaders to collaborate to develop and apply new financing approaches.

For more information on any of these topics please contact:

**Making the Case for Next Practices:**  
a toolkit for using megatrends to demonstrate the value of sustainability innovation

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